



Social license to operate in Mongolia: A comparative study

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Abstract. In a broad sense, social license to operate refers to the ongoing acceptance of a company's or industry's standard business practices and operating procedures by its employees, stakeholders, and the general public. In Mongolia's case, obtaining a social license has become just as relevant as on the international level. There have been several instances where mining developments have been delayed, interrupted, or even shut down due to opposition from the public and/or local communities. These hindrances can be extremely costly for mining companies; therefore, obtaining and maintaining a social license is crucial. In this study, we review cases of social license to operate in Mongolia and compare them with similar experiences in other countries.

In particular, this study reviews related studies on the social license to operate and international and domestic cases that reflect successful and unsuccessful developments of social license. The key findings of the study are: (i) the grievances from communities push the government to address issues related to social license; (ii) despite the number of mining companies operating in Mongolia, only a few have implemented measures aimed at obtaining a social license to operate; (iii) it is essential to improve the understanding of social license to stakeholders, improve transparency, and strengthen the enforcement of laws in the mining sector to achieve long-term policy goals; (iv) regular and local social acceptance surveys can help to identify and address any potential issues with social license.

Keywords: Social license to operate, Social acceptance survey, Mining, Mongolia

1 Introduction

Obtaining a social license to operate (SLO) in the Mongolian mining sector is becoming increasingly important. An SLO is not a legal requirement, but companies need to maintain the trust and support of local communities and other stakeholders to operate successfully.

There is no single definition of an SLO. Still, it can be broadly understood as the ongoing acceptance of a company's business practices and operating procedures by its employees, stakeholders, and the general public. An SLO is not something that can be granted or revoked; it is something that must be earned and maintained over time.

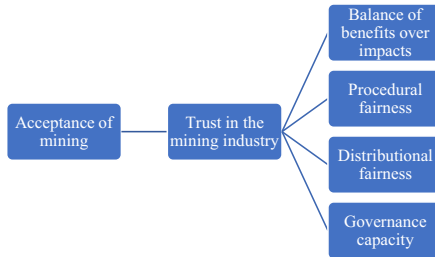
There are several factors that can contribute to a company's SLO, including:

- **Transparency:** Companies that are transparent about their operations and plans are more likely to gain the trust of their stakeholders.
- **Accountability:** Companies that are accountable for their actions and that take steps to mitigate any adverse impacts are also more likely to maintain their SLO.
- **Community engagement:** Companies that engage with local communities and that take their concerns into account are more likely to be seen as legitimate and to have their SLO supported.

In recent years, the importance of an SLO has increased as communities have become more aware of the potential impacts of mining activities. Companies that want to operate successfully in Mongolia must be prepared to invest in building and maintaining their SLO.

Moffat and Zhang (2014) proposed a model to explain the process of obtaining a social license. According to the model, the main factors defining the state of a company's social license are fair treatment, high-quality engagement with communities, and mitigation of operational impacts. Moffat et al., (2018) later updated the defined model for social license as seen in Figure 1.

Figure 1. Model for social license to operate



Source: Moffat et al., (2018)

Balance of benefits over impacts, procedural fairness, distributional fairness, and governance capacity are the most critical factors that determine the level of trust in the mining sector and, hence, the quality of a social license. These indicators can be measured by large-scale citizen surveys assessing the community's attitude toward mining operations.

Boutilier and Thomson (2011) describe the level of social license to operate in Figure 2. They propose that most companies and projects are usually located at the acceptance or approval level.

Figure 2. Level of social license to operate

LEVEL OF SOCIAL LICENSE TO OPERATE	SYMPTOMS/INDICATORS
Co-ownership	<ul style="list-style-type: none"> • Political support • United front against critics • Advocacy • Co-management of projects
Approval - support	<ul style="list-style-type: none"> • Company seen as a good neighbor • Pride in collaborative achievement
Acceptance - tolerance	<ul style="list-style-type: none"> • Lingering / recurring issues and threats • Watchful monitoring • Presence of outside NGOs
REJECTION / WITHDRAWAL	<ul style="list-style-type: none"> • Shutdowns • Blockages • Legal challenges • Boycotts • Violence/sabotage

Source: Sustainable Business Council (2013)

Most literature on social licensing has been descriptive or theoretical, providing guidance for companies to obtain a social license. However, there is a lack of empirical research to validate these models.

The main principles of social licensing are that companies must be seen as operating responsibly, taking care of their employees and the environment, and being good corporate citizens. When problems emerge, companies must act quickly to resolve them or risk losing their social license to operate. In order to protect and build a social license, companies are encouraged to "do the right thing" and to be seen doing the right thing. Ultimately, obtaining a social license means creating a mutually beneficial relationship between stakeholders who are involved in or affected by resource-intensive activities.

In Mongolia, the importance of obtaining a social license has become increasingly evident in the mining sector. There have been several instances where mining developments have been delayed, interrupted, or even shut down due to opposition from the public or local communities. In order to avoid these costly conflicts, mining companies need to obtain and maintain a "social license" to operate from local communities.

This report contains four main sections. The second section will describe the impact of mining and social licensing and related legal environment and policy issues in Mongolia. The third section will then focus on international trends and the best cases of social licensing in the mining sector. The fourth section includes good and bad cases in local mining activities related to social licensing and corporate social responsibility in Mongolia. The final section concludes the findings and provides policy recommendations.

2 Impact of mining and social licensing in Mongolia

In this chapter, we briefly review the impact of mining on the national and local economy and public perceptions of mining. Then, we consider the legal environment of social licensing in the country.

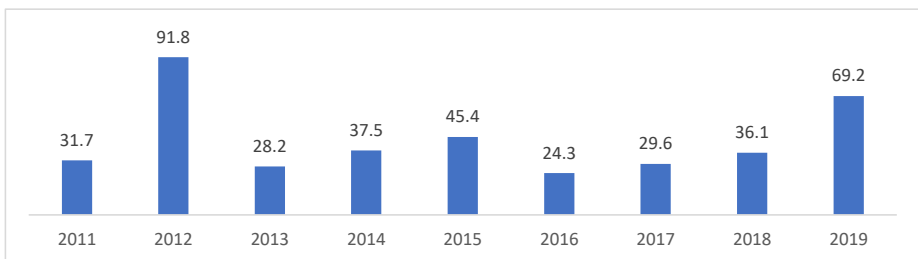
2.1 Mining impact at national and local levels

The mining sector is a major driver of the Mongolian economy. In 2019, it accounted for 23.2% of GDP, 83.7% of total exports, and 48.6% of total investments. It also contributed 22% of the state budget and employed 4.7% of the workforce. (ERI, 2019). The average wage in the mining sector was MNT 2.6 million, 2.3 times higher than the average national salary.

Mining activities also have a significant impact on the local economy. Local governments generate revenue from taxes, fees, and the Local Development Fund (LDF). The per capita budget expenditure of provinces with mining activity has been higher than that of non-mining provinces over the past decade. (ERI, 2019).

In addition to taxes and fees, mining companies donate money to promote local and national development. For example, in 2019, mining companies donated MNT 69.2 billion to government and non-government organizations and local communities, which accounts for about 0.7% of mining GDP (Figure 3).

Figure 3. Cash and non-cash donations by mining companies, MNT billion



Source: Mongolia's EITI e-reporting

Mining companies in Mongolia also contribute to local development by establishing joint funds with local governments. For example, Oyu Tolgoi LLC established the Gobi Oyu Development Support Fund in 2015, and MonEnCo established the Khushuut Development Fund in 2014. The Dornogovi Great Development Fund was established in 2016 with donations from mining companies operating in Dornogovi province. These funds support various local development projects, such as infrastructure, education, healthcare, and social welfare. They help to improve the lives of people living in mining communities and to mitigate the negative impacts of mining. (ERI, 2019).

Although Mongolia's mining industry has grown rapidly, boosting economic development, animal husbandry remains crucial. Herders in the Gobi face challenges securing water due to mining, livestock, and industrial activities. Local communities are at risk of water shortages, prompting the government and stakeholders to urge sustainable water management strategies. (Jocelyn Fraser et al, 2019). To address water issues in southern Gobi, the International Finance Corporation initiated discussions with mining companies. This resulted in eight companies signing the Voluntary Code of Practice (VCP) in February 2016. The VCP aims to enhance public understanding of responsible mining practices and foster improvements in transparency, safety, environmental protection, and community development policies across the mining sector.

Mining development can have a short-term positive effect on the household livelihood in the local area. According to ERI (2017), mining activities have a greater impact on the standard of living at the soum (rural district) level. For instance, in rural soums with mining activity, average household income was about 7.2% greater than household income in soums without substantial mining sector activity between 2010-2016. In addition, in mining soums, household consumption is 11% higher, and poverty is 8% lower than in non-mining soums. This is consistent with findings at a provincial level in Batdelger and Zagdbazar (2022) which found that household real income in mining-producing provinces was 15.3% higher compared to those in nonproducing provinces, while household real consumption in producing provinces was 14.7% higher in the period between 2010 and 2018.

Although the mining sector has a positive impact on both the national economy and the standard of living, local citizens and small businesses tend to disagree with that impact. In the annual surveys conducted by EPCRC, small businesses were asked about their opinion on the impact of the mining sector on their local economy and other sectors (EPCRC, 2015). The survey covers 50 business executives from each province. According to the survey, with the exception of mining provinces such as Orkhon, Umnugovi, and Govisumber, the impact of mining on the economy has been assessed as low or negative.

One reason for the negative public perceptions of mining activities is that mining can negatively impact the environment and local communities. To improve public perceptions of mining, it is important to improve the legal and cultural environment of social licensing in the mining sector. This means creating laws and regulations that protect the environment and local communities, and promoting a culture of transparency and accountability in the mining industry. In addition, mining companies should adopt and implement global and local good practices such as inclusiveness, transparency and accountability, civic engagement, and communication strategies with local communities. This will help to build trust between mining companies and local communities and make mining more socially acceptable.

2.2 The legal environment of social licensing in Mongolia

During the socialist period, mining in Mongolia was done under central planning, with little input from local communities. In the 1990s, the government relaxed the rules for

mining, which led to a boom in the industry. For instance, the government started the “Gold Program” in 1992 to promote gold mine production, and a new Minerals Law was adopted in 1997. Although until the 2000s, the “Gold Program” had been successfully implemented, it led to extensive environmental degradation and other detrimental social impacts such as polluting soil and water, drying up of rivers and streams, involving informal mining activities, and threatening the local community’s health and the livelihood.

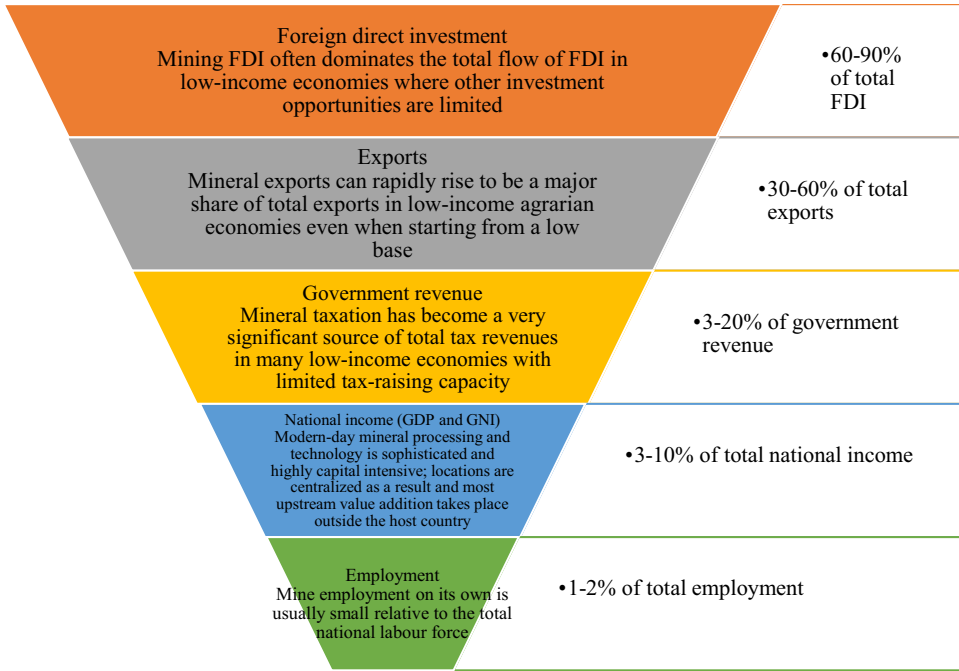
In response to the environmental problems caused by mining, the government passed a number of laws in 2006 and 2009. These laws made it mandatory for mining companies to obtain local consent, share revenue with local communities, and avoid mining in protected areas. In 2012, the government further strengthened environmental regulations by passing a law on environmental impact assessments. The Local Development Fund (LDF) was established in 2011 to redistribute mining revenue to local communities and support infrastructure and human development. The LDF is financed by royalties, VAT, and license fees. The local governor has a role in company-community relations. They can grant permissions, oppose mining operations, and declare land for local use. However, they cannot request donations from mining companies. This is prohibited by the Law on Conflicts of Interest.

In 2019, the Parliament amended its Constitution to promote social licensing in the mining sector. The amendment established that land and subsoil resources are public property and that the government must ensure that the benefits from these resources are equitably distributed and that the public is aware of the environmental impact of mining. The amendment is expected to lead to changes in laws, regulations, and policies related to mining. In 2020, the government released a long-term policy document called Vision 2050. The document sets goals for responsible mining, increasing processing of mineral resources, and connecting strategically important deposits to border ports via railway.

3 International cases of social license to operate

Mining can positively and negatively impact host countries' economic and social development. On the one hand, it can generate significant economic benefits, such as jobs, tax revenue, and infrastructure development. On the other hand, it can also have disruptive impacts, such as environmental damage, displacement of communities, and labor disputes. The relationship between mining and development is complex and often contentious. It is important to carefully consider the potential benefits and risks of mining before deciding whether to allow it in a particular area.

Figure 4. Mining Contributions Breakdown



Source: ICMM, "The role of mining in national economies"

Based on a series of case studies conducted by the International Council on Mining and Metals, an inverted pyramid was formed to illustrate the macroeconomic contributions made by the mining sector (ICMM, 2014). In low and middle-income countries, mining often makes up the majority of foreign direct investment. Countries are often able to attract mining investment even when FDI into other sectors appears unattractive. This partly reflects the low requirements of mining FDI relative to other sectors in terms of existing infrastructure, skilled labor, or financial services. However, at the same time, mining FDI is highly sensitive to changes in the institutional and economic environment.

Mining is a significant economic activity for many countries. It generates export earnings, which can help to improve the balance of payments and foreign reserves. However, mining can also lead to foreign exchange outflows, such as importing capital equipment and repatriating profits. The amount of royalties and taxes paid to the government by mining companies is a matter of debate. The Extractive Industries

Transparency Initiative (EITI) is working to improve transparency in this area, but there is no standardized database yet.

Mining also contributes to GDP through direct and indirect means. Direct contributions come from the wages and salaries of mining employees, interest payments, and profits. Indirect contributions come from the value generated by businesses that supply goods and services to the mining sector. Although the contribution of mining to job creation is often relatively small, it can generate indirect and induced employment through the supply chain. The overall employment multiplier effects of mining can be significant.

However, mining companies face risks. According to Ernest and Young's annual "Top 10 business risks and opportunities for mining and metals," obtaining a social license to operate remains the number 1 issue for miners for the upcoming year 2021, making it the top issue for the third year in a row (Mitchell, 2020). While the industry has been saying all the right things, their actions do not always reflect this, which is being noticed by stakeholders. Social license to operate has expanded beyond social and environmental issues. There is a more pressing necessity to align the communities' values with the outcomes of the mining projects. Failure to do this can impact the ability of the project to access capital or even result in the loss of the license and could terminate the project indefinitely.

In the following subsections, we will look into successful and unsuccessful cases of gaining a social license to operate in various mining projects worldwide. In some cases, the mining project may have gained, lost, and then regained its social license, which further indicates that a social license is not tangible and is ever-changing with the attitudes and perceptions of the community. Despite the differences in each case, the mining projects have some key commonalities.

a. Bolivia – Minera San Cristobal

For centuries, Bolivia's mineral wealth has been exploited and extracted. Silver was the main product of the Bolivian mining sector from the 1540s until the 1800s when tin replaced it. In 1952, after a revolution, the country's three largest mining companies were nationalized to create Corporación Minera de Bolivia (COMIBOL), the Bolivian Mining Corporation. In recent years, Bolivia's mining sector has been deemed unstable by private companies. Additionally, President Evo Morales (2006-2019) has been strongly campaigning for nationalization since 2006 (McFarren, 2020). In May 2006, Morales nationalized 16 companies considered strategically important in metallurgy, electricity, water, and hydrocarbons. This campaign even hurt multinational mining companies with a strong presence in Bolivia, such as Glencore, whose Colquiri tin mining project was nationalized in June 2012 with immediate effect. Despite this instability and the potential threat of nationalization, a successful case of obtaining the social license to operate can be seen at Minera San Cristóbal, a lead, silver, and zinc mine in Bolivia. The mine was initially developed by Apex Silver Mines, an American mining corporation (Our Company: Minera San Cristobal, 2020). In September 2006, Japan's Sumitomo Corporation acquired a 35% stake in the mine and then acquired all stakes in the mine in March 2009. Currently, the mine is exclusively managed and operated by Sumitomo Corporation.

Figure 5. MSC's social license to operate 1994-2008



Source: Thomson and Boutilier, "Social License to Operate"

Between 1995 and 2009, the community's perception of the Minera San Cristóbal mine fluctuated significantly. The mine's social license to operate was lost and regained multiple times.

- 1995-2002: The community initially favored the mine due to the swift handling of resettlement during the exploration phase.
- 2002-2006: The community's perception of the mine began to sour due to concerns about environmental impacts and the lack of local benefits.
- 2006-2009: The community's perception of the mine reached a low point after a series of accidents and spills.
- 2009-Present: The mine's social license to operate has improved under new ownership. The company has made a number of commitments to improve environmental performance and increase local benefits.

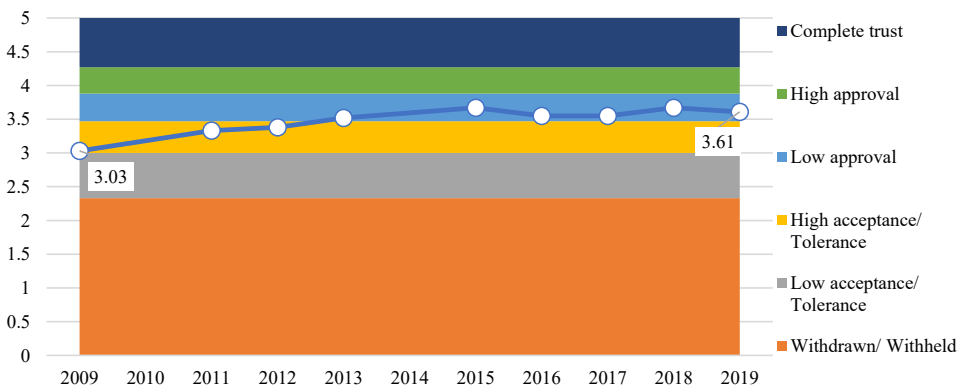
The mine's experience highlights the importance of community engagement in the mining industry. By working with communities to address their concerns and provide clear benefits, mining companies can build a social license that is essential for long-term success. (Thomson & Boutilier, 2020).

The communities around the mine suddenly became prosperous, making the neighboring communities feel they were being mistreated. The communities closest to the mine were also unhappy because they thought that they were not being given the same opportunities for advancement and access to health services as the communities

further away. These deep-rooted cultural differences between the mining company and the community led to the occupation of the mine in 2011. The mine had to suspend operations for 12 days, which cost them \$24 million. (Gama, 2019).

In 2009, Minera San Cristobal began to monitor its social license to operate using a quantitative methodology (Boutilier & Thomson, 2019). Intensive and independent studies are conducted every 12 to 15 months with the internal ability to track and monitor the values monthly and even weekly. The data collected during the measurement of the company's social license to operate provides an insight into the perceptions and opinions of stakeholders. This information is used to underpin community engagement and develop short- and medium-term objectives, as well as contribute to strategic planning and risk management. As seen in the figure below, the mine's acceptance among the community steadily increased from high acceptance/tolerance to low approval.

Figure 6. Minera San Cristobal Social License to Operate



Source: Minera San Cristobal Sustainability Report

Minera San Cristobal identified, mapped, and analyzed stakeholders to engage with them proactively. They established open communication channels to understand concerns, worries, or complaints. Once requests were verified and validated, communication was tracked with the people submitting them. Stakeholders were informed of actions that helped the mine improve operations and grow.

This case shows that a social license to operate can be preserved by constantly monitoring community perception. It is also important to engage with the community, communicate on potential issues, and resolve them in a timely manner. These resolutions should be integrated into the company's objectives and goals.

b. Peru – Tintaya copper mine

Peru is a major producer of copper, gold, silver, and lithium. These minerals are found mainly in the mountains, and the mining sector plays an important role in the country's economy. Peru has well-regulated mining laws and four different types of concessions for mining activities. (U.S International Trade Administration, 2020). Mining companies in Peru must follow a number of regulations in order to operate. These include paying ongoing fees, submitting environmental impact studies, obtaining water rights and surface land rights, and consulting with local indigenous people. In addition, mining companies must build ground transportation and electric power infrastructure to reach most of the mineral deposits. This can be costly and problematic, as the country is environmentally sensitive and the government is protective of its environment. As a result, the number of mining conflicts has been steadily increasing in Peru (Observatory of Mining Conflicts in Latin America, 2020).

The Tintaya copper mine is located in Peru's Espinar province and has long been a source of disharmony between the local Quechua-speaking community members and mine operators (Armstrong, Baillie, Fourie, & Rondon, 2014). The communal holdings of an indigenous farming community eventually led to the establishment of a state-owned enterprise in 1985. In 1994, as part of Peru's structural adjustment program, the mine was privatized and sold to Magma Copper, which was then acquired by Australia-based BHP Billiton in 1996. BHP Billiton expanded the mine by obtaining additional land from Tintaya Marquiri and four adjacent communities.

Some community members claimed that they were forced into land purchases that were conducted in unethical and illegal ways (Cesar, 2019). Community members complained about the mine's environmental impacts. The company's senior executive thought they were doing enough by complying with the Peruvian government and paying taxes. However, Peruvian NGOs sent a report to Oxfam Community Aid Abroad, which led to a dialogue process between the company and the communities. The company agreed to contribute 3% of its profits to community development and created the Tintaya Foundation to fund community initiatives. The company also agreed to form an environmental committee with the community to identify and mitigate environmental impacts.

Despite these efforts, BHP Billiton faced violent protests over access to water, revenue shares, and other issues (Sydney Morning Herald, 2005). The mine was suspended or closed several times. In 2006, Xstrata bought Tintaya from BHP Billiton. In 2013, Xstrata and Glencore merged. Since the merger, the Tintaya copper mine has been gradually closing. However, there have been complaints from the communities surrounding the mine (Temper, Bene, & Martinez-Alier, 2015). A case alleging Glencore's Tintaya copper mine has negatively impacted local communities and the environment was filed.

This case highlights that although a mining company may regain its social license to operate through community engagement and programs, the environmental impacts of the mining operation can set this back. Additionally, long-lasting discord can permeate relations to the extent that a social license to operate can never be fully attained.

4 Mongolian cases of social licensing to operate

The social licensing issue has gained prominence in Mongolia's mining sector over the past two decades. Prior to 1990, social licensing was not a significant concern due to the socialist system. The sector remained relatively stagnant until the mid-2000s, when foreign-invested mining companies entered the market, introducing concepts of responsible mining and social responsibility. State-owned mining companies, which were mostly established before 1990, demonstrate poor information transparency and politically motivated social responsibility activities. In contrast, privately owned and foreign-invested mining companies face the brunt of social licensing challenges. Public opposition has led to delays, interruptions, and even shutdowns of mining projects, while some companies have successfully navigated social licensing requirements.

This section will focus on the social licensing of privately owned and foreign-invested mines. We include 4 cases as examples of good practices and 2 cases as examples of poor practices of social licensing in Mongolia. Examples of poor practices are Aspire Mining Ltd and Centerra Gold LLC. And, examples of good practices include Energy Resource LLC, Erdene Resource Management Corporation, Oyu Tolgoi LLC, and Erdenes Silver Mine.

4.1 Aspire Mining Ltd

Project: Ovoot project, located in Tsetserleg soum, Khuvsgul province.

Timeline: Aspire Mining Ltd, through its subsidiary Khurgatai Khairkhan LLC, conducted exploration activities since 2008 and acquired a 30-year mining license in August 2012. In 2017, a local NGO filed a lawsuit against Aspire Mining Ltd. Subsequently, in 2019, the Supreme Court of Mongolia upheld the revocation of Aspire Mining Ltd's mining licenses.

Issues: Lack of consensus on the project at the local level and lack of social licensing.

Since the project began in 2008, Aspire Mining Ltd has continuously tried to gain a social license through various activities. In particular, they aimed to promote advancement in education, health, environmental sustainability, and economic development. As mentioned in its 2019 annual report, Aspire Mining Ltd has invested approximately MNT 660 million into the local community through a student scholarship program, training programs where local residents receive a license to operate heavy machinery, the construction of a new hospital in Tsetserleg soum, and other programs. The company cooperated with local non-government organizations and community groups and signed a "Memorandum of Understanding" with ten groups to run joint projects for target social groups. However, the company has been unable to establish a favorable relationship with the local community. The company began the OEDP Definitive Feasibility Study (DFS) in March 2019. The DFS has been delayed while the company negotiates a community agreement and permitting approvals.

When the project began production, the company planned to transport coal 500 km between Ovoot and Erdenet. After reaching Erdenet, the coal will be exported by

railway to China, Russia, and other countries. As there is no infrastructure to transport coal between Ovoot and Erdenet, Aspire Mining Ltd conducted a feasibility study to investigate the possibility of constructing a railway. However, the railway construction was delayed for several reasons, and ultimately, the company decided to build a 560 km paved road between Ovoot and Erdenet instead. In a 2019 interview with Asia Mining magazine, Z. Gan-Ochir, CEO of Aspire Mining Ltd, they highlighted three main reasons why the construction of the railway stalled. The first reason was that the planned route for the railway overlapped in part with the Bulnai Mountain National Park. The second reason related to government policy was that the railway construction was linked to the Mongolia-Russia-China Economic Corridor Program. While railway construction was initially supported, construction work ultimately became uncertain due to disagreements between the abovementioned countries. Third, the local community and authorities requested the construction of a paved road instead (Asian mining magazine, 2019). Moreover, the Government of Mongolia was also uncertain about the project and ratified conflicting policy documents. For instance, in the “Sustainable Development Vision 2030,” the construction of the Erdenet-Ovoot railway was planned for construction between 2016 and 2025. Following this, while the Government Action Plan 2016-2020 detailed the railway construction, it was not mentioned in the Government Action Plan 2020-2024.

There is also a lack of consensus on the project at the local level. For instance, in an interview, L. Ganbold, the Governor of Khuvsgul province, detailed the implementation of the “No Mining Khuvsgul” program in which no additional exploration or mining licenses are to be issued and mentioned plans to revoke existing licenses (Mongolian Mining Journal, 2019). Moreover, in 2018, the Governor of Khuvsgul Province suspended Aspire Mining Ltd’s exploration drilling activities (Khuvsgul province governor's office, 2018). Despite these actions, the construction of the Erdenet-Ovoot railway and the establishment of international railway transport through Northern Mongolia were included in Khuvsgul Province’s Development Program 2016-2030 (Khuvsgul province governor's office, 2016).

In June 2017, a local NGO called “No Mining Khuvsgul” filed a lawsuit with the Ulaanbaatar Administrative Court on the conditions that Aspire Mining Ltd’s mining license for the Ovoot project and the Erdenet-Ovoot railway project violated the law. In particular, the two projects did not conduct general or detailed environmental assessments as required by law (Montsame, 2017).

These findings highlight the lack of consensus by stakeholders on the Ovoot project at both the national and local levels. This, in turn, points to Aspire Mining Ltd’s lack of social licensing.

4.2 Centerra Gold LLC

Project: Gatsuurt mine, located in Mandal soum in Selenge province.

Timeline: Exploration activities commenced in 1997. In 2005, Centerra Gold LLC conducted a feasibility study, initiated the construction of essential infrastructure, and made other investments in the project. However, the enactment of a new law in 2009

prohibited mining operations at the Gatsuurt mine. In 2015, the Gatsuurt mine was designated as a mineral deposit of strategic importance, paving the way for its development. In 2016, the Mongolian government established a 34% state ownership stake in the Gatsuurt mine. However, in 2019, the Supreme Court of Mongolia revoked Centerra Gold LLC's mining licenses, effectively halting the project's progress.

Issues: Proximity to Noyon Mountain National Park, protests from local communities, and legal challenges

The Gatsuurt mine is located close to Noyon Mountain National Park, a landmark of both historical and natural significance. As many locals worship the mountain and its surrounding nature, there have been numerous local protests against Centerra Gold LLC's operations. Moreover, with the ratification of the "Law on the Prohibition of Mining Operations in the Headwaters of Rivers, Protected Zone of Water Reservoirs and Protested Areas" in 2009, mining operations at the Gatsuurt mine were prohibited.

However, in January 2015, the Gatsuurt mine was designated by the Parliament of Mongolia (PoM) as a mineral deposit of strategic importance, allowing for legal mining in the area (Mongolian Mining Journal, 2015). Conversely, as a mineral deposit of strategic importance, the level of Mongolian state ownership must be determined. On February 4, 2016, the PoM ratified Mongolian state ownership in the Gatsuurt mine at 34 percent (Legalinfo, 2016). Following this decision, the operation of the Gatsuurt mine could officially commence.

Opposing these decisions, the "Rescue Noyon Mountain" NGO has been working to get the four mining licenses held by Centerra Gold LLC revoked. The organization filed a lawsuit with the Ulaanbaatar Administrative Court in 2016, with the dispute continuing for almost four years. Finally, on December 9, 2019, the Supreme Court of Mongolia ruled to revoke the four mining licenses held by Centerra Gold LLC (Supreme court of Mongolia, 2019).

4.3 Energy Resources LLC

Project: Ukhaa Khudag project in Tavan Tolgoi mine, located in Tsogttsetsii soum in Umnugovi province.

Timeline: Energy Resources LLC was established in 2005. When the company started operations in 2009, it built an industrial complex with technical and social infrastructure, such as a coal concentrator, an 18-megawatt power plant, a water supply system, an apartment complex, and a school and a kindergarten complex (Energy Resources, 2020). In 2016, the company signed Voluntary Code of Practice (VCP).

SLO activities: The has fulfilled its social responsibility by implementing community-driven projects, enhancing local health and education, supporting businesses, developing infrastructure, and preserving cultural heritage. The company communicates with the community through open days, addresses concerns, publishes annual reports, and adheres to ISO 14001:2004 for environmental management. To combat desertification, a forest strip has been established. The company responsibly manages water usage by utilizing floodwater and constructing a dewatering plant.

Energy Resources LLC has demonstrated a commitment to implement the corporate social responsibility (CSR) conscientiously. Their CSR policy aligns with the International Voluntary CSR Standard ISO:26000. Since its establishment in 2005, Energy Resources LLC has actively collaborated with stakeholders to fulfill its social responsibility. The company strives to build strong relationships with the local community, actively listen to their concerns, and involve them at all stages of the mining process. They have implemented regular projects and programs tailored to the specific needs of the local area, identified based on community feedback and baseline surveys. These projects have enhanced local health and education services, supported small and medium-sized businesses, developed infrastructure, and safeguarded local cultural heritage.

The company prioritizes providing information to the local community. They have organized open days and discussions to facilitate open communication. The company collaborates with local community volunteer councils to foster an open relationship and incorporate their perspectives into decision-making processes. The local community actively participates in environmental monitoring and rehabilitation efforts. The company openly receives and responds to citizens' complaints and suggestions. They publish annual social responsibility reports and provide information to the local community.

Energy Resources LLC is committed to environmental protection and rehabilitation. They have adopted the international standard ISO 14001:2004 "Environmental management system" to guide their environmental and rehabilitation activities. Specialized management plans address waste, water, dust, soil erosion, and rehabilitation. To combat desertification, a forest strip has been established in the region. (Energy Resources, 2019).

The company takes water usage at the mine seriously and has constructed a dewatering plant for waste from the coal concentration plant. This initiative enables the reuse of a significant portion of the water used at the mine. Additionally, floodwater is collected and utilized for mining operations.

4.4 Erdene Resource Management Corporation (ERMC)

Project: The Bayan-Khundii gold project is located in Bayan-Undur and Shinejinst soums, Bayankhongor province.

Timeline: ERMC was established in 2000. The company was listed on the Toronto Stock Exchange in 2004 and on the Mongolian Stock Exchange in 2018. In 2019, ERMC secured a mining license for the Bayan Khundii mine. In 2021, the company signed a Local Cooperation Agreement with Bayankhongor Provincial Government for the Project. According to ERMC, the Bayan-Khundii gold project will begin gold production in early 2025.

SLO activities: The company worked with local herders, elected officials, and other stakeholders to reduce competition for water, made an investment in Shinejinst soum to improve its potable water supply, gave a portion of shares listed on the Mongolian Stock Exchange (MSE) to more than 5,000 people in Shinejinst and Bayan-Undur

soums, and organized a scholarship program that has funded 43 high school graduates to pursue higher education.

ERMC is a member of the International Finance Corporation's VCP for sustainable water management in the Gobi region. ERMC has also worked with local herders, elected officials, and other stakeholders to reduce competition for the scarce water resource. ERMC has a local-level cooperation agreement with Bayankhongor province, Shinejinst, and Bayan-Undur soums, where the Bayan Khundii gold mine is located. Established on April 30, 2017, the ERMC provided USD 2,500 to Shinejinst soum to improve its potable water supply under the local-level cooperation agreement (Jocelyn Fraser et al, 2019). Drinking water was transported to Shinejinst soum, 270 km from the province center. Therefore, in 2017, when ERMC commissioned hydrogeological work to source a water supply for the potential mine at Bayan Khundii, the company offered to expand the area for the hydrogeological investigation to include the soum. This led to the discovery of a potable water source 3 km from the soum centre. After that, Shinejinst soum built a deep drilling well funded by ERMC and no longer had to transport potable water from far away.

ERMC is listed on a foreign stock exchange and became the first company to list its shares on the Mongolian Stock Exchange (MSE). As part of the cross listing, ERMC worked with local government officials from the two soums closest to the Bayan Khundii project. ERMC then gave a portion of the shares listed on the MSE to more than 5,000 people in Shinejinst and Bayan-Undur soums. As a result, local people will be able to benefit financially from the project in the future.

ERMC has focused on equal access to natural resources for local people and has organized a number of activities to contribute to community development. One of them is the company's scholarship program, which was launched in 2012. The program provided funding for 43 high school graduates to pursue higher education. Scholarship recipients are not required to work for ERMC after graduation. Students also do not need to study mining. This will allow graduates to return to work in their soums. Scholarship recipients include soum doctors, bankers, and local government officials.

4.5 Oyu Tolgoi LLC

Project: Oyu Tolgoi copper mine, located in Khanbogd soum in Umnugovi province.

Timeline: The field exploration was started in 1997. An Investment Agreement was signed between the Government of Mongolia, Ivanhoe Mines, and Rio Tinto in 2009. The Government takes a 34 percent interest in Oyu Tolgoi LLC. Rio Tinto also manages Oyu Tolgoi on behalf of the partnership. The company produced and exported its first batch of copper concentrate in 2013. In 2015, the Government and Rio Tinto signed the underground development plan. That year, Oyu Tolgoi signed a Cooperation Agreement with its partnering communities. The underground mine operation started in 2023.

SLO activities: The Oyu Tolgoi project has significantly impacted the Mongolian economy, both locally and nationally. The company established a Cooperation Agreement with partnering communities, created the Gobi Oyu Development Support

Fund (DSF) to invest in local communities, and provided micro-business loans, savings for future use, and scholarships.

Between 2010 and 2022, Oyu Tolgoi paid USD 4 billion to state and local budget and spent USD 5 billion on national procurement. As of the end of 2022, 97 percent of Oyu Tolgoi's workforce is Mongolian, or 3,500 workers (Oyu Tolgoi, 2022).

Rio Tinto established a new office in Mongolia in 2018. Rio Tinto's Exploration team and the Mongolia Delivery Centre (MDC), the local branch of Rio Tinto's Information Systems and Technology team, operate in the new office. The MDC team helps service all of Rio Tinto's global operations. Currently, around 100 Mongolian workers are employed in the new office, mostly working as programmers and engineers.

The project faced initial opposition from local communities regarding water usage. The company diverted the Undai River, sparking protests and concerns about reduced water availability and pastureland degradation. (Meesters & Behagel, 2017). Despite these concerns, the company proceeded with the diversion, citing negligible impact. Primary beneficiaries of Oyu Tolgoi LLC, such as shareholders, and some citizens of Khanbogd soum supported the river diversion.

Oyu Tolgoi LLC signed a Cooperation Agreement with Khanbogd, Bayan-Ovoo, and Manlai soums, and Umnugobi province in 2015. Oyu Tolgoi LLC claims that it is committed to strengthening sustainable, neighborly relationships with local communities based on mutual respect, active partnerships, and long-term agreements to gain and maintain their social license to operate. The company is implementing its social responsibility in accordance with the participatory environmental monitoring program, cultural heritage management program, local business and economic development program, health program, herder livelihood support program, cooperation agreement, and community newsletter. These projects are implemented through the Gobi Oyu Development Support Fund (DSF).

Oyu Tolgoi LLC makes a USD 5 million financial contribution annually to the Gobi Oyu DSF. In accordance with the agreement, parties formed the Relationship Committee in charge of supporting and overseeing mutual understanding and cooperation. The Relationship Committee consists of 13 members; four representatives from Oyu Tolgoi LLC and nine representatives from local communities.

As of the end of 2021, the Gobi Oyu DSF has invested MNT 82.2 billion in Umnugovi province and financed 304 projects and programs. More than 680,000 people have benefited from the Fund. The fund receives proposals from citizens and organizations to implement projects and programs in Umnugovi province in the areas of social infrastructure, environment, water management, national history and culture, traditional animal husbandry, and basic social services. In accordance with the Funding Guidelines to achieve the objectives of the Cooperation Agreement, Gobi Oyu DSF allocates 5 percent of its total annual funding to the Future Generation Fund. This Future Generation Fund is designed to be a revolving fund. It allocates its funds in three main categories: Gobi Oyu – Business Opportunity micro-business loans, savings for future use, and Gobi Oyu Student Scholarships.

In addition to large-scale social infrastructure projects such as kindergartens, schools, soum hospitals, gyms, and soum heating boilers, the projects mentioned above are aimed at empowering citizens, acquiring knowledge and skills, and improving the quality and access to education and health care services. Many development programs are also aimed at protecting the environment and supporting agriculture and industry. Average water recycling efficiency rate was 86.4% in 2022.

4.6 Erdenes Silver Resources LLC

Project: Salkhit Silver Mine is located in Gurvansaikhan soum in Dundgovi province.

Timeline: Several exploration activities were conducted between 1966 and 1994. The mine was nationalized by the Mongolian government in 2018. Erdenes Silver Resources, a state-owned enterprise, was established in 2019. A concentrator with a capacity of 600,000 tons of ore per year was planned for commissioning in 2021 but was not completed due to the COVID-19 pandemic. The feasibility study was approved in 2020.

SLO activities: The Government of Mongolia used the mine's expected returns to secure a loan from the Bank of Mongolia, which was used to repay pension loans to all pensioners. The first social acceptance survey was conducted in the Salkhit Silver mine.

The Salkhit silver mine was owned by a Chinese company, but was nationalized by the Mongolian government in 2018 as they uncovered an illegal activity in the registration process. The mine has reserves of 808.3 tons of silver and 1117.1 tons of gold. In 2020, the government used the mine's expected returns as collateral to obtain a loan from the Bank of Mongolia. The loan was used to repay pension loans to all pensioners.

There are limited efforts in developing guidelines to assess SLO in Mongolia. In light of this gap in knowledge, ERI's research team created a guideline and methodology to assess SLO in Mongolia and used it for the Salkhit Silver mine (Batdelger, et al., 2022). To assess the social acceptance level, researchers conducted in-person interviews with 211 residents who live in Gurvansaikhan soum in Dundgovi province. The survey employed a 34-item questionnaire, which closely followed that of Moffat and Zhang (2014). It assessed the respondent's perceptions about the impact of mining on social infrastructure, contact quality and quantity with personnel from the mining company, procedural fairness, trust, and overall acceptance.

- Most respondents rated the impact on social infrastructure as average. However, the impact on social infrastructure differed greatly depending on local circumstances and who the respondent was.
- Participants rated the frequency of contact with Erdenes Silver Resources as very low, and most participants answered that they had never met with the company's employees or representatives. As the local residents do not have any relationship with the company, most of the participants could not determine how pleasant or positive their contact was.
- On whether they are respected and included in the company's decision-making process, the participants rated as average. However, the scores of the participants on the items only focused on the perceived procedural fairness of the company.

- The participants' level of trust was above average. Although the company does not hold public meetings or provide information on its activities, the level of trust was above average. This is due to the government's decision to cancel pension loans or to transfer a lump sum amount to the elderly who do not have loans financed by the proceeds from this project.
- The participants rated their acceptance and approval of Erdenes Silver Resource as above average.

Moreover, based on the bivariate analysis of Moffat and Zhang (2014), Batdelger et al. (2022) performed a path analysis of how mining activity impacts SLO factors and how SLO factors affect each other. According to the analysis, participants who experienced an impact on social infrastructure reported lower levels of trust, but this experience did not directly predict their acceptance of the company. Participants who had frequent meetings with company personnel reported higher levels of trust. Furthermore, participants who perceived that the company was procedurally fair in dealing with local communities reported higher levels of trust. The older the participant was, the more they trusted the company. Lastly, trust was a strong and significant predictor of acceptance and approval of the company and mining project. This model's predictions closely followed the data.

Consistent with previous international studies, trust is a strong and significant predictor of acceptance and approval of the company and the mining project. Likewise, procedural fairness had the highest positive effect on trust, in line with Moffat and Zhang (2014) and Cruz et al. (2020).

5 Conclusion and Recommendation

The social license to operate (SLO) is a powerful tool for community engagement. SLO is gaining momentum globally, emphasizing genuine community engagement and approval for mining projects. Unlike formal permits, an SLO is intangible and constantly evolving, requiring ongoing efforts to maintain it up to date.

Recognition of SLO is growing in Mongolia. Despite its nascent stage, SLO is increasingly acknowledged by the Mongolian government, as evidenced by regulations promoting public participation and transparency.

However, implementation challenges remain, highlighting the need for consistent and effective execution. While some mining companies in Mongolia have successfully implemented SLO practices, others face public opposition due to inadequate communication and transparency. This underscores the importance of:

- **Building Trust through Transparency:** Regularly sharing comprehensive project information, actively addressing community concerns, and transparently handling grievances are vital to gaining trust.
- **Meaningful Community Engagement:** Integrating local voices in decision-making processes, conducting social acceptance surveys, and implementing community-centric social responsibility initiatives are crucial.

- Enhancing Regulatory Framework: Strengthening legal avenues for public participation, formulating stricter mine closure regulations, and ensuring transparent information platforms are essential.

Building on the findings of previous studies, the following recommendations can be implemented to enhance SLO in the mining sector:

- Regularly conduct social acceptance surveys in collaboration with independent research institutes.
- Monitor community attitudes throughout the project lifecycle, including the pre- and post-closure phases.
- Enhance the quality and accessibility of existing information platforms.
- Implement action plans to address community grievances transparently.
- Require small and medium-sized mining companies to adhere to information transparency standards.
- Facilitate knowledge sharing among mining companies, promoting best practices for SLO implementation.

By prioritizing open communication, meaningful community engagement, and robust regulatory frameworks, Mongolia can foster a mining industry with a genuine social license to operate, fostering greater social acceptance and contributing to sustainable development.

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