

**STAKEHOLDERS' PERCEPTION ON THE APPLICABILITY OF SHARED VALUE
CREATION IN MONGOLIAN MINING DEVELOPMENT**

by

Damdinnyam Gongor

B.A., Mongolian State University of Education, 2004

M.A., Mongolian State University of Education, 2008

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Abstract

In recent decades, world population growth has resulted in an unprecedented rise in consumer demand for goods and commodities, and has resultantly triggered the rapid development of relevant industries, including the mining sector. Site-specific effects of the rapid industrial development have led to environmental issues and mounting social dissatisfaction, and have created major obstacles for the industry. Weak governance, an unstable regulatory environment and ill-defined public expectations are considerations that should all be taken into account in order to better understand the current dynamics.

Researchers, scientists and business owners are looking for ways to effectively mitigate some of the non-technical challenges facing the industry, proposing various tools, approaches and innovative ideas to moderate risks and to assist with collaboration. One idea gaining momentum is the “Shared Value” approach, which is the subject of this thesis. This research explores the applicability of the Shared Value approach within the Mongolian context.

This research focuses on the mining industry’s impact on Mongolia’s development, the negative effects of which have mainly been caused by the unequal distribution of the mining wealth over the last 25 years, analyzes and identifies factors which have led to current social and political issues faced within Mongolia, and which can be traced back to the development of the mining sector.

The current situation regarding public perceptions and expectations in Mongolia are based on a survey of the major mining stakeholders. The results of this survey will help us understand the

public expectations held in Mongolia with respect to mining development, and these considerations will be taken into account in the development of future strategies.

The case study of the situation in Mongolia offers us a unique opportunity to study the development of the mining industry in a country with a highly educated population that is endowed with vast untapped natural resources, and yet which is unable to fully benefit from these advantages because of weak governance, appropriate or inappropriate governmental regulations, mining projects with disastrous environmental and social impacts, and the often one-sided and polarized involvement of civil societies.

Preface

I was responsible for the identification, design and online survey for this research. I also performed the compilation and interpretation of the collected data throughout all the different stages of the study.

Some basic data analyses were outsourced and performed by a graduate student in Statistics from UBC.

The study complies with the requirements of the UBC Research Ethics Board, and the H15-00113 Certificate of Approval Minimum Risk was issued.

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Dedication

“Most important thing in becoming a decent human being and to live a decent life is to use your intelligence. Education is the key to for this success. Therefore, I wish you, my son, to become an educated man. I did not have the opportunity to obtain adequate education but I do understand its importance. I will do everything possible to support you to obtain proper education. All I am requesting from you is to study hard and become a decent and respectful man.” Gongor Tsewegdorj’s word for his son...,

To my Dad and Mom. For my children’s future...

CHAPTER 1: INTRODUCTION

1.1 Background

The extractive industry is one of the major economic contributors in many emerging economies. According to McKinsey Global Institute (2013), the economy of 81 countries was driven by resource extraction and production in 2011. The report also states that 69% of the total population in these countries lives in extreme poverty. Considering the large investments required in the extractive industry, which often can be substantial compared to the budgets of the host countries, as well as the vast financial resources invested by the mining companies for social projects and/or philanthropy, there is an obvious mismatch between investments and outcomes (Shared Value Initiative, 2014). In fact, the extractive industry is facing increasingly large amounts of conflict with local governments and the local public in the countries of operation. As shown in Figure 1-1, in the Columbia Center of Sustainable Investment report, the International Council of Mining and Metals (2013) is quoted as reporting an eightfold increase in mining-related community conflicts from 2002 to 2012.

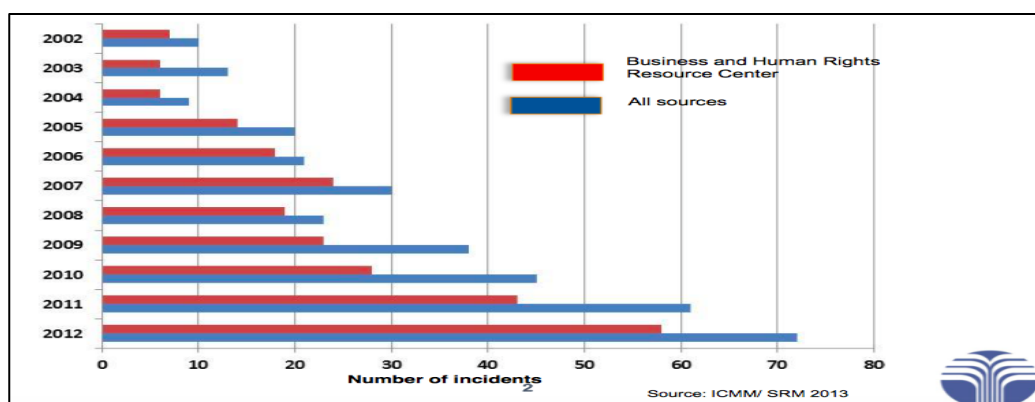


Figure 1-1: Number of mining related community conflicts

Source: (ICMM, 2013)

Many issues associated with these conflicts relate to the impact of extractive industries on the environment, energy, water resources, employment, education, culture and livelihood of the communities. These issues are often more pronounced in developing or emerging economies such as China, Mongolia, India and many African countries, where the mining companies are active players in the economy. Mining activities in these countries are often an important source of revenues. The government and the legal environment are often not strong enough to drive the necessary changes for the mining companies, especially with respect to foreign investment, in order to establish themselves in the emerging mining market. At the same time, mining activities also create considerable impact on the environment and on water resources and energy, and the resulting problems typically develop into an agenda for political opposition. On the other hand, the growing mining sector in emerging economies seems to directly or indirectly influence the politics in the host countries. Growing foreign investment, often linked to increasing mining investment, is frequently associated with the polarization of public opinion, and increasing corruption, which then contribute to political instability. Although many stakeholders are aware of the emerging issues, and are trying to implement good examples and follow best code of conducts, conflicts are never-the-less increasing with respect to their impact and duration.

Mongolia provides a classic case through which to study the dynamics of private-public interactions in the mining sector of an emerging economy. After the peaceful transition from a totalitarian to a democratic society in 1990, Mongolia made remarkable leaps in socio-economic reforms, fundamentally restructuring its political and economic systems. Considerable progress was made in a short period of time and the process continues today. Opening borders for foreign investments, notably in the exploration and extraction of mineral resources drove an

unprecedented inflow of foreign capital into the country, propelling a rapid growth, but creating and deepening conflicts at the same time.

Economic governance capabilities and regulatory environment determine the effectiveness of the host country's management of mining projects, whereas understanding the host country's priorities and exercising responsible conduct allows mining companies to progress and collaborate. Misunderstandings and faulty expectations have deepened the conflicts between the government, society and the mining companies. The resulting social and political environment ultimately led to a considerable slowdown in industrial development, fuelling of conflicts beyond control and leading to deadlocks, and in some cases, to the cessation of mining productions all together.

The financial burden for mining companies to cope with growing issues and conflicts in the countries of operation, as well as the widening gap between the industry and major stakeholders such as government and civil society, has become a worldwide phenomenon. It is forcing the industry to reconsider its traditional approach to the issues and to look for alternative methods and ways to operate and to mitigate conflicts between mining companies, governments and communities.

The concept of Shared Value, which was developed by Porter (Porter & Kramer, 2011) proposes an alternative approach for all three major stakeholders (mining companies, governments and civil society) to mutually benefit from mining investments and thus mitigate conflicts. It creates a framework through which all the participants can cooperate to resolve common issues, with beneficial outcome for all stakeholders. It allows for the revisiting of traditional approaches to social investments and approaches to development that creates a positive return, not only in

social and perceptual terms, but also with respect to creating values for shareholders. These, in turn can be tracked as a real investment for long-term development. The Shared Value approach is a useful tool through which to encourage the joint sustainable development of the industry and the involved communities. Finding a common language and defining the expectations of all parties involved is the first step to defining the strategy and planning a successful mining development.

This research focuses on the perceptions of shared value among the major shareholders in mining development in Mongolia. The historical impact of mining on the social and political sectors will be analyzed, and an examination will be conducted regarding how this history defines the current situation. The resulting expectations, as well as some practices will be analyzed, and it is hoped that the results will lead to a more productive collaboration among stakeholders. Based on the analysis, a framework for a more productive and beneficial dialogue among major shareholders in the Mongolian mining environment will be developed.

1.2 Research questions and thesis objectives

The research questions for this thesis are:

1. What are/were the political, social and economic impacts of the mining industry's development for Mongolia?
2. Is the perception of the Shared Value approach useful in reducing the negative impact of mining development in Mongolia?
3. How can the Shared Value approach be implemented in Mongolia to increase the likelihood of a positive outcome?

The primary objective of this research is to understand the socio-political impact of mining development in Mongolia. The major impacts on social, environmental and political development will be studied, and the relationships between these impacts will be addressed. It is critically important to create common expectations and understanding among the major stakeholders of mining development in Mongolia. Ignoring issues which have been mounting and continuing current practices will ultimately lead to a stall in Mongolian mining development. The perceptions and expectations of the government, the industry and civil society representatives in terms of existing policies and benefits from mining development will also be discussed. Furthermore, the application of the idea of the Shared Value approach from the perspectives stakeholders will be introduced, and its implications will be examined. Based on these findings, a framework will be designed with respect to the Mongolian context for productive future collaborations. In order to accomplish the major objective, the following intermediate objectives were targeted:

- An analysis of the social and economic dynamics in Mongolia associated with the development of the mining industry. Major economic indicators including Gross Domestic Product GDP, GINI Index, and employment and poverty levels obtained from official sources will be used for the analysis. The correlation between major economic shifts and changes in the regulatory environment will be studied.
- Conducting a survey among the major stakeholders in Mongolia to study their opinions on the impact of mining development. Moreover, their expectations regarding mining development will be studied, and will prove useful in identifying ways to increase positive outcomes.

- Based on the survey results and literature review, the validity of the Shared Value approach in the Mongolian case will be explored.

1.3 Thesis outline

Chapter 1 provides a short background of the current situation and issues between the mining industry and other stakeholders. This chapter also discusses the concept of the Shared Value approach and its elements. It includes with the thesis objectives and the thesis outline.

Chapter 2 elaborates on the challenges of the mining industry and their impacts on heavily resource-dependent emerging economies. It explores components, advantages and criticism of the Shared Value approach.

Chapter 3 provides a detailed description of mining development of Mongolia, and the geopolitical and socio-economic factors that have determined this development. It provides an analysis of the mining industry's impact on the economy, society and environment. Four root causes which explain the current lack of social acceptance of the mining industry in Mongolia are identified.

Chapter 4 presents the results of the survey, which was conducted amongst the major stakeholders of mining development in Mongolia. It includes analyses and interpretations of the data.

Conclusions and recommendations from the research are presented in Chapter 5.

CHAPTER 2: LITERATURE REVIEW

2.1 Extractive industry

The extractive industry is an industry through which minerals are obtained from mining and recovered out of the ground. Because of the massive investment associated with the development of the extractive industry, it can create a favorable environment for economic opportunities, industrialization and social development. While investments into extractive industries hold massive potentials for boosting economic development and prosperity, there are plenty of examples where misunderstanding and conflicts among the stakeholders have caused considerable financial losses for mining projects as a result of time delays. Often, the lack of a long term strategy and weak political and economic governance in emerging economies has led to stronger dependence on a natural resource-based economy (McKinsey Global Institute, 2013).

Mining companies are important players in the business world and have the potential to have a positive impact through driving economic diversification, innovation, technology transfer, filling basic needs, and the support of competitiveness, education, and improving good governance in host communities and countries (Nelson, 2006). The mining industry also generates a huge amount of revenue which has been valued to be approximately \$3.5 trillion, nearly 5% of the world total gross domestic product in 2012 (Reuters, 2013).

According to the International Council on Mining and Minerals report, despite all the advantages of the extractive industry, resource driven emerging economies are mostly sitting outside of the “High human development level” (ICMM, 2012) as shown in Figure 2-1.

Mining Contribution Index ratings		Highest 20%	Second 20%	Third 20%	Fourth 20%	Lowest 20%				
Data table by country										
COUNTRY		EXPORTS			PRODUCTION			COUNTRY DATA		ASSESSMENT
		2010 mineral export contribution	Change in mineral export contribution 2005–2010	Total mineral export contribution 2010	2010 production value (US\$ million)	Change in production value 2000–2010	2010 production value as % of 2010 GDP	Population growth since 2000	2011 Human Development Index [HDI]	Mining Contribution Index [MCI]
1	Zambia	83.6%	19.7%	84.2%	3,850	524.7%	23.8%	26.5%	0.43	97.7
2	Northern Mariana Islands	58.9%	54.4%	58.9%	–	–	–	-11.0%	–	97.6
3	Papua New Guinea	54.0%	14.8%	71.6%	3,166	136.5%	33.4%	27.5%	0.47	95.5
4	Montenegro	46.8%	46.8%	56.9%	–	–	–	-0.2%	0.77	95.3
5	Mauritania	60.4%	11.1%	72.2%	1,778	461.6%	48.9%	30.9%	0.45	95.3
6	French Polynesia	67.1%	11.9%	67.2%	–	–	–	13.9%	–	94.8
7	Mali	54.8%	17.6%	55.4%	1,445	305.2%	15.6%	36.3%	0.36	94.2
8	Iceland	42.0%	23.0%	43.1%	–	–	–	13.0%	0.90	93.6
9	Mongolia	77.6%	7.4%	87.5%	1,336	228.2%	21.5%	14.3%	0.65	93.3
10	Congo [Dem Rep]	78.3%	8.1%	90.5%	2,191	837.0%	16.7%	33.1%	0.29	93.2
11	Guyana	46.6%	16.9%	46.6%	361	42.7%	16.2%	2.9%	0.63	93.1
12	Chile	65.9%	9.4%	66.7%	31,275	199.2%	14.7%	11.0%	0.81	92.1
13	Congo, Rep.	39.1%	16.9%	39.1%	–	–	–	28.9%	0.53	91.5
14	Somalia	33.4%	28.0%	34.2%	–	–	–	26.1%	–	91.3
15	Laos	44.6%	27.8%	62.0%	865	22218.9%	11.9%	16.6%	0.52	91.1
16	Burkina Faso	40.7%	38.7%	40.7%	794	3133.6%	9.0%	34.1%	0.33	90.2
17	Cuba	47.7%	8.6%	50.7%	889	39.3%	–	1.8%	0.78	89.4
18	Georgia	33.7%	12.6%	35.7%	–	–	–	0.8%	0.73	89.2
19	Liberia	20.6%	17.9%	29.5%	–	–	–	40.3%	0.33	89.2
20	Bolivia	34.6%	15.4%	77.9%	1,935	305.8%	9.8%	19.5%	0.66	88.0
21	Peru	62.7%	4.8%	72.2%	18,832	302.2%	12.0%	12.4%	0.73	88.0
22	Australia	40.3%	13.0%	69.2%	71,995	337.8%	7.8%	16.1%	0.93	87.9
23	New Caledonia	37.9%	9.1%	38.0%	1,778	59.6%	–	19.1%	–	87.5
24	United Arab Emirates	21.8%	11.6%	64.6%	–	–	–	147.6%	0.85	86.6
25	Namibia	53.4%	12.3%	53.9%	352	278.1%	2.9%	20.4%	0.63	86.5
26	Suriname	75.4%	11.2%	79.1%	71	-37.3%	2.2%	12.4%	0.68	85.9
27	Ghana	25.4%	7.0%	28.1%	3,964	290.4%	12.7%	27.1%	0.54	84.9
28	Gambia, The	15.6%	12.3%	15.7%	–	–	–	33.3%	0.42	84.7
29	Bahrain	35.8%	3.8%	68.6%	–	–	–	97.7%	0.81	82.5
30	Tanzania	40.7%	4.3%	43.0%	1,340	499.7%	5.8%	31.8%	0.47	82.3
31	South Africa	37.4%	3.6%	47.5%	27,116	113.6%	7.5%	13.6%	0.62	81.2
32	Malawi	11.1%	10.8%	11.3%	–	–	–	33.0%	0.40	80.9
33	Armenia	50.6%	10.8%	53.5%	143	145.3%	1.5%	0.5%	0.72	80.8

Figure 2-1: Role of mining in national economies

Source: (ICMM, 2012)

Currently, developing an efficient extractive industry provides one of the major revenue sources for many emerging economies. The existence of large untapped mineral reserves in these countries attracts foreign investments. Some researchers have shown that foreign investors in the mining industry were more inclined towards investing in developing and newly liberalizing

economies than in developed and liberalized economies during the boom period of the mining industry (Bridge, 2004).

Volatility in the commodity market has also created significant issues for investors (Bridge, 2004). Because of their strong dependence, these countries are vulnerable to commodity market fluctuations, leading to economic prosperity when commodity prices are high, and recessions when prices plummet. Without effective government management and productive collaboration with mining companies, it has become a real issue of concern for the public sector to gain the maximum benefits from mining development. This instability reflects back on the private sector, causing increased resistance from the public and delay in projects, and ultimately to loss in production.

In order to attract investments from competitive worldwide capital reserves, the governments of emerging economies strive to create favorable regulatory environments for foreign investments. A stable judiciary system is a key ingredient for successful investment (Bridge, 2004). During the past several decades, mining industry investors have shifted their targets in terms of countries for extractive industry development, focusing on countries with little mining history and culture, and adopting more favorable regulatory environments.

2.2 Challenges in the mining industry

Mining industries in emerging economies are facing ever-growing conflicts with governments and civil societies despite their potential for improving social conditions. Being dependent on mining industry revenues, governments often find themselves in a peculiar situation because whereas they are meant to function as advocates of the opinions of their constituencies and are obligated to back populist sentiments, this often leads to conflicts with investors. Civil societies,

especially local communities around mine sites, are generally both dependent and the firsthand beneficiaries of mining operations. Despite the obvious benefits to communities around mine sites, they are often at the frontlines of the conflicts between the mining operations and civil society.

These conflicts are commonly referred to in the industry as ‘non-technical risks,’ and generally result from various factors such as environmental impacts, permitting, land accessibility, lack of social acceptance, health, safety or extreme weather (Molyneux, 2013). These non-technical risks have the potential to have stronger impacts on mine operations than technical or economic problems. Non-technical risks usually cause longer delays than do technical problems (Molyneux, 2013).

According to Environmental Resource Management (2014), the industry faces significant challenges from non-technical causes as mentioned in Figure 2-2.

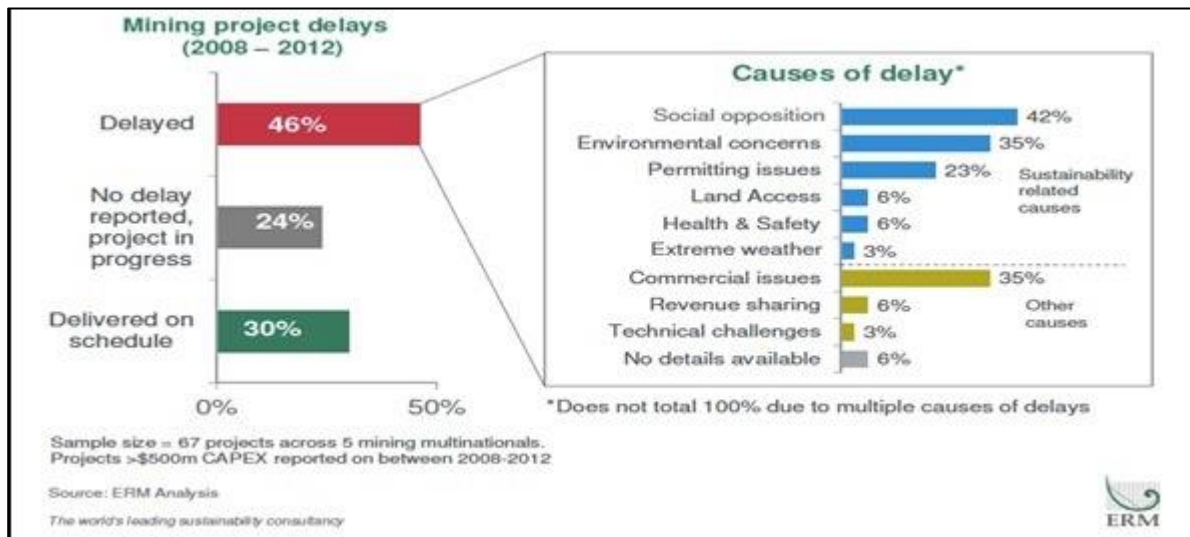


Figure 2-2: Mining project delays

Source: (ERM, 2014)

Research has shown that between 2008-2012 just 30% of 50 projects all around the world were delivered on schedule and 46% of the projects were delayed, 42% of the delayed projects were caused by social opposition alone, 35% of the delayed projects were caused by environmental concerns, and the rest were delayed as a result of other forms of non-technical problems (ERM, 2014).

Because of community conflicts, the construction at the Conga project in Peru was suspended at the request of the government in November 2012 (Trefis, 2013). The mine had been estimated to produce 15-20 million ounces of gold and 4-6 billion pounds of copper during its lifetime. A capital expenditure of \$1,455 million was reported by Newmont, the majority owner (51.35%) in 2010-12 (Newmont, 2011, 2012), whereas Compañía de Minas Buenaventura, the minority owner (43.65%) reported an expenditure of \$498 million in 2012 (Buenaventura, 2012). This example alone draws a clear picture of lost capital and economic opportunities for all shareholders due to unresolved issues.

Franks and Davis (2014) suggest that delays which result from conflict in a given project are extremely costly and very common, even at a very early stage, and can run as high as \$20 million per week. A loss of \$750 million was reported due to a nine-month delay at a Latin American mine, whereas at another operation, a loss of \$750,000 per day was reported due to the shutdown of power lines because of protests. Koebler (2014) suggests that it can cost up to \$50,000 per day in wage losses and delays in startup if a project is halted. Community and government related issues can also cause delays and billions of dollars for the industry as well as create unnecessary, unproductive and damaging political agendas in those countries, thus resulting in divergence from the development of what can be considered as common wealth (Franks & Davis, 2014). If

managed and administrated wisely, this wealth can be transformed into enormous benefit for the government, society and the private sector. It is therefore of extreme importance for all stakeholders to be on the same page for a successful implementation and development of mining projects.

In order to avoid conflicts and develop a sustainable relationship with relevant communities, mining companies can adopt various approaches, procedures and standards that are already available (Franks & Davis, 2014).

As shown in Figure 2-3, the industry also faces significant challenges with respect to lack of social acceptance and resource nationalism (Ernst and Young, 2014). This provides yet another example of the lack of understanding between mining companies and the public, and highlights the importance of finding alternative solutions to mitigate this conflict.

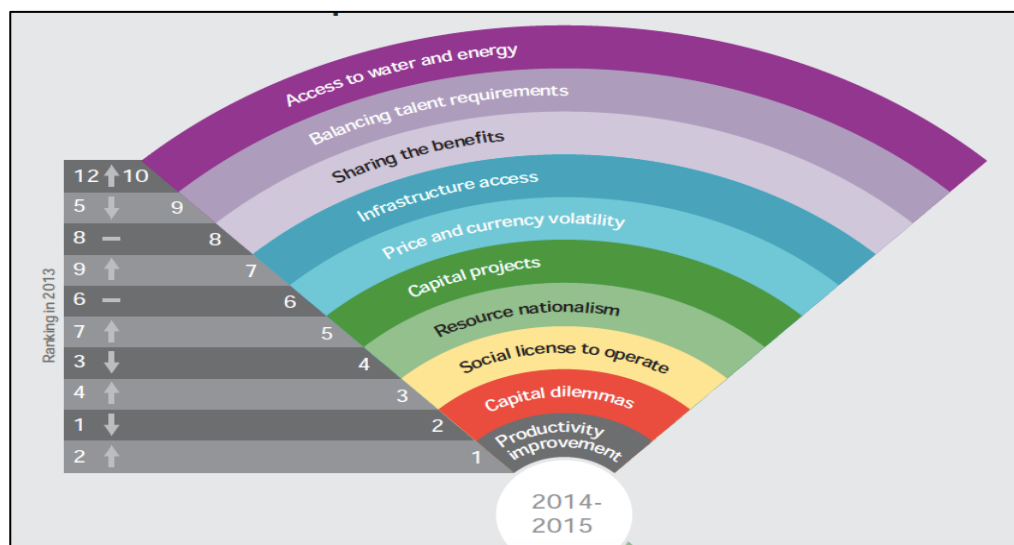


Figure 2-3: Challenges for the mining industry

Source: (Ernst and Young, 2014)

Research indicates that mining businesses are becoming more integrated, and that the number of multinational corporations are growing quickly (Nelson, 2002). Whilst these multinational corporations have significantly contributed to the development of many economies, there is also much evidence of worldwide socio-economic challenges. Environmental and socio-political challenges caused by mining development are growing, and the mismatch between intentions and outcomes are continuing to mount (Porter & Kramer, 2011; Newmont, 2011). The development of new approaches and views are therefore required to mitigate these conflicts, and multinational corporations have great opportunities to make changes and shift the balance toward more productive collaborations.

Hwy-Chang Moon (2011) and his team point out that one of the major causes of the social, environmental and economic problems in the world involves a general understanding of the goal of any business per se. Studying the conflicts between the corporations and societies, he suggests the following implications:

- Societies always strive to improve their lifestyle and welfare, or at least try to keep the current status;
- Corporations are perceived as a bad influence as they are always portrayed as though they care only for their own wellbeing and do not share profits with others;
- The attempts by governments to improve their citizen's welfare and lifestyle are often ineffective and unsuccessful.

Combined, these implications have a powerful negative impact on the interactions between the private and public sectors, and often lead to conflicts. The primary problems with respect to

mining businesses, according to the research, are their disregard of societal wellbeing and their approach to increasing their profits without sharing these fairly with the local society.

According to the report of FSG (2014), lack of economic opportunities, environmental degradation, ineffective local and national governance and poor healthcare were the root causes of community conflicts. It has been suggested that the businesses should provide long term solutions for the wellbeing and prosperity of the societies in which they function.

Common factors in any conflict - lack of understanding, mismanagement and ill-defined expectations - are also common in the creation of conflict in the mining industry. Developing a framework that uses common values and agreed-upon expectations is an important step in finding common solutions. Defining values and expectations, whether they are social, political or economic, and agreeing on developmental objectives, are of paramount importance in setting the foundation for successful future developments.

2.3 Shared Value approach

2.3.1 Concept of the Shared Value approach

The idea of Shared Value was developed and advocated for by professor Porter and his team (Porter & Kramer, 2011) from Harvard University. It addresses conflicts between governments, civil societies and the private sector, and proposes an innovative way to mitigate them. In the business world, the notion of Shared Value is mentioned in some specific reports and publications as a definition of corporate culture or the internal performance of an organization. It has been conceptualized using various terms including mutual benefit, shared benefit and shared goals (Blodgett & Ewing, 1983). It proposes an alternative approach for all three major

stakeholders to gain mutual benefit from business projects. Porter and Kramer (2011) suggest a new conceptual thinking, which *“involves creating **economic** value in a way that also creates value for the society by addressing its needs and challenges.”* Basically, Shared Values are equally beneficial for all participants, developers and recipients (Porter & Kramer, 2011).

Kramer, managing director of Social Impact Consultants (FSG) (2014), suggests that providing effective solutions for social issues and implementing them is an important part of a company's strategy, as well as the core value of the Shared Value approach. From the business perspective, it allows for a revision of the traditional approach to social investment and develops an approach that brings positive return not only in social and perceptual terms, but that it also creates value for shareholders and can be tracked as real investment into long-term sustainable development. Civil societies and governments can thus benefit from business development as active participants of the economic development rather than simply as recipients and monitoring bodies. More specifically, it creates opportunities for the government to resolve and improve upon social concerns such as education, employment and health in local communities. Local communities around mine sites can thus benefit in the same way as the government does, by creating common ground for collaborations with industry and government, and working on issues concerning the environment, employment, energy and sustainable development of the region. Traditional forms of interaction among these stakeholders have proven themselves to be unsustainable, and have often led to increasingly deeper drifts, resulting in ever growing financial and social burdens for the participants. The Shared Value approach provides strategies and procedures through which to solve social issues by understanding and addressing the shortage of resources and providing alternative solutions for energy, urban mobility, and issues of health and poverty.

In summary, this framework helps change the traditional mindset where the extractive industry is seen as a cash donor that is meant to appease local communities and to provide short-term government projects, rather than as a long-term partner in creating Shared Values.

According to Crane et al. (2014), the Shared Value model suggests that we revisit existing perceptions of social issues created or encountered by corporations as burdens, and transform them into opportunities, thereby providing solutions for the societal issues while also improving the profitability of the business. It is recommended that the Shared Value approach *“can give rise to the next major transformation of business thinking, drive the next wave of innovation and productivity growth in the global economy and reshape capitalism and its relationship to society”* (Porter & Kramer, 2011).

Being a relatively new idea, limited research has been conducted on Shared Values in extractive industries. The majority of existing research however points to the industry’s approach including delivering analysis, projections and recommendations to change its policies toward government and civil society (Shared Value Initiative, 2014). Whilst this research is critical and necessary for changing the current dynamics in private and public sector interactions, specifically in the extractive industry, it does not provide sufficient conceptual support to encourage changes in governments’ and communities’ interactions with the industry. Although the engagement and commitment of all three major stakeholders’ is necessary to make it work, each of them has their own issues, and they often differ in their expectations and interpretations. On the one hand, mining companies often possess the financial power and flexibility to revise and change existing processes, whereas it is not the case for governments and communities.

According to Dyllick (2014), the Shared Value approach also provides justification regarding relevant strategies and actions. It provides a platform through which to present and defend these strategies, outside and inside the organization and for the long term, by providing a wider perspective regarding the issues of concern.

The concept of the Shared Value approach connects the society and the company in a more sustainable way. According to Dyllick (2014), Shared Value is: *“presented not as a redistribution approach, sharing value that has been already created by companies, but as an approach to expand the total pool of economic and social value. This bold new approach promised to connect business and society in a more integrated and holistic way. This was and remains an exciting and timely message.”* In practical terms, the Shared Value approach guides business managers and owners to define strategies and actions to solve social problems which in turn affect production. By drafting socially relevant strategies without being dictated by narrow financial interests, the industry establishes a solid base for a strategic approach to issues which require long-term planning and a wider perspective inside, as well outside, of the business.

2.3.2 Shared Value approach vs. corporate social responsibility

Extractive industries such as oil and gas and mining operations, suppliers, and their related support industries represent a major income source and an important driver of economic growth around the world. Nevertheless, conflicts with communities and governments have risen in recent years (ICMM, 2013).

Traditionally, the industry has attempted to resolve these issues using an approach commonly known as Corporate Social Responsibility (CSR), a kind of ‘Band-Aid’ approach which focuses more on improving the image of companies rather than meeting the needs of communities. In

most of the cases, projects funded by the CSR approach are beneficial for the government and certain privileged communities only. Observed from the outside, these projects seem like a perfect approach for the development of the country, but communities around companies' operations often consider these businesses as a major cause of social, environmental and economic problems. Such companies "are widely perceived to be prospering at the expense of the broader community"(Porter & Kramer, 2011).

According to Porter and Kramer (2011), the rise in the adoption of CSR to resolve community issues is one of the reasons for the increasing number of social conflicts. It suggests that CSR often has a narrower view of value creation and that it creates short-term financial benefits but fails to meet the needs of the society and ignores long-term benefits such as job creation, knowledge transfer, and health care (Porter and Kramer, 2011).

Chris Anderson (Phipps, 2014), the director for communities and social performance at mining giant Rio Tinto in America suggests that the definition of CSR has been misunderstood by some organizations as the amount of money spent on local community development. He proposes that the investment in local infrastructure is not an appropriate tool through which to secure social acceptance of operations. He points out that in some cases, such as when building schools for the community without investing in the transportation to reach the schools, such community investments can prove to be unbeneficial even for the community.

Porter (2011) suggests that the concept of CSR resolving social problems is at the periphery of the issues and at the core; organizations should treat CSR as a productivity driver, rather than a response to external pressures.

On the other hand, the concept of Shared Value is a new approach that provides the company with a fresher perspective regarding values and profits by incorporating social and environmental considerations into their economic thinking - something that was excluded in the old concept (Creating Shared Value, 2011).

In contrast, the Shared Value approach suggests that regardless of market health, the approach is not only defined by the economic needs but also by social needs. It also suggests that social deficiencies or weaknesses often create internal costs for companies such as wasted energy or disruption in supply chain, costly accidents, and the need for remedial training to compensate for skill inadequacies. This approach considers the fact that addressing social harms and constraints does not necessarily increase company costs as these can be innovated by using new technologies, operating methods and management approaches and thus result in an increase in productivity and an expansion of the market (Creating Shared Value, 2011). Thus, it provides long-term solutions for the community-related conflicts and therefore expands the total pool of economic and social values for as many people as possible (Creating Shared Value, 2011). The differences between the CSR and the Shared Value approach are shown in Figure 2-4, as defined by Porter and Kramer (2011).



Figure 2-4: Difference between CSR and Shared Value approach

Source: (Porter and Kramer, 2011)

Shared Value refers to the policies and operating procedures that not only enhance the competitiveness of the company but also improve the economic and social conditions of the communities in which the company operates (Creating Shared Value, 2011). According to the Shared Value concept (2011), values can be defined not just as benefits, but also as benefits relative to costs. It has been widely accepted for a long time that value creation, especially profits, are often referred to as the revenues earned from the customers minus the costs incurred (Creating Shared Value, 2011).

Businesses, however, have a tendency to treat social needs as a peripheral matter. In terms of social organizations and government entities, the success of Corporate Social Responsibility is defined solely in terms of the benefits achieved or the money expended. This, along with the

tendencies of multi-national corporations to move to lower-cost and higher profit regions, result in few benefits to the communities in which they operate (Creating Shared Value, 2011).

The best companies have often taken on a range of roles in fulfilling the needs of their workers, communities and in supporting business (Creating Shared Value, 2011). In recent years, many of these roles have fallen away, and the tendency to ‘outsource’ and locate ‘offshore’ has resulted in companies losing touch with their own communities. Despite where they are located, companies often refer to themselves as global entities rather than recognizing any individual place as their home. This has interfered with the ‘value chain,’ as companies began to overlook “opportunities to meet fundamental societal needs and misunderstood how societal harms and weaknesses affected value chains” (Creating Shared Value, 2011).

The differences between philanthropy and the Shared Value as explained by “Extracting with purpose” (2014) are shown in Figure 2-5. This suggests that utilizing the Shared Value approach within the different areas of investment such as training, education and infrastructure can provide mutual benefits to both the society and the business entity, and thus move away from conflicts between companies and communities.

Philanthropic Approach	Area of Investment	Shared Value Approach	Business Benefit	Social Benefit
Drill drinking water wells for local community	Infrastructure	Develop sustainable water utility leveraging business processes	Reduce water treatment costs by charging commercial water rates	Provide water to communities that lack access to it
Provide broad-based skills training with no link to employment opportunities	Training	Create training program based on business and supplier needs and link it to jobs	Reduce employee costs by reducing reliance on expatriate employees	Improve employability and wage-earning capabilities of local workforce
Invest in environmental restoration that is unrelated to the business	Environment	Restore degraded coastlines or wetlands to reduce risk of a natural disaster to the business	Protect assets (e.g., pipelines) near coastlines from disasters	Improve the resilience of host communities to natural disasters
Fund construction of local clinic	Health Care	Develop program to reduce disease burden among population living in mine catchment area	Improve employee productivity and reduce company health care costs	Reduce the disease burden in local communities
Provide scholarships for local students	Education	Catalyze coalition to improve secondary school educational outcomes in host community	Improve the quality of the future talent pool in host communities	Improve educational achievement and job prospects for students

Figure 2-5: Philanthropy vs. Shared Value

Source: (Extracting with purposes, 2014)

2.3.3 Main areas of investment and elements of the Shared Value approach

The main element of the Shared Value approach is to understand societal value and to place the needs of the society and community before that of profit (Pavlovich & Corner, 2013). Porter and Driver (2012) suggest that the social values of any project are the highest form of profit, and thus it is important to focus on the needs of the society that have not being fulfilled by the government, NGOs and philanthropy.

As shown in Figure 2-6, Porter and Kramer (2011) provide three ways to improve the economic value of projects by creating societal value at the same time.

Reconceiving Products and Markets 1	Redefining Productivity in Value Chains 2	Creating an Enabling Local Environment 3
<ul style="list-style-type: none"> → Build local markets for intermediate products created by extractive activity (e.g., drinking or irrigation water, electricity) 	<ul style="list-style-type: none"> → Improve local workforce capabilities → Strengthen suppliers in the value chain → Increase local disaster and emergency preparedness, response, and rehabilitation capabilities → Improve utilization of water, energy, and other resources used in operations 	<ul style="list-style-type: none"> → Develop the local cluster supporting the extractives sectors → Invest in shared infrastructure and logistics networks → Partner with other local clusters and government in building community infrastructure → Play an active role in broad-based economic and community development → Improve local and national governance capacity

Figure 2-6: Levels of Shared Value creation for extractive companies

Source: (Extracting with purposes, 2014)

- Reconceiving the products and the markets

From the perspective of the companies, values created from operations need to reach those who do not receive their fair share. For instance, mining companies can contribute to solving power supply issues or providing clean water supplies for their communities, which in turn can help local business to start and succeed (Shared Value Initiative, 2014).

- Redefining the productivity in the value chain

Mining companies need to invest in products and services which are mutually beneficial for their own business, as well as for the local communities. Investing in a local community's health and education is a clear example of where the company benefits in terms of productivity and savings on medical treatments for employees. Developing and training local businesses and involving the supply chain has the obvious advantage for companies of securing the services and products

required, but it also helps local companies to grow and improve their competitiveness nationally as well internationally. From the government's perspective, this also means decreasing unemployment and increasing tax revenues (Shared Value Initiative, 2014).

- Creating supportive environment for industry at the company's location

The measures mentioned above provide direct and immediate benefits for companies, whereas long-term and strategically developed programs broaden the company's future SV-creation opportunities. For instance, collaborating in local community infrastructure projects, improving governance capabilities, building schools and hospitals, and funding social projects ultimately improve SV-creation and trust among stakeholders (Shared Value Initiative, 2014).

These measures are intuitively initiated as collaboration between the levels of the mining company and civil society. Government, on the other hand, needs to contribute to the company-civil society collaboration by creating a favorable legal, taxation and regulation environment (Porter & Kramer, 2011).

These three approaches provide the main pillars for the Shared Value approach, and each of them complements the others. At the very basic level, competitiveness and the ways in which companies contribute to sustainability are not solely dependent on economic factors such as commodity prices and operating costs. The health of local communities and supporting industries are other key elements for success and companies, which take societal needs into account in their strategies, will most likely yield long-term competitiveness and success.

2.3.4 Criticism of the Shared Value approach

As any new idea, the Shared Value approach has also faced criticism, something which is necessary for its progress. The major criticism, or why the acceptance of this approach is being questioned, involves understanding regarding its value for the company and its shareholders. According to Milton Friedman, there is no contradiction between profit maximization and the common good. The pursuit of profit itself is a socially beneficial goal (Schwab, 2014). However, companies would regularly be in danger of collapse if managers would need to choose between maximizing returns for shareholders and meeting societal expectations. Despite the fact that Milton Friedman considers society to be an integral part of any business, and that fulfilling and managing its needs ultimately results in successful business, the prioritization of societal needs will endanger business conduct in the situation that shareholder expectations differ from societal needs. Both views however agree on the goal that any strategy should ensure the longevity of the business. In summary, opponents seem to differ in their views regarding shareholder and stakeholder expectations.

As seen in Figure 2-7, Crane et al. (2014) list some weaknesses of the version of Shared Value approach developed by Porter and Kramer (2011).

Strengths	Weaknesses
CSV successfully appeals to practitioners and scholars CSV elevates social goals to a strategic level	CSV is unoriginal CSV ignores the tensions between social and economic goals
CSV articulates a clear role for governments in responsible behavior CSV adds rigor to ideas of "conscious capitalism" and provides an umbrella construct for loosely connected concepts	CSV is naive about the challenges of business compliance CSV is based on a shallow conception of the corporation's role in society

Figure 2-7: Strengths and weaknesses of Shared Value approach

Source: (Crane et al., 2014)

Detractors claim that the concept of the Shared Value approach is not original and that it is based on a weak understanding of the role of businesses in society. As such, they note that it fails to relax the competition between social and economic goals, and that it does not emphasize compliance with business goals.

In a 2014 edition of the Singapore Business News, Kramer (2014) confesses that some of the parameters and scopes of the Shared Value approach are not new. However, the remarkable integrity of Professor Porter at Harvard University and his business perceptions provide extra validity to the concept.

Crane et al. (2014) also claim that the Shared Value approach developed by Porter and Kramer (2011) lacks in terms of providing roles and responsibilities for the government and NGOs.

2.3.5 Conclusion

This section has reviewed and analyzed various literature sources and explanations of the current challenges faced by the mining industry with respect to communities and government, including

the concept of Shared Value. Studying sources related to the idea of Shared Value has revealed a clear image that mining-related non-technical risks have dramatically increased over the last two decades despite mining companies' various approaches to address them. Traditional business mindsets and sophisticated business tools to mitigate these concerns have proven to be either inefficient or yielding only temporary solutions. Mining corporations realize that a fundamental change is required in order to address the social, political and economic issues that arise.

The idea of Shared Value is one of many different tools that researchers are suggesting to the business world to mitigate stakeholder misunderstanding and to increase acceptance.

Metrics to measure the effectiveness of the Shared Value approach still require further development. Some mining projects, however, are already applying some of its principles.

Select researchers have criticized the idea for being unoriginal and have indicated that the needs of business and society cannot be aligned.

CHAPTER 3: MONGOLIAN MINING INDUSTRY

3.1 Introduction

This chapter reviews the Mongolian mining industry, its development and its challenges. Mongolia's mineral wealth, its history and development, particularly with respect to mining development are described briefly in order to assist with an understanding of the unique circumstances that have led to the challenges and benefits of the industry.

3.1.1 Brief summary of the Mongolian mining industry

Mongolia is a landlocked country located in central-east Asia with an area of approximately 1.56 million square kilometers and a population of three million. It borders Russia in the north and China in the east, west and south as shown in Figure 3-1.



Figure 3-1: A map of Mongolia

Ulaanbaatar, the capital city of Mongolia is the hub of industrial development and the home of the majority of the country's population (approximately 45%). Mongolia is largely dependent on Russia for its power supply, and China as the buyer for all its major exports (Index Mundi, 2014). According to the CIA fact book, Mongolia has the world's largest reserves of undeveloped minerals (CIA, 2014).

The Central and Eastern parts of Mongolia have been relatively well studied, while the Western part of the country remains untapped with a great potential for the discovery of new deposits (Davaajav, 2014). Major economic contributors to the Mongolian economy include agriculture and herding, joined by the recently developing western skilled mining and mineral industries. As shown in Figure 3-2, coal, copper and gold are the major mining commodities along with iron, oil, uranium, molybdenum, tungsten and tin.



Main Minerals		Resources (2013)	World Rank
	Gold (tons)	2,493	Top 10
	Zinc (thousand tons)	1,740	
	Iron ore (mln tons)	1,166	
	Crude oil (mln barrel)	2,438	
	Copper (thousand tons)	117,000	Top 10
	Coal (mln tons)	175,500	Top 10
	Shale oil (bln tons)	788	
	Uranium (ths tons)	170	

Figure 3-2: Major mineral resources in Mongolia

Source: (Davaajav, 2014)

Mongolia owns approximately 10% of the total world coal reserves. Tavan Tolgoi is the largest coalmine in the country, and is known for its high-grade coal deposits. The biggest client for the coal industry in Mongolia is China, which receives 85% of country's coal exports. Copper is one

of the commodities that have the highest impact on the Mongolian mining industry as it attracts major mining players from all over the world. Just a single world-class copper and gold giant mining project, Oyu Tolgoi, contributes as much as 44 percent of country's copper exports (Blodgett & Ewing, 2015). Oyu Tolgoi Mine is the largest copper producer in the country. Mongolian copper reserves have always been attractive to key mining companies such as the UK-based Rio Tinto.

3.1.2 Benefits of the mining industry and resource dependent economy

Opening up to investors and creating a lucrative environment for exploration and mining has resulted in a rapid inflow of foreign capital into the country, boosting the economy and driving GDP growth up to 17% in 2012 (World Bank, 2013). Large multinational companies such as Rio Tinto, BHP and Peabody Energy, as well as Chinalco and others have invested into exploration and mining in Mongolia. As shown in Figure 3-3, the mining industry has contributed towards 17% of the country's GDP, 81% of exports, 23% of the state budget and 73% of Foreign Direct Investment (FDI) in 2013 (Davaajav, 2014).

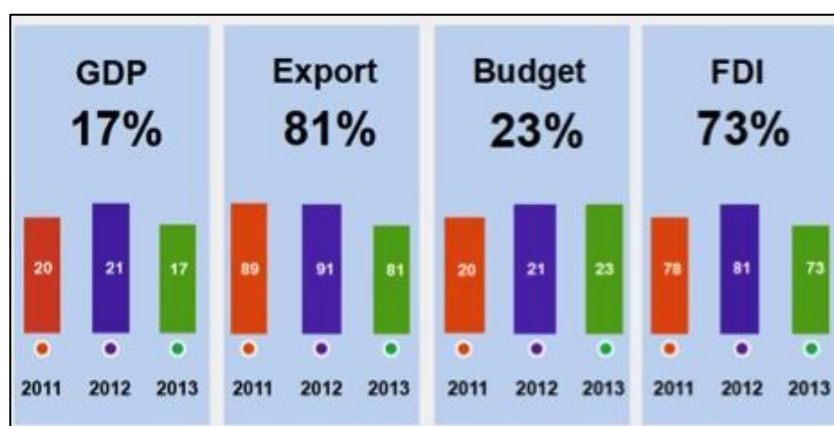


Figure 3-3: Contribution of mineral sectors to the Mongolian economy

Source: (Davaajav, 2014)

According to the World Investment Report 2012, the inflow of foreign direct investment into Mongolia has more than doubled because of the mining boom and newly developing mega-mining projects (United Nations Conference on Trade and Development, 2012) such as Oyu Tolgoi. Some studies show that Oyu Tolgoi mine, as a single operation, will impact the Mongolian economy significantly, with preliminary estimates indicating a GDP increase of 1/3 as a result of the OT Project implementation, if the project will run according to schedule (Stokes, 2005). The development dynamics of the mining industry in Mongolia in recent decades, which have led to an unprecedented economic growth, are an important case through which to study the relations between industry-government and civil society.

Mongolia is a heavily resource-dependent country. According to McKinsey Global Institute (2013), resource dependence in developing economies is increasing and it is emerging as an undeniable fact demanding answers to the challenges of the industry.

Auty (1993) summarized resource dependent economies as:

“The mineral economies are defined as those developing countries which generate at least 8 per cent of their GDP and 40 per cent of their export earnings from the mineral sector”
(Auty, 1993).

These developments are creating new challenges and difficulties for each party among the multi-stakeholders in the mining industry. Major players in the industry are trying to catch up to the problem and to create a suitable or mutually beneficial approach for everyone. This lesson is especially instrumental for Mongolia with respect to identifying the underlying issues and for establishing a framework for the productive collaboration between the private and public sectors.

The Mongolian mining sector contributes a large share to the economy, which in turn is directly dependent on FDI. The economy is particularly dependent on commodities such as copper, gold and coal as illustrated in Figure 3-4 to Figure 3-7. Studies demonstrate that the previous year's commodity prices are highly indicative of Mongolian GDP in the following year. This can be explained by the previous year's commodity price influencing investment activity in the following year. A surprising finding is that the price of copper is less indicative than are either gold or coal prices. This could be explained through the investment and production of copper as being a long-term enterprise while investment activities in gold and coal are based on more short-term decisions. Figure 3-4 shows the growth of the contribution of mining in Mongolian economy and foreign direct investments.

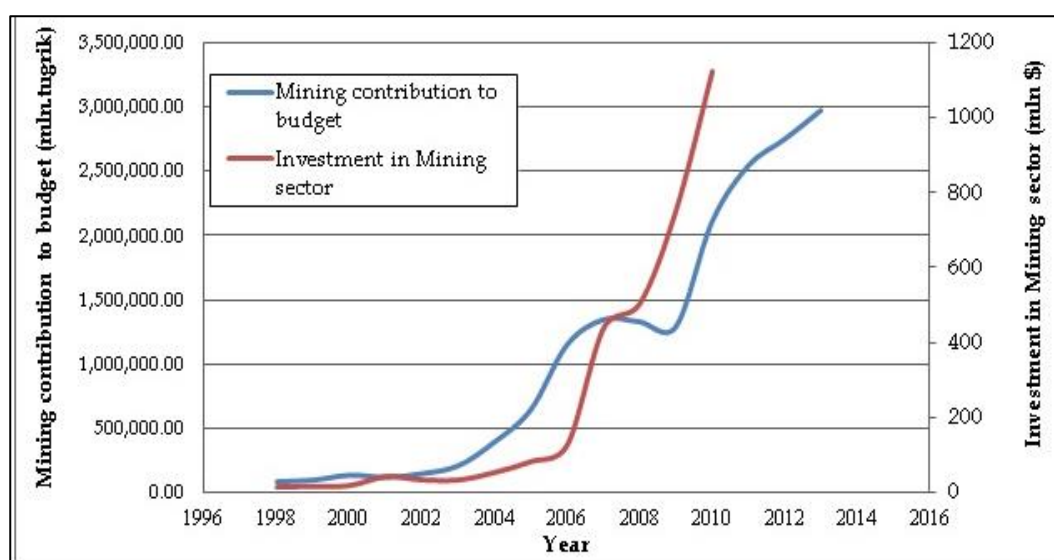


Figure 3-4: Contribution of mining to the economy and correlation with foreign direct investment

Source: (National Statistical Office of Mongolia, 2014b)

Figure 3-5 shows the historic dependence of Mongolian GDP on the price of gold. The coefficient of determination of 0.965 indicates a very high significance with respect to gold price on the Mongolian GDP. (1990-2012).

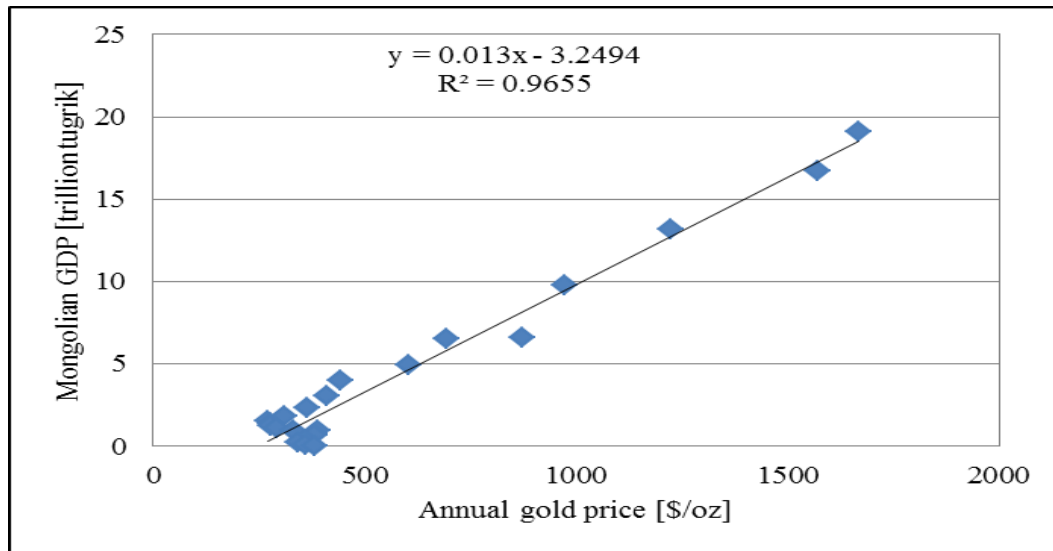


Figure 3-5: Mongolian GDP (1991-2013) versus previous year's average gold price

Source: (National Statistical Office of Mongolia, 2014a; Kitco, 2015)

Figure 3-6 shows the historic dependence of Mongolian GDP on copper price. The coefficient of determination of 0.77 still indicates quite a high significance of copper price on Mongolian GDP during 1990 to 2012 (US Geological Survey, 2014; National Statistical Office of Mongolia, 2014b).

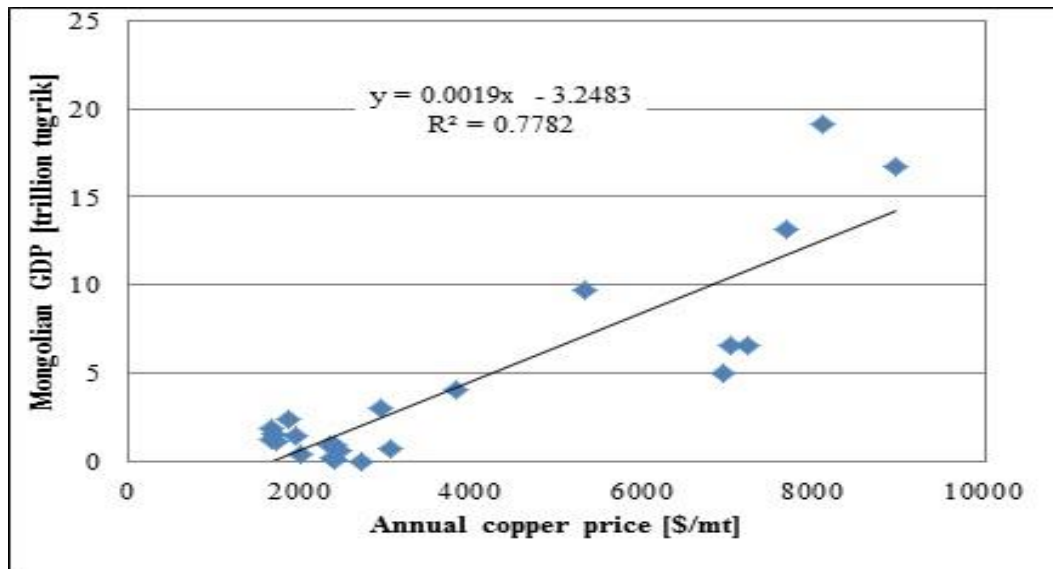


Figure 3-6: Mongolian GDP (1991-2013) versus previous year's average copper price

Figure 3-7 illustrates the historic dependence of Mongolian GDP on the price of coal. The coefficient of determination of 0.949 indicates quite a high significance regarding the price of coal on the Mongolian GDP (US Energy Information Administration, 2014; National Statistical Office of Mongolia, 2014b).

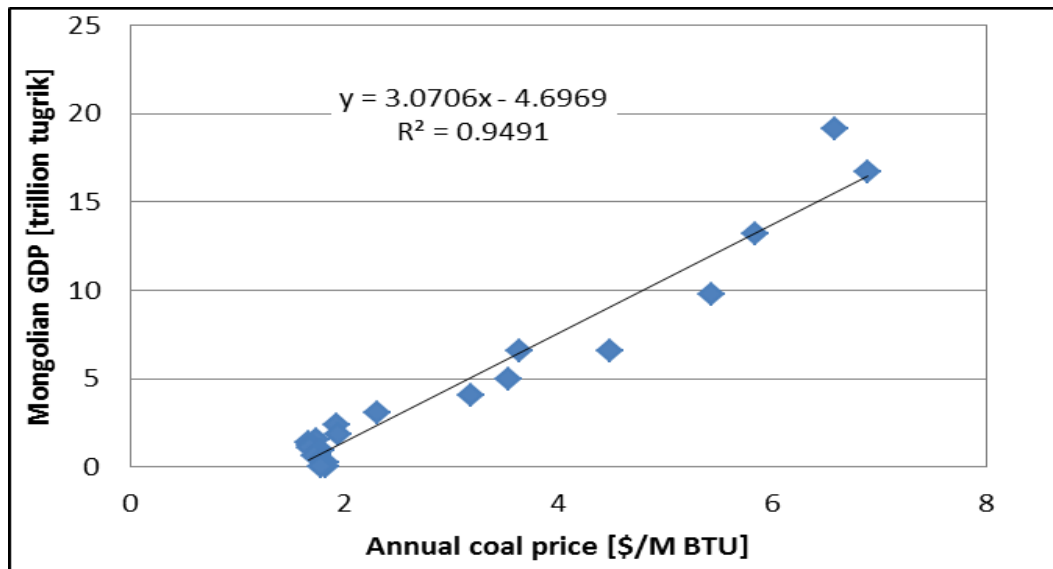


Figure 3-7: Relationship between Mongolian GDP (1991-2013) and average coal price (1990-2012)

During the boom years of mining, the Mongolian government and mining companies invested heavily in the social welfare of the nation. As a result of this contribution, Mongolia achieved notable improvements in aspects of human development. According to the UNDP (2013), all indicators relative to human development indices increased significantly. It can be seen in Figure 3-8 that life expectancy, education, and GNI per capita indicators have increased dramatically over the last two decades.

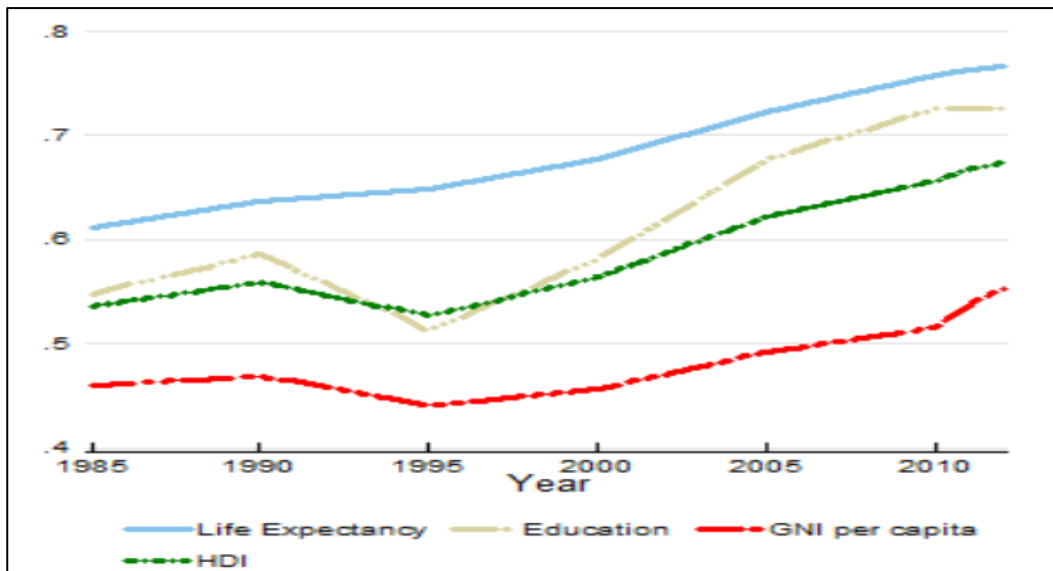


Figure 3-8: Trends in Mongolia's HDI component indices 1985-2012

Source: (UNDP, 2013)

As for other emerging economies, health and education are critically important sectors in Mongolia. As one of the driving forces of the economy, the mining industry also has an important impact on these sectors. In 2012 alone, Oyu Tolgoi mine invested over USD 27.7 million in social investment programmes including economic development, education, environment, leadership training, cultural heritage and health. The project provided full financial support for 6,600 young Mongolians to train at 42 technical and vocational educational and some other schools across Mongolia (Oyu Tolgoi, 2012). Oyu Tolgoi sponsored young Mongolians and scientists to study and conduct research at leading universities around the globe. The regional diagnostic and treatment hospital in Erdenet city, as well as other hospitals across Mongolia, are just a few examples of medical facilities funded by Oyu Tolgoi LLC's social investments.

Large mining projects are both directly and indirectly creating job opportunities as well. The industry boosts economic development, leading to the rapid revival of other industry branches such as construction and services. This development has a catalytic impact on the economy, where reviving the construction industry for example, increases housing opportunities. According to the National Statistic Office of Mongolia (2013), approximately half of the Mongolian population lives in the capital city of Ulaanbaatar, and half of the city's population lives in traditional dwellings, Gers, on the city's outskirts. The Ministry of Construction and Urban Development of Mongolia (2013) reports that 1150 citizens had mortgage loans of 37.7 million USD (50 billion tugriks) with a 6% annual interest rate from the Development Bank.

Large cash inflows from the mining industry have provided the necessary resources for the government to improve public services and to create jobs. Large national infrastructure projects such as the "Millennium Road" projects which have recently connected all provincial centres to the capital, are examples of the government's investment of mining revenues.

These findings reveal evidence of the creation of some Shared Value in Mongolia. Despite the few good practices, according the World Economic Forum's Human Capital Index, Mongolian social welfare has not shown significant improvement as shown in Figure 3-9.

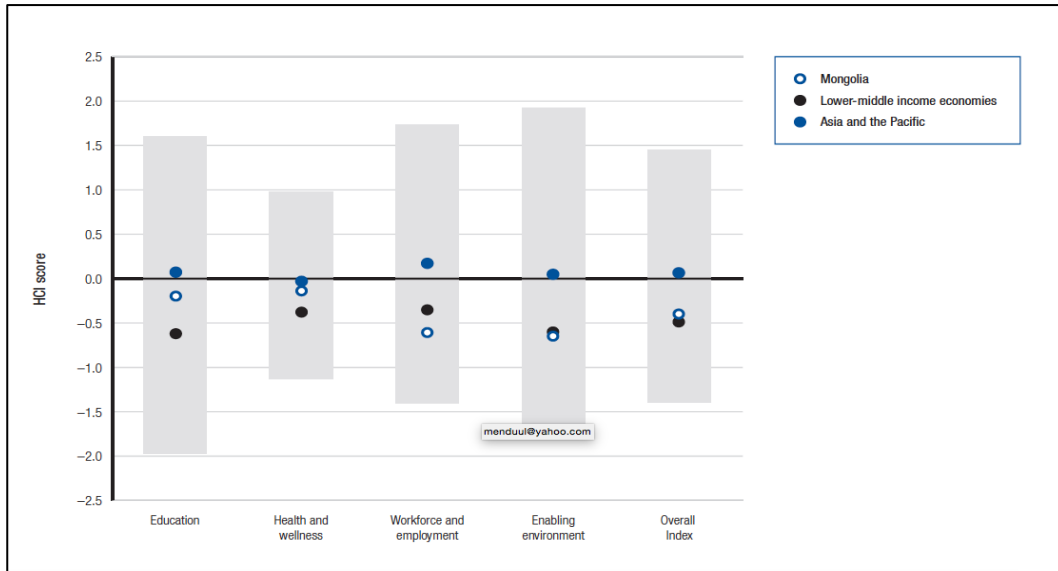


Figure 3-9: World Economic Forum Human Capital Index

Source: (World Economic Forum, 2013)

Intensive mining development over the last 20 years has driven a rapid economic growth, and at some point, Mongolia reached the status of the fastest growing economy (Theunissen, 2014). An analysis of socioeconomic indicators however shows that this rapid growth did not result in a significant improvement with respect to living standards, nor did it support the development of social services necessary for the creation of Shared Value. For example, the rapid rise of gold and copper prices resulted in corresponding GDP growth, which however failed to significantly influence healthcare expenditures expressed as a percentage of GDP as shown in Figure 3-10.

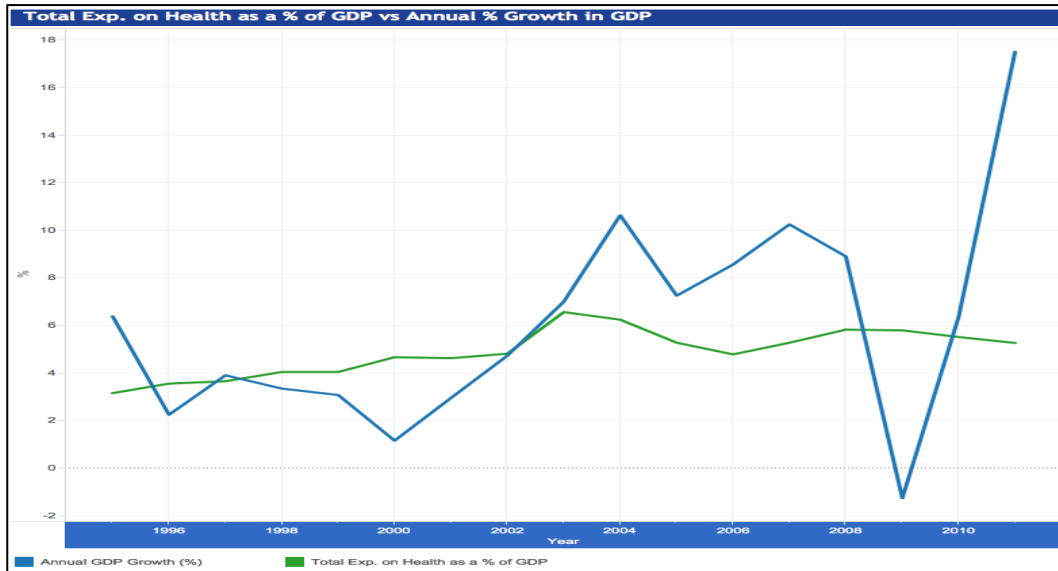


Figure 3-10: Mongolian healthcare sector expenditure 1996-2010 in correlations to GDP growth

Source: (The World Bank Group, 2014c)

Cumulatively, higher levels of mining contributions to economic growth over the last 20 years and their associated revenues have been wasted on popular social program such as “Children Money” where every child in Mongolia received USD 20 cash monthly. This wasteful spending lacked the careful calculations and forecasts, as well as accumulations and release strategies through which similar programs were successfully implemented in Norway and the Province of Alberta, Canada (Bauer, 2014). For example, as shown in Figure 3-11, in the case of Norway, state expenditures do not fluctuate with respect to dependence on revenues.

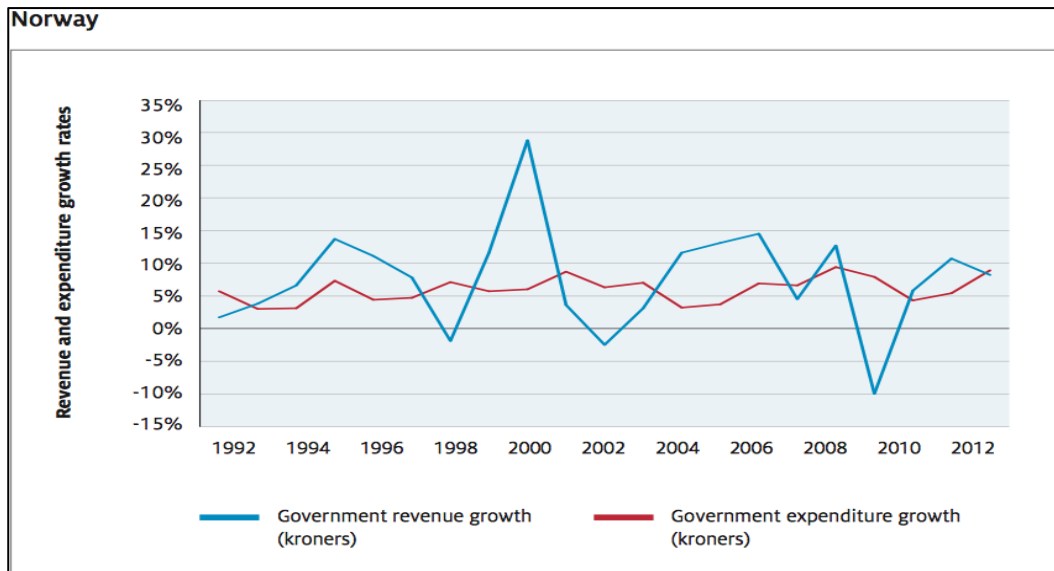


Figure 3-11: Correlation chart of Norway’s Government revenue growth versus Government expenditure growth

Source: (Bauer, 2014)

It is indicative of state policies to control expenditures and to ensure a steady and sustainable development, in contrast to the “spending as it goes” policy that exists in Mongolia as can be seen in Figure 3-11 and Figure 3-12.

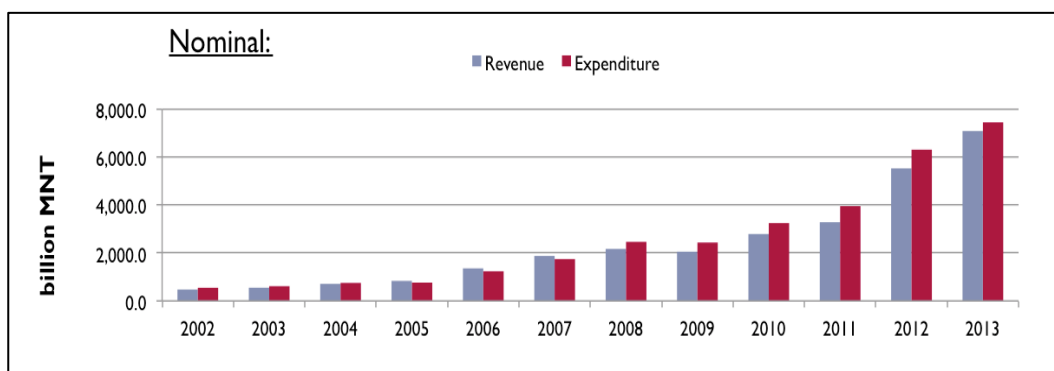


Figure 3-12: Correlation chart of Mongolian government revenue growth versus government expenditure growth

Source: (Ognon, 2014)

As a result of this mismanagement of mining revenues and hastily passed policies, Mongolia failed to benefit from the mining boom years and take advantage of it in order to create Shared Values. As the state economy's dependence on mining simply grew stronger, no significant reduction in poverty was observed. It is clear from Figure 3-13 that the unemployment rate during the mining boom years remained at almost at the same level as it had during the economic slowdown. Surprisingly, the unemployment rate grew from 2006, when the rapid expansion of the economy was observed, and reached a peak in 2008 when the worldwide recession hit Mongolia.

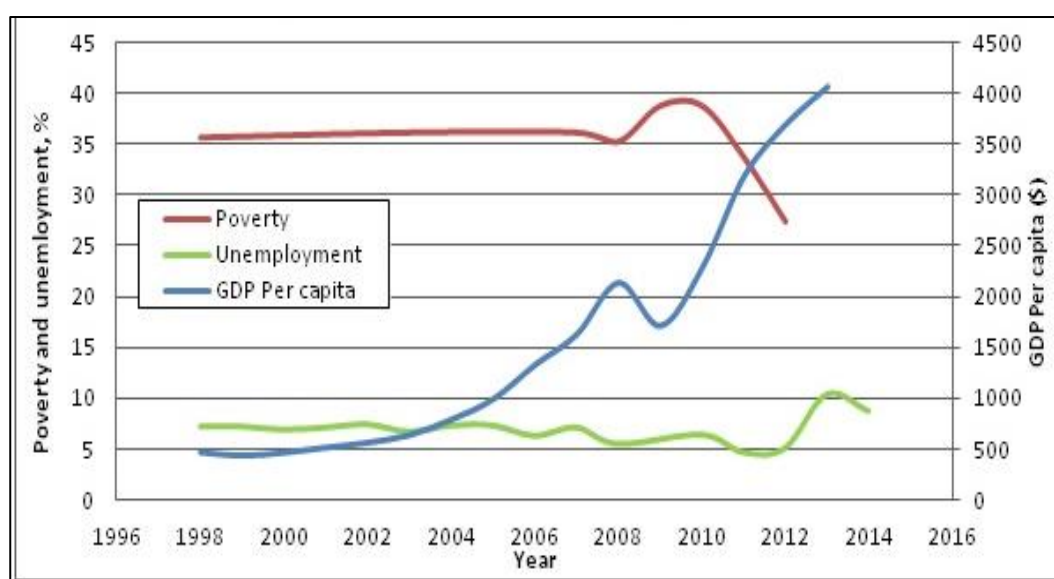


Figure 3-13: Correlation chart of GDP per capita versus poverty versus unemployment

Source: (National Statistical Office of Mongolia, 2014b; The World Bank Group, 2014a)

Overall economic growth and recession are a direct reflection of FDI growth and decline, providing compelling evidence that a lack of policy to support the creation of Shared Value in the mining sector failed to provide economic stability as shown in Figure 3-14.

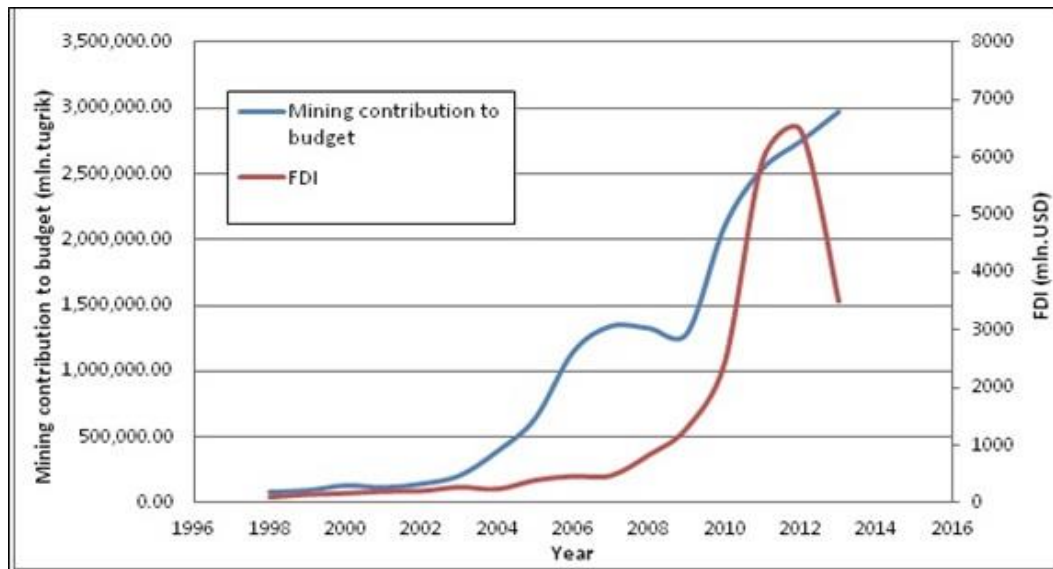


Figure 3-14: Correlation chart of mining contribution to the budget versus FDI.

Source: (National Statistical Office of Mongolia, 2014b)

Growing unemployment and poverty in the later years, in connection with slow economic growth provides an example of failed Shared Value creation. The Mongolian GDP rapidly increased during mining boom, also causing an increase in the GINI index, indicating an unequal wealth distribution, from 33,2% in 1995 to 36,5% in 2008 (The World Bank Group, 2014b). This provides direct proof of mismatched and unequal wealth distribution that resulted from mining development and the missing of development opportunities. It also provides an indication that few national and foreign entrepreneurs have shared the vast wealth that has been created by mining.

Education and healthcare are the major sectors that benefit from created Shared Values. There are plenty of international examples to demonstrate that despite the vast resources required for the development of both sectors, a successful investment yields far reaching positive benefits for years to come (Shared Value Initiative, 2014).

According to the data obtained and analyzed in Figure 3-15, the government of Mongolia increased its public spending on education during the period of rapid mining and economic growth, which indicates successful steps in the creation of Shared Value. In contrast, health expenditures as a percentage of GDP did not change significantly over the same period.

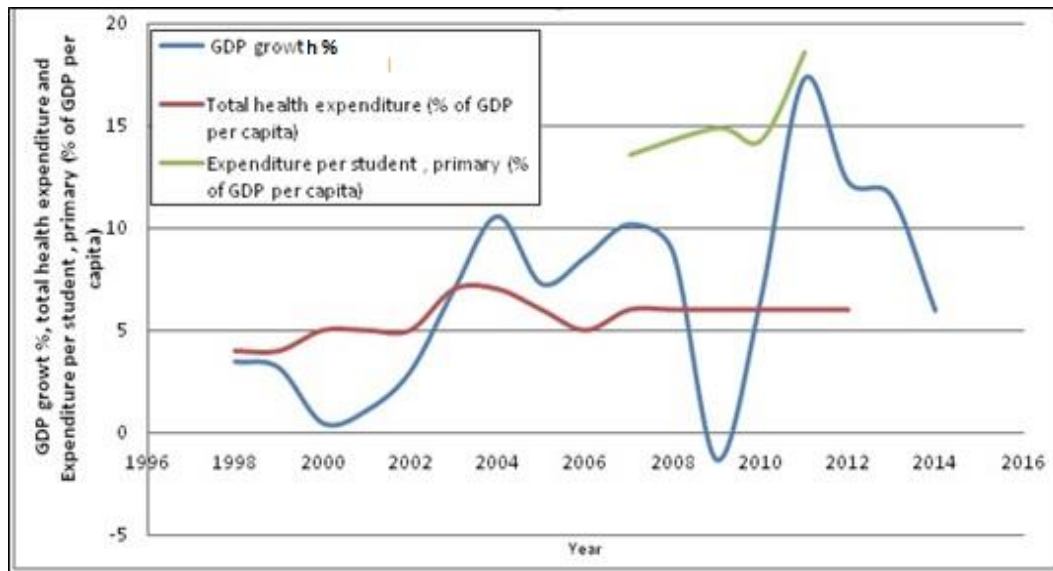


Figure 3-15: Total health expenditure versus expenditure per student versus GDP growth

Source: (The World Bank Group, 2015)

3.2 Challenges of the extractive industry in Mongolia

The remote locations of most mines, underdeveloped infrastructure and scarcity of supporting industries are the biggest challenges that require considerable investment from international mining companies in order to develop profitable operations. The rapid accumulation of revenues from the mining industry, increasing dependence on those revenues, and wasteful spending of public resources have caused a rapid decline in economic growth and an escalation of issues between the government, civil society and the mining industry (Franks & Davis, 2014).

It is a fact that the Mongolian mining industry faces significant challenges in terms of social acceptance. The peaceful transition to democracy and a market economy in the 1990s led to fundamental changes in the economic sector, including in mining. Since those early stages, Mongolian mining development has faced ever-growing challenges in earning social acceptance. Despite growing awareness among mining companies and legislators about the impact of this declining social acceptance, as well as efforts to mitigate the impacts of mining on the environment and socio-economic sectors, the issues is gaining in importance and demands decisive action in order to bring beneficial change for all the parties involved.

Having studied the development and dynamics of Mongolian mining in recent decades, I have identified four root causes of the low levels of social acceptance of the mining industry in Mongolia:

1. The geopolitical challenges faced by Mongolia, and the Mongolian peoples' historical distrust to both its Russian and Chinese neighbors are resulting in a public desire to nationalize large mining projects.
2. Irresponsible mining practices that took place in the early days and their resulting bad legacies e.g. The Gold program and ninja miners have created a negative reputation and expectation of the industry in Mongolia.
3. The bad reputation of early foreign-owned mining projects, described as "Quick and Maximum Profits for the Company, Little to the Nation" did little to lift the reputation of mining companies such as Boroo Gold.

4. Corruption that interfered at each level of government and led to the unequal distribution of wealth, and which raised public resentment is another factor that has influenced the low levels of social acceptance of the mining industry.

3.2.1 Fear of powerful neighbors and negative images of Chinese investments

Sensitive geopolitical relationships with its two powerful neighbors have impacted the social acceptance of mining in Mongolia. Mongolians are concerned about the potential political, economic, and cultural domination of both Russia and China. By increasing their influence over large mining projects, these two neighbors, especially China, would gain a greater level of dominance over the Mongolian economy. At the same time, particularly since the mid-1990s, Chinese investments in the mining sector have grown tremendously, contributing to social conflicts, environmental degradation, and bad governance. Therefore, fears regarding its powerful neighbors and negative images of Chinese investment have contributed negatively to the social acceptance of the mining industry in Mongolia.

Fear regarding powerful neighbors is deeply rooted in Mongolian history. The Mongolian Empire waned in the 17th century after which it disintegrated and eventually fragmented into colonies of the Manchu-led Chinese Qing Dynasty. After continued struggle, as well as geopolitical competitions between China and Russia in the early 1900s, the largest part of Mongolia, known as Inner Mongolia, became the part of the People's Republic of China (PRC), while Outer Mongolia became a satellite state of the Soviet-led communist bloc. Concerns regarding a potential Chinese take-over further isolated Mongolia from the PRC during the Sino-Soviet split in 1960s-80s (Jargalsaikhan, 2011). Mongolia literally cut off its economic ties with the PRC and established Soviet-style political, economic, and cultural institutions. During this

period, Mongolia also adopted Soviet-style mining policies (Jargalsaikhan, 2011). Geologists from the Soviet Union, East Germany, Bulgaria, and Czechoslovakia conducted major geological surveys in Mongolia. The Soviet Union developed large mines – such as Erdenet, numerous coal, uranium, and fluorspar mines. All mines developed into major urban centers with infrastructure and social welfare facilities. However, Mongolians complained about the Soviet influence on management, operations, and ownership of the facilities. The most common complaint was that Mongolia served as the Soviet's natural resource base since the Soviet Union was not interested in developing Mongolia's industrial capacities.

China is yet another story. Since 1987, Mongolia has normalized its relations with the PRC. Historically and logically, because of geographical proximity, Chinese businesses have been interested in Mongolia's natural resources. However, Mongolians have been very concerned about Chinese economic take-over for a number of reasons:

- First, China is Mongolia's only potential market for natural resources, which leaves Mongolia strongly dependent on the PRC; Second, China provides only the potential infrastructure to reach out other markets like Japan, South Korea, and Taiwan. The dependence on the PRC to reach the rest of the world creates additional contention. Third, the potential take-over of the strategic deposits by Chinese state-owned enterprises would increase Chinese economic leverage in Mongolia. Therefore, Mongolia's fear of domination by its powerful neighbor has led the country to take a number of preventative measures in the mining sector. First, the government has restricted the size of investment from one state (National Security Council of Mongolia, 2010). Second, Mongolian politicians have discouraged Chinese state-owned enterprises from investing in strategically important

mining projects (Parliament of Mongolia, 2012). Third, and relatedly, the size and number of Chinese small and medium sized companies has increased, while large-scale Chinese mining investments continue to remain low.

The mining sector remains the largest receiver of the Foreign Direct Investments in Mongolia, and reached a peak of USD 8 billion in 2010 as shown in Figure 3-16.

No	Sectors	%	Total	1990-2004	2005	2006	2007	2008	2009	2010	2011	2012*	2013.10.31*
1	Mining, exploration, Petroleum	73.3	10,331,467.88	493,972.74	183,961.91	195,390.34	336,985.65	485,189.08	643,454.56	819,762.15	4,083,218.51	2,217,906.92	871,626.04
2	Trade, Catering services	17.0	2,397,779.62	162,764.31	53,376.62	103,388.43	111,528.37	187,447.85	132,636.45	162,567.18	620,567.90	694,336.18	169,173.49
3	Others	3.4	484,205.62	92,880.36	52,884.35	47,739.57	13,882.50	6,875.86	3,510.34	14,012.70	207,216.65	38,728.09	6,475.19
4	Banking & financial services	1.4	201,162.15	67,105.46	9,671.09	11,982.63	21,936.52	4,495.96	3,219.31	12,979.58	24,893.87	17,753.36	17,753.36
5	Transport	1.3	176,695.37	20,951.90	933.33	24.60	657.15	174.13	2,406.20	2,892.00	7,374.49	135,062.51	6,219.07
6	Engineering services & construction material manufacturing	0.9	73,337.16	55,237.94	772.73	1,791.75	4,273.45	1,894.74	9,366.55	980.10	5,177.47	47,615.15	2,477.41
7	Light industry	0.8	108,372.57	85,001.91	1,792.13	1,454.22	1,205.34	18,208.00	92.82	153.76	99.24	365.17	
8	Processing: animal raw materials	0.4	57,2024.3	53,516.29	825.33	292.50	540.00	-	-	236.89	656.60	49.97	1,084.85
9	Tourism	0.4	53,656.36	13,028.04	1,490.23	1,637.36	486.70	1,365.63	491.34	371.40	22,458.16	12,458.16	175.35
10	Information & Communications Technology	0.3	45,966.40	19,623.03	6,267.60	480.86	6,916.70	1,442.57	1,252.80	125.00	8,971.86	502.37	383.60

Figure 3-16: Foreign direct investments in various sectors of the Mongolian economy ('000 USD)

Source: (US Embassy Ulaanbaatar, Mongolia, 2014)

This portion of investment continues to grow as a result of increases in world market commodity prices. Oyu Tolgoi LLC, which is so far largest mining investor in Mongolia, is registered in the Netherlands and China, and remains the largest mining investor in Mongolia as shown in Figure 3-17.

№	Country	%	Total	1990-2004	2005	2006	2007	2008	2009	2010	2011	2012*	2013.10.31*
1	Netherlands	29.96	4,225,310,12	5,265,58	221,70	475,86	58,50	4,069,20	51,028,60	232,962,18	1,816,714,10	1,253,215,65	861,298.74
2	China	26.65	3,757,607,62	441,786,38	227,922,28	172,014,03	339,614,67	497,800,88	613,058,80	176,038,36	1,015,265,04	243,194,70	30,912.48
3	Luxembourg	8.17	1,151,702,03	2,911,70	1,809,30	10,00	3,118,917	195,80	1,012,65	25,589,47	476,652,07	634,384,11	6,018.01
4	UK Virgin Islands	7.87	1,109,543,62	48,394,23	5,033,92	6,111,67	35,449,00	6,157,89	19,305,18	101,986,27	610,933,11	274,331,09	1,841.28
5	Singapore	5.14	724,855,27	8,513,28	4,645,78	728,60	700,00	32,339,86	9,359,44	31,075,00	402,738,17	227,281,96	7,473.19
6	Canada	3.53	498,056,74	174,206,58	1,542,25	72,180,37	497,15	2,739,57	1,028,00	147,11,12	72,288,16	18,629,50	7,134.04
7	South Korea	2.69	379,267,82	85,180,14	19,004,49	16,434,78	22,991,38	41,765,41	31,673,98	38,763,43	54,972,59	54,025,32	14,456.29
8	USA	2.19	308,230,57	45,25,48	5,564,06	37,165,78	4,285,67	6,466,89	2,571,52	13,911,20	127,238,95	62,592,42	2,708.62
9	Russia	2.11	297,674,26	37,163,16	7,450,14	11,654,52	39,774,38	3,795,42	6,139,20	2,273,18	58,11,87	129,589,99	1,822.40
10	Australia	1.84	260,026,89	3,730,19	12,066,75	384,40	289,20	3,361,90	516,50	2,273,80	82,453,32	96,479,16	58,471.68

Figure 3-17: Top ten investor countries in Mongolia

Source: (US Embassy Ulaanbaatar, Mongolia, 2014)

Since transitioning to a market economy in the 1990s, free trade between Mongolian and Chinese businesses flourished in the services and trades sector, and the mining sector also slowly gained in strength. Chinese goods and services rapidly filled the gap in the Mongolian market that had been created after the retraction of Russia's economic ties. Unfair business practices and the often substandard quality of Chinese services and goods during those times are partially to blame for increasing public dissatisfaction and declining acceptance.

As shown in Figure 3-18 and Figure 3-19, more than 50% of the Mongolian mining sector, fully owned by foreigners, is Chinese enterprises and approximately half of mining joint ventures are by Chinese business investments.

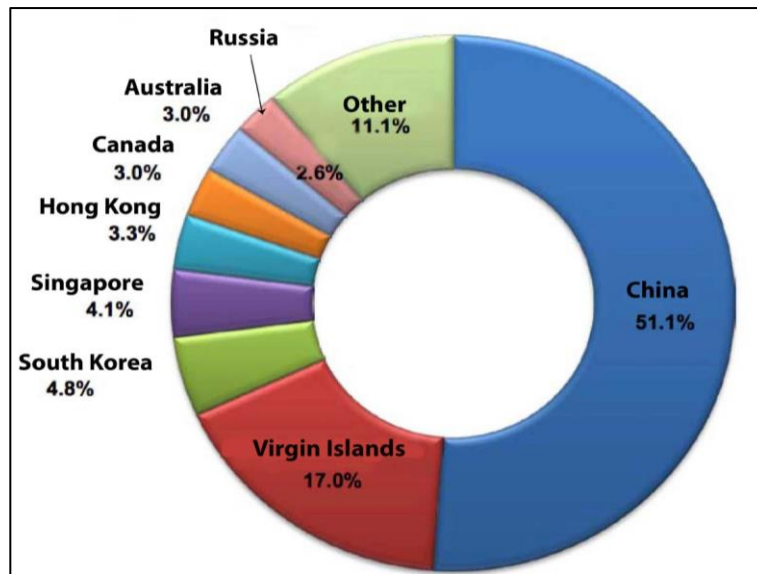


Figure 3-18: Mining companies 100% owned by a country

Source: (Mineral Resources Authority of Mongolia, 2014)

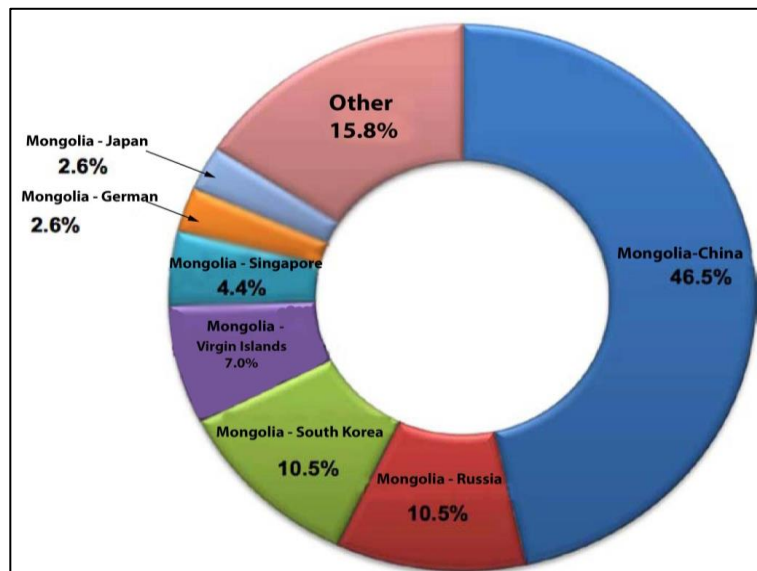


Figure 3-19: Joint ventures companies by a country

Source: (Mineral Resources Authority of Mongolia, 2014)

The dominance of Chinese enterprises in the mining sector has steadily grown over the last two decades. One can say with certainty that Chinese small and medium sized enterprises in

Mongolia could have avoided public opposition, increasing resource nationalism and lowering acceptance of the past and present if they had invested in Shared Value creation and in long-term sustainability. Driven by prospects of substantial short-term profits, Chinese businesses are often accused of bribing local government employees, behavioral misconduct against local herders whose pasturelands have been affected by mining projects, as well as the resulting environmental damages. The analysis of such incidents and reports indicates that the creation of Shared Values or Corporate Social Responsibilities were not part of the business strategies of Chinese companies at the time. This built-up resentment is a factor in the public reaction toward mining megaprojects such as Tavan Tolgoi and Oyu Tolgoi. The fact that the Oyu Tolgoi project contracted many Chinese workers during its construction phase, or that Tavan Tolgoi contracted a Chinese logistics company, have been contentious public issues that populist politicians have readily taken advantage of.

With an increasing number of Western mining companies entering Mongolia, the public is rightfully demanding sound business conduct, better corporate social responsibility and public engagement.

There is great opportunity for gaining public acceptance in Mongolia for a mining company that would propose a developmental strategy in line with Shared Value creation. This is indicated by the fact that none of the civil movement activists, populist politicians or party activists have actually spoken out against the mining industry. In fact, they have demanded proper mining practices, which are mutually beneficial to Mongolians. Therefore, adopting a Shared Values approach as a business strategy could yield strong public support.

An interesting observation could be drawn from the Mongolian attitude towards investments in the Mongolian mining industry by both its neighbors. Both Russia and China impose much political and economic influence over Mongolia, and the public has historically been cautious to align itself with these enterprises. But it is a fact that Russian investments and enterprises receive better public acceptance. This originates as a result of the large-scale investment that the Soviet Union made during the Soviet-era, when the positive social impacts and benefits for Mongolia were clearly visible. Erdenet Mine, constructed by Russian investment, has and still does benefit the public, and is also creating considerable public revenues. This example alone serves as a strong argument and assurance of a strong public acceptance of Shared Values in the mining industry.

The divided public attitude toward its neighbors is visible in the railroad debate, without which the Mongolian mineral sector could not thrive. This debate, which lasted for almost 7 years, was concluded in 2014 in order to commence with the expansion of the railroad network following the Chinese standard. Despite ongoing resistance, public-private collaboration is responsible for starting the project, and represents an important step toward creating Shared Values in Mongolian mining development.

Suspicion and resentment towards Chinese mining companies are also reflected in policies. The Foreign Investment Law passed in 2012 carried the sentiment to “limit the foreign investment in strategically critical sectors,” and resulted from the public fear that “southern Mongolia is going to be subject of control of state owned Chinese companies” and to prevent the establishment of a “Buyer’s Monopoly.”

This law caused the retraction of foreign investment in Mongolia and still impacts the decline of economic growth experienced today. As a direct result of this law, there has been a sharp decline (60%) of foreign investment into Mongolia, and this amounted to almost 40% of GDP in 2011. It provides another example how legislative imbalances can impact economic growth.

Growing resentment among the public towards large multinational mining companies and resource nationalism fueled by election campaign promises have created roadblocks for the successful development of large mining projects. The situation has escalated so far that some of the large mining projects are in danger of cessation. The decline of foreign investment, which is an important part of the budget, has affected the Mongolian economy and is causing chain reactions in the economy, weakening its growth and pushing towards a slowdown as shown in Figure 3-20.

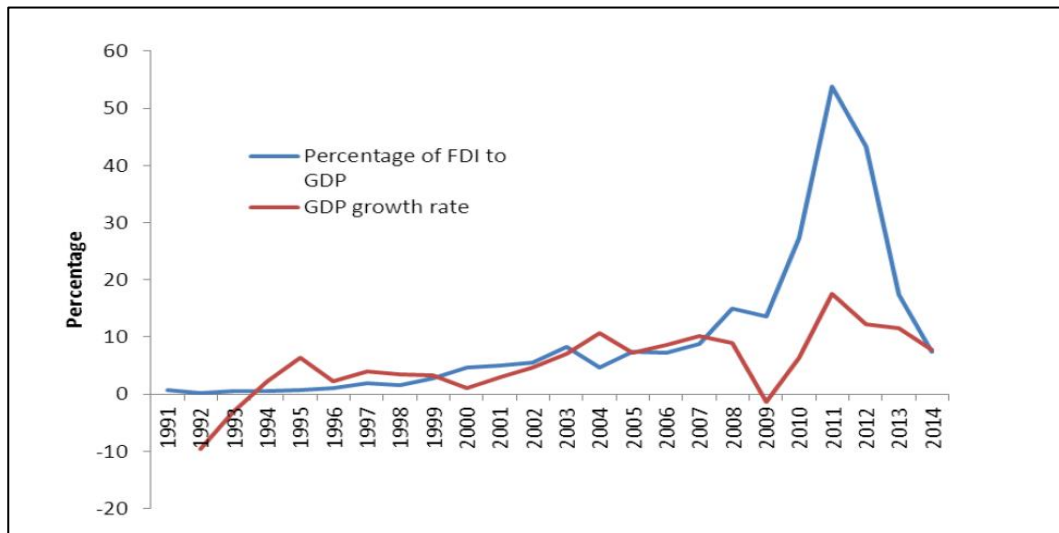


Figure 3-20: GDP growth rate of Mongolia and percentage of FDI inflow to annual GDP of Mongolia

Source: (Central Bank of Mongolia, 2014)

3.2.2 Legacy of “The Gold” program and Ninja miners

Skewed public expectations and misunderstandings regarding the mining industry are fuelling the difficulties related to social acceptance. The business reputation of the mining industry is falling, partially because of some bad examples of unskilled mining footprints that occurred in early 1990s and the legacy of artisan/Ninja miners. Distrust of the neighboring superpowers of Russia and China, and suspicion that they will own most of the mining projects has also impacted Mongolian social acceptance of the industry (Jargalsaikhan, 2011).

At the very beginning of mining development in Mongolia, the main stakeholders did not possess adequate knowledge regarding sustainability, rehabilitation, environmental protection and other social and economic impacts. Despite the fact that the country is progressing at a considerable pace, sound policies for environmental and socio-economic impact mitigation and measurement tools are still lacking.

In 1992, the Mongolian government launched the “Gold” program that aimed to increase gold production for economic growth (Lkhasuren, Takahashi, & Dash-Onolt, 2007). The creator of the program was 1st president of Mongolia, Mr. Ochirbat Punsalmaa (Otgoo, 2011). This program supported the rapid growth of new mining operations, mostly on alluvial gold deposits near river basins and floodplains. It was an important development in support of the vulnerable economy during those challenging times.

Unfortunately, as a result of poor environmental policies and lack of mining governance capacity, environmental impacts have been exacerbated by the locations of many mining operations near river basins, floodplains and forests. The negative environmental impact strongly affected the traditional nomadic herders, who are critically dependent on pasturelands and rivers

for their livestock. Environmental studies indicate that approximately a total of 852 rivers, 1181 lakes and 2277 springs went dry during this period (IUCN, 2010).

Artisan miners, or Ninja miners as they are called in Mongolia, are private citizens involved in extracting gold using outdated technologies. Some estimate that there are currently approximately 60,000 Ninja miners in Mongolia (Lkhasuren et al., 2007; UNEP, 2012). Environmental and social damages inflicted by Ninja miners are beyond measure.

Statistics from the Mineral Resources Authority of Mongolia (2014) suggest that artisan small scale gold miners (ASGM) are present in over 100 “soums,” or counties, in 18 provinces (out of 21), with about 61,000 artisanal miners extracting up to 10 different types of minerals, mainly gold, fluorspar, coal, semi-precious stones, tungsten, and petrified wood (UNEP, 2012).

The uncontrolled usage of cyanide and mercury for gold recovery from panning has resulted in not only enormous health and environmental damages for the miners themselves, but also to the environment (Mette M, 2012). There have been a number of attempts in the past to regulate artisan mining in Mongolia, including amendments to the Law on Mineral, Law on Land, and Law on Taxation of Personal Income Derived from Private Business and Services (UNEP, 2012; Batsuuri, 2010; Government of Mongolia, 2010).

The social impacts of artisan mining communities in the places of their operations have been disastrous, often resulting in criminal activities, leading to the development of prostitution, illegal gold selling and violence (Mette M, 2012). Violent clashes with local authorities are common, and often result in serious implications. Conflicts with local herders have been caused by the environmental damages created by artisan mining to pasture land, which has further

exacerbated the negative public attitude towards mining in general. As shown in Figure 3-21, artisan miners are victims of frequent *zuds*, or harsh winters, and the deregulated mining environment (UNEP, 2012).

Positive	Negative
Highest employer in the Mining sector (100,000 compared to 46,500 ^x in the LSM sector).	Environmental degradation. 53 hectares of land contaminated with mercury.
Tangible ^{xi} economic contribution in rural areas. ^{xii} The Bornuur processing plant produces gold worth US \$5 million.	Pastureland degradation.
Supports about 400,000 Mongolians (13% of the population) with livelihood.	Resource use conflicts with private mining companies and local authorities.
Pioneered the practice of mercury-free gold processing techniques for both placer and primary deposits. ^{xiii}	Limited access to social services. ^{xiv}
Reduction of rural urban migration. ^{xv}	Increased rural-rural migration, instability of communities.

Figure 3-21: Artisan small-scale / Ninja / gold mining impacts in Mongolia

Source: (UNEP, 2012)

The Law on Prohibiting Mineral Exploration and Extraction near Water Sources, Protected Areas, and Forests was passed by the Parliament in July 2009 under the pressure of civil society organizations and environmental movements. The implementation of the Gold Program in 1992 caused noticeable and often-disastrous environmental damages, especially to rivers and forests, and affected the livelihood of numerous herding families and other agrarian communities. The Law on Prohibiting Mineral Exploration and Extraction near Water Sources, Protected Areas, and Forests (Law with “Log name”) encountered strong opposition from mining companies while it gained strong public support. However, its implementation process became difficult for two reasons. First, the law halted all types of exploratory and extraction activities by mining companies near water sources, river basins and forests. As a result, the government is mandated

to reimburse the costs to all the mining companies with claims in such areas. Second, the law still lacks effective enforcement mechanisms through which to manage artisan miners, whose operations are not regulated under any mining or environmental legislation. Abandoned mines have often become easy targets for artisan miners. This case again demonstrates the negative consequences of hastily implemented policies that are without consideration to immediate and long-term impacts (e.g., sudden closure of mining operations and promises of reimbursements for mining companies). Likewise, this situation also demonstrates how local forces (e.g., civil society organizations) can succeed in pressuring the state and politicians to regulate irresponsible mining activities. On the other hand, the state and politicians failed to produce well-thought out, well-phased and effective policies that considered the demands of all stakeholders - civil society organizations, mining companies, and local communities.

Some of the prominent examples of policies that have been adopted, only to be retracted later, are the Windfall Profits Tax of 2006 and the Foreign Investment Law of 2012. The overwhelming sense one gets from the analysis of policy-making in Mongolia is a glaring absence of the capacity for policy-analysis that could produce recommendations to policy-makers for more durable and well thought out regulations. This lack of policy-making capacity is equally apparent among politicians and civil society stakeholders. Yet, it is clear that such capacity will be needed in order to maximize the benefits of the mining wealth that Mongolia has been endowed with. This challenge is by no means unique to Mongolia, and is common across developing countries.

Taking it in perspective, when examining all the negative impacts of the mining industry including environmental impacts, shrinking pasturelands, escalating violence, alcoholism and

crime, it is no wonder that public acceptance of the industry has plummeted and local herders pray often that their land will not become subject to a mining project. It is however a positive and noticeable development that mining stakeholders are slowly starting to understand the importance of Shared Value creation and incorporating it into their strategy.

3.2.3 Public perception of “Greedy western mining legacy”

The weak regulatory environment and lack of capacity at the governmental level at the beginning of mining development in Mongolia was taken advantage of by some Western-owned mining companies in order to gain quick profit. This act left a negative public perception of Western mining. A famous example, often cited by politicians and civil society in opposition to such practices, is the Boroo Gold Mining project in Selenge province. The Canadian-based Centerra Gold owned 100% of Boroo Gold mines and took advantage of the existing favorable mining legislation, and was able to defer taxes during their first few years of production (Xavier, 2013). The investment agreement signed between the company and the Government of Mongolia allowed for the occurrence of intensive mining during this period to extract the majority of the gold deposits, leaving the Mongolian public with a perception of a “bad Western company, which gained maximum profit by avoiding sharing fairly” with the Mongolian society.

According to government officials, as of 2008, Boroo Gold LLC produced 40.040 kg of gold, which translates into MNT 849.4 billion in sales. However, because of the stability agreement as well as subsequent amendments, the company deferred income tax equivalent to MNT 91 billion for the period between 2004-2006 (Saran, 2009).

The first Mongolian Mining Law, passed in 1994, and the second Minerals Law, passed in 1997 created favorable conditions for foreign investors to start mining projects. Both laws were called

the “most investor-friendly and enabling law in Asia,” but at the same time, they lacked effective measures through which to ensure a fair and transparent distribution of wealth (Husband & Songwe, 2004). The unfair and “quick cash out and leave” business conduct of early foreign mining investors created a negative image of “Greedy Western miners” among the Mongolian public. In the case of Centerra Gold, the Boroo gold mining situation resulted in long-term implications for the company itself, and it is currently facing major public opposition in obtaining license for their next desired project, the “Gatsuurt” mine. This clearly demonstrates that the company’s conduct had damaged its long-term competitiveness, one of the major pillars of Shared Value creation.

This experience left the Mongolian public with a deep distrust toward Western mining investors, creating a fear that “they would extract our mineral wealth quickly and leave, leaving us with nothing or almost nothing.” It is important to note that the distrust toward Western mining investors differs from that towards Chinese or National investors, in that the concerns about the latter are predominantly focused on environmental concerns.

It is therefore no wonder that, although it was signed in 2008, the Oyu Tolgoi investment agreement remains a contentious issue between the Mongolian public and politicians (Turquoise Hill Resources, 2009). Chapter 8 of the agreement deals with local community engagement, work force, employment and education (Turquoise Hill Resources, 2009). However, it fails to clearly define the company’s obligations and carries a character of volunteer or donation type of investments. The company’s reluctance to sign a binding agreement with the local community to support social development and until today it has also created suspicions and distrust among the Mongolian public.

The suspicion toward foreign investors gained momentum during the years of the highest copper and gold prices, and was taken advantage of by populist politicians to pass the law on Windfall Profit Tax (WPT) in 2009, and gained enormous public popularity. It had a negative impact however, causing a sharp decline in Foreign Direct Investment, and then turning public opinion around against the same politicians. This example is not unique to Mongolia. The Australian Prime Minister proposed a similar taxation scheme in 2011, which caused a public uproar and ultimately forced him to resign.

After repealing the Windfall Profits Tax in 2009, some politicians and civil society organizations lobbied for a new law on the gold royalty. Under the 1990-2006 Minerals Law, gold mining companies are obligated to pay 7.5 percent royalty for placer deposits, and 5 percent for primary deposits. Then, the royalty increased to 5 percent plus 68 percent windfall profit tax when the Mineral Law was revised and the Windfall Profit Tax Law was implemented in 2006. From 2006 to 2009, companies were obligated to pay 68 percent (the Windfall Profits Tax) and also 5 percent royalty. Although the Windfall Profits Tax on the gold was changed to the Incremental Royalty Tax in 2009, the 5 percent royalty did not change. As a result of the 68 percent Windfall Profits Tax and the 5 percent royalty, annual gold production fell from 15.2 tonnes in 2006 to 2.1 tonnes in 2010. In December 2013, the Democratic Party (DP) submitted the Gold Royalty Bill to the Ikh Khural, the Mongolian Parliament. This bill proposed to reduce the gold royalty to 2.5 percent and withdraw the 68 percent Windfall Profit Tax and the Incremental Royalty Taxes. The majority of the parliament members did not support the draft. Within a week after this failure, the DP-led coalition government re-introduced the bill as a part of the amendment to the Minerals Law. This case clearly demonstrates the instability of the regulatory environment and its adverse impact on the sector's development.

3.2.4 Corruption

Since Mongolia joined the Anticorruption Convention in 2006, corruption has been central within the public's attention. Subsequently, the Anticorruption Agency was established, and it took on the investigation of corruption cases. Priority was placed on suspicions of corruption in relations to the issuance of special licenses for mineral exploration and mining. According to the Mineral Resources Authority of Mongolia, already in 2006, 42% of Mongolian territory was the subject of special licenses mentioned above and shown in Figure 3-22, rendering it a serious national security concern.

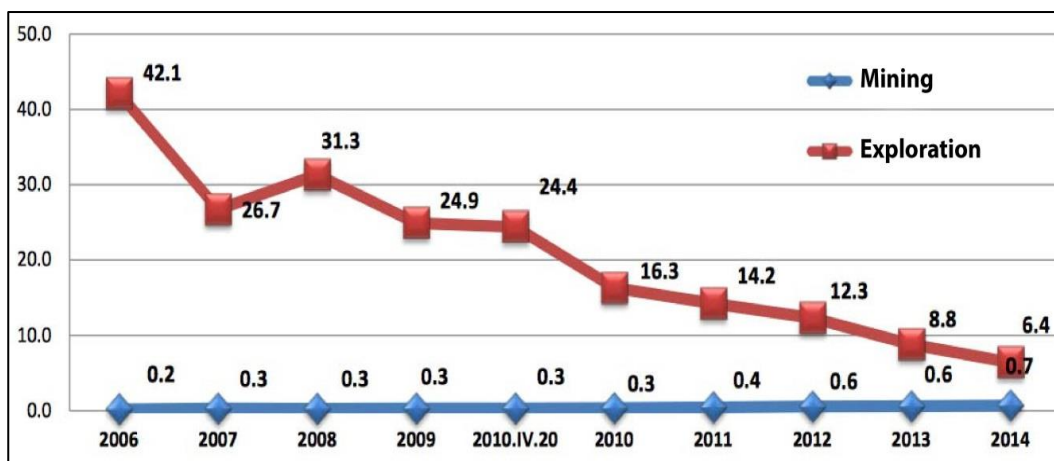


Figure 3-22: Total land percentage of mining and exploration licenses (period 2006-2014)

Source: (Mineral Resources Authority of Mongolia, 2014)

According to the results of investigations, some individuals owned more than 200 exploration licenses (Medee, 2012). Corruption, especially in the mining and exploration license sector, flourished in those years. The legacy continued in connection with the development of small mining projects which succeeded in establishing a bad reputation of the whole sector in Mongolia. Because of mounting public pressure, the issuance of new licenses was stopped as of

April 20, 2010 and criminal charges were issued against leaders of the Mongolian Mineral Resources Authority (News Agency Mongolia, 2012). As a result of this and other actions number of exploration licenses increased significantly as shown in figure 3-22.

Instead of contributing to the country's social development, mining development in those years left a residue of unfavorable side effects including uncontrolled and often corrupt license issuances. It is of note that the corruption index increased considerably during the years of the mining boom in Mongolia as shown in Figure 3-23. The graph clearly demonstrates the relation between the mining development and corruption in Mongolia. As the mining contribution to GDP kept increasing, so did the corruption index. "The CPI is based on a 10-point scale in which a score of 10 indicates very little corruption and a score of 0 indicates a very corrupt government. In scoring freedom from corruption, the Index converts the raw CPI data to a scale of 0 to 100 by multiplying the CPI score by 10. For example, if a country's raw CPI data score is 5.5, its overall freedom from corruption score is 55.

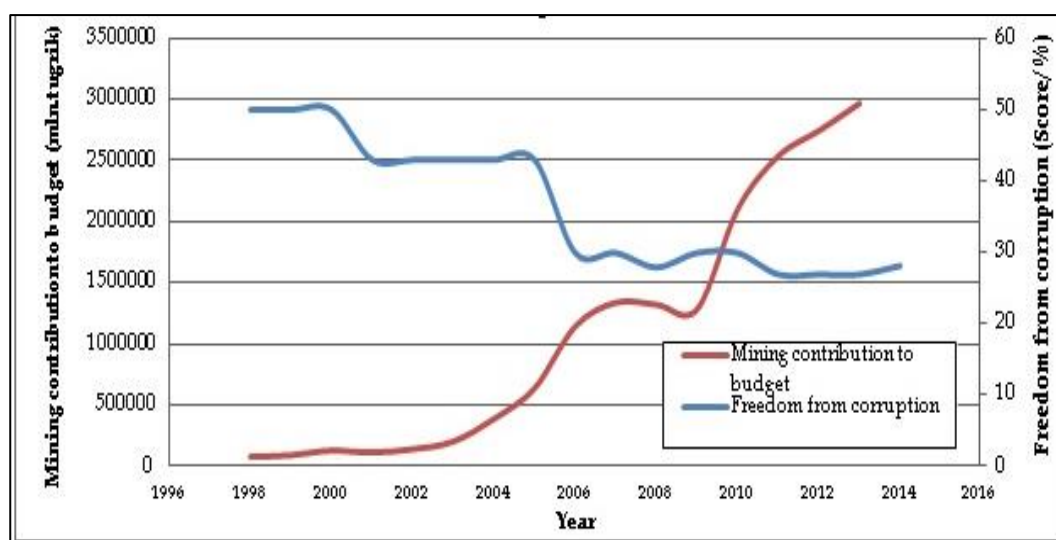


Figure 3-23: Change in corruption index in Mongolia

Source: (The Heritage Foundation, 2014)

The rapid increase in mining investment and the uncontrolled issuance of mining and exploration licenses for almost half of the Mongolian territory served as the root causes for flourishing corruption, and are the factors that have resulted in the low public acceptance of the mining industry.

In 2013, in connection with an investigation of the head of the Mongolian Mineral Authority on corruption allegations, the Mongolian court cancelled 106 exploration licenses (News Agency Mongolia, 2013). In the 2 years subsequent to this case, and as a result of the continuing failure to properly manage mining explorations, many investors left the country and remain very cautious in bringing their business to Mongolia. The Government of Mongolia is currently trying to regain the lost investor's trust by recalling or changing its policies toward the mining industry. As a result of these challenges, "resource nationalism and non-technical problems" are dramatically increasing, and in just a year, 2014, the FDI fell by 71% (Blodgett & Ewing, 2015).

According to the Independent Authority Against Corruption of Mongolia (2009), the Ministry of Energy and Mineral resources ranked the worst in the terms of corruption as shown in Figure 3-24.

No	Sector classification	Corruption index
1	Within the responsibilities of Minister of Defense	0.71
2	Within the responsibilities of Minister of Welfare and Labor	0.69
3	Within the responsibilities of Minister of Environment and Tourism	0.65
4	Within the responsibilities of Minister of Education, Culture and Science	0.64
5	Within the responsibilities of Minister of Road, Construction and Urban Development	0.64
6	Within the responsibilities of Deputy Prime Ministers	0.63
7	Within the responsibilities of Minister of Foreign Relations	0.63
8	Within the responsibilities of Minister of Finance	0.63
9	Within the responsibilities of Minister of Food, Agriculture and Light Industry	0.63
10	Within the responsibilities of Minister of Justice and Home Affairs	0.61
11	Within the responsibilities of Minister of Health	0.61
12	Within the responsibilities of Minister of Energy and Mineral Resources	0.47

Figure 3-24: Corruption index in Mongolian industrial sectors

Source: (Independent Authority against Corruption of Mongolia, 2009)

3.2.5 Policy and government changes

Countries like Mongolia that are newly liberalized and adopting western style mining provide a very useful case study for this research. Similar problems can be seen throughout the mining industry worldwide. It is therefore important to understand the best practices within the country, as well worldwide, in a situation where the government and the mining industry work together to develop Shared Values.

As indicated above, the development of Mongolia's mining industry during the early stages encountered many issues and challenges, which in turn weakened the newly establishing

democratic governance in the country. Figure 3-25 illustrates the drop in the governance index in Mongolia. A higher value corresponds to a better institution.

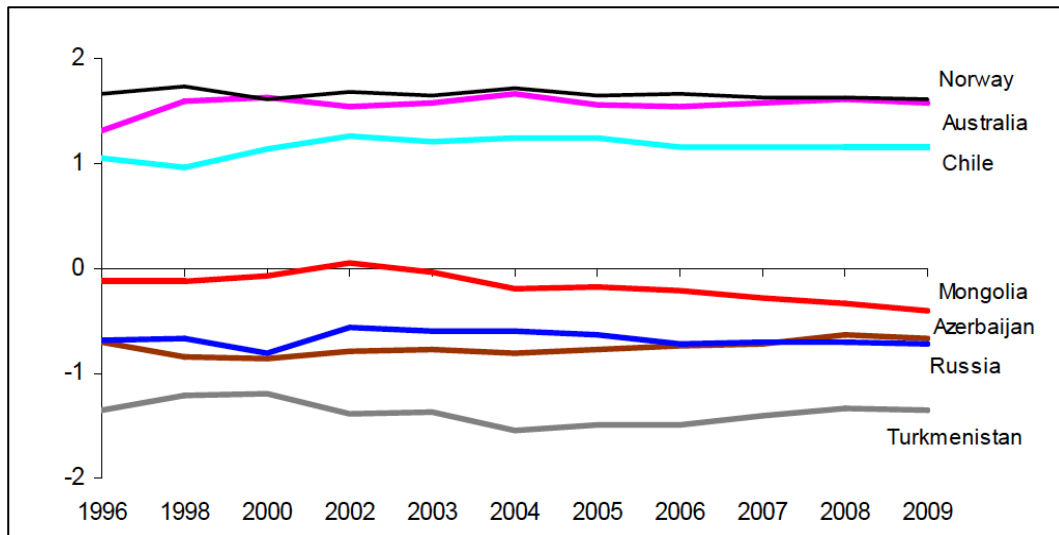


Figure 3-25: The World Bank governance index

Source: (The World Bank Group, 2014d)

There is clear evidence regarding the negative impacts of the development of mining in Mongolia with respect to governance indices such as government effectiveness, control of corruption and the rule of law. From Figure 3-26, it is clear that the decline in governance indices correlates directly with the years of the Mongolian mining boom.

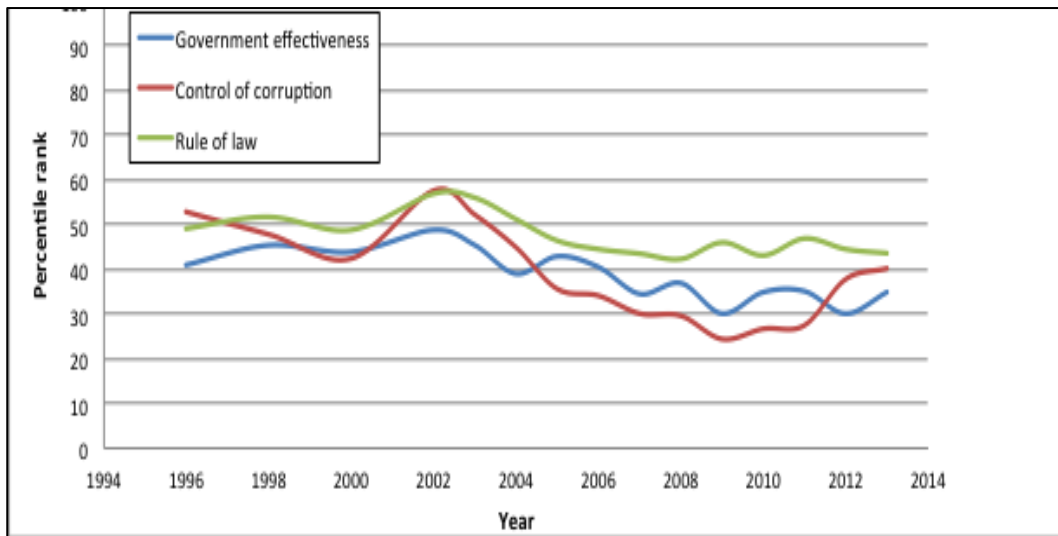


Figure 3-26: Correlations chart of government effectiveness versus control of corruption versus rule of law

Source: (The World Bank Group, 2014d)

The weak levels of governance during this period, in turn negatively impacted the industry itself, resulting in an unstable regulatory environment. The resource governance index information that is published annually by the Revenue Watch Institute is an accepted and reliable measure of transparency and accountability in countries with considerable extractive industries. According to this 2013 report and Figure 3-27, Mongolia ranked low in comparison to countries with similar natural resource endowments, a clear indication of its weakness in governance.

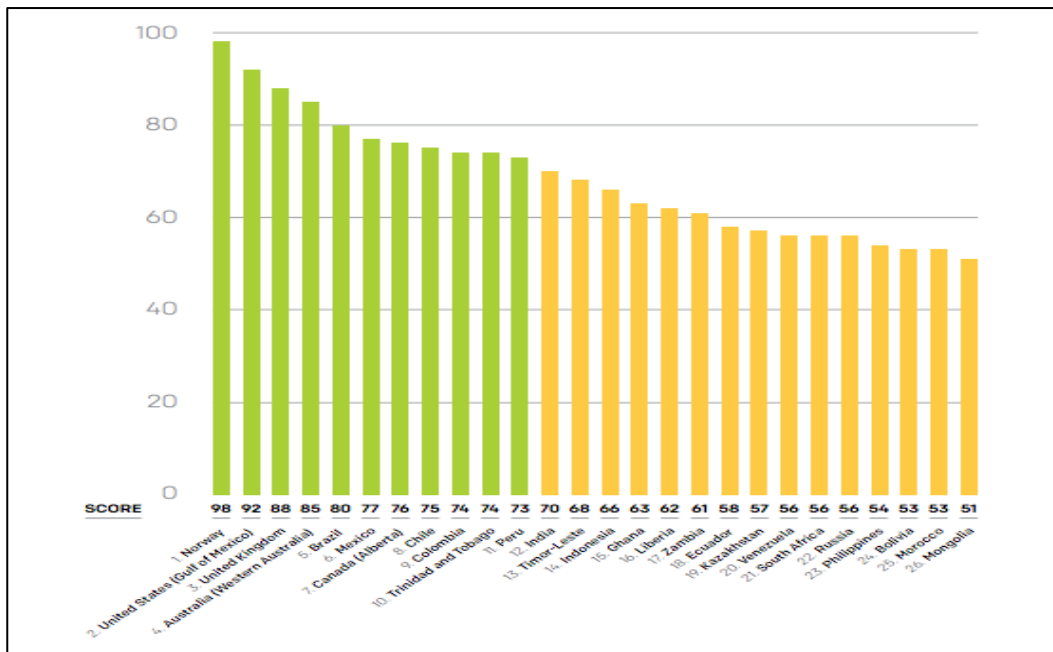


Figure 3-27: The resource governance index country scores and ranking

Source: (Revenue Watch Institute, 2013)

Research regarding the relevant laws and regulations reveal the occurrence of interesting dynamics in the Mongolian regulatory environment. Major regulations defining stakeholder engagement, social responsibility and investors' obligations are found in the Law of Mongolia on Investment, passed in 2013 and Mongolian Mineral Resources Law, initially passed in 1997 and subsequently amended in 2006 (Ministry of Mineral Resources and Energy of Mongolia, 2011). Another important document describing Mongolia's approach to Mining development is the Government of Mongolia Policy in Mineral Resources, which approved by the Parliament in July 2013 (Parliament of Mongolia, 2013). It is of note that Mongolian legislators have been putting effort into correcting and improving existing laws and regulations in the Mining sector in order to ensure the engagement of stakeholders and to push for social investments. For example, the Law of Mongolia on Investment makes it the investor's obligation to "implement investment

activities that are in the interests of customers, environment-friendly, and supportive of human development; to provide training and improve the professional skills of employees and to introduce good corporate governance principles” (Hogan Lovells, 2013). These obligations are in alignment with Shared Value Creation by making investors responsible for long term social projects. Another example of the incorporation of the Shared Values concept in legislation is the Policy Paper in Mineral Resources. Article 3.5.2 of the paper clearly mandates the establishment of a collaboration agreement between a company and local community representative body to invest in the community’s development. Articles 3.7.12 and 3.7.13 are also in direct support of Shared Value creation, emphasizing human resource development and public-private engagement in strategic decision-making. Creating Value-Added Production is reinforced in the policy paper as well, arguing for the importance of developing a national industry. Despite the progressive ideas put forth in the paper, it never-the-less lacks clear language and coordination. Defining public engagement only through controlling mechanisms can even be argued to run counter to the idea of Shared Value creation.

The Mongolian Mineral Resources Law from 1997 and its 2006 amendment also incorporated articles supporting the government’s approach to Shared Value creation. Article 10.1.13 stipulates the right of the government body, the Ministry of Mineral Resources in this case, to establish a council that would be made up of investors, government, and civil society and who would all participate equally in the process of defining the strategic development of the sector. This law contains multiple articles enforcing public-private partnership and transparency (Parliament of Mongolia, 2006). The calculation of socio-economic impact of the industry’s development became an obligation of the government body. The law failed however, to stipulate any expectations on the license holder to establish stakeholder engagement. On the other hand,

the law obligates the license holder to give preference to national companies for acquiring products and services (article 35.9 Mongolian Mineral Resources Law, 2006). Furthermore, article 42.1 obligates the license holder, within the signed agreement, to collaborate with the local government to develop the mine, its associated infrastructure and its workforce development. This is an important development because it obligates investors to conclude agreements with the purpose of supporting community development. The law also clearly defines the ratio of national and expat workforce that can take part in the mining development, pushing towards increased employment opportunities for Mongolian nationals. On the downside, the law does not make stakeholder engagement a prerequisite for obtaining or renewing a license. The law often uses language such as “the license holder may” in defining some important aspect of local community engagement such as the mitigation of environmental impacts (Article 42.3. Mongolian Mineral Resources Law, 2006). Whilst the law makes impressive progress toward creating a regulatory framework for private-public interaction in stakeholder engagement and community development, it falls short on outlining the clear obligations and rights necessary to render it the most useful.

Since 1990, over the relatively short course of the history of Mongolian democracy, intensive mining development has left a significant mark on the country’s political history. Since 1990, governments and cabinets were changed 16 different times, and mining and investments laws were revised several times (Ministry of Mineral Resources and Energy of Mongolia, 2011). Newly implemented taxes, the Windfall Profit Tax, the “law with the long name” and all their associated regulations, which all culminated in the shrinkage of the mining industry and in investors leaving Mongolia, collectively draw a grim picture. This record indicates that unless all stakeholders in mining development come with a comprehensive plan that is aimed at the mutual

benefit of all parties involved, the country and public will continue to seek for alternatives in order to gain a fair share of mining benefits. This trend however, has often resulted in one-sided decision making and political polarizations that have led to growing pressure on the industry and ultimately to withdrawal.

CHAPTER 4: SURVEY OF SHARED VALUE PERCEPTIONS

4.1 Survey purpose and questions

The survey was conducted in Mongolia, and was conducted on relevant government offices, representatives of civil society and the mining industry. The questions were submitted online and the participants had 14 days to answer the questions. The anonymity of participants was ensured according to the relevant regulations, and participants could refuse to submit the responses at any point. All data were handled with sensitivity and security.

Establishing a common understanding between the private sector, government and civil society is the key to increasing the benefits and participation of stakeholders, and to developing and implementing government policies that can result in enduring value creation for the country.

Increased foreign investments, which have driven explosive mining development in Mongolia, have not been accepted, and have faced great resistance by Mongolian society. The necessity to define policies aimed at long-term development, as well as the definition of mining contributions to society, are emerging as the keys to assessing the impacts of mining on society, politics and the economy. Therefore, defining perceptions of societal impacts among the mining companies, government and civil society institutions is an important step towards addressing these issues. Doing so can provide important concepts toward the goal of seeking opportunities for productive collaborations and active participation in creating “Shared Values” for the common good.

The current research aims are to identify the private and public sectors’ understandings about the concept of “Shared Values,” and to evaluate their attitude towards, and expectations from, mining projects. A survey was developed to investigate this in Mongolia. The findings of the

survey could be instrumental in eliminating common misconceptions among the major stakeholders, maximizing the benefits of mining development for all participants, as well as finding potential solutions to the issues currently faced by the sector.

The following questions were addressed in the survey:

1. What are the perceptions of the stakeholders regarding the impacts of mining on society?
2. How do stakeholders assess opportunities for collaboration?
3. What are the perspectives of stakeholders on “Shared Values” and whether they are being created by mining development?
4. What aspects does society focus on regarding the impacts of mining companies?
5. How should stakeholders approach the creation of “Shared Values” in the future?

The approval of the University of British Columbia Ethical Board was obtained prior to conducting the survey as well as the Certificate of completion of the Tri-Council Policy Statement 2 Research Ethics online course.

4.2 Conducting the survey

The online survey was conducted in February 2015 among representatives of the major mining stakeholders in Mongolia. Additional phone interviews were conducted with survey participants to clarify specific results. Participants from the private sector were represented by employees and management level leaders of privately and publicly-owned operations of mining projects such as Oyu Tolgoi, Boroo Gold, MAK (Mongol Alt Kompani), Altain Khuder, Tengri Recourse, SS Mongolia, Petro Matad, Baganuur, Sandvik, Erdens MGL, Erdens Tavan Tolgoi, Energy Resources, MonAtom, Gatsuurt etc. The public sector was represented by both government and

civil society employees and activists. Legislators, government employees, heads of departments and ministers of relevant ministries, such as the Ministry of Mining, Ministry of Construction and Urban Development, Ministry of Environment, Green Development and Tourism, Mineral Resources Authority, and Central Geological Laboratory, as well as government officials at municipal districts participated in the survey. Civil society was represented by NGOs, researchers, media professionals as well as university students and professors.

It is noteworthy to mention that mining companies in general approached the survey with some caution, inquiring about the purpose and source of the survey. In some instances, officially listed addresses did not match the current one, rendering the contact with mining companies difficult. Sometimes, companies were relocated or had downsized, or even ceased operating.

The survey coincided with the current change in the Mongolian government which reflected new staff members or new leadership in ministries and government agencies, who in most cases were new to the field. Some leadership positions were still being filled. The majority of the survey participants also emphasized this situation of frequently changing staff and leadership in government institutions.

Figure 4-1 illustrate that the majority of survey participants mostly refer to foreign invested mining companies when they talk about mining projects. In other words, when discussing mining companies, the majority of participants refer to Oyu Tolgoi, Boroo Gold etc. rather than to state owned companies such as Erdenet, Baganaur, Shivee Ovoo, Mon-Atom and Erdens MGL.

	Frequency	Percent
GoV officials	31	31.6
NGOs	27	27.6
Mining companies	40	40.8
Total	98	100.0

Figure 4-1: The survey participation numbers by sector

Among the survey participants, 31.6 percent of the total participants were from the government sector, 27.6 percent from civil society and 40.8 percent from mining companies. In general terms, the majority of survey participants displayed adequate knowledge, and government representatives in decision making positions expressed their opinions, which support the credibility and value of the survey.

4.3 Survey results and discussions

Survey results are presented in this section in form of graphs. Appendix F provides tableted results separated by stakeholders.

Question 1 – What impact did the mining industry have on Mongolia’s development in past?

A detailed review of the responses of specific groups among the participants reveals that 79 percent of mining companies and 70 percent of government institutions, in contrast to 44 percent of the civil society representatives rated the impact of mining development as “positive.” The fact that civil society perceives mining development as being negative overall, in comparison to government and mining companies can be attributed to the idea that mining companies and the government enjoy a better collaboration with each other than they do with to civil society.

Figure 4-2 summarizes the survey result for Question 1 and shows that 5.1 percent of participants responded with “very positive” and 63.3 percent with “positive” to this question. In summary, 68.4 percent agreed that mining has had a positive impact on Mongolia’s development in the past.

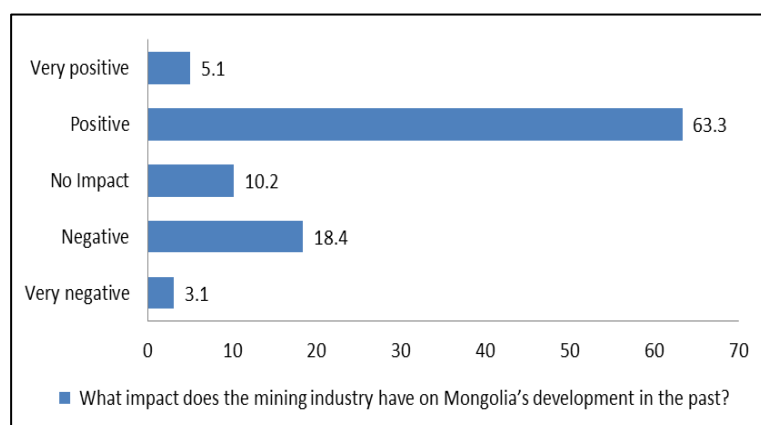


Figure 4-2: Survey results for the Question 1

In 2014, the World Bank and RIWI Corporation conducted surveys in countries with well-developed mining industries such as Australia, Canada, and South Africa, and emerging markets such as Zambia, India and Indonesia. This survey included the same question used in the current study. A comparison of both surveys, shown in Figure 4-3 and Figure 4-4 draws an interesting picture. In the RIWI survey, in countries with emerging mining markets, 35 percent of participants expressed positive attitudes toward impact of mining on the development of the countries, whereas in Mongolia’s case it equaled to 63 percent, indicative of an overall positive experience with mining development. Interestingly, in countries with successful stakeholder engagement and maximized mining benefits (Canada, Australia etc.), an approximately equal percentage of people expressed positive and negative opinions about the impact mining on development.

However, comparable percentages of survey participants from Mongolia and from other emerging economies expressed similar opinions towards mining development.

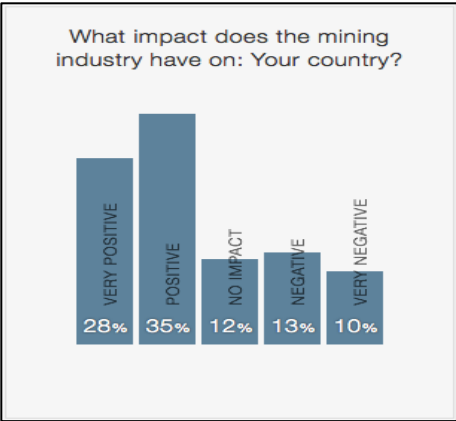


Figure 4-3: RIWI Corporation conducted results in 2014 in countries with emerging mining markets

Source: (RIWI, 2014)

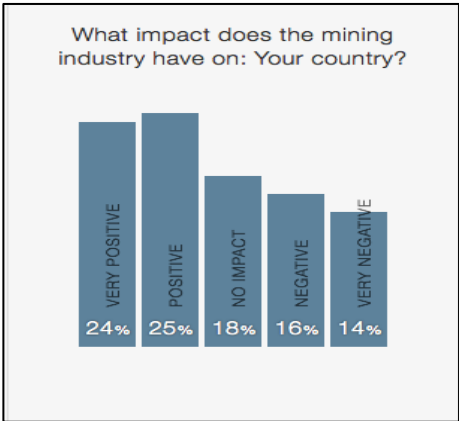


Figure 4-4: Canada, RIWI Corporation conducted survey results in countries with well-developed markets

Source: (RIWI, 2014)

Question 2 – If you answered ‘negative,’ what are key negative impacts of mining?

According to the results included in Figure 4-5, 30.6 percent of participants identified environmental impact as the key negative impact of mining, followed by increased corruption

(14.3 percent). 21.4 percent of participants identified impact on traditional nomadic lifestyle, insufficient local development and negative impact on regulatory system as key negative impacts. While representatives of all stakeholder groups agreed on environmental pollution as a negative impact, government representatives predominantly named increased corruption as the key negative impact. Interestingly, civil society representatives predominantly identified environmental pollution as being more important of lacking local development. Figure 4-5, these finding indicate which issues mining companies need to focus on to gain local support from communities in Mongolia.

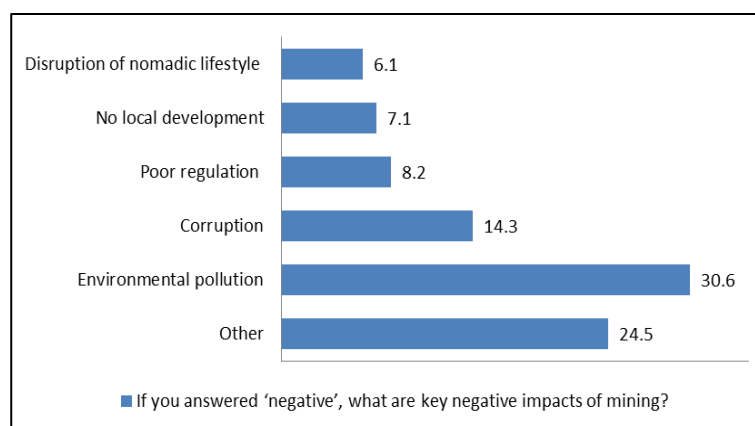


Figure 4-5: Survey results for Question 2

Question 3 – How did civil society/grassroots movements' impact mining development in Mongolia?

According the majority of survey participants, civil society/grassroots movements had a somewhat positive impact on the development of the mining sector in Mongolia. All major stakeholders agreed that civil society/grassroots movements have contributed to the development of responsible mining conduct, improved transparency, sound environmental practices and to improving local economies.

This appreciation from the private sector and government also suggests that there is a real opportunity to work with civil society to create Shared Values. The fact that 45 percent of mining companies assess civil society's influence on mining development as negative can be explained by a general perception that civil society's actions have commonly caused disruption in mining processes as indicated in Figure 4-6.

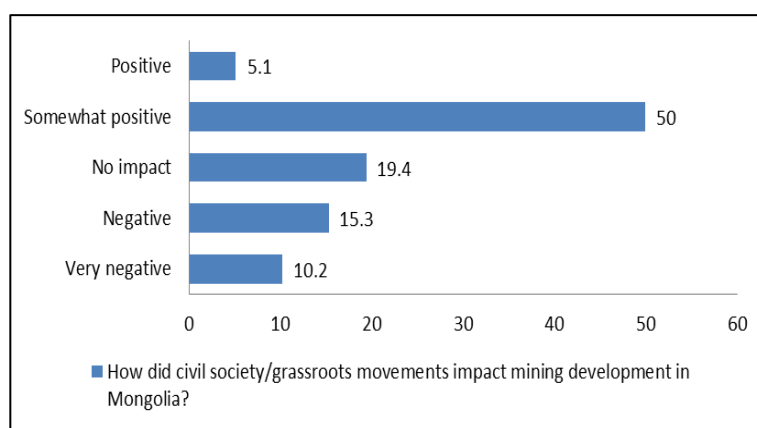


Figure 4-6: Survey results for Question 3

Interestingly, civil society's representatives evaluated their own impact on mining development as negative. There are 3 possible explanations for this finding:

- a. Civil society institutions are not satisfied with the goals and scopes of their own actions and/or
- b. are not satisfied with impact of their current actions, and/or
- c. are being critical of their own actions and impacts.

In summary, it is obvious that civil society institutions lack a clear vision of Shared Values and ways to collaborate with other stakeholders to create them. Therefore, there is a pressing need to educate them on this topic.

Question 4 - Besides paying duties such as taxes and royalties, can mining companies do more to improve governance, education and supporting businesses in communities?

The majority of survey participants, 91.8 percent, were of the opinion that in addition to their duties to pay taxes and royalties, mining companies should substantially contribute to education, local business development and governance improvement. This clearly emphasizes the expectations regarding mining development, and that there is a strong will from all stakeholders to work on creating Shared Values as illustrated in Figure 4-7.

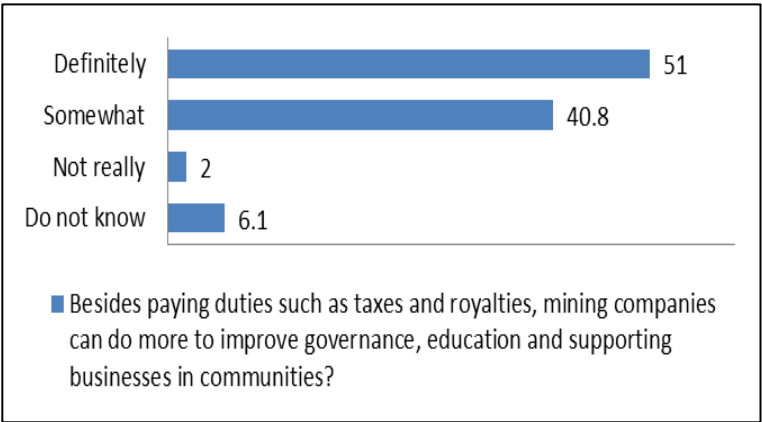


Figure 4-7: Survey results for Question 4

Question 5 - Do you agree that mining companies, the government of Mongolia and civil society should cooperate productively to support the country’s development?

From Figure 4-8, it can be concluded that 55.1 percent of survey participants agreed that all 3 stakeholders collaborate, but that the level of collaboration needs improvement. In contrast, 26.5 percent of participants expressed the opinion that the current collaborations stakeholders are not productive.

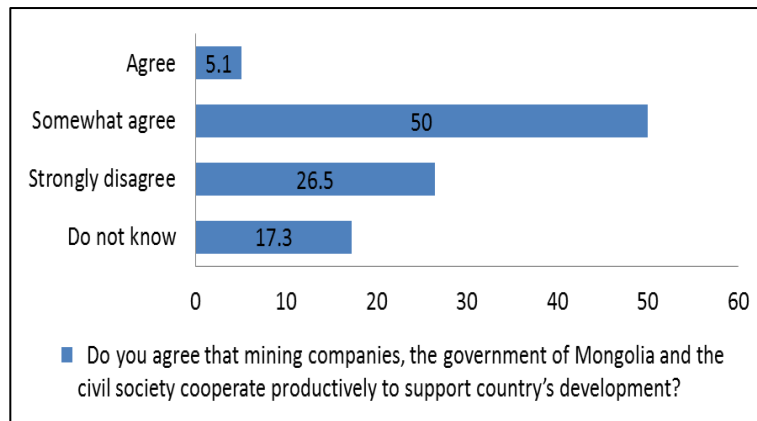


Figure 4-8: Survey results for Question 5

This result indicates that all parties involved are not happy with the current state of collaborations, and that they might be receptive to new approaches, e.g. the creation of Shared Value.

Question 6 - What are the main concerns of mining companies in Mongolia?

As shown in Figure 4-9, 55.1 percent of participants believed that making profit is the main concern of mining companies in Mongolia. 77 percent of government, 62 percent of civil society and 33 percent of mining company representatives identified making profit as the main goal. This finding clearly demonstrates a lack of understanding of the goals, responsibilities and trust in mining development in Mongolia. It is not surprising that the opinions of private and public sectors on this topic are polarized, and this indicates the lack of common ground between the stakeholders. It also suggests that the public sector disapproves of the lack of initiative from mining companies to address the issues.

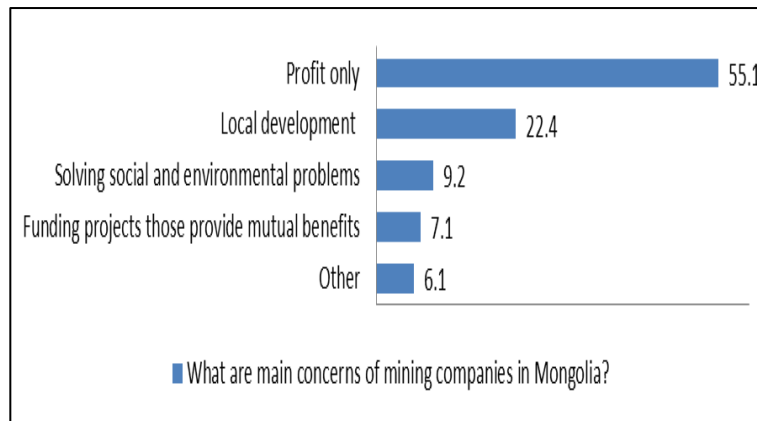


Figure 4-9: Survey results for Question 6

22.4 percent of all participants believe that mining companies should focus primarily on local community developments, creating jobs, supporting small and medium size businesses and developing local infrastructure. The remaining 22.4 percent expressed the opinion that companies should contribute to solving environmental and societal issues, and finance projects, which provide mutual benefits.

In summary, the majority of participants was aware and agreed that the primary goal of mining companies is to make profit. Some mining companies also commented that parallel to making profit, they also prioritize projects to support society and local communities. A representative of a large mining company also stated that the Mongolian mining industry is still at the development stage, where only few mines can be considered established businesses. It is a fact that those established companies are capable of incorporating positive impacts on society in their strategic plans. The rest of the sector needs to embrace sustainable development and sound business practices in order to be able to deliver services to society. It is hoped that they will be doing exactly that once they are on firm ground.

Question 7 - Would you agree that until now, mining companies have only implemented social projects, which gained their greatest support from the government and civil society, by not considering the sustainability of the projects?

48 percent of participants agreed that some mining companies support projects aimed at supporting societal issues, whereas 29.6 percent were of the opinion that this is not the case, and that mining companies only support projects which have gained the greatest amount of support from local governments. In contrast, 18.4 percent considered that most mining companies support sustainable projects.

The summarized results in Figure 4-10 indicate that mining companies operating in Mongolia support projects which do not plan for long term sustainability, but rather only short term and community supported projects. It is indicative that companies themselves do not have an established strategy of Shared Value creation. In turn, it crystallizes the real need for all stakeholders to work together on projects to support long term sustainability, which can be achieved by creating Shared Values.

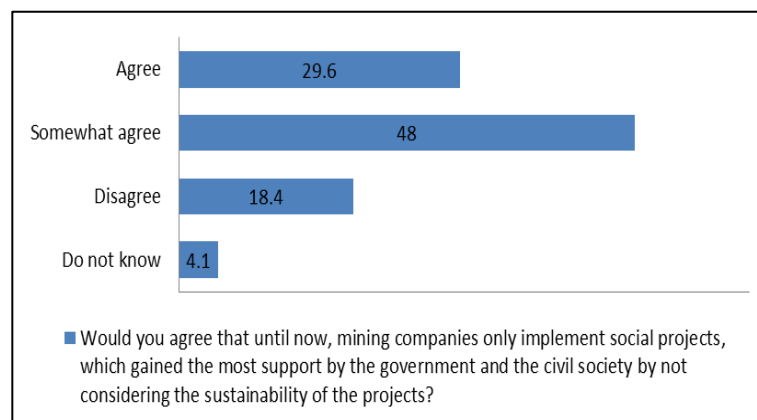


Figure 4-10: Survey results for Question 7

Question 8 - For most mining companies, social development programs are implemented because of a) Legal requirement; b) Company policy; c) Local communities' demand; e) Civil society demand; f) Media pressure and g) Others

As indicated in Figure 4-11, 27.5 percent of participants believed that mining companies develop social programs because of legislative requirements, 25.5 percent believed it is because of local communities' pressure and 14.3 percent believed it is because of pressure from civil society. It is safe to assume that the majority of participants are of the opinion that mining companies do not initiate social programs voluntarily, and only develop and implement these under external pressure.

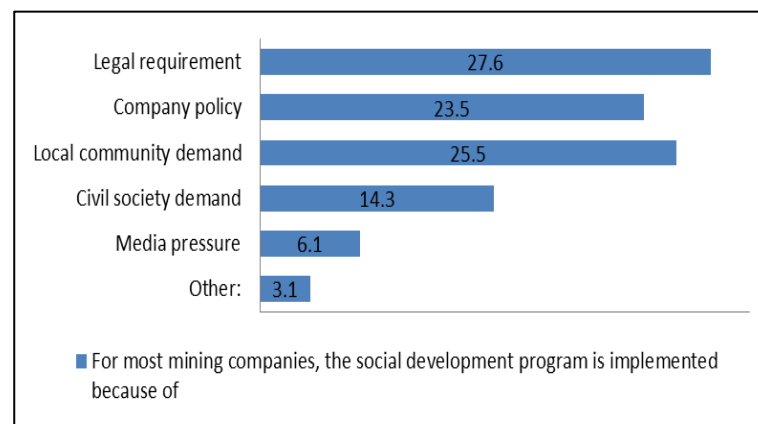


Figure 4-11: Survey results for Question 8

40 percent of mining company representatives believed that developing social programs is part of their strategy and corporate responsibility. This opinion was shared by 16 percent of government and 7 percent of civil society representatives. It is another striking example of the lack of trust between stakeholders. The creation of Shared Values and involving other stakeholders in the process seems to be a critical step to gaining trust and strengthening collaboration in the sector.

Question 9 - In your opinion, should operational licenses only be issued to mining companies after they have considered critical social issues such as poverty, unemployment, health, and education?

88.7 percent of participants (56.1 percent strongly and 31.6 percent somewhat) supported the idea that issuance of a license to mining companies should depend on proposed social programs which target critical social needs as shown in Figure 4-12.

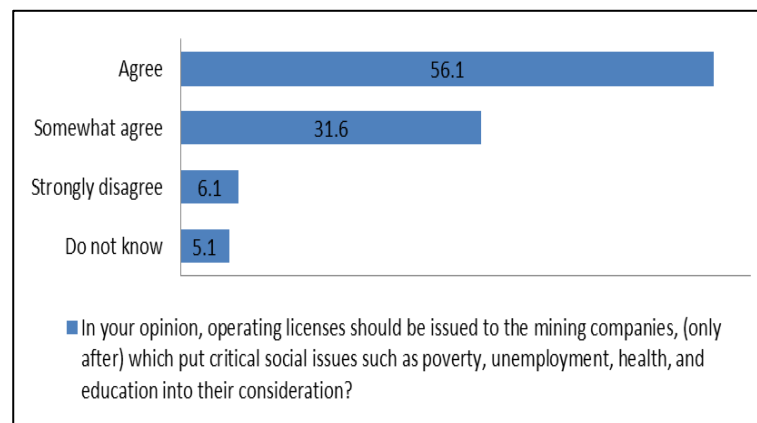


Figure 4-12: Survey results for Question 9

Representatives from all three-stakeholder groups equally supported this idea, thus providing an indication of the willingness and opportunities for stakeholders to collaborate. Another important interpretation of this finding is that mining companies are in agreement with other stakeholders on the importance of addressing key social issues, which intuitively points to the private sector's acceptance and willingness to implement adequate programs. This result again emphasizes the lack of common understanding and the importance of developing tools for productive collaboration between stakeholders. New approaches, such as Shared Value creation, therefore are likely to succeed and be accepted in this environment, where hostility and misunderstanding

between stakeholders has stalled necessary development, and all parties are in agreement regarding the major issues the mining sector of Mongolia is currently facing.

Question 10 - In your opinion, how much priority should mining companies put on these issues: providing local employment, supporting local business development and incorporating in supply chain?

Figure 4-13 illustrate that 87.7 percent of all participants rated support of local communities and incorporating in supply chain as a priority for mining operations (56.1 percent as high priority and 31.6 percent as somewhat priority). It is noteworthy that mining companies themselves also rated this as a priority, revealing their awareness of the situation. This again emphasized the importance of mining companies developing a long term strategy that would be in line with Shared Value creation, despite issues such as the substandard quality of local suppliers, or the local workforce lacking necessary qualifications.

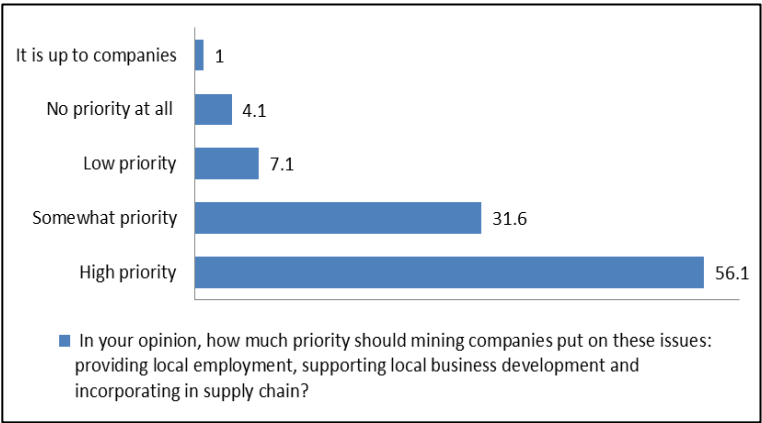


Figure 4-13: Survey results to Question 10

Question 11 - Should mining companies have a designated budget for providing donations and charities (despite natural and man-made disasters)?

The majority (70.5 percent) of participants believed that mining companies should budget charity and donation funds. It is a clear indication that all stakeholders have a weak understanding of Shared Value creation and its relevance. Mining companies need to understand that Shared Value creation is a corporate philosophy and not merely a social project, and that it is absolutely critical for increasing the benefit for all stakeholders as shown in Figure 4-14.

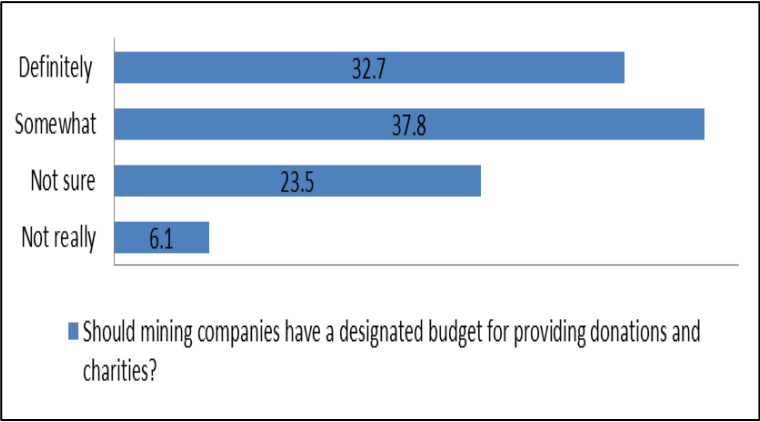


Figure 4-14: Survey results for Question 11

Question 12 - Why is the incorporation of products from local vendors into the supply chain important for the company?

Figure 4-15 indicates that 52 percent of participants considered that supporting local businesses and incorporating them into the supply chain helps to fulfill a company’s social obligations, whereas 19.4 percent believed that companies do it to improve their reputation.

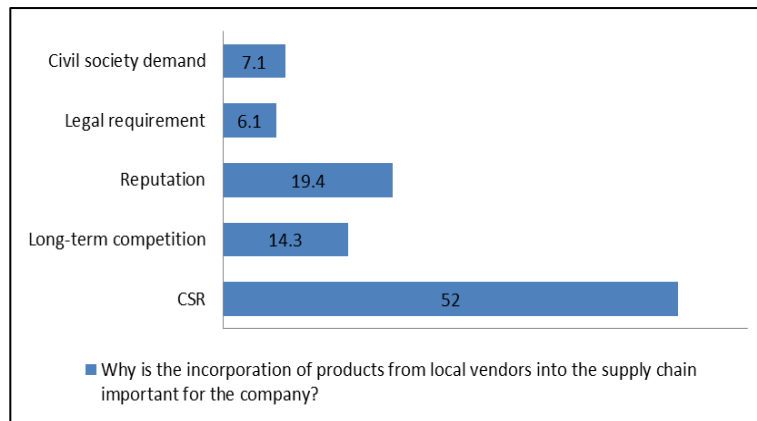


Figure 4-15: Survey results for Question 12

These results indicate that mining companies in Mongolia restrict their social engagements to CSR only, and do not incorporate long-term sustainable projects in terms of improving their competitiveness by engaging other stakeholders. The finding that all stakeholders focus on CSR is disappointing, considering that the improvement of competitiveness is a major objective of Shared Value creation. Another survey outcome of concern is that despite their dissatisfaction with their own social performance, and their understanding that they need to do more, mining companies restrict their social responsibilities to CSR only, without taking into account important objectives such as competitiveness and long-term sustainability. In turn, it also suggests that mining companies might be amenable to accepting new ideas and proposals to improve the current situation.

Question 13 - Do you consider the education and training of employees as the part of the CSR, or only as a way to benefit for the long-term competitiveness of the company?

49 percent of participants considered the education and training of employees important for long-term competitiveness, whereas 23.5 percent believed it to be part of CSR, and 24.5 percent believed it is both as shown in Figure 4-16.

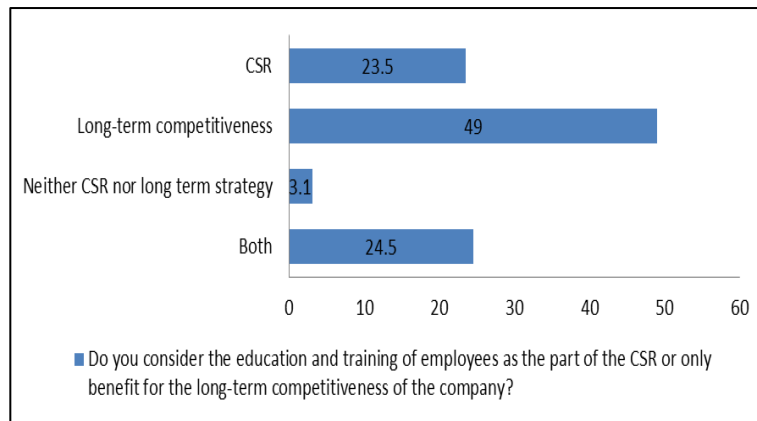


Figure 4-16: Survey results for Question 13

Results clearly demonstrate that the majority of all stakeholders consider improving the qualifications and competency of employees as a company's internal matter that is aimed at improving competitiveness, which again proves that this important aspect of the Shared Value approach is not well understood by mining stakeholders in Mongolia.

Question 14 - Do you consider the education and training of local communities as part of the CSR or only as a benefit for the long-term competitiveness of the company?

As shown in Figure 4-17, 45.9 percent of participants considered the investment in improving local workforce skills and qualifications as part of the company's social accountability. This finding is in contrast to the previous question, where investment in the education and qualifications of a company's employees was considered to be an internal matter. Both findings reinforce the lack of understanding by all stakeholders regarding the long term impact of workforce education and training, regardless of the affiliation of employees with the local communities.

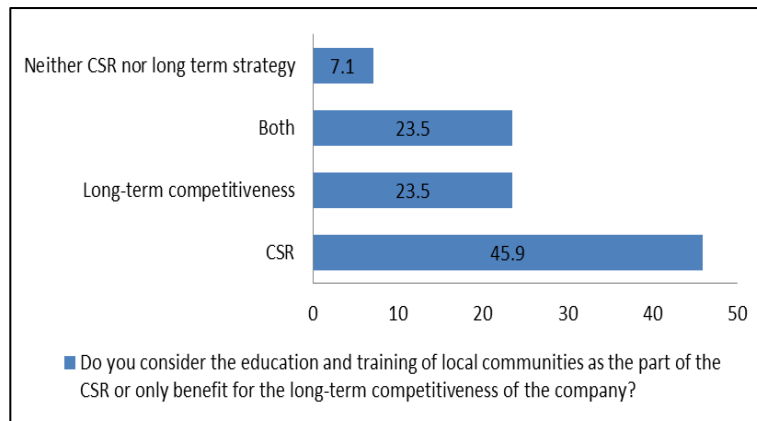


Figure 4-17: Survey results for Question 14

Question 15 - In the future, mining companies should:

Given an option to choose from a list of strategies, 74 percent of participants who were equally distributed across all groups recommended mining companies to collaborate with both the government and local communities to address societal issues as shown in Figure 4-18.

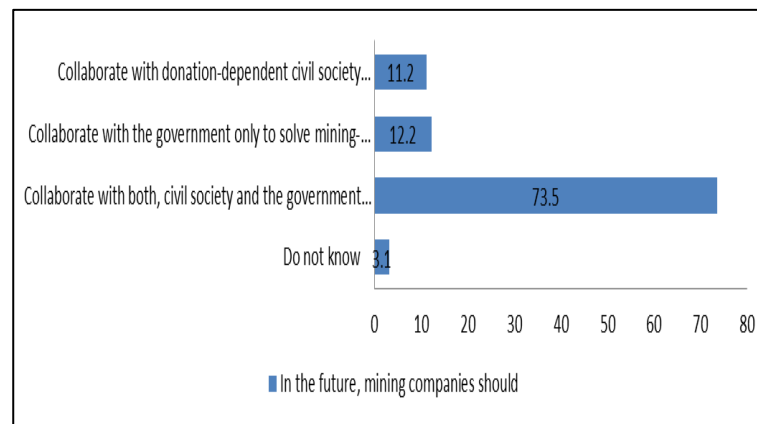


Figure 4-18: Survey results for Question 15

A detailed analysis reveals that mining companies are aware of, and support this finding. 26 percent of NGO representatives suggested that NGOs can help mining companies address social issues given that mining companies will provide the necessary financial support. This provides

an indication of civil society’s interest in being included in mining development and gaining support. This finding is of critical importance, because the interest of civil society is a prerequisite for the successful development and implementation of the Shared Value approach.

Question 16 - When making decisions about local education policy (Choose most relevant)

As indicated in Figure 4-19, when addressing responsibilities with respect to supporting the education of local communities, 60 percent of participants supported the involvement of all three stakeholders in defining the strategy and financing, whereas 20 percent believed that government or local communities should bear the responsibility.

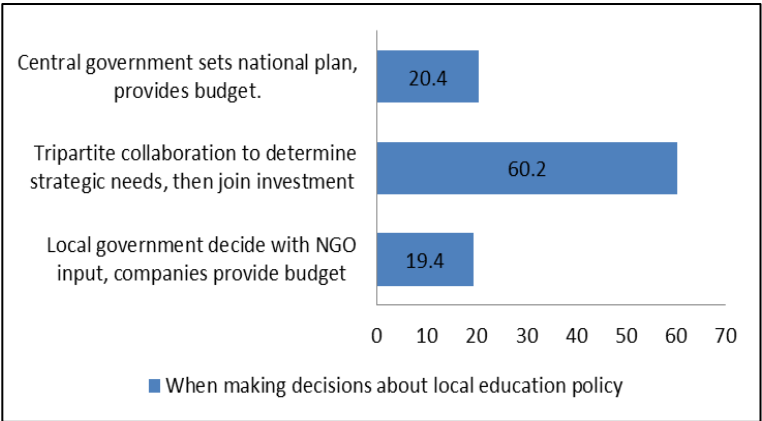


Figure 4-19: Survey results for Question 16

This positive finding showed that mining stakeholders do support one of the major principles of Shared Values, the participation of all stakeholders in important decision-making.

Question 17 - When making investment in local health, mining companies should:

Representatives of all stakeholder groups believed that the initiative and participation of all stakeholders should be shared equally in improving education, infrastructure and health in local communities. Figure 4-20 summarizes these findings and suggests that there is a positive

environment for establishing the Shared Value approach, and that all major stakeholders are either aware of current issues or amenable to new approaches. This is confirmed by the results of the next question.

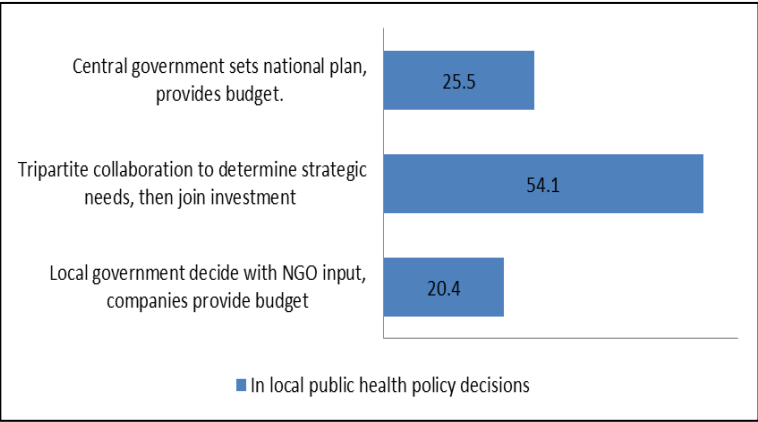


Figure 4-20: Survey results to Question 17

Question 18 - In your opinion, Mongolian mining policies (choose one):

As summarized in Figure 4-21, all stakeholders unanimously agreed that the legislative environment around mining development in Mongolia needs improvement.

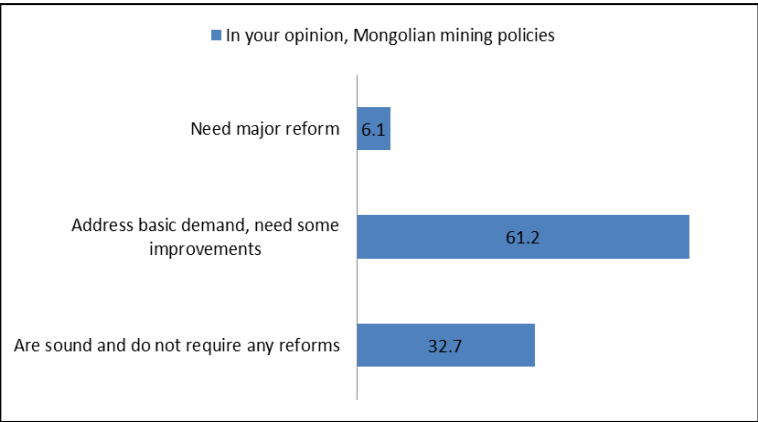


Figure 4-21: Survey results for Question 18

This provides further evidence that given the right tools and opportunities, all stakeholders will work together to come to common understandings and to address the issues currently faced by the sector.

4.4 Survey conclusions

The survey, which was conducted on representatives of all 3 major stakeholders revealed that:

1. All major stakeholders are aware of the importance of mining development in Mongolia. The impact is clearly reflected in economic growth, contribution to technical progress, and the development of local communities. However, there is a discrepancy with respect to the stakeholders' interpretations regarding the issue of the social benefits of mining, and there is also a lack of understanding of the Shared Values concept. On the other hand, all parties are concerned about the impacts of mining on traditional nomadic lifestyles, the environment and governance. In general, attitudes towards the mining industry depend on the balance between positive and negative societal impacts. Therefore, there is room for all stakeholders to increase their participation and to increase benefits, which will undoubtedly boost the positive impact of the sector on the country's overall development.
2. There is an obvious lack of understanding among stakeholders regarding each other's roles and responsibilities. For instance, mining companies and government generally agree on the positive impact of civil society on mining development. In contrast, there is a prevalent view among all stakeholders that social projects initiated, financed and implemented by mining companies are the result of external pressures rather than of companies taking social responsibilities seriously. It is important to note that CSR is seen as the only tool through which to address societal issues, a view shared by all stakeholders. Based on questions

regarding mining's impacts and accountabilities, it is however intuitive that current practice does not help solve issues between stakeholders, and that new approaches and methods are required.

3. Despite the differences in opinions regarding the engagement roles of stakeholder, all parties involved agree and are willing to collaborate to solve common societal and local issues. The agreement of all parties on the equal involvement of stakeholders in solving the issues of local communities, for example, supports this opinion.
4. The survey also revealed that despite the fact that the Shared Value concept is unfamiliar to many Mongols, there is a real need for its introduction and development within the Mongolian mining sector. Major issues will undoubtedly be faced with respect to the collaboration between stakeholders because of the interpretations and definitions of the responsibilities and involvement of each participant, the lack of mechanisms for collaboration, and weakness in the legislative environment. A striking example is that all stakeholders can clearly see the responsibilities of mining companies, but differ in terms of the roles of government and civil society. Mining companies are clearly seen as bearing the majority of the responsibilities.
5. The survey undoubtedly demonstrated the necessity for the introduction and promotion of a different approach, e.g. Shared Values creation, in the Mongolian mining sector in order to start a dialogue among all major stakeholders, to improve existing practices, and to implement the necessary legal reforms.
6. Current survey results are comparable to those of surveys, which have been conducted in other countries, indicating that successful measures to improve the mining sector in

Mongolia might be successful in other countries with similar issues, since the perceptions and opportunities seem to be comparable.

CHAPTER 5: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This research has defined the Shared Value approach, and has identified some of the shortcomings of the government of Mongolia with its large mining projects. The goal of this research was to apply the theory and application recommendations of the Shared Value approach in order to formulate recommendations for mining sector policy development in Mongolia.

5.1 Summary

Materials from publicly available resources were used, including governmental and organizational publications. As well, research papers, newspaper articles and reports were studied to analyze the socio-political impacts of the mining industry and its current dynamics in Mongolia. Indicators such as the social investment performance of companies, human resource development, publicly accessible statistical data about socio-economic areas, third party analysis, reports and government policy papers were collected and analyzed to provide a comprehensive picture of the current state of the mining industry in Mongolia and worldwide. A literature review and analysis was conducted on publications, research papers, and reports in order to establish the scope of the survey conducted in Mongolia.

Creating Shared Values is a new concept and business philosophy that involves all stakeholders in the business context. Specifically, this refers not only to the business owners themselves, but also the beneficiaries of the business processes. Because this is a relatively new idea, no systematic research has been done on this topic to develop accepted and well-tested tools and metrics. This is especially evident in the mining sector, where current research is restricted to case studies and cross-country examples.

This research focuses on opportunities for resolving the community related non-technical risks of the mining industry in Mongolia, increasing the engagement of major stakeholders, mining companies, the government and civil society, and increasing the benefits for all participants. Certainly, the findings of the research, especially around the concept of Shared Value creation, will significantly contribute to mediating current issues in the mining sector, but will also have much larger implications for the resource-dependent country.

Mongolia is unique in terms of its mining development over the last two decades, and despite the awareness of mining's impact on the economy, past development has unfortunately been associated with negative and often opposing sentiments.

As the literature review indicates, the mining sector experienced an unprecedented economic growth, but the majority of Mongolians have felt left out of the benefits it has provided. The country missed out on the opportunity to properly mobilize and gain the greatest amount of benefits from the mining development that took place. Contributing factors to this situation are multi-faceted, influenced by historical factors with neighbors, legacies of disastrous short-sighted Western mining investments, the inexperience of national companies, and an unstable legislative and political environment. The stalemate that has been created in Mongolian mining development demands that the approaches that have been used be revised and revisited. One consideration is clear; the sector urgently needs new concepts which would be acceptable to all stakeholders. Basically, required reforms should be aimed at improving institutional capacity and supporting the idea of mutually beneficial and sustainable collaboration between all the parties involved. There is no doubt whatsoever that mining development is, and will remain one of the major drivers of economic growth in Mongolia.

5.2 Conclusions

Based on the findings of the literature review, mining revenues did not necessarily translate into benefits. Educational and health spending during the mining boom years did not grow as one would expect. Strikingly, growing mining revenues coincided with growing poverty and unemployment in Mongolia, a worrisome trend that proves the lack of benefit distribution and Shared Value creation. There are some positive, although belated developments, such as the new 2014 legislative requirements to create jobs and support national procurement in mining projects.

A survey was devised and conducted to study the perceptions and understandings of the public and private sectors regarding key issues in the mining sector with the aim identifying opportunities for future improvements.

The survey, which was conducted on representatives of all 3 major stakeholders revealed that:

1. All major stakeholders are aware of the importance of mining development in Mongolia.

The impact is clearly reflected in economic growth, contribution to technical progress, and the development of local communities. However, there is a discrepancy with respect to the stakeholders' interpretations regarding the issue of the social benefits of mining, and there is also a lack of understanding of the Shared Values concept. On the other hand, all parties are concerned about the impacts of mining on traditional nomadic lifestyles, the environment and governance. In general, attitudes towards the mining industry depend on the balance between positive and negative societal impacts. Therefore, there is room for all stakeholders to increase their participation and to increase benefits, which will undoubtedly boost the positive impact of the sector on the country's overall development.

2. There is an obvious lack of understanding among stakeholders regarding each other's roles and responsibilities. For instance, mining companies and government generally agree on the positive impact of civil society on mining development. In contrast, there is a prevalent view among all stakeholders that social projects initiated, financed and implemented by mining companies are the result of external pressures rather than of companies taking social responsibilities seriously. It is important to note that CSR is seen as the only tool through which to address societal issues, a view shared by all stakeholders. Based on questions regarding mining's impacts and accountabilities, it is however intuitive that current practice does not help solve issues between stakeholders, and that new approaches and methods are required.
3. Despite the differences in opinions regarding the engagement roles of stakeholder, all parties involved agree and are willing to collaborate to solve common societal and local issues. The agreement of all parties on the equal involvement of stakeholders in solving the issues of local communities, for example, supports this opinion.
4. The survey also revealed that despite the fact that the Shared Value concept is unfamiliar to many Mongols, there is a real need for its introduction and development within the Mongolian mining sector. Major issues will undoubtedly be faced with respect to the collaboration between stakeholders because of the interpretations and definitions of the responsibilities and involvement of each participant, the lack of mechanisms for collaboration, and weakness in the legislative environment. A striking example is that all stakeholders can clearly see the responsibilities of mining companies, but differ in terms of the roles of government and civil society. Mining companies are clearly seen as bearing the majority of the responsibilities.

5. The survey undoubtedly demonstrated the necessity for the introduction and promotion of a different approach, e.g. Shared Values creation, in the Mongolian mining sector in order to start a dialogue among all major stakeholders, to improve existing practices, and to implement the necessary legal reforms.
6. Current survey results are comparable to those of surveys, which have been conducted in other countries, indicating that successful measures to improve the mining sector in Mongolia might be successful in other countries with similar issues, since the perceptions and opportunities seem to be comparable.

5.3 Recommendations

Finally, it is recommended that the country continue to look into opportunities for introducing and implementing Shared Value ideas in Mongolia. This would offer a unique opportunity to see real-time progress and impact on the country's development.

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Appendices

Appendix A: Survey questionnaire

The Public Opinion Survey – Mining “Shared Value”

Purpose: This survey aims to learn the public perceptions about the collaboration of the government, mining industry, and public, to study the applicability of the “Shared Value” approach in development of private-public sector in Mongolia. The survey will examine (1) the public perception regarding the mining policies. (2) if the Shared Value concept is known to the public; and (3) people’s opinions on possible applicability of “Shared Value” in mining industry development of Mongolia.

I. POLICY QUESTIONS

1. What impact does the mining industry have on Mongolia’s development in the past?

- a. Very positive
- b. Positive
- c. No Impact
- d. Negative
- e. Very negative

2. If you answered ‘negative’, what are key negative impacts of mining?

- a. Poor regulation
- b. Corruption
- c. Environmental pollution
- d. Disruption of nomadic lifestyle
- e. No local development
- f. Other

3. How did civil society/grassroots movements impact mining development in Mongolia?

- a. Positive
- b. Somewhat positive
- c. No impact
- d. Negative
- e. Very negative

II. MAPPING QUESTIONS FOR PRESENT SHARED VALUE

- 4. Besides paying duties such as taxes and royalties, mining companies can do more to improve governance, education and supporting businesses in communities?**
 - a. Definitely
 - b. Somewhat
 - c. Not sure
 - d. Not really
 - e. Definitely not
- 5. Do you agree that mining companies, the government of Mongolia and the civil society cooperate productively to support country's development?**
 - a. Agree
 - b. Somewhat agree
 - c. Neither agree or disagree
 - d. Disagree
 - e. Strongly disagree
- 6. What are main concerns of mining companies in Mongolia? (2 choices)**
 - a. Profit only
 - b. Local development (employment, supply, infrastructure)
 - c. Solving social and environmental problems
 - d. Funding projects those provide mutual benefits
 - e. Not sure
 - f. Other
- 7. Would you agree that until now, mining companies only implement social projects, which gained the most support by the government and the civil society by not considering the sustainability of the projects?**
 - a. Agree
 - b. Somewhat agree
 - c. Neither agree or disagree
 - d. Disagree
 - e. Strongly disagree
 - f. Not sure
- 8. For most mining companies, the social development program is implemented because of: (choose the most relevant)**
 - a. Legal requirement
 - b. Company policy
 - c. Local community demand
 - d. Civil society demand
 - e. Media pressure
 - f. Other

III. MAPPING QUESTIONS FOR SHARED VALUE EXPECTATION

9. In your opinion, operating licenses should be issued to the mining companies, (only after) which put critical social issues such as poverty, unemployment, health, and education into their consideration?

- a. Agree
- b. Somewhat agree
- c. Neither agree or disagree
- d. Disagree
- e. Strongly disagree
- f. Other _____

10. In your opinion, how much priority should mining companies put on these issues: providing local employment, supporting local business development and incorporating in supply chain?

- a. High priority
- b. Somewhat priority
- c. It is up to companies
- d. Low priority
- e. No priority at all

11. Should mining companies have a designated budget for providing donations and charities (despite natural and man-made disasters)?

- a. Definitely
- b. Somewhat
- c. Not sure
- d. Not really
- e. Definitely not

12. Why is the incorporation of products from local vendors into the supply chain important for the company? Chose the most relevant

- a. CSR
- b. Long-term competition
- c. Reputation
- d. Legal requirement
- e. Civil society demand

13. Do you consider the education and training of employees as the part of the CSR or only benefit for the long-term competitiveness of the company?

- a. CSR
- b. Long-term competitiveness
- c. Neither CSR nor long term strategy
- d. Both
- e. Other

14. Do you consider the education and training of local communities as the part of the CSR or only benefit for the long-term competitiveness of the company?

- a. CSR
- b. Long-term competitiveness
- c. Neither CSR nor long term strategy
- d. Both
- e. Other

15. In the future, mining companies should (choose most relevant):

- a. Collaborate with donation-dependent civil society organizations to embrace social responsibilities
- b. Collaborate with the government only to solve mining-related social issues
- c. Collaborate with both, civil society and the government to resolve social issues
- d. Not sure
- e. Your comment if any

16. When making decisions about local education policy: (Choose most relevant)

- a. Local government decide with NGO input, companies provide budget
- b. Tripartite collaboration to determine strategic needs, then join investment
- c. Central government sets national plan, provides budget.

17. In local public health policy decisions(Choose most relevant)

- a. Local government decide with NGO input, companies provide budget
- b. Tripartite collaboration to determine strategic needs, then join investment
- c. Central government sets national plan, provides budget.

IV. CLOSING QUESTION

18. In your opinion, Mongolian mining policies(choose one):

- a. Need major reforms
- b. Address basic demand, need some improvements
- c. Are sound and do not require any reforms
- d. Your suggestions _____

V. BACKGROUND QUESTIONS

19. You work for:

- a. Government
- b. civil society/NGO
- c. Mining industry

Appendix B: Survey results

Question 1	Choices	NGOs	Gov. Officials	Company	Total
What impact does the mining industry have on Mongolia's development in the past?	Very good	0	2	3	5
	Positive	12	20	30	62
	No impact		4	6	10
	Negative	12	5	1	18
	Very bad	3	0	0	3
	Total	27	31	40	98

Question 2	Choices	NGOs	Gov. Officials	Company	Total
If you answered 'negative', what are key negative impacts of mining?	Disruption of Nomadic lifestyle	4	2	0	6
	No local development	3	1	3	7
	Poor regulation	1	2	5	8
	Corruption	1	7	6	14
	Environmental pollution	11	11	8	30
	Other	4	4	16	24
	Total	24	27	38	89

Question 3	Choices	NGOs	Gov. Officials	Company	Total
How did civil society/grassroots movements impact mining development in Mongolia?	Positive	0	2	3	5
	Somewhat Positive	13	17	19	49
	No impact	4	6	9	19
	Negative	4	5	6	15
	Very negative	6	1	3	10
	Total	27	31	40	98

Question 4	Choices	NGOs	Gov. Officials	Company	Total
Besides paying duties such as taxes and royalties, mining companies can do more to improve governance,	Definitely	13	15	22	50
	Somewhat	12	12	16	40
	Not really	2	0	0	2

education and supporting businesses in communities?	Do not know	0	4	2	6
	Total	27	31	40	98

Question 5	Choices	NGOs	Gov. Officials	Company	Total
Do you agree that mining companies, the government of Mongolia and the civil society cooperate productively to support country's development?	Agree	1	1	3	5
	Somewhat agree	8	18	23	49
	Strongly disagree	14	6	6	26
	Do not know	4	5	8	17
	Total	27	30	40	98

Question 6	Choices	NGOs	Gov. Officials	Company	Total
What are main concerns of mining companies in Mongolia?	Profit only	17	24	13	54
	Local development (employment, supply, infrastructure)	2	4	16	22
	Solving social and environmental problems	3	2	4	9
	Funding projects those provide mutual benefits	4	1	2	7
	Other	1		5	6
	Total	27	31	40	98

Question 7	Choices	NGOs	Gov. Officials	Company	Total
Would you agree that until now, mining companies only implement social projects, which gained the most support by the government and the	Agree	9	13	7	29
	Somewhat agree	10	13	24	47
	Disagree	5	4	9	18
	Do not know	3	1	0	4

civil society by not considering the sustainability of the projects?					
	Total	27	31	40	98

Question 8	Choices	NGOs	Gov. Officials	Company	Total
For most mining companies, the social development program is implemented because of: (choose the most relevant)	Legal requirement	4	13	10	27
	Company policy	2	5	16	23
	Local communities' demand	9	7	9	25
	Civil society demand	8	4	2	14
	Media pressure	4	1	1	6
	Other	0	1	2	3
	Total	27	31	40	98

Question 9	Choices	NGOs	Gov. Officials	Company	Total
In your opinion, operational licenses should be issued to the mining companies, (only after) they considered critical social issues such as poverty, unemployment, health, and education?	Agree	16	22	17	55
	Somewhat agree	7	8	16	31
	Strongly disagree	1	0	5	6
	Do not know	3	0	2	5
	Total	27	30	40	97

Question 10	Choices	NGOs	Gov. Officials	Company	Total
In your opinion, how much priority should mining companies put on these issues: providing local employment, supporting local business development and incorporating in	It is up to companies	1	0	0	1
	No priority at all	1	0	3	4
	Low priority	4	1	2	7
	Somewhat priority	7	9	15	31
	High priority	14	21	20	55
	Total	27	31	40	98

supply chain?					
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Question 11	Choices	NGOs	Gov. Officials	Company	Total
Should mining companies have a designated budget for providing donations and charities?	Definitely	7	13	12	32
	Somewhat	9	10	18	37
	Not sure	8	7	8	23
	Not really	3	1	2	6
	Total	27	31	40	98

Question 12	Choices	NGOs	Gov. Officials	Company	Total
Why is the incorporation of products from local vendors into the supply chain important for the company? Choose the most relevant	Civil society demand	3	2	2	7
	Legal requirement	3	2	1	6
	Reputation	6	7	6	19
	Long-term competition	4	4	6	14
	CSR	11	15	25	51
	Total	27	30	40	97

Question 13	Choices	NGOs	Gov. Officials	Company	Total
Do you consider the education and training of employees as the part of the CSR or only benefit for the long-term competitiveness of the company?	CSR	4	7	12	23
	Long-term competitiveness	15	14	19	48
	Neither CSR nor Long-term strategy	2	0	1	3
	Both	6	10	8	24
	Total	27	31	40	98

Question 14	Choices	NGOs	Gov.	Company	Total
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			Officials		
Do you consider the education and training of local communities as part of the CSR or only as a benefit for the long-term competitiveness of the company?	CSR	14	14	17	45
	Long-term competitiveness	5	6	12	23
	Neither CSR nor Long-term strategy	1	3	3	7
	Both	7	8	8	23
	Total	27	31	40	98
Question 15	Choices	NGOs	Gov. Officials	Company	Total
In the future, mining companies should (choose most relevant):	Collaborate with donation-dependent civil society organizations to embrace social responsibilities	7	3	4	11
	Collaborate with the government only to solve mining-related social issues	3	0	6	12
	Collaborate with both, civil society and the government to resolve social issues	17	27	28	72
	Do not know	0	1	2	3
	Total	27	31	40	98

Question 16	Choices	NGOs	Gov. Officials	Company	Total
When making decisions about local education policy (Choose most relevant):	Central government sets national plan, provides budget	6	4	10	20
	Tripartite collaboration to determine strategic needs, then join investment	12	19	28	59

	Local government decide with NGO input, companies provide budget	9	8	2	19
	Total	27	31	40	98

Question 17	Choices	NGOs	Gov. Officials	Company	Total
When making investment in local health, mining companies should (Choose most relevant):	Central government sets national plan, provides budget	6	3	12	21
	Tripartite collaboration to determine strategic needs, then join investment	13	17	23	53
	Local government decide with NGO input, companies provide budget	8	11	5	24
	Total	27	31	40	98

Question 18	Choices	NGOs	Gov. Officials	Company	Total
In your opinion, Mongolian mining policies (Choose most relevant):	Need major reforms	10	11	11	32
	Address basic demand, need some improvements	15	19	26	60
	Are sound and do not require any reforms	2	1	3	6
	Total	27	31	40	98

Question 19	NGOs	Government	Company	Total
You work for:	27	31	40	98