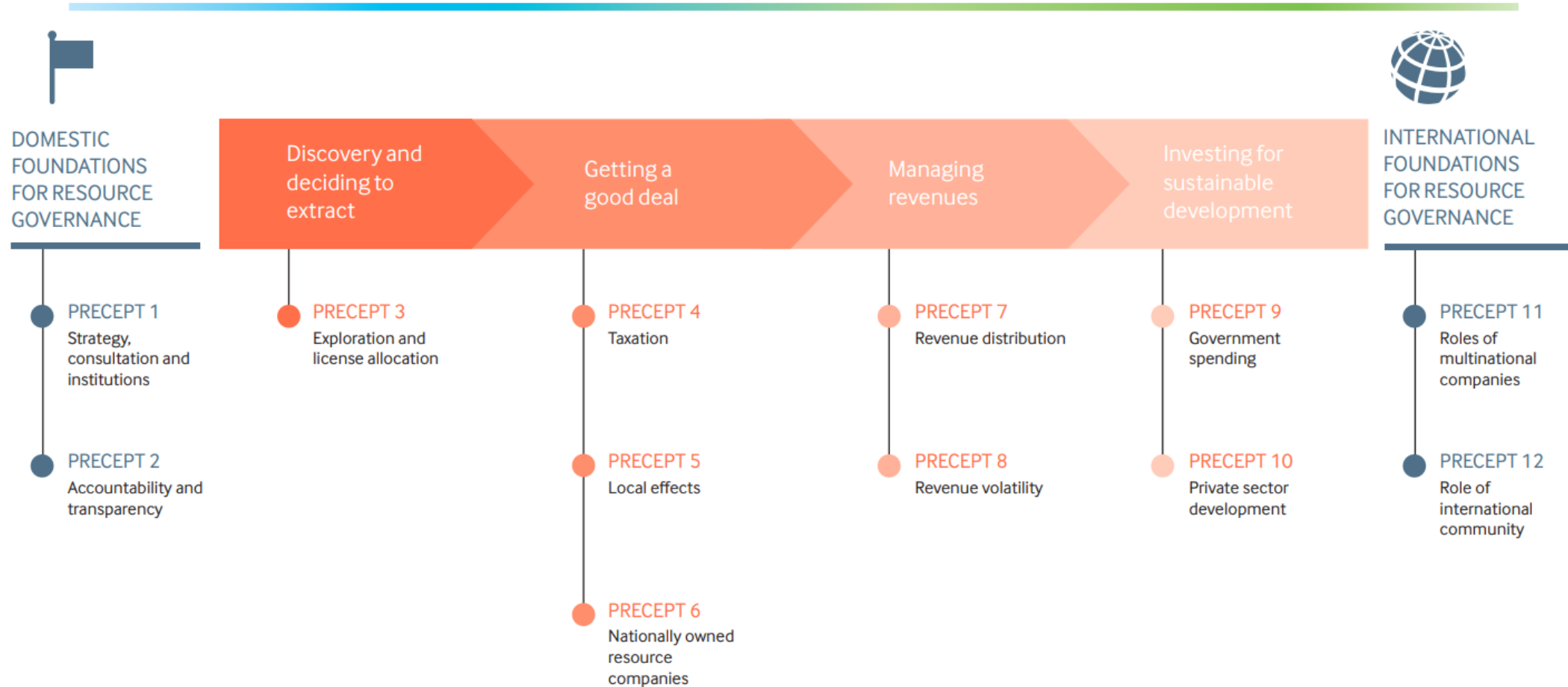


MINING DEVELOPMENT STRATEGY

Presenter: B. Tuvshintugs
Economic Research Institute

Natural Resource Charter Decision Chain



Natural resource Charter Benchmarking Framework

- Cognizant of reality
- Considering the long-term approach
- Comprehensiveness – consideration of the full range of issues in the management of resource wealth
- Inclusiveness – development, implementation and oversight processes must be inclusive

NRGI Benchmarking Practices

- Relatively new analytical framework
 - Myanmar
 - Nigeria
 - Sierra Leone
 - Ghana
 - Tanzania
 - Others selectively

Cognizant of Reality

- Realistically understand the role of the mining sector in the economy
 - Too optimistic or too pessimistic view of the sector: overestimation or underestimation
 - Misunderstanding or misestimating of the sector's role in the economy can lead to dramatic consequences on the government's budget.

Considering the Long-Term Approach

- The strategy should maintain the long term view of the country: future generations
 - Exploration and mining licensing at certain pace
 - Sound revenue management
 - Clearly show pathway to achieve how and in what steps the country can benefit from the natural resources.

Comprehensiveness

- A comprehensive approach towards managing the resource wealth.
 - It is rather a chain of policies that should complement each other in order to achieve the goals set out in strategic documents.
 - governance for planning,
 - environmental management,
 - taxation,
 - state owned enterprises,
 - finance,
 - industrial policy, energy,
 - infrastructure,
 - labor and education among others.

Inclusiveness

- The strategy design and development, its implementation and oversight should be conducted by government bodies as well as by actors outside the executive branch
 - Various government bodies
 - Civil society

Overview of Strategic Documents in the Minerals Sector

- Sustainable Development Goals (SDGs) 2030
- State Minerals Policy (SMP): 2014-2025
- Government Action Plan for 2016-2020

Sustainable Development Goals (SDGs) 2030

Objective 1. Support geological sector development.

- **Phase I - (2016-2020):** Strengthen the capacity to undertake all types of comprehensive research in geology, geochemistry and geophysics, update research methodologies, guidelines and procedures conjunct with internationally accepted methods, draw a full map of Mongolia with a 1:200,000 scale, and draw geological maps on 1:50,000 scale for 40 percent of the territory, with ore zones and banks with mineral resources for general exploration.
- **Phase II - (2021-2025):** Create a geological information data base, create a favorable environment for investment in the mineral exploration sector, and draw geological maps of 1:50,000 scale for 50 percent of the territory, with ore zones and banks with mineral resources for general exploration.
- **Phase III - (2026-2030):** Conduct in-depth explorations at all sites with mineral resource deposits, and draw geological map of 1:50,000 scale for 60 percent of the territory, with ore zones and banks, with mineral resources for general exploration.

Objective 2. Encourage transparent and accountable extractive industry, and improve the competitiveness of the mining sector.

- **Phase I - (2016-2020):** Ensure stable investment environment for the mining sector, develop environment-friendly infrastructure and transportation network, and establish high-capacity power plant in Gobi region.
- **Phase II - (2021-2025):** Implement projects on reliable water supply sources, and ensure full functionality of large mining projects.
- **Phase 3 - (2026-2030):** Start development of large mining projects, and develop the infrastructure

State Minerals Policy (SMP) 2014-2025 Goals

- 1. To implement geological research and exploration in accordance with the government policy and to increase national mineral reserves providing long-term sustainable development basis for the mining sector*
- 2. To mine mineral reserves exhaustively and at appropriate level using technology with minimal environmental impact, processing level to be deepened in order to increase the production level as well as variety of products*
- 3. Adoption of integrated standards in the mining and processing and to create safety and sanitary conditions in each step of the production which leads to lower production accidents*
- 4. To be able to carry out long-term planning as a follow up to mining projects which brings the infrastructure development (road networks, power plants, cities and towns);*
- 5. Creation of major industrial centers which will reduce over-concentration of population;*
- 6. Human resources of the minerals and infrastructure sector will be trained and the number of professionally trained local workers and workplace will increase decreasing unemployment level;*
- 7. The activities related to environmental protection, mine closure and rehabilitation and long-term monitoring shall be done in accordance with laws and international standards in orderly and responsible manner;*
- 8. To restrict mining and processing operations near riverbed areas, out-flowing basins, forested areas, agricultural fields, fertile pastureland, Gobi oasis, lakes and ponds in order to achieve ecological balance and to produce healthy eco-food products which will provide an environment for citizens to use healthy nutrition and a safe living environment;*
- 9. All activities in the minerals sector shall be undertaken in accordance with applicable laws and regulations and be transparent to the public and to create an environment whereby public opinion should be received and reflected in the formulation of new laws and regulations and in the implementation of big projects*
- 10. To create an environment whereby trading of mineral products are openly carried out at the minerals' market in compliance with international standards and accompanying improved business environment in the minerals sector will be established*

State Minerals Policy (SMP) 2014-2025

SMP directions:

- Legal environment
- Minerals sector management, organization and human resource management
- Environmental protection and reclamation
- Support for local development, protection of interests of indigenous people
- Downstream processing sector
- Mining operations sector
- Geological sector

Government Action Plan for 2016-2020 Goals

- ***The Government aims at developing a sustainable economy based on diversified domestic production that strengthens the macroeconomic stability, and increasing the country's gross national income to regain the Upper Middle Income Country status.***
 - 1.24. *Boost the operations of Erdenes Mongol LLC and the Oyu Tolgoi project and start exploitation of the Tavan Tolgoi and other deposits of strategic importance.*

Measures to be taken in geology, mining and heavy industry sectors:

- ***The Government will aim at creating a favorable investment environment for geology and mining, ensuring sustainable development of mining sector and enhancing the competitiveness of Mongolia on the international minerals market.***

Road and transportation:

- ***The Government will further develop the road, transportation and logistical network that sustains economic growth, is consistent with social needs and demands, and provides safe and comfortable services.***

Assessment: Cognizant of Reality

- **About resource endowments and commodity price scenarios**
 - Policy documents in itself does not directly reveal the country's estimations of resource reserves and assumptions on commodity pricing
 - The “Annual Bulletin of Mining and Geology”
 - Geological reserves
 - Production and Forecast of production
- Strategic documents reflect conceptual issues and thus lack clarity and details.
 - No estimation of the country's resource wealth and how to make it consistent with the development strategy documents
- Estimation will benefit the population and policymakers, investors and other stakeholders in terms of forming expectations.

Assessment: Addressing Resource Dependency

- Resource wealth does not mean a sustainable development: Risks involved in terms of “Resource curse” and “Dutch disease”
- The country’s dependency on a sector can be measured in different ways:
 - 70.9% of exports in Mineral products
 - 31.4% of GDP in 2017:
 - direct contribution of the mining and quarrying sector was 19.2%
 - indirect contribution of the mining and quarrying sector was 12.2%
 - GDP by sectors
 - Contribution to State budget

Assessment: Addressing Resource Dependency

- The country is highly dependent on the mining sector.
- How to address this dependency? The policy document specifically articulates policies that promotes production of value added products and shifts away from only extraction and mining
- The way to address:
 - SDGs are aiming to achieve:
 - *By 2030, Mongolia aspires to be amongst leading middle-income countries based on per capita income. It hopes to be a multi-sector stable economy, and a society dominated by middle and upper-middle income classes, which would preserve ecological balance, and have stable and democratic governance.*
 - “State minerals policy” paper, the government’s policy is described as follows:
 - *State minerals policy will be directed at increased reliance on private sector, development of transparent, responsible mining sector and creation of a balanced and multi-pronged economic structure in the near and medium term, which serves well to the fundamental national interests.*

Assessment: Addressing Resource Dependency

- SDGs are aiming to achieve:
 - *By 2030, Mongolia aspires to be amongst leading middle-income countries based on per capita income. It hopes to be a multi-sector stable economy, and a society dominated by middle and upper-middle income classes, which would preserve ecological balance, and have stable and democratic governance.*
- “State minerals policy” paper, the government’s policy is described as follows:
 - *State minerals policy will be directed at increased reliance on private sector, development of transparent, responsible mining sector and creation of a balanced and multi-pronged economic structure in the near and medium term, which serves well to the fundamental national interests.*

The Government will promote deeper processing in the sector and move away from sole extraction.

- *Conduct policies to promote improvement in the level of processing and produce value added products*
- *To promote projects such as building coal processing, coke and chemical factory, power plant near coal mine, to get liquid fuel form brown coal and oil shale*
- *To promote processing factories through tax, and financial policies and increase the processing level of minerals*

Assessment: Addressing Resource Dependency

- The Government action plan for 2016-2020. The action plan specifies as follows:
 - *The Government aims at developing a sustainable economy based on diversified domestic production that strengthens the macroeconomic stability, and increasing the country's gross national income to regain the Upper Middle Income Country status. (Part II)*
- The Government of Mongolia is aiming to achieve these goals by conducting series of policies by reducing costs of production and formulating and implementing heavy industry development plan.

Assessment: Addressing Resource Dependency – How to Proceed Further?

- A careful assessment of the extraction sector needs to be conducted.
- No assessment of benefits and costs related to extraction and its impact.
- No clear follow up programs to strategic documents: No cost benefit analysis of these programs and actions
- Vague or No prioritization of programs
- Policy analysis in the country has been and remained to be one of the issues that needs to be addressed. How to promote more research?
- Lack of analytical background to the policy decisions: the “Law on legislation”. It remains to be seen how this requirement is implemented in practice.

Assessment: Considering the Long-Term Approach (3 Questions)

Question 1: Do national strategy documents for the extractive industry provide a long-term vision that considers the impact of resource extraction on future generation?

“Sustainable development goals” and “State minerals sector policy” are clearly designed with the long term view.

- SDG and SMP goals are to further develop and expand the mining sector so that:
 - will benefit future generations
 - will provide an opportunity for the country to diversify its economy.

Assessment: Considering the Long-Term Approach

Question 2: Does the strategy present a pathway to achieve this vision? Is there evidence that this is followed by government and other actors?

- Areas of particular importance include:
 - the pace of licensing,
 - fiscal terms;
 - local impacts;
 - state owned enterprises;
 - revenue management;
 - private sector enabling environment
- **Licensing in SMP**
 - *Licensed mining areas to be aligned with principles of cadastral area units in accordance with international benchmarks*
 - *To create a legal environment for usage of additional mineral deposits that are impactful at national and local levels in integrated manner*
 - *To optimally plan the production and processing quantity in conjunction with the country's economic and industrialization development and domestic and foreign market outlook*
 - ***Optimal extraction model***
 - ***Coverage area of exploration and mining licenses***
- **Fiscal terms**
 - The country negotiates taxes, royalties and state ownership policies: Oyu Tolgoi negotiation
 - "Minerals law" stipulates state ownership, royalty, taxes
 - "Minerals law" - strategic deposits and state owned enterprises
 - Confusion over "Strategic importance"
 - Efficiency of SOEs

Assessment: Considering the Long-Term Approach

- **Revenue management**
 - Fiscal stability law
 - Fiscal law
 - Future heritage fund
 - Revenue assurance
- **Promotion of private sector:** Mining sector development and states its objective as
 - *The objective of the “State Minerals Policy” is to establish stable investment environment, to improve quality of mineral exploration, mining and processing by encouraging use of environment friendly and advanced techniques, technologies and innovations, to produce value-added final products and strengthening competitiveness of the country in the international market.*
 - *The government’s strategy in the mining sector is to promote the private sector by providing with better infrastructure in terms of better investment environment and exploration data while encouraging more downstream processing and adoption of environmentally friendly techniques and technologies and innovations.*
 - *Downstream processing of mining products. Although it is understandable that the Government’s strategy is to promote private sector participation in the downstream processing and attract foreign investment, it is not explicitly written in strategic and policy documents and it is not clear how the government will promote private sector participation. Moreover, there is a lack of detailed vision on how the government intends to create a favorable investment environment backed up by a follow up programs to achieve these strategic visions and policy actions.*
 - Are there concrete programs or promotion schemes?

Assessment: Considering the Long-Term Approach

Question 3: Do government communications set reasonable expectations about the long-term nature of the gains and costs of extraction?

- Calculate the long term gains and losses from the mining extraction the strategy documents such
 - Sustainable development goals,
 - State minerals policy
 - Related programs and regulations
- Does not reflect nor clearly convey such information.
- This situation is expected to be addressed: “Law on legislation”

Comprehensiveness and Inclusiveness

- Consideration of the full range of issues in the management of resource wealth and development, implementation and oversight processes must be inclusive.
- Does government ensure participation in the resource strategy development, implementation and oversight by
 - All government bodies
 - Actors outside the executive branch

Comprehensiveness and Inclusiveness

- The chain of decision making processes:
 - governance of planning,
 - environmental management,
 - taxation,
 - state owned enterprises,
 - finance and revenue management,
 - industrial policy,
 - energy,
 - infrastructure,
 - labor and education
- Strategy documents covers all of the above links in the chain
- No assessment on the decision making, implementation and oversight of this chain.
- This is a highly important issue for further analysis with great policy implications.

Comprehensiveness and Inclusiveness

- **Question:** Does the resource strategy consider all of the links involved in harnessing extractive resources for development? Are there any notable gaps?
- “IGF Mining policy framework assessment: Mongolia” the country’s assessment:
 - Environmental Management and Post-Mining Transition – Low
 - Legal and Policy Environment, Financial Benefit Optimization, Socio-Economic Benefit Optimization and Artisanal and Small Scale Mining - Medium

Comprehensiveness and Inclusiveness

Following issues needed to be further assessed in the future:

- **Question:** Does the resource strategy identify priority areas in the chain for strengthening?
- **Question:** Does policymaking happen in a joined up way or does decision-making in different parts of the chain take place in isolation?
- **Question:** Does the government recognize and enable strong oversight of the strategy? Does the strategy include oversight roles for actors within the executive and beyond?

Remarks

- NREGI benchmarking framework was used for the first time for Mongolia
- Resource endowment is not clearly reflected in the strategic and supporting documents
- Proper assessment of policy actions and paths to achieve SDGs
- Prioritization of programs and policies are not clear
- Decision making chain should be analyzed carefully in the future.

THANK YOU