

Integrated Report: an integrated analysis of
economic, political and social issues that support
or hinder growth and poverty reduction in
Mongolia

6 April 2015

Prepared by:

Adam Smith International

David Osborne, Dr Isabel Cane, Dr Mel Cousins, Dr Enkhzaya
Chuluunbaatar

The views expressed in this document, and proposed recommendations, are those of the consultants and do not necessarily reflect the views of the Australian Government or DFAT.

Table of Contents

Introduction	2
Scope and approach	2
Country and Provincial Context	2
Key Constraints and Factors Promoting Growth and Poverty Reduction	31
Recommendations	32
References	37
Annexure 1: Donors	39
Annexure 2: Civil Society	41
Annexure 3: Mongolia analysis mission schedule	42
Annexure 4: Team members summary	45

Introduction

The Australian Government's foreign aid policy, and development and performance framework recognises the link between economic growth and poverty reduction and emphasises the importance of private sector led growth to a more prosperous future for Australia's developing country partners. The aid program's country and regional programs are preparing Aid Investment Plans (AIPs) describing how inclusive economic growth and poverty reduction will be supported in partner countries.

An AIP will be developed for the Mongolia Program for the period 2015-16 to 2019-20 to guide aid investments. This Integrated Report provides an integrated analysis of economic, political and social issues to assist AIP development, through identifying important opportunities, blockages and constraints affecting inclusive, sustainable economic growth and poverty reduction in Mongolia. It recommends areas for future aid investments.

Scope and approach

The Integrated Report examines Mongolia's macro and micro economy and budget, poverty, social issues, gender and governance contexts. The analysis considers the constraints to Mongolia's development and the Australian Aid Program's capability to assist addressing them, cognisant of the likely degree of the aid investment in Mongolia, the position of the Mongolian Government and other relevant stakeholders, and factoring in the effectiveness of external support for addressing economic and development challenges. A set of recommendations regarding future aid investments in Mongolia is provided. The analysis places particular, but not exclusive, emphasis on the extractives and human resource development sectors in Mongolia, recognising the Australian Aid Program's established investments and reputation in each.

The analysis was undertaken between December 2014 and March 2015. The analysis was undertaken by a team of specialists with backgrounds in governance, economics, the private sector, gender and social and poverty analysis (see Annexure 4: Team Member Summaries). The approach comprised a mission to Mongolia undertaken between the 19th and 29th of January 2015 to conduct interviews with stakeholders from a multiple sectors. The mission team undertook 50-plus formal interviews as well as numerous informal discussions (see Annexure 3: Consultations). A comprehensive review of relevant literature, reports and data was also undertaken.

The analysis was informed by the theory of growth diagnostics (Hausmann, Rodrik and Velasco 2005). The growth diagnostics approach is used by the World Bank (WB), the International Labour Organisation (ILO), the International Monetary Fund (IMF) and others. It assists identification of development constraints through focussing investigations to isolate discrete constraints in sectors, and assess their relative importance to assist a rational ordering of interventions to deal with those constraints. The poverty and social analysis presented draws upon work produced by the World Bank using data from the Household Income and Expenditures Survey and the accompanying Poverty Policy Notes supplemented by information gained during consultations. Where possible, the poverty and social analysis focused on both monetary and non-monetary aspects of poverty. The analysis applied a gendered lens that included observing, where possible, the benefits and constraints affecting women, girls, men and boys to access opportunities for equitable human development.

While a completed growth diagnostic or poverty assessment for Mongolia was not produced¹, the analysis utilises tools from, and results of, previous such studies. Sufficient recent information, data, literature and also informant information was available to make reliable assessments of the key issues affecting future growth and poverty reduction in Mongolia.

This Integrated Report should be read in conjunction with the Finalised Updated Gender Analysis Report produced March 2015.

Country and Provincial Context

Twenty-five years ago, Mongolia, a small country of 3 million² people, became an independent nation following three centuries of external rule; Manchu occupation (1758-1991) and a Soviet-ruled socialist regime (1921-1990). Despite enjoying political independence, Mongolia has only recently achieved economic independence. Historically, international donors were Mongolia's largest source of foreign capital and a dominant force in development planning and

¹ These types of diagnostics have previously taken the World Bank 6 to 18 months to complete.

² The 3 millionth person was born, too much celebration, in January 2015.

implementation. Donors invested heavily in political and governance institutions with only relatively limited investments in economic reforms and related capacity development.

From 2005 Mongolia's nascent economic independence was boosted by a distinct shift from Official Development Assistance driven investment to private-led investment, comprising FDI from multi-national firms such as Rio Tinto.³ It was a big shift that saw Mongolia's achievement of both political and economic independence, with the exploitation of Mongolia's non-renewable natural resource endowments enormously assisting the latter. The Mongolian Government and other sectors had limited experience, however, in dealing in the dynamic FDI landscape. The lack of capacity and 'knowhow' in the face of significant foreign currency in-flow, combined with Mongolia's rapid economic liberalisation, contributed to some of the significant problems Mongolia currently exhibits - such as its development of unsustainable fiscal policy and its compromised governance and regulatory structures - stymieing Mongolia's ability to translate its wealth into long term, inclusive economic development and poverty reduction.

The details of Mongolia's current governance, economic and social and poverty contexts are discussed in the following three sub-sections. The key constraints identified are summarised at the end of each.

a. Governance: Political and Institutional Structure

Mongolia's political and governance institutions are imbued with distinctive, occasionally antithetical traditional, historical and geographic influences. Internally, Mongolia's political system reflects its 'privileged rich urban' and 'poor rural' divide, and externally it reflects Mongolia's position between Russia and China, including its historical role as a buffer for the foreign policies of its two neighbours. The reality of Mongolia's position was illustrated with its decision to enter into the global commodity market when it is said to have 'woken the bear in the north' from a 15 year slumber, and caught the 'attention of the dragon' in the south as it drastically expands its economic and foreign policy reach (Narangoa, 2011).

Mongolia's current governance and administrative structures are rooted in its Manchu and Socialist past; three centuries of highly centralized state structures. During Manchu occupation Mongolia was divided into five aimags, or administrative units. During its Socialist period it adopted a formal civil jurisdictional structure, however, in accordance with the Soviet principle of democratic centralism, party decisions overruled locally-made decisions and legal provisions; local-level decision making was overlaid with authoritative central control. The system exhibited elements of a 'bottom-up approach,' however dominant centralised government persists in Mongolia (Rossabi, 2005).

Likewise, informal practices operating within formal governance structures exhibit contradictory influences that are occasionally difficult to reconcile. Traditional nomadic culture can be loosely characterised as 'individualistic' and 'pragmatic' and highly valued as part of the Mongolian national identity. However, traditional influences struggle to blend with the legacy of the colonialist and collectivist identities left by the Manchu and Socialist systems. Mongolia's relatively recently acquired independence and its associated freedoms provide the most recent layer of influence; all these political maxims contribute to the governance systems and challenges faced in Mongolia today.⁴

i. Political system and structure

Mongolia is a unitary state comprising four layers of government. The Constitution of Mongolia (1992) describes the system, including the requirement for decentralized governance systems in Articles 58.1 and 59.1. Mongolia's central government and 3 sub-national levels consist of 21 aimags (provinces), 329 soums (sub-provinces) and 1559 bags (communities).

Mongolia is a **parliamentary republic** and all legislative power is vested in the Great State Assembly (Great State Khural), which is a unicameral parliament of 76 members, which are elected for terms of four years. It elects the Prime Minister upon nomination by the President, and confirms the Cabinet members upon nomination by the Prime Minister in consultation with the President.

The **executive power structure** exhibits a highly authoritative central government led by the Prime Minister. The Cabinet consists of the Prime Minister, the Deputy Prime Minister, Cabinet Secretariat, 15 portfolio ministries and a minister without a portfolio, who is responsible for cross-ministerial coordination of large development projects. The Cabinet Secretariat, which has ministerial status, coordinates and monitors both central and sub-national administrative bodies. Constitutional amendments made in 2000 enabled members of parliament to hold two positions in the Cabinet, simultaneously. Currently, more than half of Cabinet members are Members of Parliament which, in the context of

³ The Oyu Tolgoi mine accounted for nearly half of all FDI in 2011 (7 billion of 15 billion).

⁴ Traditional and historical influences and their implications are discussed under the section '*Institutions (systems of governance)*'.

Mongolia's small parliament, compromises horizontal accountability between the legislature and the executive. Supreme power lies with the Central Government, with the Sub-National Governments only capable of exercising power when the Central Government delegates or devolves powers, and such powers can subsequently be revoked or curtailed. Box 1. provides a breakdown and description of the types and roles of government administrations in Mongolia. The gaps and challenges of these sectors of government are discussed below in the Governance Constraints section.

Box 1: Levels and roles of government administrative bodies in Mongolia

The President holds ultimate power, although his/her executive role is limited. The directly elected President is the formal head of state. S/he can call for the Governments dissolution, initiate and veto legislation (which the Parliament can override by a two-third majority), issue decrees (which become effective with the Prime Minister's signature), or declare a state of emergency. In addition, the President is commander in chief of the armed forces and head of the National Security Council. Thus, the Presidency depends very much on the individual and the ability to implement powers.

An Aimag acts as a 'de-concentrated tier' of the central government. Aimag governors are nominated by their local elected assemblies (Citizens' Khurals) but are appointed by the Prime Minister. Serving four-year terms, they are responsible for the day-to-day management of aimag administration. The aimag Citizens' Khural is elected by local citizens, and the size of the assembly varies depending on population size. The basic functions of assemblies are to represent their constituents, to pass regulations for their respective political and administrative jurisdictions, to monitor the local administrative bodies, to approve the budgets of their respective aimags and oversee their implementation.

A Soum sits under the aimag administration and constitute a 'service access point'. The soum governance structure is similar to the one at aimag level. The soum governor is nominated by the soum Citizens' Khural but appointed by the next higher level of government, the aimag governor. The organisational structure for the soum governor's office is also defined by the aimag governor, but funding for salaries and staff are controlled by the Ministry of Finance (MoF). The soum Citizens' Khurals are elected by their citizens.

The Bag is the lowest level of the sub-national government structure. In bags, basic services are delivered and primary registration takes place. The bag governors, appointed by their respective soum governor, are responsible for primary civic registration and for maintaining basic population statistics. Bags do not have an elected assembly. Instead public citizens' assemblies are held up to four times per year which can be attended by all interested citizens.

Although Mongolia has specific political jurisdictions the current **legal framework does not clearly specify the responsibilities and functions** between the soum, aimag and central government line agencies. Moreover, administrative functions do not fully align with budgets, leaving sub-national governments with insufficient resources to cover all expenditures they are responsible for. For example, capital investment projects are funded through the central government budget, while maintenance and operation are the responsibility of sub-national governments – however they don't have the necessary budgetary authority to fulfil these functions.⁵

Judicial power ultimately rests with the Supreme Court. Members of the judiciary are appointed by the President which in practice undermines the judiciary's independence from political institutions. Several reports indicate that human rights violations, corruption and nepotism persist throughout the judicial system.⁶ The timing and handling of corruption cases, as well as its targeting of mostly former ruling party officials, creates suspicion and erodes credibility. The impact of judiciary reforms initiated by the President in 2013 is yet to be seen.

The principle of dual subordination of the executive power at sub-national level persists and weakens the accountability of sub-national governments towards citizens. Governors are accountable to both the higher state level and to the local Khural through which they were elected. In practice, however, their accountability to the Khural is limited as Governors can veto Citizen's Khural decisions. In addition, local governments derive their resources from the Central Government and not from their local constituents, which reinforces this inherent tendency for 'upward accountability' rather than 'downward accountability' to citizens. Moreover, while Khurals are directly elected by citizens, their influence and control is in reality limited, as they decide on issues (local development strategy) without having the financial resources. Thus, there is little incentive for citizens to hold their elected representatives to account. Between 2010-2012 the World Bank ran the 'Partnership for Social Accountability' program which attempted to address citizens'

⁵ The illustration of some of these issues is evident in South Gobi Province, discussed in the 'Mining Sector' section below.

⁶ Bertelsmann Stiftung, BTI 2014 - Mongolia Country Report. Guetersloh: Bertelsmann Stiftung, 2014.

problems by providing feedback to local administrations. An important finding of the program was the need to improve information and dialogue between the aimag and local citizens (World Bank, 2013b).

Problematically, sub-national governments have no real budget authority, little budget flexibility, and citizens rarely actively participate in the budget planning process. Sub-national budget drafts are consolidated at the national level and are revised and ultimately approved at the central level. The budgets revised by the Ministry of Finance are then sent back to the sub-national level where they are formally confirmed by the Khurals of the aimags and soums. Once approved, sub-national governments have limited ability to shift funds between different expenditure lines regardless of local level needs that may arise. Small exemption is provided by the Local Development Funds (LDF) where bag (or districts of Ulaanbaatar) citizens directly decide about projects to be funded. According to the law, the citizens are involved in both planning and implementation/monitoring. This tool of direct democracy was initiated by the President, introduced in 2013 and can be seen as important step towards decentralisation and participatory budgeting. However, compared to the overall state budget, the amount of funds distributed this way is very marginal. The LDFs make up to 5% of the overall state budget or up to 10% of the state budget funds made available to sub-national governments. Additionally, one third of the LDF is in the authority of the local governor and bag (or district) citizens decide over two thirds of the LDF budget. Development organisations such as the World Bank and Swiss Agency for Development and Cooperation have been supporting the implementation of LDF process, focusing on the main challenges and introducing practicable tools and mechanisms for constructive and effective participation, transparency and accountability. The responsible management of the LDF is particularly important in mine affected communities.

ii. Political parties

Twenty three (23) **political parties** are registered in Mongolia. However, two main parties have dominated in holding government, either independently or with the support of minor parties. The Mongolian People's Party (MPP) and the Democratic Party (DP) are hard to differentiate on the basis of their policies, and their domination has frustrated the emergence of any sustained, effective opposition. The MPP retains its strength of position by reference to its ultimate achievement, securing Mongolia's formal independence. The MPP also claims to have played a crucial role in the stable democratisation of Mongolia by assisting in preventing bloody democratic revolution (as experienced in many Eastern European countries). The DP claims to have initiated the democratic revolution, paving the way for a market economy and multiparty parliamentary system, and marking departure from the centrally planned economy and one-party authoritarian system.

The DP is split into six factions, all with differing policy platforms. The Mongolian People's Revolutionary Party (MPRP), formed after a split in the MPP and led by the former President Enkhbayar, *claims* to be the third political force in Mongolia. Together the MPRP and the Mongolian National Democratic Party (MNDP), which split from the DP, form the Justice Coalition. The Justice Coalition benefited from the changes to the electoral system which replaced the majority voting system with a mixed system, majority and proportional, ensuring more seats for smaller parties. There are also smaller parties, like the Civic Will Green Party (CWGP), Motherland Party, Republican Party, that represent focussed interests.

In the parliamentary elections held in June 2012, the DP won 33 out of the 76 seats, the MPP won 26, the Justice Coalition won 11, the CWGP won two seats, plus three independents. The Coalition Government of DP, Justice Coalition and CWGP was dismissed in December 2014 and replaced by the 'Great Coalition' of all parties represented in the Parliament.⁷

Frequent change of government is not unusual for Mongolia. Since the 1990s, on average, there has been a new government every two years. Whereas earlier government changes were considered natural in the context of an emerging new democracy, recent changes are perceived as signs of severe power struggles and internal political system instability. An illustrative case is the recent South Gobi Sands scenario where imprisonment of management and leaders via a judicial process was followed by a pardoning by the President of Mongolia and then demands for the resignation of the President. Leadership actions and reactions throughout were inconsistent, inexplicable and opaque, resulting in the perception that power struggles and vested interests undermined adequate leadership and decision-making. This type of uncertainty has had a negative impact by increasing perceptions of Mongolia's sovereign risk to foreign investors (Dierkes, 2015).

⁷ The DP holds nine Cabinet Seats (or Ministerial Positions), plus the Prime Minister; the MPP holds five, plus the Deputy Prime Minister; the Justice Coalition holds three; and the CWGP holds a Vice Minister seat.

Following the third worst election result for women’s representation in parliament in 2008, multi-lateral donors have been working with the Government of Mongolia to increase women’s political participation. The Mongolian Election Law includes a legislated quota stipulating that 20% of parliamentary positions are to be held by women. Table 1 shows current women’s representation rates and parliamentary positions in Mongolia. Women’s participation rates have improved in Mongolia rising from 4% in 2008 to 17% in 2014. While this is an improvement since 2008, women’s representation remains below the 20% quota required by law.

Table 1: Comparative Gender Gap Indicators for Mongolia and Australia 2014

Labour Force Participation				
	Female	Male	F:M ratio	Rank / 135
Women in Parliament				
Mongolia	15	85	0.17	96
Australia	26	74	0.35	45
Women in Ministerial Positions				
Mongolia	17	83	0.20	66
Australia	17	83	0.21	65

Source: World Economic Forum in collaboration with Harvard University and University of California, Berkeley, Global Gender Gap Report 2014.

The style of political engagement exhibited and the lack of thriving political parties with distinctive, credible, consistent policy platforms does not auger well for politics in Mongolia, and discourages leaders and reformers of merit and credible national direction setting. There is strong sentiment amongst NGO groups and elements of the broader population that a small pocket of elite power players engaging only with select interest groups is not conducive to a well-governed state.

iii. Institutions (systems of governance)

Mongolia has not yet achieved the translation of its Constitution’s main principles into a clear, long term vision for the nation, nor has it a cohesive set of medium and short term policies assisting the development of one. Its institutions are generally characterized as inefficient, exhibiting weak institutional memory and a lack of coordinating ability.

Political patronage undermines civil service effectiveness. Despite formal mechanisms the ruling party typically appoints senior civil servants to posts based on political affiliation. This practice reinforces ‘clientelism’ and undermines efforts to professionalise Mongolia’s civil service. Appointments to mid-level positions (or sometimes even to low level positions) requires payment, often characterised as “over-head payments”, “disbursements” or other kinds of outlays in form of “polit-economic tokens or chips”. The political patronage system is also influenced by broader kinship ties. All organisations raised this as a constraint to an effective and efficient private and public sector in Mongolia. Although pockets of success are apparent in the public service, these are not attributed to a high functioning system, but typically result from an unsustainably heavy reliance upon a talented individual. As a result, progress is jeopardised when there are changes in leadership, and institutions and organisations are unduly vulnerable to political or other forms of manipulation.

Mongolian institutions, by and large, have not translated democratic principles and values into effective, operational decision making systems and processes. While there appears to be relatively widespread awareness by Mongolians that individuals have *rights* in a democracy, there is a low understanding - or acceptance - of what are one’s responsibilities and accountabilities in a functioning democratic society and market-based economy. Discussions with EITI, Open Society Forum, and NRG1 demonstrated recognition that accountability and transparency are critical to good governance, however widespread appreciation of this is currently insufficient to drive improvements to governance practices in Mongolian institutions and organisations. The cycle of lack of demand for good governance practices, leading to good governance failing to thrive, appears established.

Participation in policy building, decision making and leadership is characterised by **a strong dominance of informal channels and networks**. Alongside formal governance systems there exist strong informal mechanisms that very much influence, and possibly dominate, decision making processes. In fact, most decisions at different levels are heavily influenced by informal channels. So-called ‘Home Councils’ (local regional affiliations in the form of NGOs) are examples of organized groups founded on broader kinship ties, exercising strong influence across political parties and groups using informal channels and networks (Sneath 1993). Similar linkages exist between many members of parliament and

business owners. It is common for inappropriate payments to be made to election candidates in every level of government, with leadership positions requiring additional payments.⁸

The financial resources, networks and informal networks that are required to succeed in leadership positions and are weakening Mongolian governance systems, are also impacting upon women's ability to stand for parliament. Female MPs and gender focused NGOs argue the lack of female participation in parliament is directly linked to the lack of finance, networks and affiliations available to Mongolian women.

Informal processes outside the formal system, including patronage and corruption, are becoming a kind of 'norm'. In October 2014, the Mayor of Ulaanbaatar, in a public statement, noted that networks of informal channels improperly penetrating formal layers of power to the extent that non-transparent decision making has become an accepted norm, affecting authorities' ability to act in the interests of the public and undermining the principles of democracy.

The overwhelming majority of media is owned by the private sector and politicians who have direct influence on agenda-setting and practice censorship over their own editors and journalists. External agents, such as Russia and China, are alleged to have undue influence over economic policy issues, including transport infrastructure and mining. Access to unbiased information is undermined, affecting democratic processes in Mongolia.

Since Mongolia's independence the prevailing view has been that the majority of Mongolian citizens not only accept, but respect, the legitimacy of the nation-state. This view may be shifting somewhat. While there have not been challenges to the concept of the Mongolian state, there is some evidence that confidence in the performance of its institutions and representatives is declining. Voter turnout in 2012 was 12 per cent lower than in 2008, at 65 per cent. According to Sant Maral Foundation's 2012 survey, 62 per cent of Mongolians do not believe current parties represent public opinion.⁹ Of greater concern, according to the Asian Barometer's survey¹⁰ is the percentage of Mongolians preferring democracy as a form of government to authoritarian government is on the decline. There is a growing public perception that institutions and mechanisms of the political system are used to serve the interests of small groups or individuals. Cabinet posts, major political positions and even public service posts are used as political bargaining chips in forming coalitions, achieving 'consensus' for decisions, and enforcing decisions. Allegations suggest the Agency for Anti-Corruption is largely controlled by political interests, and is becoming a political tool for retribution.

iv. Governance constraints

Institutions supposed to ensure accountability, transparency and predictability are weak and compromised by corrupt and unrepresentative practices flourishing in frail systems. Unless significant improvements occur, Mongolia will continue to struggle to create means to translate natural resource wealth into inclusive economic growth and poverty reduction for current and future generations of Mongolians.

Short-termism persists, from organisational planning through to high-level political decision making. Long-term visions and plans rarely exist. Policy development is rarely evidence-based and there is limited use of data made available by academic experts and research organizations. According to civil society and academics, the frequent changes to policy priorities are based on political and individual interests, and neither financing and implementation mechanisms are considered during policy development. With regular power-shifts, allegiances change and reappointments in politicised posts occur. Positive initiatives and policies are regularly abandoned and institutional memory loss results.

Hidden arrangements successfully compromise formal structures. A network of unusually strong informal channels and mechanisms affect decision-making processes in Mongolia. Therefore the public sector and judicial system are improperly driven by politics, and politics are improperly influenced by business interests and business interests which in turn are controlled by a small, entrenched group comprising privileged families and their conglomerates. Formal channels are regularly used to legitimise decisions preserving elite interests, obstructing the achievement of proper policy, implementation and coordination.

A set of competing values makes it difficult to develop a clear national vision for economic growth and development. Among Mongolians, individualism and pragmatism are valued as reflecting a proud nomadic past, yet

⁸ Estimates of payments range from a few thousand dollars to over a million in the case of cabinet positions.

⁹ Sant Maral Foundation, Politbarometer No.11 (44) June 2012, Mongolia, Ulaanbaatar.

¹⁰ Damba Ganbat, Mongolian Youth Outlook Country Profile, 2012, Asian Barometer Working Paper Series No.81, Taiwan, Taipei.

there is also heavy 'system-dependence' due to people's socialist history. Independence introduced concepts of freedom (absent a corresponding consciousness of responsibility, accountability and transparency). A common set of values - and stemming from that, a strong national vision - is not evident and Mongolia's leadership cadre has failed to 'fill the gap', possibly benefiting from operating in the informal context.

Leadership appears to be in its infancy, or underdeveloped. Even prospective reformist leaders are challenged by the current party system and practices, by the high cost of entering election campaigns and by limited access to knowledge. Short-term survival consistently trumps sustained advocacy of viable policy positions. Not only political leaders, but civil society leaders (of citizens' unions, reformists, innovators and intellectual leaders etc.) appear unable to effect real change in the landscape and rarely significantly further their organizations' missions.¹¹

Higher rates of women in government promote transparency and build a robust democracy, but there are too few. Women in leadership have demonstrated an ability to contribute towards more honest and less corrupt governments and promote positive development in education and health sectors (National Democratic Institute, 2013). Higher numbers of women participating in Mongolian leadership roles and in key governance institutions could have a positive effect on strengthening government and policy delivery of services, but there is currently insufficient support for women leaders.

The current political system does not foster the emergence of strong individual champions for reform or advocates for change. The 'democratic centralism' principles infiltrate parties and practices, causing protracted phases of bargaining over issues, with reform advocates' policies and their merits often succumbing to 'slow deaths'. Reformists are regularly unable to persist in the face of waning political will and conviction to cause. Initiators of new and innovative ideas often fall victim to the lack of political will and the status quo persists

Stakeholders' inexperience or lack of will diminish engagement and consensus building for inclusive development. Despite an apparent recognition on the part of representatives of government, the private sector and civil society of the need for quality dialogue and engagement to formulate shared views and goals, the capacity or will do so is lacking. Functioning fora facilitating constructive engagement are rare, and there is not a developed culture of evidence-based discussion and debate. As a result, even in instances of relatively well designed mechanisms (such as EITI), establishing credible dialogue and consensus requires extraordinary effort.

b. Economic Structure and performance

Mongolia is a lower-middle income, resource rich, developing country. It achieved lower middle income status in 2012¹² (World Bank 2010), at the peak of its mining sector fuelled economic boom. Since 2013, Mongolia has started to experience a cooling-off of its high rates of economic growth. Mongolia is not in crisis, nor is it in recession, but there are a range of problems requiring immediate attention in order for Mongolia to achieve more inclusive growth and poverty reduction over the medium to long term. In particular, Mongolia must effectively manage its increasing resource dependency.

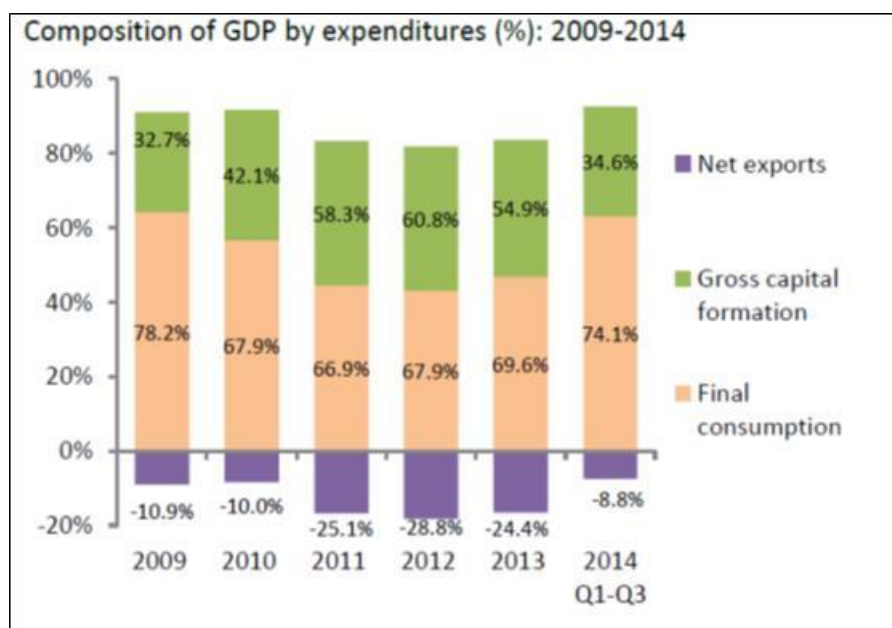
Between 1997 and 2010, investment in Mongolia's mining sector increased from US\$112 million to US\$819 million – an average annual growth rate of approximately 16.5%. This high rate of growth reflected growth in mining sector investment globally. Then, between 2010 and 2013, an additional US\$6.2 billion was invested in the development of the Oyu Tolgoi copper and gold mine in the South Gobi Province. This, combined with the impact of other projects, led to an annual increase of 400% in mining investment, raising the level of investment to over US\$4 billion in both 2011 and 2012.

Global commodity prices fell sharply in 2013 and 2014, however, initiating a sudden drop in mining sector investments globally, including in Mongolia. According to the World Bank total foreign direct investment (FDI) in Mongolia is still above pre-boom levels, forecast to be US\$882 million in 2014, but is expected to fall further. The contribution of total investment (domestic and foreign) to GDP has now returned to 2009 levels (see Figure 1 below).

¹¹ Civil Society organisations are discussed in the section 'Donors and civil society organisations'.

¹² The income categories follow the World Bank's classification of countries by GNI per capita: low-income (less than USD 1,005); lower middle-income (USD 1,006-USD 3,875); upper middle-income (USD 3,976-USD 12,275); high-income (above USD 12,276).

Figure 1: Contribution of investment (gross capital formation) to GDP



Source: World Bank, Mongolia Economic Update, December 2014

The Mongolian Government's initial response to the rapidly declining FDI was to ease fiscal policies. Mongolia maintained GDP growth at 11.2% in 2013 and 6.9% in 2014. Public debt increased above the legislated limit of 40%, however, and double digit inflation occurred, stoked by the loose monetary policy and a rapid depreciation of the exchange rate. In addition to these issues the balance of payments remains in deficit, causing reductions in reserves at the Bank of Mongolia, with only two months of import cover by late 2014 (IMF 2014).

The reduction in investment and related economic activity is translating into lower employment growth, lower incomes, lower profits, lower government revenues and ultimately either less, or a lower quality of public services like health, education and public infrastructure. The Mongolian Government has continued to increase expenditure, running budget deficits, with public debt increasing further. Its tool of preference was the expansion of domestic investment in the construction sector, for example through the building of apartments in Ulaanbaatar and cash hand-outs to households. This expenditure was financed through the use of commercial bonds. This source of financing comes without the conditions of concessional loans, providing flexibility in how the money may be used. (See below on fiscal tools and for an expanded discussion on debt instruments.)

Over the last 15 years, Mongolia has transformed from an agricultural based economy to a resource dependent economy. Like other resource dependant countries, Mongolia has a highly volatile 'two speed' or dualistic economy, with those exposed to the mining sector experiencing increased real incomes, and those outside the sector experiencing a fall in real incomes. According to the World Bank, in the first nine months of 2014 the mineral sector recorded 26% growth while the non-mineral sector only achieved growth of 2.5 per cent. Of particular concern has been the negative growth recorded in the construction (-11%) and wholesale and retail (-6.8%) sectors (World Bank 2014). These sectors are particularly exposed to the boom and bust cycle evident in the mining sector. The challenge for Mongolia will be how it manages its resource dependency in a way that stabilises the economy and transfers wealth in an equitable way.

A heightened level of resource dependency has created difficulties for Mongolia's management of its economy, as has been the case for the majority of resource dependent countries. Mongolia's ostensibly impressive GDP growth rates over recent years have disguised entrenched problems in the broader (non-resource) economy. Fluctuating government revenues and economic growth rates harm investor and consumer confidence and create problems with developing a sustainable budget strategy. The growth in Mongolia's resource sector has negatively impacted the non-resource economy through a volatile exchange rate (falling 54% between 2012 and 2014)¹³ resulting in high inflation and demand

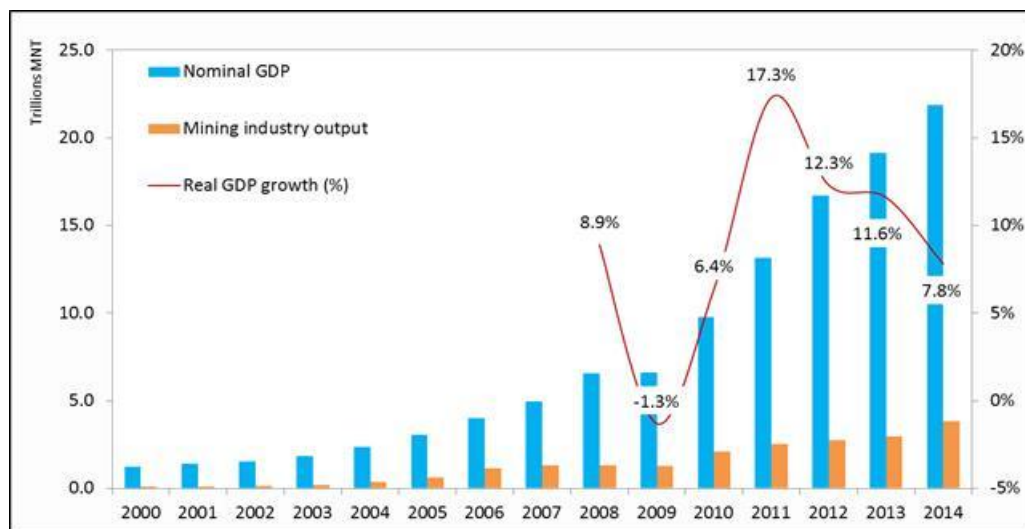
¹³ Bank of Mongolia data (<http://www.mongolbank.mn/eng/bopnews.aspx?id=1>).

side effects. The high dependency on mining revenues has exposed Mongolia, as never before, to fluctuations in the external environment.¹⁴

i. Macroeconomic assessment

Mongolia's economy continues to grow strongly, with GDP forecast to grow at 6.9% in 2014 and 7.1% in 2015 (World Bank 2014). The reduction in investment is weighing on the economy. This has been partially offset by increased production in the mining sector, a consequence of a decade of continued investment and, most importantly, the start of production at the Oyu Tolgoi mine¹⁵ and the Government's expansionary fiscal policy. The economy has grown, and so has government revenue and expenditure. Between 2003 and 2015 expenditure through the National Budget has increased from under MNT 1000 billion to MNT 7312 billion. This growth has allowed a large expansion in both recurrent and capital expenditure, and continues to support the growth in nominal GDP.

Figure 2: Fluctuating economic growth



Source: Mongolian Ministry of Mining, Economy, Finance and Investment Division, Ministry of Mining, Ulaanbaatar, Mongolia, 2015-03-04

Mongolia became reliant on high rates of investment, and especially FDI-fuelled economic growth, and would like a return to previously high rates. Two factors need to be present to enable the return of FDI: 1) a dispute between Oyu Tolgoi and the Mongolian Government needs to be resolved; and 2) there will need to be a sustained improvement in commodity prices. The most likely of these in the short term is the ending of the dispute between Oyu Tolgoi and the Government. Once this dispute is resolved, the capital investment for the construction of the underground mine will go ahead (the mine is currently over capitalised without the addition of the underground expansion).

Based on current estimates by OT, once approval is granted, construction of the (US\$10 billion) underground mine would commence within eight months. This would immediately solve the current balance of payments issues, plus there would be other second order effects, including higher employment and incomes, increases to government revenues and, most importantly, improved business and consumer confidence encouraging higher levels of non-mining consumption and investment. Broader expansion in the mining sector is unlikely to occur without a sustained improvement in commodity prices (see the 'Mining Sector' section below for more discussion of this sector).

Until the Oyu Tolgoi dispute is resolved, which it may well be¹⁶, Mongolia must continue to address its balance of payments, budget deficit and debt issues, as well as social and governance-related issues that act as drags on the economy.

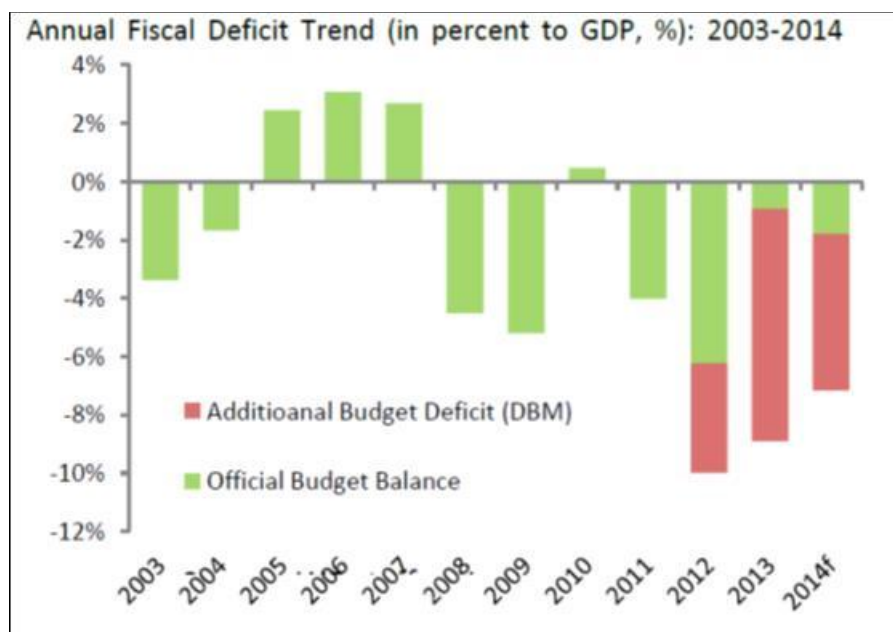
¹⁴ <http://www.mn.undp.org/content/mongolia/en/home/mdgoverview.html> UNDP, (2013), Achieving the MDGs Fifth National Progress Report 2013, UNDP, Ulaanbaatar, p.25.

¹⁵ In 2015 copper exports will almost triple to 1,409 thousand tonnes from 574 thousand tonnes in 2012.

¹⁶ A range of informants inputting into this report, including from Ministry of Finance, Ministry of Mining, Oyu Tolgoi, Anglo America and the Natural Resource Governance Institute (NRGI), were confident that it would reach a resolution by the 3rd quarter of 2015. In early January 2015, the Prime Minister conducted a survey, via sms, asking all Mongolians if the Government should undertake austerity measures and reduce reliance

Fiscal policy has played an active role in both stimulating and smoothing the economy from external shocks. As a response to the Global Financial Crisis (GFC) an expansionary budgetary stance was taken and a fiscal deficit was run in 2008. Aside from a small surplus in 2010, an expansionary budgetary stance remained (see Figure 3). In 2011 and 2012 this approach was seen as pro-cyclical, i.e. stimulating an already strongly growing economy—as shown above economic growth reached historic highs due to higher than normal FDI plus expanded production in both mining and agriculture (IMF 2013). Total public debt was growing rapidly, so the IMF supported the Government to set limits for the structural budget deficit and debt.

Figure 3: Mongolia’s expansionary budget



Source: World Bank, Mongolia Economic Update, December 2014

In 2013 the Fiscal Stability Law (FSL) was implemented. The FSL was designed to control fiscal policy through three rules: a structural balance rule; an expenditure growth limit rule; and a debt limit rule. The FSL required that the structural budget deficit was no larger than 2% of GDP and that the debt to GDP ratio did not exceed 40%. This occurred at the same time as a slowdown in coal exports and FDI-financed mining developments. The 2% limit was immediately breached, so the Government diverted the expenditure through the Development Bank of Mongolia (DBM), effectively taking the expenditure off-budget and undermining the intent of the FSL and, in the process, overheating the economy. Public debt continued to increase, rising to 55.2%¹⁷ in 2014 and is now forecast to be 56% in 2015.

The FSL was amended in January 2015 to deal with the rising debt. It increased the debt/GDP limits (see Table 2), allowing the Government the space to correct the structural deficit and time for economic growth to recover. The Government has also made a commitment to reporting all government expenditure on-budget, including expenditures made through DPM.

Table 2: New Debt/GDP limits in the Fiscal Stability Law (2015)

Year	2015	2016	2017	2018
% Debt/GDP	58	55	50	40

Source: MoF internal figures

Public debt includes foreign currency denominated commercial loans. These loans have higher rates of interest compared to concessional loans, but don’t come with governance conditions attached. Since 2012 the Government has

on FDI or support measures (such as settling the dispute with Oyu Tolgoi) that will increase FDI and avoid austerity measures. The result from over 11,000 responses was to accept the increased FDI.

¹⁷ Ministry of Finance internal figures.

raised approximately US\$1.3 billion through foreign loans and bond issues to fund the ambitious economic stimulus plans, through the Development Bank of Mongolia (see Table 3 below). Commercial loans and bonds attract interest on the full balance from 'day one', whereas concessional loans only attract interest on the balance drawn down.

Table 3: Commercial financing since 2012

Guarantee receiver	Year	Value
Development Bank of Mongolia (DBM)/Euro bond	2012	US\$580 million
MIAT SOE/EXZIM Bank's loan	2013	US\$121.4 million
DBM/Samurai bond	2014	30 billion yen
DBM/Credit Suisse loan	2014	US\$300 million
DBM/Republic of China	2014	US\$162 million

Source: World Bank, *Mongolia Economic Update, December 2014*

In addition to the commercial loans, in May 2014 Mongolia signed a three year bilateral currency swap facility with China valued at MNT 2 trillion, with an option to extend. Mongolia hopes the facility will assist to maintain regional financial stability and facilitate bilateral trade and investment between Mongolia and China.¹⁸

The expansionary fiscal policy of the past seven years has increased debt above legislated limits, but most importantly, has increased the level of interest payments. In 2007, interest payments were 0.7% of GDP. By 2011 they had risen to 7% of GDP.¹⁹ Changes to fiscal policy and the budget strategy are needed to provide Mongolia with a sustainable budget. Mongolia, as a resource dependent country, needs to recognise its dependency and manage its economy accordingly. Appropriate fiscal tools are needed, along with the skills to implement them. Most importantly, sustained political will is required.

ii. Microeconomic assessment

The ADB noted that Mongolia is fortunate to have rich mineral resources, however, this needs to be accompanied by efforts to achieve economic diversification and job creation, as well as improved social protection. Supporting job creation leads to better living standards (ADB 2013). Significant investment is needed in business development and infrastructure.

The single largest impact on the private sector in Mongolia is the current lack of investment, in particular FDI. There are a range of second order issues that have also been identified, including: frequent changes to government and policies causing political and regulatory uncertainty; a complex and conflicting legislative environment; low levels of professionalization in the civil service²⁰; poor infrastructure²¹ including roads, rail, airports, power generation and water; low quality banking sector; high levels of corruption, especially in government procurement and licencing; and low levels of technical skills in the workforce.

On the positive side, the Mongolian Government is taking proactive steps to stimulate the private sector. It has reduced the tax burden on small to medium enterprises (SMEs), increased access to credit to support growth in the sector, and tried to reduce the administrative burden at both the start-up and operating phases of SMEs, in the hope that this will help support a domestically driven economic revival, and to broaden the economic base.

¹⁸ <http://www.mongolbank.mn/eng/bopnews.aspx?id=1>, Bank of Mongolia, Ulaanbaatar, 2015.

¹⁹ Ministry of Finance and World Bank estimates provided during consultations.

²⁰ Senior and middle management positions in the civil service are predominantly political appointments, affected by corruption and susceptible as governments change.

²¹ Poor infrastructure remains a constraint to growth. In 2007 the World Bank identified infrastructure, especially transport infrastructure, as a constraint with service and reliability worse than in any other East Asian country. Firms surveyed by the World Bank complained of major transport bottlenecks. The private sector raised this as an ongoing issue, emphasising that transport infrastructure and electrification have worsened.

Mongolia is currently ranked 86th out of 171 economies on overall ease for conducting business. According to World Bank gender statistics 29% of women are household heads in Mongolia and are considered the sole wage providers (Bertulfo), however many of these women operate in the informal sector. Although there is a lack of gender disaggregated data in the formal sector, estimates of women-led SMEs are placed between 38% and 60% in Mongolia (IFC, 2013). The growth of the mining sector and business opportunities that can support the industry provide opportunities to heighten women's formal business entrepreneurship. This should be a key focus of the Australia Mongolia Extractives Program so as to avoid women falling into the unsafe and sometimes destructive informal environments available to women around mining, for example, sex work and artisanal mining.

iii. Fiscal policy assessment (budget strategy; fiscal framework)

Mongolia's growing resource dependency presents significant, and potentially negative, impacts upon: the economy, Government revenue and the Government's ability to deliver services in a predictable, sustainable manner. The risks need to be increasingly factored into the fiscal framework. Establishing effective fiscal tools, like Mongolia's Fiscal Sustainability Law and its Sovereign Wealth Fund, can assist to provide a platform for broader fiscal policy and can provide something of a narrative describing the Government's rational and appropriate response to the challenges and opportunities presented by Mongolia's mining sector. Mongolia must structure its fiscal framework in a way that recognises and responds to the volatile nature of natural resource related revenues.

Budget Strategy

There has been an increasing tendency in recent times towards budget decision making based on short term political objectives. For example, there has been an increasing allocation of resources to costly cash transfers, wage increases, mortgage subsidies for civil servants, and significant capital spending on projects lacking any form of economic or cost benefit analysis²². This undisciplined approach has been identified by the current Government as an area requiring immediate reform. The 2015 budget has been redrafted (nb - unavailable at the time of writing). The Ministry of Finance has identified the following four 'rules' to frame the budget strategy for the Government:

1. Expenditure is to stay within the FSL limits
2. Commodity price stabilisation - any gains from prices above limit set by the FSL would go into the Sovereign Wealth Fund's Fiscal Stability Fund
3. Set new ceiling on budget deficit (structural budget deficit)
4. Set new ceiling on budget debt – includes all liabilities, contingent liabilities, guarantees and debt owned by state entities, including Development Bank of Mongolia (DBM).

There will be a focus on concessional loans, a requirement to reduce spending and not overestimate revenues. Over the past few years the Government has increased revenue forecasts by up to 30% above that which the Ministry of Mining first recommended²³. This was done by over-estimating production levels and taxes due from mining projects, effectively building into the budget (and the perception of many Mongolians) an unrealistic and unsustainable expectation of revenue growth.

Of particular focus will be the cash hand-outs which started in 2005 (Collier 2010). Cash hand-outs were designed as a mechanism to share the benefits from the mining boom. They became part of the structural budget however, and therefore, when the mining boom finished the Government was left with a policy providing limited productivity gains that it could no longer afford. The Ministry of Finance noted there remains strong expectations by politicians and the public that these cash hand-outs will continue, even without the mining revenues to support them. The Government may attempt to target the payments through some kind of means testing in an attempt to reduce the cost of the policy. There is strong resistance, as many Mongolians have become dependent on these payments. Making social programs non-universal, i.e. targeting the poor, is an important step to making Mongolia's budget sustainable.

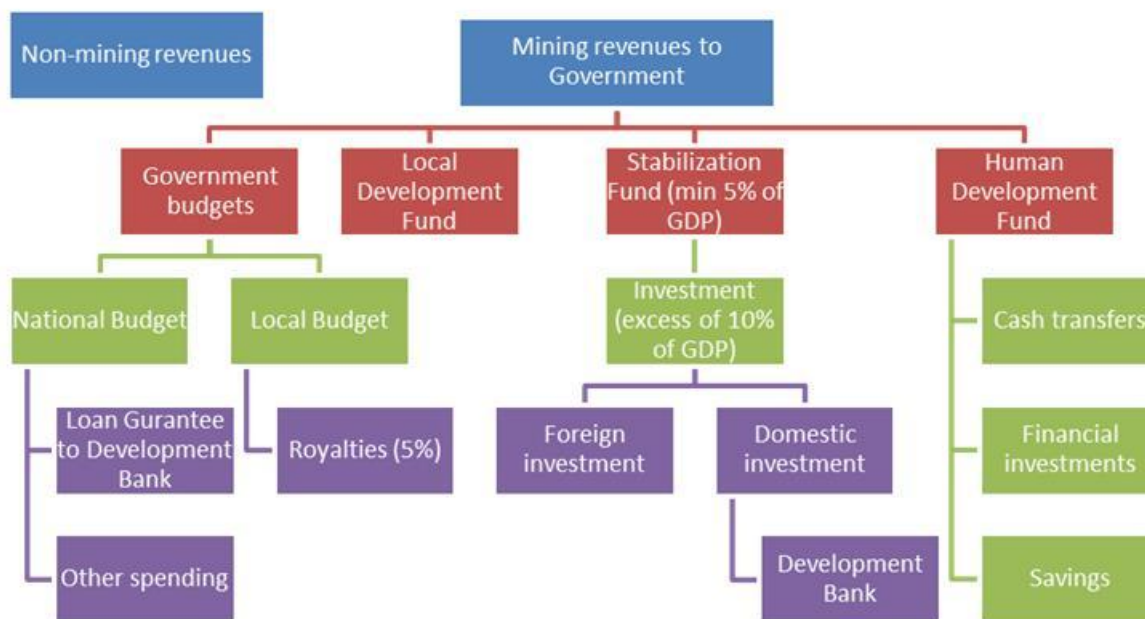
Another area the Government will likely target is the revenue side. There will probably be an effort to reduce or limit tax concessions provided to the private sector, both domestic and foreign. More taxing powers may be handed over to local level of governments, in the hope that they will be able to fund their own development plans. Since 2012 aimags are responsible for their own development planning, budgeting and implementation.

²² World Bank, Mongolia CFA 2012.

²³ The MoM claimed that the MoF inflates mining production figures that they provide to them.

See Figure 4. for a representation of current revenue management. (Refer also to the discussion of Mongolian sub-national government functions under the ‘Political System’ section of this report which discusses levels of government and their functions.)

Figure 4: Mongolia’s Revenue Management System



Source: NRG1 and Ministry of Finance discussion

Critical to improving Mongolia’s budget is improving its accessibility to the citizens of Mongolia. Transparency of government information and decision-making is a Constitutional requirement and a cornerstone of democracy and good governance; citizens have a right to information about the budget and the budget process. In 2014 the Glass Account Act was approved by Parliament -

“...to establish an information system for transparent, open and comprehensive process of decision-making and activities for budget governance and public oversight, in order to effectively manage the state and local budget as well as state and local properties or assets.”

The successful implementation of this law will be important at both national and provincial levels.

iv. Constraints

Revenue and investment uncertainty, commodity price volatility, inflation and exchange rate volatility—most recently depreciating, which have hurt importers and consumers—have negatively impacted Mongolia.

Poor revenue management coupled with corruption and poor accountability has increased inequality, and has exacerbated poverty in some areas, undermining broad based economic growth and improvements in human development²⁴. These very issues have caused the majority of resource dependent countries to underperform in economic and human development terms, as compared to those less reliant on resources.

Effective management of Mongolia’s mining sector requires stronger institutional capacity and oversight, and transparency and accountability, particularly with regard to revenue management. These are areas Mongolia is lacking in. There is a need to: improve the capacity of revenue collection and tax administration; design and implement appropriate revenue management systems to maximise broad based economic development outside of mining enclaves; and promote greater revenue transparency to improve accountability to the public and communities impacted by the mining sector.

²⁴ See the detailed analysis of these issues in the ‘Governance’ and ‘Poverty: trends by group and location’ sections of this report.

Political commitment for improved revenue management is required. The Mongolian Government has committed to improving its management of mining sector revenues. This appears demonstrated through the development of the FSL, however, the fiscal limits in the law must be adhered to. The sovereign wealth fund (SWF) is another recent attempt by the Government to create a fiscal framework responsive to Mongolia's highly resource dependent economy. Should there be sufficient political will, it is a potential tool to attempt to both stabilise the revenues available for allocation in the budget to expenditure items and create a source of predictable funding for social programs and projects.

The Mongolian Government faces very real challenges transferring wealth to its citizens. Mining projects typically demonstrate comparatively limited spill over benefits for local economies. Effective fiscal policy, that both effectively shares wealth and manages volatility, is required in this context. The SWF can assist as a platform for Mongolia's broader fiscal policy; it is an appropriate part of the Government's response to the opportunities and challenges of the mining sector. Also required are adequate social protection programs and the investment in public infrastructure, such as schools, hospitals, roads and power generation.

The Government must use effective fiscal tools to manage the economy. The use of fiscal tools like the DBM undermines confidence in fiscal management. The SWF may represent a repositioning of Mongolia's fiscal framework to respond to economic events, including the foreseeable impacts of future mining related revenues, especially from the Oyu Tolgoi mine expansion, and could signal a reduction in the ad-hoc and less transparent use of structures, like DBM. International and public confidence could be enhanced with changes that keep funds 'on-budget' and clearly within formal public financial management systems.

The structure of the SWF needs agreeing, and increased technical and implementation support is required. Currently the SWF consists of two funds: the Fiscal Stabilisation Fund; and the Human Development Fund. There is disagreement as to the structure of the SWF going forward. The Ministry of Finance is advocating for one fund that deals only with the issue of revenue and economic stabilisations, whereas the Ministry of Mining wants three funds: the Fiscal Stabilisation Fund; the Human Development Fund; and a new Investment Fund that would have both a savings (intergenerational) objective and a long term infrastructure development objective. Whichever structure is agreed, its success will require technical and implementation support.

The Mongolian Government lacks the required technical expertise in tax administrative to optimise revenue generation. Weak tax regulations and limited enforcement capacity is resulting in contractual loopholes, increasing the risk of companies using sophisticated tax minimisation techniques. Improved tax policy and administration can also reduce the need for the renegotiation of mining agreements, which, in the case of Oyu Tolgoi has undermined investor confidence (not just in the mining sector) causing harm to the Mongolian economy. This contractual uncertainty has increased the sovereign risk exposure for companies investing in Mongolia. Weak tax regulation and administration has also created opportunities for corruption and rent-seeking activities, further undermining Mongolia's growth potential and development prospects. Technical support is required.

Evidence suggests that women are discouraged from building their own businesses including in growth sectors like the mining industry (World Bank, 2013). This is often associated to the high cost of developing business, high-levels of bureaucracy, and poor access to business networks and financial capital. These constraints were experienced by both men and women, however the social role and expectation as primary 'home-carer' for women creates a 'double burden' for women in Mongolia. An IFC report suggests that this is not only considered a hardship for women, but also a financial risk by potential lending banks, and therefore reduces their chances for lending (IFC, 2013).

c. Social and Poverty Assessment

The UNDP classified Mongolia as a medium-human development country in the 2013 Human Development Report. Mongolia ranks 108 out of 187 countries, with a human development index (HDI) of 0.675. Importantly, Mongolia's HDI is greater than the average HDI of countries with a similar level of development. Poverty fell by approximately 11 per cent from 38.7% in 2010 to 27.4% in 2012. The sharp decline in poverty in recent years is mainly attributed to effective government policy on social welfare, labour market, food supply and maternal and child health (UNDP 2013). Incomes and direct cash payments increased during this period.

i. Poverty: trends by group and location (urban and rural)

There has been a consistent downward trend in poverty in recent years (see Table 4). Overall poverty has fallen to 27.4 per cent of the population, but with an urban rural divide (the rate poverty in Ulaanbaatar is 20 per cent²⁵ while 40 per cent in the countryside.²⁶ Poverty rates declined more rapidly in Ulaanbaatar than elsewhere, falling by 36% from 2010 to 2012; over the same period the rate fell by 19% in aimag centres, 30% in soum centres and 29% in the countryside.²⁷

Table 4: Poverty rate in Mongolia, 2010, 2011, 2012 (% of population)

Category	2010	2011	2012
National Average	38.7	33.7	27.4
Urban	33.1	28.6	23.2
Rural	49.0	43.4	35.5
By Region			
Western	52.6	40.3	32.5
Highlands	52.0	49.1	38.6
Central	29.8	28.2	28.1
Eastern	42.4	40.1	33.3
By Location			
Ulaanbaatar	31.0	25.7	19.8
Aimag Centres	37.4	34.4	30.4
Soum Centres	39.5	35.9	27.5
Countryside	56.1	47.4	39.8

Source: National Statistical Office of Mongolia (NSO), Household Income and Expenditure Survey (HIES)

Unfortunately, the most recent published data does not examine differences in poverty rates by age, education, gender and suchlike, and there has been no very recent analysis of the factors associated with poverty. The most recent detailed analysis relates to the HSES 2010 (NSO, 2011). Results indicated that higher incidences of poverty is associated with households where the head is unemployed (over 50% of households where the head was unemployed were categorised as poor) or had lower levels of education (about 60% of household heads with no or only primary education were poor). The study also found that households headed by herders were particularly likely to be in poverty (56%). The Consumer Confidence Index study (School of Economic Studies, 2013) found that in UB households headed by women (27.2%) were more likely to be poor than those headed by men (21.8%). However, this study did not carry out more detailed analysis to control for other factors, so we do not have a detailed statistical analysis of the extent to which factors such as employment status, education, gender and age contribute to the risk of poverty.

An important study looked at the intergenerational transmission of poverty and has statistically controlled for the range of factors involved (Pastore, 2012). This study found a clear pattern of intergenerational transmission of poverty and that

²⁵ The Consumer Confidence Index (School of Economic Studies, 2013) survey reported a poverty rate for UB of 22.7% in 2012, which is comparable to the official number of 19.8%. This report showed significant difference in poverty rates between households living in ger areas (29.9%) as opposed to households living in apartments (11.9%). The difference is even starker when the household head holds higher degree of education or is employed.

²⁶ A more detailed analysis at aimag and soum level – and using both monetary and non-monetary indicators of poverty – has been carried out by UNDP (Coulombe and Altankhuyag, 2012) using 2010-2011 HSES and Census data.

²⁷ Countryside data are impacted by seasonal conditions more so than data for the other locations, so comparisons with data from the countryside need to be treated with caution. The data may also mask the underlying wealth in livestock owned by many herders.

children who lived in a poor household were likely to become poor themselves. Specifically it found that a young person born in a household living on US\$1 a day, compared to a person born in a household living on US\$3 a day, is: 20 times more likely to be 'working poor' (i.e. to have earnings less than half the median wage); about 4 times more likely to drop out of school; and 2.5 times more likely to be educationally marginalised. NGO groups supported these findings and added that socio-economic discriminations are growing, and households from poorer households face strong barriers to employment based not on their skill level but as a form of discrimination based on their vulnerable socio-economic position.

ii. Income distribution

Only limited data is available on income inequality in Mongolia. The most frequently cited data is a World Bank figure for inequality (Gini co-efficient) of 0.365 for 2008. More recent data from the National Statistics Office indicate a Gini co-efficient for 2010 of 0.33 (increasing from 0.31 in 2009).²⁸ These figures would indicate that Mongolia has only a moderate level of income inequality. However, these data seem intuitively low and would place Mongolia at a level of income inequality equivalent to that in some European countries and much more equal than neighbouring countries at similar levels of economic development. This would seem to be inconsistent with the rather clear levels of inequality which can be observed in Mongolia.

In addition, these moderate levels of inequality appear inconsistent with other data such as the Consumer Confidence Index.²⁹ Although the survey covers only Ulaanbaatar, successive surveys since 2009 showed a significantly higher level of inequality. As of the third quarter of 2013, the report estimated a Gini coefficient of 0.42, much higher than the official number, although inequality has fallen slowly since 2009. The report also showed how income is distributed across different backgrounds of the household. For example, the income of households living in ger area is much lower in comparison to households living in apartments.

The European Bank of Reconstruction and Development (EBRD) has recently published data on inequality of household wealth, drawing on the *Life in Transition* surveys of 2006 and 2010 (EBRD, 2013, table 5.5). This suggests Mongolia has one of the highest levels of inequality of the countries surveyed.³⁰ While many of the countries included are European, the survey also includes several Central Asian countries which have much lower levels of inequality than Mongolia. While the index of household inequality cannot be directly related to the Gini co-efficient measurement of income inequality, it does generally show a positive correlation with measures of income inequality.

In terms of income distribution, the focus here is upon the role of the State in direct income redistribution through the tax and social protection systems. Included are direct state payments from the Human Development Fund. However, there does not appear to be any analysis of the impact of the Mongolian taxation system on income distribution.

In terms of social protection, the ADB Social Protection Index (ADB, 2013) indicates that Mongolia has a rather extensive social protection system. Of the 35 Asia-Pacific countries included in the study, only four – including Mongolia – scored over 0.2 on the SPI and spent more than 5% of GDP on social protection.³¹ Mongolia had a SPI of 0.206 and spent 9.6% of GDP on social protection (more than the Republic of Korea although it's GDP per capita is about 10% of Korea's). However, the SPI would indicate that this expenditure is not well targeted with 83% of beneficiaries being non-poor (though this is in line with the average for all countries). The NSO (2011) analysis of the HSES 2010 also indicates that public transfers go to nine out of ten Mongolian households. The Human Development Fund payments, for example, were received by 60% of households containing 70% of the population. However, more detailed distributional analysis has not been carried out.

Mongolian social protection (and direct payment) policy has varied widely over the last decade without any clear long-term policy objective (Fritz, 2009; Byambaa, 2012). For example, there has been the introduction, expansion, effective abolition and reintroduction of the child money program and the short-term use of the Human Development Fund to make direct payments to households.

²⁸ Note that it is not clear that these figures can be compared directly with the earlier World Bank data.

²⁹ School of Economic Studies, 2013.

³⁰ The EBRD study covers data for 38,864 households from 35 countries – 29 transition countries in Europe and Central Asia (but excluding Turkmenistan), as well as Turkey and the five western European comparator countries.

³¹ The other countries were Japan, Korea and Uzbekistan.

iii. Key labour market issues, including employment trends

Up to the early 1990s, Mongolia had a high labour force participation rate in line with the policy of the socialist state. However, there has been a sharp decline in the labour force participation rate since then. Over the last decade, the participation rate has remained relatively low, fluctuating between 61-65%. The employment rate (i.e. the proportion of the working age population which is actually at work) is even lower again. According to the NSO, the employment rate (for 2013) for the working age population (15-59) is only 57% (down from 2011-12). This means that close to half of the working age population is not in paid employment. Econometric estimates would suggest that the expansive cash transfer policies in recent years have contributed to the fall in labour force participation.

The UNDP poverty mapping exercise indicates that (in 2010-11) the labour force participation rate varied significantly by soum from 50% to 90% (Coulombe and Altankhuyag, 2012). The lower rates were found in the easternmost and westernmost soums and in northern areas, while soums in the central and southern areas had much higher rates. A similar spatial pattern was seen with the employment rate, although there was even more variation in the rate from a low of 30% to a high of 85% (see Map 1).

Overall women have somewhat lower levels of labour force participation and a lower employment rate than men (52% in 2013 compared to an overall rate of 57%). A World Bank (2013) study found that gender disparities are especially prominent in the type of work women do – mostly unpaid with limited engagement in self-employment/entrepreneurial activities and with high levels of occupational segregation – and the wages that they are paid. Inadequate representation of women is observed in the labour market, particularly in higher managerial and decision-making roles. Their roles are more often in lower- and middle-management positions with few women in higher level managerial or decision-making roles. The 2009 Mongolian Labour Force Survey revealed that women’s representation in the public and private sector is overwhelmingly concentrated in support staff and mid to low level managerial positions. Further, only one fifth of all director and executive director positions in Mongolia are held by women (World Bank, 2013).

Table 5 compiles data from another index (the Global Gender Gap Report, 2014), the country ranks eighteenth for proportions of female legislators, senior officials and managers, first professional and technical workers, and second for wage equality for similar work. It is important to remember that these are measures of the gap between men and women in a particular country, not measurements of absolute situations.

Table 5: Comparative Gender Gap Indicators for Mongolia and Australia 2014

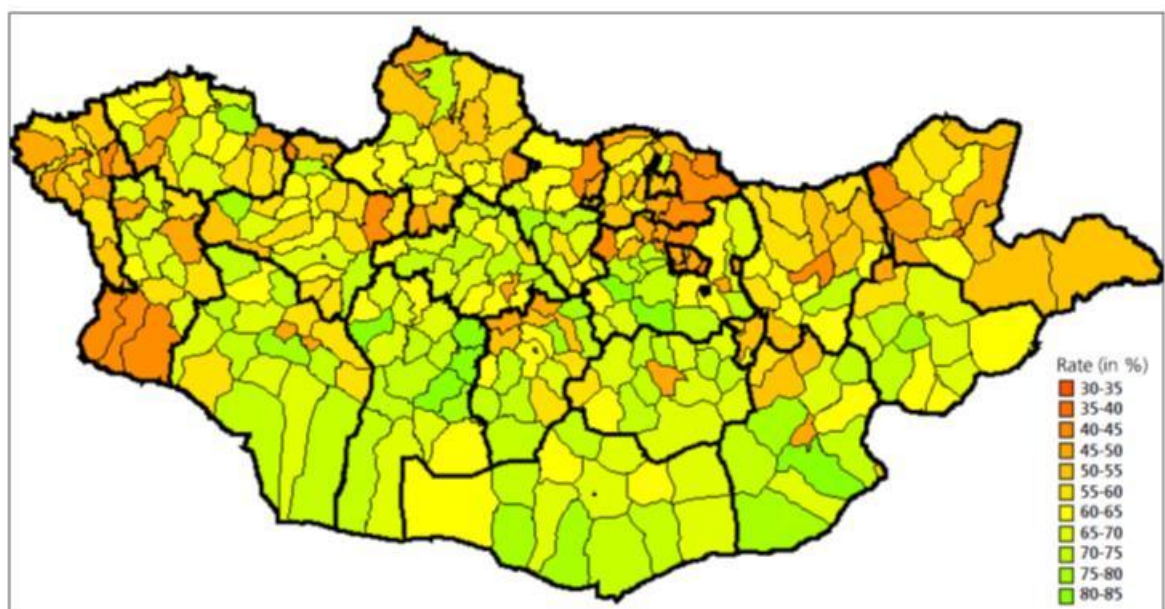
Labour Force Participation				
	Female	Male	F:M ratio	Rank / 135
Mongolia	59	71	0.83	58
Australia	70	83	0.85	51
Legislators, senior officials, managers*				
Mongolia	42	58	0.72	18
Australia	36	64	0.57	40
Professional and technical workers*				
Mongolia	62	38	1.64	1
Australia	51	49	1.03	1
Literacy rate				
Mongolia	98	98	1.00	1
Australia	99	99	1.00	1
Healthy Life Expectancy				
Mongolia	63	56	1.13	1
Australia	73	69	1.06	62
Women in Parliament*				
Mongolia	15	85	0.17	96
Australia	26	74	0.35	45
Women in Ministerial Positions*				
Mongolia	17	83	0.20	66
Australia	17	83	0.21	65

*These categories are assessed against the whole of the population (male and female).

Wage Equality Survey	Result (7 = equality, 1 = unequal)	F:M ratio	Rank / 135
Mongolia	5.73	0.82	2
Australia	4.62	0.66	63

Source: World Economic Forum in collaboration with Harvard University and University of California, Berkeley, Global Gender Gap Report 2014.

Map 1: Employment rate (15-59) by soum, 2010 (%)



Source: Coulombe and Altankhuyag, 2012.

Employment by sector

Notwithstanding Mongolia's rapid economic growth there has been no similar growth in the labour market. As Ronnas (2011) points out, this is due to 'a severe sectorial imbalance between economic and employment growth'. Despite the importance of the mining industry to the economy of Mongolia, this is in terms of contribution to GDP and exports. In terms of employment numbers, the agriculture, forestry, fishing and hunting sector dominates employment, and in 2013 provided some 30% of employment. According to statistics large-scale mining directly contributes only 4.5% of employment, however the informal artisanal and small-scale mining sector is said to host between 40000 to 10000 workers. There has been a long-term overall decline in the number of employees in the agricultural and allied activities sector, falling by 13% between 2008 and 2013. Government remains an important source of employment. Overall, services are the main area of employment at half the workforce (50%). Agriculture comes next at 30% followed by industry at only 20% (NSO, 2014).

Long-term projections

The Institute for Labour Studies has developed a medium to long term labour market forecasting model. Based on this model, the Institute forecasts that the labour force of the country will increase from 1.17 million in 2012 to 1.34 million in 2022 and that the unemployment rate will be 5.6% by 2022. The model forecasts labour demand by industries using survey data from "industry-occupation" matrices for 2007 to 2012. The report also finds that the fastest growing occupations will be managers, technicians, workers and elementary occupations, whereas the demand for other skilled and non-skilled occupations will be stagnant or decreasing as a share of total employment.

iv. Constraints and issues

A World Bank (2007) study identified three major inter-related challenges to reforming the Mongolian labour market: **joblessness, high levels of employment in low productive sectors with poor social protection; and a skills mismatch.** These issues remain a concern.

Skills shortages - The most recent study on Mongolia's competitiveness (EPCRC, 2014) suggests that skills shortages remain issues in the labour force. A survey of executive opinion indicated that Mongolia came last (of the 15 countries studied) on the availability of skilled labour and on the availability of finance skills. Conversely it was the country in which attracting and retaining talents was seen as the highest priority for businesses. The survey also found that Mongolia scored poorly on whether the education system met the needs of a competitive economy (third last of the 15 countries surveyed and last in relation to university education).

Low productivity and unprotected employment - The World Bank (2007) found that in 2006 over half of Mongolian workers (53%) were in jobs which were either low productivity³² or not covered by social security and the majority were low-skilled self-employed workers mainly in agriculture. As employment in agriculture is declining this should see some decline in the level of such work. However, salaried employment not covered by social protection was on the rise.

Forced labour - International agencies and others have identified concerns about forced labour both concerning some Mongolian workers in rural areas and foreign workers, particularly Chinese and DPRK nationals. For example, it is estimated there are 2,500 DPRK nationals employed in mining, factory work, utilities, transportation, construction, customer service, and health service at various times throughout the year, particularly during the summer. These workers often face substandard working conditions. Anecdotal evidence suggested that North Korean labourers were subject to particularly harsh working and living conditions.³³

Child labour - A study by the Understanding Children's Work project (UCW, 2009) found that and estimated 36,000 children aged between 8-14 years were working in Mongolia in 2006, or 10% of children in that age range. The study found that: children's employment is overwhelmingly a rural (agriculture sector) phenomenon (90% in rural areas); boys in the 7-14 years age group are somewhat more likely to be in employment than girls of the same age, but this difference is more than offset when involvement in other productive activities is also considered; and child employment rises sharply with age, but numbers of even very young working children are far from negligible. The Mongolia National Child Labour Survey Report (2013) indicates that 11% of working children were engaged in hazardous work with boys comprising 8 out of 10 children. The majority of child labour in Mongolia takes place in the informal sector in which there is little oversight and enforcement of labour laws.³⁴

The National Child Labour Survey found that 86% of child labour was in agriculture, and mining appeared to account for a relatively small proportion of child labour (0.3%). However, the earlier 2009 study found that there were few, if any, children currently employed in formal sector mining enterprises but that about 8,000 worked in the informal sector in gold and fluorspar mining.

v. Future labour market policy

A short national employment policy has been drafted by the Ministry of Labour and is expected to be discussed by Parliament. The World Bank (2007) study on building the skills for a new economy found that although Mongolia was (and is) far from a high skill-intensive economy;

the nature of the skills demanded changed towards more general skills that allow workers (and firms) to 'survive' and quickly adapt to changes in demand. The skills that are in increasing demand include thinking skills, behavioural skills, practical knowledge (English and IT) and technical skills.

Similarly a more recent labour market study (Cambridge Education, 2010) found that;

In addition to the technical skills, employers seek employees who possess additional employability skills. The most demanded employability skills are: communication skills, computer/technical literacy, language proficiency (especially for the service sector), interpersonal ability, leadership/management skills for some occupations, and team work ability. Of equal importance to employability skills, employers seek positive personal values including honesty, commitment, flexibility, responsibility, and positive attitude towards the work.

The World Bank study highlighted a number of policy approaches to address the challenges in the labour market:

There is a need to improve the quality of basic education – although Mongolia has a high rate of school attendance, the study found that learning achievement was low, particularly in the skills that have the greatest demand, such as

³² Low productivity workers are defined as unskilled self-employed workers (all self-employed workers other than professionals, and excluding employers).

³³ <http://mongolia.usembassy.gov/tip2014.html> 2014 Trafficking in Persons (TIP) Report on Mongolia, 2 July 2014.

³⁴ <http://www.dol.gov/ilab/reports/child-labor/findings/2013TDA/mongolia.pdf> 2013 Findings on the Worst Forms of Child Labor.

complex and problem solving tasks. It recommended that teachers need to be properly trained on how to use student-centred methods and be provided with adequate materials (including IT) to implement the curriculum; and regular student assessments to inform education policy and make the education system accountable for performance.

The demand for post-basic skills needs to be met by providing diverse and flexible learning options in upper secondary and tertiary education. This would involve implementing a relevant curriculum that teaches practical subjects and programs, thinking skills, and behavioural skills; making vocational education a real alternative connected with higher education; involving the private sector to expand and improve post-basic education, particularly in upper secondary and vocational education; and a proper quality assurance system. This also requires strengthening the partnership between industry and schools by: involving employers in the development of standards and curriculum design; establishing partnerships with local employers to provide work-based learning opportunities; and establishing collaborations between educational institutions and local industry.

Second-chance learning opportunities are required for young people who have already left school and do not have the skills needed to be productively employed in the new economy.

The Government of Mongolia has, in part, recognized the importance of a better and more focussed TVET sector to improve the employability of young Mongolians, and significant steps have been undertaken towards achieving this objective including (i) Improved participation of employer and unions in the policy process; (ii) creation of the National Council on TVET and of a TVET Department within the Ministry of Labour; (iii) emphasis on public-private-partnerships (PPPs) and on private sector participation in all aspects of TVET reform; and (iv) the introduction of a competency based training (CBT) system and the commitment to make use of elements of the dual model.

However, reform of basic and post-basic education remains a priority as does the challenge of improving the employability of men and women who are not able or not eligible to participate in formal TVET. In addition, there is an absence of a job-matching service which can help to bring together the capacity of individual jobseekers with the needs of the labour market. It may be unrealistic to expect the Government of Mongolia to develop such a service in the short-term and it should support existing pilot projects and the work of development partners to establish the services best suited to the needs and capabilities of Mongolia. In addition, a more employment-friendly social protection system should be developed.

d. Gender

Many gender roles in contemporary Mongolia have sprung from the differing tasks and practices that men and women traditionally performed under the conditions of herding, and socialism (Bulag, 1998; Baabar, 2005; Terbish and Oidov, 2005). There is a relationship between the traditional nomadic herder culture of Mongolia and the relatively high status of women in Mongolia. While women's status is not equal to men's within the clan-lineage system in Mongolia, compared to the situation of women in nearly all other parts of Asia it is high. The nomadic herder lifestyle did not support women's subordination via strong systems of social relationships (Jagchid and Hyer, 1979). Indeed, Mongolia outranks Australia on some gender equality measures. The data in Table 5. above helps contextualise the status of Mongolian women compared to Mongolian men, against a developed country (Australia) benchmark. It is important to remember that these are measures of the gap between men and women in a particular country, not measurements of absolute situations. For example, although Mongolia ranks higher than Australia on the gender gap for healthy life expectancy, overall Australians have a higher life expectancy than Mongolians, both men and women. Similarly, the wage equality survey places Mongolians higher than Australians, although the actual wages earned by Mongolians are considerably lower than those of Australians.

During the transition to independence, social roles and relations shifted rapidly as the population grappled with a rapidly changing political landscape and an emerging capitalist market economy. Gender roles, gender relations and women's status were affected by the social upheavals causing widespread unemployment, extensive urban/rural migration and the collapse of major state infrastructure (Burn and Oidov, 2001; Rossabi, 2005). Men and women were impacted differently from the changes. Significantly, women experienced higher rates of unemployment, increased household labour (resulting from a lack of public service subsidies), and increases in domestic violence and alcoholism, alongside decreased political representation. Urban based female headed households and women and children in rural settings are currently considered the most vulnerable and susceptible to growing signs of entrenched poverty (JICA, 2013).

i. Legal framework

Mongolia has a significant national law directed at promoting women's equality and gender empowerment. In 2011, the Law for the Promotion of Gender Equality was passed by parliament and created a legal framework to promote the rights

of women to achieve development goals (Government of Mongolia, 2014). The National Committee for Gender Equality (NCGE)³⁵ was to oversee and implement the Gender Action Plan across ministries and within each of Mongolia's rural aimags. Recently, the NCGE and the Ministry of Green Development conducted substantial sectorial engagement by creating a gender mainstreaming strategy for the ministries' activities.

In 2013, the Ministry of Labour drafted amendments to revoke laws that made it illegal for women to work in particular roles (for example, underground mining, truck driving over a certain tonnage), however, the social perception that men should occupy technical and decisions-making roles still permeates. Further, in 2004 the Parliament of Mongolia unanimously adopted a Domestic Violence Law, after years of lobbying by Mongolian NGOs. However recent amendments to this law, in particular efforts to criminalise the act of domestic violence, were vetoed by government. This decision was made despite growing evidence of higher rates of domestic violence experienced by communities and families linked to the mining sector. Mongolia rates relatively well in 'legislative terms', however in practice many of the stated gender commitments are not resourced adequately, implemented or promoted to effect change.

ii. Status of equality

Mongolian gender equality rates relatively well on various indices including the Millennium Development Goals and the Human Development Index, particularly in those indicators related to education and employment (See Table 6). Mongolia ratified the United Nations' Convention on the Elimination of all Forms of Discrimination (CEDAW) in 1981 and the Optional protocols in 2002. Likewise, the Mongolian Constitution has embedded the rights of women to be protected against all forms of gender based discrimination and harassment. Despite these positive indicators, gender inequalities are evident in political representation, women's access to decision making positions and barriers to economic empowerment. The rapid cultural changes driven first by the transition to democracy and, more recently, by the mining sector fuelled economic boom have exacerbated social ills, particularly in regards to increased incidences of domestic violence, and alcoholism amongst men and women.

There is evidence in Mongolia of a colloquially termed 'reverse gender gap'. It was first identified following Mongolia's transition to a democracy and market economy, a time when young men were regularly kept herding, or sent to work in what were traditionally masculine jobs, like trades services, to support the broader family. Young women, on the other hand, were more often sent to higher education institutes. As a result, Mongolia now presents higher rates of education and literacy levels in girls and women than in boys and men. Importantly, however, even though women are higher educated, these levels do not translate into higher salaries or advanced employment positions for Mongolian women. Fewer women are in management and decision making positions and gender based salary gaps are observed in many fields (World Bank, 2014). The 'reverse gender gap' is having real and detrimental impacts both on the education of boys, and women's opportunities for career progression and associated economic opportunities (etc). There is no evidence of Mongolia effectively addressing this.

iii. Economic empowerment

Women's economic empowerment is essential to reducing poverty and promoting social inclusion in Mongolia, however considerable gender inequalities, particularly in terms of reduced economic opportunities, access to decision making positions and workplace harassment constrain women in the labour market (World Bank, 2014).

Discrimination and Sexual Harassment

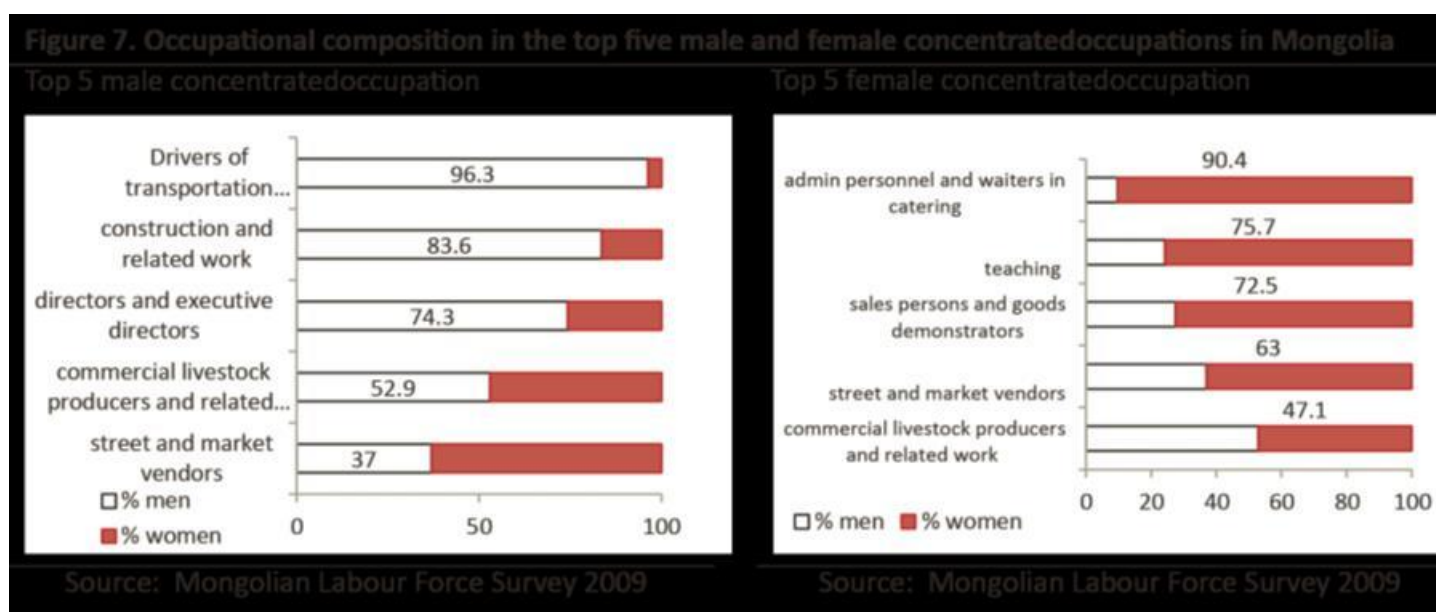
The Mongolian Government's recent Report on the implementation of the Beijing + 20 was noted that rapid urbanization and increased economic inequalities have contributed to different forms of social discrimination, based on gender, age and class. Since the transition to democracy, gender discrimination in the labour force has increased, particularly in regards to access to traditionally male dominated roles and industries (UNESCO 2014). Mongolia's labour market is highly segregated by gender with more women employed in health and education sectors while men occupy the construction, and transportation positions. Figure 5 outlines the top five concentrated occupations for males and females with the predominance of women's roles being service, administration and sales roles whereas men occupy more influential and well paid roles in areas such as transportation and construction and also executive roles. This is a particularly pertinent

³⁵ The NCGE is a committee responsible to overseeing the implementation of the Gender Equality Law. Although it is a highly active group it operates with limited financial resources to implement programs. The NCGE has strong networks in rural communities, with 'gender officers' positioned in each soum of Mongolia. It focuses upon following three areas: women's empowerment, women's political representation, and violence against women.

issue in Mongolia, where the minerals sector holds a significant role in Mongolia's economy and accounts for important employment opportunities.

Discrimination based on age was the second most reported form of discrimination affecting women's access to economic empowerment. Retirement is the most commonly cited cause of unemployment for women in Mongolia. Although retirement is voluntary there is evidence to suggest that women are being pressured to leave jobs early (World Bank 2014). Women over the age of 35 years of age find it very difficult to enter the labour force. Some civil society groups suggested that women of a younger age are considered more employable as they are perceived as more 'pliable' and willing to conduct work outside their direct job descriptions.

Figure 5: Occupational composition in the top five male and female concentrated occupations in Mongolia



Source: World Bank 2014

Sexual harassment is widespread in Mongolia, and, according to certain NGOs is exacerbated by traditional attitudes and the risk of unemployment. Reports have identified that one in every two women under the age of 35 years of age, are subjected to sexual harassment (The Advocates Of Human Rights). The labour laws in Mongolia include a number of chapters on women's labour and health and safety issues however do not include provisions for addressing sexual harassment. Although Parliament passed the Law of Gender Equality to address this issue, reports indicate that implementation of the law and awareness of sexual harassment as a crime is not common in Mongolia (NCAV, 2009).

iv. Domestic violence and vulnerable communities

Recent rapid economic growth in Mongolia has not consistently coincided with improved environmental and social indicators. According to UN data, domestic violence affects at least one in five women in Mongolia. Court statistics demonstrate that poorer families are more often exposed to domestic violence, through alcohol abuse. The greatest proportion of victims is children, girls and women (Government of Mongolia, 2014). Alcohol intake holds a ritual role in Mongolia, and has done for a long time, however alcohol abuse since the transition to democracy has risen such that in 2007 the UNDP listed alcohol abuse as among the top fifteen barriers to development in Mongolia (Armstrong, Tsogtbataar, 2010). Alcohol abuse was once considered an issue that affected primarily men - particularly unemployed men - however alcoholism is said to now affect both women and men in poorer areas.

Since the rapid expansion of Mongolia's minerals sector, and the subsequent slowdown in economic growth that followed, an increase in gendered impacts within the household, including higher rates of domestic violence and alcohol abuse have been identified. The fly-in fly-out (FIFO) and drive-in drive-out (DIDO) employment arrangements used by large-scale mining companies have been linked to increases in domestic violence, alcohol abuse and extra-marital affairs and family breakdowns (Cane, 2014). Apparently caused by the physical separation of families, extra-marital affairs have been linked to higher rates of sexually transmitted diseases (STDs), higher rates in domestic violence and alcohol abuse. The increased incidences have been reported both in mining communities and source communities alike. Limited detailed information and capacity to engage with these relatively new social phenomena are evident in Mongolia. Recently the

National Committee on Gender Equality and the Government's private company, Erdenes Tawan Tolgoi, signed an MOU in an emerging attempt to mitigate these issues.

v. Gender constraints

The above underlying causes have created gender-based barriers restricting equal engagement in economic empowerment and increasing vulnerability to poverty:

Socio-cultural norms and individual barriers impede women's access to participating in political and decision making roles. Traditionally women in Mongolia are responsible for household and home duties, including caring for children. When working women are unable to access adequate support they often experience the 'double burden' of paid and unpaid labour, which can impede their career progression to higher level political, managerial and decision making roles.

The 'reverse gender gap' is contributing to young men losing opportunities for higher education as they are expected to work in traditionally more masculine service and technical sectors to support the family. Also, the continuation of the concept of "men's roles" versus "women's roles" perpetuates discrimination. The education system also lacks appropriate support mechanisms (for example, night-school or mature age entry opportunities) for adults to re-enter the education system at different stages of life.

Barriers to economic empowerment due to sexual and age discrimination are impeding growth and entrenching poverty in vulnerable groups. Evidence suggests women are particularly susceptible to age discrimination in the workplace. Women over 35 years of age are unable to effectively participate in the formal job market, hindering individual and national economic growth.

Workplace sexual harassment was cited as major concern for women in Mongolia. In Mongolia sexual harassment in the workplace is not recognised as a significant issue nor is it understood as a crime. Victims of harassment lack the adequate protection of the law and, often, the support of workplace systems to address it. The rate of sexual harassment has a debilitating effect on Mongolian women's career progression, health, access to employment and economic empowerment.

Limited institutional capacity of civil society and gender based organisations affects effectiveness. The NCGE is one of the most influential gender based organisations to promote women's empowerment and gender related issues across government in Mongolia. However, it lacks resources and the analytical capacity to engage in the changing social and economic environment. Increased capacity and assistance to engage with and assist stakeholders and address the gender issues related to the expanding mining industry is required.

Emerging economic markets and employment opportunities in Mongolia are in traditionally male dominated sectors (for example, construction and the mining sectors), which potentially further limits women's participation and economic empowerment. In the mining sector employment opportunities are potentially one of the most positive benefits for communities. Given the traditionally masculine nature of the industry, however, women do not have equal access.

Mining based communities are experiencing a high influx of workers seeking economic opportunities increasing social pressures. The influx creates potential benefits for both men and women, in terms of employment and Small and Medium Enterprises increases offering the potential of localised poverty alleviation. Social pressures also increase, however, largely due to higher transient, primarily male, populations. This has created strain upon public services (for example, kindergartens, schools and hospitals) and increased social problems including domestic violence and increased alcoholism.

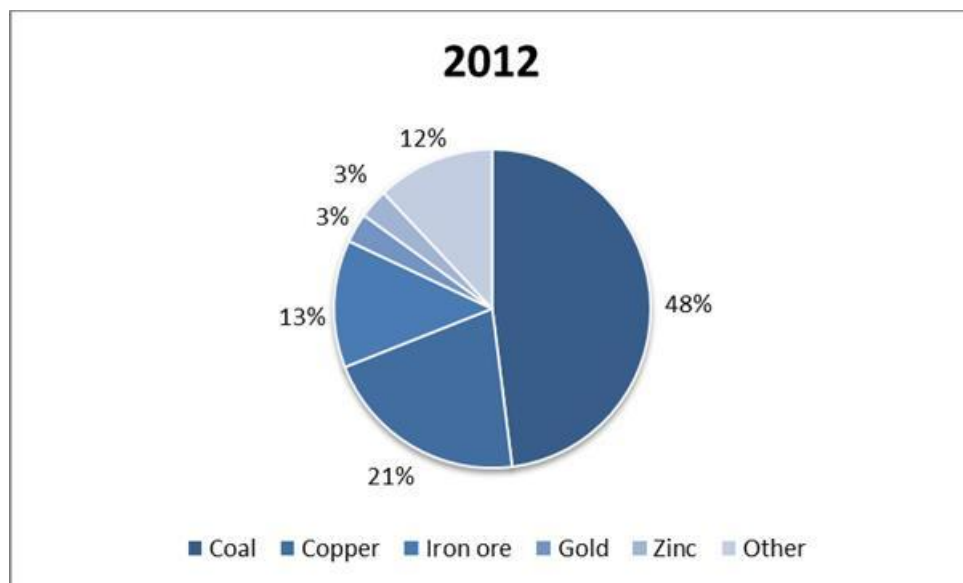
Rapid changes are linked to increased vulnerability to violence for women and children. Linked to the point above, dynamic change (societal, economic) has increased social ills affecting women and children.

e. Mining Sector

The mining sector is critical to Mongolia's future growth - it has been the single largest contributor to Mongolia's rise to lower-middle income country status. It has provided the Government with the fiscal space to invest in public infrastructure, social services and to directly increase the incomes of households through the use of cash payment schemes. Overall, in 2012, the mining and petroleum sector accounted for 22% of GDP, 61% of industrial value-added, 94% of export value and 85% of foreign direct investment (FDI) (NSO 2012). While commodity prices and investments have fallen, the medium to long term prospects for the sector remain positive.

Mongolia has been exploiting its mineral wealth for many decades, driven mainly by the demand for copper and coal by Russia³⁶ and China. The recent boom, starting in the early 2000s, was driven largely by the discovery of large copper and gold deposits in the South Gobi province combined with the rise in global commodity prices. These two events led to an investment boom in Mongolia, with companies and Mongolia's state owned enterprises (SOEs)³⁷ racing to increase capacity of old mines and develop new mines in the hope of benefiting from the historically high prices. Coal production increased from 10.6 million tonnes in 2008 to a peak of 33 million tonnes in 2011, with exports to China rising more than 340% to 22.53 million tonnes³⁸, briefly overtaking exports from Australia.

Figure 6: Coal leading mineral exports in 2012



Source: Data from Mongolia's National Statistics Office (NSO)

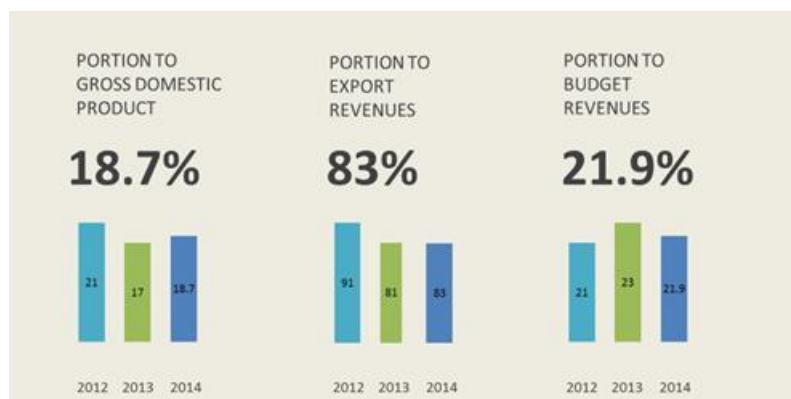
While coal led the growth in exports and revenue, copper was leading the growth in investment. Investment in the mining sector rose from US\$112 million in 1997 to US\$819 million in 2010 – an impressive average annual growth rate of approximately 16.5%. This high rate of growth was reflective of growth in mining sector investment globally. Then, between 2010 and 2013, an additional US\$6.2 billion was invested in the development of the Oyu Tolgoi mine. This plus the impact of other projects led to an increase of 400% in mining investment, raising the level of investment to over US\$4 billion in both 2011 and 2012. Global commodity prices dropped sharply in 2013 and 2014, causing a sudden fall in mining sector investments globally, including in Mongolia.

³⁶ Erdenet copper mine accounted for 40 % of GDP in 1974.

³⁷ SOEs control, manage and in some cases operate the States interests in the mining sector.

³⁸ Mineral Resources Authority of Mongolia (MRAM).

Figure 7: Minerals sector's contribution to economic development



Source: Ministry of Mining presentation

The mining sector dominates Mongolia's economy, politics and social development at national and sub-national levels. The sector has broad reach across Mongolia, with mines operating in 20 out of 21 aimags. Many of the mines are small to medium operations that are either operating at a loss or, at best, on very low margins. Very few are currently profitable with the majority of state owned mines³⁹ requiring subsidies to continue to operate.⁴⁰ Most coal mines were never profitable, and governments are more focused on the jobs they created. According to industry informants there is evidence to suggest that state owned mines are heavily over-capitalised, i.e. holding more capital goods like trucks and loaders than are needed. Informants suggested that this is a common area of graft, highlighting, somewhat typically, it as a sector contending with high levels of corruption and political interference.⁴¹

Adequate governance and legal certainty are important ingredients for a functioning mining sector. There are many laws that determine how Mongolia's mining sector is governed. The main law is the Mineral Law of Mongolia, which regulates the exploration and extraction of minerals. There are numerous other laws, guidelines, and procedures that also govern the sector, the combination of which adds to the complexity of operating in Mongolia. This includes, for example, the Constitution of Mongolia, the Forest and River law, the Land law, the Environmental Protection law, the National Security law, and the Subsoil law. The implementation of these laws is complicated by frequent changes of Mongolian Government and related changes to civil service personnel. Those operating in the sector are quick to suggest that governance and regulatory arrangements are becoming more onerous and restrictive, citing, for example, the Forest and River law which has placed significant restrictions on where mines may be developed (note this law can be bypassed if the deposit is deemed to be 'strategic'.) Operators in the sector cite negative issues including regarding security and enforceability of contracts, corruption and an ineffective court system.

Alongside the economic growth attributed to the minerals sector, Mongolia has witnessed social and environmental changes associated to rapid minerals development (Cane, 2014). These changes have been positive, bringing economic benefits through employment and increased business opportunities and infrastructure development. Conversely adverse social and environmental issues have impacted local communities and have contributed to the loss of traditional herder livelihoods. Herding is an important part of the social roles and responsibilities of Mongolians and is the origin of many cultural and spiritual maxims in Mongolian society (Sneath, 1993; Cane 2014). These traditional, customary and legal associations are an element of a broader Mongolian spiritualism based on Buddhism and shamanism that affords humans and people to live in co-existence with nature and the land. Historically the scuffing of land, pollution of water sources and the removal of its resources were perceived as violations, however since socialism, the transition to democracy and rapid urbanisation, these laws are not strongly followed but are still broadly believed, particularly in rural communities and by herder populations. Tensions between large scale mining, small-scale mining and herders regarding environmental protection are ever present. Importantly, research has demonstrated that many herders are broadly supportive of mining but stress that responsible practices be followed by the companies and be regulated by law (Cane, 2014).

³⁹ Erdenes Mongol, a state holding company, manages the Government's interests in mining projects. Mines include: Erdenet (copper molybdenum); Oyu Tolgoi (copper and gold); Baganuur (coal); Shivee Ovoo (coal); and Tavan Tolgoi (coking coal).

⁴⁰ Information provided by Erdenes, MoM and MoF.

⁴¹ The procurement of capital goods like trucks provides opportunity for public officials to facilitate bribes.

Environmental impacts range from degradation in pasture, increased dust, loss of wildlife, and a reduction in water quality and quantity. Numerous factors have led to increased strain on Mongolian water resources, including climate change, deforestation, irrigated agriculture, socio-economic factors (degraded and abandoned water infrastructure), land degradation, competing land uses and a rapidly growing mining industry. However, water quantity is a significant issue in the South Gobi areas that historically see very low precipitation levels, and shallow and slow groundwater recharge levels. For example, a report by the World Bank estimated groundwater reserves in the South Gobi region will only be adequate to meet water demands for the next 12 years (Tuinhof and Buyanhisnig, 2010). Unplanned or poorly coordinated infrastructure development and a lack of transparency and monitoring of mined-land rehabilitation are also impacting on herder livelihoods through degradation of pasture quality and quantity.

i. Investment and growth prospects

While Mongolia has a large number of deposits and proven reserves across a range of mineral and energy commodities, it is gold and copper that has driven recent economic growth. The development of the world's largest gold and copper mine, Oyu Tolgoi in the South Gobi Province, is the single largest project ever undertaken in Mongolia. The Oyu Tolgoi mine, operated by Rio Tinto, is jointly owned by the Mongolian Government (34%) and Turquoise Hill Resources (66%), with that holding split between Rio Tinto (33.5%) and other shareholders (32.5%). Oyu Tolgoi commenced shipments of product to customers in July 2013; a decade after the deposit was first discovered and with more than US\$6.2 billion invested. Once production has reached its peak, after the completion of the underground extension of the mine, Mongolia will become one of the world's top copper and gold producers, with an expectation that it will account for more than 30% of GDP.⁴² In 2014, the whole mining industry combined contributed 18.7% to GDP, down from 22% in 2012 (Nemekhbayar 2015).

However, since the Oyu Tolgoi Investment Agreement came into effect in March 2010, there has been incessant public debate regarding whether the Mongolia 'got a good deal out of it'. In this regard, it is important to note that a number of elected MPs based their campaigns on support for renegotiation of the investment agreement. After being appointed, 20 members of Parliament submitted a letter to the Prime Minister requesting changes to the Oyu Tolgoi agreement. The new Government sent Rio Tinto a letter (in October 2014) indicating its wish to negotiate; a proposal that was (unsurprisingly) declined by the company. The Government has stated it will work to bring the Oyu Tolgoi dispute to a close, preferring mine expansion to continue. The Prime Minister is understood to understand the sector well. He has also taken the unusual step of running a public survey via SMS to gain public support for ending the dispute (the public response urged the ending of it).

The growth potential in the sector is often over stated. There are 1617 mining companies in Mongolia as of 2013. There are 6000 'occurrences' (not deposits, as is often stated). Many of the occurrences are said to be uncommercial due to cost of extraction, size of potential deposit or the quality of the ore grade. There is no evidence to support the oft cited claim that Mongolia will be the 'Saudi of Asia'. Mongolia is a very high cost operating environment with limited transport options and limited access to the global market. Currently companies are not exhibiting great eagerness to invest, and appear to be waiting for international market conditions to improve, for the current government to mature, and other factors (many are watching closely the outcome of the Oyu Tolgoi mine dispute and the Gazert gold mine, currently caught up by the Water and Forest law, effectively cancelling its operations as it was in a protected environmental zone).

ii. Constraints and concerns

Rising resource nationalism is being witnessed at both the political level and in the general population. A negative tone towards mining and its effects on economic volatility; environmental degradation and social upheavals has been observed. An illustration of these issues is evident in the South Gobi province. It has a high concentration of active and planned mining projects, most notably the Oyu Tolgoi mine. The development of mines will impact at least four South Gobi soums. The material wealth created through the mining boom, however, primarily benefits Ulaanbaatar while environmental and social challenges are mainly experienced at the local level. The Government controls the majority of revenues received from the provincial administration, leaving the mining-impacted areas with only limited resources, despite bearing direct impacts. Additionally, without increased revenue, the affected areas struggle to cope with worker, and other, influxes. Social infrastructure and public services are stretched. The institutional deficiencies evident in the

⁴² Oyu Tolgoi estimates.

poor coordination of national and sub-national levels, in policy development and implementation, lines of responsibilities, funding flows (etc.)⁴³ compromise effective development.

Benefit sharing is an important issue in Mongolia, requiring more sensitive handling. Mongolians see a close connection between local mining activities and the delivery of benefits either in the form of infrastructure, services or cash. This connection was forged during Soviet-rule, when towns were built alongside mines. The Oyu Tolgoi mine situation has altered this nexus by breaking the pattern of building the town, providing local services and building public infrastructure (etc.), opting instead to use its mining receipts to attempt to improve services country-wide. Looking forward, mining companies must attempt to work with local governments and communities to make Community Agreements, (as required under the new Mining law) to attempt to improve sharing of benefits.

Mining based communities are experiencing a high influx of workers seeking economic opportunities, increasing social pressures caused by the entry of higher transient, primarily male, populations. This has increased strain upon public services and causes social problems including violence and increased alcoholism. Women and children suffer increased vulnerability as a result.

A lack of capacity by mining companies and regulatory bodies to implement, regulate and monitor responsible mining practices. The extraction of minerals requires a substantial amount of water use and although some companies in the South Gobi area follow international standards and practices for water management, many lack the technical capacity. Likewise, the government does not have the technical capacity or resources to monitor and regulate water usage, therefore poor practices are common place. This has led to a reduction in groundwater levels in some areas and is a constant concern for the herder and local communities reliant on the same water sources for their livelihoods. Recent programs run by the World Bank, IFC and DFAT have been considered useful in addressing this knowledge gap. However, further capacity building of local government and communities to engage in participatory monitoring and official regulation is needed. These observations are valid not only for water quantity but also could be applied to loss of pasture quantity and quality and increased dust incidences due to mining activities. An Australian aid funded project, *Managing the impacts of minerals development on women and men and their traditional livelihoods in Mongolia* has explored these issues in detail and can be used as a guide.

Issues relating to the management of environmental impacts are concerning. Only 98 of 250 companies declare adherence with environmental procedures, or funding set aside to deal with remediation work. There are insufficient inspectors and the enforceability of legislation and regulation is subject to political interference and compromised by under resourcing.

Consultations and anecdotal evidence raised a **range of other issues that the sector contends with**, including: significant increases to both operating and capital costs driven by the rapid rise in investment in the sector⁴⁴; transport infrastructure and power generation issues create supply chain bottlenecks during both construction and production phases; limited technical skills are available in the workforce with companies forced to do in-house training or recruit foreign workers; low capacity in the Ministry of Mining and GAZI and poor governance practices⁴⁵ create delays and increase costs; confusion regarding the Mining law (and the 15 plus amendments to it since 1996); the regulatory system is flawed in structure and implementation; changes in governments requires industry to spend time educating Ministers and civil servants as to the issues faced by the industry; and the regulatory framework for community development is flawed.

Even if all of the above issues were able to be effectively addressed the single biggest concern currently impacting the sector is low commodity prices. Commodity prices will determine the success or failure of the mining sector in Mongolia. Capital expenditure in the mining sector globally is determined by prices. Mongolia is not immune to this reality. If prices remain low, investment outside of Oyu Tolgoi becomes less likely. Thus, how effectively the Government manages the benefits from this, and other existing mines, is critically important.

⁴³ These are described in Governance Section under 'Political Systems'.

⁴⁴ It is estimated that Oyu Tolgoi faced an additional US\$2 billion in costs due to both domestic and international cost increases; licensing was stalled for almost five years, with the cadastral office reopening in January 2015.

⁴⁵ Against this anecdotal evidence, note that the *Resource Governance Index* ranked Mongolia 26 out of 58 countries. Mongolia's institutional and legal setting earned relatively high marks. Its reporting practices scored poorly. <http://www.resourcegovernance.org/news/blog/greater-governance-stronger-rankings-mongolia-revisits-resource-governance-index> Resource Governance index.

f. Human Resource Development

i. Educational trends, including geographic and sector trends

Mongolia's education system has been experiencing a period of reform over the past decade. The entrance age into primary school was lowered during this period, from eight years of age to six. The length of the basic education cycle was increased from ten to twelve years. The education system now consists of five years of primary school, four years of lower secondary school, and three years of upper secondary school. Upper secondary school is free, but not compulsory.

Mongolia has close to universal attendance at primary education (99% of children aged 6-11) and close to universal literacy with 98% of women and 96% of men aged 15-24 who are literate (UNICEF, 2013).⁴⁶ Over 90% of children aged 12-15 are attending second level school or higher (UNICEF, 2013). The UNDP mapping study indicates that a cluster of soums in the Eastern region has significantly lower literacy rates for both men and women (Coulombe and Altankhuyag, 2012).

There has been a major expansion of tertiary education from 1993 onwards, both in institutions and enrolments. Almost three in five young Mongolian now enrol in university with women making up about 70% of students. A recent World Bank (2010) study found, however, that while policy had met the need for an increased supply of tertiary education, it had 'failed to produce graduates who can improve Mongolia's international competitiveness'. The issues identified in the study included low-cost and low-quality education, a mismatch between the demand for and supply of skills, and inequitable opportunities of access between the urban and rural areas and between the rich and poor.

Constraints and concerns

The relevance of much of the education currently provided by the system needs to be reconsidered from an employability perspective. The education system requires a wide range of investments and reform to address quality and access to education issues.

Expanding and rehabilitating education infrastructure and improving both urban and rural education services is required - Most schools in Mongolia were built in the 1970's and 1980's. As a part of reform of the educational system reforms, the period of compulsory education was increased from ten years to 11 years in 2005, and from 11 years to 12 years in 2008. Therefore, the school-age population increased significantly. In addition, there was a high level of migration inflow from the countryside to Ulaanbaatar which put further pressure on schools in UB. It is estimated that approximately 25,000 students will be enrolled in UB from 2012 to 2015 and 78 new schools will be required. As a result of the shortage of spaces a number of schools have adopted a 'triple-shift' system. In rural areas, studies have highlighted the difficulties in terms of providing access to quality education given the very low population density, and the poor condition and lack of resources of many schools.

Improvements to the quality of education are required - Available information on student learning outcomes shows low performance, and that disparities exist between Ulaanbaatar, aimag centres and soums. The average pupil-teacher ratio in primary education was 30.24 (2010) the highest of the countries included in the EPCRC's competitiveness study. The lack of a systematic and institutionalized comparable assessment of student performance, starting from the earliest years is a large obstacle in improving the quality of basic education.

Improvement to the quality of teaching is required - The quality of teaching in primary and secondary schools in Mongolia is an area of prime concern. Research commissioned by the World Bank shows a teacher training system that is not very dynamic, and does not appear to be reaching a high level of quality in terms of preparing teachers for future service.

To address these issues, Ministry of Education and Science has introduced a reform agenda to improve the quality of basic education. This agenda – 'The Educational Quality Reform Program' – centres on three pillars. The first pillar is called 'The Book Project' (a scale-up of the World Bank-funded Rural Education and Development (READ) project). The second pillar is a Teacher Development and Upgrading Program. And the third pillar is a so-called 'Talent Program,' which is a school grants program to increase discretionary spending at the school level to provide further educational enrichment opportunities and increase educational quality.

⁴⁶ Most studies support this picture (see also Coulombe and Altankhuyag, 2012). The most recent NSO data (for 2012) indicate a *net* enrolment ratio (i.e. the share of children of official primary school age that are enrolled in primary school) in primary education of only 91% in Ulaanbaatar. Conversely, while UB shows 100% of pupils starting grade 1 who progress to grade 5, in the Western Region, this is less than 90%. Issues concerning school drop-out require detailed study and it would be unwise to rely only on generalised data.

In terms of access to education, there are issues regarding the efficiency of public spending. The Economic Research Institute (ERI) is finalizing a study on child sensitive budgeting on behalf of UNICEF. The report will give an overview of primary and secondary schooling as well as discussing issues surrounding how well the budget spending on education reaches children. The study shows that the current budgeting process suffers from inefficiencies and it needs to be further improved in order to reach the children better. One of the major problems in the education sector is that it needs to be improved to make the financing of schools more efficient, where schools vary greatly from each other in many dimensions.

g. Donors and civil society

i. Donors

There are a number of bilateral donors in Mongolia including, listed from highest to lowest ODA contributions, Japan, the United States, Germany, Korea and Switzerland (minor donors are not listed here). Multilaterals include the World Bank, ADB, EBRD and also present are UN Agencies and EU. Attached is Annexure 1 detailing donor and multilateral activities in Mongolia.

The infrastructure, agriculture and rural community development sectors are heavily subscribed as a proportion of total commitments, followed by the education sector. Russia and China provide loans and currency but neither are viewed as donors. Both are certainly influential regarding Mongolia's development. No information is available as to the size and makeup of their contributions to Mongolia.

Mongolia's Ministry of Finance is responsible for overseeing development including issues in relation to international donors, and proposes to establish a Department of Development Financing and Debt Management.

It is difficult to identify the elements of consistently effective donor coordination amongst donors despite the Mongolia's small size (which could potentially make formal and informal coordination, dialogue and networking less challenging). The Government of Mongolia does not encourage effective coordination via a formal framework for donor coordination, and while some sector donor coordination occurs, it is only to a limited extent. Some bilateral co-operation is occurring.

The Government has not played an active role in donor co-ordination and donors do not hold out much hope that a more proactive approach will emerge. Anecdotal evidence suggests co-ordination works well in the mining sector, where the Canadian Embassy takes a lead role and organises quarterly donor meetings.

ii. Civil Society organisations

In the early 1990s, in the form of remnant Soviet-type structures, there existed civil society organisations and non-government organisations providing services and assistance to women, youth, seniors, teachers and suchlike. By 2000, in response to Mongolia's dynamic change and associated governance challenges, issues-led NGOs emerged focussing upon key themes such as democratic education, human rights, gender, arts and culture, transparency and accountability and monitoring (Rossabi, 2005). Many civil society organisations were also established associated with political parties and organizations, and professional unions and associations. The rapid rise of environmentally concerned NGOs and civil society organisations over the last 7-9 years is linked to the increased exploitation of natural resources in Mongolia (for example the Union of Environmental Auditors or the Association of Mineral Processing Engineers) and NGO creation has been facilitated by the relatively recent move to allow NGO registration at local level.

Currently, of the 14000 registered CSOs in Mongolia, 9000 are NGOs. Only 2-3% of those NGOs usually produce the legally required annual reports. Broadly speaking, there are only a limited number of highly effective organisations, and the governance issues affecting other institutions in Mongolia also compromise NGO and civil society organisations' effectiveness. According to DEMO⁴⁷, a capacity building NGO for CSOs, around 60-65% of NGO finding comes from development organisations' grants. The remaining 30% are either generated through their own activities (mostly training) or through donations and sponsorship, and few government assignments. There is strong criticism about the legal environment for CSO not enabling sustainable financial resources. The most successful and effective CSO organisations secure their funding through their international partner NGO, additionally to development organisations' grants. For example Open Society Forum is fully funded by Soros Foundation; the Center for Human Rights and Development generate its revenues from support of internationally operating partner NGO in human rights and advocacy; DEMO generates revenues through its Asia-Pacific network. The Government has expressed no interest in assisting the

⁴⁷ DEMO, Mapping of NGO Taxation in Mongolia, 2012.

establishment of a civil society coordinating mechanism. Further information on a sample of Mongolian civil society and NGOs is included in Annexure 2.

Key Constraints and Factors Promoting Growth and Poverty Reduction

This section draws from the preceding analysis, looking at what has occurred on the positive side and then focusing attention on the key constraints. This section does not attempt to restate the above analysis but rather provides a summary of the key issues for consideration.

Mongolia's achievement of both political and economic independence is clearly a success story. From a dependent country reliant on subsistence agriculture, off the back of mining sector fuelled economic boom, emerged modern day 'resource-rich Mongolia', achieving lower-middle income status in 2012. Mongolia's success has not been a coincidence; a range of important factors have supported its growth and consequent reductions in poverty.

Mongolia has worked to develop a functioning economy experiencing ongoing growth and a world class mining industry. It managed the growth of its mining sector relatively successfully for over 15 years, withstanding the worst effects of the Global Financial Crisis. Despite the recent sudden fall in commodity prices and the related falls in Foreign Direct Investment and government revenues, Mongolia is not in crisis and is not in recession. Its economy continues to grow strongly, with GDP forecast to grow at 6.9% in 2014 and 7.1% in 2015.

Mongolia's HDI is greater than the average HDI of countries with a similar level of development. Poverty fell by approximately 11%, from 38.7% (in 2010) to 27.4% in 2012. The sharp decline in poverty in recent years is largely attributable to the mining fuelled economic boom revenues combined with improved effectiveness of government policy on social welfare, labour market, food supply and maternal and child health.

Despite some obvious governance failings in institutions and systems, the Mongolian Government has demonstrated a degree of proactivity in efforts to be transparent and accountable. It passed the Glass Account Act to establish an information system for transparent, open and comprehensive processes of decision-making, and has been an EITI compliant country since 2010. The Resource Governance Index ranked Mongolia 26 out of 58 countries, noting the country's institutional and legal settings earned high marks. It certainly does not exhibit the very worst traits of resource-dependent nations internationally.

The Government has developed the beginnings of a convincing economic management narrative with its responses to the opportunities and challenges presented by the state's mining sector. At the very least Mongolia has demonstrated a willingness to develop sensible policies such as the Fiscal Stability Law and also a Sovereign Wealth Fund. The Government has demonstrated some focus on reforming the budget and setting it on a sustainable path.

There appears to be commitment by the Government to improve how the benefits of mining sector are distributed outside of the sector. This is seen as a key factor for inclusive economic development and poverty reduction over the long term. Government initiatives include introducing Community Agreements which are at least ostensibly compulsory between communities, companies and government. Also, the Government is taking relatively competent steps to stimulate the private sector by reducing the tax burden on small to medium enterprises, increased access to credit, and attempting to reduce the administrative burden at both the start-up and operating phases of enterprises in the hope that this will help support a domestically driven economic boost and perhaps broaden the economic base.

Regarding gender, Mongolian Gender equality rates relatively well on various indices including the MDGs and HDI, particularly in those indicators relating to education and employment. There is a national law directed at promoting women's equality and gender empowerment; the Constitution embeds some of the rights of women and is supplemented by Mongolia's ratification of CEDAW and associated Optional Protocols. The Mongolian Election law includes a quota stipulating that 20% of parliamentary positions are to be held by women.

Aspects of Mongolia's performance in education stand out. Mongolia has close to universal attendance at primary education (99% of children aged 6-11) and close to universal literacy with 98% of women and 96% of men aged 15-24 who are literate. Almost three in five young Mongolian now enrol in university with women making up about 70% of students. There are moves to address education quality, with the Ministry of Education and Science introducing a reform agenda to improve basic education. The Government has also taken steps recognizing the importance of a better and more focussed TVET sector to improve the employability of young Mongolians.

The development of the world's largest gold and copper mines, Oyu Tolgoi, in the South Gobi Province has been impressive. This is the single largest project ever undertaken in Mongolia and is set to become one of the world's top copper and gold producing mines. It will underpin government revenue for decades to come.

Despite the above factors significantly supporting inclusive economic growth and poverty reduction in Mongolia, there remain many constraints hindering the optimal achievement of each. Overall economic and social performance has been positive, but some cracks are emerging and, in some ways it appears Mongolia is at a point of realisation that the 'easy phase has passed' and it must address reform of many of its institutions, and economic and social policies.

Inequality remains a problem. There are signs that poverty is becoming entrenched in some rural and peri-urban areas. Almost half of Mongolia's working age population does not occupy paid employment, and unemployment actually increased during the recent economic boom. There is little hope that the mining sector, on its own, can turn this effect around as the sector only accounts for 4.5% of total employment. Unless other sectors significantly increase their role in Mongolia's economy - a scenario for which no obvious drivers are present and which is unlikely in the short to medium term - people are likely to become more reliant on the Government for services and employment, not more self-sufficient. It is in this context that the Government must very skilfully manage mining sector revenues.

Positive outcomes have also been undermined by political instability and governance failures. If unaddressed, regular changes in leadership, short term agenda setting, and decision-making perpetuating vested interests rather than national interests, will white-ant any future national success. A cadre of unrepresentative elite that largely ignores the very real challenges presented managing Mongolia's mining-dependent economy (and its exposure to boom and bust cycles) spells problems for future inclusive and sustainable economic growth in Mongolia.

Despite some well designed fiscal tools, recently the Government chose a path of unsustainable expenditure and investment backed by poorly structured loans. Frequent changes to government and resulting changes to civil service personnel has undermined the implementation of laws and created delays, frustrating the private sector and delaying investments. Also, over the past decade, Mongolia has become a higher cost economy to operate in. It has been estimated that Oyu Tolgoi faced an additional US\$2 billion in costs due to both domestic and international cost increases.

The decentralisation of government functions has led to confusion; frameworks do not clearly specify the responsibilities and functions between each level of government and ministries. Administrative functions do not fully align with budgets, leaving sub-national governments with insufficient resources to cover all expenditures. The resulting effect dilutes the ability to serve communities.

Outwardly positive figures risk hiding some troubling realities that continue to be experienced by women and girls, and that exacerbate poverty and constrain economic empowerment. Women in Mongolia are highly educated but they experience higher rates of unemployment. Complex socio-cultural norms mean that women often face barriers to accessing decision making roles and political participation. This is particularly pertinent in the traditionally masculine industries like mining and construction, which also present many of the potential economic opportunities for women in Mongolia. Other concerning signs include disturbingly high levels of harassment and rising rates of domestic violence and alcoholism. Urban based female headed households and women and children in rural settings are currently considered the most vulnerable and susceptible to growing signs of entrenched poverty. Efforts to criminalise the act of domestic violence were vetoed by Government, a decision made despite growing evidence of higher rates of domestic violence experienced by communities and families linked to the mining sector. A critically important challenge for Mongolia going forward is how it will manage its resource dependency, its mining sector, in a way that stabilises its economy and shares its wealth in a sustainable and equitable way.

Recommendations

Considering where Australia's aid investments will have focussed, effective impact and will best align with Australia's strengths as a donor and its national interests, the Mongolian Government's priorities and needs and also cognisant of existing Australian support being delivered, all point to supporting the promotion of a more stable system assisting foreign investment and mining. Not only will Mongolia benefit, others seeking to operate or invest in the emerging Mongolian market may also. Australia continues to hold a significant comparative advantage in the delivery of assistance to the mining sector in Mongolia. Australia is known for its experience and efficient management of the mining sector. The analysis has identified some of the main contributors to growth and poverty reduction to be either directly associated with the mining sector or its effects over the past decade upon the Mongolian economy. This is not likely to change.

Australia has been delivering assistance to Mongolia for over 20 years but has not been engaged in direct support in Mongolia. Australia is one of many donors, the sixth largest in terms of grant ODA and the smallest in terms of the direct delivery of support. The bulk of Australia's support has been in the form of scholarships delivered in Australia. Additional Australian support has been delivered by some in-country partners, for example the UNICEF led Water, Sanitation and Hygiene project. Australia's capacity to deliver in-country support is to some degree constrained by the small Australian mission in Mongolia (the program was overseen by a Counsellor out of Beijing, this has recently been changed to a Seoul-based First Secretary). However, staff at the Australian trade mission in Ulaanbaatar have built very strong relationships providing access to and understanding of the Mongolian Government and private sector, especially the mining sector. In 2015 this will be boosted by the creation of an Australian aid funded facility to implement and administer Australia's in-country aid program funded support to Mongolia.

With the mining sector as the single largest contributor to growth in Mongolia, addressing mining sector constraints, and building on the sector's strengths represents 'going with the grain'. Mongolia continues to request mining sector support from Australia, it being seen as the sector's 'donor of choice'. Australian aid is perceived as exhibiting qualities such as flexibility, responsiveness and pragmatism that are valued by Mongolians and associated organisations. Australia was occasionally referred to as a role model in responsible minerals development because Mongolians perceive it as having well managed its own natural resources, and as an investor in Mongolian people motivated by good will.⁴⁸ Mongolia looks to Australia as an important 'third neighbour' and is keen to build knowledge exchanges for positive minerals development. Australia's aid investments, when successful, occur in a landscape that appears open to repeating 'demonstrations of success'. Investments, even though not of enormously high value in dollar terms, may have a valuable catalytic effect.

There is a strong case for Australia to continue and grow its support to Mongolia's mining sector. If managed well, and the benefits are shared, the mining sector could continue to grow the economy, improve livelihoods and ultimately lift people out of poverty.

Aid investment in human resource development is another area of continued high impact. Mongolia has a functioning education sector - it has some of the highest statistics internationally for access to education, and literacy. The Mongolian Government is demonstrating interest in improving the education sector. There are Soviet-era legacy, and other social issues including gender, that undermine performance in the sector (such as quality at the post-secondary, TVET and tertiary levels) however the foundations are strong and improvements are capable of having flow-on benefits for inclusive growth. Sustained human resource development investments addressing identified constraints may deliver benefits for economic growth and poverty reduction. Skilled women and men able to engage in economies both contribute and gain.

Mongolia has the resources to deal with the delivery of basic services, where it needs further support is in making the most of its natural resource wealth and improving the skillsets of its relatively well-educated but underemployed work force. As in all developing countries, there are many areas that a donor like Australia can provide support, but focussed investments are required factoring in different possible scenarios – refer to Table 7 below. It is recommended that Australia maintain and strengthen its support in the mining sector (see Scenario 1. below). The only scenario where this recommendation would change would be if Mongolia program funding was substantially reduced in the current reprioritisation of aid funding (see Scenario 2.), when there would potentially be increased focus on maintaining relationships and understanding of the mining sector and Mongolian Government. Under such a scenario the recommendation would be to maintain the scholarships program, targeting graduates in greatest need by the mining sector and related departments in government, i.e. Ministry of Mines, Ministry of Finance, Bank of Mongolia, Ministry of Environment and Land. Targeted short course training and research activities could be utilised through Australia's regional and global aid programs.

Only if aid funding were significantly increased, possibly in the range of \$50 million+, would it be recommended that entering additional sectors be considered (refer Scenario 3.), and, if invested in, it is recommended that close linkages with mining and human resource development sector investments and objectives be prioritised, for increased effectiveness. High levels of internal aid program diversification are not recommended under any scenario.

In essence, Australia's objectives will be best met by working in a limited number of areas and in the first instance areas that assist in building relationships within the bureaucracy, political elite and the private sector. The following provides a list of possible areas of support, based on their relative importance, followed by Table 7 which outlines programming scenarios under different funding levels. The list starts by dealing with the constraint that has been identified as having

⁴⁸ Perhaps a reference to it being without the 'historical baggage' encumbering Mongolia's neighbours.

the largest and broadest impact and the area that Australia has experience, credibility and access, i.e. how Mongolia manages the benefits from the mining sector, in particular the revenues. The next biggest constraint is governance. As discussed, poor governance in Mongolia continues to undermine growth and poverty reduction and should be a focus of support, however, due to the scale of the problem and the lack of political will, progress is likely to be limited due to the small size of the aid program and limited influence Australia has in Mongolia. Therefore, any support to governance should be targeted at the mining sector where Australia has already built relationships, has respect and relative influence over policy makers and implementers and where there is a clear connection to Australia's trade interests. Gender issues in Mongolia also continue to undermine progress in both economic growth and poverty reduction. Gains could be made through reducing harm and improving opportunities. Again, due to the relative size of Australia's aid program and diplomatic footprint in Mongolia support needs to be targeted to areas where relationships already exist and through existing or planned support mechanisms.

Possible areas of support and funding scenarios

Macroeconomic management: Mongolia needs to structure its fiscal framework in a way that recognises the volatile nature of natural resource related revenues. Design and implement appropriate revenue management systems to maximise broad based economic development, outside of mining enclaves; and promote greater revenue transparency to improve accountability to the public, and communities impacted by the mining sector. Skills to implement current fiscal tools need to be provided. For example, support could include technical advice for SWF design and implementation, assisting Mongolia translate its policy objectives into a practical and effective SWF.

Mining policy and administration: The Mongolian Government requires technical expertise in tax administration to optimise revenue generation. Weak tax regulations and limited enforcement capacity is resulting in contractual loopholes, increasing the risk of companies using sophisticated tax minimisation techniques. Improved tax policy and administration can also reduce the need for the renegotiation of mining agreements; which in the case of Oyu Tolgoi has undermined investor confidence, not just in the mining sector, causing harm to the Mongolian economy improve the capacity of revenue collection and tax administration.

Governance: Consider professionalization of public service and stakeholders' education (improving access to factual and procedural knowledge): (i) supporting the Ministry of Mining to effectively set up and run the Mineral Sector Policy Council to cultivate constructive discourse and engagement culture, (ii) in cooperation with the Ministry of Mining to develop innovate on-the-job training models to improve services of the ministry and its agencies, (iii) an interactive on-line knowledge data base on mining where all stakeholders have access and can contribute to its development (like Wikipedia on Mongolia's mining), this will help create a virtual platform to understand each other's views including investors' expectations as well as global commodity market rules.

Innovative modes to facilitate the development of practicable grievance mechanisms: identify drivers of conflict in mining areas, especially South Gobi, and contribute to peace-building efforts.

Gender-related issues: The lack of women in decision making roles may require consideration of affirmative action programs, gender specific targets or quotas to improve the access of women into leadership roles. Australia's focus on human resources and the minerals industry through the current Australian Awards Program, AMEP and TVET is well positioned to contribute to the breakdown of gender stereotypes by encouraging women into traditionally male dominated occupations. Consider expanding these programs either through joint program delivery with private companies or by providing assistance to women networks that can facilitate mentoring, recruitment and career development paths for women.

Innovatively build into initiatives support for civil society and local governments to work alongside communities to protect and support domestic violence victims. Targeted programs are required that promote awareness and build the capacity of organisations to assist victims of violence. The NCGE, National Centre against Violence, UNFPA and the World Bank are potential partners.

Australian researchers and research assistance can develop information on the correlation between, alcoholism, violence and mining; building capacity of stakeholders (community, company and government) to engage with prevention mechanisms and protection systems to prevent violence against women and alcohol abuse in mining communities. The Australian aid program is well positioned to support and facilitate development programs between the government of Mongolia, private organisations and CSOs.

Research, advocacy and leadership development: Consider providing possibilities outside the existing system to learn, study, research, initiate small projects, to network and get inspired, to get connected to global peers. Prioritise

investments in women leaders. Consider targeted resource grants from mining sector issues, i.e. social and environmental impacts of the mining sector. Stimulate direct learning from private to private: help unleash drivers of development by supporting Australian-Mongolian private sector partnership initiatives such as chambers and associations.

TVET: Consider supporting skill development in thinking skills, behavioural skills, practical knowledge (English and IT) and technical skills - communication skills, computer/technical literacy, language proficiency (especially for the service sector), interpersonal ability, leadership/management skills for some occupations, and team work ability.

Education quality: Consider providing support for post-basic skills by providing diverse and flexible learning options in upper secondary and tertiary education. This would involve implementing a relevant curriculum that teaches practical subjects and programs, thinking skills, and behavioural skills; assisting to make vocational education a real alternative; involving the private sector to expand and improve post-basic education, particularly in upper secondary and vocational education; and a proper quality assurance system

Actively support existing stakeholder platforms and new initiatives with innovative approaches, for example: providing scholarships and applied research fellowships including Masters or PhD degree programs specifically dealing with concrete cases and practicable mechanisms in Mongolia, as well as applied research in international business ethics directly related to Mongolia's immediate challenges.

Table 7: Recommendation scenarios including possible areas of support

Scenario 1: Current level of funding	Scenario 2: Large reduction in funding	Scenario 3: Large increase in funding
<i>Mining sector support</i>	<i>Mining sector support</i>	<i>Mining sector support</i>
1.1 Macroeconomic management: with a focus on revenue management; tax reform (mineral taxation policy and audit); and transparency	2.1 Research, advocacy and leadership development: with a focus on mining sector policy, mining impacts, gender and leadership	3.1 Scholarships: with a focus on mining sector skills, including engineering, economics, public financial management, accounting, environmental management
1.2 Mining policy and administration: geoscience; legislative support; contract and agreement making; licensing; mine closure planning	(See below for human resource development)	3.2 Mining policy and administration: geoscience; legislative support; contract and agreement making; licensing; mine closure planning
1.3 Environmental and land use management: improved planning of land uses (herding and mining); develop capacity and resources of regulatory environment; inspections; ground water; and mine site remediation		3.3 Environmental and land use management: improved planning of land uses (herding and mining); Develop capacity and resources of regulatory environment; inspections; ground water; and mine site remediation
1.4 Gender related issues: participation in mining workforce and SME related activities; addressing discrimination and sexual harassment in the workforce violence in mining communities		3.4 Gender related issues: participation in mining workforce and SME related activities; addressing discrimination and sexual harassment in the workforce; violence in mining communities
1.5 Research, advocacy and leadership development: policy advice, with a focus on mining sector policy, mining impacts and women's leadership		3.5 Research and advocacy: policy advice, with a focus on mining sector policy, mining impacts and women's leadership

<i>Human resource development</i>	<i>Human resource development</i>	<i>Human resource development</i>
1.6 Scholarships: with a focus on mining sector skills, including engineering, economics, public financial management, accounting, environmental management	2.2 Scholarships: with a focus on mining sector skills, including engineering, economics, public financial management, accounting, environmental management	3.6 Scholarships: with a focus on mining sector skills, including engineering, economics, public financial management, accounting, environmental management
1.7 Short course training (IM4DC): with a focus on enforcement of mining sector regulations; environmental management; and local government, land use competition and community development planning and budgeting	2.3 Short course training (IM4DC): with a focus on mining sector skills, including engineering, economics, public financial management, accounting, environmental management	3.7 Short course training (IM4DC): with a focus on enforcement of mining sector regulations; environmental management; and local government, land use competition, and community development planning and budgeting
1.8 TVET: sector coordination across donors, companies and government; mining sector skills development		3.8 TVET: sector coordination across donors, companies and government; mining sector skills development
		3.9 Quality: teacher training and sector quality improvements at TVET and tertiary level
		Other:
		3.10 Governance: civil service reform, including development of a constitutional civil service commission to assist in the professionalization of the civil service and to reduce political interference
		3.11 Agriculture: water management; value added; supply chain capacity

References

- ADB, 2013, *Mongolia Fact Sheet*, Manila
- ADB, 2013. *Social Protection Index*, Manila
- Bank of Mongolia, 2015, *Balance of payments news*, [<http://www.mongolbank.mn/eng/bopnews.aspx?id=1>], Bank of Mongolia, Ulaanbaatar, accessed 2 March 2015
- Bertelsmann Stiftung, BTI 2014 - Mongolia Country Report. Guetersloh: Bertelsmann Stiftung, 2014
- Bertulfo, *Women and the informal economy*, AUSAID, Office of Development Effectiveness, <http://www.dfat.gov.au/aid/how-we-measure-performance/ode/Documents/women-informal-economy-lota-bertulfo.pdf>
- Byambaa, E. 2012. *Mongolia: Updating and Improving the Social Protection Index*. Technical Assistance Consultant's Report for TA-REG 7601, ADB, Manila
- Cambridge Education, 2010. *Labour Market Study in Support of the Technical and Vocational Education and Training Project*. Cambridge Education and MEC
- Cane, I. (2014). *Community and Company Development Discourses in Mining: The Case of Gender in Mongolia*. (Doctorate of Philosophy), University of Queensland, Brisbane.
- Collier, P., 2010, *The political economy of natural resources*, Oxford University Press, Oxford
- Coulombe, H. and Gereltuya Altankhuyag, 2012. *Millennium Development Goals and Poverty Map - 2011*. UNDP
- Dierkes, J. *Feeling (politically) Pessimistic for Coming Year*, Mongolia Focus, <http://blogs.ubc.ca/mongolia/2015/pessimistic-sheep/>
- Damba Ganbat, *Mongolian Youth Outlook Country Profile*, 2012, Asian Barometer Working Paper Series No.81, Taiwan, Taipei
- EBRD, 2013. *Stuck in Transition?* EBRD.
- EPCRC, 2014. *Mongolia in World Competitiveness Report*, EPCRC
- Fritz, V. 2014 'Dealing with a Resource Shock: Political Economy Analysis and Its Impacts in Mongolia' in V. Fritz et al. (eds) *Problem-Driven Political Economy Analysis: The World Bank's Experience*, World Bank
- Hausmann, Rodrik and Velasco, 2005 *Growth Diagnostics*, John F. Kennedy School of Government, Harvard University, Cambridge
- ILO, 2013. *Report of National Child Labour Survey*. ILO
- IMF, 2013, *Article IV Report: Mongolia*, IMF, New York
- IMF, 2014, *Article IV Mission to Mongolia, Concluding Statement, 26 September 2014*, IMF, New York
- National Democratic Institute, (2013) *Increasing Women's Political Participation Through Effective Training Programs: A guide to best Practices and Lessons learned*, <https://www.ndi.org/files/Training-Manual-Increasing-WPP-Through-Effective-Training-Programs.pdf>
- National Statistics Office of Mongolia (NSO), 2011. *Poverty Profile in Mongolia 2010*. NSO Narangoa, L. (2011). *Mongolia in 2011 resources Bring friends and wealth*. *Asian Survey*, 52(1), 81-87.
- Nemekhbayar, E., (2015), *Government Policies and Strategies in the minerals sector*, World bank, Ulaanbaatar
- Pastore, F., 2012. "I wish I had 100 dollars a month ...": The intergenerational transfer of poverty in Mongolia, Discussion Paper series, Forschungsinstitut zur Zukunft der Arbeit, No. 6487
- Resource Governance, <http://www.resourcegovernance.org/news/blog/greater-governance-stronger-rankings-mongolia-revisits-resource-governance-index>, Resource Governance index, accessed 2 March 2015
- Ronnas, P. 2011. *Challenges for achieving job-rich and inclusive growth in Mongolia*. ILO
- Rossabi, M. (2005). *Modern Mongolia, From Khans, to Commissars to Capitalists*. London: University of California Press.
- Sant Maral Foundation, *Politbarometer No.11 (44) June 2012, Mongolia*, Ulaanbaatar

School of Economic Studies. 2013. *Consumer Confidence Survey*. School of Economic Studies

Sneath, D. 1993 *Social relations, networks and social organisation in post-socialist rural Mongolia, Nomadic Peoples*, 33,

Tuinhof, A., and Buyanhisnig, N. (2010). *Groundwater Assessment of the Southern Gobi Region* (E. A. a. P. S. D. Department, Trans.) Monoglia Discussion Papers. Washington, D.C.: World Bank.

UCW, 2009. *Understanding children's work and youth employment outcomes in Mongolia*. UCW

UNDP, 2013, *Achieving the MDGs Fifth National Progress Report 2013*, UNDP, Ulaanbaatar

UNDP, 2014, *Human Development Report 2013*, UN, Geneva

United Nations Economic and Social Commission, 2014, *Report on the implementation of the Beijing + 20 declaration*, UN, Ulaanbaatar

United States Department of Labor's Bureau of International Affaris, 2013, *Findings on the Worst Forms of Child Labor*, [<http://www.dol.gov/ilab/reports/child-labor/findings/2013TDA/mongolia.pdf>], Washington

UN Water. (2013). UN-Water Country Brief: Mongolia.

US Embassy to Mongolia, 2014, *2014 Trafficking in Persons (TIP) Report on Mongolia*, [<http://mongolia.usembassy.gov/tip2014.html>], Ulaanbaatar, 2 July 2014

World Bank, 2007. *Building the Skills for the New Economy*. World Bank, Washington

World Bank, 2010. *Tertiary Education in Mongolia: Meeting the Challenges of the Global Economy*. World Bank, Washington

World Bank, 2010, *Mongolia: Joint IMF/World Bank Debt Sustainability Analysis Under the Debt Sustainability Framework for Low-Income Countries*, World Bank, Washington

World Bank, 2013. *Mongolia - Gender disparities in labor markets and policy suggestions*. World Bank, Washington

World Bank, 2013b, *Mongolia: promoting Social Accountability*, [<http://www.worldbank.org/en/news/feature/2013/02/21/mongolia-promoting-social-accountability>]

World Bank, 2015, *Mongolia Economic Update December 2014*, World Bank, Ulaanbaatar

World Bank, 2015, [<http://www.worldbank.org/en/country/mongolia/projects>], accessed 12 January 2015

Annexure 1: Donors

There are a number of donors and development partners engaged in Mongolia, many of which are discussed below. Donors not included contributed less than US\$3.5 million in 2013, with relatively limited noticeable presence or programs in Mongolia. The profile of both China and Russia's development assistance is unclear and so is not recorded below.⁴⁹

Table 8: ODA net grants by donor

Country	ODA net (USD)		
	2011	2012	2013
Bilateral donors			
Japan	75.6	110.7	165.2
United States	68.7	122.1	86.6
Germany	34.7	43.1	32.9
Korea	30.5	31.8	27.7
Switzerland	15.2	15.2	20
Australia	7.4	13.5	14.9
Multilateral			
UN Agencies	9.3	6.2	9.3
EU Institutions	5	3.9	4.9
Total of all ODA	350.6	448.8	428.3

Source: OECD (2015), *Geographical Distribution of Financial Flows to Developing Countries 2015: Disbursements, Commitments, Country indicators*, OECD publishing, Paris, p. 211.; World Bank Data

World Bank (WB) – The WB has a long-established presence in Mongolia and has a number of projects including the third phase of Sustainable Livelihood Program (in partnership with the Swiss).⁵⁰ This project provides grants to aim at rewarding good practices such as budgeting that aligns with development plans and completed audits. The World Bank runs the Education Quality Reform Project for Mongolia designed to improve the quality of education for primary school children. It has commenced some work in the field of employment, in particular an assessment of the employment support programs, although this is at an early stage. The WB has made no new loans to Mongolia since 2012. It will top up its local development grants, and remains active in civil service reforms. It has some mining-related projects focussed upon mine planning, mine feasibility studies and environmental planning through an institutional strengthening project.

Asian Development Bank (ADB) – The (other) Bank also has a long-established presence in Mongolia (ADB 2014). The interim Country Partnership Strategy (CPS) 2014-2016 for Mongolia has two strategic pillars: (1) competitive, sustainable, and regionally integrated growth; and (2) inclusive social development. It identifies five priority sectors: transport, energy, water and other urban infrastructure and services, education, and health. The ADB has a number of ongoing projects in the social field including a project on Inclusive Growth (funded by JICA); and projects on health insurance and social safety nets (Food and Nutrition Social Welfare Program). It also has a large Educational Development project. This aims to improve employability and income earning opportunities of graduates from secondary and vocational education. There is also a large proposed ADB loan-funded project (\$25 million) on TVET, although it is unclear if this will be approved by Parliament given the government debt position.

JICA – JICA is the largest donor in Mongolia. Japan's Country Assistance Policy for Mongolia prioritises: (1) sustainable development in the mineral resource sector and stronger governance: creating systems and training human resources for sustainable mineral resource development; (2) support toward inclusive growth: creating employment and improving basic

⁴⁹ Anecdotal evidence was provided that China provides 'many education scholarships' at the primary, secondary and tertiary level.

⁵⁰ <http://www.worldbank.org/en/country/mongolia/projects>, World Bank, Washington, 2015.

social services, with a focus on micro, small and medium-sized enterprises to create a diversified industrial structure; and (3) strengthened urban functionality in Ulan Bator: improving the infrastructure of Ulan Bator, along with urban planning and management capacity. Japan anticipates that it will spend between US\$70 and US\$100 million per year, depending on the stage of projects. A focus of JICA's human development work is the training of engineers.

Swiss Development (SECO) – SECO is one of the more diversified donors in Mongolia. The current Swiss Cooperation Strategy with Mongolia 2013-2016, prioritises: (1) agricultural development, ensuring food security and better livelihoods for the most vulnerable of the population; (2) vocational education and skills training for unskilled youth and adults in order to improve their employability; and (3) good governance and civil society development, in particular through support for reforms related to decentralisation, direct democracy and civic participation. The later program has done significant work in supporting the decentralisation of public spending and public procurement. SECA also runs programs in reproductive health, and effective SMEs (under the latter, lines of credit may be available to fund small businesses).

GIZ (Germany) – GIZ is working in the following priority areas: support for sustainable mineral resource management; biodiversity; energy efficiency; and vocational training. In practice this includes working in areas such as corporate social responsibility and TVET. GIZ delivers the competency based training model in TVET based on Australian model, and with Australian and Mongolian government counterpart funding. Historically GIZ secured counterpart funding for all projects, but Mongolia is now requesting GIZ pay 100% of costs. Citing Mongolia's development status, GIZ's focus is upon inclusive growth, and not poverty reduction.

Foreign Affairs, Trade and Development Canada – Canada has only recently established a permanent mission in Mongolia, and cites Mongolia as one of Canada's 25 priority countries for development assistance. Canada's focus is governance in: extractives; civil service reform; and advancing democracy with five thematic areas, namely sustainable economic growth; food security; children and youth; advancing democracy; and peace and security. Canada's annual funding is approximately C\$5 million, however annual spending is not this high apparently due to slow internal approval processes. Canada has worked in the South Gobi on a water management project, with the IFC. Canada seeks to move to a second phase, preferably in conjunction with Australia. Canada is leading on the Corruption Index initiative developed by USAID with Australian funding. It is also working with JICA to build the capacity of civil servants to run Public Private Partnerships (PPPs).

United Nations – A number of UN agencies are active in Mongolia, but all with relatively limited resources.

UNDP – UNDP focusses upon [poverty reduction](#), [democratic](#) governance and environment, climate change and energy. It has, for example, funded interesting poverty mapping work. Its annual funding is approximately US\$6 million but this will decrease as they move away from project work towards policy and advocacy work only. This approach is a response to Mongolia's status as a lower middle income country.

UNICEF, UNFPA, ILO – UNICEF has carried out research including the Mongolia Multiple Indicator Cluster Survey. UNFPA has engaged consistently in gender related areas, including but not limited to; violence against women and political participation. ILO has an ongoing role in the employment field but with very limited resources. **European Union** – The EU is currently funding two relatively small TVET projects and a project supporting SMEs. It plans to launch a larger employment related project in 2015, and proposes to step up its engagement in Mongolia over the period up to 2020.

European Bank for Reconstruction and Development (EBRD) – The EBRD is not technically a donor but it is the largest development bank in Mongolia with a portfolio of current projects valued at 648 million euros. EBRD supported projects internationally focus on the private sector, including in energy; financial institutions; infrastructure; and industry, commerce and agribusiness sectors. In Mongolia, EBRD's main priority areas are: diversification, sustainable growth, responsible mining and institutions, and infrastructure and private sector development.

Annexure 2: Civil Society

Following is a representative sample of active Mongolian civil society organisations.

Mongolian Civic Environmental Council (MECC) – according to MECC there are over 700 environmental and mining related NGOs. The MECC was established as the umbrella organization of environmental and mining NGOs to join their efforts and have a “unified voice” to engage with other stakeholders, especially the Mongolian Government. As is sometimes evident in civil society in Mongolia, the MECC has not been able to build up institutional capacity or legacy nor expand its mission. The number of its members is decreasing.

Arts Council Of Mongolia – The Arts Council of Mongolia (ACM), is one of the oldest CSOs in Mongolia and has played a critical role in developing and preserving Mongolian culture and arts. ACM have worked alongside mining companies and donor agencies to preserve heritage listed sites and document audio and oral histories. ACM believes that art and culture play a crucial role in both the social and economic development of Mongolia. Its programs are shown within Mongolia and exported globally to showcase Mongolian heritage. The organisation is an important link in documenting social changes caused by mining.

Publish What You Pay Coalition – the Coalition consists of 30 members was established with an objective to coordinate civic society’s participation in the EITI process in Mongolia. It consists of leading Mongolian CSOs such as the Open Society Forum and the Center for Human Rights Development.

Open Society Forum – the Open Society Forum’s main role has been to build the capacity of the civil service to be able to engage in the EITI process. It is very active in building the capacity at the local level. It undertakes focused work on the transparency of contracts in the extractives sector. It supported the development of ‘Citizen Councils’, and Government now requires that some decisions pass through these councils.

Natural Resource Governance Institute (NRGI) – Mongolia is a focus country for NRGI. NRGI’s main objective is to ‘follow the money trail’ in the extractives sector. NRGI works with the Government on revenue management and governance issues in the extractives sector. It produces the ‘Resource Governance Index’, which provides a score card of Mongolia’s performance against fifty eight other mineral and petroleum exporting countries. NRGI also runs training programs for MPs on resource governance and revenue management and provides TA to assist agencies to implement anti-corruption legislation.

Gender Centre for Sustainable Development (GCSD) – the GCSD, established using Australian Aid seed funding, was the first gender-based NGO established in Mongolia, and is one of the most influential NGOs in Mongolia. GCSD conducts work in poverty reduction through targeted health and education programs. This is complemented by action-based research into emerging gender and development issues. Over the last three years GCSD commenced substantial engagement in gender and mining issues, articulating concerns about the negative effects of rapid social changes, environmental impacts and increased gender based violence it has observed in communities. GCSD has a community centre in one of the most vulnerable ger districts in Mongolia, where it works with recent migrants and single-headed households operating in extreme poverty.

National Centre Against Violence (NCAV) – The NCAV have a national branch and 16 branches in aimags around Mongolia. They are the most prominent CSO and have developed services (hotlines, women’s shelters), advocate and support victims of violence in Mongolia. NCAV were instrumental in advocating for the *Domestic Violence Law*.

Annexure 3: Mongolia analysis mission schedule

Aid Investment Plan: Mission meetings, 19-29 January, 2015

Mission team:

- David Osborne (Team leader, economist)
- Isabel Cane (Gender expert)
- Enkhzaya Chuluunbaatar (Governance expert)
- Trisha Gray (DFAT)

Ulaanbaatar			
19 Jan (Mon)	19:00		Mozzies' dinner courtesy by DFAT
20 Jan (Tuesday)	09:30	10:00	Mr. Tony Burchill, Consul general, Munkhjargal, Zolboo, DFAT
	10:30	11:30	Dr. Tuvshintugs, Economic Research Institute
	11:40	12:30	Mr. Iwai Atsumu, Senior Representative, JICA
	12:40	13:40	Mr. Mark Bezemer, Senior Country Economist, ADB
	14:00	15:00	Mr. Thomas Eriksson, Deputy Resident Representative, UNDP
	15:30	16:30	Ms. Lakshmi, Executive Director, Economic Policy and Competitiveness Research Center
	17:30	18:30	Mr. Tsolmon, EITIM Coordinator
21 Jan (Wednesday)	8:30	09:30	Mr. Nyamaa, DG, Financial policy and Debt Management, MoF
	10:00	11:30	Mr. Graeme Hancock, President and Chief Representative, Anglo American
	11:30	12:40	
	13:00	14:00	Mr. Jargalsaikhan DeFacto, Economist
	14:30	15:30	Mr. Batbold, Mongolian Environmental Council NGO
	16:00	17:00	Mr. Adiyasuren, DG, Strategic Planning and Policy, Ministry of Road and Transportation
22 Jan	09:30	10:20	Mr. Markus Waldvogel, Country Director of Cooperation, Consul general, SDC, Swiss

(Thursday)			Cooperation
	10:40	11:30	Jim Dwyer, Executive Director, The Business Council of Mongolia
	12.00	13.30	Mr. Nergui.B, Head, Division of Mining Policy, Ministry of Mining, Mr. Enkhbayar.N, Head, Economy, finance and Investment Division, Department of Strategic Policy and Planning, Ministry of Mining
	14:00	15:00	Ms. Bolormaa, Head of National Committee on Gender
	15:30	16:30	Mr. Jadamba.M, Ministry of Labour
23 Jan (Friday)	09:00	10:00	Mrs. Oyunchimeg.M, CEO, Mongolian Chamber of Commerce and Industry
	11:00	12:30	Mrs. Erdenechimeg, MP, Ambassador on gender
	12:30	14:00	Ms. Naomi Kitahara, Representative UNFPA
	14:10	15:40	Ms. Nancy J. Foster, Counsellor and Head of Development Cooperation, Canadian Embassy Ms. Oyunbileg.B, Development officer
	16:00	17:30	Mr.Brian White, Senior Advisor, Communications &Media relations Amarsanaa.A, Advisor, External Affairs
	18:00		Mr. Choi-Ish. L, DG, Strategic Policy and Planning, Ministry of Industry and Agriculture,
26 Jan (Monday)	09:00	10:20	Australia Mongolia Chamber of commerce Mr. Douglas J.McGay, General Manager, Sustainability; Mrs. Elizabeth Ellis, Partner, Minter Ellison law firm, Dr Andrew Stewart Chief Geologist XANADU MINES LLC
	10:30	12:00	Ulrike Ebeling, Country director for GIZ office, Jurgen Hartwig, Program Director, Cooperative Vocational Training in the Mineral resources Sector
	12.30	13.40	Mr. James Anderson WB country director

	14:00	15:00	Mr. Munkh-Erdem Department Head of Integrated Policy Management of Land management and Water, Ministry of Environment and Green Development,
	15:30	16:30	Ms. Erdenechimeg, Manager for Governance Program, Open Society Forum
	16:40	17:30	Mr. Dorjdari, Country Coordinator Natural Resource governance institute
	18:30		Australia day reception
27 Jan (Tuesday)	10:00	11:10	Independent Authority Against Corruption
	11:30	12:40	Matthieu Le Blan, Head of Office, EBRD
	13:00	14:20	Mr. Khashchuluun, Mongolian National University
	14:30	15:30	Mr. Battulga, Director of Mining Division, Mineral Resource Authority of Mongolia
	15:30	18:00	Mrs. Amgalan, Director, Gender Center for Sustainable Development
	19:00		Mr. Roberto Benes , Representative, UNICEF
28 Jan (Wednesday)	09:00	9:40	Battogtokh.D, Ministry of Industry, Acting State Secretary
	10:00	11:00	Head of Mine Planning and Coordination Division (state owned coal company)
	11:20	13:00	Mrs. Delgermaa, Senior Advisor to MP Mr. Khosbayar, Cabinet office, Advisor of Foreign Relations
	14:00	15:30	Mr. Bold.S, Chief economist, Central bank of Mongolia
	16:00	16:30	DFAT, Tony briefing meeting MP Bat Erdene Southgobi aimag
29 Jan (Thursday)	9:00	10:30	Mr. Alгаа, President, Mongolian mining association
	11:00	12:30	Mrs. Bayarsaikhan, who works in South Gobi NGO
	12:30	14:00	Mrs. Oyun, MP
			IMF, Ms. Yuko Kinoshita, skype call

Annexure 4: Team members summary

Name	Role	Qualifications	Previous experience of similar nature
Mr David Osborne	Team Leader/ Development Economic Specialist	Msc Economic Policy, University of London, UK, - current Advanced Public Financial Management, Netherlands Economic Institute, Netherlands Economics of Public Finance, Australian National University, Australia B Ec, Australian National University, Australia BA Asian Studies, Australian National University, Australia	Lead Economist: Economic Issues Paper: Papua New Guinea Sovereign Wealth Fund's process of formulation, and progress towards establishment, PNG National Research Institute, 2014 Lead Economist: Socioeconomic Survey and Impact Report for Western Province, PNG Sustainable Development Program, 2010
Dr Isabel Cane	Gender Specialist	Doctorate of Philosophy, School of Anthropology & the Sustainable Minerals Institute, University of Queensland Bachelor of International Studies (Development Studies and International Relations) – (First Class Honours), University Of Adelaide	Research Manager: Managing the impacts of minerals development on women and men and their traditional livelihoods in Mongolia, DFAT, 2013 – ongoing Research Manager: Mapping Gender Based Violence and Mining Infrastructure in Mongolian, International Mining for Development Centre, 2013 - 2014
Dr Enkhzaya Chuluunbaatar	Governance Specialist	PhD Economics, Dresden University, Germany Diploma of International Relations, National University of Mongolia, Mongolia	Governance Advisor : World Bank Country Office Ulaanbaatar, World Bank, 2011 – 2013 Mongolian Development Adviser: Investment Design for AusAID's "Mining for Development" Program (Canberra & Mongolia), AusAID, 2013 - 2014
Dr Mel Cousins	Social and Poverty Specialist	PhD, Law and Social Science, Caledonian University, 2010 Barrister at Law Degree, Honourable Society of Kings Inn, Dublin, 1989	Team Leader/Senior Policy Development adviser: Promoting Inclusive Growth – Mongolia, ADB, 2014 Team Leader: Future Approaches to Social Protection Programs in the Mekong Region, AusAID, 2013