

Development Dialogue 3: “UTILIZING MINING REVENUE FOR MONGOLIA’S DEVELOPMENT”

Summary Report

The third Development Dialogue on “Utilizing Mining Revenue for Mongolia’s Development” was organized as part of the Development Dialogue 2012-13 series. The Dialogue was held as a panel discussion in the new UN House in Ulaanbaatar on January 28, 2013 and was organized in partnership with the Ministry of Finance. It brought nearly 100 representatives from Government, international development partners, civil society, academia and the media.

Mineral reserves are critical for Mongolia’s development. The mining sector accounts for 89% of total exports, generates almost one-third of government revenues, and accounts for roughly 22% of the country's GDP. Mining revenue offers a unique opportunity for resource-rich countries to transform their development prospects. However, not all countries benefit from such an opportunity. Which way will Mongolia go? In managing its mining revenues, how can Mongolia balance between the current development needs and the need to accumulate capital for future generations? Many large mining projects are likely to come on-stream in 2013 which makes these questions all the more pertinent.

Panelists included Mr. Ts. Davaasuren, Member of Parliament and the Chairman of the Standing Committee on Budget Policy; Mr. Gantsogt, the State Secretary of the Ministry of Finance; Mr. Ch. Khashchuluun, ex-Chairman of the National Development and Innovation Committee; Ms. Coralie Gevers, Country Manager of World Bank in Mongolia; and Mr. D. Jargalsaikhan, economist and media representative. The discussion was moderated by Dr. Saurabh Sinha, UNDP’s Senior Economist.

Opening the discussion, Ms. Sezin Sinanoglu, UNDP Resident Representative said that “The sheer size of Mongolia’s mineral resources and potential revenue flows are staggering which places a huge responsibility on the government as it faces tough policy choices on how to use this wealth wisely for the benefit of all. When making those choices, the key words will be equity, sustainability and accountability, all of which underscore human development.” She further emphasised that while resource flows from mining are finite, ways have to be found to ensure that the ‘benefit flows’ continue for longer and are enjoyed also by future generations of Mongolians.

In his opening remarks, Kh.Gantsogt, State Secretary of the Ministry of Finance emphasized Mongolia stands for maximizing the benefits of mining and distribute the benefits on the principle of equity between the generations. The Government plans to use the mining revenue for the Human Development Fund and the Stabilisation Fund. “For the last three years, the mining sector has contributed 2.9 trillion tugrugs into the state budget, making up one-fourth of the budget revenue. Of this, one-third has been distributed to the Mongolian population as mining benefits and the remaining has been used to fund the budget expenditure and 335 billion tugriks put in the Stabilization Fund. So that the mining revenue benefit not only the present generation but also future generations, Mongolia is learning from the experiences of countries such as Norway, Chile and Arabian countries, to expand its economy, promote the wellbeing of its people, and most

importantly, reserve the wealth for future generations". A Law on Sovereign Wealth Fund is presently being drafted to keep a part of the mining revenue for future use. There are also plans to provide tax support to promote SMEs in the non-mining sector.

The government is planning to hold several consultations to discuss and reach a consensus on maximizing the mining revenues in promoting long-term sustainable development. The upcoming Mongolian Economic Forum will include this issue in the agenda for all stakeholders to share their views and proposals.

The discussion and the question and answer session that followed covered a number of areas. Most panelists talked about trade-offs between investments, especially between meeting present needs and keeping aside money for future generations; and between investing in infrastructure and building human resource capacity through investments in social sectors. The panelists talked about the need to develop a medium-term development strategy to manage the mining revenue better, especially since the new Budget Law now will lead to greater availability of resources at local levels through the Local Development Fund. It is hoped that fiscal decentralization will enable expenditure decisions to arise from broad based consultation and common understanding at different levels.

The establishment of the Ministry of Economic Development has been an important step taken by the new government to manage the economy, and this newly established Ministry can play an important role in designing and implementing a medium term development strategy to improve people's livelihoods through optimum use of mining revenues.

Mr. Davaasuren MP highlighted the central importance of investing in education to improve skills and capacity. Mongolia is a young country and the future wellbeing of the country lies on the ability of the youth to participate in the labour force and in the development process. For that purpose, more investment using the mining revenue should be made in education and skills of people including the youth. Likewise, the health sector should benefit from the mining revenue. Educated and healthy population will be a basis for future development process.

Proper and effective utilisation of mineral revenue requires a suitable institutional framework with transparency and effective governance. Mr. Jargalsaikhan was of the view that institutional arrangements should not depend upon political personalities. Panelists agreed that greater accountability and transparency in the use of mining revenue will greatly enhance its impact on welfare.

Overall, Mongolian economy is heavily dependent upon mineral exports and the revenue is affected by the fluctuations in global prices. In 2008-09 global copper prices declined sharply and put Mongolia's growth into negative territory. So a mineral-rich economy always faces a high risk of fluctuation in global commodity prices. With the introduction of the Fiscal Stability Law, Mongolia is better prepared this time to deal with such a crisis. In the open discussion that followed, the Vice Minister for Agriculture and Industry made a strong pitch for using mining revenue to promote industrial development which would also help in diversification of the economy.

Livestock industry and natural tourism can play a big role in the development of Mongolia. Thus, translating mining benefits into promotion of the non-mining sectors should be undertaken to promote income and job creation which will also contribute to poverty reduction.

The country needs more capacity to manage resources better, especially in evidence based or informed policy and decision making. International organizations can support building Mongolia's capacity through sharing the lessons and experiences of other resource rich countries. Open Society Forum proposed to improve the policy and programme monitoring capacity. All participants agreed with the view that civil society participation in development and monitoring process should be strengthened.

All participants recognized the importance of development dialogues as such this in order to bring different stakeholders to discussions and consensus as to better utilization of mining benefits with ultimate aim of equity, sustainability and accountability in this process to benefit the country's present and future generations.

UNDP intends to organise dialogues on a regular basis each year. Two more dialogues in this series are planned for until March 2013 on Mongolia's "National Strategy on Green Growth" and "Including Youth in Mongolia's Development". Further details will be available on the website www.undp.mn/Dialogues.