

## Social licence to operate

### At a glance

An empirical study of publically traded junior gold mining companies found two-thirds of the market capitalisation of these firms was a function of their stakeholder engagement practices, whereas only one third was a function of the value of gold in the ground.

### Maintaining cost controls in PNG

Establishment and maintenance of a social licence to operate is essential to any project's success, particularly in Papua New Guinea (PNG), where a lack of community support has proven to result in work stoppages, reduced productivity and major cost blow outs. From our in-country experience, most resource projects in PNG have spent far more money managing the social sphere than was ever anticipated or budgeted.

This insight presents two mechanisms which may be applied to reduce or avoid the costs associated with social conflict:

1. Predicting the root cause of potential issues and enabling these to be addressed before they affect project profitability
2. Application of enhanced evaluation techniques to key project activities to ensure these deliver social licence objectives

### What is a social licence?

A social licence to operate is the ability to gain and maintain the support of the people that live in your project's area of influence. A social licence is granted by the community and is formulated by the beliefs, perceptions and opinions held by the local population and other stakeholders in regards to your project. It's dynamic and temporary because such beliefs, opinions and perceptions are subject to continual change. A social licence needs to be earned and then maintained. And unless efforts are made to measure how project activities influence these elements, a social licence is also intangible.

### What's unique about PNG?

PNG presents particular social challenges to proponents in the resources sector. It's a country of unique social diversity and complexity. Community exposure to resource development is limited and the social change which such projects initiate is not well understood. These factors can lead to confusion, disillusion and resentment.

PNG is also unique in the way project information, particularly grievances, can spread amongst the people. Wontok connections such as family and clan connections form a powerful information superhighway and through it, a social licence which has taken years to build, can be lost with astonishing speed.

The costs to the project of losing a social licence can be staggering. Recent research conservatively estimated that global costs associated with delays in obtaining project approval, work stoppages and shut downs directly relating to social opposition, collectively cost major resource companies more than US\$9 billion

per year<sup>1</sup>. At a company level, this can equate up to US\$20 million per week<sup>2</sup>.

But it's not just major projects which are affected. An empirical study of publically traded junior gold mining companies found two-thirds of the market capitalisation of these firms was a function of their stakeholder engagement practices, whereas only one third was a function of the value of gold in the ground.

A number of proponents of major projects in PNG have completed an analysis of costs associated with work stoppages and other forms of social conflict. In terms of the proportion of project capital, the results indicate that costs incurred are higher than those globally. If we factor in the opportunity cost of further projects not advancing due to the struggle in making existing projects profitable, then the costs are even higher. The commercial incentive for investing in a social licence strategy in PNG is clear.

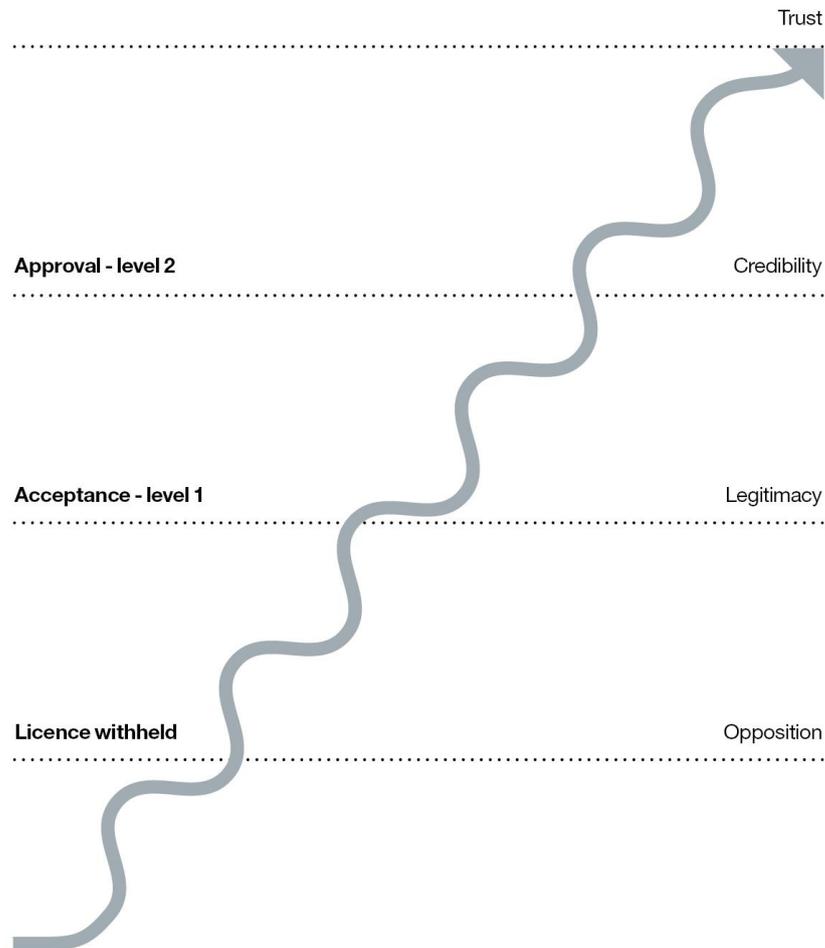
### **Levels of licencing**

It's useful to unpack the term 'social licence to operate' so that it's less conceptual and more tangible. A start is to identify the three basic levels of licencing.

Level 0 (no licence): Community opposition - The community opposes the project and actively attempts to sabotage, delay or shut it down

Level 1 (lower level): Community acceptance - Allows the project to proceed

Level 2 (upper level): Community approval- The community becomes advocates or defenders of the project



Level of social licence	Indicators
<b>Approval / support</b>	Seen as a good neighbour and the community have pride in the project and defends its legitimacy.
<b>Acceptance / tolerance</b>	Lingering and recurring issues and threats. The community is watchful and cautious in their interactions with the project.
<b>Withheld</b>	Work stoppages, blockades, boycotts, legal challenges and sabotage.

**Diagram one: levels of licencing**

As per diagram one above, a project will move along this spectrum throughout the project lifecycle. Despite the best laid plans and intentions, community support for a project can quickly be lost and the social licence withdrawn resulting in unanticipated project costs.

**Techniques to reduce or avoid unnecessary project costs**

To avoid community dissent and to better focus community engagement and investment programs, the following techniques may be applied.

### **Root cause analysis**

By understanding the root causes of community dissent against the project and addressing these before they become significant issues, substantial costs associated with crisis management may be avoided.

Resource and infrastructure related projects are typically the first developments PNG communities have been exposed to. These projects represent an external influence upon a community's way of life and can result in both positive and negative effects upon individual and community wellbeing. As a result, communities can become disenchanted and resistant to changes induced by a project when they perceive valued aspects of their life are compromised.

Root cause analysis focuses on identifying the core values held by communities and the degree to which these values are sensitive to change. Such information can only be generated through direct engagement and a two-fold survey technique has been successfully employed in PNG communities.

The initial survey focuses on identifying values through semi-structured conversations with community members. It explores the key aspects of daily life, elements of the environment enjoyed and relied upon, and aspirations for the future. The follow up survey asks respondents to rank specific values in order of perceived importance. This process generates genuine insights into what the community values and their expectations regarding the project. This information is then used to assign levels of relative sensitivity to respective values.

The next stage is to analyse how the project interfaces with community values by focusing on the mechanisms of change associated with the project and the impact on each value. Once this is done, a level of risk is then assigned. For example, a value which is highly sensitive and will be substantially affected by project activities, is subscribed a 'very high' risk rating.

Lastly, measures to manage these risks are developed. These measures may include reducing the sensitivity of the value through awareness campaigns or capacity building programs such as small to medium enterprise development. It may also include reducing the degree of the project's affect upon the value, such as through avoiding culturally sensitive areas or replacing water sources.

The analysis delivers an enhanced appreciation of what is important to communities and helps to predict the root causes of community dissatisfaction associated with the project. This enables time and resources to be focussed on managing the specific areas which pose the highest risk of social conflict. Not only does this focus community investment expenditure on addressing the issues which really matter, it also allows these to be addressed before they affect project profitability. As a result, resource companies can be more proactive rather than reactive in the management of social issues.

### **Enhanced evaluation**

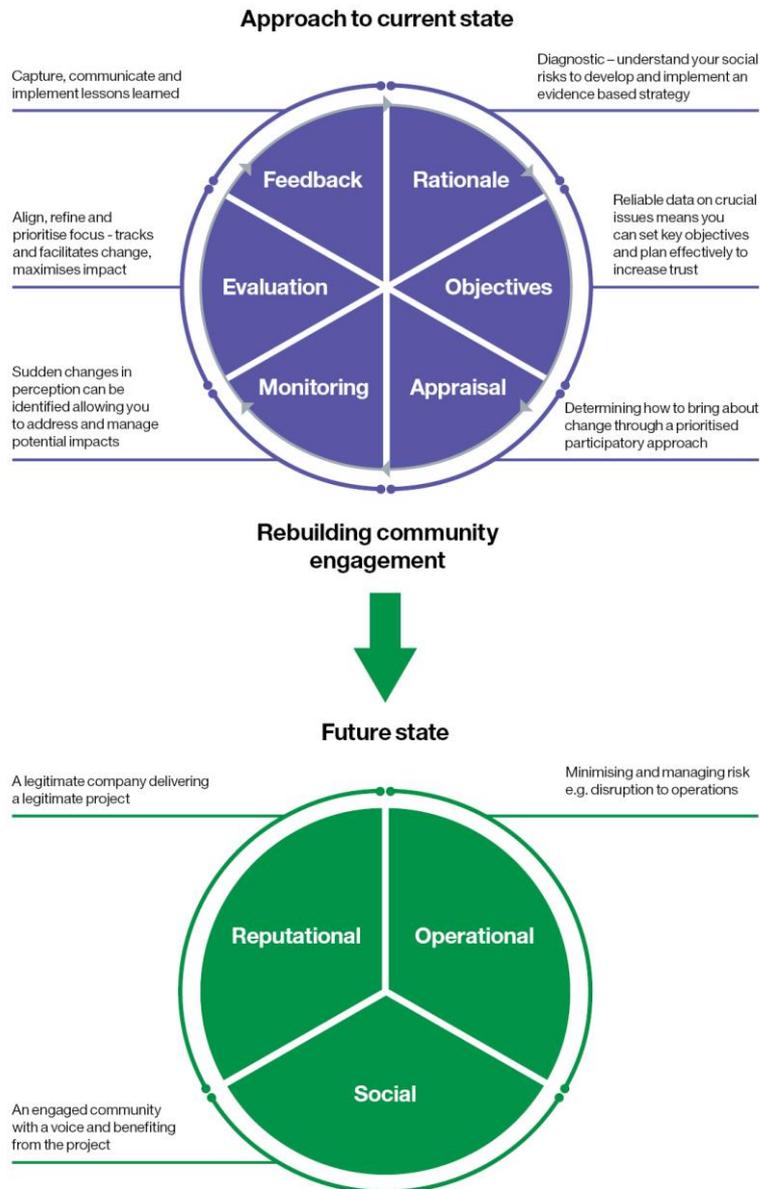
Program evaluation is the process of systematically and objectively assessing an ongoing or completed program or project, its design, implementation and the results.

Evaluation involves the collection of qualitative and quantitative data to answer questions such as:

- **Relevance:** To what extent are the objectives of the program still valid?
- **Effectiveness:** To what extent were the programs objectives achieved or are likely to be achieved?
- **Efficiency:** Were program activities cost-efficient and delivered on time?
- **Impact:** What has happened as a result of the program?
- **Sustainability:** To what extent are the benefits of the program likely to continue after funding ceases?

Particular elements of the project play a key role in establishing and maintaining a social licence to operate. In particular, the community engagement and the community investment programs typically will have a direct effect on how the community perceives the project. These programs usually attempt to balance a range of competing agendas; however in the process, the focus on delivering higher level purposes and objectives can become lost. Third party evaluation provides an independent and evidenced based assessment on what's working, what's not and why.

To overcome such issues, the ROAMEF model (rationale, objectives, appraisal, monitoring, evaluation, feedback) can be used which enables problems to be understood and overcome. It achieves this by informing the design and implementation of effective community engagement social management programs. Subsequently through this process, resource companies can also evaluate, evolve and adapt their programs going forward.



**How we can help**

Having worked in PNG for 40 years, we have a long history of providing high quality consulting services, working with our clients and in-country partners throughout the region to support social and economic development, and strengthen local capacity. We have a dedicated country manager to oversee our projects and a local team of 150 strong, including 100 PNG nationals, working in-country.

We also help our clients deliver mining, oil and gas and infrastructure projects, with experience providing pipeline and route selection. We deliver environmental impact statements for large resources projects, as well as other environmental and social consultation services. We've provided geotechnical design and analysis for a number of large roads projects, tailings dam design, slope stability and deep sea tailings placement.

We can also help you to attain and maintain your social licence to operate. Through this, you'll have open and transparent communication with your stakeholders – helping you to minimise the risk of costs associated with social conflict.

If you would like more information about how we can help you, please contact Chris Mahoney from our Social Performance practice on +61 7 3002 0445 or via email at [chris.mahoney@coffey.com](mailto:chris.mahoney@coffey.com). Alternatively, please contact Ben Ward from our International Development, Research Monitoring and Evaluation practice on +61 8 8375 4515 or via email at [ben.ward@coffey.com](mailto:ben.ward@coffey.com)