

Development Finance Assessment for Mongolia

Diversifying finance for sustainable development



Development Finance Assessment for Mongolia

Diversifying finance for sustainable development
2018



Authors: This assessment was prepared by Erlend Nordby (Team Leader) and a team of national consultants based in Mongolia from the Human Development Research and Training Centre, led by Munkhtseren Sharav. The team included U. Myagmarsuren (Consultant), Ms.O.Enkh-Ariunaa (Advisor), G. Battuvshin, Ph.D (Dean, Business Graduate School, MUST), D. Byambasuren, Ph.D (Lecturer, Graduate School, MUST), P. Algirmaa (Researcher, HDRTC), Ts. Bars (Researcher, HDRTC), A. Enkhtuvshin (Consultant), and J.Myagmar (Consultant).

Acknowledgements: This Development Finance Assessment (DFA) for Mongolia was made possible by the leadership of the Ministry of Finance, which supported this assessment together with representative members of the oversight team who provided critical observations and guidance during the set up and implementation of this work. Gratitude is also expressed to the Ministry of Environment, the Ministry of Energy, the Bank of Mongolia, and the National Statistics Office for their assistance and willingness to share data and information together with the broad range of development partners, civil society organizations and private sector stakeholders who have also contributed greatly to the report.

Technical guidance was also provided by the Asia Pacific Development Effectiveness Facility (AP-DEF), as well as by UNDP Mongolia Country Office and UNDP Bangkok Regional Hub. Financial contributions and support from the Asian Development Bank and the Government of Switzerland are greatly appreciated.

Translators to Mongolian: Ms.G.Ulzijjargal, Mr.Ts.Bars

Disclaimer: The views expressed in this publication are those of the authors and do not necessarily represent those of the institutions to which they are affiliated, including the United Nations Development Programme (UNDP), or the Government of Mongolia or the United Nations and its Member States.

Design by Inis Communication – www.iniscommunication.com



Foreword

I am pleased to present this ground-breaking report *Development Finance Assessment for Mongolia: Diversifying finance for sustainable development*.

This Development Finance Assessment (DFA) provides an overview of the country's development finance flows, the institutions managing these flows and how these factors can deliver the national policy priorities and the Sustainable Development Goals (SDGs).

In the context of challenging economic, social and environmental conditions and of the changing development finance landscape worldwide, the Government of Mongolia (GoM) is currently exploring new opportunities for mobilising and managing domestic, external, as well as public and private resources, to finance its development plans and aspirations. For example, Mongolia deposits one of the largest reservoirs of mineral reserves in the world. However, the economic boom and bust cycles over the last decades have shown that translating valuable assets into sustainable growth and socio-economic development is demanding.

In order to more effectively manage existing resources and mobilize additional finance for development purposes, complementary governance reforms need to be implemented. This report demonstrated how these reforms could address the current shortcomings in public sector planning, budgeting, monitoring and management. To achieve its development targets, GoM could also develop sector specific development strategies to proactively mobilize the resources and technical knowledge of non-state actors. This will only be achieved by creating an enabling framework for accountability and dialogue that supports a transparent and open dialogue between government, parliament, the private sector and NGOs.

The DFA is one step in this direction and its findings present an ambitious agenda for moving toward a more integrated approach to managing development finance in Mongolia.

I hope that the recommendations in this report will support dialogue and action across public and private actors to re-orient financing towards long-term development, and we look forward to working with all our national counterparts, development partners and other stakeholders to follow up on the findings outlined in this assessment.

As we look ahead in pursuance of Mongolia's sustainable development vision, this type of intra-governmental collaboration will be critical, and I commend the initiative of the Government to convene and seek inputs both within and outside the Ministry of Finance towards finalizing this important study.

Finally, I am hopeful that the Government, as well as relevant stakeholders, will be able to fully utilize the findings of the report in order to benefit from this assessment.

Beate Trankmann

UN Resident Coordinator

UNDP Resident Representative

Contents

Foreword	iii
Abbreviations and acronyms	viii
Executive summary	xi
1. Introduction	1
1.1 Objectives and scope of work	2
2. The DFA methodology and approach	3
2.1 The DFA approach in Mongolia	4
2.2 Data collection	5
2.3 Limitations of the review	6
3. Country context	7
3.1 Governance structures	7
3.1.1 Local government structures	8
3.2 Socio economic developments	8
3.3 Economic development and the program for economic recovery	10
3.3.1 Program for economic recovery and financial support agreement for Mongolia	11
3.3.2 Progress in implementation of the economic recovery plan and recent economic developments	13
4. Mapping Mongolia's finance flows	14
4.1 Government revenues	14
4.1.1 Tax Revenues	15
4.1.2 Non-tax Revenues	19
4.1.3 Natural resource taxation	20
4.1.4 Environmental tax reform and Sovereign Welfare Fund reform	21
4.2 Official Development Assistance	26
4.3 Global concessional funds	30
4.4 Other Official Flows (OOFs)	34
4.5 Government borrowing	35
4.6 Private sector investments and credit	36
4.7 Access to venture capital	38
4.8 Foreign Direct Investment	40
4.9 Public-Private Partnerships	42
4.10 Remittances	43
4.11 Corporate Social Responsibility	44
5. SDG ownership and vision for results	45
5.1 Leadership and policy vision for results	45
5.2 Institutional mandates	47



5.2.1	Localizing the SDVs	48
5.2.2	Parliamentary oversight	49
6.	Public Sector Management.	51
6.1	Policy planning and budget formulation	51
6.1.1	Key constraints in SDV and SDG policy planning and budget formulation	52
6.2	Budget execution	54
6.2.1	Unprecedented growth in public expenditures.	55
6.2.2	Constrained on-budget execution capacity	55
6.2.3	Key constraints in budget execution for the SDV and SDGs	56
6.3	Monitoring and evaluation	57
6.3.1	Use of administrative data for performance planning, budgeting and program implementation	57
6.3.2	Use of national statistics for results	58
6.4	Environment for accountability and dialogue	59
6.4.1	Constraints and lessons to be learned to strengthen the enabling environment for accountability and dialogue	60
6.5	Structural reforms to strengthen public investments and service delivery	61
6.5.1	Civil service reform	62
6.5.2	Public Financial Management reform.	62
6.5.3	Decentralization reform	63
6.6	Revitalize performance oriented reform strategies.	64
6.7	Strategies for mobilization of additional finance	65
6.8	Sector-wide approaches to programming and financing strategies	66
7.	Future financial flows	69
8.	Conclusions and recommendations	77
8.1.1	Develop a diversified financing strategy	78
8.1.2	Develop sector based financing strategies.	80
8.1.3	Strengthen policy and institutional coherence	81
8.1.4	Strengthen performance based planning, budgeting and management	82
8.1.5	Develop a robust monitoring, evaluation and learning system	83
8.1.6	Create an enabling environment for accountability and dialogue	84
Annex 1:	List of documents reviewed.	85
Annex 2:	ToR for Oversight Team	88
Annex 3:	Oversight Team members	90
Annex 4:	Participants at DFA Inception and Validation Workshops.	91
Annex 5:	Stakeholders consulted during dfa missions	93

List of Figures

Figure 1. Integrated National Financing Framework conceptual model	3
Figure 2. GDP total and per capita, 2007–2016, USD at constant 2010 value.	10
Figure 3. Fiscal revenues, 2007–2016 in USD million at constant 2015 prices, and as percent of GDP	14
Figure 4. Revenue streams as share of total fiscal revenues, 2007–2016	15
Figure 5. Tax revenues, 2007–2016 in constant 2015 MNT	16
Figure 6. Tax revenues, 2007–2014 in percent of GDP.	16
Figure 7. Non-tax revenue in million USD, constant 2015	19
Figure 8. Foreign grants on budget in million USD at constant 2015 prices	19
Figure 9. Revenues from extractive industries share of total revenues (MNT billion, current prices)	20
Figure 10. LDF revenues 2013–2017	21
Figure 11. Government total ODA as share of GDP and per capita in constant USD 2015	26
Figure 12. Estimated ODA grants and loans as share of GDP and as USD in constant 2015 value	27
Figure 13. Net ODA per capita in USD by GNI per capita for low middle income countries in 2015	27
Figure 14. Distribution of ODA grants between sectors 2016	28
Figure 15. Other Official Flows, in USD constant 2015 and percent compared to ODA.	34
Figure 16. Government debt 2007–2016, as share to GDP. Nominal values, in USD 2015 constant.. . . .	35
Figure 17. Domestic credit to private sectors and Gross fixed capital formation as share of GDP	37
Figure 18. Foreign Direct Investment as percent of GDP, and in USD at constant 2015 prices	40
Figure 19. Mongolia's distance to the frontier	41
Figure 20. Remittances in million USD at 2015 prices, and as share of GDP	44
Figure 21. Evolution of planning structures	51
Figure 22. General government expenditure and revenues to GDP ratio, Mongolia and lower middle income countries average	55
Figure 23. Recurrent and capital actual expenditure compared to original approved budget, and capital expenditure as share of total expenditures. FYs 2007 – 2015	56
Figure 24. Financial flows 2007 to 2016 relative to GDP, constant USD 2015.	69
Figure 25. Distribution of finance for development in 2015	70
Figure 26. A typical profile of fiscal revenues from a resource project (petroleum).	75

List of Tables

Table 1. Categorization of financial flows included in the financial flow analysis	5
Table 2. Examples of sector specific strategic measures to mobilize additional finance in support of SDG and SDV achievement	73



List of Text Boxes

Box 1. Sin tax in the Philippines	18
Box 2. Environment tax reforms	23
Box 3. Public expenditure to reduce air pollution	24
Box 4. The potential for blended finance in the renewable energy sector	29
Box 5. Global funds and financing climate mitigation and adaptation	31
Box 6. Mobilising finance for agricultural value chains	33
Box 7. Venture capital leveraging domestic finance to promote SME growth and employment	39
Box 8. Independent fund to support local development	44
Box 9. Mongolia MAPS assessment	47
Box 10. SDG localization in UB city – pilot project	48
Box 11. INFF Building Block 1. Leadership that facilitates institutional coherence	49
Box 12. INFF Building Block 2. A clear vision for results	50
Box 13. INFF Building Block 3. Financing strategy	54
Box 14. INFF Building Block 4. Specific financing strategies	67
Box 15. INFF Building Block 5. A robust monitoring and evaluation framework	68
Box 16. INFF Building Block 6. An enabling environment for accountability and dialogue	72
Box 17. Investment and fiscal revenue projections in resource-dependent economies	74

Abbreviations and acronyms

ADB	Asian Development Bank
AECF	Africa Enterprise Challenge Fund
AP-DEF	Asia Pacific Development Effectiveness Facility
BLN	Billion
CDM	Clean Development Mechanism
CERs	Certified Emission Reductions
CIFs	Climate Investment Funds
CNDS	Comprehensive National Development Strategy
CPDE	CSO Partnership for Development Effectiveness
CPI	Climate Policy Initiative
CRH	Citizens' Representative Hurals
CSO	Civil Society Organizations
CTF	Clean Technology Fund
DBM	Development Bank of Mongolia
DCR	Development Cooperation Report
DFA	Development Finance Assessment
DFID	Department for International Development
DFIs	Development Finance Institution
EBRD	European Bank of Reconstruction and Development
EDFI	Association of European Development Finance Institutions
EFF	Extended Fund Facility
EI	Extractive Industry
EITI	Extractive Industries Transparency Initiative
ERP	Economic Recovery Program
ETR	Environmental Tax Reform
FAO	Food and Agriculture Organization of the United Nations
FDIs	Foreign Direct Investment
FSL	Fiscal Stability Law
FY	Fiscal Year
GAFSP	Global Agriculture and Food Security Program
GAVI	Global Alliance for Vaccines and Immunization
GCF	Green Climate Fund
GDP	Gross Domestic Product
GEEREF	Global Energy Efficiency and Renewable Energy Fund
GEF	Global Environment Facility
GFATM	Global Fund to Fight AIDS, Tuberculosis and Malaria
GFI	Global Financial Integrity
GNI	Gross National Income

GoM	Government of Mongolia
GPE	Global Partnership for Education
GPEDC	Global Partnership for Effective Development Cooperation
GrDP	Green Development Action Plan
GEF	Global Environment Facility
HDI	Human Development Index
IAAC	Independent Authority Against Corruption
IFC	International Finance Corporation
IFF	Illicit Financial Flows
IFIs	International Finance Institutions
IMA	Invest Mongolia Agency
IMF	International Monetary Fund
INFF	Integrated National Financing Framework
INGO	International Non-Governmental Organization
KP	Kyoto Protocol
LDC	Least Developed Country
LDF	Local Development Fund
M&E	Monitoring and Evaluation
MDBs	Multilateral Development Banks
MDGs	Millennium Development Goals
MDTF	Multi-Donor Trust Fund
MED	Ministry of Economic Development
MIC	Middle Income Country
MNT	Mongolian Tughrik
MoE	Ministry of Environment
MoF	Ministry of Finance
MPP	Mongolian People's Party
MTEF	Medium-Term Expenditure Framework
NBFI	Non-bank Financial Institutions
NDA	National Development Agency
NDIC	National Development and Innovation Committee
NGO	Non-Governmental Organization
NIP	National Investment Plan
NSDS	National Strategy for Development of Statistics
NSO	National Statistical Office
NSS	National Statistical System
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
OECD/DAC	Organisation for Economic Co-operation and Development / Development Assistance Committee
OOF	Other Official Flows

OT	Oyu Tolgoi
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFMPR	Public Financial Management Performance Review
PIDA	Policy and Institutional Diagnostic Analysis
PPA	Power Purchase Agreements
PPP	Public-Private Partnership
SCCs	Savings and Credit Cooperatives
SDGs	Sustainable Development Goals
SDV	Sustainable Development Vision 2030
SME	Small and Medium-sized Enterprises
SPMP	Strengthening Public Management Programme
SWAP	Sector-Wide Approach to Programming
SWF	Sovereign Welfare Fund
TI	Transparency International
ToR	Terms of Reference
UB	Ulaanbaatar City
UN	United Nations
UNCTD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
USD	United States Dollar
VAT	Value Added Tax
WB	World Bank
WDI	World Development Indicators

Executive summary

This Development Finance Assessment is the first assessment in Mongolia using the DFA methodological framework. The overall objective is to provide an overview of development finance flows, and the management of institutional arrangements that currently are in place to utilize existing finance and to mobilize additional finance, to deliver on the national development priorities and the SDGs. The assessment provides recommendations to utilize opportunities to manage current sources of finance more efficiently and effectively, and to mobilize additional finance for development.

To achieve the overall objective, the scope of work of this DFA covers the following:

- An overview of the trends and composition of financial flows
- Assessment of how the public sector manage to link both public and private finance with results, in the context of the SDGs
- Assessment of the roles and responsibilities of national institutions in managing or influencing the development of individual financial flows to contribute to the national development plan and SDGs.

DFA methodology

To identify opportunities, actions and reforms, the DFA assessment uses a conceptual model centred around an Integrated National Finance Framework (INFF). The INFF model includes six building blocks which are critical to an effective mobilization and use of finance:

1. A national development vision/plan with a well-articulated set of priorities and results related to the SDG agenda
2. Leadership that facilitates institutional coherence and management capacity
3. An overarching financing strategy
4. Specific financing strategies
5. A system for monitoring and evaluation of the effective use of finance for results, in various time frames
6. An enabling environment for accountability and dialogue for the use of finance for results.

DFA main findings

The financial flow analysis demonstrated that Mongolia remains a non-diversified natural resource dependent economy with high levels of fluctuations in financial flows. Compared to countries at the same income level, Mongolia's economy has high public debt, relatively high levels of tax revenues, relatively low levels of net remittances and ODA grants, and average levels of concessional finance. Private sector capital is highly constrained with low levels of FDI and low levels of debt due to a constrained national capital market.

The assessment of the six dimensions of the INFF framework revealed the following:

Vision for development results

GoM took early initiative to localize the SDGs to the Mongolian context, and the Sustainable Development Vision (SDV) was committed to by all main political parties represented in Parliament. NDA has been taking leadership and has initiated a process aiming to operationalize and integrate the SDGs relevant to the Mongolia's context at the national level. The process of localizing the SDGs to the Mongolian context is ongoing, initiatives include identifying targets and indicators, setting baselines for about 50 percent of targets, and commissioning a study to accelerate achievement of water related SDGs. However, although the SDV is a framework for taking the SDGs forward, there are important gaps in its alignment to the SDGs. Limited analysis of trade-offs and synergies between the various policy goals has been conducted.

Over the last two years the focus of the government has largely been directed towards short and medium term requirements related to the debt crisis, and on the economic and financial stabilization and the restructuring of the IMF program to be supported by the three-year EFF.

Leadership that facilitates institutional coherence and management capacity

Despite comprehensive initiatives by NDA to align sector plans to the SDV objectives, there are significant gaps that need to be addressed to strengthen coherence in policy planning and budgeting. A fundamental constraint to policy coherence is that sector strategies are poorly costed and not adequately linked neither to the MTEF nor to the annual budget.

There are multiple underlying causes that contribute to incoherence such as formal regulations and mandates (which are perceived to be overlapping), weak administrative capacity (related to costing of policies), the large number development plans that are operative, and the lack of a performance-oriented culture in the public sector.

These coherence gaps have consequences in terms of low allocation efficiency, evidenced by large fragmentation in the capital budget and low capacity to allocate resources based on cost-benefit analysis, compromising efficiency in public spending and the government's ability to achieve its policy objectives. Moreover, the current practices constrain the government's ability to implement programs and projects at the lowest possible cost while maintaining desired service quality levels (operational efficiency).

An overarching finance strategy

An overall financing strategy for mobilization of revenues and finance in support of the SDGs and SDVs has not been developed by GoM. One challenge relates to the disconnect between planning and budgeting with sector ministries generally focusing on current needs rather than the available resource envelope within the MTEF. Generally opportunities for mobilization of additional resources, such as international funding mechanisms or PPPs, are not strategically considered. This is in part a consequence of overlapping responsibilities between NDA and MoF, and in part related to weak coordination mechanisms supporting coherent planning and budgeting procedures and inadequate planning and budgeting capacity. Another challenge relates to low quality costing of development plans in combination with low quality of the revenue forecasts, which have consistently been over-optimistic and are not reliable.

Mongolia is however in a favourable position to mobilize finance beyond the average of middle income countries. Mongolia is extremely rich in mineral resources, and at the same time the country has an

exceptional high potential within renewable energy sources, both of which potentially can ensure long-term economic growth, increased government revenues, and achievement of Mongolia's development objectives. Mongolia also has a major potential to develop sustainable agribusiness and enhance development of the tourism industry.

To utilize its potential, Mongolia will need to mobilize both additional public and private finance. The government should consider developing an overarching and cross-sectoral strategy for resource mobilization, including clarifying and prioritizing the objectives, roles and procedures for government ministries and agencies in the planning and budgeting process.

Specific financing strategies

In 2016 the parliament approved an economic recovery program, and in 2017 GoM reached agreement with the IMF and other development partners over the extended arrangement under the EFF. GoM is currently undertaking a number of policies and reform measures committed to under the agreement, with the objective to stabilize the economy in the short term and restructuring the economy in the medium term. These measures are structured around three pillars (i) Strengthening the fiscal policy to reduce vulnerability of the boom and bust cycles of the economy, (ii) Strengthening the financial sector, and (iii) Strengthening monetary policy. Under these pillars the government has committed to strengthening the legal and regulatory frameworks, which are of key importance to stabilize the economy. In addition, the government committed to develop specific policies that aim to increase revenue performance, including introducing excise taxes and progressive taxes as well as a number of other measures to improve revenue performance, such as strengthening the quality of the revenue administration.

The government has already followed up some of these commitments. Excise taxes were introduced in 2017, and some of the expensive private loans have been replaced with concessional finance. However, assuming that the regulatory environment is conducive, and that the current challenges in public sector management are coherently addressed, this DFA has demonstrated that there is a significant potential to mobilize additional finance. Sector specific opportunities need to be explored, and financing strategies integrated into development planning and budgeting at a sector level, exemplified in this report with the energy and agricultural sectors.

A robust monitoring, evaluation and learning system

Despite increased focus and progress on financial monitoring, performance-oriented practices in Mongolia are weak, deluding the ability to strategically allocate resources. Reporting and monitoring remain to a large extent output oriented, and the performance information that is produced is only, to a very limited extent feeding back into policy making processes and budget prioritization, due to weak procedures for systematic ex-post evaluation.

While performance oriented reporting templates are in place, proliferation of and lack of consistency between strategies and programs makes performance oriented practices very challenging. Although most ministries have sections for monitoring and evaluation, they are often understaffed and lack capacity to systematically use administrative data in project and program management, and to apply the information in planning and budget formulation processes.

In 2017 the NDA initiated a process to establish a system for SDV and SDG monitoring. However, a mapping undertaken by NSO revealed that many of the SDG targets currently are impossible to monitor and that

there is insufficient data to establish baseline values. An NSO team has been tasked with establishing an SDG monitoring framework, but the challenges are significant. National statistics are only covering some of the SDGs and administrative data is generally of weak quality and more geared towards monitoring of the SDVs than the SDGs.

Based on a comprehensive assessment of the statistical system in 2014, and a Mapping and Assessment of the Data Ecosystem in 2017, a National Program for Development of Statistics for 2017-2020 has been formulated. The program has however not yet been approved by the government.

An enabling environment for accountability and dialogue

There are some significant gaps to be addressed to strengthen accountability mechanisms that support transparent and open dialogue between government, private sector and NGOs.

The constraints relate both to political culture, capacity issues and corruption. Mongolia is a relatively new multiparty democracy, and the tradition for transparency and non-state participation in policy making is still not firmly established. Also, the capacity of government to make use of non-government stakeholders on a systematic basis is weak. An overly politicized civil service hampers accountability and transparency – and elections result in vast changes of key personnel, erosion of capacity and lack of continuity in policy making.

Correspondingly, a major constraint is corruption which discourages effective dialogue, creates a barrier to entrepreneurship, holds back private-sector investments and hinders economic growth. At the same time, dialogue and accountability mechanisms are jeopardized by parliamentary interference in government decision-making, blurring the checks and balances between the executive and legislative bodies, and affecting the extent to which the parliament can effectively hold the executive accountable.

Conclusion and recommendations

The main conclusion of this DFA is that mobilization of finance for development will require that planning and budgeting processes are results oriented, and geared towards identifying and mobilizing additional public revenue sources and private finance that can be utilized to achieve development objectives. To make more effective use of existing resources, and to mobilize additional finance for development purposes, complementary governance reforms have to be implemented. These reforms need to address the current shortcomings in public sector planning, budgeting, monitoring and management. To achieve its development targets, GoM also needs to develop sector specific development strategies and to proactively mobilize the resources and technical knowledge of non-state actors. This can only be achieved by creating an enabling framework for accountability and dialogue that supports a transparent and open dialogue between government, parliament, the private sector and NGOs.

Key DFA recommendations:

1. Develop a diversified financing strategy

There is significant potential to mobilize both additional revenue sources and private finance to achieve the SDV and SDG objectives. It is recommended that MoF should develop a strategy to diversify and strengthen mobilization of public and private finance that includes the following components:

- I. Stimulating private investment in new industries. Steps to attract and encourage growth in private investment include implementing environmental tax reforms to address skewed incentives for investment in high-potential industries such as renewable energy, increasing competition in financial markets, establishing investment facilities, implementing a more pro-active FDI promotion strategy and leveraging instruments such as PPPs and blended finance mechanisms to leverage private investment in infrastructure and key productive sectors.
- II. Establishing a sovereign wealth fund to manage volatile commodity revenues, before the next wave of large commodity exports in the second phase of the Oyu Tolgoi mine.
- III. Managing public debt more effectively in the short term by using the EFF package to reduce outstanding commercial debt as much as possible and in the medium to long-term by preferring concessional over commercial borrowing and not taking on commercial debt that is reliant on anticipated increases in mining revenue.
- IV. Leveraging international public finance by accessing global funds targeting support in pivotal areas for the SDV such as renewable energy, climate change and SME finance, and by working with development partners to increase other official flow investments.

A diversified financing strategy of this nature would sit alongside the SDV as an important vehicle for its implementation, bringing together and providing a foundation for policies in each of these areas of financing. The development and implementation of a diversified financing strategy would bring together responsible actors from across government, representatives of the private sector and development partners and other actors.

2. Develop sector based financing strategies

Mobilising public and private investment in key sectors could be pivotal for advancing the SDV and for government objectives around economic diversification. There is significant potential to leverage international public finance instruments and private financing in sectors including renewable energy and agriculture, among others.

Renewable energy is a key sector that can contribute toward Mongolia's environmental objectives and, with the potential for energy export within the region, be a driver of economic diversification. A sector financing strategy could link to reforms in environmental taxes and consider instruments such as blended finance mechanisms with the potential to mobilise investment in the sector, potentially in partnership with some of the development partners that are active in this area globally.

Agriculture is another important sector for economic diversification. Mobilising financing throughout value chains will be key to stimulating the deepening and expansion of agricultural production. A sector financing strategy could consider a range of options to boost investment and access to finance, including measures designed to stimulate development in the financial sector, expand support through credit guarantee schemes, stimulate growth in microfinance, and access international funding through organisations such as GAFSP as well as equity and risk capital funds targeting agribusinesses.

Line ministries responsible for these and other pivotal sectors are recommended to develop sector based financing strategies that encompass public and private financing and which are aligned to an overarching diversified financing strategy. A first step may be to undertake more in-depth sector-specific studies to explore and develop the potential for accessing these kinds of financing instrument.

3. Strengthening policy and institutional coherence

Recent analysis has shown that there are significant gaps between the SDV targets and some of the SDGs. To improve coordination between the planning and budgeting functions it is recommended that the capacity of MoF in medium-term planning and budgeting is considerably strengthened. This may improve the reconciliation between the development plans and the budgets, and strengthen the credibility of government policy documents and strategies.

Another key challenge to achieving policy coherence relates to integrating the SDV and the SDGs at local government level. Due to weak administrative capacity, and low financial autonomy, local governments are limited in their ability to develop strategic solutions adapted to local contexts. Higher predictability in LDF funding, combined with a higher overall funding level, would significantly impact local development. It is recommended that transfer mechanisms are designed to link sector funding to the LDF, strengthening discretionary planning and budgeting at local government levels.

4. Strengthening performance oriented planning, budgeting and management

A significant challenge in terms of achievement of the SDV and the SDGs is the government's weak capacity to apply performance oriented planning, budgeting and management practices.

International experiences have clearly demonstrated that complementary reforms are required to underpin a transition from incremental and output-oriented planning, budgeting and management practices towards an outcome-oriented focus. A combination of reform measures linked to PFM, HR and the civil service should be considered, with a particular focus on the following measures:

- Strengthening macro-economic modelling to improve the reliability of revenue forecasts that are used to establish overall resource envelopes for public sector spending and line ministries' budget ceilings. The Fiscal Advisory council being formed as part of the EFF agreement may be a key driver for more reliable modelling. Coherence between modelling undertaken by NDA and MoF can also be strengthened.
- Strengthening the capacity of line ministries to cost policies and programmes and to undertake cost-benefit analysis in development planning, budget formulation and program management.
- Strengthening the linkages between the development planning processes and MoF's MTEF and budget process – including strengthening MoF's mandate and capacity to integrate financial and performance reporting.
- Strengthening line ministries' capacity to use the MTEF formats submitted by MOF to plan and report on program outcomes rather than outputs.
- Strengthening the requirements made to the line ministries to coherently report on financial results and performance (outcomes) in budget performance reports.
- Strengthening the capacity of line ministries to develop integrated sector masterplans that serve as sector MTEFs, that are clearly linked to the MTEF.
- Addressing the current challenges of the civil service through reform. A restructuring of the civil service must ensure that government ministries and agencies are held accountable for expected

results, that recruitment and change of positions is based only on merit, that remuneration is linked to performance, and that civil servants are provided incentive systems to improve knowledge and performance throughout their careers. Establishing positive career incentives and strong human resource development strategies particularly in planning, budgeting and coordination between the two, would strengthen both planning and budgeting functions overall.

- Strengthen capacity to assess the integrated social and environmental impacts and risks of programs with significant budgets. Projects above a set threshold could be tested against rigorous criteria that consider not only the costs but also and social and environmental impacts, and which also identify cross-cutting interventions that risk “falling into the cracks” between various ministries’ portfolios.

5. Develop a robust monitoring, evaluation and learning system

Establishing a framework to monitor the SDGs is essential, not only to measure progress on the SDGs but to also allow for evidence-based and performance-oriented policy making and budgeting. The data improvements required to establish a monitoring system are extensive, both in terms of administrative and statistical data. It is therefore recommended that GoM substantially increase its efforts to improve the quality of the National Statistical System (NSS) and the administrative data systems.

The SDGs present a significant opportunity for GoM, and development partners, to scale up support for the development of the NSS. At the same time they provide an opportunity to improve capacity in production and use of administrative data throughout government institutions.

Moving forward, it is essential that the program for development of the NSS is approved and that a coherent strategy for improving both the capacity to produce and to use data is followed. Rather than focusing on filling gaps in monitoring the SDV and the SDGs, a National Strategy for Development of Statistics (NSDS) would offer a holistic approach to statistical development, and address capacity building across all elements of the NSS. The strategy should maintain a strong focus on user needs as well as capacity building measures on the use and application of data for policy making, as on data production. It should also take steps to reinforce the effectiveness of monitoring systems at local levels (aimag and soum), in alignment with the central-level monitoring system.

6. Create an enabling framework for accountability and dialogue

An enabling environment for accountability and dialogue is essential to mobilize non-government stakeholders’ support for the SDV and SDGs. To achieve its development objectives, it is vital that technical knowledge, professional opinions, and other resources of non-government stakeholders are utilized by the public sector. However, systematic involvement of private sector stakeholders, academia, NGOs and citizen groups is limited in Mongolian policy making processes.

Moving forward, it is recommended that GoM strengthen its existing dialogue platforms to deepen engagement with the private sector, civil society, academia and development partners at sector levels. The first step will be to provide comprehensive and transparent information, that is reliable, trusted, and performance oriented. Setting up dialogue mechanisms for regular exchanges of opinion on development strategies, budgets and financing opportunities is a logical next step. This will allow for sharing of technical knowledge and provide a basis for mobilization of private capital and technical expertise in programs and projects that are being planned.

1. Introduction

In September 2015 the 2030 Agenda for Sustainable Development was adopted with the aim to end poverty, protect the planet and ensure prosperity for all. Less than six months later, the Mongolian Parliament (the State Great Khural), approved Mongolia's Sustainable Development Vision 2030 (SDV) in Parliamentary Resolution No 19 which included some SDG goals and targets.

It is widely acknowledged that it will be challenging to achieve the SDGs and the SDVs. Mongolia deposits one of the largest reservoirs of mineral reserves in the world. However, the economic boom and bust cycles over the last decades have shown that translating valuable assets into sustainable growth and socio-economic development is demanding. In the short-term, Mongolia needs to restore macroeconomic stability to ensure a basis for economic growth. In the medium and long-term Mongolia needs a sustainable development path that balances social, environmental and economic needs.

In the context of challenging economic, social and environmental conditions and of the changing development finance landscape worldwide, the Government of Mongolia (GoM) is currently exploring new opportunities and ways to mobilize and manage domestic, external, as well as public and private resources, to finance its development plans and aspirations.

Global policy and dialogue processes are relevant to these efforts. The *Third International Conference on Financing for Development*, held in Addis Ababa in July 2015 opened a discussion on how to mobilize the unprecedented amounts of financial resources that will be required to achieve the SDGs.¹ The agreement that was reached at the conference, the *Addis Ababa Action Agenda*, includes a series of bold measures to overhaul global finance practices and generate investments for tackling a range of economic, social and environmental challenges.²

The *Addis Ababa Action Agenda* assumes that countries will use their own national development strategies and plans to respond to the SDGs and calls for the adoption of *Integrated National Financing Frameworks (INFFs)*.³ Governments are now increasingly requesting support to take forward policy and institutional reforms to enable more integrated management of a broader set of finance flows to support the implementation of their national priorities and the SDGs.

Against this backdrop, MoF of GoM commissioned this Development Finance Assessment (DFA) report. Focusing on linking finance with results, this DFA aims to identify opportunities for the mobilization of additional finance and to improve efficiency and effectiveness in the utilization of existing resources required to achieve the ambitious SDV and SDG targets.

A DFA team, comprised of an international team leader and a national team led by a national team leader was engaged to undertake the DFA. A DFA Oversight Team, with representatives from the MoF and the National Development Agency (NDA), has supported the DFA team with information and monitored the team's work.

1 UN. "Addis Ababa Action Agenda of the Third International Conference on Financing for Development." (2015).

2 United Nations (UN). "Press Release: Countries Reach Historic Agreement." (2015).

3 UN. "Addis Ababa Action Agenda of the Third International Conference on Financing for Development." (2015).

1.1 Objectives and scope of work

The overall objective of this DFA report is to provide an overview of development finance flows and the institutions and policies that align this finance with national development goals and priorities. The assessment provides recommendations for a roadmap, using the concept of an Integrated National Financing Framework (INFF), to increase the alignment of financing flows to national development goals and the SDGs, improving the basis for achieving development results.

To achieve the overall objective, the scope of work covers the following:

- An overview of the trends and composition of financial flows including an assessment of challenges and opportunities for utilising the existing finances more efficiently and how additional finance can be mobilised
- Assessment of how the public sector manages to link both public and private finance with results, in the context of the SDGs
- Assessment of the roles and responsibilities of national institutions in managing or influencing the development of individual financial flows to contribute to the national development plan and SDGs.

2. The DFA methodology and approach

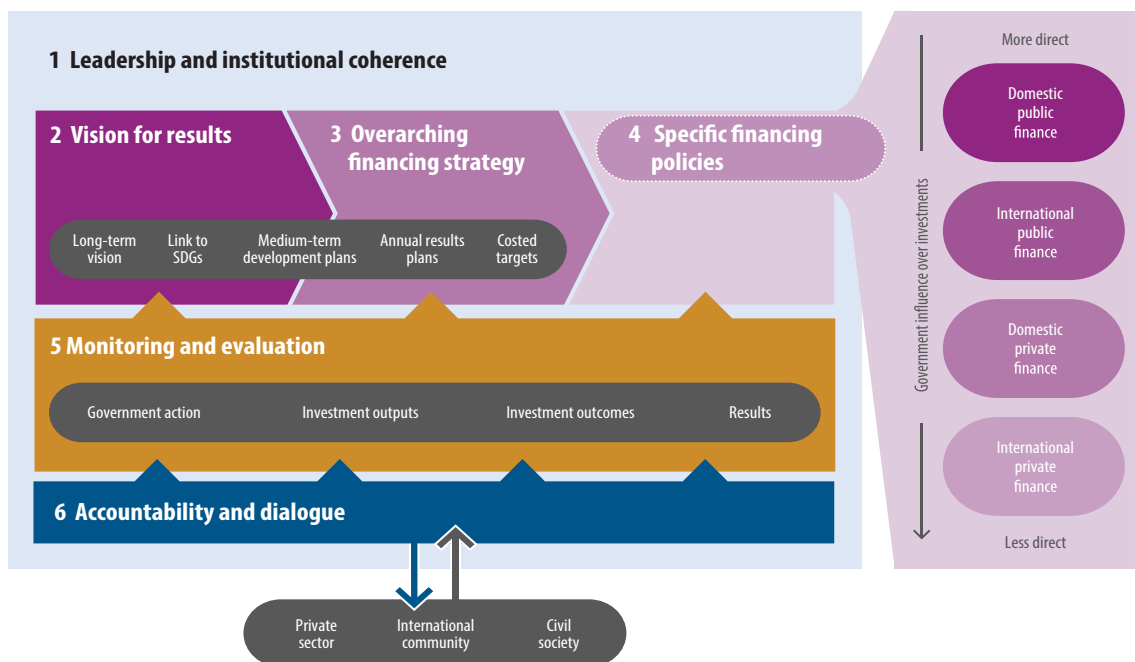
The DFA methodology is based on the INFF conceptual model. The model is designed to assist countries to assess the systems of institutional structures, policies and strategies that are in place to effectively mobilize finance to achieve the SDGs.⁴

The DFA maps financial flows – public and private, domestic and foreign – and provides recommendations for a roadmap to achieve the SDGs and GoM's development objectives. Moreover, the assessment aims to support the government to identify actions and reform measures that can be pursued to:

- I. increase effectiveness and efficiency in government use of existing revenues and finance
- II. mobilize additional domestic and external financial resources.

To identify actions and reforms the DFA assessment uses the INFF conceptual model, presented in Figure 1. The model is structured around six building blocks which are critical to effective mobilization and use of finance. Considered together, the six INFF building blocks offer an analytical framework to identify actions and reforms that are needed to achieve national development objectives and the SDGs.

Figure 1. Integrated National Financing Framework conceptual model



Source: UNDP/AP-DEF (2017)

4 United Nations Development Programme (UNDP)/Asia Pacific Development Effectiveness Facility (AP-DEF). "Development Finance Assessment and Integrated Financing Solutions: Achieving the Sustainable Development Goals in the Era of the Addis Ababa Action Agenda." (2017).

Based on a country's policies, strategies and institutional structures, a baseline is established for each of the six INFF building blocks by identifying constraints to effective use and mobilization of finance. A description of the building blocks has been presented by the Asia Pacific Development Effectiveness Facility and UNDP:⁵

Building block 1: Leadership to facilitate institutional coherence and management capacity at various political, technical, and working levels

Building block 2: A national development vision with a well-articulated set of priorities and results related to the SDG agenda, including costed targets and indicators.

Building block 3: An overarching finance strategy that takes the long-term vision for results and develops proposals for the types of investments needed to meet the costs.

Building block 4: Specific finance policies are articulated to mobilize different types of finance, in a scale and manner consistent with the overarching finance strategy. They govern a range of policies such as tax revenue strategies and national aid policies.

Building block 5: A robust monitoring, evaluation and learning system for monitoring and evaluation of the effective use of finance for results.

Building block 6: An enabling environment for accountability and dialogue that is necessary to build trust to be able to mobilize financing from stakeholders outside the government, to make sure policies are being designed and delivered effectively and to ensure a voice for citizens, civil society, business, and other actors in development.

2.1 The DFA approach in Mongolia

The financial flow analysis does, to the extent that data has been accessible, cover the Fiscal Years (FYs) 2007 – 2016, and incorporates domestic and external, public and private capital flows that can potentially serve to finance GoM's policy priorities. To contextualize the financial mapping, comparisons are made to regional averages and/or countries at a similar income level, as measured by Gross National Income (GNI) per capita.

The financial mapping has been organized into three analytical levels. At level 1 the analysis covers a) domestic public, b) external public, c) domestic private, and d) external private finance. At level 2 the analysis covers conventional disaggregation of each of the level 1 financial flows (e.g. domestic revenues, domestic lending), whereas level 3 analyses financial flows of specific interest where data availability allows for detailed disaggregated analysis (e.g. tax and non-tax revenues, different forms and channels of ODA grants, funds for promoting private sector investments and Public-Private Partnerships). Data has been subject to triangulation between different sources, using national official statistics and public sector finance data presented by GoM as the primary source. In addition, the data analysis, in particular at disaggregated levels, has been supplemented by data and results from surveys and reviews undertaken on particular subjects. Table 1 categorizes the financial flows included in the DFA.

⁵ Ibid.

Table 1. Categorization of financial flows included in the financial flow analysis

	Public	Private
Domestic	<ul style="list-style-type: none"> • Tax revenues • Non-tax revenues • Government borrowing 	<ul style="list-style-type: none"> • Domestic savings/investments • Domestic credit
External	<ul style="list-style-type: none"> • ODA grants and loans • Other Official Flows (OOF) 	<ul style="list-style-type: none"> • International financial markets • Foreign Direct Investment (FDI) • Remittances

Following the mapping of finance flows, a policy and institutional analysis has been presented which assesses the extent to which Mongolia's public sector management structures and procedures facilitate achievement of development objectives and the SDGs.

This analysis is based on three sources of data: the outcome of the financial mapping; primary data from interviews with public and private sector stakeholders collected by the DFA team; and secondary data from diagnostic studies such as the Public Expenditure and Financial Accountability (PEFA) assessment. Baselines of each of the six INFF building blocks have been summarized in text boxes.

The policy and institutional analysis is followed by a prospective analysis that presents the trends and composition of Mongolia's finance flows compared with other countries at a similar income level. The analysis aims to illustrate the potential that Mongolia may have to mobilize additional finance.

Based on the mapping of finance flows, the policy and institutional analysis and the prospective financial flow analysis, the DFA aims to provide advice on complementary reform actions that may increase efficiency and effectiveness in use existing finance, and increase mobilization of additional finance, required to achieve Mongolia's development objectives and the SDGs.

2.2 Data collection

The analysis will be based on primary data provided by MoF and line ministries, the National Statistical Office (NSO), the Mongol Bank, and on secondary data from the World Bank (WB), the International Monetary Fund (IMF) and the Organization for Economic Co-operation and Development (OECD) databases as well as others. In addition, the analysis maybe supplemented by data and results from various surveys undertaken to enable further analysis at disaggregated levels.

During the inception mission, which took place 18-28 April 2017, the team requested primary financial, budget and budget execution data for a 10-year period (FYs 2007– 2016) from key institutions, including MoF, BoM, UB City Council and UNDP. The team also collected secondary quantitative and qualitative data from a range of stakeholders including government institutions, private sector institutions, NGOs, World Bank and IMF. All data from World Bank's World Development Indicators (WDI), OECD/DAC and other online databases was collected during the period August – November 2017.

A second field mission took place in June 2017. During this mission the team collected qualitative data, in the form of assessments, reviews and evaluations, as well as government documents, from a range of stakeholders including government institutions, private sector institutions, NGOs, and development partners.

The data sources mentioned partly overlap, which gave the team the opportunity to triangulate the data between the different sources. Overall government data shared with the team has been assessed as of high reliability. In some areas the assessment has however been constrained by weaknesses in data. Reliable data on illicit finance has not been accessible and is therefore excluded from the assessment. Disaggregated analysis of some flows, like Natural Resource Taxation and Venture capital, have in part been based on information from sample surveys, in which case they serve as estimates rather than actual accounts. In some areas there are also discrepancies between national data and data from International Finance Institutions (IFIs). This is particularly the case with GDP data, where GoM data is significantly higher than estimates from for example World Bank and IMF, for the period 2010 – 2014. GDP data used in this report has therefore been based on World Development Indicators, unless specifically stated.

The assessment of ODA has been facilitated by a recent ADB supported project on mapping ODA flows. The project, which was implemented by MOF, Development Financing Department, identified substantial gaps in ODA reporting and accounting, and produced updated estimates on ODA for the period 2000 – 2016. The project uncovered significantly higher ODA finance than what has been reported in consolidated accounts. These calculations therefore serve as estimates rather than actuals, and have, for the purpose of the assessment, been used in the disaggregated analysis. The aggregate level analysis in this report uses consolidated budget and expenditure data.

The analysis of ODA has also been constrained by lack of reliable disaggregated data, for example on ODA disbursements from global funds and lack of data related to NGOs. Moreover, based on the ODA project findings related to underreporting, the validity of official data on Other Official Flows (OOF) is weak and should be interpreted accordingly. In this report, assessment of OOF is based on OECD/DAC data.

A validation mission took place in early November 2017. During the mission the DFA oversight team provided opinions and feedback to the draft report, and data limitations were clarified.

2.3 Limitations of the review

The DFA has been undertaken during the same period as the government started to implement its Economic Recovery Program, approved by the Parliament in December 2016. In May 2017, IMF approved a three-year Extended Fund Facility (EFF) to support the government's Economic Recovery Program.

Whereas the Economic Recovery Program is a three-year program aiming to stabilize the economy in the short term and pave the way for economic growth in the medium term, this DFA has broader objective with a medium to long-term perspective, aiming to identify activities and reforms required to achieve development results, and specifically the SDGs and SDV targets. Hence, the findings and recommendations of this DFA are complementary and additional to those measures undertaken under the Economic Recovery Program, needed to achieve development goals.

The Economic Recovery Program includes a series of fiscal, financial and monetary policy actions and reforms that will help sustain growth over the medium term, promote competitiveness and diversification, and mitigate the boom-bust cycle in the economy. These policies have not yet been fully implemented, and this DFA does not assess the specific substance or the potential effects of these actions and reforms. Where found relevant, it does however refer to these reforms to contextualize the DFA analysis, findings and recommendations.

3. Country context

3.1 Governance structures

Since 1990, Mongolia has undergone peaceful constitutional change and has conducted several democratic elections. Despite lack of prior experience with a democratic system, political and civil freedom emerged and has been strengthened. With the significant exception of the parliamentary elections in 2008, democratic elections have been conducted peacefully. Human rights are respected, the media is free, and genuine political competition exists.⁶

Mongolia is an ethnically homogeneous country, with ethnic Mongolians accounting for 95 percent of the population. Religious disparities are small, with a revival of Buddhism taking place over the last three decades. The social structures with political implications are related to the urban–rural division, which reflects the particular geographic and demographic context of Mongolia with almost half the population living in the capital city, Ulaanbaatar. The urban–rural divide has become increasingly salient over the last decade with lack of diversified livelihood opportunities and exposure to climate change becoming major drivers of migration into cities, especially Ulaanbaatar. Moreover, the electoral system ensures an over representation by the rural districts, and investment decisions have been highly influenced by electoral considerations, causing investments to be biased towards rural areas. Another partly overlapping dimension is the economic divide between the poor and the growing middle and high income groups, predominantly located in urban areas.⁷

During the 1990s and the 2000s, the democratic system and its relative openness translated into a number of economic and public sector reforms. Though Mongolia's political system has featured deep divides on some issues, for the most part, these issues have been channelled through the institutions of the political system.

From the mid-2000s political fragmentation increased with successive fragile coalition governments. Moreover, policy making became dominated by short-term outlooks and individual parliamentarians increasingly gained strong influence over investment decisions, particularly in their constituencies. In 2013 the practice of parliamentarians being allowed to allocate public investments to their constituency was suspended. However, the parliament retained very detailed influence on investment decisions, which often are short-term, not aligned to approved development plans, and not based on efficiency considerations.⁸

Despite the successful establishment of plural democracy, policy-making processes remain relatively non-transparent in important areas such as the mining sector.⁹ For example, there is little tradition for public hearings on new legislation, and despite the budget being broadly debated in parliament, there is, according to parliamentarians and academics consulted by the DFA team, relatively weak media coverage and low levels of citizen engagement in the process. This legacy from the pre-democratic period has

6 Parliament of Mongolia and UNDP (2016) Assessment of the Performance of the 1992 constitution of Mongolia, under the project "Support to participatory legislative process.

7 Adam Smith International (2015)

8 Public Expenditure and Accountability Assessment (2015).

9 Adam Smith International (2015)

also led to increased patronage links, not only in politics, but also in regional networks and business conglomerates throughout the 2000s.

Mongolia has however taken important measures to improve governance. For example, Mongolia has been a member of the Extractive Industries Transparency Initiative since 2007, and in the latest EITI assessment based on FY 2015, Mongolia achieved “satisfactory” in their overall rating on the Resource Governance Index. Public debates have centered on the environmental impact of mining, areas reserved for conservation and the government’s role in developing large-scale “strategic” deposits. Provinces and districts that host extractive industries have set up subnational EITI councils to improve transparency and public participation in resources management at local levels.¹⁰

3.1.1 Local government structures

Mongolia is a unitary state with a central government and three tiers of sub-national governments. The territory of Mongolia comprises 21 aimags and the capital city, with a total of 330 soums and 1602 baghs (rural) and 9 districts and 152 horoos (urban).

According to the Constitution of Mongolia, the administrative and territorial units are organised on the basis of both self-governance and state administration. The Constitution defines self-governing bodies in aimags, the capital city, soum and districts as Citizens’ Representative Hural (CRH) (referred hereafter as Hural) of their respective territories. Currently, there are over 8000 elected representatives in the aimag, capital city, soum and district CRHs.

Mongolia’s particular context, which includes a widely dispersed population, makes the provision of some social services particularly challenging. Major policy areas, such as education and health care, have witnessed a series of major cycles involving decentralization and recentralization. Political instability and a decentralized government system have resulted in a lack of balance between equity and efficiency in delivery of services responsive to citizens’ needs.

3.2 Socio economic developments

Since its transition to a market economy, Mongolia has developed and implemented many national, sectoral and local development policy reforms and development strategies to respond to the country’s socio-economic challenges. In 2005, the Parliament adopted the MDGs as development benchmarks and began embedding them into national policies. In 2008 the MDGs were further integrated in national policies through the framework for the MDG-Based Comprehensive National Development Strategy (CNDS) of 2008-21.

Reflecting the strong government ownership and centrality of the MDGs in sector strategies and the long-term vision document (Comprehensive National Development Strategy CNDS) Mongolia has over the last decade made strong progress on some of the MDG targets. For example, reducing under-five child mortality, reversing the spread and prevention of HIV and AIDS, developing new information communication technologies and building an “information society”, were achieved by 2013. Nevertheless,

10 Mongolia Extractive Industries and Transparency Initiative (2016) Mongolia Tenth Reconciliation Report.

coherent efforts are required to meet other MDG targets, including primary education targets, reversing the spread of tuberculosis, and protecting the environment.

There has been a significant drop in poverty rates affecting both rural and urban areas, particularly during the economic boom years from 2010, although poverty has dropped more in urban areas. The Household Integrated Survey conducted by the National Statistical Office reported that the poverty level declined from 38.7 percent in 2010 to 27.4 percent in 2012, and to 21.6 percent in 2014. In 2014, the poverty ratio was 18.8 percent in urban areas and 26.4 percent in rural areas. According to the Human Development Index (HDI), Mongolia was in 2016 ranked as 92 out of 187 countries, with an HDI score of 0.735, which makes Mongolia a nation with “medium-human development”. The average HDI of countries in East Asia and Pacific Region was 0.720.¹¹

One indicator often used to measure income inequality is the World Bank Gini Index, which measures the extent to which the distribution of income or consumption expenditure among individuals or households within an economy deviates from a perfectly equal distribution, where 0 represents perfect equality and 100 perfect inequality. As measured by the Gini index, inequality rose sharply from around the turn of the millennium to 2007 when inequality peaked at 35.8. Inequality was further reduced to 32 in 2014.¹² By international comparison, this puts Mongolia in a favourable position, with significantly higher equality than most other East Asian countries. It has however recently been argued that these moderate levels of inequality appear inconsistent with other data such as the Consumer Confidence Index, and The European Bank of Reconstruction and Development (EBRD) survey on inequality of household wealth, which indicates Mongolia has one of the highest levels of inequality of countries surveyed.¹³

The social welfare function has acquired a central role in the country’s poverty reduction efforts. There are numerous social assistance programmes targeting vulnerable groups. While rigorous analysis has not been conducted, there has been a fairly widespread belief among policymakers that pensions, allowances and universal cash handouts, along with other social assistance programmes, have helped reduce poverty sharply, particularly since 2010. However, assessments demonstrate that the decline in poverty in recent years is mainly attributed to targeted government interventions on social welfare, the labour market, food supply and maternal and child health.¹⁴ Mongolia’s development partners have been encouraging the government to shift to a more targeted welfare system.¹⁵

Furthermore, the MDG framework has contributed to Mongolia’s socio-economic improvements over the last decade, as it helped to increase the focus on development planning, institutionalizing the planning system, strengthening the monitoring framework, and directing more resources to the social sectors.

Various institutional mechanisms were put into place to implement and monitor progress on the MDGs. For example, after the launch of the MDG-Based Comprehensive National Development Strategy (CNDS), a parliamentary sub-committee on the MDGs was formed to oversee the government’s work on the MDGs and the government set up the National Development and Innovation Committee (NDIC) as a separate institution for leading the work on development planning in the country. Since 2012 the NDIC was elevated to the Ministry of Economic Development (MED). The adoption of the MDGs in Mongolia also

11 <http://hdr.undp.org/en/countries/profiles/MNG>

12 World Bank, World Development Indicators (WDI)

13 Adam Smith International (2015).

14 UNDP 2013.

15 World Bank (2015)

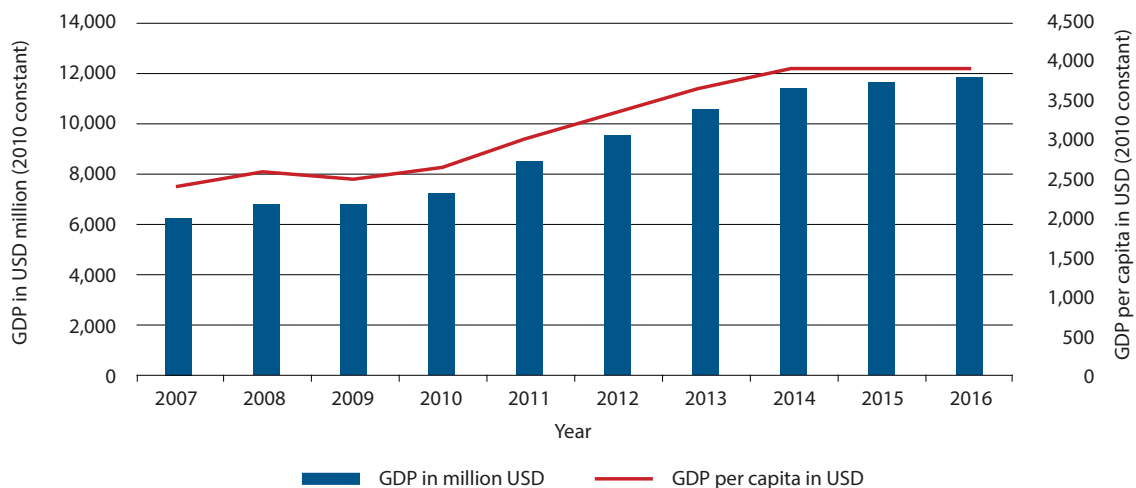
led to the strengthening of the statistical system for regular monitoring progress on the achievement of the MDGs. MDG Progress Reports have been produced every two years and presented to Parliament. At the same time, MDG-related sectors such as health, education and social welfare, increased their resource allocation from the state budget as well as received donor support.

In 2016 the Sustainable Development vision 2030 (SDV) was approved by Parliament. The Law on Development Policy and Planning and the General Procedure for Drafting Development Policy Documents are the key legal instruments for achieving the results of the long-term national development policy which charts the country's development path for the next 15 years. These legal documents provide a framework for coordination of mid-term sectoral and local development policies.

3.3 Economic development and the program for economic recovery

Mongolia is a country with vast territory and a small population. Mining is the dominant economic sector, with agriculture and tourism among the emerging sectors. Given the small population of 3.1 million, and the size of investments relative to its economy, Mongolia experienced among the highest proportional rates of economic growth in the world as investments in its natural resource sector grew in the mid-2000s. As illustrated in Figure 2, which presents GDP total and GDP per capita in constant 2010 values, the GDP almost doubled over the period 2007 to 2014 in real terms. Due to high population growth the GDP per capita rose slightly less, from US\$2400 in 2007 to just above US\$4000 in 2014. From 2014 to 2016, GDP growth has been almost stagnant in real terms and as measured by per capita, GDP has contracted.

Figure 2. GDP total and per capita, 2007–2016, USD at constant 2010 value



Source: World Bank (WDI)

Mongolia has large unexploited mineral resources. One of the largest copper deposits in the world, at Oyu Tolgoi (OT), is located close to the Chinese border in south-east Mongolia which started production in 2013. In addition, the country is endowed with a range of other minerals, including gold, coking-grade coal and iron ore.

The economy of Mongolia is highly dependent on revenues from the mining sector that account for up to 90 percent of exports.¹⁶ Though the vast reserves represent a huge potential for long-term economic growth and social development, they also represent the country's main challenge, witnessed by the economic boom and bust cycles that Mongolia has experienced over the last decades. There are also environmental impacts, including stress on water supplies and the livestock sector. According to EITI, public debates have centred on the environmental impact of mining, areas reserved for conservation and the government's role in developing large-scale "strategic" deposits.¹⁷

After 2010, as the economy boomed, the government began implementing a pro-cyclical fiscal policy, with a high share of investments compared to most other countries, and an ambitious social policy with universal benefits. The effects of economic growth and expansionary fiscal policy became evident both in urban and rural areas and in different social layers of the society. However, despite establishment of a Sovereign Welfare Fund (SWF), no savings were accumulated to mitigate the risks related to low economic diversification and high dependency on mining exports.

With the unfavourable external market from 2013, lower commodity prices and low growth in the main export market (China), the Mongolian economy faced a hard recession. As a result, Mongolia was re-designated to a lower middle-income country in 2015. The government's revenues from mining fell sharply, from approximately one third of total budget revenues in 2011 and 2012 to only 15 percent in 2016.¹⁸

To mitigate the effects of the economic downturn the government continued the expansionary fiscal policy stance, financed by government external borrowing, partly from private capital markets. The expansionary fiscal policy resulted in off-budget expenditures channelled through the Development Bank of Mongolia (DBM) to circumvent the requirements of the Fiscal Stability Law (FSL).¹⁹ Consequently, by the end of 2016, Mongolia faced an economic crisis, with a large fiscal deficit and the depreciation of the currency that together pushed general government debt up to nearly 90 percent of GDP debt accumulation. The country faced balance of payment pressures, high interest rates, low economic diversification, weak industrial competitiveness, and unemployment rates above 10 percent that led to a contraction in overall demand and deterioration in credit quality of the banking sector.²⁰ Moreover, the economic recession impacted significantly on households, particularly in urban areas where labour intensive sectors, such as service and construction, had been dependent on mining growth. In contrast, the agricultural sector in rural areas has maintained moderate growth.

3.3.1 Program for economic recovery and financial support agreement for Mongolia

The government has taken extensive measures to stabilise the economy. In November 2016, the Economic Recovery Program (ERP), originally called the Program for Overcoming Current Economic Difficulties and Stabilization, was approved by Parliament Resolution No 71, as a part of the Government Action Programme for 2016-2020. The program included fiscal, monetary and financial policy measures to stabilize the macro-economy in the short term and provide foundation for economic recovery and diversification in the medium-term. The government also requested financial support from IMF and other development partners to support program implementation.

16 IMF 2017.

17 <https://eiti.org/mongolia>

18 WB 2016.

19 ADB 2014.

20 IMF 2017, WB 2017.

In May 2017, the Executive Board of the International Monetary Fund (IMF) approved a three-year extended arrangement under the Extended Fund Facility (EFF) for Mongolia, amounting to SDR 314.5054 million (about US\$434 million), to support the country's economic recovery program. Other financing partners, including Asian Development Bank, World Bank, Japan, and Korea, also committed to provide budgetary and project support, and the People's Bank of China agreed to extend its swap line with the Bank of Mongolia. The total financing package amounted to approximately US\$5.5 billion.

The government's ERP is divided into two main strategies: the implementation of policy to stabilize the macro economy; and the restructuring of the economy in the medium-term to facilitate sustainable growth and alleviate debt pressures. Under each strategy several key objectives, strategic actions and quantitative targets are set. The first strategy constitutes the fiscal consolidation pillar of the program, aiming to reduce the pressure on domestic financial markets, stabilize the external position, and restore debt sustainability. The second pillar of the program aims to rehabilitate the banking system and strengthen the Bank of Mongolia – including structural reforms designed to support private-sector led growth. The program also includes institutional reforms to make sure fiscal adjustment is durable as well as social protection measures are in place to protect the most vulnerable during this period of adjustment.

With the concessional funding GoM has committed to undertake policies and structural reforms to overcome its economic problems. Broadly, this includes undertaking policy actions to strengthen the governance along the three pillars of the program – fiscal, financial and monetary – and includes the following actions:²¹

I. Strengthen the fiscal policy to reduce vulnerability of boom-bust cycles

This includes introduction of progressive income taxes, increasing the excise on alcohol and tobacco (see also box 1 on the experience of the Philippines), and increasing the retirement age. In addition, the government has committed to save at least half of any revenue performance, and to target the Child Money Program. A wage and hiring freeze has been instituted for 2018, and revisions of the wage bill and a civil service reform are deemed necessary. Furthermore, the government has committed to improve revenue administration, complete an audit of concession contracts, develop a corresponding payment plan, and to approve a guideline on the appraisal and selection of public investment projects.

The government also committed to strengthen the fiscal institutions governing fiscal policies. This includes introducing a PAYGO provision restricting the parliament's powers to increase the aggregate expenditure level relative to what is presented in the budget by the MoF, and establishing a Fiscal Council, mandated to provide independent budget forecasts, costings of policy proposals and monitor compliance with the Fiscal Stability Act.

II. Strengthening the financial sector

This includes completing an asset quality assessment of the banking system, and preparing for a robust response if needed. The banks will be stress tested, and a Recapitalization law that sets out detailed conditions in which public funds can be used is to be undertaken.²²

Moreover, GoM has also committed to undertake a series of measures to strengthen the underlying regulatory and supervisory structure of the financial sector. This includes an updated banking law and a strategy to prevent emergence of excessive levels of problem loans. In addition, the government

²¹ IMF 2017b; State Grate Hural, Annex to resolution 71 of 2016.

²² This was due to be completed in early 2018 though at the time of finalising the DFA the report was yet to be disclosed.

has committed to strengthening the anti-money laundering framework and increasing its efforts to combat the financing of terrorism.

III. Strengthening the monetary policy

This includes improving the legal framework in which monetary policy is conducted. In particular, a new Central Bank Law should clarify the mandate of BoM and enhance BoM's independence. An amendment to this purpose has been introduced.

3.3.2 Progress in implementation of the economic recovery plan and recent economic developments

The first and second review under the EFF concludes that growth has recovered more strongly than anticipated at the time of approval in May 2017, and that confidence in the economy is returning. The government has reduced the fiscal deficit, and structural reforms are going forward that will help to sustain economic growth in the medium-term. However, domestic political developments have resulted in delays of structural reforms agreed to under the EFF.²³

According to ADB Economic Outlook, Mongolia's economy grew by 5.3 percent in the first half of 2017, recovering strongly from the 1.2 percent growth rate recorded in 2016.²⁴ Recent estimates from IMF indicate that overall growth for 2017 reached slightly over 3 percent, and in 2018 growth of over 4 percent is anticipated.²⁵ The main drivers of growth in 2017 were the strong prices and export performance of coal, which is expected to continue in the short-term, and the approval of the International Monetary Fund's reform package in May, which has helped restore business confidence.

23 IMF 2017b

24 <https://www.adb.org/news/mongolian-growth-exceeds-expectations-due-strong-economic-performance>

25 IMF 2017b

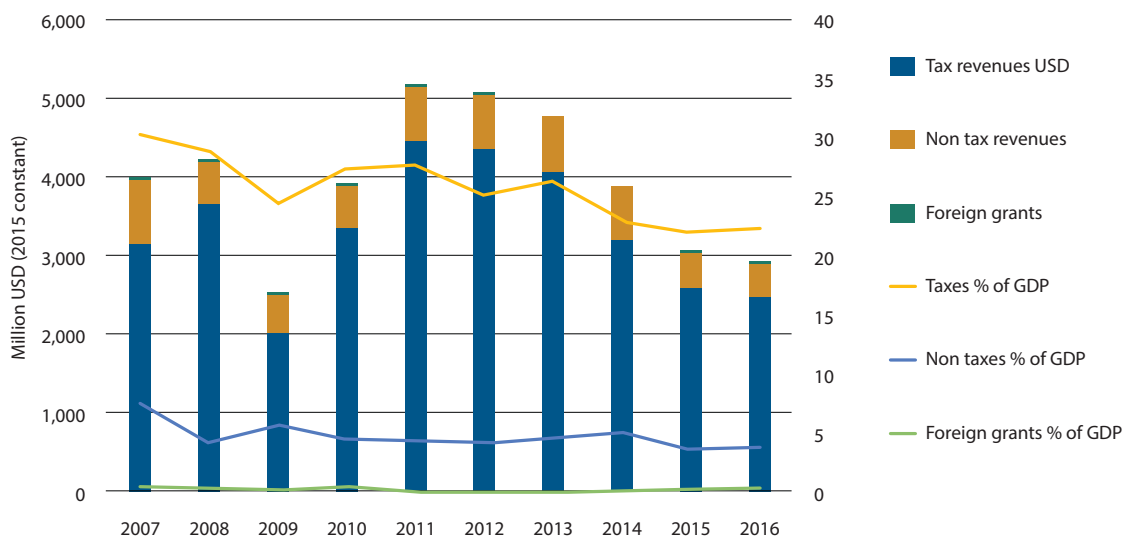
4. Mapping Mongolia's finance flows

4.1 Government revenues

GoM revenue performance over the last decade reflects the boom and bust cycles of the economy. Figure 3 shows a significant drop in revenue in 2009 due to the global economic and financial crisis, followed by a doubling of total revenues from 2009 to 2011, before revenues again declined from 2011 to 2016.

In 2016 Mongolia's total revenue was 26.5 percent of GDP, down 4.5 percentage points compared to 2013, and 11.9 percentage points over the ten-year period from 2007 to 2016. The drop in revenues from 2013 to 2016 was caused by lower mineral commodity prices and reduced activities in the mining sector. The development is illustrated in Figure 3 below that presents the trend in tax revenues, including indirect taxes such as VAT, direct taxes and social security contributions.²⁶

Figure 3. Fiscal revenues, 2007–2016 in USD million at constant 2015 prices, and as percent of GDP



Source: MoF (consolidated budget data) and WDI (GDP data)

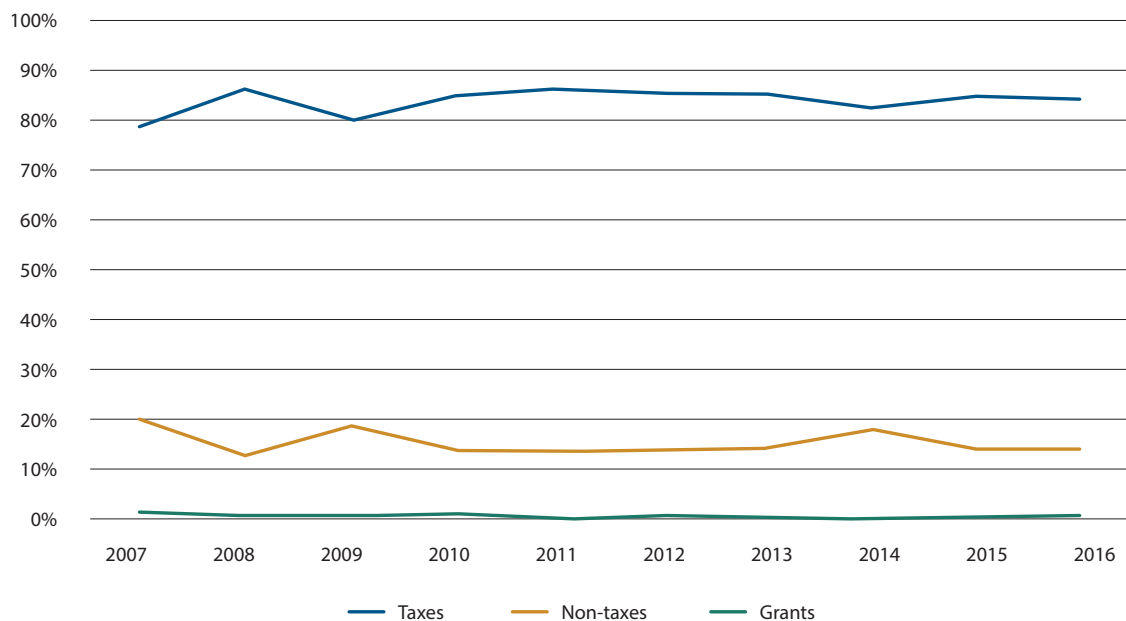
During this period, both tax revenues and non-tax revenues decreased, both in real values and as share of GDP. Grants have decreased in real value but remain constant at one percent as share of total revenue. Particularly noteworthy is the sharp decline in tax revenues from 2011 to 2015. However, despite the drop, total revenues remained at a relatively high level as share to GDP compared to other countries at the same income level, at 25 percent in 2015.

Figure 4 shows different revenue streams as share of total revenues. Tax revenues constitute the main share of government revenues, and have been relatively stable over the period 2007-2015, ranging from

26 Estimates exclude revenues from the Stabilization Fund for 2011-2015. GDP estimates are based on WDI, October 2017. Annual average year exchange rates have been used as basis for conversion into USD, and CPI has been used to estimate values in constant 2015.

79 percent in 2007 to 87 percent in 2011. In 2016 tax revenues constituted 84 percent, whereas non-tax revenues were 14 percent and grants only 1 percent of total revenues.²⁷

Figure 4. Revenue streams as share of total fiscal revenues, 2007–2016



Source: MoF, consolidated budget and expenditure data.

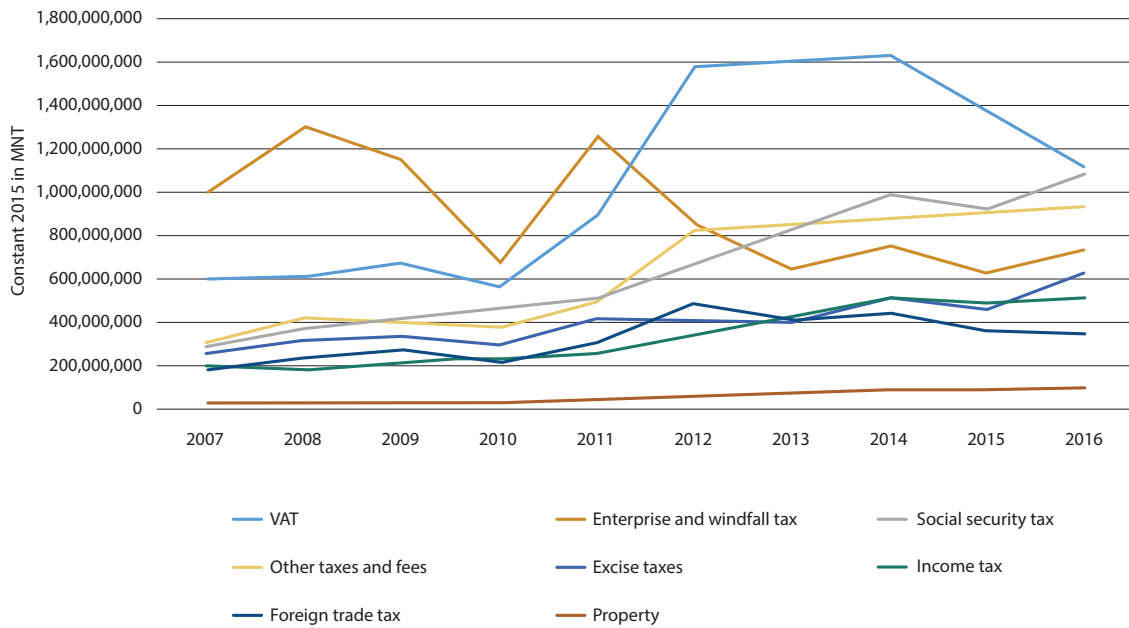
4.1.1 Tax Revenues

Tax revenue derives from a combination of direct and indirect taxes: income tax, corporate tax, property tax, Value Added Tax (VAT), a number of excise taxes – as well as taxes on foreign trade. Tax revenue has decreased, both in real value and as a share of GDP compared to countries at the same income level.

Figure 5 presents development in revenues from different direct and indirect taxes. The government's decrease in tax revenues in real terms over the last decade is in part due to the reduction in Windfall Tax from 2012.²⁸ From 2014, there has also been a substantial decline in VAT, stemming from the downturn in economic activity. In addition, the taxes from foreign trade have declined for the same reasons.

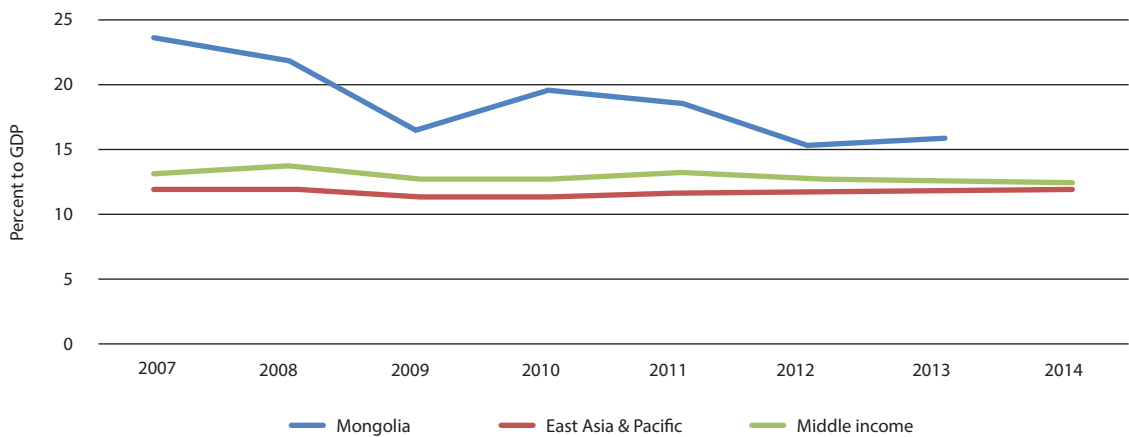
²⁷ A recent project on mapping of ODA flows implemented by MOF, Development Financing Department, showed that ODA grants has been underreported in consolidated accounts. This implies that the share of grants are higher that demonstrated in Figure 3. Section 4.2 analyses ODA flows based on the project data.

²⁸ The Windfall tax was faced out from 2012.

Figure 5. Tax revenues, 2007–2016 in constant 2015 MNT

Source: MoF, consolidated budget and expenditure data.

Mongolia has undertaken tax reforms over two phases since 2007. Measures included lowering and simplifying many of the tax rates. Among others, the reforms included changing the progressive and fairly high corporate tax to a flat rate corporate income tax of 10 percent, and lowering statutory taxes which, until 2017, remained lower than peer countries. The reforms also included strengthening tax administration measures. These policy and institutional reforms significantly reduced Mongolia's tax-to-GDP ratio over the past decade, narrowing of the gap compared to the average for middle-income countries and East Asia and Pacific, as shown in Figure 6.

Figure 6. Tax revenues, 2007–2014 in percent of GDP²⁹

Source: World Bank (WDI)

29 Excluding social security contributions.

In 2017, the Parliament approved a number of tax increases despite strong opposition from the public. These included increasing excise taxation on petroleum, vehicles, alcohol and tobacco, customs duty on tobacco, introducing a progressive personal income tax, raising social security contributions and eliminating the threshold for withholding tax on interest earned.³⁰ Implementing these reforms is an important priority – as the case of sin taxes in the Philippines outlined in box 1 shows, reforms in a number of these areas can make both direct contributions to advancing sustainable development objectives and also provide additional finance for public investment. Moreover, there may still be scope to increase the tax-to-GDP ratio with effective tax reform, and successful implementation of these tax measures may strengthen Mongolia's revenues.

As Mongolia remains highly dependent on revenues from the mining sector, diversification of the economy in parallel to establishing well-functioning fund mechanisms for investing surplus revenues from the mining sector to act as a buffer during recessions, will be required to reduce high volatility in tax revenues, which are well known to cause inefficiency in public investment.³¹

30 IMF Article IV, May 2017

31 Under the EFF, the government has committed to again save at least half of any revenue performance.

Box 1. Sin tax in the Philippines

In 2012 the Philippines passed a Sin Tax Reform bill designed both to reduce consumption of alcohol and tobacco products that are harmful to health and provide additional resources to fund service delivery including the implementation of the Philippine Universal Health Care programme.

The tax reform was designed within a context in which an average 240 Filipinos died every day as a result of smoking related diseases and in which key health programmes lacked the resources to reach the poorest and most vulnerable populations.³² Despite this it was 15 years from the government's initial work on reforming the tax structure around these products before the bill was passed, as a strong tobacco lobby hindered efforts to promote reform. The bill was eventually passed following a significant civil society communications campaign designed to mobilise public opinion and influence the legislature.³³

The reforms have had immediate successes. The legislation governing the sin tax states that 85 percent of revenue generated will be allocated toward health spending while the remaining 15 percent toward programmes to help tobacco farmers and workers find alternative livelihoods.³⁴ Within the first year the sin tax raised US\$1.2 billion for health spending, funding health care for around 45 million Filipinos.³⁵ In 2017 this had risen to around US\$1.8 billion. Eighty percent of the health funding goes toward the provision of universal health care while 20 percent goes to medical assistance and the health enhancement facilities programme.³⁶

Globally there is a large body of evidence on the impact of taxes designed to increase the cost of products such as tobacco that are harmful for health. Cross-country evidence shows that a 50 percent increase in the cost of cigarettes typically leads to a 20 percent decline in consumption.³⁷

Advice from the World Bank based on experiences around the world highlights a number of key considerations in designing tax reform regarding tobacco, although many of these lessons could also apply to reform in other areas of taxation. It finds that countries are most successful when they focus on the health gains first and consider revenue benefits as an important secondary concern. This allows for careful design that reduces affordability of tobacco (as opposed to a slight price increase insignificant enough to alter behaviour on a large scale) combined with a prominent communication campaign designed to inform consumers of the changes and rationale behind them. Earmarking revenues for important investments or services, as in the case of the Philippines, can be a powerful mechanism for engendering public buy-in to the changes. Taxes can be most effective when centred on the quantity of the product rather than the price, in order to pre-empt incentives to switch to lower-cost brands that would not realise the sought-after health benefits. And finally, as in the experience of the Philippines, building broad-based coalitions with actors such as civil society and community organisations can help to communicate and build buy-in to the reform package.³⁸

32 WHO, 2015, "Sin tax" expands health coverage in the Philippines. Available at: <http://www.who.int/features/2015/ncd-philippines/en/>. Accessed May 2018.

33 Ibid.

34 UNDP, 2017, Philippines DFA: Financing the SDGs in the Philippines – using an integrated national financing framework to link resources to results.

35 WHO, 2015, "Sin tax" expands health coverage in the Philippines. Available at: <http://www.who.int/features/2015/ncd-philippines/en/>. Accessed May 2018.

36 Philippines Department of Health, 2017, Sin Tax Law – Incremental revenue for health, 2017 annual report.

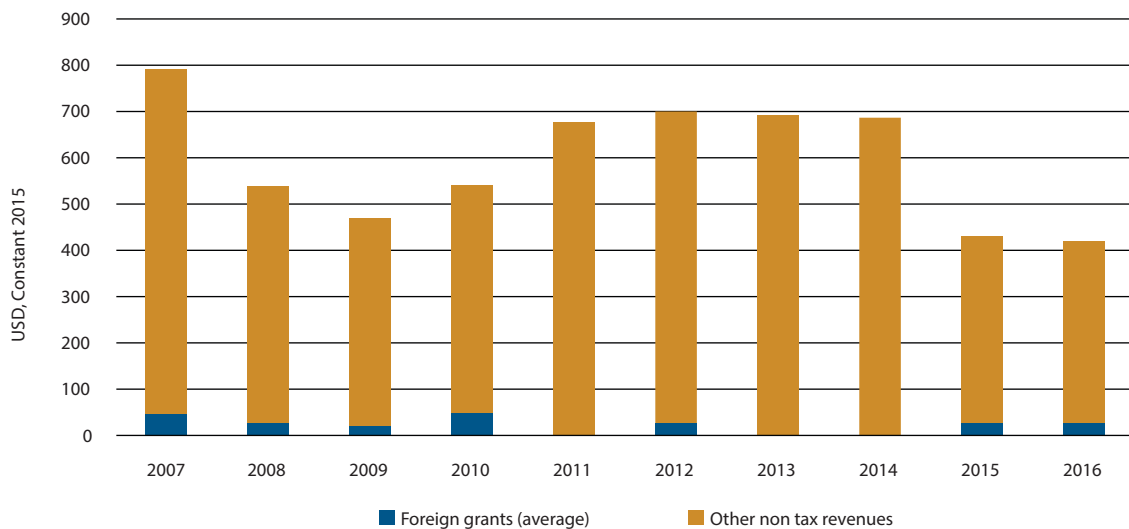
37 World Bank, 2018, Tobacco tax reform: at the crossroads of health and development. Available at: <https://openknowledge.worldbank.org/handle/10986/28494>

38 Ibid

4.1.2 Non-tax Revenues

As shown in Figure 7, non-tax revenues, which consist of grants, fees and charges, are dominated by fees and charges from *public assets and services*. In real values, non-tax revenues have been declining, with a particularly sharp drop from 2014 to 2015, caused by a reduction in economic activity.

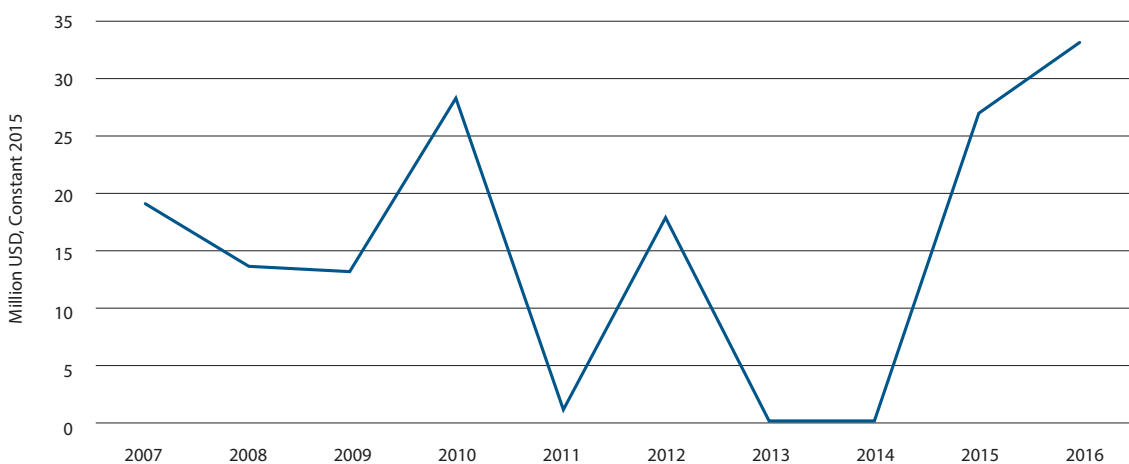
Figure 7. Non-tax revenue in million USD, constant 2015



Source: MoF, consolidated budget and expenditure.

The value of “on budget” grants in the form of Official Development Assistance (ODA) from multilateral and bilateral sources has remained low over the last ten years, varying between 0.5 and 0 percent to GDP.³⁹

Figure 8. Foreign grants on budget in million USD at constant 2015 prices



Source: MoF, consolidated budget and expenditure.

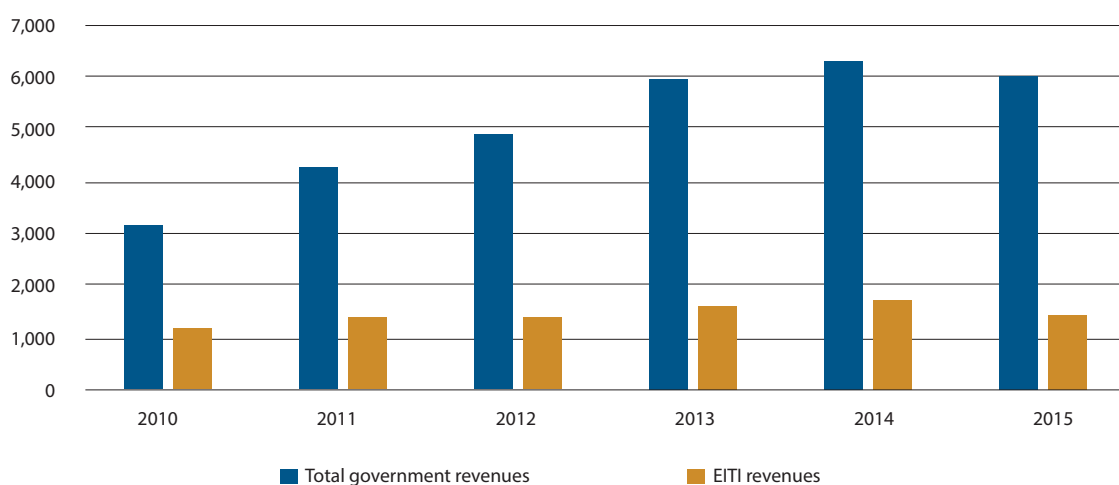
39 In 2015 USD 27 million was registered in the Government’s Central Treasury System.

4.1.3 Natural resource taxation

According to the 2016 EITI report, extractive industries accounted for 20 percent of GDP in 2016. For the years of 2010-2014, revenue generated from extractive industry increased from 1.1 trillion MNT to 1.7 trillion MNT, before decreasing to 1.4 trillion MNT in 2015, in current values.⁴⁰

Data from EITI and MoF shows that 23.8 percent of the government total revenues were revenues from extractive industries in 2015, down from 36.4 percent in 2011, as shown in Figure 9. The decrease was partly due to falling commodity prices, but also due to policy challenges and an uncondusive investment climate.

Figure 9. Revenues from extractive industries share of total revenues (MNT billion, current prices)



Source: EITI, Ninth Reconciliation Report and MoF, Consolidated Budget and Expenditure data.

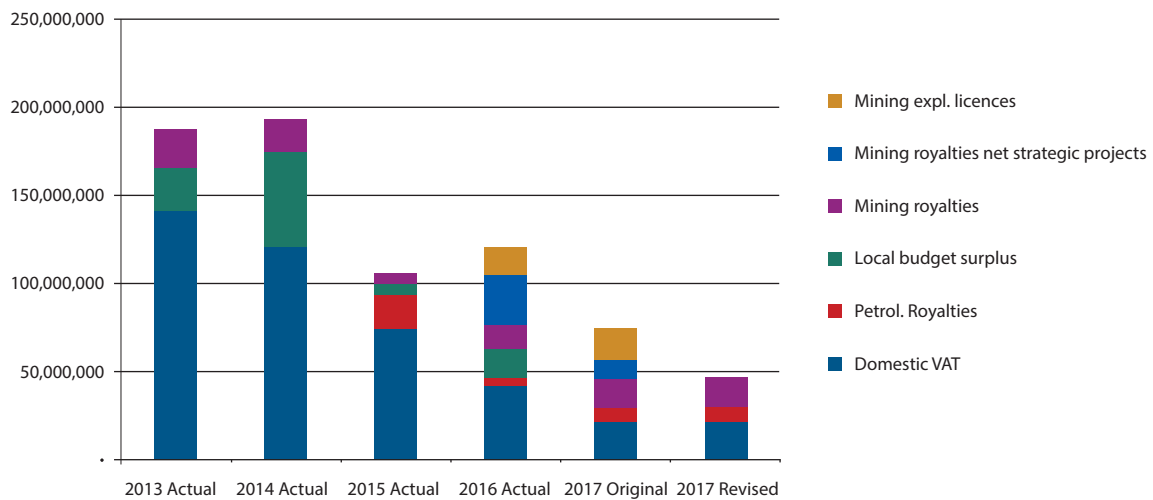
Revenues from extractive industries are collected through a number of different taxes and fees. The main taxes levied on the mining sector include royalties, corporate income tax, customs duties and licence fees, while the major oil and gas levies are state petroleum receipts from production-sharing agreements, corporate income tax and customs duties.⁴¹

From 2011 a share of the royalties from mining and the exploration licenses fees were transferred to the Local Development Fund (LDF), which allocates fiscal transfers to subnational governments using a criteria-based allocation formula. The LDF was welcomed as a source of discretionary funding at local government levels. However, LDF funding has become unpredictable, as revenues from mining royalties and exploration licenses vary from year to year, and there is no financial mechanism in place to ensure predictability in allocations, or that the level of allocations matches local needs. Moreover, as demonstrated in Figure 10, there has been significant reduction in the government's overall funding to the LDF since 2011, linked to the decrease in government transfers from VAT collection.

40 Extractive industries refer to oil, gas and mining industries.

41 <https://eiti.org/mongolia>

Figure 10. LDF revenues 2013–2017



Source: LDF annual report, National Audit Agency of Mongolia (2016).

While agriculture and tourism could potentially play a more significant role, Mongolia’s economy is likely to remain highly dependent on revenues from the mining sector. A regulatory framework was put in place in 2014, with a more investor-friendly policy, granting equal rights to domestic and foreign investors. The settling of the dispute with Rio Tinto over the Oyu Tolgoi (OT) project, and the rise in raw mineral prices, has also created optimism for a boost of the mining sector. However, a drop in commodity prices is likely to affect government revenues significantly and again worsen the debt situation.⁴² A strategy to develop a tax regime which minimizes risk factors is therefore urgently needed.

Previous attempts to establish a Sovereign Welfare Fund (SWF) as a buffer have not been successful, largely due weak governance structures, weak fiscal management and a lack of commitment among politicians.

The dispute over the OT and the lack of adherence to the Fiscal Stability Act, also demonstrates the importance of a strong governance regime to ensure transparent and predictable management of government revenues. Moreover, the dispute demonstrated that the implementation of a stable and transparent regulatory framework with predictable and balance tax system and judicial arbitration mechanisms need to be in place for large-scale infrastructure investments to take place.

4.1.4 Environmental tax reform and Sovereign Welfare Fund reform

While an investor friendly climate is essential for Mongolia to accelerate economic growth, it is important to acknowledge that a key condition for achieving long-term growth and economic diversification will depend on the government’s overall capacity to implement the tax measures that have been approved by Parliament. The capacity of the tax administration in Mongolia is relatively strong, but further improvement in tax registration systems and in the regulatory framework for dispute resolution may further improve revenue collection.⁴³ Moreover, under the ERP the government has committed to strengthen the revenue

42 National Resource Governance Institute and Gerege Partners, Fiscal Sustainability in Mongolia, 2017.

43 PEFA 2015.

administration and the tax policy.⁴⁴ However, to avoid critical fluctuations in revenues and expenditures, two additional measures should be considered:

- I. As Mongolia is likely to remain highly dependent on mining sector revenues, a SWF that adheres to international best practices should be institutionalized. A SWF needs to be coherently integrated with a disciplined fiscal policy and matched by an enabling framework that builds political and public support for savings. The SWF should adhere to the 24 Santiago Principles that relate to promoting transparency, good governance, accountability and prudent investment practices.⁴⁵ In terms of establishing operative management practices and procedures, GoM should aim to learn from and adopt experiences from best international performers, such as the Norwegian Government Pension Fund^{46 47}
- II. Whereas a reform of the SWF may provide a basis for sound fiscal management and stabilization of revenue streams, the tax system is potentially the most effective incentive mechanism available to the government to achieve its policy goals. GoM has taken some important steps by increasing the use of excise taxes on alcohol and tobacco which are well-documented to impact on population health (see also box 1 above on the experience of the Philippines in this area). These steps could be built on by comprehensively integrating environmental tax incentive mechanisms into the tax system.

Moreover, following an international trend and well-documented effects from OECD, the government should consider expanding the use of the tax system to include incentive mechanisms in favour of more environmental friendly production and consumption, which could support the government's objectives in social and environmental areas, as well as serve as additional sources of revenue. For example, the introduction of different forms of carbon taxation used in other countries could serve as a model for Mongolia to address the severe pollution caused by coal consumption. Tax incentive mechanisms need however to be carefully considered to avoid possible adverse impacts and achieve the positive potential inherent in shifting tax burdens and making use of the revenues raised.

An ETR will need to be approached comprehensively, and include both direct and indirect taxes, and a revision of existing subsidy policy. For some sectors with a complex mix of public and private sector stakeholders and finance, such as the livestock, mining and energy sectors – specific analysis will be conducive to map the potential for reform actions and possible effects.

In the energy sector there is significant potential for mobilizing investments that in the long-term will generate government revenues, but the current barriers to investments are not adequately documented due to lack of an updated energy sector economy assessment. For example, it is argued that inadequate costing of water and air pollution effects, as well as subsidies for diesel used to transport of coal and to diesel generators, lowers the production costs of non-renewable energy significantly. In addition, the tariff levels set by the Energy Regulatory Authority (ERA) should be cost reflective but despite the need for huge financial investments in the sector, they remain among the lowest energy tariffs in the world.⁴⁸ This may impede private investments in both renewable and traditional energy sector and thus constrain development of environmentally sustainable energy solutions needed to achieve SDG and SDV related policy objectives.

44 IMF 2017b

45 <http://www.ifswf.org/santiago-principles-landing/santiago-principles>

46 The fund is commonly referred to as the Norwegian Oil Fund.

47 <https://www.regjeringen.no/en/dokumenter/government-pension-fund-and-the-santiago-principles/id2540007/>

48 https://energypedia.info/wiki/Mongolia_Energy_Situation

With regard to the energy sector, an ETR process should therefore include assessing the current level of direct and indirect taxes and subsidies to the energy sector, and assess if current subsidies and taxes on coal and petroleum can be shifted to provide stronger environmental incentive mechanisms to expand renewable energy production and consumption, underpinning the achievement of the SDV objectives and SDGs.

Box 2. Environment tax reforms

Inspired by the experiences from Nordic countries, many countries have over the last decade introduced Environmental Tax Reforms (ETRs). In most cases ETRs have been introduced as a part of wider reforms to gradually shift taxation from production and labour – to environmentally polluting production and consumption, thus contributing to achieve environmental objectives that would be costly and difficult to attain through regulatory measures alone.

The momentum behind ETR has continued to grow. Many countries within the EU and other OECD countries have initiated ETR efforts at the national (e.g. Australia, Japan, Germany and the Nordic countries) and subnational level (e.g. British Columbia in Canada, California in the US). Plans to introduce ETR are under serious consideration in many emerging economies, including China, Vietnam, Cambodia, Thailand, Tunisia and South Africa, and IMF is providing increasing amount on TA on ETR. In a number of cases, ETR has included the introduction or revision of carbon and energy taxes. Other measures include water pricing, landfill taxes, taxes on commodities and natural resources, as well as renewed interest in the reform of environmentally harmful subsidies as part of wider fiscal reform efforts.

Carefully designed ETRs have the potential to spur innovation, improve competitiveness, encourage energy savings, shift investments to renewable energy solutions, improve income distribution, contribute to environmental (including climate) objectives, and create a new source of government revenue. At the same time, ETR can lead to negative impacts including on income distribution and competitiveness, particularly when introduced unilaterally. Thus, careful design of the process is key to achieving mobilization of revenue and environmental policy objectives.

Box 3. Public expenditure to reduce air pollution

A study report⁴⁹ is currently developed with the support of the UNDP with a view to reviewing expenditure and institutional arrangements concerning air pollution in the past and the present and looking ahead over plans to address the challenges of air pollution in Mongolia, in particular its capital city, Ulaanbaatar (UB). UB is among the most polluted cities in the world due to air pollution caused by a variety of factors. Increased levels of urbanization have helped to feed the problem. The policies adopted by the Government of Mongolia (GOM) seem to have had some impact on air pollution reduction with apparent positive impacts on particulate matter levels between 2012-2015. However, levels of these particulate matters have increased since then, which may be linked to much lower levels of relevant expenditure on measures to combat air pollution from 2016 onwards. Air pollution levels remain significantly above both World Health Organisation (WHO) and National Mongolian standards.

As per the preliminary findings of the report, the two Ministries with the greatest impact on dealing with air pollution are the Ministry of Energy and the Ministry of Environment and Tourism. The Mayor's Office in UB also plays a critical role in dealing with air pollution in the capital specifically. Expenditure of 147.3 billion MNT from the state budget and 60.7 million USD equivalent on air pollution measures has been incurred between 2018-2016.

The effects of air pollution are significant in several key respects; it impacts on health, on social issues and on the economy. There are serious health problems linked to air pollution in Ulaanbaatar; air pollution is amongst the top ten risk factors driving death and disability in Mongolia. The economic costs associated with air pollution are also estimated to be a minimum of 640 million USD (c1.5 trillion MNT) per annum.

Therefore, it is critical that the problem is properly addressed. In attempting to achieve this, the government has developed a National Program for Reducing Air and Environment Pollution (NPRAEP) which aims to improve the situation by 2025. This involves different activities the costs and benefits of which are being assessed in the study report. The NPRAEP is forecast to cost about 4.1 billion USD (9.8 trillion MNT). 86 percent of these costs appear to relate to air pollution reduction measures.

In the short term, the NPRAEP should be made sharper and more prioritized than it currently is. It should be reviewed and updated by Parliament. Moreover, an independent Energy Master Planning mechanism must be established to shape future energy policy in a way that supports air pollution reduction measures, the first task being to design a strategy for cost recovery in the provision of electricity and heat, the second task being to revise the energy portions of the NPRAEP to make them sustainable.

49 Air Pollution in Mongolia and costs of inaction or ineffective measures- Public Expenditure Analysis

Public expenditure to reduce air pollution (continued)

A package of air pollution reduction measures activities in NPRAEP should be assessed for effectiveness to achieve the targets and efficiency by analyzing financial and technical viability as well. If the package of measures are not expected to achieve targets, recommendations needs to be made on alternative reduction measures. It also not possible to implement significant NPRAEP measures without fundamental reforms. These include full cost recovery of the fuels used for electricity and heating and effective governance and monitoring mechanisms to guard against corruption and help ensure value for money.

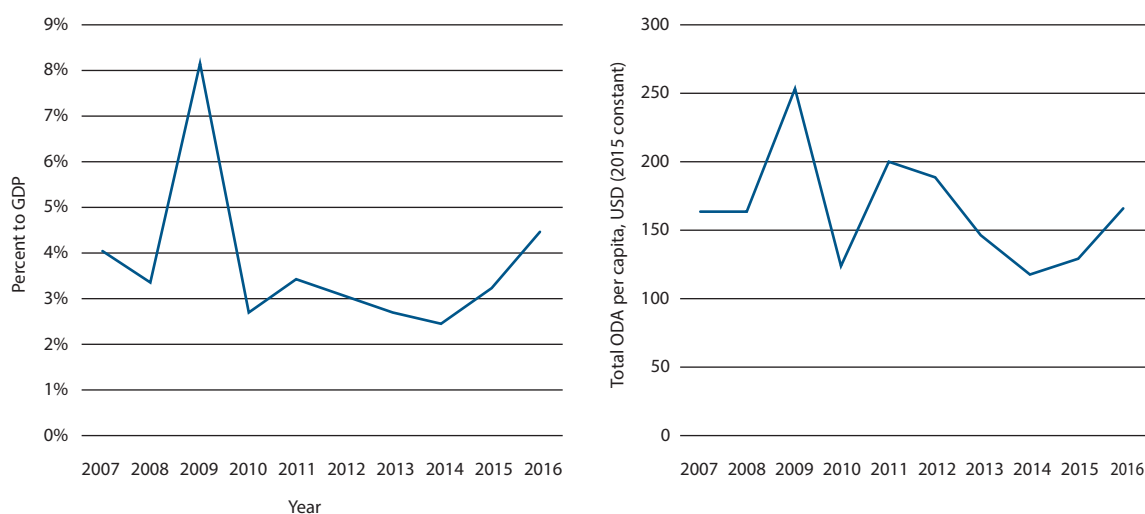
In the long term, transformation and innovation are needed to achieve the ambitious targets of Mongolia in terms of air pollution reduction as conventional and piece-meal approach will not be effective enough to drastically cut PM emission levels. Diversifying energy source from coal to a mix of coal, gas, electricity and renewable energies is critical to achieve 2025 PM targets. The objectives and clustered activities set out in NPRAEP are meaningful steps. Strategic options going beyond the NPRAEP include, exploring the potential for clean energy and required infrastructure within the existing constraints; assessing a full-fledged package of gas supply, which comprises of LPG, coal bed methane and LNG; gradual phasing of out raw coal at the household level based on understanding of social behaviour and affordability to households; more efficient and emission reducing stoves, heating appliances and more energy efficient buildings.

On the financing side, additional fiscal space will be needed to create more opportunities for funding for air pollution reduction measures are available in many forms, including better-controlled and targeted public expenditure, the rationalization of tariffs and subsidies, revision of fiscal policy regime, grants, concessional loans, PPPs, better governance, Public Finance Management systems and anti-corruption measures and others. More fundamentally, the development of an integrated financing framework by the Ministry of Finance to help Mongolia identify and manage additional sources of both domestic and external finance for sustainable energy solutions in the medium and long term will be essential. The integrated financing framework can be underpinned by an integrated energy model which can provide the basis for formulating a strategy for a targeted energy mix. Such an integrated energy model would be anchored on energy resources currently available in Mongolia and potential energy resources, and would take into account the availability of water – a valuable but limited resource in Mongolia.

4.2 Official Development Assistance

As shown in Figure 11, external finance in the form of ODA for financing public expenditure has been declining over the last decade. The total public sector ODA (i.e. concessional loans and grants) as share of GDP declined from about 8 percent in 2007 to below 3 percent in 2014, before it increased to above 4 percent 2016. ODA per capita has declined from US\$164 in 2007 to US\$117 in 2014, before increasing to US\$165 in 2017.⁵⁰

Figure 11. Government total ODA as share of GDP and per capita in constant USD 2015



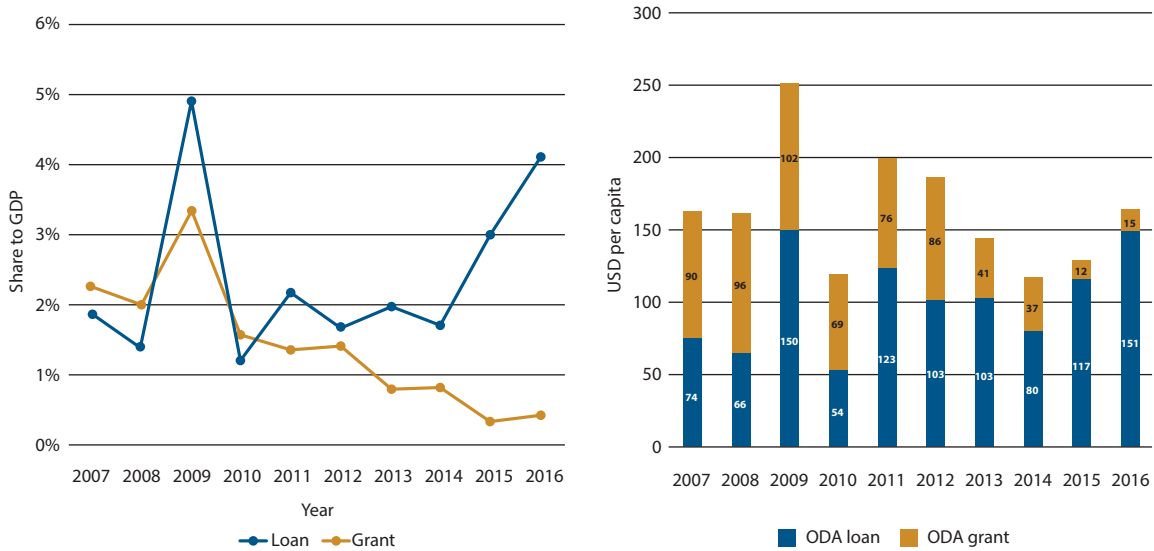
Source: MoF, ODA project.

This varied level of public sector ODA reflects that Mongolia was experiencing exceptionally high economic growth up to 2013, achieving upper-middle income status, and consequently that important development partners such as Germany and Japan significantly reduced ODA disbursements. Considering the current high level of total public debt, it also reflects a lack of an integrated government strategy to mobilize ODA. Moreover, rather than developing a policy and a strategy to access ODA in the form of grants or concessional borrowing from Development Finance Institutions (DFIs) or other sources such as new concessional arrangements from other sources like global programs/funds, the government has worsened its fiscal position by off-budget borrowing on commercial terms.

Figure 12 demonstrates a declining trend in the inflow of grants as compared to concessional loans. While ODA grants declined from above 3 percent to less than 1 percent of GDP over the period 2007 to 2016, concessional loans has fluctuated between 1 and 5 percent. Concessional loans increased substantially from 2007 to 2009 with the government's previous agreement with IMF, while decreasing as share of GDP due to strong economic growth between 2009 and 2014.

50 Total ODA refers to ODA to public sector. It does not include ODA to NGOs due to lack of reliable data.

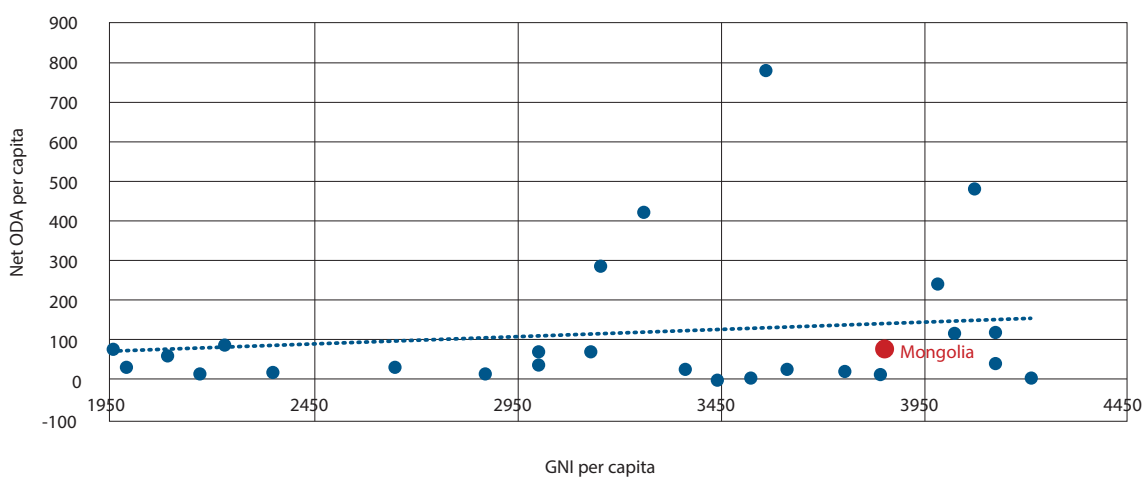
Figure 12. Estimated ODA grants and loans as share of GDP and as USD in constant 2015 value



Source: MoF, ODA project.

While ODA as share of GDP has decreased, Mongolia still performs reasonably well in terms of mobilizing overall ODA compared to many other countries. Figure 13 presents net ODA per capita by GNI per capita for low medium income countries. Mongolia receives high volumes of ODA per capita relative to other countries in this group, although the ratio is higher in a number of small island developing states where total population is lower.

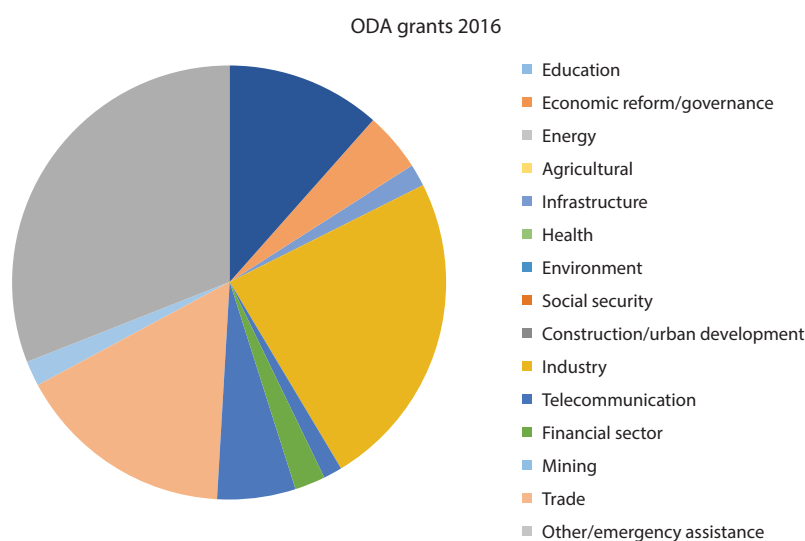
Figure 13. Net ODA per capita in USD by GNI per capita for low middle income countries in 2015



Source: WDI – Geographical Distribution of financial flows.

Figure 14 presents the distribution of ODA grants between sectors in 2016. While emergency assistance is the largest share of grants and the agriculture sector the second largest, the grants in absolute terms are relatively low compared to many other countries at respectively US\$11 million and US\$9 million. Among the sectors receiving low levels of ODA compared to other countries, are the energy and environmental sectors with grants at only US\$370 thousand and US\$2.3 million respectively in 2016. Also the social sectors received small allocations.

Figure 14. Distribution of ODA grants between sectors 2016



Source: MOF, ODA project.

The relatively low share of ODA grants to key sectors where both GoM and development partners have committed to the SDGs, suggests that there may be a significant potential to mobilize additional funding to these sectors. Given that Mongolia is categorized as a lower middle-income country and that large investments will be required, opportunities for mobilizing finance through blended finance mechanisms and concessional loans are significantly larger than mobilizing pure grants. A precondition is however that government is pursuing a strategy to mobilize additional funding, and that credible sector strategies contribute to underpin development partners' long-term commitment to funding.

The negative trend line also suggests that improved capacity to efficiently and effectively plan, budget and monitor programmes could facilitate increased levels of ODA funding.⁵¹ Further improvements in Mongolia's public management system may therefore not only improve effectiveness and efficiency in use of existing finance, but increase levels of ODA finance, including traditional bilateral and multilateral aid and new forms of concessional funding, among others for renewable energy, environment and climate related interventions.⁵²

51 Reference to Section 6 of this DFA.

52 Section 6 of the DFA assesses constraints in Mongolia's public sector management system.

Box 4. The potential for blended finance in the renewable energy sector

Renewable energy is a key sector for Mongolia. GoM has established policy objectives in relation to environmental targets⁵³ and the potential for the country to become a regional exporter of renewable energy can be an important part of its economic diversification objectives. However there is a need to mobilise increased investment that can drive future growth of the sector and realise its potential sustainable development contributions.

Blended finance mechanisms offer the potential to attract scale up investment in renewable energy projects. Globally these mechanisms are being deployed in a range of contexts to overcome some of the challenges to mobilising private investment in the renewable energy sector. While some challenges remain, Mongolia has been identified as one of the countries with the highest potential for investment through such mechanisms. A 2018 report by Climate policy initiative (CPI) identified Mongolia as one of eight 'Tier 1' countries with the highest potential for investment based on private sector attractiveness and the potential for impact on climate outcomes and energy access.⁵⁴

Blended finance mechanisms are structured transactions involving a combination of development finance and private capital that deliver sustainable development outcomes as well as adequate risk-adjusted financial returns for the private investor. The most commonly used financial instruments in blended finance are (i) guarantees, which provides protection from various forms of risks of capital loss for investors; (ii) debt, typically in the form of subordinated or concessional debt (or both); and (iii) equity, typically in the form of junior equity accepting higher risks for lower financial returns.⁵⁵

The potential of blended finance mechanisms is that blending these public finance instruments with private capital offers a way to reduce risk for the private investors – often institutional investors or commercial banks – that participate. A lack of risk mitigation instruments is one of the most commonly constraints to scaling up investment in renewable and clean energy.⁵⁶

Given Mongolia's high potential for growth in renewable energy, blended finance mechanisms may offer an avenue for mobilising investments in the sector. The use of these instruments, as part of a wider strategy to develop the renewable energy sector, could help accelerate its development and contribution to the country's development objectives. Important wider reforms include environmental tax reforms to influence the relative attractiveness of investing in renewable and environmentally damaging industries (see section 8.1.1 below).

53 To reach 20% renewable energy by 2023 and 30% by 2030. Source: Climate policy initiative, 2018, Blended finance in clean energy: experiences and opportunities.

54 Climate policy initiative, 2018, Blended finance in clean energy: experiences and opportunities. Mongolia was ranked as the country with the highest energy access and climate impact score of all developing countries surveyed in the report and third in terms of private sector attractiveness.

55 Adapted from GEF, 2015, Innovations in blended finance: a summary.

56 Climate policy initiative, 2018, Blended finance in clean energy: experiences and opportunities.

The potential for blended finance in the renewable energy sector (continued)

Globally, blended finance investments in renewable and clean energy have a few common characteristics that policymakers can consider when evaluating priority projects for blended finance mechanisms. A CPI review of 75 blended finance initiatives globally found that most are small in size (under US\$50 million), although a significant minority (17 percent) were much larger (over US\$800 million). Most initiatives focus on multiple technologies in renewable energy, although 20 percent are specific to solar energy, and de-carbonisation is a larger focus than access to energy.

Multilateral development banks and bilateral DFIs play a key role in blended finance initiatives in the sector. Two-thirds of initiatives involve MDBs and 40 percent involve bilateral development finance institutions.⁵⁷ This highlights that partnership with Mongolia's development partners may be the way to initiate the use of these instruments and it is recommended that GoM consider this a priority for collaboration with its partners.

4.3 Global concessional funds

The government does not have a consolidated overview of disbursements from global concessional funds like Global Environment Facility (GEF), the Global Alliance for Vaccines and Immunization (GAVI), the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) and the Global Partnership for Education (GPE). However, concessional finance is being disbursed from these sources. For example almost US\$7.6 million is disbursed from Star GEF 6, and the GFTAM has disbursed approximately US\$5 million annually the last 10 years.⁵⁸

There are several other sources of funding from global funds providing access to concessional finance to which Mongolia is eligible. For example, evolving allocations for climate financing allow Mongolia the potential to secure more funding. As a country with high per capita emissions that is already highly affected by climate change, these funds provide opportunities for mobilization of finance that can be utilized to meet challenges to adapt to climate change as well as undertake mitigating actions.

According to the Climate Funds Update,⁵⁹ Mongolia is among the countries which have mobilized some of the funding. Through GTEF 5, US\$59 million has been allocated to Mongolia, which is 2.4 percent of regional allocations. In terms of absolute levels of allocations, Mongolia ranks 12 among the 20 countries in the East Asia region. Given Mongolia's low population this is comparatively high in terms of per capita allocations. Nevertheless, many island states with low populations rank higher in terms of allocations per capita, which may indicate significant potential for mobilizing additional finance for Mongolia.

Many of these funds specifically target renewable energy solutions and Mongolia has an opportunity to qualify for significantly larger volumes of this source of concessional funding due to its rich resources in wind, solar and hydro. The country is ranked highest in the world in terms of renewable energy potential

57 Though this is based on a survey of initiatives for which information is publicly available and there may be a greater emphasis on transparency in initiatives that involve the participation of international public actors.

58 <https://www.theglobalfund.org/en/portfolio/country/?loc=MNG&k=ccd66728-2585-4e48-a529-591ccfb81152>

59 The Climate Funds Update is a joint initiative of the Heinrich Böll Stiftung and the Overseas Development Institute (ODI). It monitors dedicated climate change funds from the stage when donors pledge funding, through to the actual disbursement of financing for projects.

relative to energy use.⁶⁰ However, these resources remain untapped potential as investments in this sector are currently not profitable and therefore not attractive for investors. Due to structural constraints in the energy market, including the high cost of subsidies to the traditional power industry, as well as weak institutional and regulatory frameworks and problematic grid access and capacity – renewable energy sources largely remain uncompetitive. National policy needs to be conducive to large-scale renewable investments and it is important for the government to raise capacity in planning and implementation of energy sector investments.

Box 5. Global funds and financing climate mitigation and adaptation

As an illustration of additional global funding sources on concessional terms, the following may serve as examples:

The Clean Technology Fund (CTF), one of two Multi-Donor Trust Funds within the Climate Investment Funds (CIFs), promotes scaled-up financing for demonstration, deployment and transfer of low-carbon technologies with significant potential for long-term greenhouse gas emissions savings. Channelled through the Regional Development Banks and World Bank, the CTF finances 15 country programs and one regional program. Mongolia is not yet among the countries accessing funding from the CTF.

The Scaling Up Renewable Energy in Low Income Countries Program (SREP) is a US\$839 million fund channelled through five multilateral development banks (MDBs), financing scaled-up deployment of renewable energy solutions to increase energy access and economic opportunities. Mongolia has been approved funding for two projects under one of the four windows, with a total commitment of US\$ 13.6 million which is 1.7 percent of total funding under the SREP window.⁶¹

The Adaptation Fund is a financial instrument under the UNFCCC and its Kyoto Protocol (KP). It was established to finance concrete adaptation projects and programs in developing countries party to the KP, in an effort to reduce the adverse effects of climate change impacting communities, countries and sectors. The Fund is financed with a share of proceeds from the Clean Development Mechanism (CDM) project activities as well as through voluntary pledges of donor governments. The share of proceeds from the CDM amounts to 2 percent of Certified Emission Reductions (CERs) issued for a CDM project activity. So far only one project has received funding in Mongolia (“Ecosystem Based Adaptation Approach to Maintaining Water Security in Critical Water Catchments in Mongolia”). The project is implemented by UNDP with Ministry of Environment as the executing agency.⁶²

60 European Report on Development. Financing Renewable Energy in Developing Countries: Mechanisms and Responsibilities (2012).

61 <https://www.climateinvestmentfunds.org/fund/scaling-renewable-energy-program>

62 <https://www.adaptation-fund.org/projects-programmes/project-information/projects-map-view/>

Global funds and financing climate mitigation and adaptation (continued)

The Global Energy Efficiency and Renewable Energy Fund (GEEREF) is a Public-Private Partnership (PPP), designed to maximize the private finance leveraged through public funds, funded by the European Commission and managed by the European Investment Bank. GEEREF is structured as a fund of funds, and invests in private equity sub-funds that specialize in financing small and medium-sized project developers and enterprises to implement energy efficiency and renewable energy projects in developing countries and economies in transition. So far few of the funds invested in have found PPP projects eligible for financing in Mongolia.

The Land degradation neutrality fund (LDN) invests in bankable land rehabilitation and sustainable land management projects around the world. Launched in September 2017, it uses blended finance models to leverage private capital for investment in sectors such as sustainable agriculture, agro-forestry, renewable energy and eco-tourism. With an initial target capitalisation of US\$300 million it contributes to a scaling up of the resources available for investment in SDG 15.3 on land degradation neutrality. At the time of writing the fund is in the early stages of establishment and initial projects are still under development. GoM may wish to explore the potential for Mongolia to access funding through this mechanism.

The private sector appears to have been moderately more successful in mobilizing funding. One example is that the Green Climate Fund (GCF) has approved one project aiming to support Mongolian enterprises to embrace energy efficiency and renewable energy. The funding provided to XacBank is enabling enhanced provision of loans to Mongolian enterprises to invest in energy efficient and renewable energy projects. The 2017 focus on green energy included, for example, funding for the construction of a 10 MW capacity solar plant in Gobi-Sumber aimag. Total funding from GCF was US\$19.5 million, unleashing another US\$20 million in co-funding from Global Climate Partnership Fund, US\$15 million from ERDB and US\$5 million from DWM Securizations.⁶³

Given the objectives associated with these sources of finance and their potential for meeting financing requirements for some of Mongolia's development challenges in energy, environment and climate change, there is substantial potential to increase access to finance from global funds by more proactively engaging them in addressing development challenges in Mongolia and presenting viable projects. The overall investment needs are likely to be significantly higher than the potential for mobilization of finance from these funds.

63 The Green Climate Fund.

Box 6. Mobilising finance for agricultural value chains

Agriculture is an important growing sector for Mongolia and the ability to accelerate growth in the sector will be an important determinant of the country's success in meeting its economic diversification objectives. There is high potential to achieve this; Mongolia has abundant land suited for agricultural cultivation and is in close proximity to rapidly growing and high end markets such as China, Japan and South Korea.⁶⁴ Financing will be critical for stimulating this shift.

There are a range of financing needs in agriculture, from the needs of individual actors in agricultural value chains to value chain financing as well as financing for infrastructure and research and development.⁶⁵ Different instruments are suited to these varying needs and to the different actors involved in agricultural value chains. Producers, suppliers, processors and distributors can access a range of financing sources from own-savings to micro-finance and bank lending as well as more sophisticated instruments such as leasing and factoring, weather-based insurance and credit guarantees. Internal (financing arrangements between actors within the value chain⁶⁶) and external (financing from external actors such as a microfinance lender) sources of finance can be used to strengthen and deepen the integration of value chains.

Globally, sources of finance for investment in agricultural value chains are expanding,⁶⁷ though risks and risk perceptions limit access to finance in many contexts, particularly for smaller actors within value chains. Governments can play an important role in managing risks and facilitating greater access to finance. The creation and expansion of credit guarantee schemes has been undertaken or supported by governments in many countries and this is an important mechanism for lowering risks. India has taken a more direct approach and has mandated that domestic and foreign banks provide at least 40 percent of their lending to priority sectors that include farmers and farmers' organisations.⁶⁸ Instruments such as blended finance are less prominent in agriculture than other sectors such as energy, although have been used by international actors such as the multi-donor fund Global Agriculture and Food Security Program (GAFSP), through its private sector window.

To boost financing for agricultural development, GoM can develop a sector financing strategy. This could consider reforms such as implementing recommendations designed to stimulate development in the financial sector (see section 8.1.1 below), expanding support through credit guarantee schemes, encouraging growth in microfinance and other financial services targeted at SMEs within agricultural value chains, exploring the potential to access international funding through organisations such as GAFSP as well as equity and risk capital funds targeting agribusinesses.

64 US Department of State, 2017, *Export Opportunities in Mongolia's Agribusiness and Livestock Sector*.

65 IISD, 2015, *Financing for agriculture: how to boost opportunities in developing countries*

66 For example if a producer only pays a fertiliser company once the harvest has been sold.

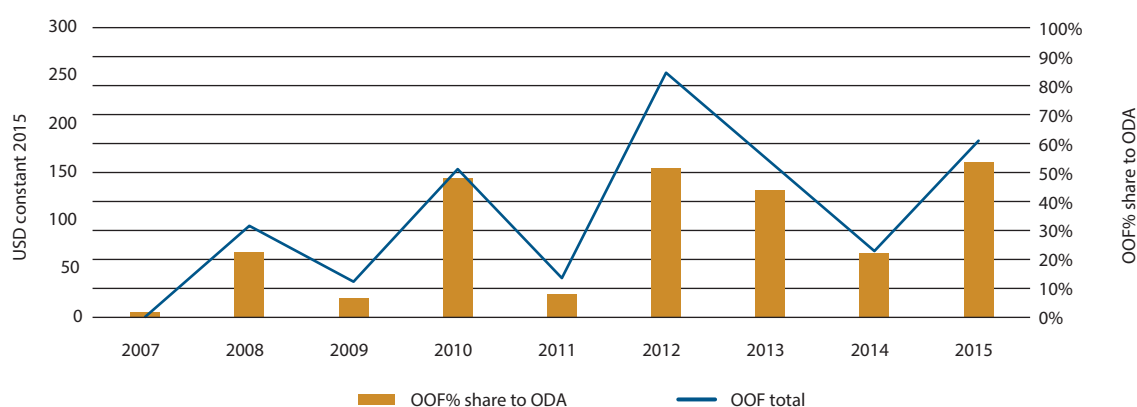
67 World Bank, 2018, *Future of Food: maximising finance for development in agricultural value chains*.

68 IISD, 2015, *Financing for agriculture: how to boost opportunities in developing countries*

4.4 Other Official Flows (OOFs)⁶⁹

Mongolia is also a country receiving Other Official Flows. In total OOFs have added up to an estimated 51 percent over and above ODA contributions during the last decade, as shown in Figure 15. In addition, there is OOFs funding from non OECD/DAC countries. There is however no coherently recorded data publicly available.

Figure 15. Other Official Flows, in USD constant 2015 and percent compared to ODA



Source: Ministry of Finance, data from ODA project and OECD/DAC CRS data.

According to OECD statistics, OOFs are mostly provided from OECD DAC countries, and a smaller share from DFIs. It also includes concessional finance from bilateral finance institutions providing different forms of equity, quasi equity and concessional credits⁷⁰ directed at public corporations and the private sector. These flows are, however, highly dependent on the investment and business climate of the country, and further mobilization of OOFs depends on improvements in the investment climate.⁷¹ There may be potential for increased mobilisation of OOF as two of the development partners most active in Mongolia, Japan and South Korea, are also two of the largest providers of OOF worldwide.

69 Other Official Flows (OOF) are defined as official sector transactions that do not meet Official Development Assistance (ODA) criteria, set by OECD/DAC. Official Development Assistance (ODA) is defined as government aid designed to promote the economic development and welfare of developing countries. ODA may be provided bilaterally, from donor to recipient, or channelled through a multilateral development agency such as the United Nations or the World Bank. ODA includes grants, "soft" loans (where the grant element is at least 25% of the total) and the provision of technical assistance.

70 Concessional non-ODA equity and credits are for some of these agencies counted as ODA at the time of disbursement but then netted out as repayments are made, by repayments of the credit or sell of shares in private and public corporations or equity investment funds.

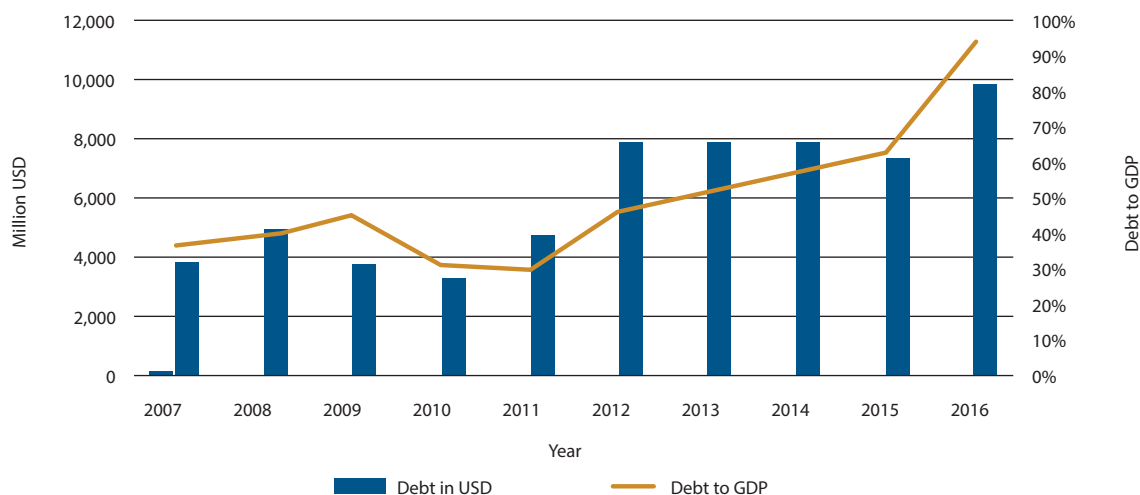
71 The reliability of OOF data is considered weak and should therefore be interpreted with caution, ref. to section 2.2.

4.5 Government borrowing

GoM has gradually increased its reliance on domestic and external borrowing to cover public expenditure. As shown in Figure 16, the country's debt-to-GDP ratio stood at a sustainable level, at below 50 percent of GDP from 2007 to 2012, then rose to 62 percent in 2015, and 93 percent by the end of 2016, of which the external debt-to-GDP is 52 percent and domestic debt-to-GDP ratio is 42 percent.

The increasing debt from 2011 reflects the sharp decline in commodity prices and a countercyclical macroeconomic policy that managed to support growth for a period, mainly financed by expensive private sector debt rather than concessional loans. Eventually this policy led to non-sustainable debt levels, with a weakening of balance of payment and bank assets, which again resulted in a depreciation of the currency and further increase in external and overall debt from 2015 to 2016.

Figure 16. Government debt 2007–2016, as share to GDP. Nominal values, in USD 2015 constant.



Source: Bank of Mongolia

In 2016, the government recognized that failed fiscal policies needed to be reversed and requested support from IMF, with an eventual agreement signed in 2017. A critical pillar of the program is fiscal consolidation to reduce the pressure on domestic financial markets, stabilize the external position and restore debt sustainability.⁷²

A driving element behind the increased levels of government borrowing is weaknesses in planning and budgeting procedures. The MoF has been consistently over-optimistic in its revenue projections from 2012 to 2016,⁷³ and the budget presented to the parliament was based on these over-optimistic projections. Moreover, overspending was further exaggerated due to regular parliamentary revisions of macroeconomic assumptions to increase the spending ceiling.⁷⁴ In addition, high levels of off-budget

72 IMF, Article IV 2017.

73 Natural Resource Governance Institute, Fiscal Sustainability in Mongolia (2017).

74 PEFA 2015.

spending by the Development bank of Mongolia (DBM) from 2012 – 2015 were added to government liabilities in 2016.⁷⁵

GoM debt levels are at an all-time high. Increased debt financing will not be possible until macro-economic stability is regained, beyond what is already agreed with IMF. Mongolia is classified as a blend country – eligible to both IDA loans and loans from the International Bank for Reconstruction and Development (IBRD).⁷⁶ Significantly, the government is already taking action to shift expensive commercial debt with concessional debt. In the medium and longer term, the government should aim to mobilize concessional finance rather than expensive lending from domestic and foreign private capital markets as in the past. To the extent that commercial loans are required, uptake of loans should not be tied to expected increase in revenues from mining.

Future access to concessional finance is however linked to the capacity in GoM's public sector management system. For example, the regulatory framework for Public-Private Partnerships (PPPs) will determine the opportunities to access finance from global funds specifically targeting PPPs. The government's capacity to effectively and efficiently plan and budget for public investments is critical to the credibility of proposed projects where concessional finance is needed. Moreover, a conducive investment climate is vital for domestic private sector investments in both in PPPs and private sector projects, and large-scale infrastructure projects, like hydropower and large-scale wind power investments.

4.6 Private sector investments and credit

The credit market in Mongolia is dominated by commercial banks that hold 95 percent of total assets. In 2017 there were 13 commercial banks operating. Four of these banks, Golomt, Khas, Trade and Development Bank, and Khan Bank, hold approximately 80 percent of all banking assets. The four large banks generally follow international standards for prudent capital reserve requirements, have conservative lending policies, up-to-date banking technology, seem generally well-managed, and allow foreigners to open bank accounts under the same terms as Mongolian nationals.⁷⁷

In addition to the commercial banks the financial sector consists of nonbank financial institution, savings and credit cooperatives, and the Development Bank Mongolia (DBM) which was established as a state-owned limited liability company in 2012. The exact number of non-financial institutions varies. In 2011 there were 188 nonbank financial institutions (NBFIs), and about 207 savings and credit cooperatives (SCCs).⁷⁸ However, according to a World Bank assessment, instruments available for long-term investment remain limited, and the growth of both the retail and institutional investor bases has lagged. The bond market remains quite small relative to its emerging market peers.⁷⁹

75 Natural Resource Governance Institute, Fiscal Sustainability in Mongolia (2017).

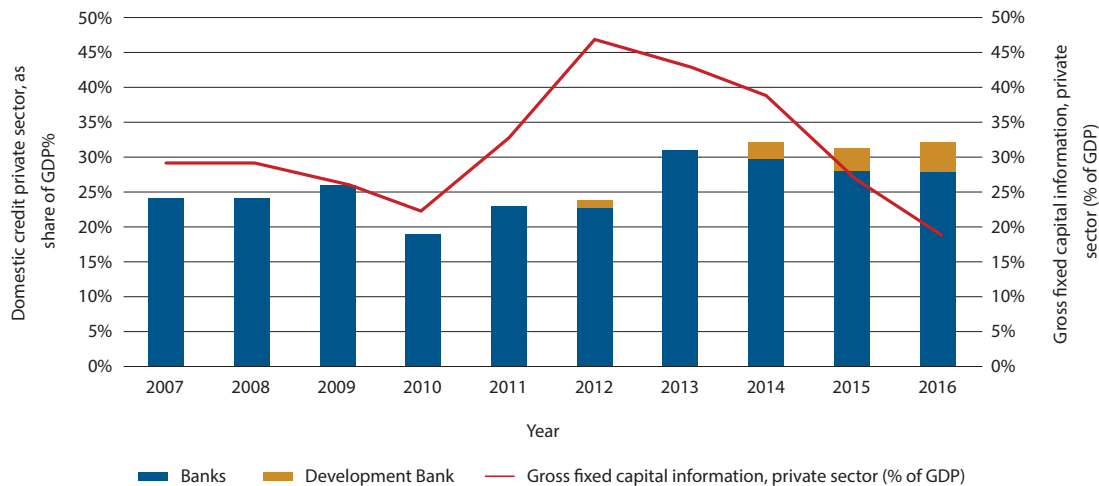
76 <http://ida.worldbank.org/about/borrowing-countries>

77 Export.gov, Mongolia Commercial Guide (2017).

78 <https://www.mongolbank.mn/eng/listfinstability.aspx?id=1>

79 World Bank 2012, Financial Sector Assessment Program Development Module Mongolia. Capital Markets Technical Note.

Figure 17. Domestic credit to private sectors and Gross fixed capital formation as share of GDP



Source: Bank of Mongolia

Access to credit is a major driver for financing of new investments and allows people to purchase assets. Figure 17 shows that private sector credit was growing significantly from 2010 to 2013, from 19 percent to 31 percent of GDP. From 2013 to 2016 domestic private sector credit remained stable relative to GDP. During the same period DBM credit to the private sector was taking a larger share of the domestic credit market.

Private sector investments have decreased dramatically from 2013. Figure 16 also shows that private sector gross fixed capital formation, after more than doubling from 22.3 percent of GDP in 2010 to 47.9 percent to GDP in 2012, has declined at an increasingly high rate, to 19.1 percent in 2016. These developments reflect the recent boom and bust cycle, with a more conducive domestic credit market and increased private sector investments during the financial boom from 2010, and from 2013 an economy increasingly in recession. It also reflects that credit in recent years has been primarily directed towards private consumption rather than investments.

Excessive lending and borrowing creates monetary risks while credit availability promotes economic development. If domestic credit to the private sector is above 100 percent of GDP it reflects that the market is developing, and credit around 150 percent of GDP normally indicates that a market is well developed. Compared to these standards it is evident that Mongolia's credit market is not yet developed.

Lack of competition in capital markets is one important factor constraining private sector growth, particularly in non-mining sectors. Although the main banks are reasonably well capitalized, smaller banks are generally not well capitalized and the non-bank financial sector is still relatively small, with a lack of alternative financial intermediaries. As a consequence, loans are expensive and access to long-term lending required for new investments is challenging, in particular for Small and Medium-sized Enterprises (SMEs), but also for investments in emerging sectors where private capital is needed, such as renewable energy and agribusiness. To address the current constraints caused by an underdeveloped capital market, the government should aim to identify current barriers in the capital market, related to legal and regulatory aspects as well as capacity issues, and pursue a strategy for capital market development.

4.7 Access to venture capital

Access to capital for Mongolia's more than 30,000 SMEs is a key condition for long-term economic growth and diversification of the economy. Mongolia's SME sector provides about 50 percent of all jobs (including manufacturing and food production sectors, as well as others such as leather production, tourism and consumer services). Currently, approximately 50 percent of Mongolian SMEs have bank credit, but only 13 percent have accessed bank finance for investments, and SMEs consider lack of access to finance as the most important obstacle in their business environment.⁸⁰

According to the Asian Development Bank (ADB), SMEs in Mongolia are significantly constrained by their lack of assets to secure loans, high rates on long-term bank loans, and the bank's constraints on the long-term lending. Moreover, SMEs face burdensome requirements when applying for credit and generally they have a weak understanding of the financial market. This limits their ability to grow and make full contribution to increased diversification of the economy and to expand job creation in non-mining sectors.⁸¹

In 2012, the government created the Credit Guarantee Fund to improve access to credit for SMEs. However, the majority of the loan applicants failed due to insufficient collateral, lack of financial education, and unacceptable business plans. A growing number of actors supporting SMEs in Mongolia recognize that early stage support is a key intervention in addressing challenges in developing entrepreneurship.⁸² The government is currently receiving support from several development partners to strengthen the SME sector. The European Bank for Reconstruction and Development (EBRD), USAID, and ADB have a program to support credit guarantee systems for economic diversification and employment.

Despite government initiatives and development partners support to strengthen the SME sector, there have been few private sector venture funds and programs backed by concessional donor funding in operation in Mongolia. One example is the Mongolia Opportunities Fund, which is a closed-end private equity fund with IFC and EBRD as investors. However, there are limited sources of information on the actual size and outreach of the venture capital fund market, and compared to many other low-income countries the market is still not matured. A more mature venture capital market could direct necessary capital to start-ups in different sectors including social sectors, agriculture, and tourism amongst others.

Mongolia is however developing the experience and expertise needed to sustain portfolio investments and active capital markets, and GoM has reported that it wants to establish a vibrant capital market. It has been a goal to use the state owned Mongolian Stock exchange as the primary venue for generating capital and portfolio investments, and the Revised Securities Market Law creates a legal framework sufficient to regulate these activities. However, few foreign investors have invested in the Mongolian Stock Exchange. The Mongolia Investment Statement for 2017 points out that most foreign investors shy away from investing in the Mongolian Stock Exchange because it lacks the regulatory capacity, accountability, transparency, and liquidity to effect proper capital formation and portfolio investments.⁸³

80 World Bank Enterprise Survey (2013). Mongolia Country Profile.

81 ADB 2015, Supporting the Credit Guarantee System for Economic Diversification and Employment Project.

82 <https://www.usaid.gov/mongolia/fact-sheets/reach-project-small-and-medium-enterprise-access-credit>

83 US Department of State, Mongolia Investment Climate Statement 2017.

Box 7. Venture capital leveraging domestic finance to promote SME growth and employment

Venture capital for small and medium-sized enterprises (SMEs) typically provides risk capital and technical assistance to entrepreneurs and fund managers in challenging markets. The need for risk capital is high in low to medium income countries like Mongolia, where development needs can be addressed by bridging gaps in the value chain of the economy. SMEs in countries like Mongolia have the potential to drive job creation and economic growth but they have limited access to the capital they need. They are typically too large to be served by micro-finance institutions, yet too small to be served by commercial banks. They also face other challenges, such as a lack of management skills or industry knowledge.

Venture capital funds and programs in countries provide entrepreneurs with risk capital such as equity, loans, and quasi-loans combined with technical assistance. SME venture programs also provide support to fund managers as they establish themselves in these markets.

On a wider economic level, some of the SME venture programs have paved the way for other private equity firms to enter these markets. This has happened by supporting needed changes in the regulatory environment to make it more conducive to private equity investments.

With the current constraints in access to finance, increased entry of venture funds in Mongolia could serve to foster competitiveness and economic growth and diversification. Establishment of venture funds could also increase access to business development services, potentially contributing to improve the capacity currently constraining the SME sector.

Another mechanism for mobilizing capital is a Challenge Fund, which is a competitive financing facility to disburse funding for development projects. A Challenge Fund often utilizes both public sector and private foundation funds for market-based or incentive driven solutions. Normally competitive mechanisms with fixed criteria are used to select projects, often within different windows such as agribusiness, ITC and renewable energy to promote growth in targeted sectors. A Challenge Fund that currently receives broad attention is the Africa Enterprise Challenge fund (AECF). The AECF provides catalytic funding in the form of repayable and non-repayable grants to businesses that would not otherwise have access to adequate financing, and could be considered as an option for mobilizing capital in Mongolia.

Many low and middle income countries have successfully established venture capital programs and challenge funds with donor support, promoting small and medium-sized enterprises in priority sectors such as agriculture and renewable energy. To promote SME development and economic diversification, GoM could, in cooperation with development partners and the financial sector, expand their current efforts to support establishment of a venture capital fund/program and/or challenge fund mechanism.

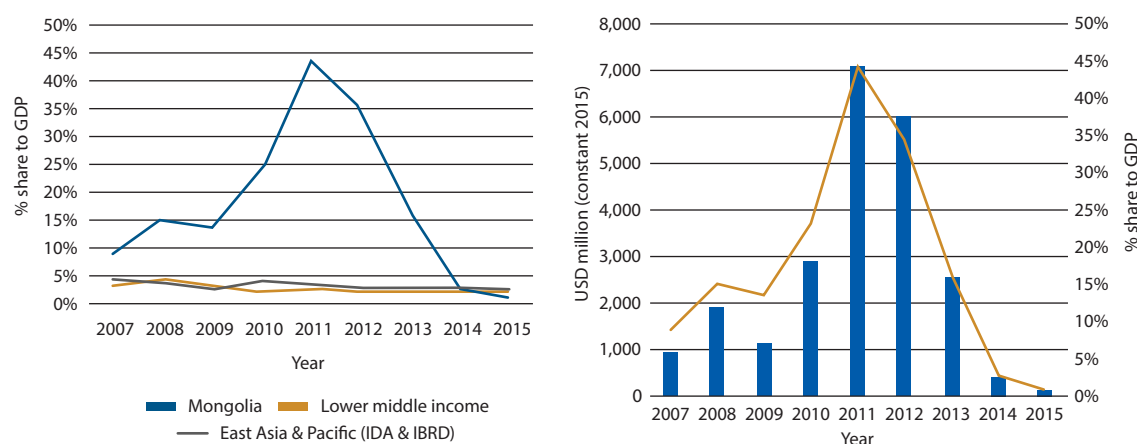
4.8 Foreign Direct Investment

Foreign Direct Investment (FDI) is the ownership of an enterprise in a foreign country. To be classified as FDI, a foreign investor has to own at least 10 percent of a local company. If the ownership is less than 10 percent of the value of the local company, the investment is classified as portfolio investment.⁸⁴ FDI in Mongolia could be in mining, manufacturing, services, agriculture, tourism or other sectors.

FDI can contribute to economic growth and diversification, particularly if investments are directed towards sectors that are not dependent on natural resource extraction, such as tourism, renewable energy and agribusiness. In addition to creating direct and indirect employment, FDI leads to development and entry of new technologies and management practices. In emerging sectors, the training of local personnel will after some years lead to new business, due to knowledge transfer from international partners to national counterparts and employees. Hence, in Mongolia, attracting FDI to non-mining sectors is key to economic diversification and economic growth.

As shown in Figure 18, net FDI was increasing sharply in Mongolia, from a comparatively high level in 2009, to a very high level in 2011. The high level of FDI has almost exclusively been related to the mining sector, and specifically the first phase of development of the Oyu Tolgoi (OT) copper and gold mine. From 2011 FDI has declined sharply, and in 2015 FDI had dropped to almost zero as the first-phase development of the Oyu Tolgoi (OT) came to an end and the second phase was delayed on account of a shareholder dispute.⁸⁵ This indicates that excluding the mining sector, the level of FDI has been significantly lower than the average of low to middle income countries and the East Asia regional average over the time period studied.

Figure 18. Foreign Direct Investment as percent of GDP, and in USD at constant 2015 prices



Source: World Bank (WDI)

GoM has committed to support FDI and has made recent efforts attract more FDI to take advantage of the above benefits of increased employment, technology and knowhow from foreign companies. The government's current foreign direct investment regulatory regime is considered to be very open, and

84 OECD. "OECD Benchmark Definition of Foreign Direct Investment." Fourth Edition. (2008).

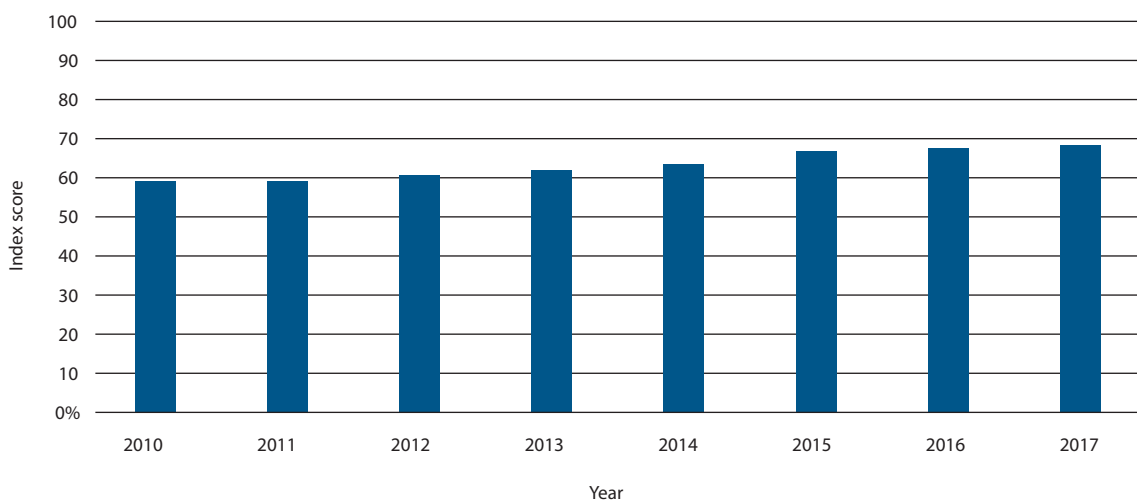
85 IMF, Article IV, 2017.

both domestic and international investors have the freedom to invest in all legitimate sectors of the economy. The Investment Law of Mongolia which commenced on 1 November 2013, contains a number of provisions which aim to protect the rights and interests of foreign investors including:⁸⁶

- tax stabilisation certificates, which provide for fixed taxation rates depending on the investment size, location and sector
- legislative protection from expropriation
- provisions to facilitate repatriation of profits
- strengthened arbitration rights.

These regulatory measures are also reflected in an improvement on the World Bank's index on distance to frontier, which benchmark economies with respect to regulatory best practice, showing the absolute distance to the best performing country. When compared across years, the distance to frontier score shows that Mongolia has improved the regulatory environment for local entrepreneurs, which is also important for the climate for FDI. The index demonstrates that Mongolia's regulatory environment has gradually improved since 2009 until today, with a year on year improvement in the index score, from 58.8 in 2009 to 68.2 in 2017.

Figure 19. Mongolia's distance to the frontier



Source: <http://www.doingbusiness.org>

Recently the government has reaffirmed support for investments that established OT, and the government has taken some measures to enforce and implement accountability measures, among others following up a US–GoM agreement on Transparency in Matters Related to International Trade and Investment. However, despite these encouraging developments, current levels of FDI are very low, and almost zero outside the mining sector. Moreover, to achieve the objective of economic diversification FDI in non-mining sectors, constraints to FDI need to be coherently addressed.

86 Investors Guide to Mongolia (2017).

According to investors, the regulatory environment is formally in place and there are few systematic, institutional efforts to impose laws and practices that discriminate against foreign investors.⁸⁷ However, while Mongolia has made impressive progress on the legal and regulatory side, there are deficiencies in implementation of the regulatory framework that are likely to constrain growth in FDI. This is partly due to weak capacity of the public administration to absorb, monitor, and enforce legislation. Hence, regulatory bodies need to modernize to effectively regulate and support private sector development.⁸⁸

Moreover, the governance challenges are a major barrier when it comes to increasing FDI in Mongolia. For example, in a review of anti-corruption reform the OECD pointed out that little progress was made in terms of preventing corruption and improving public procurement, both of which are serious impediments to the implementation of a strategy to increase and diversify FDI. Among the key factors identified to constrain public sector performance is a lack of merit-based approach in the civil service, weak regulation of political party financing, and corruption within the judiciary in Mongolia.⁸⁹

Another related constraint is that Mongolia currently does not have an operational agency that effectively promotes Mongolian investments and pro-actively pursues a diversification strategy. Until late 2016, the Mongolian Investment Promotion Agency (IMA) played a central role promoting Mongolian investments and implementing the many programmes for achieving diversification through FDI. However, the Agency was closed in late 2016, and the new NDA was assigned with responsibility to issue tax stabilization certificates, but has until now not established a process for doing so. Moreover, the previous IMA functions are no longer available to foreign investors.⁹⁰

The above are not the only impediments to attracting FDI, but are also constraints relevant to private sector investments in general. Addressing these constraints is likely to yield growth in FDI outside of the mining sector, and serve to increase domestic private sector investments in emerging sectors such as agribusiness and tourism.

4.9 Public-Private Partnerships

Internationally, PPP arrangements are typically found in transport or energy sectors, hydropower with Power Purchase Agreements (PPA), water supply, waste management and health care. They are frequently used in other sectors. For example, a recent FAO review documented experiences across low and middle income countries in agribusiness.

In Mongolia, a policy on PPP was approved in 2009, and a Law on Concessions enacted in 2010 was considered important to stimulate PPPs. According to an UNCTAD Investment Policy Review undertaken in 2013, the Law on Concessions provided a comprehensive basic framework for concessions which drew upon best international practice, and provided good a regulatory framework for mobilizing private capital for infrastructure projects in different sectors.⁹¹

87 U.S. Department of State. Mongolia Investment Climate Statement 2017.

88 United Nations Conference on Trade and Development (UNCTD). Investment Policy Review (2013)

89 OECD. Anti Corruption Reforms in Mongolia (2014); The OECD Progress Update (2015).

90 U.S. State Department. Mongolia Investment Climate Statement 2017.

91 United Nations Conference on Trade and Development (UNCTD). Investment Policy Review (2013)

Following the enactment of the Law on Concessions, a specialized concession unit was established. From 2012 to 2016 concessions were managed by the Ministry of Economic Development. However, the UNCTAD's assessment found the division to be understaffed and with limited capacity to do market assessments, project assessments, cost-benefit analysis, and to assist line ministries in their own analysis. It was also pointed out that low wages throughout the public sector make it difficult to attract the capacity required in terms of both staffing levels and expertise. An assessment undertaken by CMC global in 2015 found that the environment for PPP projects is still not well developed in Mongolia, and compared to other Asia-Pacific countries Mongolia ranked in the lowest category in terms of conducive PPP environment.⁹²

In late 2016, the responsibility for PPP / concessions was transferred to NDA. According to NDA there is only one ongoing PPP project in Mongolia, related to a road project facilitating mining industry exports. Moreover, despite consistent efforts to establish PPPs, there are, with the exception of the road project, no examples of PPPs that have successfully mobilized private sector capital. According to NDA and other government stakeholders, a major barrier to PPPs has been an unclear regulatory environment, with note to distinctions between concessions and PPPs. NDA is therefore currently planning a revision of the PPP policy, and has signed a development cooperation agreement with JICA on support to concessions and PPPs.⁹³

Even with the revision of the regulatory framework, implementation of PPP projects is likely to remain challenging unless the government addresses its own capacity gaps. Government staff in NDA need to have adequate capacity to assess markets, select viable projects for private sector participation, develop reliable mechanisms for sharing risks that provide private investors with adequate security, manage contractual arrangements, and support line ministries such as Ministry of Energy, Ministry of Education and Ministry of Transport to develop and implement their own PPP projects. Furthermore, strategic measures need to be taken to ensure transparent and competitive bidding processes, reliable enforcement of regulations, and a conducive environment for project implementation. The extent to which PPPs will grow in number and volume will, however, also depend on further improvements in the general business climate for private sector investments including FDI as discussed above.

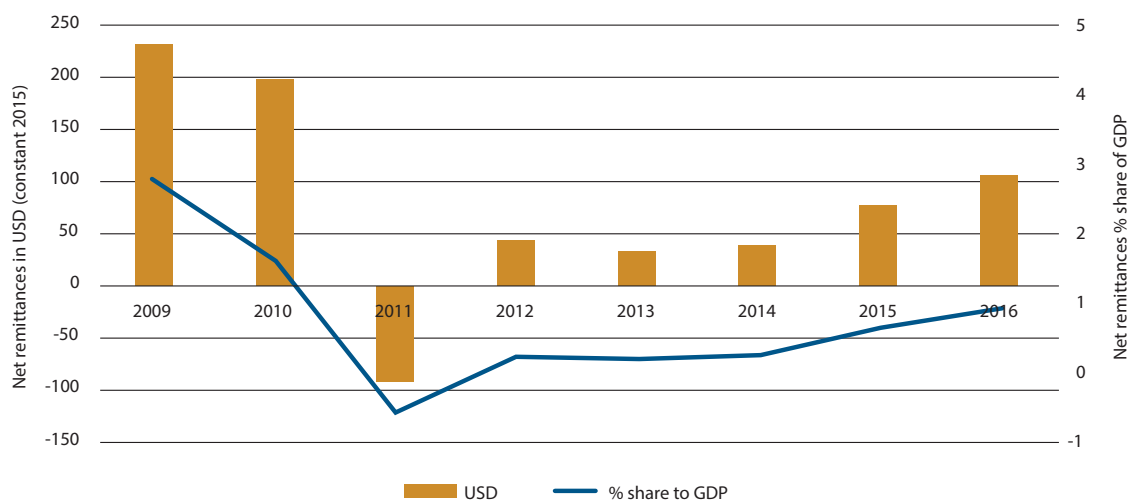
PPP arrangements are an important element in GoM's development strategy, and if adequately planned, structured and implemented, PPPs can provide effective and efficient means for financing, operating and maintaining infrastructure projects. Moreover, PPPs can also be utilized to scale up service delivery, for example in health and education.

4.10 Remittances

As demonstrated by Figure 19, remittances do not constitute a very significant source of finance for Mongolia. The net inflow of remittances from Mongolians working abroad declined from 2.8 percent to -0.6 percent in 2011 when the Mongolian economy was booming, implying that there were larger outflows than inflows of remittance. From 2012 to 2016 remittances remained relatively stable, increasing from 0.3 percent to 0.9 percent in 2016. This indicates that remittances in the years ahead are not likely to become a significant source of finance in Mongolia.

92 <https://www.cmc-global.org/content/public---private-partnerships-development-mongolia-perspective>

93 FAO (2016), Public Private Partnerships in Agribusiness development.

Figure 20. Remittances in million USD at 2015 prices, and as share of GDP

Source: Bank of Mongolia (remittances) and World Bank (GDP)

4.11 Corporate Social Responsibility

In conjunction with expansion of operations of multinational companies in Mongolia, local governments and communities benefit from the Corporate Social Responsibility programs of private companies.⁹⁴ There is however no statistical data on the exact amount disbursed.

One example is that Oyu Tolgoi LLC signed a Cooperation Agreement with the local authorities, i.e. aimags and soums, in 2015. The company commits US\$5 million each year to sustainable development projects in South Gobi. Another example is the Khaa Hudag coal mine managed by Energy Resources LLC, that built a kindergarten, a school and residential complex.

Box 8. Independent fund to support local development

Oyu Tolgoi LLC has established a Cooperation Agreement with Umnugovi Aimag and its Khanbogdi Soum.⁹⁵ Within the framework of the agreements the Gobi's Oyu Tolgoi Development Fund was established in 2015. The Fund acts as an independent NGO and its mission is "to be a fund sponsor for a joint development initiative promoting the well-being of the South Gobi." Oyu Tolgoi provides \$US5 million annually to Umnugovi Aimag. The fund is managed by Board of the Fund consisting of seven people with four of them representing OT and three representatives of Ömnögovi Aimag. The Relationship Committee is designed to provide recommendations to the Board. To ensure accountability and transparency a Trusted Advisor has been selected and included in the Board of Governors. Auditing takes place on a semi-annual basis. Five percent of the total annual funding is allocated to The Next Generation Fund.

Two percent of annual funding goes into supporting vulnerable groups and members of Umnugovi Aimag and its members, including persons with disabilities, elderly people, people living with special needs, and health and economic well-being, and to spend on programs.

94 EITI Annual Summary Report of Mongolia, 2012, https://eitimongolia.mn/sites/default/files/uploads/Summary_report_2012.pdf

95 Goviin Oyu San, <http://www.goviinoyu.mn/eng/>

5. SDG ownership and vision for results

5.1 Leadership and policy vision for results

Mongolia was among the countries that strongly embedded the MDGs at a policy level and integrated and mainstreamed the objectives and targets into national development strategies. Achievements have been significant, with progress made towards most of the MDG targets.

Based on positive MDG experiences, and as a signatory to a number of UN conventions on sustainable development, GoM took a pro-active approach to SDG policy planning. During international SDG negotiations the government took initiative to develop Mongolia's strategic vision on sustainable development. Thus, less than six months after the SDGs were adopted in September 2015, parliament approved Mongolia's Sustainable Development Vision 2030 (SDV) in Parliamentary Resolution No 19, articulating the vision for sustainable development in the Mongolian context.

The SDV is a consensus document that outlines the major development priorities for the country for the next 15 years. It is supported by all key political parties, and includes an economic, a social and an environmental pillar. The overall vision of the SDV is for Mongolia to become an upper middle-income country by 2030 with poverty eradicated in all its forms while preserving ecological balance and strengthening democratic governance.

According to government stakeholders, the SDV provides a basis for taking the SDGs forward. The goals and targets reflect however very high aspirations and will be difficult to achieve in Mongolia's current financially constrained context. Moreover, although the SDV is considered a framework for taking the SDGs forward, a recent UNDP mapping of SDG coherence with the SDVs and the Green Development Action Plan (GrDP), demonstrated that there are significant variations in degree of alignment of SDG targets in the GrDP and the SDV. This is particularly the case in terms of the ambition of the 2030 Agenda as an integrated development that balances the three dimensions of sustainable development. Limited analysis of trade-offs and synergies between the various policy goals has been conducted. Several stakeholders emphasised that the current SDV is not a specific SDG implementation strategy and that a policy coherence assessment is needed to ensure coherence.

The UN/ADB MAPS mission⁹⁶ to Mongolia (see box 9) identified that a SDG-level review of the SDV shows that it is heavily focused on promotion of economic growth, diversification and infrastructure building, includes many SDGs. However, several SDGs which are at the heart of "Leaving No One Behind" – notably, gender equality and reducing inequalities – are only included as general principles, and lack specific objectives and actions. The SDV does not sufficiently recognize the trade-offs and synergies between economic, social and environment dimensions of development. The Government Action Programme (GAP) 2016-2020 (the medium-term plan) was largely informed by concerns about the fiscal crisis and debt unsustainability and most of its objectives relate to the SDGs on economic growth, poverty reduction, health, education and governance. However, objectives related to the environment – such as those on clean energy, water and sanitation, and climate change action – as well as those related to economic diversification – such as those on science and innovation, found limited reflection in the GAP. Similar

96 UN/ADB, SDGs mainstreaming, acceleration and policy support (MAPS) Mongolia joint mission report, November, 2017

to GAP, the Socio-Economic Guideline (SEG) 2018 (the annual plan) has a disproportionately strong emphasis on goals related to economic growth, governance, poverty, education and health. While this emphasis can be explained by the government's attention to dealing with the fiscal crisis, there is no clear indication of sequencing of activities or the cost of inaction, particularly in relation to environmental issues. A similar review of the 2018 budget against the SDGs shows the extent to which debt repayment and servicing diverts resources away from financing for the SDGs – interest and principal repayments together accounted for a third of the budget. In comparison, planned expenditures for economic sectors, energy and other infrastructure accounted for 22.8 percent; social welfare, health and education together accounted for 28.5 percent of the budget.

The Parliamentary Resolution assigns the government to implement the SDV in phases, by incorporating the SDV into the medium-term development policies, the four year Government Action Plan, the annual socio-economic development guideline and the state budget. It also assigns responsibility to the government to undertake monitoring and evaluation, and to report to the Parliament every two years.

As of 2017, 162 policy documents at the national and local level are being adopted. Many of them constitute competing strategies, policies and programmes without consistent linkage to the long term development vision and do not include sufficient resource allocations and monitoring mechanisms to track their performance. The National Development Agency (NDA) has identified that out of 169 global SDG targets 21.3 percent are fully covered by Mongolia's Sustainable Development Vision 2030 (SDV) while 24.3 percent of SDV targets are partially aligned with the SDGs and 9.5 percent of SDV targets are not applicable to the SDGs. Forty five percent of SDG targets are not reflected in SDV. The UN & UNDP supported NDA to review existing sectorial policies from a coherence perspective, and water sector was selected as pilot area. Current policies pertaining to the water sector were reviewed from a legal, planning, and monitoring perspective. The sectoral coherence review included the utilization of a "network analysis" developed by Stockholm Environmental Institute (SEI) to demonstrate the positive (and potentially negative) interlinkages between various water sector goals and directly or indirectly related policies. In December of 2017, SEI experts conducted a training on the methodology for staff from NDA, line ministries, and research institutions. Based on this pilot NDA has developed a generic methodology on (i) coherence analysis and (ii) SDG target setting to be used for Mongolia's medium-term plans, identifying interlinkages as well as trade-offs between targets that may be required in light of existing resource limitations. This approach has been consulted with all ministries and agencies. The proposed generic methodology is expected to be adopted by an order of the Cabinet shortly and will be streamlined in policy planning process.

Box 9. Mongolia MAPS assessment

The MAPS approach (mainstreaming, acceleration and policy support) is a UN Development Group initiative to support countries in implementing the 2030 Agenda and achieving the SDGs. It assists countries in efforts to translate these global goals into national and sub-national plans and budgets, raise public awareness, establish practices for monitoring and reporting, identify actions that can boost progress and by providing thematic policy support.⁹⁷ Given the prominence of financing issues in many aspects of sustainable development there are strong interconnections between the DFA and MAPS approaches.

A MAPS mission to Mongolia in November 2017 and subsequent report identified three core recommendations to enhance Mongolia's ability to achieve the SDGs within the current context of fiscal constraints:

1. Coordinated, coherent policy-making and implementation, particularly mechanisms to align the state budget with the SDGs and government priorities, and to identify areas of duplication and gaps in government budgets.
2. Systems to monitor SDG progress and provide decision makers at the Cabinet level with up-to-date information on progress, bottlenecks and efficiency of government-finance programmes
3. Policy and budget allocations that are more closely aligned to the SDV

5.2 Institutional mandates

In 2016, the government established the National Development Agency (NDA) of Mongolia, that was assigned leadership on the SDV and the SDGs.⁹⁸

NDA initiated a process aiming to operationalize and integrate the SDGs relevant to Mongolia's context at all levels of government – aligning new and existing policies and development strategies with the SDV and SDGs, to enhance data collection and use, to define financing options for the SDV and SDGs, and to pilot mainstreaming of SDGs at sectoral and sub-national level development plans. Eight working groups were tasked to localize the SDGs to the Mongolia context. Each work group was mandated to identify available baseline values, to review existing strategies and plans and to identify indicator targets. From the preliminary mapping conducted by these work groups, data gaps were identified.

The NSO has undertaken a broader assessment of SDG targets and indicators, identifying gaps that need to be addressed to monitor SDG implementation. In terms of measuring progress on the SDGs, out of global 244 indicators, 233 are applicable to Mongolian context, and as of March of 2018, 58 percent are available in Mongolia. The national statistical authorities are working jointly on developing indicators compatible with international standards.

97 UNDP, 2018, How will we navigate toward 2030? We'll be using MAPS! Available at: <http://www.undp.org/content/undp/en/home/blog/2018/how-will-we-navigate-towards-2030--well-be-using-maps-.html>. Accessed May 2018.

98 The newly adopted Law on Development Policy Law requires establishment of dedicated agency in charge of planning.

In addition, the development partners are working closely with the national counterparts to define the SDG indicators. In 2016, the Mongolian data system⁹⁹ was assessed in terms of the legal, institutional and system environment in which data and information is created, analysed and used. The review points not only to key data gaps, but also how various systems and data-holders share, process and analyse the data they collect. It provides recommendations on how data can be collected using non-traditional sources. It also examines solutions for overcoming data gaps and shortcomings for SDG3: Good Health and Well-being and the SDG 16: Peace, Justice and Strong Institutions or 'Governance SDG'. Moreover, UNDP supported the Ministry of Environment and Tourism to define a set of indicators related to SDG 6 on ensuring availability and sustainable management of water and sanitation for all.

5.2.1 Localizing the SDVs

Both sector ministries and sub-national governments have been instructed by the NDA to align their strategies with the SDVs. The efforts have however been inadequately coordinated and local governments are awaiting more clarity on how to adapt and integrate the SDV objectives and targets in the planning, budgeting and monitoring processes.

Local government efforts to align their strategies to the SDV are also constrained by limited discretion to prioritize and allocate resources according to local needs and preferences. Moreover, despite having some discretion in policy planning, financial resources have increasingly been constrained with annual reductions in funding from the Local Development Fund, and by limited scope to compensate the reduction in transfers with increased levels of local taxes or charges.

Ulaanbaatar City (UB) does however have a special status among local governments. UB has discretion to levy additional revenues such as the "Capital City Tax", and has autonomy to borrow, upon approval of MoF, up to 15 percent of base revenue.¹⁰⁰ UB City Authority recently signed a MoU with UNDP to work together to implement the SDGs.

Box 10. SDG localization in UB city – pilot project

In 2016, UNDP and the Ulaanbataar (UB) City signed a MoU which provides an overall framework for localization of SDGs. The city indicated that in order to achieve SDGs a "dynamics unusual" (DAU) scenario will be needed instead of business as usual (BAU). The UB City Working Group jointly with UNDP consultants provided a sketch of what UB could look like in 2030, if we continued the historical path of development or introduced incremental improvements. The team reviewed the current policies and programs from an SDG perspective, prepared a roadmap for aligning with the SDGs/SDV and defined the SDV aligned policy targets for 2030. In addition, a detailed review of available data was conducted. At the city level 126 target indicators for 17 goals were defined, and 284 monitoring indicators were proposed. As of end of 2017, data for 39.4 percent of them is readily available, 38.4 percent can be computed with some efforts, and 4.9 percent need to be introduced newly. Moreover, a review and prioritization of UB's roughly 70 investment projects from the perspective of their contribution to the achievement of the SDGs in the capital city was carried out. The city level SDGs will be discussed at the City Representatives Council.

99 UNDP Mongolia (2016), Mapping and Assessment of Data Ecosystem in Mongolia, ICG

100 World Bank (2013), City Finances of Ulaanbaatar.

NDA is currently planning a review of the Local Development Fiscal Transfer System to ensure that allocations reflect the SDV and SDGs policy objectives and needs. It also aims to build a soum-level data base to support regional development policies and development planning.

5.2.2 Parliamentary oversight

Following the adoption of the SDV, there has also been a significant focus on the SDVs in the parliament. It is however acknowledged that the SDV goals are highly ambitious, that coordination among government agencies needs to be strengthened, and that structural reform is needed to bridge the funding gap. Moreover, with the debt crisis escalating, the focus has been more directed towards debt management and the immediate and medium term reforms required within Mongolia's Extended Fund Facility, than the SDV and in particular the SDGs.

Parliamentary oversight and scrutiny of SDV implementation is with the Parliamentary Standing Committee on State Structures.¹⁰¹ A sub-committee on the SDGs has been established within the Standing Committee on Social Issues. Following a series of consultative meetings with government agencies, the UNDP and other stakeholders – the sub-committee instructed government agencies to accelerate the SDG process to mainstream the SDGs and to expand awareness of SDGs in government.

In addition, a National Sustainable Development Council under the Prime Minister was established in January 2017, mandated to oversee implementation of the SDGs and to report to UN High-Level Panel. However, the High Level National Council has not yet convened.

Box 11. INFF Building Block 1. Leadership that facilitates institutional coherence

- The government has shown a commitment to follow up the SDG agenda and take initiatives to localize SDGs to the Mongolian context. The SDV was committed to by all main political parties represented in Parliament. Over the last year however, the focus of the government has largely been directed towards short and medium term requirements related to the debt crises, and on the economic and financial stabilization and restructuring of the IMF program to be supported by a three year Economic Fund Facility and related requirements.
- NDA has been taking leadership and initiated a process aiming to operationalize and integrate the SDGs relevant to the Mongolia context at national level. These initiatives include identifying targets and indicators, setting baselines for about 50 percent of targets, and commissioning a study to accelerate achievement of water related SDGs.
- The process of localizing the SDGs to the Mongolian context is ongoing. Although the SDV is a framework for taking the SDGs forward, there are very significant gaps in its alignment to the SDGs. Limited analysis of trade-offs and synergies between the various policy goals has been conducted.
- Initiatives to localize the SDGs to local level governments are pending and local government levels have not been adequately involved in SDG processes. An important initiative has however been taken by UB City that receives support from UNDP to develop SDG-consistent planning, budgeting and a data platform.

¹⁰¹ Parliament of Mongolia Resolution No 19, 2016.

Box 12. INFF Building Block 2. A clear vision for results

- As a signatory to a number of UN conventions on sustainable development, GoM adopted several SDG commitments in its sector strategies before committing to the SDGs.
- GoM has a long-term strategic vision, SDV 2030, and a four-year Government Action Plan, which incorporates the SDVs.
- In 2018, the Three-pillar Development Policy was adopted to streamline the investment decisions with the development results.
- Recent analysis demonstrates that there are gaps between the SDGs and the SDVs.
- Many of the SDG targets are currently not possible to monitor or to establish baseline values. Uncertainty exists regarding the feasibility of achieving the SDV goals. It is recognized that extensive resource mobilization will be required, as well as significant capacity enhancement across government institutions. Cooperation with the private sector, NGOs and international finance institutions and donor community, is also needed.

6. Public Sector Management

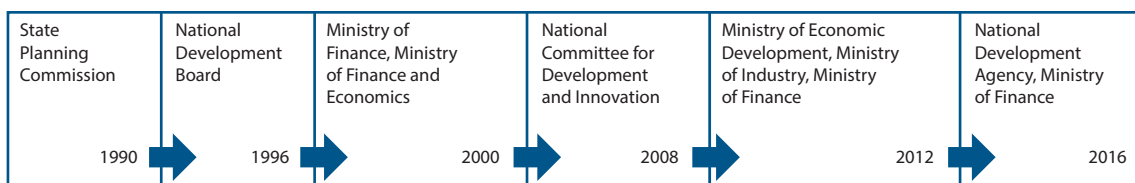
Based on information from interviewees and on secondary information from policy, institutional and PFM reviews, this section assesses how GoM's planning, budgeting, monitoring and evaluation as well as procedures and processes effectively and efficiently support mobilization of finance and achievement of development objectives as presented in the SDVs.

A broad institutional perspective is applied, assessing how the formal institutional structures and procedures, the informal aspects relating to enabling an environment of accountability and dialogue as well as the norms and culture in the civil service, affect the capacity of the government to maximize the value for money and the ability to mobilize additional finance for development results.

6.1 Policy planning and budget formulation

Since the transition from communist planning economy to market economy in the early 1990s, Mongolia has implemented different structures of development planning. The Ministry of Finance was responsible for development planning from 2000 to 2008. It was then passed to the National Committee for Development and Innovation from 2009 to 2012. During this time, consistency in goals and actions between the various ministries was not achieved. Rather, line ministries launched their own development schemes that overlapped and contradicted one another. The result was a discordance of narrowly defined activities outside a coordinated mandate.¹⁰²

Figure 21. Evolution of planning structures



From 2012 to 2016 the Ministry of Economic Development (MED) was responsible for national planning functions. It was politically the most powerful spending agency with responsibility for both on-budget and considerable off-budget capital expenditures. There were however fundamental disagreements between MED and MOF on fiscal issues, and weak coordination in budget preparations.¹⁰³

With the objective to improve policy planning coordination and to establish a national development strategy without overlap and redundancies between ministries, the Law on Development Policy and Planning was enacted by the Parliament in 2015. The General Procedure for Drafting Development Policy Documents (2016), sets out the planning framework and procedures for the long-, medium- and short-term plans at national and local government levels. The law centralized the planning function, removing what many in Mongolian policy development saw as the country's greatest bottle-neck toward development.¹⁰⁴

¹⁰² Development Planning in Mongolia: Failure and Potential (2014) – Dr. Jeffrey Reeves

¹⁰³ PEFA 2015.

¹⁰⁴ Development Planning in Mongolia: Failure and Potential (2014).

In 2016 the responsibility for development policy and planning, including the National Investment Plan (NIP), was transferred to the National Development Agency (NDA), that was instituted as the key planning agency under the Prime minister. Hence, NDA was assigned responsibility for long-term, and medium term policy planning, and the key government institution to coordinate SDV/SDGs development planning and investments. As the regulatory agency in charge of the NIP and medium and long-term development planning, the NDA is also given mandate to conduct assessments on national policy documents coherence with global commitments, and on coherence of sector strategies and local development plans with the national planning objectives.

6.1.1 Key constraints in SDV and SDG policy planning and budget formulation

The Sustainable Development Vision 2030, approved by the Parliament in February 2016, sets the current priorities for long-term planning, whereas the government action plan for 2016-2020, which was formulated at the beginning of a government's term in office, sets out the program of actions to be implemented during this political cycle. In addition, each sector ministry has a sector plan. With constrained revenues, highly effective and efficient policy and budget planning procedures and processes are required if policy targets are to be achieved. There are however systemic constraints to efficient development planning and budget formulation that potentially reduce the efficiency in public spending and goal achievement.

Despite the new Law on Development Policy and Planning and the strengthening of the government's central planning function, NDA's responsibilities overlap to some degree in policy and planning functions with MoF.¹⁰⁵ A general view by government stakeholders consulted is that coordination between the planning and budgeting functions has not improved partly due to overlapping responsibilities for policy and budget planning and duplication of procedures, with NDA having responsibility for medium term development planning and MoF with a legal mandate for the Government Action Plan, the Medium Term Expenditure Framework (MTEF) and annual budgets.

The overlapping responsibilities and procedures also impact negatively on the reconciliation between the development plans and the budgets, and weaken the credibility of government policy documents and strategies. Partly overlapping and weakly coordinated instructions and procedures constrain sector ministries capacity to plan sector strategies and program activities within the budget ceiling set in the Medium-term Expenditure Framework (MTEF) and the annual budget circular. This leads to inefficient allocation of available resources, often with budget allocations inconsistent with actual development targets. Furthermore, the MTEF ceilings provided by MoF are consistently over-optimistic, so even if the planning is done within the set ceilings, significant cuts are necessary if fiscal targets are to be met. Hence, more as a rule than as an exception, sector ministries budget proposals are significantly cut by the MoF during budget formulation.

Another related and well-acknowledged challenge is the lack of adequate costing of policies as basis for efficient prioritization in the policy and budget planning process. The quality of costing varies, but in general, costing models are too simple to provide reliable estimates of both project investments and

105 MoF is mandated with (i) macroeconomic planning and coordination, (ii) developing and implementing the Socio-Economic Guidelines, (iii) budget investment policy, and (iv) ODA policy

future recurrent expenditures.¹⁰⁶ In combination with often over-optimistic policy targets, this implies that line ministries over-ambitious resource envelopes are spread broadly over a large number of projects without adequate consideration of cost efficiency.¹⁰⁷ This problem is amplified in election years, when politicians increase expenditures, not abiding by the rules of the Fiscal Stability Law (FSL).

Costing of policies and use of costing for cost-benefit analysis and prioritization in development planning and budget preparations requires high technical capacity and development of a performance oriented culture among management and technical staff in the civil service. However, due to staff shortages and high turnover among technical staff and leadership in government ministries and agencies, earlier efforts to develop a performance oriented capacity and culture have not been sustained.

The development of results oriented planning culture has also been undermined by the exponential increase in off-budget investment spending through the Development Bank of Mongolia (DBM) from 2012, amounting to 10 percent of GDP in 2013. Although this practice was abandoned from 2016, it compromised spending agencies ability to strategically plan and prioritize capital and recurrent expenditures on the basis of overall resource envelope available.¹⁰⁸

Results oriented policy making is further undermined by the Parliament which during the parliamentary approval regularly has changed macroeconomic assumptions and revenue forecasts to increase the spending ceiling, and during parliamentary debate makes very significant changes, particularly to the capital budget through reallocations and inclusion of new politically motivated projects that are not costed.¹⁰⁹ Moreover, according to parliamentary and government stakeholders consulted by the DFA team, parliamentary sessions tend to focus on line items and outputs, rather than program allocations and outcomes, hence distorting the performance focus.

The above challenges have consequences both in terms of efficient resource allocation between sectors, and for prioritization within sectors. Moreover, the allocation efficiency in public spending is low, evidenced by low capacity of government ministries and agencies to prioritize programs based on effectiveness in meeting their objectives, and by low capacity to shift resources from old priorities to new ones. Consequently, there is also a large fragmentation in the capital budget with mostly small projects and few large public investments, compromising the efficiency in public investments. Furthermore, as recurrent costs are not adequately calculated into investments, these systemic constraints also cause a gross neglect of maintenance, which has been particularly evident in Mongolia over the last decade.¹¹⁰

While efficiency loss is likely in all sectors, weak allocation efficiency appears particularly distortive in terms of performance orientation in cross-cutting policies, such as GoM environmental policies. Despite being guided by a number of amended laws, a comprehensive Green Development Strategy and action plan, and ambitious policy targets approved by parliament, environmental issues are generally not highly prioritized by sector ministries. Moreover, insufficient costing practices make prioritization of green development targets unlikely, particularly in the current situation with constrained resources and uncertainty to the possibility of achieving both sector goals and cross-cutting policy targets. Hence, sector ministries are likely to prioritize the sectoral objectives internalized in the organization rather than

106 PEFA 2015.

107 IN 2014 the PIP prepared by MED listed over 12,000 projects, but was not approved by the Parliament.

108 PEFA 2015.

109 Ibid.

110 World Bank (2014). Mongolia: The Politics of Public Investments. Zahid Hasnain

cross-cutting policy targets. Accordingly, despite government commitment and parliamentary support to the Green Development Strategy, reconciliation is weak between the Green Development Strategy and budget allocations supporting Green Development strategy.

Over the last years, the government has taken some significant measures to improve the quality of policy and budget planning processes. In addition to revising the Planning Law, landmark legislative measures have been enacted with the Fiscal Stability Law (FSL) and the Budget Law. Also, from FY 2017, the investment and recurrent budget was integrated under the responsibility of MoF.¹¹¹ The new budget structure provides an important basis for strengthening alignment of policy objectives and budget allocations, as investment expenditures and recurrent expenditures are presented in an integrated budget. However, changes have not been underpinned by adequate amendments in government ministry mandates. The institutional responsibilities for development policy and planning and the NIP remains within the mandate of NDA, and other budget responsibilities remain within the mandate of MoF. Overlap of functions are therefore present and effective coordination of development planning and budgeting will remain a barrier. Hence, government stakeholders consulted by the DFA team pointed out that the changes in budget structures need to be underpinned by changes in ministries responsibilities. However, differences in views were expressed with regard to which responsibilities to transfer to which institutions.

Box 13. INFF Building Block 3. Financing strategy

- An overall financing strategy for mobilization of revenues and finance in support of the SDGs and SDVs has not been developed.
- MoF uses a Macro-Fiscal Model to estimate the revenues that are used to set the expenditure ceilings in the MTEF, providing a ceiling for sector ministries medium-term planning and budgeting. However, the revenue forecasts have consistently been over-optimistic and are not reliable. This is either due to weakness in the macro-economic model or the application of the methodology.
- Sector strategies are poorly costed, sector budget proposals are over optimistic, and generally possibilities for mobilization of additional resources, such as funding mechanisms or PPPs, are not strategically considered.
- The reconciliation between plans and budget is weak, in part a consequence of overlapping responsibilities between NDA and MoF, and generally weak coordination mechanisms supporting coherent planning and budgeting procedures.
- To improve the basis for macro level and sectoral planning, NDA has recently procured a modelling consultancy. The NDA aims to analyse the effect of different development strategies.

6.2 Budget execution

Policy planning and budget formulation processes have systemic constraints which reduce allocative efficiency, which is not atypical for resource-dependent development economies with relatively immature public financial systems lacking capacity to accommodate boom and bust economic cycles. The possibility of achieving the SDV outcomes also depends on operational efficiency, i.e. the ability to implement

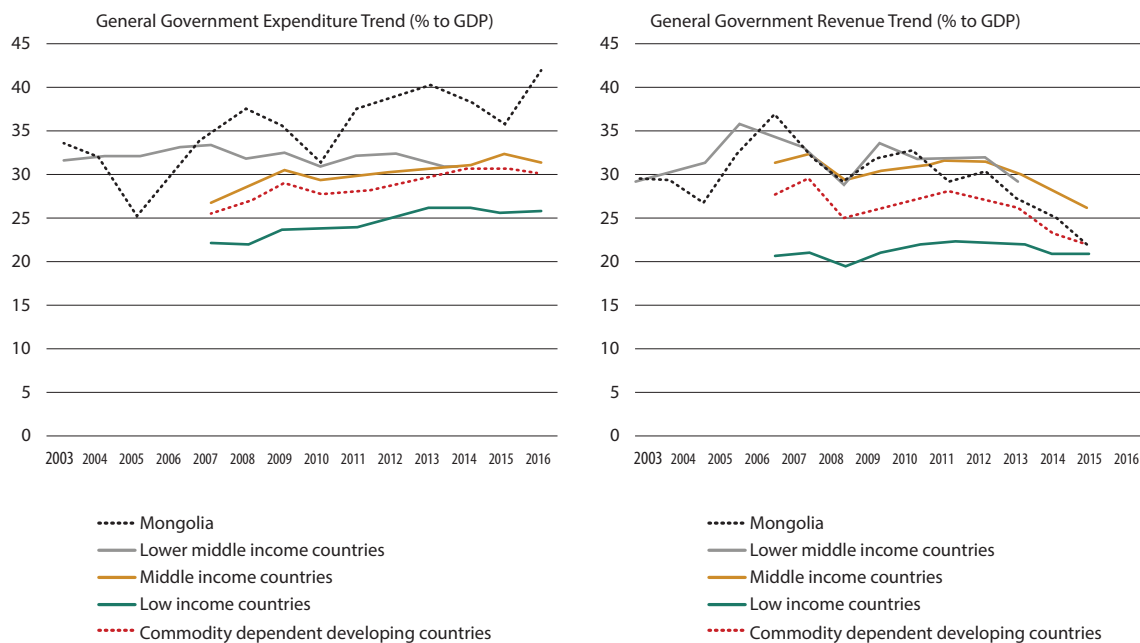
111 World Bank (2014). Mongolia: The Politics of Public Investments. Zahid Hasnain

projects and programs at the lowest possible cost. To maintain high efficiency in implementation is however challenging, particularly during periods of sharp increase in public expenditures. Constraints include government capacity in procurement, expenditure controls, and accountability mechanisms that are not adequately developed to absorb sharp expenditure increases as evident in Mongolia.

6.2.1 Unprecedented growth in public expenditures

In Mongolia the last ten years has been characterized by unprecedented growth in public expenditures, from 31 percent in 2006 to 42 percent of GDP in 2016, significantly above the average of peer countries. The growth has been driven by highly pro-cyclical fiscal management during the mining boom in 2010-2013, by an overly expansionary fiscal policy during the economic downturn in 2013-2014, and by high levels of unbudgeted spending through the Development Bank of Mongolia (DBM) from 2012 to 2015. This increase in spending has far exceeded the growth in revenues, which has increased in real terms but declined as share of GDP, and hence led to very high budget deficits and debt levels that are not sustainable in the longer term.

Figure 22. General government expenditure and revenues to GDP ratio, Mongolia and lower middle income countries average

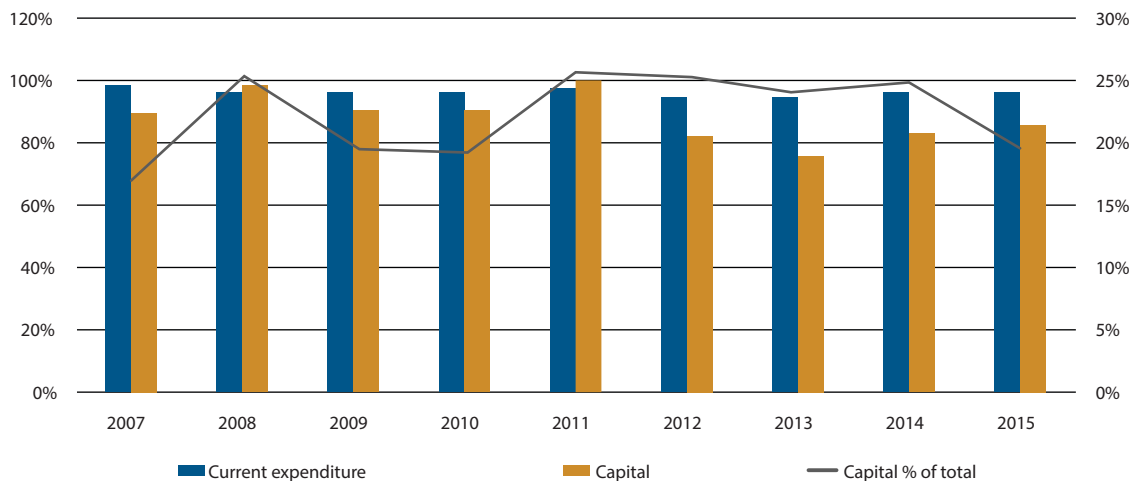


Source: MoF and WDI

6.2.2 Constrained on-budget execution capacity

Whereas total expenditure growth has been exceptionally high, particularly in capital expenditures, "on budget" expenditures have been growing at a more moderate rate up to 2015. As demonstrated in Figure 23, actual capital expenditure outputs are significantly below the budget approved by parliament, in particular from 2012, whereas current expenditure is only moderately below approved budget. This is partly due to highly optimistic revenue forecasts, and partly due to low budget execution capacity related to weak costing and procurement in spending agencies.

Figure 23. Recurrent and capital actual expenditure compared to original approved budget, and capital expenditure as share of total expenditures. FYs 2007 – 2015



Source: MoF

The low credibility of the budget affects the predictability of funds to line ministries and MoF regularly undertakes changes in budget allotments with little advance notice.¹¹² The significant variation in budget outturn as compared to approved budget also creates pressures on service delivery agencies and institutions, as variation in program expenditure outturn affects the agencies possibility to predictably plan and execute delivery of services.

6.2.3 Key constraints in budget execution for the SDV and SDGs

The above section demonstrates a very significant growth in public spending. The efficiency and effectiveness of public spending has however been constrained by weak capacity in budget execution processes, in particular related to capital expenditures. Moreover, investment projects in Mongolia are prone to delays in implementation. One study showed that 65 percent of road projects had more than double the planned implementation period. Over 35 percent relates to bad upfront planning, and over 50 percent is due to downstream capacity issues in the implementation phase.¹¹³

Low levels of budget releases compared to approved budget, and delays in start-up and implementation processes of projects and programs, demonstrates GoM's constrained capacity to effectively and efficiently absorb high level of investments. GoM's much higher capital expenditures than its peers is due to high levels of off-budget expenditures, spread on a very large number of small projects, and not due to high capacity in budget execution in government.

Another significant constraint to efficient budget execution is related to weaknesses in the budget planning process, with shortcomings in project appraisal and costing practices. Projects and programs regularly have cost overruns, followed by costly delays and stops in project implementation. These problems are particularly the case with off-budget investments, which generally are appropriated without basic technical documentation and even more inaccurate cost estimations than the projects and programs proposed by the line ministries.¹¹⁴

¹¹² Mongolia Public Financial Management Performance Report (PEFA), World Bank, 2015

¹¹³ The Politics of Public Investments. Country Case Study: Mongolia (2014).

¹¹⁴ The Politics of Public Investments. Country Case Study: Mongolia (2014).

A third important factor reducing operational efficiency relates to procurement issues. Mongolia has a short construction season, and to start procurement in the initial months after budget approval in December is critical for timely and cost efficient implementation. Despite a generally comprehensive and transparent regulatory procurement framework, procurement procedures are a major constraint to budget execution, due to both the unrealistic cost estimates and the weak procurement capacity in government ministries and agencies. Though the inclusion of off-budget capital expenditures previously released by DBM substantially improved the comprehensiveness and transparency of the budget, it has also put additional pressures on government spending agencies. This is particularly due to the parliament's strong influence in selection of projects, with reallocations on project-to-project basis and line items rather than a program-based focus, which creates significant time pressure on ministries and agencies to implement projects and programmes not initially planned.

6.3 Monitoring and evaluation

The current monitoring and evaluation system in Mongolia consists of the administrative data system which is collected for administrative purposes for use in ministries, agencies and local government, and official data produced by the National Statistical System (NSS), which includes the National Statistical Office (NSO) and regional statistical offices, the Bank of Mongolia (BoM) and all other government agencies producing official statistics according to the Statistical Law of Mongolia. Whereas the administrative data records are collected with a specific decision-making purpose in mind by individual ministries or agencies, national statistical data is in principle independent data collected and processed into statistics to serve as basis for evidence based policy making.

6.3.1 Use of administrative data for performance planning, budgeting and program implementation

Over the last years GoM has significantly strengthened financial monitoring. For example, a new internal audit function was established in 2012, supplementing the Monitoring and Evaluation (M&E) function since 2006. Also, capacity has been built for fiscal risk assessments. MoF strictly monitors sub-national governments' fiscal position as part of the budget execution reports, and has received technical assistance from the WB to increase the capacity to assess fiscal risks in State Owned Enterprises.¹¹⁵ Despite increased focus and progress on financial monitoring, performance monitoring in Mongolia is weak and there are no procedures for systematic ex post evaluation in place.¹¹⁶

An external assessment of the national statistical system of Mongolia undertaken in 2014 uncovered weaknesses in administrative data systems. It recommended regular assessments of the quality of administrative data produced by ministries and agencies.¹¹⁷ In recent years government collection of administrative data has increased by expanding digitalisation within e-government services, and quality has improved in some sectors.¹¹⁸

Despite improvements, the weaknesses in administrative data systems have implications for efficiency in allocation of resources and implementation of projects and programs. For example, the lack of a comprehensive central asset register that would enable systematic monitoring of public investments,

115 PEFA 2012.

116 The Politics of Public Investments. Country Case Study: Mongolia (2014).

117 Global Assessment Report. National Statistical System of Mongolia (2014).

118 Mapping and Assessment of the Data Ecosystem in Mongolia (2017). ECG.

according to key indicators such as costs, time overrun, completion rates etc., implies that policy makers have limited basis for undertaking cost-benefit analysis of alternative investments in policy planning and budget allocation processes, and lack comprehensive information for assessing performance compared to other investments during project implementation.

GoM acknowledges that weaknesses in administrative data constraints monitoring and performance orientation. According to government officials, a clear ambition over the last years has been to improve the quality of the administrative reporting system with the overall aim to strengthen performance focus. Moreover, all government agencies are obliged to report on performance, and standardized results-based monitoring formats are issued to all agencies that report to the MoF. However, despite extensive efforts undertaken, the performance orientation remains weak. For example, reporting templates have been developed by MoF to integrate financial and performance reporting from line ministries. These templates are issued to government ministries, and reported on, but according to MoF officials, despite that the templates are of satisfactory quality, it is mostly a paper exercise and not applied to improve performance orientation in program and project management or budgeting processes.

In addition to the weaknesses in administrative data, there are systemic constraints hindering performance monitoring that should be addressed to improve the results focus in government ministries and agencies planning, budgeting and monitoring processes:

- There is a lack of capacity to systematically use administrative data in project and program management, and to apply the information in budget formulation processes. Although most ministries have departments for monitoring and evaluation, they are understaffed and lack capacity.
- There is a lack of coordination mechanisms to ensure that administrative data is shared. There have been several initiatives to strengthen data, of which isolated initiatives have produced good results. The initiatives have however been implemented in silos.
- A fundamental challenge to monitoring is that sector strategies are not adequately linked to the medium-term fiscal framework or to the annual budget which makes integrated financial and performance monitoring extremely challenging for staff and managers. The lack of linkages between development strategies and budgets also implies that line ministries have maintained separate reporting and monitoring mechanisms, not fully aligned to the standardized reporting formats issued by MoF.
- Although GoM has introduced program budgeting principles, there are a very large number of policies and development strategies. Consistency between strategies is often lacking, creating challenges for performance-oriented practices in program management, monitoring and reporting. Reporting therefore largely remains output oriented, and performance information is only to a very limited extent feeding back into policy-making processes and budget prioritization. Hence, whereas templates and guidelines to a certain extent facilitate performance oriented planning, budgeting and monitoring, the government's parallel monitoring systems and practices undermine performance oriented prioritization of budget based on cost efficiency analysis and management of development strategies and programs based on comprehensive performance analysis.

6.3.2 Use of national statistics for results

To monitor and evaluate GoM's progress in implementing the SDV and achieving the SDGs, reliable official statistics that follow international statistical standards, are required. The Mongolian Statistical System has been transformed since the transition to market economy, and is today an internationally recognized modern statistical organization.

An independent assessment of the National Statistical System in 2014 demonstrated that there are still some significant gaps that need to be addressed to establish a system coherent with international high standards for production and dissemination of statistics, and to develop sufficient capacity to use statistics to inform policy making. A series of legal, institutional and technical recommendations were put forward, providing a basis for a National Statistical Development Strategy (NSDS). Over the last years the NSO system has however been strengthened in some areas, although current funding levels to the NSO are constraining development. For example, GoM is currently receiving technical assistance from the ADB to establish improved assessment and monitoring arrangements for the key indicators that cover Mongolia's green development agenda and SDV-2030.¹¹⁹ The government fully acknowledges there are significant gaps and has finalized a National Strategy for Development of Statistics (NSDS), approved in 2016, to address these the gaps.

A study commissioned by UNDP assessed the legal and institutional environment in which data and information is produced, analysed and used. The study reiterates earlier findings that only 78 of the 228 SDG indicators currently are measurable by NSO. Many of these indicators are not measurable because they are not fixed internationally and there is not yet a clear definition of use. A series of measures, coherent with NSDS, were recommended to improve the capacity to produce SDG and SDV statistics.

Overall, important progress has been made in defining concrete actions to be taken to strengthen the basis for independent monitoring and evaluation, and performance based policy making. Moving forward, it is essential that the government takes adequate measures to secure funding to realize the ambitious goals.

6.4 Environment for accountability and dialogue

Government dialogue with citizens, community groups, NGOs and the private sector plays a key role in advancing social opportunities and corporate responsibilities. A conducive regulatory and policy framework is in place, with General Administrative Procedures and Laws on Public Hearing, and Development Policy and Planning regulations requiring policy makers to conduct public consultations. However, GoM faces challenges in implementing dialogue mechanisms. Systematic involvement of citizens groups, private sector and NGOs is limited in all stages of policy making.

Recognizing the importance of dialogue, the government has established a large number of tripartite bodies over the last decade, in particular within the mining, construction and food-processing sectors. Although some of these multi-stakeholder initiatives, such as the EITI, have functioned well, the overall experience with these dialogue mechanisms has been mixed. According to private sector stakeholders consulted by the DFA team, most of the initiatives have not worked due to lack of support from a secretariat and the fact that relevant line-ministries have taken over the chairmanship of most sector councils, applying them as instruments to promote government policies rather dialogue mechanisms.

Currently, the private sector and civil society are only consulted on an ad hoc basis. For example, environmental organizations consulted by the team expressed frustration with the lack of effective dialogue forums. This view was also reflected by financial institutions and private sector industries. Moreover, stakeholders such as the Chamber of Commerce and Industry, Trade Unions, Association for Disabled People, industrial associations or other interest and lobbying groups engage with the government in a silo manner, rather than joining efforts to keep the government accountable.

119 ADB (2015) Mongolia: Strengthening Capacity for Environmental-Economic Accounting. Technical Assistance Report.

Compared to the private sector, the CSO networks/coalitions are generally more effective in the application of social accountability tools and processes, including evidence-based advocacy. However, the government's willingness to engage with CSOs is low and constrains the CSOs influence and possibility to hold government accountable. Moreover, there is a widespread belief that 'CSOs work is on a voluntarily basis,' which adversely influences government officials and leads to the devaluation of CSOs' contributions.¹²⁰

At local level, citizen representative hural (assemblies) are elected every four years. However, at aimag (city) level and in the capital city, the prime minister appoints the governors. In terms of fiscal decentralization, the budget law provides some space to local governments for revenue collection and control over expenditures. However, local governance and accountability mechanisms are challenged by several aspects, including lack of budget transparency, low levels of fiscal transfers, lack of adequate revenue assignments, low levels of citizen participation in the budget process and high levels of corruption.¹²¹ Moreover, the sectoral policies in Mongolia are highly centralized with few opportunities for local authorities and stakeholders to adapt measures to ever-shifting demands and needs. This, combined with an input oriented management system where focus is on control rather than pro-active planning and performance management, hamper the adaptability and efficiency of the policy implementation on the ground.

6.4.1 Constraints and lessons to be learned to strengthen the enabling environment for accountability and dialogue

The enabling environment to accountability and dialogue is dependent on political, economic and social factors. After initial difficulties establishing a multi-party democracy in the early 1990s, the transition has been relatively successfully. There have been some political challenges, stemming largely from frequent changes in cabinet members and coalition partners, as well as from the tense balance of political power between major political parties.

Since the election in 2016, parliamentary politics has calmed compared to the turbulence seen in prior years. This is largely owing to the sizeable majority that the Mongolian People's Party (MPP) secured in the election. Under the previous administration, led by the now-opposition Democratic Party (DP), the ruling coalition changed frequently and there were fierce factional struggles within the party. Also outside the political structures, stability has increased, with only small scale demonstrations regularly taking place, on issues of public concern such as air pollution and corruption.¹²² Nevertheless, the recent change of government shows that political stability remains volatile.

Dialogue and accountability mechanisms in Mongolia are also jeopardized by parliamentary interference in government decision-making, blurring the checks and balances between the executive and the legislative bodies, and affecting the extent to which the parliament can effectively hold the executive accountable.

In addition, over politicization of the civil service hampers accountability and transparency – and elections result in vast changes of key personnel, erosion of capacity and lack of continuity in policy making. Moreover, lack of institutional memory and weakened capacity affects the government's ability to inform and involve key government and non-government stakeholders in policy making processes.

120 World Bank and IRIM 2016

121 <https://localdemocracy.net/countries/asia-west/mongolia/>

122 ELU, September 2017.

Additionally, a major constrain is corruption. In 2015, the Law on Managing and Preventing Conflict of Interest in Public Service was passed which in practice implied that government could give amnesty to all corrupt officials. Since the legislation was passed the government has made little progress on tackling corruption, despite an amendment made in 2017.¹²³ In 2016 Mongolia was ranked 87 of 176 countries on Transparency International's (TI) Corruption Perception Index, due to factors such as lack of effective dialogue and accountability mechanisms, as well as barriers to entrepreneurship and private-sector investment. Mongolia's ranking has been slightly worsened from 2013 when ranked 83, but compared to 2007 the ranking has improved 12 places, from rank number 99.

Mongolia is however not the only country which has been challenged in establishing effective dialogue forums with civil society and/ or the private sector. Of the 60 low and middle-income countries that participated in the 2016 monitoring round of the Global Partnership for Effective Development Cooperation (GPEDC), the general trend showed that progress in creating an enabling environment is limited. However, some countries have made good progress in strengthening such platforms. The CSO Partnership for Development Effectiveness (CPDE) notes the example of the Kenyan government, which brings together CSOs and other development partners on a monthly basis to discuss development effectiveness issues.¹²⁴ Colombia is another country recognized for progress, with particularly well defined strategies for facilitation and management of public – private dialogue. Looking ahead, GoM may also consider strengthening its existing dialogue platforms to deepen engagement with private sector, civil society and development partners.

6.5 Structural reforms to strengthen public investments and service delivery

Due to impressive reforms over the last decade the legal and regulatory environment is for the most part up to date with regard to public sector management planning, budgeting, policy implementation and monitoring. Some regulations still need further attention from policy makers, relating to procurement and overlaps between planning and budgeting regulations. However, the main challenge rests with the capacity to effectively translate the regulatory framework into public sector management systems and procedures.

Coherently addressing the shortcomings in public sector management structures may not only increase the effectiveness and efficiency in public spending but also contribute to mobilization of additional resources, for example attracting FDI into diverse sectors.

To improve capacity, the government needs however to be supported by sector specific initiatives that address gaps specific to each sector, and structural reforms that underpin sector specific initiatives. Based on the above analysis, there are three sector wide reforms that, in combination with sector specific initiatives, significantly may improve public sector management and Mongolia's prospects of achieving its development objectives.

123 EIU 2017.

124 CSO Partnership for Development Effectiveness (CPDE). "GPEDC Indicator Two: Civil society operates within an environment which maximises its engagement in and contribution to development- An assessment of evidence." *CPDE Working Group on CSO Enabling Environment and CPDE Working Group on CSO Development Effectiveness*. (2016).

6.5.1 Civil service reform

There have been several stages of reforms aiming to establish an impartial, citizen-centred and professional public administration in Mongolia. While these reforms have established new legal and regulatory environments, they have been insufficient in creating adequate change of practices. The civil service remains politicized, recruitment is not merit based, the citizens' orientation is weak, and the capacity of government institutions to implement, monitor and enforce current regulations and policy directives is limited. For example, institutions that are key for good governance practices, economic growth and sustainable development, such as ministries responsible for environmental protection, mining and tourism, as well as the Judiciary and the Independent Authority Against Corruption (IAAC) often lack the skills or financial resources necessary to carry out their mandate and properly implement the law. Others, such as the NDA, need capacity building in areas that are key to PPPs.

In this context, reform is needed to coherently address the gaps related to developing an un-politicized and professional civil service. The focus should be on personnel management including establishing a merit-based system for recruitment and firing of staff, incentive structures linked to payroll and advancement that motivate professionalism, making sure wages are competitive to recruit skilled staff, and targeting capacity building measures that ensure relevant skill-development at all levels.

In December 2017 the Parliament approved an amended Law on Civil Service. The amendments were aimed at strengthening the merit-based system of the public services, and ensuring independence of the civil service. According to stakeholders consulted, the law is highly ambitious and there is a risk that the formal requirements of the law may cause rigidity than could be counterproductive. Moving forward, it is essential that the law is adequately implemented, and that implementation is effectively monitored to ensure that the objectives of the reform are met.

6.5.2 Public Financial Management reform

GoM has undertaken significant PFM reform measures over the last decade. In 2015 a Public Financial Management Performance Review (PFMPR)¹²⁵ concluded that substantial progress had been made in increasing budget transparency and comprehensiveness, that the annual budgeting exercise is being undertaken in a generally well-regulated and orderly manner, and that accounting, recording and reporting practices are relatively strong. However, budget credibility is low, policy-based budgeting practices is weak, predictability and control over budget execution is mixed, and despite considerable parliamentary authority over the budget, accountability structures are lacking.

The PFMPR (PEFA) review also highlighted that while reform progress was strong up to 2012, the period from 2012 to 2015 was turbulent with reform reversals, which underlies the challenges inherent in a mineral resource dependent economy. It was pointed out that the biggest step backwards was the high level of extra-budgetary spending, which weakened the FSL, creating large macroeconomic vulnerabilities, and reducing the quality of spending.

Since the PFMPR was finalized, the macroeconomic situation has deteriorated, and as demonstrated above, fundamental challenges in the planning and budgeting processes need to be addressed to improve the quality of public spending. However, with the economic stabilization program the importance

125 PEFA Assessment (2015).

of undertaking financial management reform measures has again emerged, and some key measures, including establishing an independent fiscal council, were agreed to strengthen fiscal discipline.¹²⁶

In discussions with key government stakeholders it was pointed out that a more coherent donor approach and commitment to a broader PFM reform agenda is required to increase the capacity of government at all levels. This view was reiterated by key donors, pointing out that key institutions have skilled staff, but that capacity throughout government is relatively weak and that high turn-over is a threat.

6.5.3 Decentralization reform

Following the transition to a multi-party democracy and market economy, Mongolia introduced a number of decentralization measures, “which followed a top down approach and were slowly implemented, without any integrated decentralization strategy”.¹²⁷

Recognizing that decentralization potentially can improve the quality in service delivery, strengthen democracy and contribute to socio-economic development, GoM has been implementing the Governance and Decentralization Programme, supported by the Swiss Agency for Development Cooperation (SDC), from 2011.¹²⁸

One key achievement of the decentralization program has been the establishment of the Local Development Fund (LDF) in 2012, which is a pooled financing mechanism distributing funds according to a criteria-based allocation formula. The financing mechanism was welcomed at local government level, providing opportunities for local authorities to allocate according to local priorities. The decentralization program has also strengthened citizens’ participation in policy planning and institutionalized public service delivery centres.

However, the level of funding has decreased significantly since it was introduced in 2013. As the LDF funding is not based on the national government revenue envelope, but on share of local collected fees, royalties, and a small share of domestic VAT, the funding is highly influenced by macro-economic cycles, showing even higher volatility than national government revenues.

Although the overall resource envelope from the LDF is small and has been substantially reduced since 2013, one lesson learned is that the LDF has created opportunities for local governments to make investment according to local needs and priorities. However, it is reason to assume that the small and highly unpredictable transfers create substantial challenges, affecting the efficiency of investments and the quality in service provision.

Moreover, looking forward, the local government sector can play an instrumental role in achieving the SDV and SDG targets. To do this however, a much higher level of predictability in funding is required, to enable local governments to plan, prioritize and implement investment projects and service delivery effectively and efficiently. The potential financial benefits of decentralization processes are improved efficiency of allocation of resources, improved cost efficiency in public spending, and hence improved service delivery and quality of public investments. In a country with vast geographical distances, the potential benefits are particularly evident as there are significant differences between local needs for public investments and

126 IMF 2017.

127 Ariunaa Lkhagvadorj. Fiscal federalism and decentralization in Mongolia (2011).

128 Factsheet: Swiss Agency for Development and Cooperation in Mongolia (2015).

service delivery, and hence huge potential benefits of locally adapted solutions. However, despite these potential benefits, decentralization processes are undermined by various factors, such as too detailed legal and regulatory frameworks, detailed earmarked allocation of funds, lack of predictability in funding and local revenues, and weak capacity in local and key national government agencies.

Moving forward, GoM has to make firm choices if it is to build on the exercises from the last wave of the decentralization process and commit to developing a stable environment for local government service provision and investment. Though full-scale decentralization reform is a long-term endeavour, with high potential benefits but also potential pitfalls, more incremental adjustments may also contribute to improving the quality of investments at the local level across the country.

One significant first step that may have a substantial impact on local investments, independent of reform approach, would be to ensure higher predictability in LDF funding, combined with a higher overall funding level. One way to achieve this is to link the LDF fund to existing sector funding, for example in road, health and education sectors. Moreover, a share of the existing capital expenditures in these sectors can be allocated to the LDF. To achieve the purpose of increased allocation efficiency, funding must be allocated as general-purpose grants as opposed to narrowly defined earmarked grants. At the same time predictability of overall funding levels needs to be secured in the annual budget allocation process managed by MoF, for example by setting a minimum level for LDF funding in the medium-term period.

Increased funding levels need however to be matched with adequate capacity of local governments to plan, budget and monitor investments. Hence, the government could consider attaching a share of the LDF to specific performance building measures that provide incentives to improve capacity. However, complex systems performance based mechanisms often have adverse effects, so possible incentive mechanisms should be simple, transparent and objective. In parallel, the equalization mechanisms in the system need to be adequately balanced so that each locality maintains adequately strong incentives to raise taxes and royalties in the longer term.

6.6 Revitalize performance oriented reform strategies

A significant challenge in terms of achievement of the government's policy objectives is the weak capacity of government to strategically plan and allocate resources, and effectively and efficiently spend public funds. Moreover, the capacity of government to absorb high levels of investment in recent years has been constrained by the public management system causing low capacity to strategically allocate investments to programs and projects, weak capacity of executing agencies capacity to plan and execute investments, and constrained capacity to monitor performance and use performance information in management and budget allocation processes. The government's capacity is further constrained by strong parliamentary power over budget head appropriation, with project-by-project reallocations, and generally weak accountability mechanisms.

Moreover, although capital investments have been higher in Mongolia than in any peer countries over the last 10 years, the effect of these investments on economic growth and socio-economic development has been limited. One example is the road sector where investments have increased substantially over the last decade up to 2015. Although the road network has been expanding, maintenance is lacking and

large infrastructure investments that would facilitate access to Russian and Chinese markets and hence underpin economic growth, are still in planning phases. An ADB road sector study for the Road Plan 2011 – 2016 argued that massive capacity development of road sector institutions, building human resources, improving management culture, improving the public institutions relationship with civil society, as well as securing stronger political autonomy, will be required to realize the ambitious goals in the road sector.¹²⁹

Mongolia's experience suggests that previous reform measures, aiming to make GoM planning, budgeting and monitoring systems more performance oriented, should be revitalized. However, transforming planning and budgeting practices into genuine performance oriented practices will require political leadership as well as substantial capacity enhancement across government agencies. Studies from OECD, which has been in the forefront of promoting performance based planning and budgeting, and experiences from other Asian countries such as South Korea, demonstrate that implementation gaps in performance planning and budgeting are related to insufficient adjustments in public service management systems and inadequate focus on long-term capacity building programs that support the reform efforts.¹³⁰ This is because performance oriented planning and budgeting systems require high capacity across government agencies, not only to collect and report on performance data, but to use this data during planning and implementation to enhance efficiency.

6.7 Strategies for mobilization of additional finance

Though reforms in planning, budgeting and monitoring procedures and practices by themselves are unlikely to contribute to increased mobilization of finance, they are likely to bridge the gap between development strategies and the budget, thus also clarifying the funding gaps in terms of achieving SDV objectives. Moreover, improved methods for costing of policies and undertaking cost-benefit analysis, may contribute to identify alternative policy options including mobilization of additional finance that GoM could leverage to achieve policy objectives.

Mobilization of additional finance requires however that the planning and budgeting processes are geared towards identifying additional resources, and that strategies are developed to utilize this finance. Therefore, it is recommended that opportunities for mobilization of additional resources are systematically integrated into planning and budgeting procedures.

Ideally, mobilization of additional finance should be guided by an overall resource mobilization strategy. This strategy should also clarify which additional financial sources should be considered by policy makers in different stages of planning and budgeting.

The operational responsibilities of resource mobilization strategies should however primarily rest with the sector ministries that should implement finance mobilization strategies within policy and regulatory sector frameworks. This implies mapping of possible sources, and outlining short, medium, and long term-term actions required to access and mobilize additional finance that can be used to achieve the SDVs. Sector financing strategies should however also be anchored in non-government stakeholders. Sector dialogue forums should therefore be established, with representatives from private sector, civil

129 ADB 2012.

130 See: OECD. "Survey on Performance Budgeting." (2011); Kroll, Aleksander. "Drivers of Performance Information Use: Systematic Literature Review and Directions for Future Research." *Public Performance and Management Review*. 48/3 (2015); Park, Nowook and Joung-Jin Jang. "Performance budgeting in Korea: Overview and assessment." *OECD Journal of Budgeting*. 2014/3. (2015).

society, media and possibly development partners, in addition to government stakeholders from sector ministries, NDA and MoF.

To illustrate, resource mobilization strategies may include identifying policy areas non-government stakeholders can contribute either with direct funding or indirectly through more efficient delivery of services or investments. For example, national private sector actors can be used to mobilize finance for projects through PPP arrangements that directly or indirectly support SDG targets in the transport sector. Also, international funding mechanisms such as climate change funds or challenge funds can be utilized in environmental and renewable energy projects. Furthermore, Mongolia's current level of ODA and OOF funding could possibly increase if the government pursues a strategy to actively mobilize this finance.

6.8 Sector-wide approaches to programming and financing strategies

In Mongolia, current levels of external funding appear to be significantly below potential. External finance, including both bilateral ODA and mobilization from international funding contributes very moderately to overall funding in several sectors. FDI is mostly related to mega projects in the mining sector, and the private sector capital market is under-developed compared to other countries at the same income level. The government's capacity to mobilize domestic private finance sources also appears to be weak. The weaknesses in planning, budgeting and monitoring constrain mobilization of additional finance as financing gaps are unclear and consequences of alternative policy options are not systematically and coherently addressed.

One mechanism that has proved effective in establishing more performance focused planning and budgeting is Sector Wide Approaches to Programming (SWAPs). SWAP mechanisms were originally designed to align donor support with country priorities, to align funding under one disbursement and financial management process, and to create a shift in policies that strengthens national planning, budgeting and monitoring mechanisms. By design, the expenditure framework developed with a SWAP promotes transparency in resource allocation and accountability for development partners in their progress towards improved technical and allocative efficiencies. The expenditure framework facilitates the evaluation of SWAPs and holds governments and donors mutually accountable to their commitments, though this often has considerable transaction costs.¹³¹

Building on the experiences of the SWAPs, GoM can develop and implement integrated and coherent planning, budgeting and resource mobilization strategies in support of the SDVs. This implies developing SWAPs or sector masterplans that are adequately costed and aligned to the national MTEF, and that these strategies are applied as a targeted approach to address existing capacity and funding gaps as well as to identify possibilities to mobilize additional finance, among others through engaging private sector stakeholder's and NGOs in policy processes.

Given the constrained capacity in the public administration, to be successful, these processes need to be backed by comprehensive capacity building measures as well as the cross-cutting reforms.

131 Chansa C, Sundewall J, McIntyre D, Tomson G, Forsberg BC. "Exploring SWAP's contribution to the efficient allocation and use of resources in the health sector in Zambia." *Health Policy Planning* 23. (2008): 244-51.

Box 14. INFF Building Block 4. Specific financing strategies

Public sector revenues

The government should consider expanding the use of the tax system to include incentive mechanisms in favour of more environmental friendly production and consumption through an ETR, which could support the government's objectives in social and environmental areas. An ETR may also contribute to diversify the tax base and potentially reduce volatility in domestic revenues.

As Mongolia is likely to remain highly dependent on mining sector revenues, a SWF that adheres to international best practices should be institutionalized. A SWF needs to be coherently integrated with a disciplined fiscal policy and matched by an enabling framework that builds political and public support for savings when revenues from mining are high. The SWF should adhere to the 24 Santiago Principles that promote transparency, good governance, accountability and prudent investment practices.

External public finance

The moderate level of concessional finance compared to total public debt indicates that there are opportunities to shift from expensive loans to more favourable concessional finance. The government is already taking action to shift expensive commercial debt with concessional debt. In the medium and longer term, the government should aim to mobilize concessional finance rather than expensive lending from domestic and foreign private capital markets as in the past. To the extent that commercial loans are required, uptake of loans should not be tied to expected increase in revenues from mining.

The low level of concessional grants to sectors that are essential to achieve the SDV and SDG targets, including renewable energy, environment, health and education, also suggest that there are opportunities to raise the level of concessional finance. This requires a coherent ODA strategy, that credible sector strategies underpin DPs long-term commitment to ODA funding. Capacity in government needs to increase to improve the effectiveness and efficiency in planning, budgeting and implementation.

Domestic private sector

The domestic capital market is currently underdeveloped and SMEs face constraints in gaining access to finance required to expand their businesses. Increased competition in the domestic capital market is likely to lead to lower prices on credit and increase the level of finance available to private sector, in particular to SMEs. If matured, the domestic capital market may also be an important source of finance for renewable energy, climate and environment

The government needs to implement current policies and investment policy regulations, and establish a comprehensive support framework, that takes into consideration the current gap between demand and access to risk capital for SMEs, and the scope for increased entry of venture funds that may foster competitiveness and improve access to capital for start-ups and SMEs in different sectors that provides a basis for economic diversification.

External finance

There are significant opportunities to raise FDI from the current very low levels compared to other countries at the same income level. There is a need to develop an adequate support framework for FDI that also encourages FDI outside the mining sector. At the same time further improvements to the investment climate and business environment can be made by ensuring existing laws and regulations are implemented.

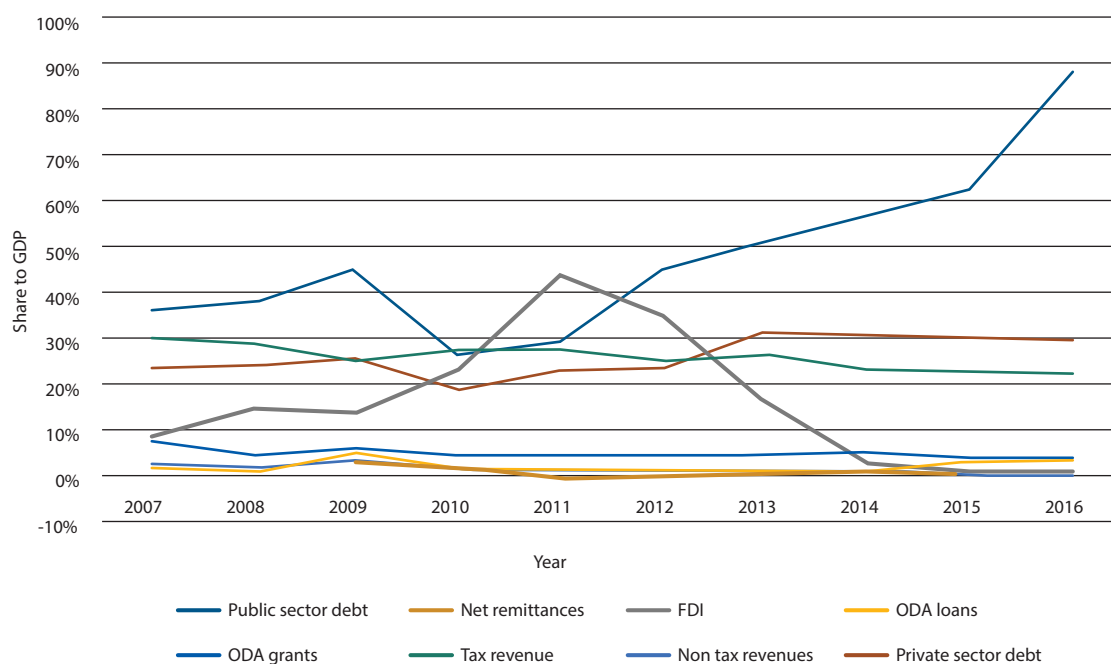
Box 15. INFF Building Block 5. A robust monitoring and evaluation framework

- Despite increased focus and progress on financial monitoring, performance monitoring in Mongolia is weak and there are no procedures for systematic ex post evaluation in place.
- In recent years however, the government collection of administrative data has increased by expanding digitalisation within e-government services, and the quality has improved in some sectors. Despite improvements, the weaknesses in administrative data systems have implications for efficiency in allocation of resources and implementation of projects and programs.
- Although most ministries have sections for monitoring and evaluation, they are often understaffed, lacking capacity to systematically use administrative data in project and program management and to apply the information in budget formulation processes.
- There is a lack of coordination mechanisms to ensure that administrative data is shared. There have been several initiatives to strengthen data, which isolated have produced good results. The initiatives have however been implemented in silos.
- Sector strategies are not adequately linked to the medium-term fiscal framework or to the annual budget which makes integrated financial and performance monitoring extremely challenging for staff and managers.
- While performance oriented templates are in place, proliferation of and lack of consistency between strategies and programs makes performance-oriented practices in program management, monitoring and reporting challenging. Reporting therefore remains to a large extent output-oriented, and performance information is feeding back into policy-making processes and budget prioritization in a limited capacity.
- The Mongolian Statistical System has been transformed since the transition to market economy, and is today an internationally recognized modern statistical organization. However, there are still documented significant gaps that need to be addressed to establish a system coherent to international high standards for production of statistics, and to develop sufficient capacity to use statistics to inform policy making.
- A National Strategy for Development of Statistics (NSDS) was approved in 2016. Funding to implement the strategy is constrained.

7. Future financial flows

The trend of Mongolia's financial flows over the last decade is presented in Figure 24. The major source of finance is public sector debt which rose in real terms from 2010 to 2012 and from 2015 to 2016. At the same time, public revenues have decreased year by year in real values since 2011. ODA loans, ODA grants and OOF constitute a small share of financial flows relative to public sector debt and tax revenues, but ODA loans are high relative to ODA grants and OOF.

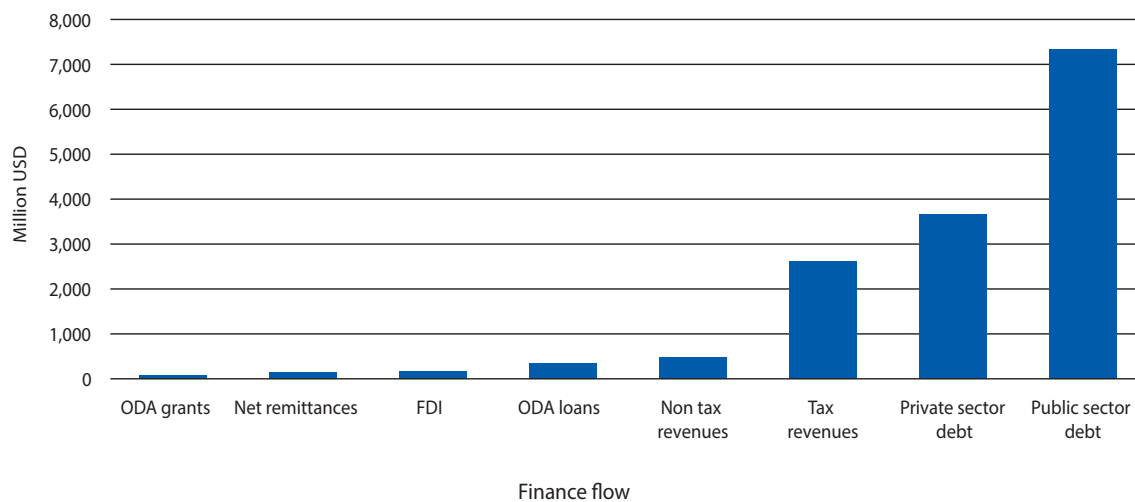
Figure 24. Financial flows 2007 to 2016 relative to GDP, constant USD 2015



Source: MoF, BoM and WB

Unlike in most other middle-income countries, private sector capital, in the form of FDI and private sector debt, constitutes a smaller share of total finance than public sector revenues. FDI has been decreasing sharply from very high levels in 2011, to very low levels in 2014 and 2015, compared to other countries. Private sector debt, which in most countries at the same income level would be higher than all other financial flows, decreased from an already low level 2013 to comparatively low levels in 2016, reflecting the economic recession and an underdeveloped capital market. Remittances remain very low and relatively insignificant compared to other financial flows.

Figure 25 presents the composition of the financial flows. Whereas public sector debt stands at US\$7.3 billion, private sector debt is less than half at US\$3.6 billion and FDI is very low at only US\$94 million. Tax revenues constituted the largest share of Mongolia's revenues followed by non-tax revenues and concessional loans. ODA grants and OOF constituted a small share of total revenues.

Figure 25. Distribution of finance for development in 2015

Source: MoF, BoM and WB

The trend, in fluctuations and distribution of financial flows in 2015 reflected that Mongolia remains a non-diversified natural resource dependent economy. Compared to countries at the same income level Mongolia's economy stands out as an economy with high public debt, relatively high levels of tax revenue, low levels of net remittances and ODA grants, and concessional finance on average with other countries at the same income level. Private sector capital is significantly constrained with low levels of FDI and low levels of debt due to a constrained national capital market.

The trends in distribution of finance for development as compared to other countries at the same income level, give an indication of Mongolia's current potential to mobilize additional finance for development. Moreover, assuming that the regulatory framework is conducive and the current challenges in public sector management are coherently addressed, the following financial flows have a significant potential to be raised:

- Mongolia's high volatility in tax revenues are caused by a high dependence on the mining sector. Increasing the taxation of environmental damaging production and consumption and reducing market disruptive subsidies to polluting industries, may facilitate investments in renewable energy and non-mining sectors where Mongolia has significant comparative advantages, hence in the long term diversifying the tax base.
- The current moderate level of concessional finance compared to total public debt indicates that there may be opportunities to shift from expensive loans to more favourable concessional finance, hence increasing the overall resource envelope available to finance government development strategies.
- Mongolia has opportunities to raise larger volumes of concessional finance, particularly from global funds targeting SMEs, renewable energy and climate change. Mobilization of additional finance requires that national policies and regulations are conducive to investment and that government has the required capacity in policy planning, budgeting, project implementation and monitoring.
- Current levels of ODA grants are low in sectors where development partners have committed high levels of ODA. Mongolia has the potential to raise grants and concessional finance within these sectors, e.g. renewable energy, environment, health and education as long as that GoM pursues a strategy to mobilize additional ODA funding and that credible sector strategies underpin development

partners' long-term commitment to ODA funding. Levels of OOF are low. Increased levels of OOF may be mobilized if the investment climate is improved.

- The domestic capital market is underdeveloped and SMEs face constraints in gaining access to finance required to expand their businesses. Increasing the competition in the domestic capital market is likely to lead to lower prices on credit and increase the level of finance available to the private sector, in particular to SMEs. If matured, the domestic capital market may also be an important source of finance for renewable energy, climate and environment investments.
- There are significant opportunities to raise FDI from current very low levels. There is a need to develop adequate support frameworks for FDI, that specifically encourage FDI outside the mining sector. At the same time further improvements to the investment climate and business environment could be made by ensuring existing laws and regulations are implemented.

Moreover, there are specifics to Mongolia which put the country in a favourable position to mobilize finance beyond the average of middle income countries. Mongolia's is extremely rich in mineral resources, and at the same time the country has an exceptional high potential within renewable energy sources, both of which potentially can ensure long-term economic growth, increase government revenues, and achieve Mongolia's development objectives. Mongolia also has major potential to develop sustainable agribusiness and enhance development of the tourist industry.

To utilize its potential, the government should consider developing an overarching and cross-sectorial strategy for resource mobilization. This should start with improving projections of private investments and fiscal revenues, for which a combination of project-level financial model with a macroeconomic model can be utilized (see Box 17). It would include clarifying and prioritizing the objectives, roles and procedures for government ministries and agencies in the planning and budgeting process in terms of mobilization of additional public and / or private finance that can be utilized to achieve development targets and objectives. Moreover, financing strategies need to be integrated in development planning and budgeting at sector level. Hence, to complement a cross-sectorial financing strategy, sector specific financing strategies that are coherently linked to sector development plans and the MTEF and annual budgets should be developed.

Box 16. INFF Building Block 6. An enabling environment for accountability and dialogue

- The regulatory framework for accountability and dialogue is in place, but it is not coherently implemented. Systematic involvement of citizens groups, private sector and NGOs is limited in all stages of policy making.
- At national level both private sector and NGOs are only consulted on ad hoc basis.
- At local level involvement of citizens groups, NGOs and private sector is further constrained by limited fiscal decentralization, interference by line ministries in local governments prioritization and high levels of corruption.
- Dialogue and accountability mechanisms in Mongolia are also jeopardized by strong presence of parliamentary interference in government decision-making, blurring the checks and balances between the executive and the legislative bodies, and affecting the extent to which the parliament can effectively hold the executive accountable.
- An overly politicized civil service hampers accountability and transparency – and elections result in vast changes of key personnel, erosion of capacity and lack of continuity in policy making.
- A major constraint is corruption. In 2015, a law was passed which in practice implied that government could grant amnesty to all corrupt officials. Since the legislation was passed the government has made little progress on tackling corruption.

Table 2. Examples of sector specific strategic measures to mobilize additional finance in support of SDG and SDV achievement

Financial flow	Renewable energy	Agribusiness
Public domestic revenues	<ul style="list-style-type: none"> Initiate Environmental tax-reform to establish tax-integrated incentives for renewable energy production and consumption, increasing taxation and reducing subsidies to coal production and consumption, for example by CO2 taxation. 	<ul style="list-style-type: none"> Environmental tax reform providing tax incentives for sustainable production methods, and cost-reflective models for non-sustainable production methods.
Public foreign revenues	<ul style="list-style-type: none"> Develop an Energy sector ODA strategy targeting renewable energy funds and support from bilateral and multilateral partners. Identify opportunities to mobilize additional funding for investments and capacity building, from sources such as international challenge-, green- and technology funds. Partnerships with development partners, particularly MDBs, to establish blended finance mechanisms for renewable energy investment, may be a priority (see box 3). 	<ul style="list-style-type: none"> Develop an Agricultural sector ODA strategy to identify financing opportunities and to mobilize additional finance from development funds, bilateral and / or multilateral development partners.
Private domestic capital	<ul style="list-style-type: none"> Strengthen and diversify domestic capital market to increase access to domestic capital, particularly risk capital to small and medium sized investments, required to invest in renewable energy production methods and to develop market oriented solutions. Increase mobilization of private sector capital to renewable energy projects through PPPs, e.g. by exploring the appropriate PPP structure required, and pilot projects to introduce PPP in wind or solar-based power generation. Identify structural barriers, and associated risks, which hold back domestic investments in renewable energy, and develop a strategy to address these risks, i.e. measures required to achieve a risk-return profile conducive to investments in renewable energy, primarily small and medium size investments that may contribute to a shift to renewable energy consumption and improved air quality in the short and medium term, and in the longer term to realize Mongolia's potential as a regional supplier of renewable energy. 	<ul style="list-style-type: none"> Increase access to SME finance targeting agribusiness, for example by exploring opportunities to i) participate in equity / risk capital funds targeting agribusiness; ii) issue guarantees to banks or other financial institutions that are lending to agribusiness investments; iii) commit to risk sharing with financial institutions targeting agribusiness. Identify types of agribusiness suitable for PPPs and the types of financial mechanisms and governance framework required to achieve their goals.
Private foreign capital / FDI	<ul style="list-style-type: none"> Renewable energy investments are capital intensive. Medium- to large scale investments depend on FDI. Identify the structural barriers and associated risks which hold back FDI in renewable energy, and develop a strategy to address these risks, i.e. measures required to achieve a risk-return profile that catalyse investments in renewable energy and in the long term to realize Mongolia's huge potential as a regional supplier of renewable energy. Identify priority projects and promote these investment opportunities to stakeholders. 	<ul style="list-style-type: none"> Identify barriers and risks which limit FDI in agribusiness. Develop and implement a strategy that specifically addresses sector specific barriers to achieve a risk-return profile that catalyse investments in agribusiness. Facilitate access to support services, linked to a One-Window Policy providing standardized information and a single entry point for investors.

Box 17. Investment and fiscal revenue projections in resource-dependent economies

In countries such as Mongolia, where a sizeable portion of investments and fiscal revenues comes from a relatively small number of large mining projects, fiscal revenue projections can be improved by a strategy of first, constructing financial models of individual large mineral projects and second, feeding this information into a macroeconomic model.¹³²

A mining financial model uses a spreadsheet (Microsoft Excel or other spreadsheets) and entails developing projections of the mining project's revenues, costs, cash inflows and outflows, and tax and royalty payments. Such models are typically used by mining investors or financiers to estimate the rate of return on investment, net present value of investments, debt tolerance and other financial parameters of a project before investing in it. These models can also be used by governments to estimate tax revenues from large investment projects and are crucial for negotiating mining contracts, especially those with long-term implications.

The IMF, improving on the earlier method developed by James Otto,¹³³ has developed the Fiscal Analysis of Resource Industries (FARI) tool.¹³⁴ The tool is developed with variations for the mining and petroleum sectors. The main indicators of interest to governments from the tool are the Average Effective Tax Rate (AETR), which is a measure of the "government take"; the Marginal Effective Tax Rate (METR); and the progressivity of the fiscal regimes, which is a measure of the extent to which the effective tax rate becomes higher as the profitability of the project becomes higher.¹³⁵

Such mining and petroleum financial models allow viewing a mining project's fiscal regime from a long-term perspective, over the life of the mining or petroleum project. For instance, Figure 26 shows the flows of fiscal revenues from a hypothetical oil project over the life of the project. It shows that fiscal revenues are typically small during the exploration and development phase, peak during the production phase and dry up during the closure phase.

132 The text in this box is contributed by Uyanga Gankhuyag, UNDP Bangkok Regional Hub; and peer reviewed by Dorjdari Namkhajantsan, NRGi Mongolia and Ragchaasuren Galindev, independent expert.

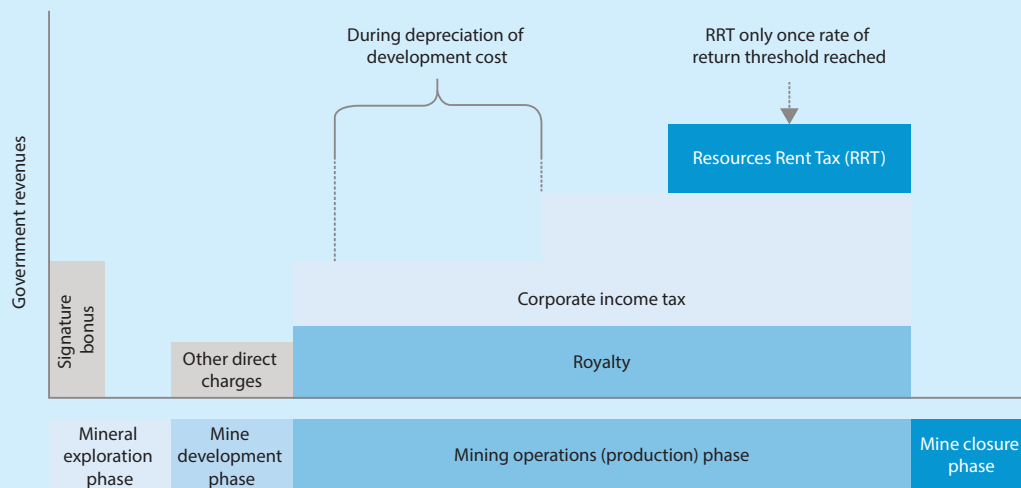
133 Otto, J. 2000. *Global Mining Taxation Comparative Study*. 2nd ed. Institute for Global Resources Policy and Management, Colorado School of Mines.

134 Luca, O., and D.M. Puyo. 2016. "Fiscal Analysis of Resource Industries (FARI) Methodology." Technical notes and manuals. Washington, D.C.: International Monetary Fund (IMF). <http://www.imf.org/external/np/fad/fari/>.

135 In addition to the indicators of share of benefits, investors are interested in variables such as the Net Present Value (NPV) and Internal Rate of Return (IRR) of their investments.

Investment and fiscal revenue projections in resource-dependent economies (continued)

Figure 26. A typical profile of fiscal revenues from a resource project (petroleum)



Source: Adapted from Luca and Puyo (2016)

Source: UNDP and UN Environment (2018). « *Managing mining for sustainable development* ». Bangkok, United Nations Development Programme; adapted from Luca and Puyo (2016).

These models provide valuable information for governments in understanding how much of the mining company profits accrue to the government – through taxes, royalties and such, and how much accrue to the company – in the industry’s terminology, these proportions are called the “government take” and the “company take”. In this regard, such mining fiscal models are critical for helping governments negotiate taxes and royalties with mining companies. The use of such models is spreading outside the industry and government amid increased transparency of financial information. For instance, OpenOil produces such models for public oversight purposes.

The laws and regulations of most countries require that mining companies provide their feasibility studies to the host government. Mining feasibility studies provide the basis on which to construct a mining financial model. Another way could be for a government entering into a negotiation with a mining company to request the mining company to provide its financial model.

After developing financial models of large mining, oil and gas projects, the next step is to feed the models’ projections into a macroeconomic model. Apart from directly impacting on the economies, large-scale mining projects also have indirect impacts through firms supplying goods and services to the mining companies, as well as firms buying minerals and doing further processing. In this regard, feeding projections from large mineral projects’ value added and fiscal revenues to macroeconomic model can yield more realistic overall fiscal revenue projections.

Investment and fiscal revenue projections in resource-dependent economies (continued)

In 2017, the Natural Resource Governance Institute (NRGI) used such a methodology to develop a macro-fiscal model to propose debt sustainability options to policymakers.¹³⁶ The macro-fiscal model used a set of aggregated project-level financial models from five largest mines in Mongolia (three copper mines, a gold mine and a coal mine), which allowed estimating the mining output and fiscal revenues from these mines for the next 30 years.¹³⁷

Another example comes from Guyana, a country with strong dependence on gold mining. In 2015, UNDP commissioned a study in Guyana for the Ministry of Natural Resources and the Environment,¹³⁸ which included estimating projected fiscal revenues from gold mining in 2015–2030 using mining project-level financial models. The study helped inform the government's long-term plans on foreign direct investment.

136 Galindev et al. 2017.

137 Baksa, Mihalyi, and Romhanyi 2017.

138 Farooki and Mazumdar 2015.

8. Conclusions and recommendations

After several years of economic slowdown in growth and worsening fiscal conditions, including heavy international commercial borrowing and rapid growth in off-budget expenditures, Mongolia's macro-economic situation deteriorated in 2016 and the government requested assistance from IMF and other international partners to stabilize the economy. An EFF was approved in May 2017, and the IMF and GoM agreed on structural measures that aim to stabilize the economy in the short term and pave the way for economic diversification and growth in the medium term.

Mongolia is a country that is extremely rich in natural resources. It holds one of the largest reservoirs of mineral reserves in the world and possesses very extensive untapped potential in renewable energy resources to cover both the domestic and large foreign markets. However, there is abundant international experience to show that translating those resources into sustained and inclusive economic development is extremely challenging, and to date Mongolia, like many resource-rich countries, has been unable to achieve that goal. Moreover, the developments over the last decade demonstrate that Mongolia's mineral dependent economy is highly vulnerable to external shocks and that the current pattern of economic growth comes with considerable costs to the environment. Thus, while Mongolia in the short term, under the EFF, needs to restore macroeconomic stability to ensure basis for economic growth and diversification, in the medium and long-term it needs to develop a sustainable development path balancing social, environmental and economic needs.

The preceding sections of this DFA have mapped public and private financial flows, and used the INFF conceptual model structured around six building blocks considered critical for effective integrated mobilization and use of public and private finance, to identify actions and reforms that may increase mobilization of finance and achievement of development objectives. This DFA has confirmed that Mongolia, with its vast deposits of minerals and extensive potential in renewable energy and promising prospects in other sectors such as agriculture and tourism, clearly has the potential for sustained growth, and is in a unique position to mobilize finance for development and to achieve the SDGs and the SDV. However, capacity gaps in public sector management are constraining effective and efficient use of existing resources, and mobilization of additional public and private finance that potentially can be used to achieve development objectives.

A main conclusion of this DFA is that mobilization of finance for development will require that the planning and budgeting processes are results oriented, and geared towards identifying and mobilizing additional public revenue sources and private finance that can be utilized to achieve development objectives. To make more effective use of existing resources, and to mobilize additional finance for development purposes, complementary governance reforms have to be implemented. These reforms need to address the current shortcomings in public sector planning, budgeting, monitoring and management. To achieve its development targets, GoM also needs to develop sector specific development strategies and to proactively mobilize the resources and technical knowledge of non-state actors. This can only be achieved by creating an enabling framework for accountability and dialogue that supports a transparent and open dialogue between government, parliament, the private sector and NGOs.

The key recommendations to be considered by GoM in order to establish a comprehensive reform framework required to meet the ambitious SDGs and SDV objectives are as follows.

8.1.1 Develop a diversified financing strategy

There is significant potential to mobilize both additional revenue sources and private finance that will be required to achieve the SDV and SDG objectives. It is recommended that a strategy is developed with the aim to diversify and strengthen mobilization of finance. This strategy would encompass policies related to different aspects of public and private financing that are brought together into an overarching approach which seeks to mobilise flows according to their specific characteristics and the contributions they can make toward the SDG and SDGs. It would include the following components:

Stimulating private investment in new industries

Realising economic diversification that can drive forward government objectives for environmentally sustainable growth will require stimulating and attracting private sector investment in industries beyond the mining sector. Establishing incentive structures that promote and are conducive to private investment is important.

- I. **Realign incentives with environmental tax reform.** Following the experience of other countries, GoM can implement a programme of Environmental Tax Reform (ETR). These reforms will increase taxation of environmental damaging production and consumption and reduce market-disruptive subsidies to polluting industries. These changes would also support an environment more conducive to investments in non-mining sectors where Mongolia has significant comparative advantages, such as agriculture and particularly energy (see 8.1.2 on investments in renewable energy below). Introduction of cost reflective models from traditional industries, for example related to water consumption and air pollution which have adverse impacts on economic growth and human health, and reduction of costly subsidies in, for example, energy and agricultural sectors, are also essential to open markets for economies of scale – and to meet current and future demand for sustainable market solutions.
- II. **Increase competition in financial markets and establish investment facilities.** The domestic capital market is currently underdeveloped and SMEs face severe constraints in gaining access to risk capital required to start-ups or expanding businesses. Increased competition in the domestic capital market is likely to lead to lower prices on credit and increase the level of finance available to the private sector, in particular to SMEs. If matured, the domestic capital market may also be an important source of finance to sectors with significant potential for economies of scale, including renewable energy and agribusiness.

To improve the capital market, GoM should, with support of multilateral development partners, develop a financial market strategy with the aim to increase efficiency of the institutional and regulatory framework, improve effectiveness of supervision and modernize the market infrastructure. A roadmap for strengthening of the capital market should then be implemented by government. Complementary to this, a more pro-active policy directed at establishing investment facilities to leverage private sector finance for start-ups and development of small and medium scale companies should be pursued to foster competitiveness, given the gap in access to finance and business development services that has been identified by the annual “ease of doing business” and “distance to the frontier” ranking by the World Bank.

Increasing the domestic capital market may also strengthen private sector’s role and contribution to public investments. PPPs may be one avenue in terms of strengthening private sector engagement in public investments and possibly in service delivery. This requires that the capacity of government is strengthened to effectively plan, procure, contract and monitor investments, and that the regulatory framework is updated.

III. FDI promotion strategies. There are significant opportunities to raise FDI from current very low levels compared to other countries at the same income level. There is a need to develop an adequate support framework for FDI, that encourages FDI outside the mining sector. Such a framework would incorporate improvements to the investment climate and business environment, in part by ensuring existing laws and regulations are implemented. It would also incorporate more proactive attraction of investment. For larger investments in utilities and infrastructure in renewable energy and agriculture, PPPs may be used to attract additional external finance. A systematic approach to developing investment pipelines as well as promotion through trade and investment forums and missions can also be developed, with a particular focus on key industries (see below).

IV. Blended finance mechanisms. Blended finance mechanisms that mix public and private capital, often involving guarantees, concessional debt, or junior equity, offer the potential to mobilise private capital for key investments by lowering risks and the perception of risks. There is particular potential in industries such as renewable energy (see below) and in partnership with multilateral development banks and other development partners that regularly use such instruments worldwide.

Implementing tax reforms

Parliament has approved a number of tax reforms related to petroleum, vehicles, alcohol and tobacco as well as personal income tax, social security contributions and withholding tax. These reforms are important both for boosting public finances and because of the way a number of these reforms will alter incentives for enhanced sustainable development outcomes. In relation to tobacco, for example, cross-country evidence shows that a 50 percent increase in price leads to a reduction in consumption of around 20 percent.¹³⁹ The experience of the Philippines shows that implementing such reforms can be challenging and may require partnership with actors such as civil society organisations or other actors to build buy-in to the reforms. Yet it also shows that many of the benefits can be immediate, resulting in large increases in revenue and scaled up financing for services and investments in key areas of sustainable development.¹⁴⁰

Managing volatile commodity revenues

Mongolia's high volatility in revenues is caused by high dependence on the mining sector combined with the lack of a well-functioning SWF to lessen the impact of commodity price cycles.

Based on lessons learned and experiences from best performing countries, a SWF that is adequately protected from political interference can be established before the next wave of large commodity export revenues flow in from the second phase of Oyu Tolgoi.

Managing public debt

The government is already taking action to shift expensive commercial debt with concessional debt, and the EFF package of concessional lending should be used to the greatest extent possible to reduce Mongolia's outstanding stock of commercial debt. In the medium and longer term, the government should aim to mobilize concessional finance rather than expensive lending from domestic and foreign private capital markets as in the past. To the extent that commercial loans are required, uptake of loans should not be tied to expected increase in revenues from mining.

139 World Bank, 2018, *Tobacco tax reform: at the crossroads of health and development*. Available at: <https://openknowledge.worldbank.org/handle/10986/28494>

140 WHO, 2015, "Sin tax" expands health coverage in the Philippines. Available at: <http://www.who.int/features/2015/ncd-philippines/en/>. Accessed May 2018.

Leveraging international public finance

Mongolia has opportunities to raise larger volumes of ODA concessional finance, particularly from global funds targeting SMEs, renewable energy and climate change. Mobilization of additional finance requires that national policies and regulations are conducive to investments and that government has the required capacity in policy planning, budgeting, project implementation and monitoring.

Current levels of OOF are low. Increased levels of OOF may be mobilized if the investment climate is improved. Partnership with two of the development partners most active in Mongolia, Japan and South Korea, may be a fruitful avenue for increasing access to OOF as these countries are also among the largest bilateral providers of OOF worldwide. While OOF are a form of international public finance they are more commercial in nature than ODA so mobilising OOF can form part of a wider private investment strategy.

A diversified financing strategy of this nature would sit alongside the SDV as an important vehicle for driving its implementation. It would bring together and provide a common foundation for policies designed to mobilise or influence financing from particular instruments or in specific sectors. It would identify the potential that different resources and financing instruments have to contribute to the specific objectives of the SDV based on their specific characteristics within the Mongolian context. The development and implementation of a diversified financing strategy would bring together responsible actors from across government, representatives of the private sector and development partners and other actors.

8.1.2 Develop sector based financing strategies

Over the last decade the international finance architecture has become increasingly diverse, with many new institutions, and regional and global funds offering concessional finance for different purposes. At the same time, it has been widely acknowledged that increased mobilization of private sector finance will be needed to solve the economic, social and environmental challenges facing low and middle income countries and to meet the SDGs. In many cases a mix of different approaches and instruments will be required, incorporating both domestic and foreign private capital.

The potential to mobilize additional finance varies between sectors. It is recommended that relevant line ministries develop sector specific financing strategies that are aligned to an overall financing strategy like that outlined above.

Financing for renewable energy

Renewable energy is a key sector that can contribute toward Mongolia's environmental objectives and, with the potential for energy export within the region, be a driver of economic diversification. Mobilising private investment that can accelerate growth within the industry is a priority and GoM can consider developing a sector-financing strategy. Mongolia has been identified internationally as one of the countries with the highest potential for investment in renewable energy.¹⁴¹ A key reform is the environment tax reforms noted above, which would influence skewed incentives that currently limit investment in the industry. Blended finance mechanisms also offer significant potential to draw in private investment in the sector and GoM could prioritise the establishment of such instruments in its collaboration with its development partners, particularly MDBs, many of whom have active portfolios of blended finance in renewable or clean energy globally.

¹⁴¹ Climate policy initiative, 2018, *Blended finance in clean energy: experiences and opportunities*. Mongolia is identified as one of eight 'Tier 1' countries with the highest potential for investment in the sector.

Financing for agricultural value chains

Agriculture is an important growing sector for Mongolia and has the potential to make an important contribution to economic diversification objectives. Mobilising financing throughout agricultural value chains will be key to stimulating the deepening and expansion of agricultural production. A sector financing strategy could consider a range of options to boost investment and access to finance, including measures designed to stimulate development in the financial sector (see section 8.1.1 above), expand support through credit guarantee schemes, stimulate growth in microfinance, and access international funding through organisations such as GAFSP as well as equity and risk capital funds targeting agribusinesses.

As a basis for developing financing strategies in these and other sectors, it is recommended that sector-specific studies be undertaken in priority sectors in follow up to the DFA. These would assess the sector specific barriers to mobilising finance within the relevant sector as well as associated risk factors. They would review the landscape of financing in that sector internationally to identify successful strategies for mobilising finance in other countries and to identify the key private and international public actors involved.

8.1.3 Strengthen policy and institutional coherence

GoM took early initiative to localize the SDGs to the Mongolian context and the SDV were committed to by all main political parties represented in Parliament. Recently the focus of the government has however largely been directed towards short and medium term requirements related to the debt crises, on economic and financial stabilization and on restructuring the IMF program to be supported by the three year EFF. Moreover, despite comprehensive initiatives by NDA to align sector plans to the SDV objectives, recent analysis has documented significant gaps and inconsistencies between the SDGs and the SDV. A policy coherency assessment is therefore recommended to clarify gaps between the SDGs and SDV targets, as well as identifying potential trade-offs and synergies between policy objectives.

A fundamental constraint to policy coherence is that sector strategies are not adequately linked to the MTEF or the annual budget. As clarified in Section 6.1, there are multiple underlying causes that contribute to incoherence, relating to both formal regulations and mandates which are perceived to be overlapping, to weak administrative capacity, for example related to costing of policies, to the very large number of policies and development plans that are operative, and to the lack of a performance-oriented culture in the public sector. These coherence gaps have consequences in terms of low allocation efficiency, evidenced by large fragmentation in the capital budget and low capacity to allocate resources based on cost-benefit analysis, compromising efficiency in public spending and the government's ability to achieve its policy objectives. Moreover, current practices constrain the government's capacity to efficiently prioritize use of resources (allocation efficiency) and the ability of the government to ensure that programs are implemented at the lowest possible cost while maintaining desired service quality levels (operational efficiency).

Government stakeholders consulted by the DFA team emphasized that coordination between the planning and budgeting functions are weak due to overlapping responsibilities for policy and budget planning – as well as duplication of procedures, with NDA having responsibility for medium term development planning and MoF responsible for a legal mandate for the Government Action Plan, the Medium Term Expenditure Framework (MTEF) and annual budgets. The overlapping responsibilities and procedures also impact negatively on the reconciliation between development plans and the budgets, and weaken the credibility of government policy documents and strategies. These overlapping and weakly coordinated instructions and procedures constrain sector ministries' capacity to plan strategies

and program activities within the budget ceiling set in the Medium-Term Expenditure Framework (MTEF) and the annual budget cycle. This leads to inefficient allocation of available resources, often with budget allocations inconsistent with actual development targets.

Another key challenge to achieve policy coherence relates to integrating the SDV and the SDGs at local government level. Due to weak administrative capacity, and low financial autonomy, local governments are inhibited to develop strategic solutions adapted to local contexts, a pre-condition for effective allocation and use of public resources. Moreover, sectoral policies in Mongolia are highly centralized with few opportunities for local authorities and stakeholders to adapt measures to changing demands. Higher predictability and higher levels of LDF funding would have a substantial impact on local development. It is recommended that transfer mechanisms are designed to link sector funding to the LDF, strengthening discretionary planning and budgeting at local government levels.

8.1.4 Strengthen performance based planning, budgeting and management

Complementary reform actions are required to underpin a transition from incremental and output-oriented planning, budgeting and management practices towards a program based and outcome-oriented focus. It is recommended that PFM reform is strengthened, particularly relating to policy based budgeting. Specific measures that should be considered include:

- Strengthening macro-economic modelling to improve the reliability of revenue forecasts that are used to establish overall resource envelopes for public sector spending and line ministries' budget ceilings. The Fiscal Advisory council being formed as part of the EFF agreement may be a key driver for more reliable modelling. Coherence between modelling undertaken by NDA and MoF can also be strengthened.
- Strengthening the capacity of line ministries to cost plans/programmes and to undertake cost-benefit analysis in development planning, budget formulation and program management.
- Strengthening the linkages between the development planning processes and MoF's MTEF and budget process and improving MoF's mandate and capacity to integrate financial and performance reporting.
- Strengthening line ministries' capacity to use the MTEF formats submitted by MOF to plan and report on program outcomes rather than outputs.
- Strengthening the requirements made to the line ministries to coherently report on financial results and performance (outcomes) in budget performance reports.
- Strengthening the capacity of line ministries to develop integrated sector masterplans that serve as sector MTEFs, that are clearly linked to the MTEF.

International experience from a number of OECD countries demonstrates that implementation of sustainable performance oriented systems with multi-year planning and budgeting frameworks needs to be underpinned by a civil service system that creates incentives for government staff to increase their capacity and improve their performance. In addition, coherent measures need to be taken to strengthen the capacity to apply performance-oriented practices in planning, budgeting and management throughout the civil service.

It is therefore recommended that GOM approach the current capacity challenges of the civil service through reform. A restructuring of the civil service should ensure that government ministries and agencies are held accountable for expected results, that recruitment and change of positions is based on merit, that

remuneration is linked to performance, and that civil servants are provided incentive systems to improve knowledge and performance throughout their careers. It is important to have strong technical capacity in planning, in budgeting, and also experience in coordination between the two. Minimizing the rotation of staff working in these areas in key ministries, by providing positive incentives and establishing strong human resource development strategies, would strengthen both planning and budgeting functions. Steps can also be taken to strengthen capacity to assess the integrated social and environmental impacts and risks of programs with significant budgets. For example, GoM could introduce and test rigorous criteria for prioritising public investment projects to consider not only the costs but also social and environmental impacts. These criteria could also identify cross-cutting interventions that risk “falling into the cracks” between various ministries’ portfolios.

In December 2017 the Parliament approved an amended Law on Civil Service. The main features of the amendments were aimed at strengthening the merit-based system of the public service, and ensuring independence. According to stakeholders consulted the law is highly ambitious, and there is concern that the formal requirements of the law may cause rigidity than could be counterproductive. Moving forward, it is essential that the law is adequately implemented, and that implementation is effectively monitored to ensure that the objectives of the reform are met.

8.1.5 Develop a robust monitoring, evaluation and learning system

The NDA has, in collaboration with NSO, initiated a process to establish a system for SDV and SDG monitoring. However, a mapping recently undertaken by NSO revealed that many of the SDG targets currently are impossible to monitor or to establish baseline values. An NSO team has been tasked with establishing an SDG monitoring framework, but the challenges are significant. National statistics are only covering some of the SDGs and administrative data is generally of weak quality and more geared towards monitoring of the SDVs than the SDGs.

The establishment or incorporation of a framework to monitor the SDGs within existing monitoring systems is essential to not only measure progress on the SDGs but more importantly to provide a basis for evidence based and performance oriented policy making and budgeting. The data improvements required to establish a monitoring system are extensive, both in terms of administrative and statistical data. It is therefore recommended that GoM substantially increase efforts to improve the quality of the National Statistical System (NSS) and the administrative data systems.

In recent years important progress has been made in providing an increase in assistance to statistical capacity building. A comprehensive assessment of the statistical system was undertaken in 2014, and in 2017 a Mapping and Assessment of the Data Ecosystem was published. Moreover, a National Program for Development of Statistics for 2017-2020 has been formulated, though not yet approved by the government.

The SDGs presents a significant opportunity for GoM, and development partners, to scale up its support to development of the NSS. At the same time, it provides an opportunity to improve capacity in production and use of administrative data throughout government institutions.

Moving forward, it is essential that the program for development of the NSS is approved and that a coherent strategy for improving both the capacity to produce and to use data is followed. Moreover, rather than focusing on filling gaps in monitoring the SDV and the SDGs, a National Strategy for Development of Statistics (NSDS) needs to have a holistic approach to statistical development, and address capacity building across all elements of the NSS. The strategy should maintain a strong focus on user needs, and capacity building measures should be equally as strong on the use and application of data for policy

making, as on data production. It should also take steps to reinforce the effectiveness of monitoring systems at local levels (aimag and soum), in alignment with the central-level monitoring system.

8.1.6 Create an enabling environment for accountability and dialogue

An enabling environment for accountability and dialogue is essential to mobilize non-government stakeholders' support for the SDV and SDGs. The private sector and NGOs can play a key role in becoming an important partner for the government in terms of providing technical skills and ideas, mobilizing additional finance, and improving efficiency in delivery of government investments and services. Encouraging stronger private sector and NGO engagement may be helped by involving them more systematically in strategy development and the project cycle, as well as ensuring the legal framework is in place to do so.

In Mongolia, both the government and the parliament have expressed strong commitment to the SDV and the SDGs, though the focus of the government and parliament more recently has been directed towards short and medium-term requirements related to the debt crises and the EFF. There is also strong commitment among some non-government stakeholders who have strong opinions on government policies. However, systematic involvement of private sector stakeholders, NGOs or citizens groups is limited in the Mongolian policy making processes. Most attempts to establish triparty bodies in selected sectors have not been successful, and both private sector stakeholders and NGOs have express frustration with the government's approach to collaboration.

To achieve the SDV and SDGs it is essential that technical knowledge, professional opinions, and other resources of non-government stakeholders are utilized by the public sector. Government institutions will need to actively engage all parties in dialogue throughout policy planning, implementation and monitoring. Significant gaps need to be addressed to strengthen the accountability mechanisms that support transparent and open dialogue between government, private sector and NGOs.

There are constraints relating to political culture, capacity issues and corruption. Mongolia is still a relative new multiparty democracy, and the tradition for transparency and non-state participation in policy-making is still not firmly established. An overly politicized civil service hampers accountability and transparency – and elections result in vast changes of key personnel, erosion of capacity and lack of continuity in policy making. Correspondingly, corruption discourages effective dialogue and accountability mechanisms, as well as being a barrier to entrepreneurship and private-sector investment – hindering economic growth. At the same time, dialogue and accountability mechanisms are jeopardized by strong presence of parliamentary interference in government decision-making, blurring the checks and balances between the executive and the legislative bodies, and affecting the extent to which the parliament can effectively hold the executive accountable.

Moving forward, it is recommended that GoM strengthen its existing dialogue platforms to deepen engagement with the private sector, civil society, academia and development partners at sector levels. To provide comprehensive and transparent information, that is reliable, trusted, and performance oriented, is a first necessary requirement. Setting up dialogue mechanisms for regular exchange of opinions on development strategies, budgets and financing opportunities is a logical next step, which may facilitate both sharing of technical knowledge and provide a basis for mobilization of private capital and technical expertise in programs and projects that are being planned.

Annex 1: List of documents reviewed

Adam Smith International (2015). Integrated Report: an integrated analysis of economic, political and social issues that support or hinder growth and poverty reduction in Mongolia.

Adaptation Fund (2017). <https://www.adaptation-fund.org/projects-programmes/project-information/projects-map-view>

Asian Development Bank (2015) Supporting the Credit Guarantee System for Economic Diversification and Employment Project.

ADB (2015) Mongolia: Strengthening Capacity for Environmental-Economic Accounting. Technical Assistance Report.

Asian Development Bank (2017). Asian Development Outlook. Update: Sustaining Development through Public-Private Partnership

Asian Development Bank (2017). <https://www.adb.org/news/mongolian-growth-exceeds-expectations-due-strong-economic-performance>

The Central Bank of Mongolia (2017). <https://www.mongolbank.mn/eng/listfstability.aspx?id=1>

Chansa C, Sundewall J, McIntyre D, Tomson G, Forsberg BC. (2008). Exploring SWAP's contribution to the efficient allocation and use of resources in the health sector in Zambia. *Health Policy Planning* 23 (2008): 244-51.

Climate Funds Update (2017) <http://www.climatefundsupdate.org/the-funds>.

CSO Partnership for Development Effectiveness (2016). GPEDC Indicator Two: Civil society operates within an environment which maximises its engagement in and contribution to development- An assessment of evidence.

The Economist Intelligence Unit (2017). Country Report Mongolia

European Development Finance Institutions (2016). Investing to Create Jobs, Boost Growth and Fight Poverty – Flagship Report.

Energypedia (2017). Mongolia Energy Situation.

Gerege partners (2016). Extractive Industries Revenue Management in Mongolia.

Export.gov (2017) Mongolia Commercial Guide.

Global Assessment Report. National Statistical System of Mongolia (2014). http://www.unescap.org/sites/default/files/Global-Assessment%20Report_Mongolia.pdf

The Global Fund (2017). <https://www.theglobalfund.org/en/portfolio/country/?loc=MNG&k=ccd66728-2585-4e48-a529-591ccfb81152>.

The Global Environment Facility (2017) <https://www.thegef.org/country/mongolia>.

Government of Norway (2017) Government Pension Fund and the Santiago principles. Guidelines/ brochures.

Green Climate Fund (2017). <http://www.greenclimate.fund/-/gcf-begins-funds-transfer-to-mongolia-s-xacbank>.

Griffith-Jones S. et al. (2012) European Report on Development. Financing Renewable Energy in Developing Countries: Mechanisms and Responsibilities. http://policydialogue.org/files/publications/Financing_Renewable_Energy_in_Developing_Countries.pdf.

The International Development Association (2017). <http://ida.worldbank.org/about/borrowing-countries>

Interconsulting Group (2017), Mapping and Assessment of the Data Ecosystem in Mongolia.

International Finance Corporation (2014), Support to Private Sector Growth.

International Monetary Fund (2017) Staff Report for the 2017 Article IV Consultation.

International Monetary Fund (2017b) First and Second Review under the Extended Fund Facility. Press Release; Staff Report; and Statement by The Executive Director for Mongolia

Kroll, Aleksander (2015) "Drivers of Performance Information Use: Systematic Literature Review and Directions for Future Research." *Public Performance and Management Review* 48/3 (2015): 459-486.

Localdemocracy.net. <https://localdemocracy.net/countries/asia-west/mongolia/>

Lkhagvadorj, Ariunaa (2011) Fiscal federalism and decentralization in Mongolia.

Mongolia Extractive Industries and Transparency Initiative (2016). "Mongolia Tenth Reconciliation Report".

National Resource Governance Insititute and Gerege Partners (2017). Fiscal Sustainability in Mongolia.

NSO (2014), Global Assessment Report. National Statistical System of Mongolia.

OECD (2011), Survey on Performance Budgeting.

OECD (2008) "OECD Benchmark Definition of Foreign Direct Investment." Fourth Edition.

OECD/UNDP (2016) "Making Development Co-operation More Effective: 2016 Progress Report." OECD Publishing, Paris.

ODI (2010) Global Funds: Allocation Strategies and Aid Effectiveness – Final Report.

Park, Nowook and Joung-Jin Jang. "Performance budgeting in Korea: Overview and assessment." *OECD Journal of Budgeting* 2014/3 (2015).

Reeves, J. (2014). Development Planning in Mongolia: Failure and Potential.

State Great Hural and UNDP (2016). Assessment of the Performance of the 1992 constitution of Mongolia.

State Grate Hural (2016). Annex to Resolution 71 of 2016.

State Great Hural (2016). Resolution No 19, 2016.

Sustainable Development Solutions Network (2015) Concessional International Development and Climate Finance under FfD.

Swiss Agency for Development and Cooperation in Mongolia (2015). Factsheet: Decentralization Policy Support Project. https://www.eda.admin.ch/dam/countries/countries-content/mongolia/en/2016-GDPPII-DPSP-factsheet_EN.pdf

United Nations (2015) Press Release: Countries Reach Historic Agreement.

United Nations (2015), Addis Ababa Action Agenda of the Third International Conference on Financing for Development.

United Nations Department for Economic and Social Affairs (2002), Multisectoral Global Funds as instruments for financing spending on global priorities. Discussion Paper No. 24.

UNDP / AP-DEF (2017), Development Finance Assessment and Integrated Financing Solutions: Achieving the Sustainable Development Goals in the Era of the Addis Ababa Action Agenda.

UNDP, 2013, Achieving the MDGs Fifth National Progress Report 2013.

UNDP (2016), Human Development Report 2016: Human Development for Everyone.

UNDP (2017) <http://hdr.undp.org/en/countries/profiles/MNG>

USAID (2016). Factsheet: REACH Project – Small and Medium Enterprise Access to Credit.

US Department of State (2017). Mongolia Investment Climate Statement.

World Bank (2012). Financial Sector Assessment Program Development Module Mongolia. Capital Markets Technical Note.

World Bank and IFC (2013), Enterprise Survey – Mongolia 2013.

World Bank (2013), City Finances of Ulaanbaatar.

World Bank (2014). Mongolia: The Politics of Public Investments.

World Bank (2015), Mongolia Economic Update.

Annex 2: ToR for Oversight Team

Development Finance Assessment (DFA): Terms of Reference for Oversight Team

Introduction

UNDP supports the government of Mongolia to carry out the Development Financing Assessment (DFA) in Mongolia. The main objective of the Oversight Team is to support the DFA team to conduct the assessment by providing steering and guiding role, and engaging with the national stakeholders on results of the assessment.

Government leadership and ownership of the DFA is essential. Therefore, outlining the process and oversight responsibilities involved in undertaking a DFA process is important. Such a description also provides a useful basis to identify ways of enhancing quality assurance and provide clarity on the roles of different actors in the process. The constitution of a formal Oversight Team (OT) is a key aspect of consolidating the government's leadership and governance role in the assessment process.

The government, specifically the Ministry of Ministry has initiated and will therefore lead the Oversight Team. The scope of the DFA will address key areas of responsibility of several departments of the MOF including: (i) Economic Policy Department, (ii) Fiscal Policy Department, (iii) Development Finance Department, and (iv) Financial Department. The DFA will also cover development finance flows that fall under the mandate of other Government ministries and institutions. Their membership and active participation on the OT will also be critical, namely National Development Agency, National Statistical Office, Mongol Bank, UB city Mayor's Office, Ministry of Energy, and the Ministry of Environment and Tourism. Moreover, the OT will ensure participation of the private sector as well.

During the DFA process, should it become advantageous or necessary to invite additional institutions to join the OT, the OT Chair or other OT members may so recommend.

Objectives and Main Activities of the Oversight Team

The Oversight Team will play the overall governance and leadership role in the DFA process. The main objectives of the Oversight Team are proposed as follows:

- Support the DFA fieldwork. Facilitating the work of the research team by (i) ensuring access to key decision makers and government documents and (ii) removing any obstacles that may delay the DFA process
- Oversee quality and accuracy of the assessment. The OT will supervise and guide the research team by (i) reviewing the DFA intermediary and final outputs produced by the team (ii) ensuring that the assessment is accurate and provides the necessary depth to be useful for government decision-making
- Ensure the government ownership. The OT will lead the discussion with government, development partners and other relevant stakeholders about the DFA findings, as well as on implementation of the recommendations and next steps.

The Oversight Team will formally meet at agreed milestones of the DFA process, and its members may informally engage to support specific tasks of the DFA team. The primary duties of the OT are proposed as follows:

- Support the DFA customization and determination of specific areas to be addressed, to ensure it addresses the Government of xxx's strategic interests and objectives

- Approve objectives, scope, expected outputs and methodology of the DFA
- Approve and supervise the DFA work plan and key milestones
- Provide strategic directions and feedback, especially if the DFA team faces significant challenges
- Review the documents presented by the DFA team and provide comments within the agreed timeframe
- Endorse the outcomes of the DFA and the resulting Implementation Roadmap
- Facilitate in-depth discussion within the Government of Mongolia on the outcomes of the DFA and the recommendations expressed in the Roadmap
- Support follow-up to the assessment and the implementation of the Roadmap
- Support the dissemination of the DFA to wider audiences (parliament, development partners, Business and Civil Society Organisations, etc.)

Chair of the Oversight Team

The Chairmanship of the OT is not necessarily a time consuming function, but it is an essential one, given the importance of securing high-level involvement and buy-in from decision-making levels around the outcomes of the DFA. The participation of the Chair includes key moments of the DFA process such as: (i) to open and participate in the Inception Workshop where the DFA is presented to a broad group of stakeholders and (ii) to open participate in the Validation Workshop, where the primary outcomes of the DFA are presented to the government. The Chair will also have a lead role to convene in-depth discussions within the government on the outcomes of the DFA and the recommendations expressed in the Roadmap.

The Chair of the OT for Mongolia's DFA is Mr.B.Nyamaa, State Secretary of the Ministry of Finance.

The DFA focal point

Ms. Bilguun, Officer at the Economic Policy Department acts as the Member-Secretary of the oversight team and DFA focal point who will undertake the day-to-day management of the DFA process and proposes the following essential features of the assessment for approval by Oversight Team. These will include:

The DFA timetable and meetings schedule, covering preparatory work, the actual assessment process and any follow up arrangements. Adequate time to carry out the assessment (partly a function of the scope of the DFA and availability and access to data, existing studies and policy documents), agreement on definitions and thus information requirements, and adequate organization in terms of arranging meetings with the right people and accessing relevant data, documents and sources of information.

The technical definitions (e.g. Public-Private Partnerships, FDI, OOFs, South-South Cooperation), and the information requirements based on these definitions, and likely sources of data.

The quality assurance process will include validation workshop, meetings with the technical staff and regular monitoring by OT DFA focal point from and UNDP relevant staff. The overall quality checks will be undertaken by the international consultant/team leader.

Membership of the Oversight Team

The members of the OT are drawn from the leading government entity in the DFA, the Ministry of Finance, and from other government institutions that will have active participation in the assessment. The proposed members of the oversight team included:

Annex 3: Oversight Team members

Name	Designation	Institution
Chairman		
Mr L.Nyamaa	State Secretary	Ministry of Finance
Members		
Mr G.Batkhurel	Director	Economic Policy Department, Ministry of Finance
Mr B.Dorjsemed	Director	Development Financing Department, Ministry of Finance
Mr B.Bayardavaa	Director	Monetary Policy Department, Bank of Mongolia
Mr A.Demberel	General Director	National account and research department, NSO
Mr L.Myagmarjav	Director of Division	Financing and Credit Reporting Division, Development Bank of Mongolia
Mr Sh.Munkhbat	Director	Development policy, planning division, Economic Policy Department, Ministry of Finance
Mr D. Erdenebayar	Head of division	Sector Development and Policy Regulation Division, National Development Agency
Mr O.Munkhtur	Head of division	Integrated Investment Policy Division, National Development Agency
Mr G.Ulziibayar	Head of division	Policy Planning Division, Governor's Office the Capital city
Ms Daniela Gasparikova	The Deputy Resident Representative	UNDP in Mongolia
Secretary		
Ms E.Bilguun	Officer	Development Policy, Planning Division, Economic Policy Department, Ministry of Finance

Annex 4: Participants at DFA Inception and Validation Workshops

Participants at DFA Inception Workshop,

Name	Designation	Institution
Mr L.Nyamaa	State Secretary	Ministry of Finance
Mr G.Batkhurel	Director	Economic Policy Department, Ministry of Finance
Mr Sh.Munkhbat	Director	Development policy, planning division, Economic Policy Department, Ministry of Finance
Ms Daniela Gasparikova	The Deputy Resident Representative	UNDP in Mongolia
Ms Tsendsuren	Officer	Policy Planning Division, Governor's Office the Capital city
Mr J.Ganbayar	Officer	Economic Policy Department, Ministry of Finance
Ms Munkhzul	Officer	Finance Department, Ministry of Finance
Ms G.Ulzijjargal	Officer	Ministry of Finance
Ms D.Munkhjargal	Officer	NDA
Mr Munkhbayar	Officer	Financing and Credit Reporting Division, Development Bank of Mongolia
Ms Dulamsuren	Officer	NSO
Ms Barkhas	Programme Officer	UNDP
Ms O.Enkh-ariunaa	Consultant	UNDP
Mr Erlend Nordby	DFA Team leader	Independent consultant
Ms Sh.Munkhtseren	Team leader of national team	National Team for DFA
Ms Myagmar	Team Member	National Team for DFA
Mr Myagmarsuren	Team Member	National Team for DFA
Mr Byambasuren	Team Member	National Team for DFA and Lecturer, Bussiness Graduate Shcool, MUST
Mr Ts.Bars	Team Member	National Team for DFA

Participants at DFA Validation Workshop,

Name	Designation	Institution
Mr Sh.Munkhbat	Director	Development policy, planning division, Economic Policy Department, Ministry of Finance
Ms Daniela Gasparikova	The Deputy Resident Representative	UNDP, Mongolia
Mr B.Bayardavaa	Director	Monetary Policy Department, Bank of Mongolia

Name	Designation	Institution
Mr D.Erdenebayar	Head of division	Sector Development and Policy Regulation Division, National Development Agency
Mr A.Munkhbold	Head of unit	Research and Analysis office, National Development Agency
Mr L.Myagmarjav	Director of Division	Financing and Credit Reporting Division, Development Bank of Mongolia
Ms L.Tuvshinjargal	Senior officer	Development Policy, Planning Division, Economic Policy Department, Ministry of Finance
Ms E.Bilguun	Officer	Development Policy, Planning Division, Economic Policy Department, Ministry of Finance
Mr E.Unurtsogt	Advisor	Aid Policy Division, Development Financing Department, Ministry of Finance
Ms G.Ulzijargal	Advisor	Aid Policy Division, Development Financing Department, Ministry of Finance
Mr Ts.Bayarkhuu	Advisor	Ministry of Finance
Ms O.Enkh-Ariunaa	Consultant	UNDP
Ms O.Idshinrenjin	Consultant	UNDP project, SDG/SDV localization in UB
Mr G.Tsolmon	Senior officer	Integrated Investment Policy Division, National Development Agency
Ms A.Munkhtsetseg	Officer	NSO
Ms Ts.Myagmarsuren	Senior officer	Policy Planning Division, Governor's Office the Capital city
Mr Erlend Nordby	Team leader for DFA	Independent consultant
Ms Sh.Munkhtseren	Team leader national team	National Team for DFA

Annex 5: Stakeholders consulted during dfa missions

1. Mr L. Enkh-amgalan, Parliament Member of Mongolia
2. Ms Beate Trankman, The Resident Representative for UNDP in Mongolia
3. Ms Daniela Gasparikova, The Deputy Resident Representative for UNDP in Mongolia
4. Mr G.Batkhurel, Director of Economic Policy Department, Ministry of Finance
5. Mr D.Gan-ochir, Director General, Research and Statistics Department, Bank of Mongolia
6. Mr Sh.Munkhbat, Director, Development policy, planning division, Economic Policy Department, Ministry of Finance
7. Mr Kh.Batchuluun, Head of Finance and Information Unit, Bank of Mongolia
8. Mr L.Choi-Ish, Director of Livestock Policy Coordination Department, MOFALI
9. Mr Ts.Zorigtbat, Head of Division, Finance Department, Ministry of Finance
10. Mr E.Bolor, Head of ODA division, Development financing Department, Ministry of Finance
11. Mr B.Sukh-ochir, Head of Debt Management Division, Finance Policy Department, Ministry of Finance
12. Ms J.Doljinsuren, Head of Development Policy Planning Division, National Development Agency (NDA)
13. Mr A.Munkhbold, Head of Research and Analysis Unit, Sector development and Policy regulation division, NDA
14. Mr L.Munbat, Head of Registration, Information and Promotion Division, NDA
15. Mr O.Munkhtur, Head of Concession, Public-Private Partnership Unit, Integrated Investment Policy Division, NDA
16. Ms M.Mandakh, officer, NDA
17. Mr D.Tumurkhuu, Vice President, Mongolian Bankers Association
18. Ms B.Tsetsegsaikhan, Advisor to the Minister, Ministry of Health
19. Mr D.Zandanbat, Department Director, Meeting with the Ministry of Road and Transportation
20. Mr B.Enkhbat, Officer of Budget Expenditure Division, Budget Policy Department, Ministry of Finance
21. Mr M.Sanjaadorj, Officer of Budget Revenue Division, Budget Policy Department, Ministry of Finance
22. Ms D.Soyolmaa, Officer of Investment Policy Department, Ministry of Finance
23. Mr Tengis, Officer, Ministry of Environment and Tourism
24. Mr M.Angarag, Head of Renewable energy Division, Ministry of Energy
25. Mr G.Enkhtaivan, Senior Officer, Ministry of Energy
26. Ms P.Enkh – tselmeg, General accountant, Ministry of Energy
27. Mr I.Batkhuu, Head of Project and Cooperation Unit, Governor's Office the Capital city
28. Ms Ts.Myagmarsuren, Senior officer of Policy Planning Division, Governor's Office the Capital city

29. Mr A.Demberel, Prof.Dr., Director General, National account and research department, NSO
30. Ms M.Oyunjargal, Senior Statistician Statistical research and methodology department, NSO
31. Ms S.Oyun, ex-MP and Minister of Environment and Tourism
32. Mr B.Bayarkhuu, Consultant for ODA, MOF
33. Mr Ch.Khashchuluun, President, Council of Support for Private sector
34. Mr Ch.Nanjidsambu, Deputy Director, MONEF
35. Mr M.Sarandavaa, Vice President, Social Responsibility, Mongolian National Chamber of Commerce and Industry
36. Mr M.Khosbayar, Officer, Social Responsibility, Mongolian National Chamber of Commerce and Industry
37. Ms B.Baigalmaa, Manager, Social Responsibility, Mongolian National Chamber of Commerce and Industry
38. Ms L.Otgontuya, Professor, Management academy, Ph.D
39. Ms E.Nomindari, Project and Cooperation manager, Mongolian Bankers Association
40. Mr N.Erdenesaikhan, Board Member of Network Mongolian Environmental NGOs and Head of Environment and Security Center of Mongolia, NGO
41. Mr Ts.Banzragch, Consultant, Environmental NGO
42. Mr Ts.Sukhbaatar, Director, Salkhit wind farm
43. Mr L.Lkhagvasuren, CEO, Zulgen sor farm, Dornod aimag
44. Mr G.Enkhtuvshin, Expert of Agriculture
45. Mr Neil Saker, IMF Resident Representative in Mongolia
46. Dr Soe Nyunt-U, WHO Representative in Mongolia
47. Dr.Erdenechimeg, Programme Officer, WHO Mongolia
48. Mr Taehyun Lee, Senior economist, Macroeconomics & Fiscal management, WB

