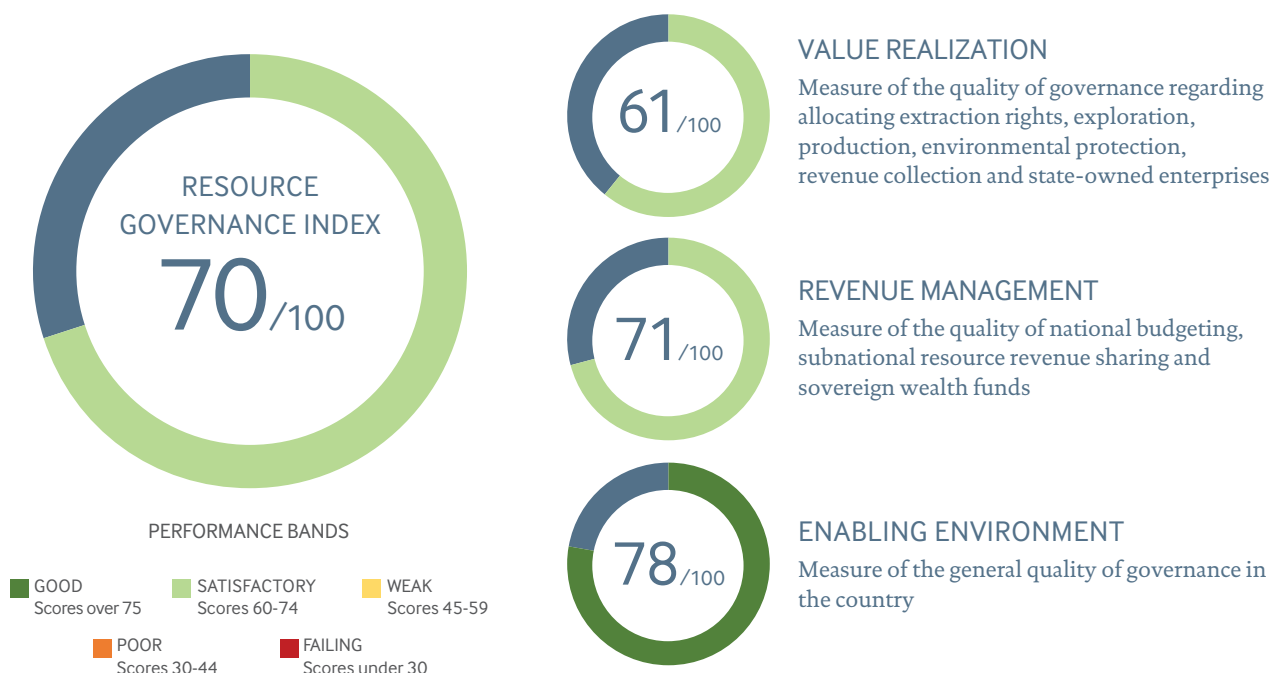# 2021
Resource Governance Index
Mongolia

Mining

Mongolia's mining sector scored 70 out of 100 points in the 2021 Resource Governance Index (RGI), an increase of 6 points since the 2017 index. Both the value realization and revenue management components now place firmly within the "satisfactory" performance band, while improvements in the enabling environment push the component into the "good" performance band. Nonetheless, Mongolia can attain better resource governance by targeting some key focus areas.

- Governance of local impacts deteriorated by 14 points since the 2017 RGI, with backsliding in areas related to both the legal framework and disclosure of relevant information.

- Mongolia has granted relatively few exploration licenses since 2017, but issues remain in the laws and disclosures governing the post-licensing period. There are no legal requirements for publication of contracts or information about the beneficial owners of extractive companies.

- Mongolia's high score in the index's open data subcomponent, stemming from digitization improvements by the Mongolian government, masks an absence of key data and information disclosures in the mining sector.

- The mining sector in Mongolia is characterized by a gap between enacted laws and enforcement, especially in the governance of local impacts and subnational resource revenue sharing.

- State-owned enterprise (SOE) governance remains "poor," which is worrying given the heavy financial reliance of the Mongolian government on multiple SOEs operating in the extractive sector.

Mongolia mining: 2021 Resource Governance Index and component scores

RESOURCE GOVERNANCE INDEX
70/100

PERFORMANCE BANDS

- GOOD
Scores over 75
- SATISFACTORY
Scores 60-74
- WEAK
Scores 45-59
- POOR
Scores 30-44
- FAILING
Scores under 30

61/100

VALUE REALIZATION
Measure of the quality of governance regarding allocating extraction rights, exploration, production, environmental protection, revenue collection and state-owned enterprises

71/100

REVENUE MANAGEMENT
Measure of the quality of national budgeting, subnational resource revenue sharing and sovereign wealth funds

78/100

ENABLING ENVIRONMENT
Measure of the general quality of governance in the country

RESOURCE GOVERNANCE INDEX RESULTS SUMMARY

Mongolia's resource governance shows signs of improvement, but challenges remain

Mongolia's economy is heavily dependent on mining and commodities, with over 85 percent of merchandise exports stemming from metals and ores. The 2021 RGI assesses the copper mining sector, which accounted for 22 percent of merchandise exports in 2019 and remains the most important mining subsector in Mongolia alongside coal.

Mongolia's 2021 RGI score increased by 6 points to 70 out of 100, driven by improvements in the revenue management and enabling environment, while a decrease of 2 points was registered in the value realization component, driven mostly by a worrying deterioration in the governance of local impacts.

Mongolia's scores in the 2017 RGI and 2021 RGI

	2017 RGI Score	2021 RGI Score	Trend
RGI COMPOSITE SCORE	64	70	6
VALUE REALIZATION	63	61	-2
Licensing	61	61	0
Taxation	85	85	0
Local impact	67	53	-14
State-owned enterprises	40	44	4
REVENUE MANAGEMENT	54	71	17
National budgeting	48	75	27
Subnational resource revenue sharing	74	53	-21
Sovereign wealth funds	42	86	44
ENABLING ENVIRONMENT	73	78	5
Voice and accountability	83	86	3
Government effectiveness	57	61	4
Regulatory quality	63	77	14
Rule of law	65	73	8
Control of corruption	62	60	-2
Political stability and absence of violence	89	93	4
Open data	92	99	7
LAW	73	75	2
PRACTICE	53	59	6
GAP (PRACTICE LESS LAW)	-20	-16	4

VALUE REALIZATION

Licensing score remains unchanged, while Mongolia's local impact scores point to deterioration in environmental laws and disclosures

Mongolia's licensing subcomponent score remained unchanged since the 2017 RGI; however Mongolian authorities have issued relatively few licenses since 2017.

Worryingly, Mongolia lacks laws requiring the publication of contracts signed with extractive companies or the disclosure of beneficial ownership information about extractive companies. The 2018 Mongolia Extractive Industries Transparency Initiative report did provide limited beneficial ownership information, but this is not universal and does not cover all entities. Additionally, while the Anti-Corruption Law requires that public officials disclose their financial holdings in extractive companies to authorities, upon which the anticorruption agency discloses this to the public, this has not happened in all cases. Disclosures of beneficial ownership information and financial holdings of public officials are crucial to preventing corruption and conflicts of interest. Mongolian lawmakers must pass stricter laws relating to these areas.

Governance of local impacts also merits attention. While the law requires companies to submit environmental impact assessments in their mining license applications, and the Law on Environment requires their publication, governmental portals do not contain all known assessments. The same applies to social impact assessments and environmental mitigation plans, which are often not disclosed. Little is disclosed about procedures governing rehabilitation and closure of extractive projects.

REVENUE MANAGEMENT

Improvements in revenue management mask weaknesses in Mongolia's sovereign wealth fund

Mongolia's revenue management score increased by 17 points to a score of 71 out of 100, driven by improvements in the governance of sovereign wealth funds. However, this score improvement is somewhat misleading. Some progress has been made in the accumulation of revenues from the mining sector in the Future Heritage Fund (FHF) for the benefit of future generations since the adaptation of a new law in 2016. However, the government has not yet effectively established a corporation to manage FHF assets. Therefore, assets accumulated in the FHF have not been invested. The government must ensure the successful implementation of the FHF law, and work toward establishing firmer rules even before the investment body is established.

Although fiscal rules were complied with, the rule is modified almost every year, decreasing its effectiveness. The Mongolian government must therefore promptly enforce strong discipline with regards to fiscal rules and must ensure adherence in the next fiscal year.

OPEN DATA

Strength in Mongolia's general management of open data masks a lack of online access in key mining sector areas

Mongolia received a score of 99 out of 100 for its governance of open data, driven by a strong governmental push for digitization and the creation of an online e-government infrastructure. Nonetheless, adherence to open data principles is not always mirrored in the mining sector. The Mongolian government has not yet created a centralized consolidated online data portal related to reserves, production and exports, and where disclosures are made, they are often in text-based formats only. The National Statistical Office and Customs Authority do publish information on exports and production in non-proprietary, machine-readable formats, other relevant institutions do not. While the country's mining cadaster is online, the download functionality is limited, and users cannot download geospatial data.

The Mongolian government therefore must work to improve online disclosures by creating platforms which have data accessible via an API, or ensuring that data is available in non-proprietary, machine-readable formats. Alongside key ministries and stakeholders, the government should also create an up-to-date consolidated portal for resource reserves, production and export statistics, allowing for a comprehensive overview of the state of the Mongolian mining sector.

LAW AND PRACTICE SCORES

Implementation gap narrows since the 2017 RGI but enforcement in local impacts and subnational revenue sharing worsens

In Mongolia, a gap persists between enacted laws and their enforcement. While the implementation gap between the 2017 and the 2021 indices decreased from 20 to 16 points, lack of disclosures and enforcement is especially pronounced in connection with local impacts and subnational resource revenue sharing. The law requires that EIAs are commissioned and disclosed, but many have not been published. Similarly, while the State Audit Law specifies that the Mongolian National Audit Office will conduct audits of transfers of resource revenues, the MNAO has either not undertaken them or not disclosed them in the most recently completed audit reports.

This gap between law and practice is concerning as missing disclosures and audits fundamentally threaten public understanding of environmental impacts of mining and the flow, amounts and allocation of resource revenues, respectively. The Mongolian government, Ministry of Finance and key auditing bodies must ensure that this information is disclosed to allow civil society organizations and citizens to interrogate the management of the mining sector.

Evolution of the gap between law and practice in Mongolia
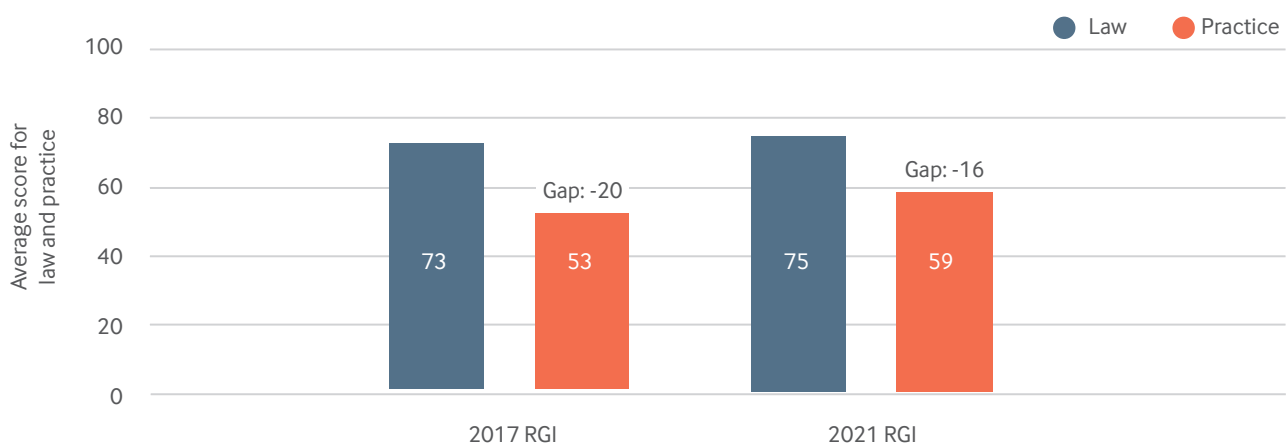
STATE-OWNED ENTERPRISE GOVERNANCE

SOE governance remains "poor," scoring as the worst element of Mongolia's resource governance

The 2021 RGI assesses Erdenes Mongol specifically, but the government is heavily reliant on many SOEs operating in the Mongolian mining sector.

Since the publication of the 2017 RGI, some progress has been made in SOE financial reporting, driven by the implementation of the Glass Accounts Law, which mandates that fully state-owned enterprises and companies disclose all financial transactions above MNT 5 million, including revenues. The government must ensure that companies continue to adhere, report and disclose, to ensure the transparent and accountable management of SOE resource revenues.

In some 2021 index indicators, Erdenes Mongol has received a "failing" classification. The SOE does not disclose production statistics, nor any meaningful information regarding commodity sales revenues or destinations. The SOE has also not disclosed a financial report since 2018, and the last annual report was published in 2017. Issues also exist regarding corporate governance, as u p-to-date information is not publicly available about Erdenes Mongol's code of conduct or the composition of its board of directors, meaning that citizens and civil society organizations are unable to exercise sufficient oversight of the company's operations and strategic direction.

The government also uses Erdenes Mongol to engage in quasi-fiscal activities. The SOE has been involved in the building of infrastructure, and one of Erdenes Mongol's subsidiaries even financed the relief of pension debt in 2020. Use of the SOE for these non-commercial activities creates a misleading picture of government finances and reduces public oversight of what is effectively government spending.

In a country heavily dependent on SOEs, the Mongolian government must ensure the disclosure of production and commodity sales statistics so that citizens and civil society organizations have access to information regarding revenue flows and the management of the sector. Reform of the company's corporate governance is also necessary to ensure the public understands who oversees the strategic direction of the SOE and that management is independent of political influence.

RECOMMENDATIONS

To continue improvement in terms of resource governance, NRGI encourages the following courses of action:

1. **Parliament and Government of Mongolia:** Legislators must pass legislation to strengthen the legal framework governing contract and beneficial ownership disclosures. Legislators must ensure the implementation of the Law on Future Heritage Fund and Fiscal Stability Fund, establishing an investment body and ensuring investment in financial assets. Should the government revamp the fund into a new resource fund, as required by amendments to the Constitution of Mongolia, officials must pass a strong legal framework and ensure that transparent and accountable practices prevent the siphoning of resource revenues or financial mismanagement. Quick return to normal budgetary procedures and the implementation of fiscal rules is needed to ensure the prudent management of mining revenues.

2. **Ministry of Mining and Heavy Industry, and the Mineral Resources and Petroleum Authority of Mongolia:** These bodies should adhere to open data principles and improve access to online data. Data on licenses, production and sales should be made available online in greater detail and in machine-readable formats. Where applicable, data should be published down to the individual mining project level and updated regularly.

3. **Erdenes Mongol:** Executives must enhance disclosures and increase reporting. The company should update its website and produce and disclose annual and financial reports as per best practice. The company should also disclose additional information on production and sales data, the relationship of the company with subsidiaries, and the use of revenues for quasi-fiscal spending.

4. **Ministry of Environment and Tourism, Government Agency on Specialized Inspection, and local governments:** As key oversight bodies responsible for the implementation of environmental laws, these actors, in conjunction with companies, should fully disclose regularly updated and complete information relating to environmental impact assessments and protection plans.

What is the Resource Governance Index?

The 2021 RGI assesses how 18 resource-rich countries govern their oil, gas and mineral wealth. The index composite score is made up of three components. Two measure key characteristics of the extractives sector – value realization and revenue management – and a third captures the broader context of governance — the enabling environment. These three overarching dimensions of governance consist of 14 subcomponents, which comprise 51 indicators, which are calculated by aggregating 136 questions.

Independent researchers, overseen by NRGI, in each of the 18 countries completed a questionnaire to gather primary data on value realization and revenue management. For the third component, the RGI draws on external data from over 20 international organizations. The assessment covers the period 2019-2020. For more information on the index and how it was constructed, review the RGI Method Paper.