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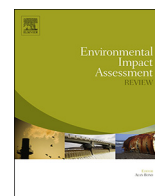
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## How a large project was halted by the lack of a social Licence to operate: Testing the applicability of the Thomson and Boutilier model



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### ABSTRACT

We explore why having a Social Licence to Operate (SLO) is essential for large projects. We analyse the Khudoni Hydroelectric Power Plant in the Svaneti region of Georgia, which was halted in 2013 after much social protest. We assess why the project lacked a SLO and what lessons can be learnt from this experience. Using the Thomson and Boutilier model of SLO as our analytical framework, we elaborate its key elements – legitimacy, credibility and trust – in the context of dam and hydropower projects and assess where the Khudoni project failed. We conclude that the project lacked legitimacy, with local communities not seeing any social justification for the project. The credibility of the project and proponent was weak amongst the local population, and trust was absent at all phases of the project. We conclude that the concept of social licence to operate has the potential to encourage project proponents to consider and implement activities which will lead to better outcomes for all parties. We believe there is a strong business case for companies to take the concept seriously. Improving social performance will assist projects in gaining a social licence to operate and grow.

### 1. Introduction

The planning and construction of large infrastructure typically leads to many social impacts (Vanclay, 2002; Vanclay et al., 2015; Esteves et al., 2017). One significant consequence (and cause of ongoing social impacts) is involuntary resettlement, a ‘totalizing experience’ that can be characterized as ‘one of the most acute expressions of powerlessness because it constitutes a loss of control over one’s physical space’ (Oliver-Smith, 2002: 6). Much development-induced resettlement is due to the construction of large dams (Scudder, 2005; Moore et al., 2010). Dam-induced resettlement is especially problematic because of the number of dams being constructed around the world, the vast scale of many of these dams, and the large numbers of people affected (Terminski, 2015). There is also much evidence that dam-induced resettlement causes the impoverishment of displaced people (Cernea, 1997). Scudder (2005, 2011), for example, examined 50 large dam projects and, in the vast majority of cases, people were worse off as a result of being resettled. The World Commission on Dams (World Commission on Dams, 2000) concluded that dam projects have imposed an unfair burden on large numbers of people, who typically have no say in decision making. However, the WCD considered that this inequitable distribution of risks and benefits was avoidable. Nevertheless, international guidelines together with the national regulations in many countries around the

world are currently not adequate to ensure that the needs and interests of affected people are properly considered. A special issue of *Water Alternatives* published 10 years after the WCD report resoundingly concluded that little progress had been made and all the issues remained (Moore et al., 2010). Clearly, mechanisms to address the many complicated and sensitive issues that arise in resettlement have either not been developed or are not effectively implemented (McDonald-Wilmsen and Webber, 2010; Vanclay, 2017a, 2017b).

Some writers have argued that the negative outcomes from dam-induced resettlement need not and should not occur, and that there needs to be a new paradigm about how resettlement is done and how development projects are implemented (de Wet, 2001; Scudder, 2005; Mathur, 2011; Perera, 2014; Vanclay, 2017a; Cernea and Maldonado, 2018). We argue that the concept of Social Licence to Operate (SLO) can be the basis of this new paradigm. We illustrate this by using the SLO concept to explain why the construction of a large Hydroelectric Power Plant (HPP) in Georgia faltered. We advocate that, if the developers of HPPs and other large projects took the need to obtain a SLO seriously (i.e. apply a new paradigm based around the need for SLO), this would help them achieve better outcomes for affected communities and their projects.

Since coming into use in the late 1990s (Moore, 1996; Cooney, 2017), the concept of SLO has evolved, and is now much discussed in

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academia, industry and management circles (Prno, 2013; Boutilier, 2014; Jijelava and Vanclay, 2014a; Moffat and Zhang, 2014; Morrison, 2014; Parsons et al., 2014; Hall et al., 2015; Moffat et al., 2016; Smits et al., 2017). Although there are various competing models (Zhang et al., 2015, 2018; Lacey et al., 2017; Wright and Bice, 2017), and notwithstanding that SLO is intended to be a metaphor (Prno and Slocombe, 2012; Bice, 2014; Bice and Moffat, 2014), the basic idea is that SLO is a continuum on which a number of levels can be identified, for example: *withheld*, when there is no support for the project; *acceptance*, when local communities are not actively opposed to a project; *approval*, when local communities view a project positively; and *psychological identification*, when local communities strongly support and welcome a project (Thomson and Boutilier, 2011; Parsons and Moffat, 2014; Jijelava and Vanclay, 2017). SLO is often described as being an implicit social contract between a project and its host communities (Bice, 2014; Lacey and Lamont, 2014; Demuijnck and Fasterling, 2016; Lacey et al., 2016). Advocates of the concept argue that project proponents should incorporate SLO into their thinking and practice. Doing so would help proponents achieve public approval for their activities, and generate value for their business through all business drivers, such as: improved reputation; revenue growth and access to markets; cost savings and productivity; access to capital; improved risk management; and access to human capital (Esteves and Vanclay, 2009; Esteves et al., 2012; Vanclay et al., 2015). It would also contribute to minimising harm to neighbouring communities. The main criticisms of the concept are that it is vague, hard to measure, and that it is understood and used differently by industry, academics, local communities and other stakeholders (Harvey and Bice, 2014; Moffat et al., 2016). SLO is also considered by some to be a concept that has emerged only as a response to community opposition to projects, and is used with the intention of constraining debate on the underlying issues (Owen and Kemp, 2013; Meesters and Behagel, 2017). Others consider that the lack of a SLO does not necessarily mean that the project is not feasible and/or can not proceed and thus it lacks power or agency (Owen, 2016; c.f. Ehrnstrom-Fuentes and Kroger, 2017). Despite these criticisms, we consider that the concept has much value, which we demonstrate in this paper.

We apply the concept of SLO to the Khudoni Hydroelectric Power Plant in Georgia. This project originally commenced in the late 1970s, but slowed to a stop in the late 1980s with the decline and eventual collapse of the Soviet Union in 1991. Planning recommenced in the 2000s, with an implementation agreement being signed with Trans Electrica in 2009. However, the project was halted in 2013 due to strong opposition from the local community. We use the model of SLO developed by Thomson and Boutilier (2011) as our analytical framework to consider what happened in the Khudoni HPP case. The Thomson and Boutilier model provides a way to assess where the Khudoni HPP project is positioned on the SLO continuum and to consider what specific actions and circumstances led to this positioning. By extrapolating from this case to other large projects, in our conclusion we consider what should be done to make projects more acceptable to local communities.

## 2. The Thomson & Boutilier model of social Licence to operate

Although there is a burgeoning literature on SLO, we base our understanding of SLO on the model developed by Thomson and Boutilier (2011), which provides a holistic conceptual framework for understanding SLO. Although highly cited and a model with much appeal and face validity, it has not been extensively tested. The Thomson and Boutilier model was explicated further by Jijelava and Vanclay (2017), who provided an operationalization of the model's underlying concepts, legitimacy, credibility and trust. Thomson and Boutilier provided an analytical framework in which SLO is conceived as a continuum (or pyramid) with four levels (see Fig. 1). The bottom level is either where SLO was never given (i.e. *withheld*) or where it was *withdrawn*. This lack of SLO is evident where local communities openly criticise the project,

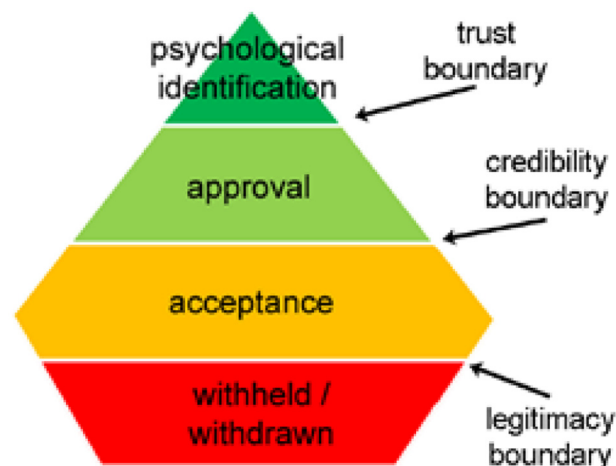


Fig. 1. The Social Licence to Operate Continuum.  
Source: Thomson and Boutilier (2011), used with permission.

for example through one of the many forms of protest (Hanna et al., 2016a). The *acceptance* level is achieved when a project convinces a local community of its legitimacy. This includes not only legal and administrative legitimacy, i.e. adherence to national legislation, but also economic and social legitimacy, meaning that people should be convinced that there will be adequate compensation and that supporting the project is the right thing to do. The *approval* level requires that projects gain credibility from a local community. Credibility is achieved by the company providing true, clear and believable information, and delivering on commitments made. The highest level of SLO is *psychological identification* (or 'ownership' as in an earlier version of the model). In order for a local community to identify with a project, there must be a high level of trust, a strong relationship must have developed between the project proponent and the local communities, and they need to perceive each other as partners with shared interests. Drawing on the explication provided by Jijelava and Vanclay (2017), below we explore the three key factors underpinning SLO in the Thomson and Boutilier model – legitimacy, credibility and trust – to the Khudoni HPP in Georgia.

### 2.1. Legitimacy

For a project to achieve acceptance from the local community, its legitimacy has to be established in legal/administrative, economic and social terms. Legal/administrative legitimacy relates to the perception by the local community that there is sufficient justification for the project (i.e. that it is needed) and that all relevant administrative procedures have been conducted in a fair and reasonable manner. This may go beyond the requirements defined in national law. Economic legitimacy means that the project must be justified in economic terms to the local community, and that, for example, any compensation must be adequate for the people being resettled. Social legitimacy relates to the perceptions of local people on issues such as whether the project is good for their wellbeing, whether it respects local ways of life, whether alternatives have been fully explored and explained to the local community, whether affected people have had a say and their views adequately considered, and whether they feel they have been treated fairly and reasonably. To ensure the legal/administrative legitimacy of SLO in the eyes of local communities, project proponents should demonstrate that they know of and have a good record of adhering to (and preferably exceeding) national and international standards. Where a proponent is a relatively unknown company, the local community will likely have concerns about various issues and suspicions that their rights will not be protected.

The economic legitimacy of large dams is largely related to the

economic situation of the affected people before and after the project (Cernea, 2003). It is also related to the overall financial feasibility of the project (World Commission on Dams, 2000). The varied risks of impoverishment faced by people being resettled are significant (Cernea, 1997; de Wet, 2001; Scudder, 2005). Usually, a national legal system has established procedures and compensation mechanisms, however, too often these are inadequate for assessing the true value of affected people's assets, such as their land, buildings and crops, and they fail to avoid harm being created (Hanna et al., 2014; Vanclay, 2017a; van der Ploeg and Vanclay, 2018). This is especially true in countries where there is relatively little experience with large infrastructure projects (Wood, 2003; Ogwang et al., 2018).

Large infrastructure projects are typically financed by one or more of the various international financial institutions (IFIs), including: the World Bank (WB); the International Finance Corporation (IFC); the Asian Development Bank (ADB); the Asian Infrastructure Investment Bank (AIIB); the European Bank for Reconstruction and Development (EBRD); the European Investment Bank (EIB); the New Development Bank (NDB); and others. Project implementers borrowing from an IFI are required to comply with the specific standards and requirements of that bank, which are relatively similar, although there are minor differences. Furthermore, even where projects are financed by commercial banks, the same basic environmental and social standards tend to be applied, especially where the bank is a signatory to the Equator Principles (Vanclay, 2017a). The international standards unequivocally require that the resettlement should aim at 'improving or at least restoring' the living conditions of the impacted people. Moreover, it is encouraged that resettlement projects be treated as development projects in their own right (Vanclay, 2017a). The World Bank's Operational Policy (OP) 4.12 (originally dating from 2001, current version 2013), which had been voluntarily adopted by the Khudoni project developers — as well as the World Bank's Environmental and Social Standard 5 which replaces OP4.12 — stipulate that resettlement should be undertaken as a form of sustainable development and that the displaced people should share in project benefits (World Bank, 2013, 2017). The international standards have been evolving over time. They are especially important for projects where national legislation doesn't provide adequate safeguards to protect the affected population (Smyth and Vanclay, 2017). The focus in resettlement practice has now shifted towards ensuring improvement in the living conditions of people to be resettled (and their host communities), rather than accepting that some people can be losers from a project simply because it is in the national interest (Perera, 2014; Vanclay, 2017a).

Social legitimacy is also important when considering large infrastructure projects. Affected communities should have full access to all relevant information about the project. Where a project entails resettling a few people in order to achieve benefits for the wider public, affected people will likely see themselves as being sacrificed for the greater good. Although some people might cooperate, a proponent will need to make a strong case that the positives outweigh the negatives, not only for the affected people (which would comprise economic legitimacy), but also for the wider public. The IFI standards urge project proponents to avoid resettlement if at all possible (IFC, 2012; World Bank, 2013). Where unavoidable, the extent of resettlement and associated impacts should be minimized. This emphasises the importance of thoroughly exploring project alternatives and giving more weight to alternatives that are acceptable to local inhabitants.

In order for a proponent to pass the legitimacy threshold of the SLO framework, they must have: established why their project is important (legal, economic and social legitimacy); clarity about the benefits to local communities (economic and social legitimacy); and an assessment demonstrating that the positive impacts clearly outweigh negative impacts (social legitimacy). It also helps to have a recognisable name with a good reputation, fully adhere to standards that ensure effective stakeholder engagement, enact appropriate transparency and accountability procedures, and allow time to build relations with communities,

including by having ongoing representatives on the ground and being active in addressing local community issues, which will likely go beyond the narrowly-defined goals and objectives of the project (Esteves and Vanclay, 2009).

## 2.2. Credibility

To achieve the approval level from a local community, a proponent needs to establish its credibility. Credibility is achieved by consistently providing true, clear and believable information. Three components of credibility can be identified – public perceptions of: (1) the company's commitment to social performance; (2) the level of technical competence the company has to deliver on promises made; and (3) the company's understanding of and respect for the local context (Wilson, 2016).

The first component of credibility, the project's commitment to social performance, was strongly emphasized in the World Commission on Dams (2000) report. The WCD was established in 1998 to address escalating controversies surrounding large dams. The WCD report concluded that dams are important for development, but also that the many negative impacts imposed on local populations could and should be avoided. The report outlined seven strategic priorities for dam proponents and dam governance: (1) gaining public acceptance; (2) undertaking a comprehensive options assessment; (3) addressing existing dams; (4) sustaining rivers and livelihoods; (5) recognising entitlements and sharing benefits; (6) ensuring compliance; and (7) sharing rivers for peace, development and security (World Commission on Dams, 2000). The importance of commitment to social performance was also emphasized in Scudder's (2005) analysis of 50 large dam projects involving resettlement. Scudder argued that a failure to provide real opportunities to improve living standards and insufficient funding were significant factors leading to the impoverishment of resettled communities.

The second component of credibility, the project's technical expertise, is also widely discussed in the literature on dam-induced displacement and resettlement. The seven strategic priorities of the WCD (World Commission on Dams, 2000) underscore the importance of technical expertise – e.g. the second principle urges better management of existing dams before constructing new dams, and the sixth principle calls for ensuring compliance with commitments made at project commencement. Without adequate technical expertise, it can be difficult for projects to fulfil the commitments and promises made. Resettlement is problematic because it is highly complex and rarely planned well (Turton, 2006; Reddy et al., 2015; Owen and Kemp, 2016; Vanclay, 2017a). Restoring, let alone improving, pre-resettlement conditions is typically more difficult than anticipated (Scudder, 2005; Mathur, 2006; Price, 2009; Satiroglu and Choi, 2015; Hanna et al., 2016b; van der Ploeg and Vanclay, 2018). The impoverishment arising from project-induced resettlement highlights the lack of resettlement expertise and experience amongst project staff and the lack of political will by governments and project authorities to follow through on resettlement plans and promises.

The third component of credibility is the extent of the project's understanding of and respect for the local context. IFI standards and the academic literature emphasise the importance of meaningful public participation and involving local representatives in decision-making processes (Scudder, 2005; IFC, 2009, 2012; World Bank, 2013; World Bank Inspection Panel, 2016; Smyth and Vanclay, 2017). Moreover, when designing compensation schemes, the objective should be not only full restoration of material conditions, but also to take into account the non-material, social dynamics (Scudder, 2005; Reddy et al., 2015; Terminski, 2015; Smyth and Vanclay, 2017). The places to which people will be relocated should be adequate, not only in terms of infrastructure, economic opportunities and environment, but also in terms of strengthening social capital (Vanclay, 2017a; van der Ploeg et al., 2017). Given the high risks to basic human rights during resettlement, van der Ploeg and Vanclay (2017a, 2017b) outline a human

rights based approach to resettlement. Project proponents should be able to demonstrate they are aware of and understand human rights and how to respect them (United Nations, 2007, 2011). It is especially important to protect Indigenous peoples, vulnerable groups and other subgroups whose identities and aspirations may be distinct from mainstream society (World Bank, 2017). International standards have been giving increasing attention to such groups, especially with the concept of Free, Prior and Informed Consent (FPIC) (Hanna and Vanclay, 2013; Rodhouse and Vanclay, 2016).

In short, to gain credibility, project proponents must be clear from the beginning about what is going to happen, how it will affect the local community, and what mitigation measures, including development opportunities, will be implemented to understand and address the issues created by the project. The local population must be involved at all project stages. The proponent must clearly demonstrate understanding and respect towards local culture and local people.

### 2.3. Trust (trustworthiness)

What Thomson and Boutilier (2011) call trust, but by being a property of a project or company perhaps could be considered as trustworthiness, leads to the highest level of SLO, psychological identification (or co-ownership as it was previously labelled). In order for trust/trustworthiness to occur, there has to be a long-term relationship in which local communities and the project proponent consider each other as partners. Trustworthiness will not arise if there is not a high degree of legitimacy and credibility. Trust is developed through the quality of interaction between proponent and local communities, rather than the quantity of interaction (Moffat and Zhang, 2014). Unfortunately, proponents often rely only on public meetings for their community engagement, even though these events are of limited value (Hartz-Karp and Pope, 2011). Genuine trust building requires (amongst other things) that representatives of the local communities be actively involved in decision-making and monitoring (Dare et al., 2014). Where there is trust, the local community and proponent will consider themselves to be on the same side. This perception of being on the same side is especially important for large dam projects, where often hundreds of families have to be resettled. Because of the uncertainty about how families will cope with their new life, and increasing evidence that resettled families end up worse off (Vanclay, 2017a), there needs to be a high level of trust at the commencement of the project, otherwise even minor issues will create nuisance, annoyance, and increase the risk of social impacts, leading to protest and disruption (Tilt et al., 2009; Hanna et al., 2016a).

The development of trust requires understanding and acknowledging that there are different groups in a community, and addressing their differing concerns and interests. Thus, a proponent should not simply seek one universal SLO, rather they need to accommodate the diverse views of the multiple groups (Vanclay, 2012; Dare et al., 2014; Jijelava and Vanclay, 2014b). Particular attention has to be paid to vulnerable groups in local communities, such as people with disabilities, elderly and women, and Indigenous peoples (van der Ploeg and Vanclay, 2017b).

Trust is hard to obtain and once damaged it is even harder to rebuild. In the case of Hydro-Quebec in Canada, it took more than 30 years to establish adequate relations with the Indigenous Cree peoples, who had traditionally been living where a HPP was planned (Papillon and Rodon, 2017). In the 1970s, the relationship was so poor that some Cree community members swore never to allow the construction of the HPP, and there were numerous protests and conflicts with Hydro-Quebec (Niezen, 2016). Hydro-Quebec had to demonstrate they could genuinely listen and work with local communities, and that they were willing to include community representatives in real decision-making processes allowing the communities to have a strong say on company plans and activities. Moreover, Hydro-Quebec had to treat the Cree as partners, implementing a benefit-sharing program with a

percentage share of profit going to the Cree, and enabling them to substantially benefit from the project by providing training and work programs (Grand Council of the Crees, 2013). Over time, rather than posing a risk, the project became associated not only with development and prosperity, but also with respect for Cree culture and traditional ways of living, and with enabling the Cree to flourish into the future.

### 3. Methods used to study the KHUDONI hydroelectric power plant project

To test the SLO model provided by Thomson and Boutilier, we considered the Khudoni HPP in Georgia. Using the Thomson and Boutilier model as our analytical framework, we used a case study methodology (Tellis, 1997) in a manner similar to which it is typically applied in social impact assessment research (Becker, 1997; Taylor et al., 2004). Specific social research methods used included document analysis, in-depth interviews with key informants, and an analysis of information about the case in the various forms of mass media (newspapers, TV and internet). The social research concept of triangulation was applied (Becker, 1997).

For the document analysis, we analysed all publicly-available materials relating to the Khudoni HPP, including the Environmental and Social Impact Assessment (ESIA), a scoping document, various NGO statements and reports, and a review of the ESIA by the Netherlands Commission on Environmental Assessment (NCEA, 2013). Unfortunately, the Resettlement Action Plan (RAP) was not publicly available. Most of these key documents were in English.

The lead author conducted interviews in the Georgian language with key stakeholders. Interviews with Tbilisi-based stakeholders were conducted in 2016 and 2017, including with the authors of the ESIA and the RAP, representatives of the project developer, the Georgian Ministry of Energy, the Georgian Ministry of Environment and Natural Resources, and watchdog NGOs – Green Alternative and the Caucasus Environmental NGO Network (CENN). The specific interviewees were selected by identifying the key stakeholder groups and then determining which representative(s) in each group were most appropriate and/or knowledgeable about the project. The main objective of the interviews was to gain a comprehensive understanding of the history and current situation, as well as an assessment of the attitudes of the advocates and opponents of the project. The interviews clarified and/or validated the information which had been collected from project documents and the internet. Consistent with SIA methodology (Baines et al., 2013), given the conflict context of this particular project, it was not appropriate to record interviews, and therefore extensive notes were taken (in Georgian language) during the interviews. We used a narrative analysis approach (Ezzy, 2002) for analysing the data. Interview and observation notes were sorted based on their relation to the topic and reflected upon in the context of SLO. The analysis was done in Georgian, but some key points were translated in English for the paper. An interview with the Dutch author of the NCEA review was done in English via skype in October 2017.

In April 2017, the lead author visited New Khaishi in Southern Georgia, the place to which some affected people were resettled to during the 1980s. A snowball process was used to identify those people who had been resettled there. In 2017, only about 20 people from the 80 households who had been resettled remained in New Khaishi, with the other people who had been resettled having relocated back to their original home. Five people agreed to talk about the project and their personal experiences. In July 2017, the lead author visited the original Khaishi village in Svaneti region, where the Khudoni HPP was supposed to be constructed. Discussions with local residents led to an in-depth interview with a local government representative. He provided information about the project and the views of the local population, and took the lead author on a tour of significant sites, including the local church, cemetery and a nearby hill overlooking the construction site and area at risk of inundation. Extensive handwritten fieldnotes were

made during these visits.

Interviewees preferred not to sign consent sheets, primarily because of the politically-charged context of the project, but also because there was not a cultural understanding of these forms and a dislike of bureaucratic procedure. In contested project situations, there is frequently a reluctance of people to sign documents (Baines et al., 2013). Nevertheless, although the use of signed consent sheets was not appropriate in this context, the general principle of informed consent and other ethical social research principles were observed (Vanclay et al., 2013).

We also watched and analysed numerous TV programs and news stories about the project, especially those which included interviews with the local population. Most of these programs were recorded between 2012 and 2013, when the protest peaked. A key source was the Georgian Public Broadcaster's program, *Realuri Sivrtse* (Real Space), which took the form of a critical discussion between interested stakeholders, including academics, government representatives, NGO spokespersons, and experts (GPB, 2013). The heated arguments and rebuttals revealed the positions of the various stakeholders. Another video (available on YouTube) was a story produced by students of the Georgian Institute of Public Affairs (GIPA, 2012). It was useful for understanding the local context and hearing the views of the local population.

At various times in 2016 and 2017, we did internet searches using the Georgian and English words for 'Khudoni', 'Khaishi', 'protests in Svaneti', 'hydroelectric power plant in Svaneti' and other relevant terms. This resulted in many postings being identified, mostly dated between 2012 and 2013 when dam construction was intended to commence and when the local population organised a number of protest rallies. We reviewed these online stories recording the key points. This yielded an understanding of how the Khudoni HPP has been reported in the Georgian media, and an indication of broader perceptions and opinions about it.

#### 4. Background information about the KHUDONI hydroelectric power plant project

##### 4.1. Technical details about the project

The Khudoni HPP was intended to be located on the Enguri River near the village of Khaishi in the upper Svaneti region of north-west Georgia (see Fig. 2). It was originally intended to have a 200 m high dam wall, with a maximum generation capacity of 700 MW, and an annual generation of 1500 million kWh. The reservoir was expected to

contain 345 million cubic metres of water, having a surface area of 528 ha.

The Enguri River already had a large HPP (the 1100 MW Enguri HPP) downstream from the Khudoni site, which was constructed by the Soviet Union during the 1950s. At that time, additional HPPs were planned to fully utilize the river's hydropower potential. In 1978, the Soviet authorities decided to proceed with building the Khudoni HPP. During the 1980s, the Soviet government built a new settlement (which was also called Khaishi) in southern Georgia (about 500 kms away) and started to resettle people out of Khaishi. When the Soviet Union collapsed in 1991, about 80 of the 200 households in Khaishi had been moved.

In the 10 years following independence in 1991, Georgia had to deal with several wars, severe economic problems, and internal displacement issues (Mitchell, 2009; Wheatley, 2017). This upheaval meant that work on the Khudoni HPP stopped, without any measures being taken to protect work done to date. Thus, within a few years, the construction work done by the Soviet government on various buildings, river diversion and other tunnels, the cofferdam, the underground powerhouse, and the left abutment, all fell into disrepair (NCEA, 2013). The 80 households who had been resettled found it difficult to remain in the new village, since promised infrastructure had not been completed and essential services were lacking. Some 50 households returned to their original houses in Khaishi. Many just abandoned the houses provided to them by the Soviet government, although a few managed to sell the houses for small amounts mostly to Internally Displaced Persons who had fled the Abkhazia war.

When the Saakashvili government came to power in Georgia following the Rose Revolution in 2003, talks about the Khudoni HPP resumed. The Saakashvili government implemented radical reforms to secure swift economic development and to make Georgia attractive for foreign investment. It viewed energy as an essential component of this strategy and thought that recommencement of the Khudoni project could be easily achieved. According to a CEE Bankwatch Network (2015) factsheet on the dam, the Government of Georgia signed a MoU to initiate the project in 2007 with Continental Energy Limited (which later became Trans Electrica), a company first registered in 2006 in Belize. The unclear ownership structure of this and other companies associated with this project has led to many concerns from watchdog organisations, especially because it is not easy to identify the individuals involved and thus ensure transparency and accountability (CEE Bankwatch Network, 2015).

Between 2005 and 2007, the USAID and the World Bank funded



Fig. 2. Map of Georgia with the original Khaishi village and relocation site marked by red crosses. (For interpretation of the references to colour in this figure legend, the reader is referred to the web version of this article.)

Source: Adapted from Wikipedia.

various consultancy studies to assess the technical, economic, environmental and social feasibility of the Khudoni HPP. Their reports had mixed conclusions, suggesting that the project could be feasible, but indicating that there were many issues to address. In 2009, a further agreement between the government and the proponent articulated the precise terms of the project, including that it would be on a Build-Own-Operate basis, and that the proponent would be required to make staged payments to the Government of Georgia totalling nearly USD 4 million. It was estimated that the project would cost the proponent in the vicinity of USD 700 million and would take 60 months to construct. In 2011, the government signed an agreement with a consortium involving Trans Electrica International (formerly Continental Energy International Limited), Trans Electrica Georgia Limited, and a range of other parties. During 2012 and 2013, there was much protest against the project at local and national levels, and a national debate about the dam and related issues raged in the media (GIPA, 2012; GPB, 2013). With the change in government in October 2012 (to the Ivanishvili government), leading to a massive change in policy, there was a relatively-immediate moratorium imposed on the project, with an agreement on the pause signed with the proponent on 4 February 2013. However, despite the public protest, on 28 May 2013 the new Government approved the project on the same terms agreed to by the previous government (CEE Bankwatch Network, 2015) and public statements reconfirming Trans Electrica as the authorised developer were issued to signal the government's intention to persist with the dam. As at the time of completion of this paper (early 2018), no further developments on this project have occurred.

#### 4.2. The social context

Svaneti is a mountainous region of Georgia primarily inhabited by the Svan people, who have a distinct culture and tradition, and arguably qualify as being Indigenous, although this is highly complex in the Georgian context. The region is highly attractive, with much tourism potential. With 200 households, the village of Khaishi is a relatively large village and serves as the regional centre. It has a small hospital, school, and shops. Altogether, there are 14 settlements in the project area. If the project is to proceed, four villages – Khaishi, Gagma Khaishi, Dakari and Tobari – and some households at lower elevations of other villages would need to be resettled. Of particular concern is the village church and cemetery in Khaishi. At the time of our research (2017), the resettlement destination(s) were yet to be decided, although as the project is currently not likely to proceed in the short term, this is inconsequential. However, it was a major concern for the villagers previously, because of the uncertainty around their future.

Local people are very uncertain about their own future and the future of their villages. Talk about the project and stop-start actions have been going on for over 40 years, and it has never been clear what would happen in the future. Such uncertainty severely affects the life and wellbeing of local inhabitants and the community. For example, businesses are less inclined to invest or expand, and households refrain from making repairs, renovation or expansion. As a result, a cumulative social impact is that the region is now much less developed than it would have been if no project had been foreshadowed (Vanclay, 2002, 2012).

### 5. Examining the social LICENCE to operate of the KHUDONI hydroelectric power plant

#### 5.1. Examining the project's legitimacy

To understand the legitimacy aspect of the project's SLO, we explore three overarching issues. First, we assess whether the project's advocates and champions (including the government) presented an adequate social business case for the project: did they demonstrate that it was really necessary to build this HPP?; did they establish that the benefits outweighed the costs at the local and national levels?; and did

they clarify how the project fits into the overall development of Georgia's energy policy and the future of the Svaneti region? Second, we explore whether the proponent considered possible alternatives to the project through the following questions: would a smaller dam have been better?; would a different location have been possible?; would other sources of energy (e.g. windpower) have been more appropriate for Georgia? Third, we consider the process dimensions of the project: were people adequately informed and engaged in the project?

Statements from local NGOs (GYLA, 2013), international actors (NCEA, 2013), and the numerous protests from the local community clearly reveal that the legitimacy of the project was being questioned. There were no convincing answers to the key questions: *is this project necessary?*; and *who will benefit from the project?* Opponents to the project often pointed out that the electricity generated would be sold to Turkey where energy demand was increasing rapidly. They considered that, while this might enable the private investor to earn significant income, it would not bring any benefits to the local population or even to Georgia as a whole (Kochladze and Getiashvili, 2007; interviews with local population). According to Section 5.3 of the 2011 implementation agreement between Trans Electrica and the Government of Georgia, electricity generated during winter months would exclusively be for meeting internal demand in Georgia (Government of Georgia, 2011). This was not changed by the 2013 MoU. In the summer months when there would be excess electricity in the Georgian grid, the surplus could be exported to Turkey (interview with Kochladze and Getiashvili, 2007). However, the Deputy Minister of Energy, Iliia Eloshvili, stated in a 2014 interview that the government would renegotiate the deal so that all electricity would be first available to Georgian consumers and only any surplus could be sold to foreign markets (Netgazeti Online Newspaper, 2014). Nevertheless, the majority of the local population were not convinced that the benefits of the project outweighed the negative impacts for Svaneti or Georgia as a whole (GIPA, 2012; interviews with local population). Thus, while there has been some attempt at justification by the proponent, the arguments were not convincing to the local population.

Another contested issue relates to whether alternatives to a large dam were considered and whether the adverse impacts on people, especially displacement and resettlement, could be avoided or minimized. The NCEA (2013) report considered that the ESIA was seriously flawed given its limited discussion of alternatives. A key recommendation of the NCEA report was for the Georgian government to undertake a strategic environmental assessment of the energy sector in Georgia. It argued that understanding the bigger picture and considering a wider range of alternatives for national energy development would allow the government to make better decisions and have a more meaningful and open discussion with the public. The suggestion to conduct a Strategic Environmental and Social Assessment of the energy sector was implemented in 2014 as part of a World Bank loan to strengthen the country's energy system. However, at the time of completion of this paper (early 2018), the report had not yet been released.

One argument against the project used by the local population was that, if they were forced to leave their homes, other places in Svaneti would also become subject to further dam construction, leading to the desertion, despoliation and desolation of this historic and beautiful mountainous region. For the Svan people with their distinctive cultural identity and language, this was highly significant. For them, leaving the region would mean betraying their culture, history and tradition, which was seen as more important than all other issues associated with resettlement. Their struggle to stop the Khudoni Dam was seen as a last bastion fending-off potential other HPP construction projects in the region: 'if we concede now, it will mean that the whole Svaneti region will be lost' (interview with a local resident; also see GIPA, 2012). If the legitimacy level of SLO is to be achieved, future plans will need to be clearly explained to the local population, and their concerns about the future of the region will need to be addressed.

The legitimacy issue was exacerbated by the inadequacy of the

information provided by the proponent. The NCEA (2013: 8) report stated that ‘the communication with potentially affected people of the Khaishi community as well as the inhabitants of the upper Svaneti region has been incomplete and not transparent. Flaws in procedures for resettlement planning and lack of information has resulted in significant distrust of the population in government and investor’. Public meetings about the project were poorly advertised, especially at the early stages of the project. According to one NGO report, only inhabitants from 2 of the 17 villages knew about the public hearing in 2007 (Kochladze and Getiashvili, 2007; CEE Bankwatch Network, 2014). The company had a part-time representative in Khaishi during the project preparation phase, but no serious effort was made to establish a genuine community engagement program. The proponent did upload the ESIA and other relevant documents to their website, but these documents were not widely accessed because most local people did not have internet access. Furthermore, these documents were not user-friendly, easy-to-read documents that most people could comprehend.

The quality of the public consultations has raised concerns. One journalist (cited by Antidze, 2013: 50) said: although ‘the purpose of such meetings should be the public's involvement in the decision-making process, the company stated from the very beginning that all the decisions had already been made. In particular, they highlighted that the final design of the project was already selected and construction activities would start in April, 2012. How can anybody claim that the meeting running under this format is consultation with public?’. Other people interviewed by Antidze (2013) emphasized that the public hearings were solely top-down information provision, without any meaningful consultation or participatory engagement. This was a critical issue because participation in decision making is very important for the people of Upper Svaneti (Elizbarashvili et al., 2018).

When a project is implemented by a well-known company with an established record of successfully implementing similar projects elsewhere, people will likely think that its legitimacy is higher than a project run by an unknown or dodgy organisation. For example, BP, which has a relatively good reputation in Georgia (Jijelava and Vanclay, 2017), enjoyed some level of SLO from the commencement of their activities because people had a fairly clear idea about BP, its activities and reputation. Trans Electrica, however, was a different story, and its unclear ownership status raised many questions. Furthermore, it was perceived as having no experience in running similar projects. In a July 2015 briefing by a local NGO, some of the key concerns included the fact that the contracting company was registered offshore (British Virgin Islands), and the names of the owners and sources of financing had not been disclosed (Green Alternative, 2015).

### 5.2. Examining the project's credibility

Credibility in the SLO context means the perception of the local community about the company's fairness, transparency, and understanding of the local context. The proponent should clearly demonstrate its commitment to social performance. According to most people in Georgia and the assessments of local NGOs and the NCEA, there was little perception of fairness or transparency from the beginning of the Khudoni project. The mistrust became so great that when the asset valuers arrived as part of the resettlement process, they were hindered in their job by the local people. The ESIA, a document that is supposed to examine all social and environmental impacts, only partially addressed the social issues. For example, it omitted any discussion of informal economic activity (e.g. logging), an important livelihood activity for many people in the region. Furthermore, the ESIA did not adequately distinguish between the various impacts to be experienced by the different groups of people within the affected population (NCEA, 2013). Finally, because many people in the community do not use the internet regularly, access to the ESIA was limited.

In big projects, grievance redress mechanisms tend to be established

only when land acquisition starts, although good practice expects that they be established from the very beginning of a project (Vanclay et al., 2015). Having a grievance mechanism and addressing the specific needs of the local community would help proponents demonstrate fairness and transparency. However, in the Khudoni case, this did not happen, leading to doubts about fairness and transparency.

Commitment to social performance should be demonstrated by a good understanding of the local context. Although the Khudoni ESIA to some extent did consider site alternatives and how a significant cultural heritage site might be protected, it did not give adequate consideration to what was important to the local communities. In traditional Georgian villages, the church and cemetery are considered highly significant by local people, even though these sites do not qualify as heritage in national or international terms. If the dam is to proceed, for local people to approve the project, serious effort will need to be given to this issue. In resettlement practice worldwide, it is quite common that cemeteries and churches are relocated (Reddy et al., 2015).

Understanding the past experience of the local community is important. When the Soviet Union started to develop the dam in the 1980s, about a third of the people of Khaishi were resettled to the Southern part of Georgia, to a location that was culturally, ethnically and geographically very different. Basic services, including potable water, were not provided, making it difficult for the resettled people to get by. When the Soviet Union started to collapse and various large infrastructure projects under construction, including Khudoni HPP, were stopped irrespective of their state of completion, most people who had been resettled decided to go back to their original villages. Only about a quarter of the 80 households resettled for the Khudoni HPP remained in the new settlement. The rest sold their houses or abandoned them. This means that there is a risk of double-resettlement for significant proportion of the Khaishi population, which would be highly stressful for them.

The second dimension of credibility is demonstrating a high level of technical skill. This was problematic for the Khudoni project, with weaknesses revealed in many ways, at least from the community's perspective. From a social perspective, perhaps the most important information is the number of households to be relocated. However, this is not always easy to establish, and changes to project specifications may lead to changes in the number of people to be resettled (Reddy et al., 2015; van der Ploeg and Vanclay, 2018). However, from the community perspective, the varying numbers of people and households to be resettled between different documents did not give a sense of the project having credibility. This was exacerbated by awareness that the company did not have a record of developing similar projects elsewhere and that the government had not previously supervised such a large construction project. Such inexperience on all matters led to the local population having fears that, irrespective of any promises made, they could not be sure the promises would or could be kept.

### 5.3. Examining the project's trust

For trust to occur, a long-term relationship needs to be developed in which each side views itself and the other party as being part of the same team and a joint partner in the project. This means more than simply allowing the local population to participate in meetings, it requires enabling them to take part in decision-making. There was no attempt by the proponent to involve the Svan people. For trust to emerge, the relationship needs to be ongoing and long-term. Interacting with the local community only on an ad hoc basis to deal strictly with issues of conflict does not establish trust. A trusting relationship requires the proponent to demonstrate real commitment to the local community. Among other things, this could include opening a local office with local staff who are known and respected in the community.

Another aspect of gaining trust is that the engagement activities need to be tailored to the needs of the different stakeholder groups. It is never the case that there is just one SLO a company needs to obtain



from a single homogenous community, rather a SLO for each stakeholder group needs to be gained (Dare et al., 2014; Jijelava and Vanclay, 2014b; Vanclay, 2012). It takes time and effort to identify all the different groups and to work with each of them to gain their trust. This is especially the case with disadvantaged and vulnerable groups. According to the NCEA assessment, the ESIA did not differentiate the affected people according to the degree of impact from the project. Most ESIA data were collected from secondary sources at a municipality rather than village level, so it missed many details about agriculture, tourism, forestry, ecosystem services, and water use (NCEA, 2013).

One issue of great concern to the local community was that the government allegedly sold 1500 ha of land to the company for one dollar. This was to enable the company to progress building the dam and associated activities. Although this was part of a bigger financing arrangement, with the company paying the government a total of 4 million dollars, local people were not aware of the bigger picture and presumed foul play when it was reported the land had been sold for a pittance. They also felt they had not been consulted on this arrangement, and they were especially concerned because they had not even approved of the dam. Furthermore, the land parcels in question had contested tenure, with some local people having used portions of this land for generations, thus having a feeling they had ownership or use entitlements, if not actual rights. When this land was taken away from them and given to the company, they felt cheated.

From the start of the project, the narrative from the government and proponent was not that everybody was on the same side, rather that the project was essential for national development and therefore anybody who was against the project was opposing the idea of a strong, unified and independent Georgia. Some project advocates claimed that the vast majority of people knew the project was for the common good and that the subversive activities of the environmental NGOs undermined the project and the country.

## 6. Conclusion

Two main topics were considered in this research. First, why did the Khudoni hydroelectric power plant project fail to obtain a social licence to operate and what can be learned from this? Second, overall, is SLO, especially as conceived by Thomson and Boutilier (2011), a useful concept to apply to dam projects and other large projects in general?

Regarding the first question, it was evident that the legitimacy of the Khudoni HPP was never achieved. The need for the project was not properly established, especially from the perspective of the affected people. Although the government argued the project was important for the country's economy and for energy independence, the government failed to convince the affected communities and other stakeholders of this. To most people – not only in Svaneti but all across Georgia, as evidenced by the extent of protest against the project – the government's plans to flood large parts of Svaneti and demand that most people leave the region were manifestly not acceptable. Furthermore, the government appeared to be unwilling to discuss alternatives to a large dam or to publicly justify its decisions. Finally, people felt excluded from decision making processes and had to resort to radical forms of protest in order to have their points of view seriously considered. One rather unusual form of protest involved reviving an ancient religious tradition of swearing an oath to protect the region on an icon of St George (Voell, 2013).

Credibility was also problematic. With Trans Electrica being an unknown, obscure, opaque, foreign-registered company without any established record did not bolster the credibility of the project. Mention of the World Bank's OP4.12 did not assuage concerns about the technical capacity of the operator to implement a resettlement process even if people were to agree to be relocated. The mistrust was further exacerbated by the 40-year experience the community had with plans for a dam. Furthermore, once the agreement between the government and the company was signed, there seemed to be little interest by the

company in community engagement and no room for meaningful negotiation with the affected community. To enhance their credibility, project proponents must clearly demonstrate they are willing to and capable of adhering to internationally accepted standards.

Trust is the most difficult of the three levels of SLO, and can only be achieved over time. When past experience and initial positions are tense, taking shortcuts in engagement processes will almost certainly lead to failure, as happened with Khudoni HPP. Insufficient or inappropriate forms of communication, e.g. not opening an office in the affected region, will retard credibility and trust. Moving forward, rather than just paying meagre compensation, much more effort needs to be made to demonstrate that resettlement can be an opportunity for development for local people as well as for the nation, and that displaced people will experience enhancement in their livelihoods and wellbeing. The government and/or proponent should start investing in Svaneti and in the region where people will be resettled, and attempt to demonstrate that the project will bring benefits rather than contribute to despoliation and desolation.

Regarding the second question, we believe that social licence to operate is a useful concept in a conceptual and practical sense. We consider that the Thomson and Boutilier (2011) way of understanding SLO is very effective and can be applied empirically to test whether a specific project has a SLO. We consider that the Thomson and Boutilier (2011) model should, or at least could, form the basis of a common understanding of the SLO discourse. We demonstrated that for all projects, especially large dams involving resettlement, it is essential for the project to be guided by the elements underpinning the SLO framework: legitimacy, credibility and trust. Project staff should apply the understandings associated with gaining legitimacy, credibility and trust to each phase of a project, to all project activities, and to all community engagements activities and communications emanating from a project. Gaining a strong social licence will usually take many years, but attempting to advance a project without local support will be problematic, not only for the affected communities, but also for the proponent and other project advocates in the medium to long term as the negative reputation they will gain will make it harder for them to develop new projects in future. Even if a project is eventually pushed through, there will be project delays, costs will be increased, and harm will be created (Langbroek and Vanclay, 2012). In that sense, SLO can be conceived as being a *social licence to operate and grow*. Thus, there is a strong business case for why companies should take the concept seriously.

## 7. Postscript

As at 2018, five years after the project was halted, no major changes have occurred. The company still runs a small office in Tbilisi, the capital of Georgia, and states that the HPP will be built, at least eventually. The government has also stated on a number of occasions that the Khudoni HPP project is very important for Georgia and that it will be built. The government has also announced that it might sever ties with Trans Electrica and build the dam by itself. However, no action has been taken in relation to these pronouncements. With the demand for and price of electricity dropping in Turkey (where most of Khudoni's excess electricity would have been sold) and several other HPPs being built across Georgia, the justification for the Khudoni project is even less convincing. Meanwhile, the Khaishi community still lives in limbo, but probably expects that someday the debate about the Khudoni HPP project will resurface – only, next time, they know the local community will lose out.

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