

Mongolia

Extractive industries have catalyzed economic growth in Mongolia, yet there are unresolved debates on the extractive industries and development. Policies implemented to avoid the ‘resource curse’ and maximize benefits from extractives, have been inadequate so far. There are cautionary notes to sound, primarily related to the country’s long term growth and the impact of the mining sector on people’s livelihoods. How these cautions and debates are managed will be determining factors for the future of mining in Mongolia.

This country strategy note provides some context and then describes extractives policies using the Natural Resource Charter framework to outline the key challenges and opportunities. It then outlines NRGi’s strategic support for the country, which we believe will help to ensure that citizens of Mongolia benefit from extractive resource wealth.

CONTEXTUAL ANALYSIS

Mongolia has made significant progress in establishing democratic institutions since it made a peaceful transition from communism to democracy in 1990. The country has one of the world’s fastest growing economies, driven by its considerable mineral endowment. Since the mid-1990s, the government has liberalized the economy and provided policy incentives to potential investors, however its infrastructure remains poor.

Mongolia’s small economy has firsthand experience with the boom/bust cycle and the macroeconomic challenges that characterize many resource rich countries, including high inflation, inefficient government spending, and income distribution problems. Since the economy’s peak in 2011, GDP growth and the flow of foreign direct investment (FDI) have slowed down significantly. This has been due to lower commodity prices, disputes with foreign investors, and ill-conceived policy decisions. Furthermore, despite economic growth, poverty, income inequality and social service delivery are significant challenges for Mongolia.

To support economic growth, the government implemented a loose monetary policy coupled with expansionary fiscal policies; but this has led to double-digit inflation and a weakening of the local currency. As of July 2014, the Mongolian Tugrug (MNT) depreciated around 25 percent compared the previous year. The burden of the economic slowdown has been disproportionately shouldered by the poor and middle classes with rising food prices and high inflation.

ABOUT THIS DOCUMENT

This country strategy note summarizes an NRGi analysis of country context and reform priorities. It also outlines NRGi’s engagement in Mongolia, complementing the work of other actors. Developments will naturally affect the assessments and objectives described herein. Updates to this synopsis may be made as events require.

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Foreign trade has a crucial, but fairly simple role in the Mongolian economy. Oil products, the key import, almost entirely come from Russia, and China provides most other imports. Exports are dominated by raw commodities, predominantly mineral resources. Mongolia's main export buyer is China, and export prices for commodities are often dictated by the Chinese market rather than international markets. Foreign trade is frequently beset by infrastructure bottlenecks, including a lack of railway and border points.

Mining and the oil sector

The mining sector is a major contributor to the national economy. In 2013, the share of mining in GDP was around 19 percent and contributed to 92 percent of exports, 70 percent of tax revenues, and 85 percent of FDI. The main minerals explored and produced in Mongolia are coal, copper, gold, fluoride, iron and zinc concentrates. Reserves of oil and radioactive minerals are also established, but have not been produced in large quantities. The majority of mining license holders (71 percent) are Mongolian business entities. Foreign investors include Chinese, Russian and Canadian entities. Many investors are registered in offshore zones such as the British Virgin Islands. A decade ago, the mining sector was dominated by small to medium mining companies, but recently larger players such as Rio Tinto, Anglo American, Peabody, Chalco, Shenhua among others have projects or other interests in Mongolia.

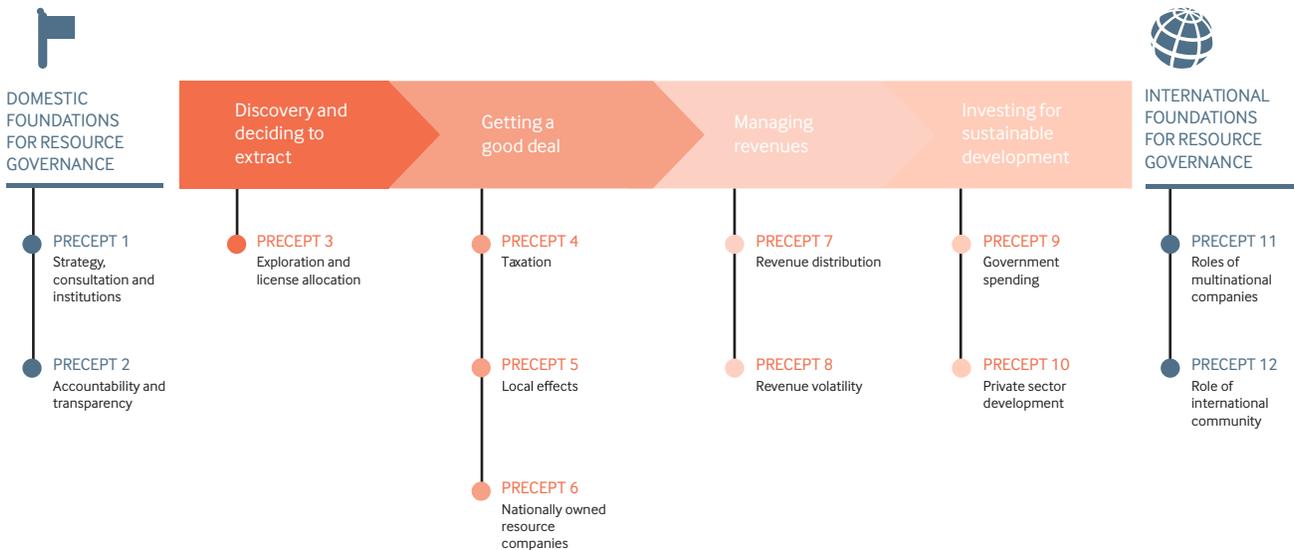
Key mining projects include:

- Oyu Tolgoi, one of the world's largest copper-gold deposits, operated by Rio Tinto;
- Tavan Tolgoi, a coking coal project developed and operated by several private and state owned enterprises (SOEs); and
- Erdenet, a copper-molybdenum Mongolia-Russia joint venture that has been operating for over 30 years.

MONGOLIA AND THE EXTRACTIVE INDUSTRY DECISION CHAIN

Mongolian society is deeply concerned and divided over the governance and impact of extractive industries on the country’s development. Policy debates have so far failed to address these concerns. The following overview and analysis outlines the challenges and opportunities for extractive resource governance using the Natural Resource Charter (NRC) framework. The NRC’s twelve precepts outline the decision-making and governance environment required for effective resource development.

Overview of the Natural Resource Charter



Precept 1: Strategy making and public participation. Resource management should secure the greatest benefit for citizens through an inclusive and comprehensive national strategy, clear legal framework and competent institutions.

The government has recognized the need to develop a shared vision among all stakeholders for the country’s natural resources. The country’s constitution, the National Security Concept, and the State Policy for the Minerals Sector form the basic regulatory framework for the management of natural resources. The constitution grants ownership of the country’s mineral resources to ‘all people’. To date, the most prominent effort to achieve a shared vision came in 2008 when the parliament integrated a national development policy based on the country’s Millennium Development Goals (MDGs). Multiple stakeholders were involved in developing the policy, yet its implementation is mostly unknown to the general public. The 2010 National Security Concept gives prominence to economic diversification as the key to ensuring economic security. It stresses the need for transparent and responsible mining, and for revenue allocations to be directed towards economic diversification and human development.

In 2014, parliament passed the long discussed State Policy for the Minerals Sector, approving for the first time an official policy with regard to the development of the mining sector. The policy’s stated goal is to develop a mining sector which is “based on private sector investments and focuses on transparency, responsible mining, the creation of an equitable and diversified economic structure, and the protection of basic national interests”. The draft policy was discussed at different fora, but the drafting working group of the government, and most of the discussions, were dominated by

industry and government representatives. The policy has a strong emphasis on adding value and downstream processing support, but lacks coverage on revenue management and investment issues.

Government accountability in Mongolia is generally quite low. Policies governing extractives are unstable and have been hampered by a lack of policy coordination between government ministries and agencies, and poor engagement with stakeholders including the public. Policy continuity is almost unknown as each change in power tends to lead to an overhaul of policy or reversal of the current course.

Recent debates on mining policies have been concerned with the proper valuation of mineral resources and mechanisms to reflect and monitor the value of minerals in terms of their impact on people's livelihoods. Finding a balance between promoting foreign investment and a fair return for the use of finite resources is not easy and debates often turn to extremes, from arguing for resource nationalism to complete domination of the industry.

Precept 2: Accountability. Resource governance requires decision makers to be accountable to an informed public.

A key prerequisite for good governance in the extractive sector is transparency. The government has tried many initiatives to increase public participation in decision-making, policy implementation and oversight processes. The overall success of these efforts is mixed. Local communities remain at the margins, evidenced by frequent confrontations with mining companies. Local community representatives have confronted mining companies on environmental, local, and transparency issues in almost all major mining regions.

The Extractives Industries and Transparency Initiative (EITI), taken up in Mongolia in 2010, has emerged as a standard for transparency and has the general support of key stakeholders. However, EITI has little relevance to communities directly affected by mining. Challenges include subnational EITI implementation and the proper use of data. To help address this, EITI stakeholders, including the Publish What You Pay (PWYP) coalition, have organized several regional and aimag (province) level pilot projects and workshops aimed at local stakeholders on extractive reporting at the local level.

The national EITI process does not operate in a vacuum and several key documents have been ratified which require greater transparency of local and central government budgets and procurements. Mongolia has also made some headway with its anticorruption efforts, including the establishment of an independent anticorruption agency.

The scope of the media to provide oversight has grown in recent years thanks to the internet, but controversies surround the media's dependence on sponsors or owners who are often politically-affiliated. Positive developments include the media's use of infographics and other online data analysis to appeal to a broader audience.

Despite a high number of registered NGOs, estimates suggest that less than 100 are engaged in improving governance, transparency and accountability. In the mining sector, civil society operates in a difficult context. They tend to have limited resources and little capacity to engage effectively with the government. Civil society organizations are often labeled "extortionists" by industry and government representatives who claim they are financially or politically motivated.

NRGI has engaged with civil society in Mongolia to build its capacity in advancing EITI and other transparency and accountability initiatives. NRGI has also worked with national NGOs to promote transfer of knowledge and capacity at the subnational level, especially in the region of Umnugovi which hosts several key mining projects. However, due to a chronic lack of resources, high staff turnover in civil society, and the evolving policy on extractives, we must continue our capacity building efforts.

The parliament is a fairly active forum for debate on extractive questions of public concern. However, its oversight, specifically with regards to the mining sector, has been weak in practice and there is little interaction between civil society and parliament.

It is worth noting that few organizations support parliament in the area of extractives. NRGI is a notable exception and has organized a capacity-building project to support parliamentary committees and parliamentary research unit.

Precept 3: Exploration and license allocation. Government should aim to reduce geological uncertainty under a transparent licensing regime that allocates rights efficiently.

Rights and license allocation

As of July 2014, the Mineral Resources Authority of Mongolia (MRAM) reported 2,798 active mining licenses owned by 1,590 legal entities. Of these, about 48 percent are for mining, the rest are for exploration. Licenses cover the territory of the country unevenly, with most licenses allocated for the Gobi desert region which borders with China.

According to the Mining Cadaster, 74 percent of license holders are owned by domestic investors. Information on the general legal ownership of licenses is readily available, but beneficial ownership information is not and ownership structures are suspected to be dominated by foreign investors, especially from China.

There are several mineral licensing legislations, including the Minerals Law, the Common Minerals Law, Land Law, Company Law, and Environmental Protection Law. Exploration and mining licenses are mainly allocated on a first come, first served basis, with competitive tenders being used for certain situations such as reassigning returned or revoked licenses. The MRAM reviews applications and checks whether licensed areas overlap with protected areas of Mongolia. To issue exploration licenses there must be consultation among the aimag (province) and Citizens Representative Hural (CRH) but this is usually symbolic, and local governments have no real power to question or impact the licensing decision.

Artisanal mining is under-regulated. The government has promoted the self-organization of artisanal miners into partnerships and their requests must be made to the local government. However, in practice artisanal miners continue to operate on territories licensed to others, creating conflicts with license holders and providing an excuse for mining companies to ignore their environmental obligations.

Transparency of the licensing regime is improving. Since 2013, the Mining Cadaster Division of MRAM has maintained an online public database on the exploration and minerals productions areas, owner legal entities, and licenses that have been revoked. In addition, the licensing criteria, application, and approval processes are publicly available on the MRAM website. Despite improved information, there are concerns on transparency. Many people directly affected by mining do not have internet access and often have little knowledge about the companies that hold licenses in their

neighborhood. There is a need to link Cadaster data with other data such as business registers and EITI, so that people can understand who owns the business and their impact on the country and local community. For industry representatives, license allocation on a first come, first served principle still entails risks associated with corruption and bureaucratic inefficiency, and there is no mechanism to check whether the process was duly implemented.

Exploration licensing was suspended between 2010 – 2014, in response to public outcry about chaotic license allocation and the poor performance of license holders in fulfilling their environment, investment, and local development legal obligations.

Geological information management

Until the National Geology Service is established, the Ministry of Mining and the MRAM are the key government bodies regulating the geology sector. Mongolia has recently joined the Committee for Mineral Reserves International Reporting Standards (CRIRSCO) which seeks to standardize market-related reporting definitions for mineral resources and mineral reserves. This is especially important for Mongolia which used Soviet geological reporting standards for many years.

Reforms to prepare for the National Geology Service include improvements to, and the digitization of the, information database, qualified experts, and increased public and private investments for the geological survey and exploration.

Precept 4: Taxation. Tax regimes and contractual terms should enable the government to realize the full value of its resources consistent with attracting necessary investment, and should be robust to changing circumstances.

Mongolia uses a tax-royalty system in mining and production sharing agreements in the oil sector. A range of tax tools are aimed at optimizing its fiscal revenues in the long term. However, there is a significant exemptions and deductions system and ambiguities surround the country's tax laws. Contracts are made with different fiscal regimes across different companies which has led to difficulties in administering taxes. Recent cases also indicate that the tax authority is prone to poor administration and corruption.

Corporate income tax (CIT) is one of the most complex taxes to administer due to its many deductions and exemptions. The CIT rate is two tiered, starting at 10 percent and the higher tier is 25 percent, with the threshold of MNT 3 billion (roughly USD 1.6 million). The majority of mining companies pay CIT under the higher tier.

Mongolia has a 5 percent base royalty for minerals. This has been a major issue of contention between the government and industry, especially in terms of the valuation of the base from which this royalty is charged when the miners produce concentrate rather than finished products. In addition to basic royalties, and in an attempt to tax 'resource rents', the government charges additional royalties which are payable in cases of higher commodity prices and promote downstream processing.

Mongolia has only recently started to deal with more complex business structures and transactions by multinational corporations. However, the capacity of the Mongolian Tax Authority (MTA) to administer taxes, especially in light of increased multinational corporations operating in the mining sector, is still not deemed satisfactory or capable by observers. For instance, the MTA recently announced the results of the tax audit of Oyu Tolgoi and the penalty of USD 130 million, which was later reduced to approximately USD 30 million after discussion at the Dispute Resolution Council of the MTA.

Tax information transparency for the minerals sector has improved, mainly as a result of EITI. In some cases taxes have been stabilized or are governed by specific contracts with investors. Public disclosure of such contracts is not mandated by law.

Precept 5: Local effects. Opportunities for local benefits should be pursued, and the environmental and social costs of resource projects should be accounted for, mitigated and offset.

Environment and community protection

Mongolia has set up a legal framework to protect the environment. However, environmental standards are not very high and implementation of existing standards and legislation is unsatisfactory. Environmental issues are often at the core of disputes between mining communities and companies.

A key environmental challenge related to mining is the poor implementation of regulations requiring environmental rehabilitation. The track record for rehabilitation work is poor. There are a significant number of abandoned sites for which the state does not have enough funds to organize the reclamation work. These situations are exacerbated by the presence of a high number of artisanal miners. The use of cyanides, mercury and other chemicals to separate gold negatively affects the environment, especially in fragile ecosystems.

The official data available on the environmental impact of mining activities on pastureland and water use is scarce. Mining companies are required to develop environmental protection plans and 50 percent deposit bonds each year for environmental rehabilitation. These funds are often insufficient for the real rehabilitation work required. Lack of transparency around the state use of such funds inhibits public monitoring and rehabilitation work in general.

Local governments often lack the capacity or resources to monitor environmental changes. Several local communities have organized environmental civil society groups that receive support from donor organizations. The government helped establish the Civil Council on Environmental Protection, a large coalition of civil society groups, which receives direct funding from the Ministry of Environment and Green Development and is involved in decision making on key issues.

Local benefits and contractual obligations

Local communities are often in direct conflict with mining projects because of a lack of regulation and dialogue, and unrealistic expectations. With the exception of the general provisions in the country's constitution, there are no specific legislations or policy that provide protection to herders near mining areas. Instead, resettlement and the mitigation of the social impact of mining activities are mostly managed by companies' internal policies and corporate social responsibility (CSR) initiatives.

The Minerals Law requires that a license-holder enter into "Cooperation Agreement" (equivalent of Community Development Agreement or CDA) with the local government regarding environmental protection, employment and infrastructure investment where the mine project is located. According to the EITI report of 2012, only a few companies have made such an agreement. Of these few, some reported their CDAs to EITI but the agreements are often non-transparent one-offs, and only document donations and grants to local governments for specific purposes.

EITI report is a good place to start improving transparency of information on the social impact of mining. The Ministry of Mining and other institutions need to start collecting data on the social impacts of mining and maintain a database of CDAs in addition to finalizing a model CDA agreement.

Currently, Mongolia does not have an institutionalized mechanism for structured dialogue between stakeholders to ease tensions when there are disagreements. Donors such as the German Technical Cooperation (GIZ), AusAID, the Asia Foundation, and others have attempted to create such mechanisms at the local level.

Precept 6: Nationally owned resource companies. Nationally owned resource companies should be accountable, with well-defined mandates and seek to be commercially efficient in the long-term.

National company role and performance

Mongolia has several medium to large state-owned enterprises (SOEs) in its mining sector. Some are remnants of Soviet times, while others are more recent establishments. With 15 so-called strategic deposits to date, the state can participate as an equity holder, but its level of participation depends on whether deposits were discovered using state or private funds, according to the country's 2006 Minerals Law.

A state holding company, Erdenes Mongol, oversees the government's role in projects that develop and mine these deposits. The performance of Erdenes Mongol was assessed with a failing score of 20 out of 100 on the Resource Governance Index (RGI), placing it 38th out of the 45 state owned companies (SOCs) ranked. According to the index, one of the key challenges for Erdenes is that despite a relatively good legal environment, reporting practices and quality assurance mechanisms are non-existent in Mongolia. Erdenes does not publish information about its operations or financial reports. Audits are not performed and the government does not include the company's financial information in the national budget.

A recent Open Society Forum analysis found the governance of Mongolian SOEs to be unsatisfactory. Key problems identified include lack of transparency, an unprofessional and ineffective board of directors, and low capacity.

State capital

The issue of state ownership in mining is a hot debate in society. Information about the overall cost of state participation in the mining sector is hard to find. Tax and other revenues are transparent mostly through EITI, but there is no systematic analysis of performance or costs, and whether state ownership is beneficial or not. There is also no regulatory framework for the valuation of mineral deposits. Mining authorities and SOEs holding shares in mining and tax often fail to exchange information and do not coordinate their regulatory or oversight functions.

Precept 7: Revenue distribution. Resource revenues should be invested to achieve optimal and equitable outcomes for both current and future generations.

Resource revenue saving

Mongolia's revenue distribution system is complex and has not yet been stabilized. There are several key institutions involved in mining revenue distribution and management in addition to the government bodies that regulate and implement

budgets. In 2009, the government began reforms aimed at finding an optimal system for mining revenue distribution and has since established several funds to better manage mine revenues and act as a catalyst for raising funds and increasing investments.

Fiscal stability and human development funds are relatively transparent because they are scrutinized through the annual budget process. The government is increasingly reliant on foreign debt, based on the expectation of higher mining revenues in the future. However, this affects the overall level of government debt, as the budget debt ceiling of 40 percent is easily circumvented through channeling significant portions of foreign borrowing through other arms of the government. Parliament is currently revising fiscal rules so that off-budget items are included in the fiscal rules. In addition, the government plans to establish a Sovereign Wealth Fund to secure more substantial intergenerational benefits.

Resource revenue allocation

The recent increase in the government budget and improved opportunities to fund capital projects necessitates that the government better plan and execute investment projects through the Public Investment Program (PIP). Annual government budgets are supposed to support the development of PIP identified projects, but it is unclear whether these projects are duly selected and provide the highest social return.

Resource revenue distribution

Most government revenues are centralized. Some mining related revenues are distributed to local governments through earmarking and local development funds, and it is claimed that more authority has been devolved to local governments on decisions relating to mining activities. The budget law specifies which revenues go to central and local budgets, and how revenues are distributed, but most of the mineral revenues are not earmarked.

Precept 8: Revenue volatility. Domestic spending of resource revenues should be smoothed to take account of revenue volatility.

As the economy is largely dependent on the minerals sector it is prone to volatile commodity prices. This makes it hard to forecast revenues and realistically plan spending. Mongolia introduced fiscal rules and a stabilization fund in 2011 in an attempt to stabilize spending. However, rules are easily broken, in particular through off-budget spending by the Development Bank. There are no specified sanctions and fiscal rules apply only to the government budget.

The proposed creation of the Sovereign Wealth Fund should ease the volatility issue. Furthermore, once the Stabilization Fund reaches its mandated level of 5 percent of GDP before it can be spent, this could be used to ease the effects of volatility.

Precept 9: Government spending. The government should use revenues as an opportunity to increase the efficiency of public spending at the national and sub-national levels.

Administrative capacity

The government has established a procurement agency with the aim to streamline and improve the efficiency of public procurements. The procurement agency will make tender processes more transparent and monitor the compliance of procurements. However, the risks of corruption in public tendering remain high as many projects do

not meet deadlines, budgets, or quality requirements, and sometimes remain incomplete. Procurement announcements and winners are usually publicly disclosed, but participants of the process and the contracts of winning contractors are not disclosed. Civil society and media efforts to monitor procurements are often ad hoc and selective.

Economic absorptive capacity

Government increases in spending often hit bottlenecks because of administrative and logistical capacity. Absorptive capacity is a significant issue for Mongolia with its small population, landlocked territory and poor infrastructure. The country has only one rail border crossing with each of its neighbors and the construction season is relatively short due to the long and cold winter. The financial sector is small, making public-private partnerships challenging. Foreign banks are not allowed to operate in the country due to perceived risks to the national economy, and the capital market is small and untrusted.

No studies on supply bottlenecks are available to the public. Policymakers often rely on intuition and political resolution rather than economic judgment for decisions on infrastructure investments. There is also no clear policy on pacing and sequencing big mining and infrastructure projects, or on evaluating investments in terms of their economic and social benefits, both prior and after the completion of investments.

Precept 10: Private sector development. The government should facilitate private sector investments to diversify the economy and to engage in the extractive industry.

Diversification

The Mongolian economy is dominated by few sectors that produce mostly low value products. Up to 90 percent of exports are mineral commodities, mostly in raw condition. Dependence on the mining sector is high and if large projects currently under development go ahead as planned, and commodity prices remain high, this dependence may increase further.

Policymakers have long recognized the importance of economic diversification. However, there are disagreements over how and when diversification can be achieved. For instance, the Integrated National Development Policy focuses on supporting mining and downstream processing; the National Security Concept stresses the importance of pursuing economic diversification; and the State Policy on Minerals focuses on supporting extraction and downstream processing. The government action plan for 2012-2016 recognizes economic diversification and the reduction of dependence on mining as key economic policy objectives. At the same time the plan gives prominence to mining sector development. In short, policies seem to recognize the importance of economic diversification, but seem unclear about sequencing and prioritizing different projects.

Credible monitoring and analysis of the level of economic diversification is missing, except for some simple statistical parameters. The capacity to do such monitoring or analysis is scarce.

Domestic participation in the extractive sector

Despite key policy documents and some tax policies, downstream processing of minerals is hard to implement as it requires significant investments, which Mongolia cannot provide on its own. There is also stiff competition from neighboring China, which already has cost effective processing in place. Lack of access to capital and a weak

domestic financial sector do not help. The government has done little in the way of feasibility studies for downstream processing.

With the exception of domestic labor requirements, local content requirements are weak and even if there were specific requirements they would be hard to implement due to low capacity and lack of domestic manufacturing. Building a supply chain for extractives has focused on smaller value procurements as larger procurements are mostly taken by foreign companies directly or through their local affiliates.

Precept 1 1: Roles of multinational companies. Companies should commit to the highest environmental, social and human rights standards, and to sustainable development.

Multinational companies operating in Mongolia are seen as the conveyors of best environmental, social and human rights practices and standards. At the same time, accusations of unfair taxes has given them a poor reputation among ordinary citizens. Multinationals claim to follow the law and have strict policies against corruption, but they have been unwilling to take leadership in promoting better corporate social responsibility standards in the industry. One example is in EITI: companies take active reporting roles but do little in terms of promoting EITI and disseminating results of the reporting process. Multinationals could take on a more leading role in promoting good governance directly, especially in improving relationships with local communities and developing domestic supply chains for the industry.

The main multinational companies operating in Mongolia include Rio Tinto, which jointly with the government owns and runs the Oyu Tolgoi copper-gold mine; Anglo-American, which is looking for opportunities to invest in large projects; Canadian Centerra Gold which owns gold projects; Areva, which owns uranium licenses; and Peabody. Rio Tinto is known to spend significant efforts on community relations as evidenced by the recent signing of a cooperation agreement with the local government of Umnugovi aimag (province) where it operates. Anglo-American has promoted the company's social and economic assessment toolkit among policymakers and civil society. Peabody has completed pilot projects on environmental rehabilitation to showcase its policies towards the land reclamation in practice.

Precept 1 2: Role of international community. Governments and international organizations should promote an upward harmonization of standards to support sustainable development.

Donors have played a significant and positive role in promoting better governance in the extractive industries. Significant examples include the promotion of EITI by the World Bank and other institutions, support to anti-corruption programs, government and civil society capacity building efforts, and providing assistance to develop regulations governing fiscal transparency and discipline.

Coordination among donors has been an issue and there is no formal mechanism on the government side to coordinate donor support. However, the international community should continue to advocate for improved standards in Mongolia.

STRATEGIC RESPONSE

In line with the institutional goal of NRG, the main objective of the Mongolia country strategy is that *citizens benefit from extractive resource wealth*. To advance this goal, NRG will address the challenges and opportunities identified by our contextual analysis by working towards four interlinked objectives and related activities described in this section.

Objective 1: A comprehensive extractives transparency and accountability mechanism established

- Disclosure practices around key policy areas, including beneficial ownership and contracts, are improved through EITI, Open Government Partnership and other efforts
- The coherence and usability of extractive data are improved
- Government data will be streamlined to ensure it is complete and harmonized across government agencies.
- Reports will be disseminated
- Comprehensive extractive data are used to influence policy decisions and to enable effective monitoring of implementation of extractives policies, regulations and contracts by oversight actors

Objective 2: Effective extractives revenue management systems established

- A Sovereign Wealth Fund is established and implements best governance practices
- Fiscal stability and expenditure volatility policies are followed
- Subnational revenue allocation policies are reviewed

Objective 3: State owned enterprises implementing best governance practices

- Reporting practices of state owned enterprises are improved
- NRG will help grantees organize dialog between the SOEs, civil society and other oversight institutions developing strategies for improving Erdenes' transparency and accountability practices.

Objective 4: Capacity building of policy and oversight stakeholders in extractives

- A localized information and knowledge hub on extractives will be established
- Key stakeholders will improve their skills through NRG international capacity building efforts
- NRG will ramp up its presence in Mongolia and utilize key international staff based in other countries.