



Emerging analysis

Mongolia: Towards sustainable economic recovery

Olena Borodyna, Elvira Mami and Ilayda Nijhar
March 2023

Abstract

Mongolia is a resource-rich country with formidable growth prospects. Despite its rapid economic growth in the 2000s and 2010s, the economic shocks of the last few years have been difficult for its people. With its relatively small population, vast mineral resources, big neighbouring markets and the launch of underground operations at Oyu Tolgoi – the largest mining project in its history, Mongolia can utilise opportunities to strengthen its resilience to the economic shocks of the future and build a robust industrial economy. To do so, it should strengthen the implementation of reforms, continue improving the business environment and institutions and support industrial growth.

Readers are encouraged to reproduce material for their own publications, as long as they are not being sold commercially. ODI requests due acknowledgement and a copy of the publication. For online use, we ask readers to link to the original resource on the ODI website. The views presented in this paper are those of the author(s) and do not necessarily represent the views of ODI or our partners.

This work is licensed under CC BY-NC-ND 4.0.

How to cite: Borodyna, O., Mami, E. and Nijhar, I. (2023) 'Mongolia: towards sustainable economic recovery'. ODI Emerging Analysis. London: ODI (www.odi.org/publications/mongolia-towards-sustainable-economic-recovery)

Disclaimer: The content of this publication has been produced rapidly to provide early ideas and analysis on a given theme. It has been cross-read and edited but the usual rigorous processes have not necessarily been applied.

This PDF has been prepared in accordance with good practice on accessibility.

About the authors

Olena Borodyna

Senior Transition Risk Analyst with ODI's Global Risks and Resilience programme. A geopolitical risk analyst by training, she has worked with think tanks and in the corporate sector. Her interests span the risks and opportunities of geopolitical and low-carbon transition, social and political risk management of investments in emerging economies and China's geostrategy.

Elvira Mami

Senior Economic and Risk Analyst with ODI's Global Risks and Resilience programme. Elvira is an Economist by training; she has expertise in analysing the development of resource-rich economies, sovereign wealth funds, industrial development, innovation, foreign direct investment and trade.

Ilayda Nijhar

Global Risk Analyst with ODI's Global Risks and Resilience programme. A political risk analyst by training, she focuses on geopolitical trends and implications across the FSU and MENA regions, and the energy sector in the Caspian region.

Contents

About the authors / i

Display items / iii

Acronyms / iv

Executive summary / 1

What to watch / 3

1 Introduction / 4

2 Mongolia on the road to economic recovery: challenges and opportunities / 6

2.1 Mongolia's economy / 6

2.2 Macroeconomic factors / 7

2.3 Natural resources: curse or blessing? / 10

2.4 Lack of integration and trade dependency / 11

2.5 Supporting industrial growth / 14

2.6 Foreign direct investment / 16

3 Government policies for economic recovery and growth / 18

4 Mongolia: the case and opportunities for greening recovery and growth / 21

4.1 The case for greening Mongolia's development / 21

4.2 Opportunities for greening Mongolia's recovery and growth / 23

4.3 Mongolia's green policy landscape / 25

5 Policy implications and recommendations / 28

What to watch / 30

References / 31

Display items

Boxes

Box 1 Understanding ‘the resource curse’ / 11

Tables

Table 1 Mongolia’s main export partners, 2017–2021, in US\$ millions / 13

Table 2 Mongolia’s main import partners, 2017–2021, in US\$ millions / 14

Figures

Figure 1 Real GDP growth, % / 7

Figure 2 Gross external debt, total and to China, 2010–2021 / 8

Figure 3 Mongolia’s exports in 2021: exports to China as a proportion of total exports / 9

Figure 4 GDP per capita growth in Mongolia (constant prices), USD; Global Coal Price Index; LME High grade copper price. / 9

Figure 5 Mongolia imports by product / 12

Figure 6 Mongolia’s exports by product / 13

Figure 7 FDI by sector / 17

Figure 8 FDI by country / 17

Acronyms

ADB	Asian Development Bank
CEC	Central Economic Corridor
CPI	Consumer Price Index
EBRD	European Bank for Reconstruction and Development
FDI	foreign direct investment
GDP	gross domestic product
GVC	global value chains
IMF	International Monetary Fund
MSFA	Mongolia Sustainable Finance Association
PPP	public–private partnership
RE	renewable energy
SME	small to medium-sized enterprise
USD	United States Dollar
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNESCAP	United Nations Economic and Social Commission for Asia Pacific Region

Executive summary

This emerging analysis reviews the economic challenges facing Mongolia and the policy the Government of Mongolia is pursuing in response, highlighting the case and opportunities for greening the country's recovery and growth.

The economic shocks of the last few years have hit the Mongolian economy hard, accentuating some of its structural weaknesses. Depreciation of Mongolian tugrik has increased the price of imports. Given that 90% of the consumption is imported, inflation remains high. Meanwhile, recovery is dependent on raw materials exports owing to little domestic and international diversification. At the same time, high export costs and poor infrastructure links hinder trade.

The reopening of China as well as the launch of underground operations at Oyu Tolgoi – the largest mining project in Mongolia's history – promise to support the economy. However, given Mongolia's high import dependency for consumption, it is critical that mining revenues are used to develop the value added in the sector; to invest in non-mining sectors of the economy; and to avoid increasing imports and putting further pressures on the exchange rate and the currency. Among the measures Mongolia should undertake to support industrial growth are: upgrading traditional economic sectors, such as the cashmere and leather industries; increasing foreign direct investment in non-mining sectors; setting up supplier development programmes; and improving the overall business environment. Improving infrastructure links and reducing export costs will also help boost trade.

In response to challenges and to facilitate the country's recovery, the Government of Mongolia has adopted the New Recovery Policy. As a medium-term strategy through to 2030, it aims to support recovery and growth by addressing six key economic constraints: trade ports, energy, industrialisation, urban and rural development, green development, and effective governance. Structural policy changes, infrastructure initiatives and public–private investment projects are all integrated in the reform package. Investment projects under the New Recovery Policy cover six priority pillars, heavily concentrated on port and energy revival.¹ Projects to support border port recovery – for instance, the construction of Tavantolgoi-Manlai-Khangai Highway – aim to tackle connectivity issues and capitalise on trade opportunities. Meanwhile, industrial recovery projects, such as the construction of meat-processing factories and copper processing plants, are aiming to tap into Mongolia's potential to diversify in non-mining sectors.

¹ According to the list of projects provided by the Government of Mongolia in 2023, there are currently 94 investment projects at various stages of implementation.

Our analysis shows there is a strong case for Mongolia to ‘green’ its future growth. Doing so will help Mongolia address environmental and climate hazards facing the country: availability of water resources, high levels of land degradation and air pollution, and managing the impacts of climate-related hazards. Better management of water resources, for instance, is critical as the demand will likely grow as the economy recovers, and with water-intensive sectors like mining set to continue playing an important economic role. With the country lagging on progress across many of the Sustainable Development Goals, including on climate action, greening development will also help Mongolia achieve its domestic and international climate and sustainable development ambitions – the country’s Updated Nationally Determined Contribution put forward a target of greenhouse gas reduction of almost 30% by 2030, in its most ambitious scenario.

As an exporter of high-carbon commodities, Mongolia is also exposed to transition risks arising as a result of policy shifts to lower-carbon economies. At the same time, the country has opportunities to tap into growing demand for commodities like copper that are critical to supporting this mineral-intensive shift. Diversifying from dependencies on coal, while greening industrial growth and mining practices and capitalising on demand for transition minerals, could be a source of opportunity for the country. While the Government of Mongolia already flagged the country’s exposure to transition risks in the New Recovery Policy, these risks are yet to be measured.

There are many opportunities for Mongolia to green its development. In the energy sector, these include capitalising on the country’s 2.6 terawatt potential for renewable energy, both solar and wind, and greening its mining practices. Mongolia has already launched several wind farms over the last decade. New solar projects are also planned under the New Recovery Policy but are still below the capacity of the country.

Greening mining practices is critical as this water- and energy-intensive sector will continue to play an important role in the country’s economy. Resources such as the International Finance Corporation’s *Net Zero Roadmap for Copper and Nickel Value Chains*, delivered as part of the World Bank’s Climate-Smart Mining Initiative, provide ‘a net zero transition guide that sets out a science-based decarbonization strategy for copper and nickel mining value chain actors’ and can help identify relevant opportunities for decarbonisation (IFC, 2023).

Mongolia has demonstrated commitment to support green development at strategic policy levels with both medium- and long-term strategies – with New Recovery Policy and Vision 2050 both highlighting it as a priority. Key supporting institutions include the Ministry of Environment and Tourism and Mongolia Sustainable Finance Association. The country’s efforts to attract green financing are also starting to bear fruit with the issuance of the country’s first green bond by the Khan Bank in March 2023. Nevertheless, gaps remain, and Mongolia should look to continue developing its institutional capacity and frameworks to support green development.

The Government of Mongolia has come a long way in supporting the sustainable economic recovery of the country. Nevertheless, there is still scope to maximise the effectiveness of its policies and to strengthen the resilience of the economy to economic shocks.

To help maximise the effectiveness of the New Recovery Policy, our analysis offers the following policy recommendations for the Government of Mongolia:

Recommendation 1: Undertake an effective mechanism for strategy monitoring and implementation, to help to achieve Mongolia's ambitious goals.

Recommendation 2: Maximise the New Recovery Policy reform package's efficiency by supplementing it with a transparent mechanism for the selection of investment projects and an analysis on privatisation of state-owned enterprises.

Recommendation 3: Continue to create a favourable climate for investors and to improve the business environment by facilitating business-opening processes and removing bureaucratic hurdles.

Recommendation 4: Continue implementing incentives to stimulate investment into higher value-adding sectors of the economy.

Recommendation 5: Continue to ensure that international good practices for environmental and social risk management are followed, and opportunities to improve companies' environmental, social and governance practices are maximised for all future investment projects across sectors. Conducting all-hazard risk assessment for infrastructure projects, will also help increase the resiliency of future energy and other types of infrastructure.

Recommendation 6: Continue efforts to strengthen institutional capacity. International experience shows that institutional quality is the critical determining factor of success or failure of any policy.

What to watch

- Can Mongolia boost its industrial recovery and reduce overreliance on imports through implementation of the New Recovery Policy? Is the list of projects under implementation sufficient to support industrial growth?
- Does the New Recovery Policy contain enough elements to support its transition to an industrial economy?
- How will the implementation be monitored?
- How will the Government of Mongolia ensure transparency and institutional quality in implementing these reforms?

1 Introduction

Despite its abundant natural resources, Mongolia's economy is facing significant challenges, including high inflation, a high level of debt, and high dependence on the extractive sector for economic growth. Border closures with China have significantly hit landlocked Mongolia's key exports. The war in Ukraine has exacerbated inflationary pressures by increasing food and energy prices.

The risks of overreliance on extractive industries and import dependency have become overtly clear in recent years, and the Government of Mongolia has long recognised the need to diversify and industrialise the economy. To facilitate economic recovery, in December 2021 Mongolia launched a medium-term development plan: the New Recovery Policy. By implementing the Policy, the government aims to double GDP per capita by 2030 and to address six key economic constraints: trade ports, energy, industrialisation, urban and rural development, green development, and efficient governance.

Importantly, the New Recovery Policy also recognises that to be successful in the long term it must respond to the country's environmental and climate issues – including water availability, air pollution, climate change-related impacts and future climate risks – which jeopardise the health and long-term prospects of the economy. Opportunities for 'green' growth exist across many sectors of the Mongolian economy, including energy and mining. Pursuing these opportunities – 'greening' the country's growth – would align with the aims of Mongolia's long-term development plan, Vision 2050, as well as helping the country deliver on its international climate commitments.

This emerging analysis looks at the context of the economic challenges facing Mongolia, provides an overview of the New Recovery Policy, and highlights the case and opportunities for greening its growth.

Specifically, it explores the following questions:

- What are the factors affecting Mongolia on the road to economic recovery?
- What strategy is the Government of Mongolia implementing to overcome these challenges?
- What is the case for Mongolia to 'green' its development, and what are some of the opportunities as it pursues recovery and growth? What policy frameworks has the country already put in place to facilitate green development?
- What are the policy implications of the above?

Section 2 of this analysis looks at the first question and presents an overview of Mongolia's economy, including macroeconomic factors, industrial development, foreign direct investment and trade. Section 3 then looks at government measures to tackle these challenges, introducing the New Recovery Policy. Section 4 turns to examining the need to 'green' Mongolia's recovery

and growth, before highlighting some green growth opportunities and outlining the policy frameworks it has already put in place for green development. Section 5 concludes by providing recommendations on how to maximise the effectiveness of the New Recovery Policy as it tries to address the roots of the country's economic vulnerability, and to future-proof investments in the context of a changing climate.

2 Mongolia on the road to economic recovery: challenges and opportunities

2.1 Mongolia's economy

Mongolia is a landlocked country with a high dependency on the export of commodities. Its recovery from the economic slowdown caused by the pandemic and the impacts of the war in Ukraine has been challenging due to several factors:

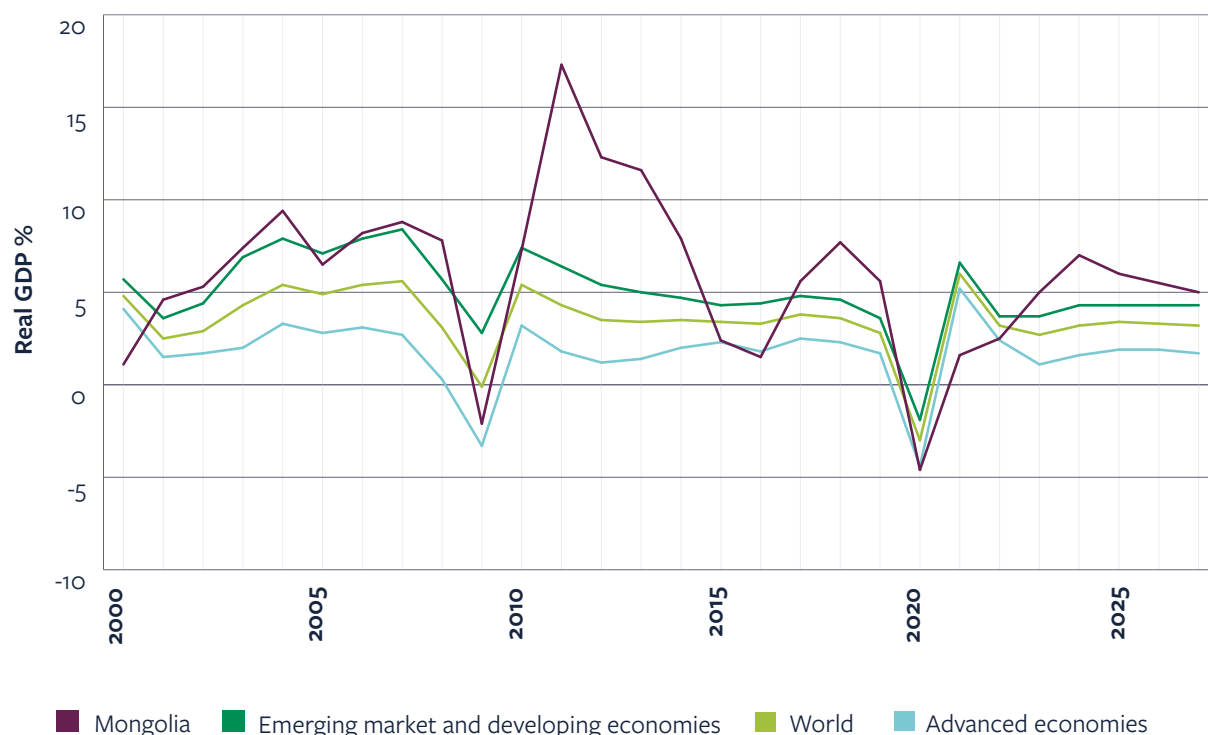
- First, Mongolia's high dependency on commodity exports makes its economy highly vulnerable to external price shocks in commodity markets.
- Second, Mongolia has a low level of trade integration with the world and is highly dependent on trade with its neighbours. Economic recovery is therefore strongly contingent on border openness and port capacity.
- Third, Mongolia's economy also depends significantly on imports of goods from other countries; boosting domestic production would reduce its reliance on imports.

Levels of public debt remain high due to extensive government stimulus measures in response to the pandemic.

Mongolia's economy grew at a remarkable rate in the first decades of the 2000s, averaging 7.9% in 2010–2019. This growth was mainly driven by the mining sector (both directly and indirectly).

However, several factors have contributed to an economic downturn in recent years. Due to the COVID-19 pandemic – and, in particular, border closures with China, Mongolia's neighbour and biggest trading partner – the economy contracted 4.6% in 2020. More recently, the ongoing war in Ukraine has disrupted Mongolia's supply chains and elevated food and fuel prices. While the economy has been recovering, progress is modest (with a growth rate of 2.5% in 2022), and below the pace of other economies (Figure 1).

While neither of these challenges could have been predicted, they do underline some of the structural weaknesses in Mongolia's economy.

Figure 1 Real GDP growth, %

Source: IMF

2.2 Macroeconomic factors

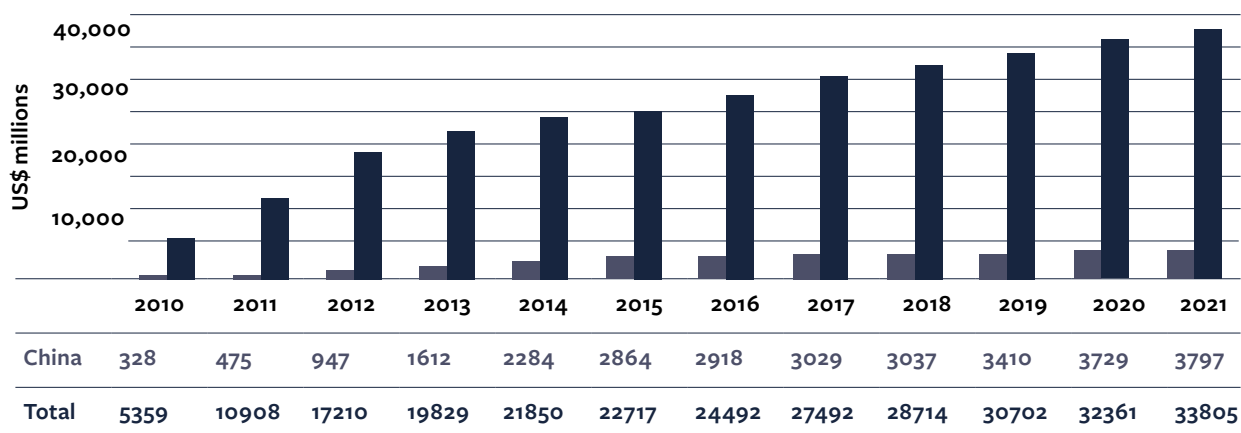
In 2023 Mongolia is facing high inflation, currency devaluation, limited fiscal policy space and a high level of external debt.

Economic growth increased slightly but remained modest at 2.5% in 2022 (see Figure 1). The growth has been driven by the removal of COVID-19 restrictions and a rebound in the agricultural sector. Pent-up domestic demand has supported growth but is constrained due to high inflation and the fact that imports represent a large proportion of household consumption.

During the outbreak of COVID-19 in China, Mongolia's coal exports decreased due to the closure of border ports. As a result, the balance of payments has been under pressure since 2020, which has led to the depreciation of the tugrik against other currencies. Gross national debt as a percentage of GDP stands high, at almost 80% at the end of 2021.² The country's external debt reached \$33.6 billion at the end of 2022,³ with the majority of the debt owed to multilateral banks, the Netherlands and China (see Figure 2).

² Data from IMF, 2023

³ According to statistics by the Bank of Mongolia (Mongolbank), 2023

Figure 2 Gross external debt, total and to China, 2010–2021

Source: Mongolbank statistics

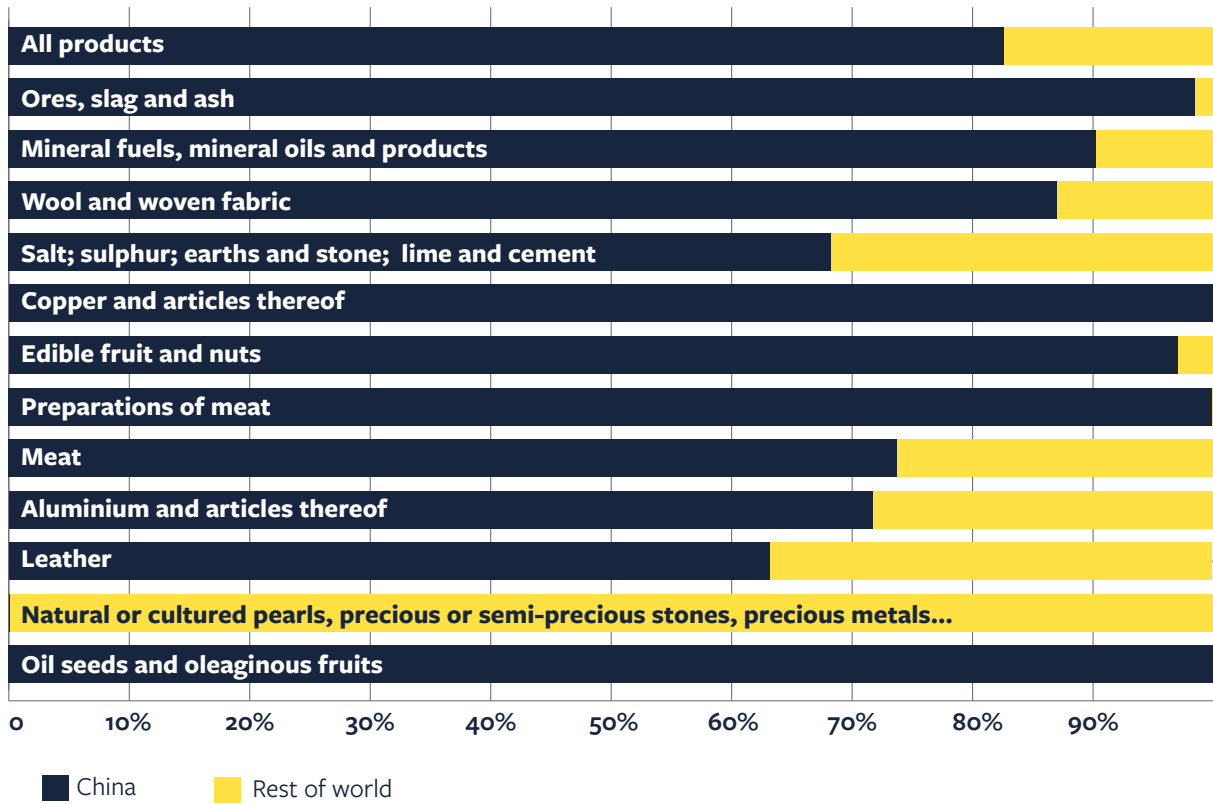
Exports to China accounted for 83% of Mongolia's total exports in 2021, including 98% of exported ores and coal, 90% of exported mineral fuels, 87% of wool exports and almost 100% of copper exports (see Figure 3). In 2021–2022 the total value of exports has bounced back, to exceed pre-pandemic values. It is also expected that China's reopening in 2023 will have a positive impact on Mongolia's exports and foreign currency reserves.

The inflation rate has been rapidly increasing since 2020 and reached 12.9% in December 2022.⁴ Among key drivers for inflation are high global inflation, supply contraction due to closed borders with China, and energy prices, although pent-up domestic demand fuelled by the government support since 2020 has also affected the consumer price index. Both currency devaluation and inflation are suppressing household consumption. However, it is likely that inflationary pressures will ease in 2023 as a result of the recent agreement to buy discounted oil from Russia (Erdenejargal, 2022), a gradual global food price decline and rising food production.

Mongolia's fiscal space – its ability to respond to economic shocks such as these – is limited, due to high levels of debt and the need to maintain fiscal sustainability. The Mongolian tugrik has depreciated significantly in 2020–2023, leading to a fall in purchasing power and standards of living. The banking sector has been weakened by a high level of non-performing loans, leading to reduced access to credit and investment.

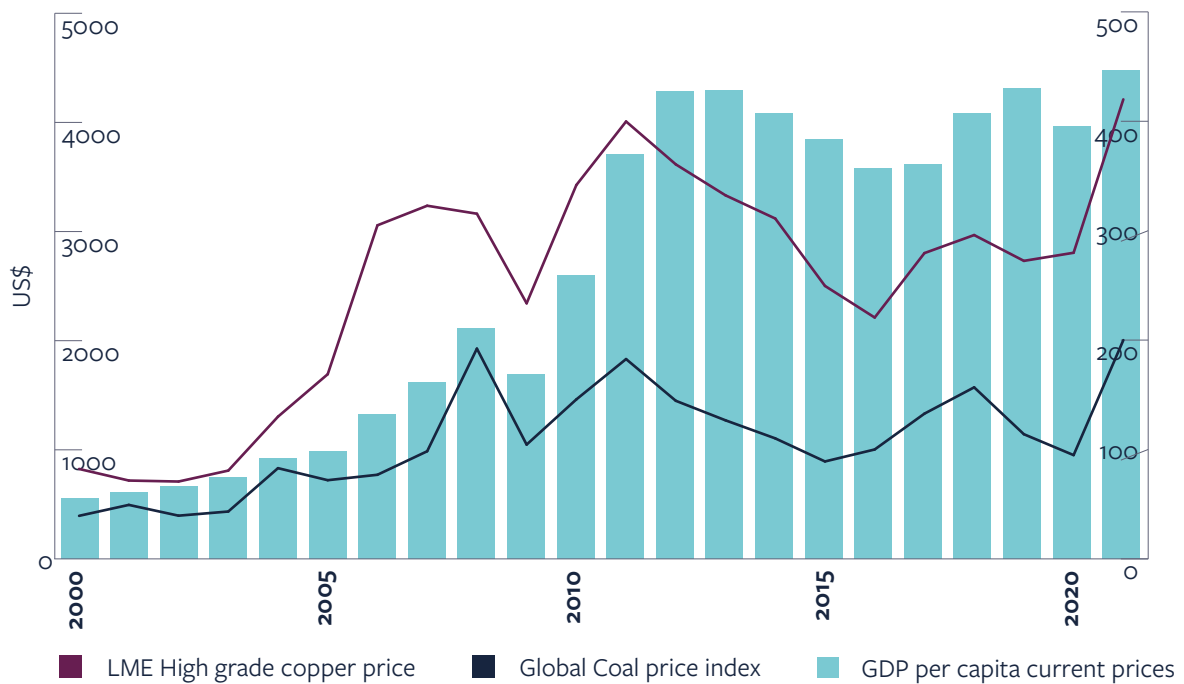
⁴ According to statistics by the Bank of Mongolia (Mongolbank), 2023

Figure 3 Mongolia's exports in 2021: exports to China as a proportion of total exports



Source: ITC calculations based on Mongolian Customs statistics since January 2021

Figure 4 GDP per capita growth in Mongolia (constant prices), USD; Global Coal Price Index; LME High grade copper price.



Source: IMF; LME high grade copper price, LME; US Geological Survey, provided by Statista

2.3 Natural resources: curse or blessing?

Mongolia has abundant natural resources and mineral deposits, which have been the basis for its remarkable economic expansion over the past 20 years. The country possesses one of the biggest copper and gold mines in the world (Oyu Tolgoi, with underground operations launched in March 2023), as well as other coal, iron and zinc resources which are counted among the largest globally. Mongolia has 160 coal deposits spread over 15 basins, with total estimated coal resources of 179 billion tons, representing about 10% of global coal reserves (ADB, 2018).

The reliance on raw materials is reflected in the country's exports. Mongolia's top five exports are copper; coal; fuels and petroleum oils; precious metals; wool; and salts and stones. In 2021 the extractive sector contributed to 90% of exports and 24% of Mongolia's GDP. In addition, an underdeveloped industrial sector makes the country heavily dependent on imports for around 90% of its domestic consumption (Government of Mongolia, 2021).

Mongolia's GDP is heavily dependent on fluctuations in the price of these exports, especially copper and coal (Section 4). As elaborated under the theory of 'the resource curse' (see Box 1), the dangers of reliance on commodities have been made all too clear in recent years, with both the COVID-19 pandemic and then the impact of war in Ukraine disrupting trade in the region in 2020–2022. Lockdowns and border closures in China, and Russia's invasion, have damaged supply chains with Mongolia's two largest neighbours. Moreover, the external macroeconomic environment and global inflation have increased the cost of imported goods. All of this has highlighted the fact that Mongolia urgently needs to diversify its economy away from dependency on the export of raw materials and imports and to develop non-mining sectors of the economy.

Box 1 Understanding ‘the resource curse’

Many studies have shown that countries with abundant natural resources perform worse than countries with less natural resources (Sachs and Warner, 1995; Auty, 1995); Auty (1995) introduced the phrase ‘natural resource curse’ to describe this phenomenon. Also known as ‘the paradox of plenty’, it refers to the failure of many resource-rich countries to benefit fully from their natural resource wealth, and failure of governments in these countries to respond effectively to public welfare needs.

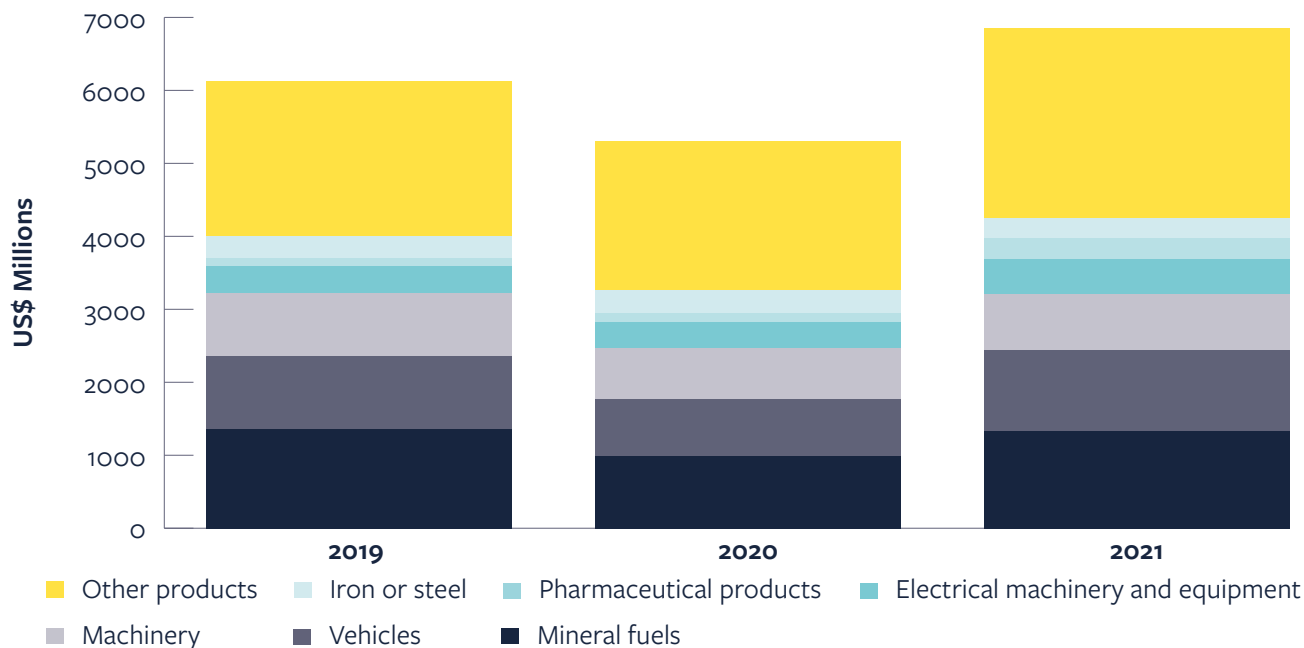
Countries with a large share of natural resource exports typically have a relatively low income per capita, but there are exceptions: the United Arab Emirates has turned its natural resource wealth into a blessing by investing in infrastructure and education (Fasano and Iqbal, 2003); Botswana has also been successful in turning its natural wealth into growth (Robinson, 2013).

There are various reasons for the resource curse. Firstly, exports of raw materials may have adverse effects on the output of traditional sectors due to real exchange rate appreciation of the national currency, a phenomenon called ‘the Dutch Disease’ (Corden and Neary, 1982). Secondly, economies which are dependent on natural resources are vulnerable to volatility in commodity prices, as well as external price shocks and fluctuations in the terms of trade. Finally, resource dependence may hamper institutional capacity to implement effective reforms (Auty, 1995): as Stiglitz (2004) puts it, ‘The prospect of riches orients official efforts to seizing a larger share of the pie, rather than creating a larger pie.’

2.4 Lack of integration and trade dependency

Mongolia is one of the least integrated countries in the world, ranked 87th globally and 111th intraregionally for trade integration (UNCTAD, 2022).

The top Mongolian exports are copper, coal, gold, and animal hair (wool and cashmere), exporting mostly to China, Switzerland, Singapore and Korea. Mongolia was the top exporter of raw unprocessed animal hair in the world in 2021. Meanwhile, the country’s top imports in 2021 were refined petroleum products, cars, machinery and electricity (see Figure 5), importing mostly from China, Russia, Japan and Korea (Table 2).

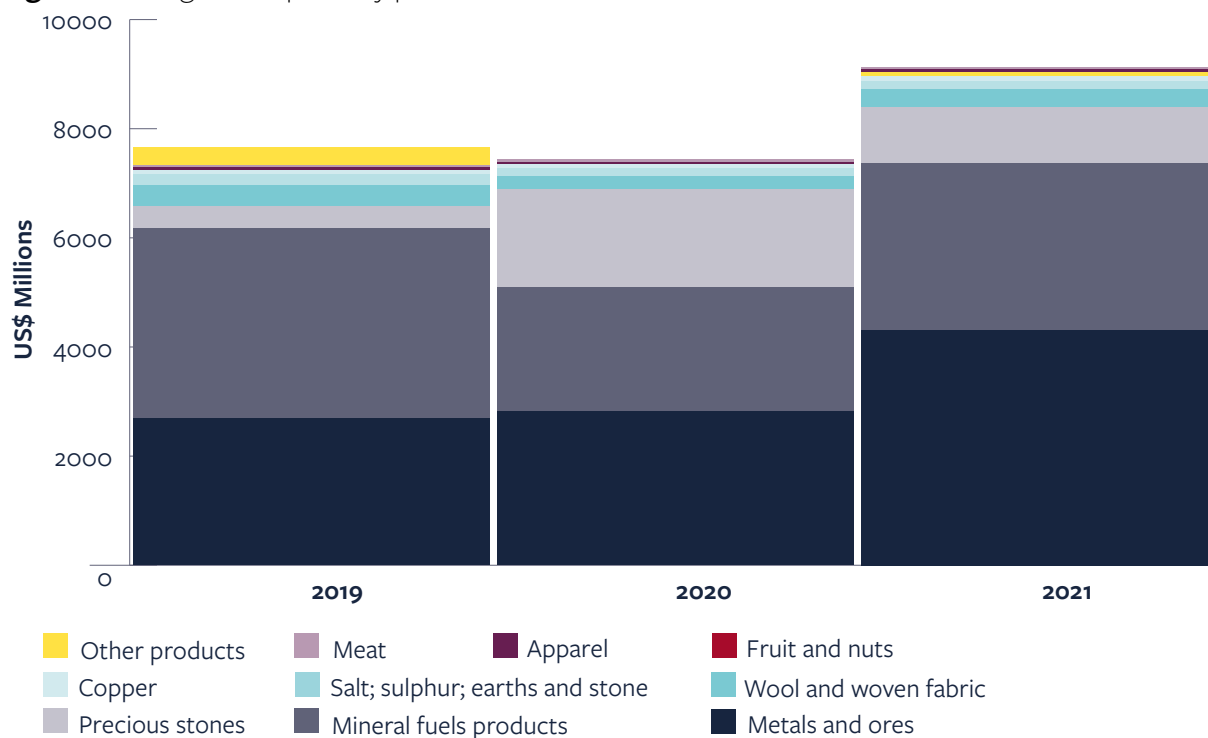
Figure 5 Mongolia imports by product

Source: ITC calculations based on Mongolian Customs statistics

The country benefits economically from bordering China, its main trading partner, but its revenues are highly dependent on China's economic growth and the openness of its borders, and the corresponding demand for imports.

Russia is the fifth largest export destination for Mongolia – mainly metals and minerals – but is Mongolia's second largest source of imports. Even though its economic dependency on Russia has significantly reduced since Soviet times, the country still depends on Russia for some imports, including steel and wheat. While Mongolia has its own oil reserves, it does not have its own refineries, resulting in a reliance on Russia for fuel products (gasoline, diesel and aviation kerosene) and electricity, especially during the high-demand winter periods. As such, building a national oil-refining plant will be a key part of the New Recovery Policy umbrella (see Section 3).

Mongolia's exports by product are laid out by product in Figure 6. Most of Mongolia's exports go to China (Table 1). Mongolia exports mostly copper, coal, iron and zinc, and imports mostly vehicles, machinery and equipment from China.

Figure 6 Mongolia's exports by product

Source: ITC calculations based on Mongolian Customs statistics

Table 1 Mongolia's main export partners, 2017–2021, in US\$ millions

	2017	2018	2019	2020	2021
World	6,200,593	7,011,758	7,619,754	7,576,311	9,247,110
China	5,268,938	6,505,530	6,772,663	5,489,993	7,638,476
Switzerland	658	739	74,986	1,681,589	869,738
Singapore	26,120	30,008	154,581	151,251	254,728
Korea, Republic of	11,618	21,200	27,815	21,421	223,370
Russian Federation	67,661	85,936	68,093	57,275	112,784

Source: ITC calculations based on Mongolian Customs statistics

Table 2 Mongolia's main import partners, 2017–2021, in US\$ millions

	2017	2018	2019	2020	2021
World	4,337,320	5,874,788	6,127,356	5,298,771	6,848,642
China	1,412,562	1,968,833	2,036,805	1,892,788	2,490,566
Russian Federation	1,219,188	1,710,347	1,729,864	1,399,962	1,960,582
Japan	363,150	561,042	585,477	406,713	453,120
Korea, Republic of	197,704	262,366	266,965	235,769	308,747
Germany	128,349	168,722	188,807	184,633	223,231

Source: ITC calculations based on Mongolian Customs statistics

As a landlocked country, Mongolia relies on its two neighbouring countries for access to seaports for international trade. Most of Mongolia's exports travel through Zamyn-Uud to Tianjin port on the border with China. Mongolia's Central Economic Corridor (CEC), the key transportation network connecting China and Russia through Ulaanbaatar, offers promising opportunities to bring Mongolian agricultural products to world markets.

The poor capacity of the ports increases the country's export costs by up to 30% (UNESCAP, 2018). Mongolia's poor transport network with bordering countries hinders its exports in many sectors, including agricultural products (World Bank, 2020). Improving infrastructure links is thus critical to enhancing Mongolia's exports.

The economic shocks of the last few years have hit the Mongolian economy hard. Depreciation of the tugrik has increased the price of imports. Given that 90% of goods consumed are imported, inflation remains high. Due to a lack of domestic and international diversification, recovery depends on the export of raw materials to China. Moreover, high export costs and poor infrastructure links hinder trade. Nevertheless, the reopening of China as well as the launch of underground operations at Oyu Tolgoi present opportunities for economic recovery.

2.5 Supporting industrial growth

Despite experiencing the challenges that commodity dependence tends to present for resource-rich countries, the Mongolian economy may be able to use commodity revenues as an impetus to break out of the 'underdevelopment trap'. Revenues from the mining sector can boost other sectors of the economy. Given the high import dependency of consumption in Mongolia, it is critical that the country utilises its mining revenues to develop non-mining sectors of the economy, to avoid increasing imports and causing further pressure on the exchange rate and the currency.

To reduce dependency on the mining sector, Mongolia needs to upgrade its economy along the length of the value chain. A value chain is defined as ‘the full range of activities that firms and workers do to bring a product from its conception to its end use and beyond’ (Gereffi and Fernandez-Stark, 2011). Global value chain (GVC) analysis shows that countries that climb up the value chain and develop sectors with high value addition can generate more economic value. Upgrading or moving up the value chain is the best long-term strategy for preserving a country’s participation in GVCs, capturing more domestic value added and maximising the benefits of GVC participation. GVCs link firms, workers and consumers around the world and often provide a stepping stone for firms and workers in developing countries to integrate into the global economy (Gereffi and Fernandez-Stark, 2011).

For example, Mongolia could maximise the economic value of the leather supply chain and create export opportunities by applying international standards to the processing, storage, and supply of raw produce. In 2021 Mongolia supplied 40% of raw cashmere in the global market. Its exports of cashmere products amounted to 12% of the world market (UNDP, 2021). Increasing investment in processing and increasing scale for smaller producers of cashmere, as well as supporting producers to reach wider export markets, will increase the value of cashmere wool exports. Similarly, the country will maximise the economic value of the leather supply chain and create export opportunities by applying international standards to the processing, storage, and supply of raw produce (World Bank, 2019). Mongolia could also increase meat exports and integrate these into global value chains. Each of these approaches constitutes a viable way for the country to diversify away from mineral commodities and to become a more integrated part of the regional and global economy (UNCTAD, 2018).

Supplier development programmes can help local suppliers to connect to foreign direct investors in Mongolia. In Chile, the government has created a Supplier Development Programme to improve the linkages between small and medium/large firms and to support the development of capabilities (Arraiz, Henriquez and Stucchi, 2012). SMEs often lack the funding or knowledge to invest in the required standards, so government measures designed to fill the knowledge and funding gap will help domestic companies to make links with foreign firms.

Long-term measures to support industrial growth include boosting the knowledge-based economy by increasing investment in innovation, technology, research and development.

Strengthening the business environment will help boost economic activity. SMEs in Mongolia spend three times as long dealing with changing government regulations than in other parts of East Asia and Pacific Region (World Bank, 2022). Obtaining permits, getting access to finance and general bureaucratic processes remain obstacles for Mongolian businesses. Loosening red tape could be an easy win to support entrepreneurship and boost economic growth.

2.6 Foreign direct investment

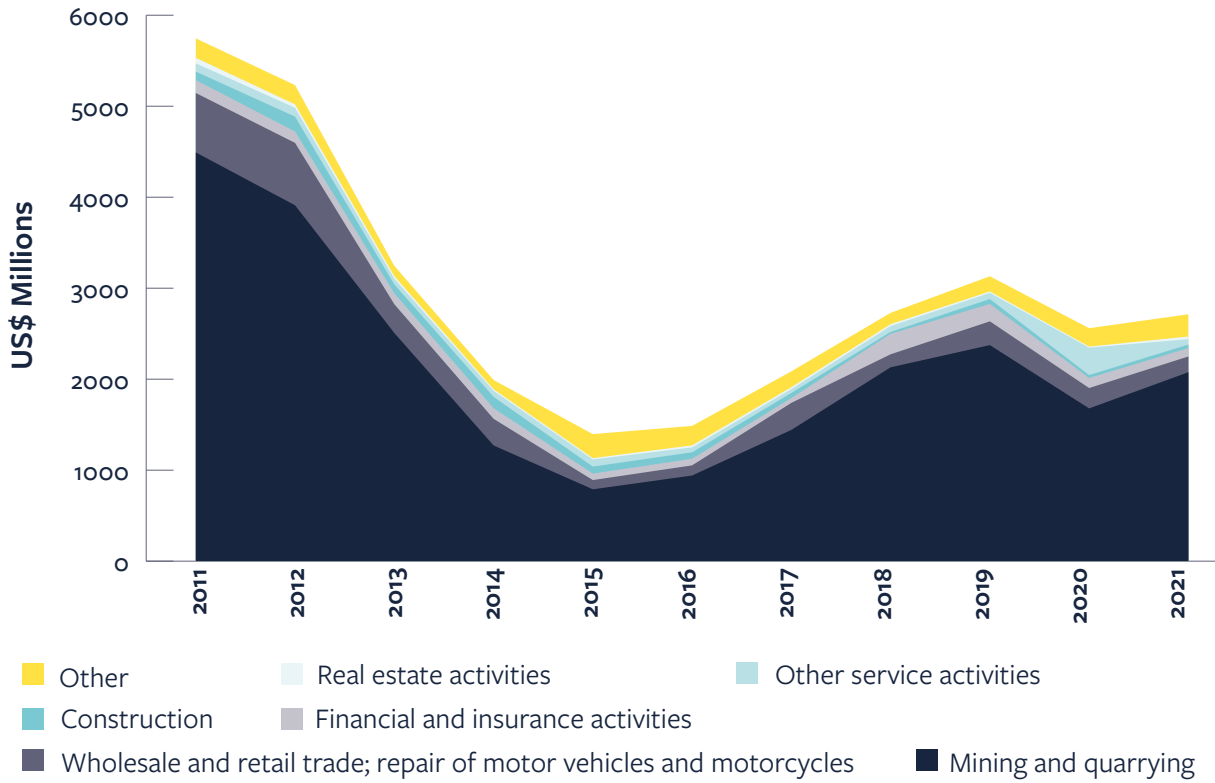
Foreign direct investment (FDI) can play a role in the economic development of resource-rich countries in two ways (Hirschman, 1958). As a source of capital, technology, and management skills, FDI can help resource-rich countries to finance investment projects and upgrade their technology and management systems. In addition, as a catalyst for linkages and spillovers, FDI can stimulate the development of local suppliers and create new industries that can benefit from the presence of a multinational corporation.

However, excessive dependence on FDI in resource-rich countries can lead to the neglect of other economic sectors, resulting in the development of a narrow and unsustainable economic base (Hirschman, 1958). Mongolia's example vividly illustrates this risk of overdependence on FDI in some sectors and lack of investment to others. Most of the FDI in the country is concentrated in the mining sector (Figure 7), and the top investors are Canada, China and Singapore (Figure 8). Canadian enterprises are mostly concentrated in mining and related industries; notably, Ivanhoe Mines is a main shareholder in Oyu Tolgoi. Chinese FDI is also predominantly in mining (70%), though is also seen in the food and trade sectors. There is limited FDI in services and manufacturing, and the number of global transnational corporations outside the mining sector remains very low. It is crucial for Mongolia to encourage FDI in non-mining sectors of the economy and to encourage linkages between the mining and non-mining sectors.

In 2023, the Government of Mongolia plans to launch the Foreign Investments and Foreign Trade Agency to help attract investment and implement 94 investment projects through public-private partnerships (PPPs). The initiative aims to support sectors of the economy that do not traditionally attract FDI in Mongolia and is part of a wider set of policies that the government is implementing to support industrial growth (discussed in the next section).

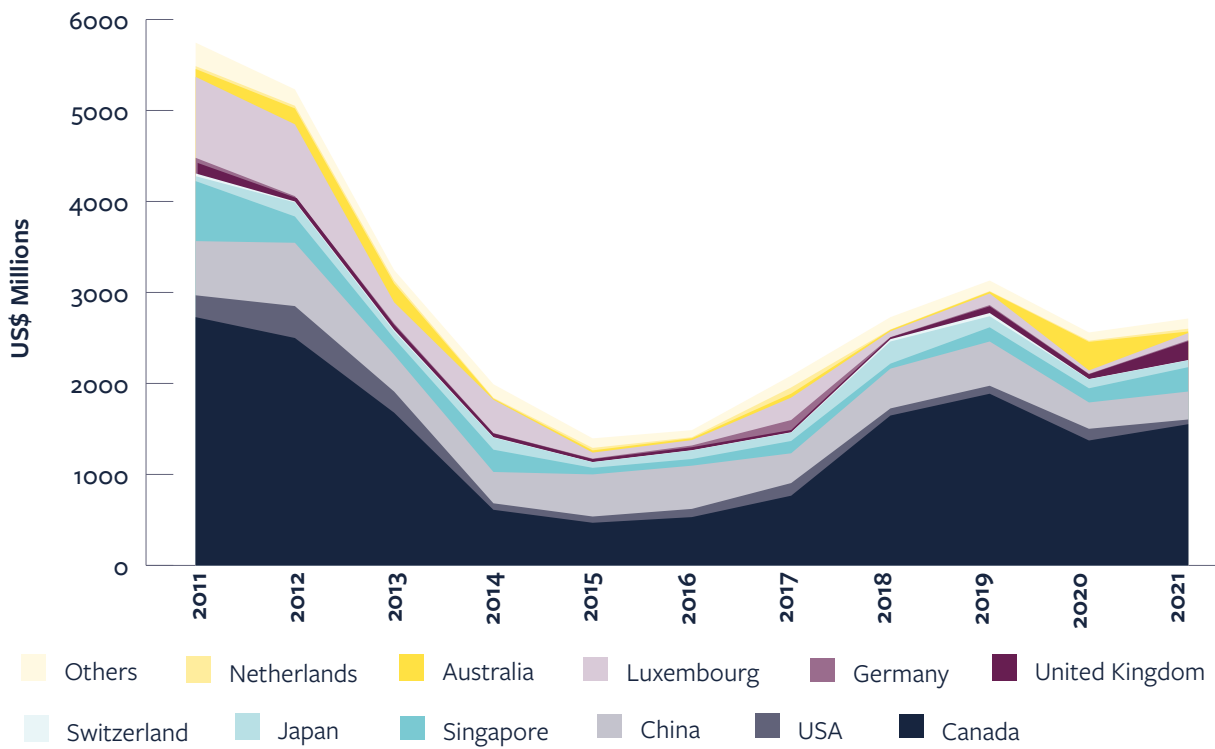
The launch of underground operations at Oyu Tolgoi, the largest mining project in Mongolia's history, promises to support the economy of the country. However, given the high import dependency of consumption in Mongolia, it is critical that the country utilises its mining revenues to develop the non-mining sectors of the economy, and to avoid increasing imports and further pressure on the exchange rate and the currency. Some of the measures that Mongolia should undertake for industrial growth include: upgrading traditional sectors such as cashmere and leather; increasing FDI in non-mining sectors of the economy; setting up supplier development programmes; and improving the overall business environment. Improving infrastructure links and reducing export costs will also boost trade.

Figure 7 FDI by sector



Source: Mongolian National Statistics Office

Figure 8 FDI by country



Source: Mongolian National Statistics Office

3 Government policies for economic recovery and growth

The Mongolian government is aware of the challenges facing the country's economy. This section introduces the New Recovery Policy, which is being implemented to help Mongolia overcome some of the challenges to recovery described in Section 2.

In response to a series of economic shocks, the Government of Mongolia published the New Recovery Policy in December 2021. It is intended as a complement to Mongolia's long-term development strategy, 'Vision 2050', which aims to make Mongolia 'a leading Asian country in terms of its social development, economic growth and quality of life' (Cabinet Secretariat of Government of Mongolia, 2020). The strategy outlines high-level strategic priorities across nine pillars, including the economy, green development, governance, and regional and local development.

The New Recovery Policy, which is effective until 2030, aligns with the first stage of Vision 2050. It aims to support the country's recovery and lay the groundwork for growth by addressing six key economic constraints: trade ports, energy, industrialisation, urban and rural development, green development, and effective governance. The reform package combines both structural policy changes, such as partial privatisation of some state-owned enterprises (SOEs), as well as key infrastructure initiatives, and public-private investment projects (Government of Mongolia, 2021).

The Policy consists of 94 investment projects (to date) covering the six priority areas, heavily concentrated on port and energy revival – 43 and 21 projects respectively – followed by industrial revival (15), urban and rural revival (7), green growth (5) and public sector efficiency (3).⁵ The New Recovery Policy Accelerator coordinates the interdisciplinary and external cooperation of organisations implementing the programmes of the New Recovery Policy and provides professional support and assistance.

When it comes to border ports recovery, the New Recovery Policy aims to enhance the capacity of both air and land ports. Specifically, it targets a threefold increase in border port capacity, and a doubling of the national railway network that will be connected with 3,000 km of roads. Airport capacity will double, while the dry ports at Altanbulag, Zamyn-Uud, Sainshand and Ulaanbaatar will be developed. As a result of these measures, total exports should increase from 70 million tonnes between 2022 and 2024, and up to 95 million tonnes from 2029 onwards. Projects to support this pillar include construction of the Ulaanbaatar-Darkhan highway, the Tavantolgoi-Zuunbayan railway and the Shiveekhuren port cargo terminal construction project.

5 List of projects provided by the Government of Mongolia, 2023

The energy recovery pillar is focused on securing a reliable energy supply that can meet the demands of a growing economy. It encompasses a range of measures – the construction of new (and renovation of old) power plants, adding new energy sources, energy efficiency, repairs and maintenance of the plants and heat transmission networks. New energy sources will be added, with the construction of a 700 MW thermal power plant in Baganuur, the 450 MW Tavantolgoi thermal power plant, and a hydropower plant at Erdeneburen, to double energy capacity. More non-conventional renewable energy (RE) sources, such as solar power, will also be added to the energy mix; the construction of a 5 MW solar power plant and charging system in Uliastai, and, in Altai Soum, a 300 kW solar power plant (a combined system), will together increase RE capacity to 450 MW.

Priorities for industrial recovery focus on the development of value-added heavy industry, agriculture, reducing oil import dependency through increasing domestic reserves, and increasing value addition in the mining industry. Examples of projects under this pillar include establishing the New Khovd industrial technology park and Altanshireet Industrial Park, and the construction of several meat processing plants as well as coal and copper processing plants in Tavantolgoi. The Government of Mongolia is also implementing business investment incentives, such as changes to legislation to improve the permits system and changes to investment law. The newly adopted permit law is designed to provide a unified framework for all licences and permissions that have hitherto been regulated under numerous different regulations and approved by various authorities.

The urban and rural recovery pillar will primarily address challenges linked to the concentration of economic activities and population in the capital, Ulaanbaatar – which occupies just 0.3% of the country's territory but is home to almost half the population, accounting for 65% of its GDP – and, in addition, will support the implementation of regional economic development plans. The urban recovery aims will be achieved by improving public transport and reducing traffic congestion, but also by building new residential areas, satellite cities and free economic zones around the capital.

In the context of the environmental and climate hazards that Mongolia needs to address (see Section 4), the focus of the green development pillar is on combatting land degradation and desertification with the One Billion Trees Initiative. Other priorities include the Blue Horse Project, which seeks to meet the domestic and industrial water needs of the Gobi region. While green development is a standalone pillar, it should be a cross-cutting theme in the implementation of economic and industrial recovery (see Section 4 for more detailed discussion).

Mongolia continues to lag when it comes to tackling corruption, which, alongside frequent changes to government policies, contributes to lower levels of public trust in the government and drags on public sector efficiency. Acknowledging these challenges, government efficiency measures will aim to reduce corruption and optimise its structures, to improve the productivity of SOEs and to digitise public services. With the New Recovery Policy, Mongolia aims to improve its ranking on the Corruption Index and double the number of permits issued.

At the heart of Mongolia's New Recovery Policy is the drive to tackle key constraints to the country's economic recovery in the medium term, in support of its broader development goals for 2050. By supporting border ports recovery, for example, it aims to resolve the country's lack of connectivity and capitalise on trade opportunities. Meanwhile, industrial recovery projects aim to tap into Mongolia's potential to diversify in non-mining sectors. To help maximise the effectiveness of the New Recovery Policy, we offer policy recommendations for the Government of Mongolia in Section 5.

4 Mongolia: the case and opportunities for greening recovery and growth

As Mongolia pursues recovery, there is a strong case for the country to ‘green’ its future growth. Recovery measures will likely drive demand for resources, including energy and water, many of which are already under strain. To address the range of environmental and climate hazards facing the country and that may drag on the country’s economy, and to meet its global and domestic commitments on sustainable development, it is critical that green development is a cross-cutting consideration.

This section highlights a high-level case for greening Mongolia’s development, in the context of the considerable climate and environmental risks which the country is facing. It then looks at the opportunities for green growth before outlining the policy frameworks the country has already put in place to support green development.

4.1 The case for greening Mongolia’s development

Mongolia faces substantial risks from climate change. The country has already warmed by over 2°C and will likely experience higher rates of warming than the global average – possibly exceeding 5°C under a high-emissions scenario (RCP8.5) (The World Bank Group and ADB, n.d.). Reported declines in rainfall and chronic droughts also present challenges, while the intensity of heat waves, droughts and other climate-driven hazards may intensify. These will have wide-ranging impacts on the country’s ecosystems and sectors such as agriculture, as well as health and labour productivity (ibid.).

One example of the risks facing Mongolia is the increased frequency and intensity of dzud: a term which refers to a phenomenon in which animals of the steppe die in vast numbers following dry, hot summers and severe winters. In its Third National Communication, Mongolia highlights that the magnitude and frequency of dzud and climate related hazards such as droughts is increasing (Ministry of Environment and Tourism, Mongolia, 2018). Following the harsh winter of 2009-2010, nearly 20% of livestock perished in 2010 with cascading impacts on rural livelihoods (Rao et al., 2015).

There are other compelling reasons for Mongolia to invest in environmentally sustainable growth. In the last century, Mongolia’s water resources, which are unevenly distributed across the country and are made up almost entirely of surface water (98%), have come under increasing pressure (Government of Mongolia, 2021). The water-intensive mining and herding sectors, both of which are significant to Mongolia’s economy, have had negative impacts on water quality and availability. According to the New Recovery Policy (Government of Mongolia, 2021), the water use rate in the Gobi Desert region alone, where much of the mining is concentrated, is expected to triple. Climate-change related impacts will also affect availability of water resources whereby ‘despite

projected increases in precipitation, it is believed that lake water levels in dry steppe and desert regions could decline' (The World Bank Group and ADB, n.d.). Land and pasture degradation, soil erosion as a result of growing livestock numbers, and climate change are among the other issues that need to be addressed.

Across Mongolia, air pollution has become a critical issue for the cities with over 4,000 people dying of diseases linked to air pollution annually (Ministry of Environment and Tourism, Mongolia, 2018; WHO, 2018). In addition to this large human cost, air pollution is a drag on the country's economy – with welfare costs coming to about 5.3% of its GDP (UNDP and AARC, 2019). While air quality has improved in recent years, due to government efforts with support from partners such as the ADB, much remains to be done.

In addition to the urgency of these not-inconsiderable environmental and climate risks, greening Mongolia's economic growth has been a stated political priority for a number of years. Internationally, the country demonstrated high-level political commitment to sustainable development after becoming one of the first to adopt Agenda 2030 and the Sustainable Development Goals in 2015 and ratifying the Paris Agreement in 2016 (Baljmaa, 2019). However, while the country is on track to achieve some SDGs, challenges remain in achieving SDGs 3 (Good Health and Well-being), 7 (Affordable and Clean Energy), 13 (Climate Action), and 15 (Life on Land), among others (Sachs et al., 2022).

When it comes to climate change mitigation, Mongolia accounts for just 0.1% of GHG emissions, but its economy is relatively carbon-intensive, with energy and agriculture as top emitting sectors (Government of Mongolia, 2021). The country's energy demand is expected to grow, with the mining sector driving the future upsurge (IRENA, 2016). In its Updated Nationally Determined Contribution (NDC), Mongolia targets an ambitious 22.7% reduction in emissions compared to a business-as-usual scenario, with an even higher target reduction of 27.2% if technologies such as carbon capture and storage are scaled up. Achieving these targets requires sectoral reforms: for example, scaling up RE production and improving efficiency in the energy sector. It will also be costly – financing NDC implementation will require around \$11.5 billion, with \$6.3 billion for mitigation alone and \$5.2 billion for adaptation (Government of Mongolia, 2020).

In the future, Mongolia may also need to contend with transition risks. The material risks and opportunities related to climate change are split into two categories: the physical risks linked to climate hazards; and transition risks to economies and financial systems related to shifts in policy, technology and consumer preferences towards lower-carbon economies (Network for Greening the Financial System, 2019). In the New Recovery Policy, the Government of Mongolia flags both risks as potentially affecting the country's economic recovery and long-term growth. As an exporter of high-carbon commodities, Mongolia is exposed to cross-border transition risks in its export markets. The Mongolian government specifically references a global shift towards phasing out coal consumption – including in China, its main export market – as a challenge

(Government of Mongolia, 2021). While the scale of Mongolia's exposure to transition risks is yet to be measured, the policy highlights the need to take measures to prevent and reduce the impact of these shifts (ibid.).

However, low-carbon transition also presents Mongolia with opportunities, including continued commodity exports. Low-carbon transition is mineral-intensive – copper, for instance, is crucial for the production of electric vehicles, onshore/offshore wind, solar photovoltaics (PV) and nuclear, among other applications (IEA, 2021), with production expected to grow by 230% by 2050 if it is to meet the growing demand (IFC, 2023a). Capitalising on these opportunities while enhancing practices in the mining sector will be critical to supporting the country's sustainable development. The next section will present a discussion of this and other opportunities to green Mongolia's recovery and growth.

4.2 Opportunities for greening Mongolia's recovery and growth

There exists a range of opportunities for greening Mongolia's recovery and growth. Capitalising on the country's RE potential, for example, would support better health outcomes by helping to mitigate air pollution, as well as providing opportunities to reduce import dependencies (see Section 2) and to green future industrial growth.

Mongolia has plentiful RE potential – assessed at 2.6 TW of wind and solar resources (IRENA, 2016). The country has already sought to capitalise on this potential, launching several RE projects in the last decade – Sainshand wind farm (55 MW), Tsetsii wind farm (50 MW) and Salkhit wind farm (50 MW). Past projects to support a move towards RE include a credit line of \$25 million under the Mongolian Sustainable Energy Financing Facility, which provided Mongolian companies with loans for energy-efficient equipment and RE solutions (EBRD, n.d.). New solar projects are planned under the New Recovery Policy (see Section 4).

Increasing the share of renewable sources in the overall energy mix will require both solving technical challenges, such as grid upgrades, and also reforming subsidies, among other measures. RE accounts for only 7% of the country's power, with most planned capacity coming from coal (OECD, 2019). Considering its long lifespan and high capital intensity, to support a growing and diversifying economy Mongolia's new energy infrastructure – whether solar and wind plants, hydropower or thermal power plants – will need to be resilient to a range of threats including climate change (for further discussion see Opitz-Stapleton et al., 2022; Opitz-Stapleton et al., 2021). This is particularly pertinent to Mongolia because the country has ambition to export electricity to the potential Northeast Asian integrated energy grid, and failures in parts of the energy system can have cascading impacts across the system (Opitz-Stapleton et al., 2022).

As shown in Section 2, Mongolia's natural resources have been critical in driving the country's economic growth. However, as an industry, mining is associated with a range of social, environmental and political risks (see, for example, Shieh et al., 2021; Borodyna et al., 2022).

In Mongolia, Battogokh, Lee and Woo (2014) examined the environmental risks of copper-molybdenum mining, such as water contamination. Managing various environmental, social and governance (ESG) risks, as the top business risk and opportunity in industry surveys, is now critical for the industry. Water management, decarbonisation, green production and Scope 1 and 2 emissions are among the issues where the sector expects to face the most scrutiny from investors (EY, 2022). Climate change impacts the mining industry in several ways: from shifts in minerals demand, to pressure to decarbonise production and reduce emissions (e.g. by using renewable sources and various energy efficiency measures) and use resources more efficiently, to the physical impacts that increasing intensity and frequency of climate hazards such as heavy precipitation, droughts and heat will have on operations. With many mining operations already located in areas of water stress, as is the case for 30 to 50% of global copper, gold, iron ore, and zinc production, increasing frequency of droughts and floods poses further risks to water resources (Delevigne et al., 2020).

Why is this relevant for Mongolia? The country plans to tap into the growing global demand for transition minerals like copper with the launch of underground operations at Oyu Tolgoi. Overall, mining sector will likely continue playing an important economic role while the country diversifies. However, as shown above, Mongolia is facing a range of environmental and climate hazards. As an energy- and water-intensive sector concentrated in water-stressed regions of the country, it is critical that mining utilises good international risk management practices, such as the IFC Performance Standards, and is proactively encouraged to adopt the best ESG practices on emissions, water management etc. When it comes to sourcing power for Oyu Tolgoi, for example, under the new agreement Rio Tinto has agreed to work with the Government of Mongolia to source renewable energy from the grid (though electricity will be sourced from China during 2023) (Scheyder and Menon, 2022). Further, resources such IFC's Net Zero Roadmap for Copper and Nickel Value Chains, delivered as part of World Bank's Climate-Smart Mining Initiative, provide 'a net zero transition guide that sets out a science-based decarbonization strategy for copper and nickel mining value chain actors' and can be useful in identifying opportunities for decarbonisation (IFC, 2023a).⁶

When it comes to financing, going forward, green development and addressing environmental and climate hazards is a key priority for development banks working in the country. The Asian Development Bank (ADB), which has already committed \$3.6 billion worth of public sector loans, grants, and technical assistance to Mongolia (ADB, 2022), will focus on projects that foster climate-resilient infrastructure as one of its three strategic priorities (ADB, 2021).

Similarly, in its updated Mongolia country strategy for 2022–2027, EBRD will aim to promote 'a greener, more climate-resilient economy through sustainable energy, infrastructure and mining'.

6 The World Bank Climate-Smart Mining Initiative seeks to 'help ensure resource-rich developing countries benefit from their mineral resources and manage them in a sustainable manner, while fostering economic growth and development'.

Its strategy highlights reform areas that are broadly aligned with Mongolia's New Recovery policy and Vision 2050. These include increasing the development of RE, and developing 'a long-term decarbonisation plan to navigate green transition and implement credible Net Zero policies' (EBRD, 2022).

The Asian Infrastructure Investment Bank (AIIB), which has provided Mongolia with financing for COVID-19 response and vaccine programmes, is aligning its portfolio with the Paris Agreement and by 2025 aims to channel 50% of its approved financing towards climate finance including RE, low-carbon transportation and pollution control projects (AIIB, 2021).

There is a range of opportunities available to Mongolia to green its development, including capitalising on RE potential and improving mining practices, and a strong case for the country to do so. Though there are, inevitably, challenges to capitalising on these opportunities – in the energy sector, for example, challenges include but are not limited to setting legal and regulatory frameworks, building technical capacity for RE deployment and updating power grids (IRENA, 2016) – their detail falls beyond the scope of this analysis.

The next section presents an outline of some of the policy frameworks the country has put in place to support green development.

4.3 Mongolia's green policy landscape

Mongolia's medium- and long-term development policies – the New Recovery Policy and Vision 2050 – both recognise the importance of greening the country's recovery and future growth.

Vision 2050, Mongolia's long-term development strategy, is mostly aligned with the SDGs (Government of Mongolia and UNDP, 2021), though critical implementation gaps remain, as reflected in its progress across the SDG indicators. Under Goal 6 of Vision 2050, Mongolia will promote environmentally friendly green development; to do so, it will estimate and preserve the value and benefits of nature, rehabilitate natural resources, prevent water scarcity and contribute to global climate change mitigation efforts 'by developing a low emission, productive and inclusive green economy' (Cabinet Secretariat of Government of Mongolia, 2020). Key priorities under Goal 6 are focused on developing a national green financing system and promoting environmentally friendly, efficient and clean technologies (ibid).

As highlighted in Section 3, green development is also among the six priority areas of the country's New Recovery Policy, including the Blue Horse Project (focused on supplying domestic and industrial water needs of the Gobi region), and the 'One Billion Trees' national initiative (focused on desertification and land degradation). Measures pursued under other pillars, such as adding renewable sources (e.g. solar plants) to the overall energy mix to support energy recovery, will also support efforts toward green recovery and growth.

The country laid out its vision for green development, before publishing Vision 2050 and the New Recovery Policy, when it adopted its Green Development Policy in 2014. This Policy explicitly recognised the need to shift from a ‘grow first and clean it up later’ model to one that is more inclusive and environmentally friendly. Strategic objectives include encouraging sustainable consumption and production, with efficient use of natural resources, low GHG emissions and reduced waste generation; and improved environmental protection, along with introducing incentives such as financing, tax and lending to support a green economy (Government of Mongolia, 2014). The Policy also set more specific targets including the reduction of GHG emissions in the energy sector by 20% by 2030 through increasing energy efficiency and raising RE use to 20% and 30% by 2020 and 2030 respectively. Other goals laid out in the 2014 Green Development Policy, relevant to key economic sectors, include promoting efficient and low-waste technologies for the mining sector, and using responsible practices aligned with international standards to mitigate its negative impacts.⁷

In the context of its NDC needs, securing financing is critical to supporting Mongolia’s growth in a way that aligns with its domestic and international climate and sustainable development ambitions. In 2018, the Mongolia Sustainable Finance Association (MSFA), with support from UNEP and IFC, published the National Sustainable Finance Roadmap. It outlined Mongolia’s key sustainable investment needs and opportunities and reviewed the existing financing landscape, proposing key actions to 2030 (UNEP, IFC, and Mongolian Sustainable Finance Association, 2018). A new Roadmap was approved in 2022 and includes actions to help the country achieve at least 15% of its NDC financing goals (Mongolian National News Agency, 2022). Mongolia is now supported by ADB in its work to develop a green finance policy and regulatory framework (ADB, 2023).

To boost its capacity to mobilise green finance and tap into the green bonds market, Mongolia is also updating its sustainable projects taxonomy and has approved Green Bond Regulations (Baljmaa, 2021). Climate Bonds Initiative (2022) estimates that a total of \$2 trillion was issued globally in green bonds in the period to September 2022, while green, social, sustainability-linked and transition bonds reached \$3.5 trillion. Sovereigns accounted for 8% of these volumes, with the majority (80%) issued by various corporate and local government entities, and development banks. Mongolia is looking for both private and public sector to tap into these opportunities (IFC, 2021).

In March 2023, Mongolia’s Khan Bank issued the country’s first green bond. The bank will use the five-year bond, worth \$60 million, to lend for energy efficiency, RE and climate-smart agriculture

7 The Green Development Policy (2014) defines green development as a ‘pattern of development that reduces poverty through an inclusive economy in which resources are used efficiently and without waste, supports ecosystem services, lowers greenhouse gas emissions and waste’ and a green economy as ‘one that results in improved human well-being and social equity while significantly reducing environmental risks and ecological scarcities’.

projects (Reuters, 2023; IFC, 2023b). Projects are also underway to establish the Mongolia Green Finance Corporation, which will help support local businesses with energy efficiency and provide green mortgages, among other activities (GCF, n.d.).

When it comes to promoting green finance, gaps remain. For instance, disclosure of environmental performance by companies listed on the Mongolian Stock Exchange is limited (UNDP, 2022). To assist with disclosures, the Financial Regulatory Commission, in partnership with the MSFA, UNDP and other partners, has published voluntary ESG & Sustainability Reporting Guidance for Mongolian companies (Financial Regulatory Commission et al., 2022). With the guidance published in August 2022, its impact on ESG disclosures remains to be seen.

Mongolia has demonstrated commitment to supporting green development at the strategic policy level. To support its ambitions, in recent years the country has proactively sought to establish an ecosystem for green financing, working with development banks and agencies to build on international good practices and facilitate financing. Mongolia's efforts are starting to bear fruit with the recent issuance of its first green bond, and the country should look to continue developing its institutional capacity and frameworks to support green development (incl. financing).

5 Policy implications and recommendations

The Government of Mongolia has come a long way in supporting the sustainable economic recovery of the country. Nevertheless, there is still scope to maximise the effectiveness of recovery policies and to **strengthen the economy's resilience** to shocks.

It is crucial that Mongolia continues to enhance the implementation of existing diversification strategies. Monitoring of existing strategies is largely absent (ADB, 2020). To facilitate the monitoring of progress, the implementation plan should contain a list of strategic priorities, and actions to achieve these priorities, with a breakdown of long- and short-term measures.

The efficiency of the New Recovery Policy reform package will be maximised when it is supplemented by a transparent mechanism for investment project selection and analysis on the privatisation of state-owned enterprises. Under the New Recovery Policy umbrella, the Government of Mongolia is currently implementing a large number of investment projects in infrastructure, energy and industry in public–private partnership, as well as privatisation of state-owned enterprises. The New Recovery Policy contains a list of strategic priorities but does not list specific projects, and information about them is not widely available. As outlined in Section 3, most of the 94 projects planned or under implementation are focused on port revival and energy, with only 15 in industry and 3 in productivity revival.⁸ Projects focused on industrial growth include a meat factory, an oil refinery, Phase I of the Khushig Valley Economic Free Zone and the New Khovd industrial technology complex. The oil refinery will help reduce dependence on imported oil, while the meat factory will increase the food self-sufficiency of the country. It is important that there is information access so that Mongolian businesses can participate more widely in projects such as these.

Further measures to create a better business environment by simplifying business processes (e.g. one-window digital business opening, improving automation of customs, etc.) and removing bureaucratic hurdles for both domestic SMEs and foreign investors will help to boost business activity. The permit system facilitation that has been announced by the Mongolian government under the New Recovery Policy will facilitate the business environment.

Government incentives to promote investment into higher value-adding sectors of the economy will help the country to reduce dependence on imports and increase resilience. International experience has examples of supplier development programmes which support suppliers to foreign direct investors (e.g. Chile, South Africa). Such programmes offer support

8 List provided by the Government of Mongolia in February 2023

with coordination, certification and standardisation, and knowledge and technology transfer. Long-term measures that could help to boost industrial growth include investment into innovation, technology, and research and development.

It is critical that Mongolia's recovery and growth policies support its green development ambitions – as highlighted in Section 4, there is a strong case for the country to do so, and opportunities abound. At a policy level, medium- and long-term development strategies (the New Recovery Policy and Vision 2050) put a better environment at the core of Mongolia's vision for the future. Key institutions including the Ministry of Environment and Tourism and the Mongolia Sustainable Finance Association are supporting the country with attracting sustainable financing and improving environmental, social and governance disclosures. The country's efforts to create a green finance ecosystem, for example, are starting to pay off, as demonstrated by the recent green bond issuance. Opportunities for greening growth exist across sectors including energy and mining. Ensuring that good risk management practices and technologies are embedded in development projects will also help to support Mongolia's green ambitions.

The global transition to low-carbon economies presents Mongolia with both risks and opportunities. As a high-carbon commodity exporter it is potentially exposed to transition risks; at the same time, it could capitalise on demand for minerals that will support transition like copper. Mongolia should seek to understand its exposure to transition risks as other countries adopt measures to achieve carbon neutrality targets. Other countries dependent on high-carbon commodity exports, such as Indonesia, are actively seeking support to manage financial risks from low-carbon transition and with designing an orderly transition. Mongolia should explore similar opportunities. These transition risks should then be accounted for in socioeconomic development planning processes.

Mongolia should continue its efforts to strengthen institutional capacity. International experience shows that institutional quality is the predominant determining factor of the success or failure of any policy. Economic growth in resource-abundant countries is strongly related to the quality of institutions; for example, resource-rich Botswana had the highest levels of growth globally thanks to the quality of its institutions (Acemoglu, Johnson and Robinson, 2001). The quality of reforms will be strengthened if the implementation is conducted in a fair and transparent way.

This analysis concludes with the following policy recommendations for the Government of Mongolia to help maximise the long-term benefits and sustainability of the New Recovery Policy:

Recommendation 1: Undertake an effective mechanism for strategy monitoring and implementation, to help achieve Mongolia's ambitious goals.

Recommendation 2: Maximise the New Recovery Policy reform package's efficiency by supplementing it with a transparent mechanism for the selection of investment projects and an analysis on privatisation of state-owned enterprises.

Recommendation 3: Continue to create a favourable climate for investors and to improve the business environment by facilitating business-opening processes and removing bureaucratic hurdles.

Recommendation 4: Continue implementing incentives to stimulate investment into higher value-adding sectors of the economy.

Recommendation 5: Continue to ensure that international good practices for environmental and social risk management are followed, and opportunities to improve companies' environmental, social and governance practices are maximised for all future investment projects across sectors. Conducting all-hazard risk assessment for infrastructure projects, will also help increase the resiliency of future energy and other types of infrastructure.

Recommendation 6: Continue efforts to strengthen institutional capacity. International experience shows that institutional quality is the critical determining factor of success or failure of any policy.

Mongolia is a resource-rich country with formidable growth prospects. Despite its rapid economic growth in the 2000s and 2010s, the economic shocks of the last few years have been difficult for its people. With its relatively small population, vast mineral resources, big neighbouring markets and the launch of underground operations at Oyu Tolgoi – the largest mining project in its history, Mongolia can utilise opportunities to strengthen its resilience to the economic shocks of the future and build a robust industrial economy. To do so, it should strengthen the implementation of reforms, continue improving business environment and institutions and support industrial growth.

What to watch

- Can Mongolia boost its industrial recovery and reduce overreliance on imports through implementation of the New Recovery Policy? Is the list of projects under implementation sufficient to support industrial growth?
- Does the New Recovery Policy contain enough elements to support its transition to an industrial economy?
- How will the implementation be monitored?
- How will the Government of Mongolia ensure transparency and institutional quality in implementing these reforms?

References

- Acemoglu, D., Johnson, S. and Robinson, J.A.** (2001) 'An African Success Story: Botswana'. SSRN Scholarly Paper. Rochester (<https://doi.org/10.2139/ssrn.290791>).
- Arraiz, I., Henriquez, F. and Stucchi, R.** (2012) 'Supplier Development Programs and Firm Performance: Evidence from Chile'. *Small Business Economics* 41 (May) (<https://doi.org/10.1007/s11187-012-9428-x>).
- Asian Development Bank – ADB** (2020) 'Mongolia's Economic Prospects'. Manila: Asian Development Bank (www.adb.org/sites/default/files/publication/611416/mongolia-economic-prospects.pdf).
- ADB** (2021) 'Mongolia, 2021–2024 —Laying Resilient Foundations for Inclusive and Sustainable Growth'. Manila: Asian Development Bank (www.adb.org/sites/default/files/institutional-document/753311/mon-cps-2021-2024.pdf).
- ADB** (2022) 'Asian Development Bank Fact Sheet'. Manila: Asian Development Bank (www.adb.org/sites/default/files/publication/27781/mon-2021.pdf).
- ADB** (2023) 'Mongolia : Green Finance Policy Framework'. Manila: Asian Development Bank (www.adb.org/projects/51413-001/main).
- Asian Infrastructure Investment Bank – AIIB** (2021) 'AIIB to Fully Align with Paris Agreement Goals by Mid-2023'. Press release, 26 October (www.aiib.org/en/news-events/news/2021/AIIB-to-Fully-Align-with-Paris-Agreement-Goals-by-Mid-2023.html).
- Auty, R. M.** (1995) 'Economic Development and the Resource Curse Thesis' in O. Morrissey and F. Stewart (eds) *Economic and Political Reform in Developing Countries*. London: Palgrave Macmillan UK pp.58–80 (https://doi.org/10.1007/978-1-349-13460-1_4).
- Baljmaa, T.** (2019) 'Mongolia announces nationally determined contribution for Paris Agreement'. Mongolia National News Agency, 22 November (<https://montsame.mn/en/read/207949>).
- Baljmaa, T.** (2021) 'A New Regulation on “Green Bond” Approved to Boost Green Finance in Mongolia'. Mongolian National News Agency, 18 June (<https://montsame.mn/en/read/267458>).
- Battogtokh, B., Lee, J.M. and Woo, N.** (2014) 'Contamination of water and soil by the Erdenet copper–molybdenum mine in Mongolia'. *Environmental Earth Science* (71), 3363–3374 (<https://doi.org/10.1007/s12665-013-2727-y>).
- Borodyna, O., Calabrese, L. and Nadin, R.** (2022) *Risks along the Belt and Road: Chinese investment and infrastructure development in Kyrgyzstan*. Report. London: ODI.
- Cabinet Secretariat of Government of Mongolia** (2020) "'Vision-2050" Long-Term Development Policy of Mongolia'. Ulaanbaatar: Cabinet Secretariat of Government of Mongolia (https://cabinet.gov.mn/wp-content/uploads/2050_VISION_LONG-TERM-DEVELOPMENT-POLICY.pdf).
- Climate Bonds Initiative** (2022) 'Sustainable Debt Market Summary Q3 2022'. (www.climatebonds.net/files/reports/cbi_susdebtsum_highlq32022_final.pdf).
- Corden W.M. and Neary J.P.** (1982) 'Booming Sector and De-industrialisation in a Small Open Economy' *The Economic Journal* 92 (December): 829-831.

- Delevigne, L., Glazener, W., Grégoir, L. et al.** (2020) 'Climate Risk and Decarbonization: What Every Mining CEO Needs to Know'. McKinsey & Company, 28 January (www.mckinsey.com/capabilities/sustainability/our-insights/climate-risk-and-decarbonization-what-every-mining-ceo-needs-to-know).
- Erdenejargal, E.** (2022) 'Mongolia to be supplied with petroleum at stable price in the long term'. Mongolia National News Agency, 8 September (<https://montsame.mn/en/read/303463>).
- European Bank for Reconstruction and Development – EBRD** (2022) Mongolia Country Strategy: 2022–2027. EBRD (www.ebrd.com/strategy-and-policy-coordination/strategy-for-mongolia.pdf).
- EBRD** (n.d.) 'Mongolian Sustainable Energy Facility'. Project summary document (www.ebrd.com/work-with-us/projects/psd/mongolian-sustainable-energy-facility.html).
- EY** (2022) 'Top 10 Business Risks and Opportunities for Mining and Metals in 2023'. Report (https://assets.ey.com/content/dam/ey-sites/ey-com/en_gl/topics/mining-metals/ey-top-10-business-risks-and-opportunities-for-mining-and-metals-in-2023.pdf).
- Fasano, U. and Iqbal, Z.** (2003) 'GCC Countries: From Oil Dependence to Diversification'. (www.imf.org/external/pubs/ft/med/2003/eng/fasano/).
- Financial Regulatory Commission, Mongolian Stock Exchange, Mongolian Sustainable Finance Association, International Finance Corporation, UNDP, United Nations Mongolia, UNEP, and Financial Centres for Sustainability** (2022) 'ESG & Sustainability Reporting Guidance for Mongolian Companies' (www.greenfinanceplatform.org/guidance/sustainability-reporting-guidance-mongolian-companies).
- Gereffi, G. and Fernandez-Stark, K.** (2011) 'Global Value Chain Analysis: A Primer'. Center on Globalization, Governance and Competitiveness (CGGC). North Carolina: Duke University Durham.
- Government of Mongolia** (2014) 'Green Development Policy' (http://sdg.1212.mn/en/Content/files/Green_development_decision.pdf).
- Government of Mongolia** (2020) 'Mongolia's Nationally Determined Contribution to the United Nations Framework Convention on Climate Change' (<https://unfccc.int/sites/default/files/NDC/2022-06/First%20Submission%20of%20Mongolia%27s%20NDC.pdf>).
- Government of Mongolia** (2021) 'New Recovery Policy'. Ulaanbaatar.
- Government of Mongolia and UNDP** (2021) Mapping the SDGs against Mongolia's National Development Plans and Policies. Report. Ulaanbaatar: UNDP (www.undp.org/publications/mapping-sdgs-against-mongolias-national-development-plans-and-policies).
- Green Climate Fund – GCF** (n.d.) 'Projects and Programmes: Mongolia Green Finance Corporation'. GCF (www.greenclimate.fund/project/fp153).
- Hirschman, A.** (1958) The Strategy of Economic Development. New Haven: Yale University Press.
- International Energy Agency – IEA** (2021) 'The Role of Critical Minerals in Clean Energy Transitions'. Paris: IEA (www.iea.org/reports/the-role-of-critical-minerals-in-clean-energy-transitions).
- International Finance Corporation – IFC** (2021) 'A New Regulation on "Green Bond" Was Approved to Boost Green Finance in Mongolia'. IFC, 17 June (<https://pressroom.ifc.org/all/pages/PressDetail.aspx?ID=26421>).
- IFC** (2023a) 'Net Zero Roadmap for Copper and Nickel Value Chains'. Washington, DC: IFC (https://commdev.org/wp-content/uploads/pdf/publications/IFC_NZR4M_Technical_Report_FINAL.pdf).

- IFC** (2023b) 'IFC Invests in Mongolia's First Ever Green Bond in a Bid to Spur Climate-Smart Investments', 17 March (<https://pressroom.ifc.org/All/Pages/PressDetail.aspx?ID=27449>).
- International Monetary Fund – IMF** (2023) 'International Financial Statistics'. Electronic dataset, (www.imf.org/en/Data)
- International Renewable Energy Agency – IRENA** (2016) 'Renewables Readiness Assessment: Mongolia'. Report (www.irena.org/publications/2016/Mar/Renewables-Readiness-Assessment-Mongolia).
- Ministry of Environment and Tourism, Mongolia** (2018) 'Third National Communication of Mongolia (TNC)'. Ulaanbaatar (www4.unfccc.int/sites/SubmissionsStaging/NationalReports/Documents/o6593841_Mongolia-NC3-2-Mongolia%20TNC%202018%20print%20version.pdf).
- Mongolbank - Bank of Mongolia** (2023) 'External sector statistics'. Electronic dataset, (<https://stat.mongolbank.mn/?lang=en>)
- Mongolian National News Agency** (2022) 'National Roadmap for Sustainable Financing Adopted'. Press release, 30 March (<https://montsame.mn/en/read/293582>).
- Network for Greening the Financial System** (2019) A call for action: Climate change as a source of financial risk. Report. (www.ngfs.net/sites/default/files/medias/documents/ngfs_first_comprehensive_report_-_17042019_o.pdf).
- Opitz-Stapleton, S., Cao, Y., Khan, F. et al.** (2021) 'BRI Energy Infrastructure in Pakistan: Environmental and Climate Risks and Opportunities'. London: ODI.
- Opitz-Stapleton, S., Borodyna, O., Nijhar, I. et al.** (2022) 'Managing Climate Risks to Protect Net-Zero Energy Goals: Net-Zero Transition Opportunities in Kyrgyzstan, Tajikistan and Uzbekistan'. ODI.
- Organisation for Economic Co-operation and Development – OECD** (2019) 'Mongolia's Sustainable Infrastructure Investments' in Sustainable Infrastructure for Low-Carbon Development in Central Asia and the Caucasus. OECD Report (www.oecd.org/countries/mongolia/sustainable-infrastructure-for-low-carbon-development-in-central-asia-and-the-caucasus-d1aa6ae9-en.htm).
- Rao, M.P., Davi, N.K., D'Arrigo, R.D. et al.** (2015) 'Dzuds, droughts, and livestock mortality in Mongolia'. *Environmental Research Letters*, 10(7) (<https://academiccommons.columbia.edu/doi/10.7916/D8Q81D7S>).
- Reuters** (2023) 'UPDATE 1-Mongolia's Khan Bank issues \$60 mln green bond, country's first'. Reuters, 17 March (www.reuters.com/article/mongolia-banking-greenbonds/update-1-mongolias-khan-bank-issues-60-mln-green-bond-countrys-first-idUSL1N35Po4B).
- Robinson, J.A.** (2013) 'Botswana as a Role Model for Country Success' in Fosu, A.K. (ed.) *Achieving development success: strategies and lessons from the developing world*. Oxford, UK: Oxford University Press, pp186-203. (<https://doi.org/10.1093/acprof:oso/9780199671557.003.0010>).
- Sachs, J.D. and Warner, A.M.** (1995) Natural Resource Abundance and Economic Growth. Working Paper. National Bureau of Economic Research. (<https://doi.org/10.3386/w5398>).
- Sachs, J., Lafortune, G., Kroll, C., Fuller, G., Woelm, F.** (2022) *From Crisis to Sustainable Development: the SDGs as Roadmap to 2030 and Beyond*. Sustainable Development Report 2022. Cambridge: Cambridge University Press.
- Scheyder, E. and Menon, P.** (2022) 'Rio Tinto and Mongolia Settle Feud over Oyu Tolgoi Copper Mine'. Reuters, 25 January (www.reuters.com/business/energy/rio-tinto-mongolia-settle-long-running-dispute-over-oyu-tolgoi-copper-mine-2022-01-24/).

- Shieh, S., Chow, L., Huang, Z. et al.** (2021) Understanding and mitigating social risks to sustainable development in China's BRI: evidence from Nepal and Zambia. ODI Report. London: ODI.
- Stiglitz, J.E.** (2004) 'The Resource Curse Revisited'. Project Syndicate. 6 August (www.project-syndicate.org/commentary/the-resource-curse-revisited-2004-08).
- United Nation Conference on Trade and Development – UNCTAD** (2022) 'Food Value Chains in Landlocked Developing Countries: Measuring Trade Costs and Barriers'. Geneva: UNCTAD (https://unctad.org/system/files/official-document/ditccominf2022d1_en.pdf).
- United Nations Development Programme – UNDP** (2021) 'Cashmere initiatives working together to improve the value chain' (www.undp.org/mongolia/blog/cashmere-initiatives-working-together-improve-value-chain).
- UNDP** (2022) 'Mongolia Launches Guidelines on Environmental, Social and Governance and Sustainability Reporting Standards'. UN Joint SDG Fund, 18 August (<https://jointsdgfund.org/article/mongolia-launches-guidelines-environmental-social-and-governance-and-sustainability>).
- UNDP and AARC** (2019) 'Air Pollution in Mongolia: Opportunities for Further Action. Public Expenditure Review.' UNDP. (www.undp.org/mongolia/publications/air-pollution-mongolia-opportunities-further-actions).
- UNEP, IFC and Mongolian Sustainable Finance Association** (2018) 'National Sustainable Finance Roadmap of Mongolia: Unlocking Mongolia's Potential to Become a Sustainable Finance Knowledge Centre in the Region'. UNEP. (<https://wedocs.unep.org/20.500.11822/33399>).
- World Health Organization – WHO** (2018) 'World Health Organization Issues Recommendations to Tackle Health Impacts of Air Pollution in Mongolia'. WHO, 28 February (www.who.int/mongolia/news/detail/28-02-2018-world-health-organization-issues-recommendations-to-tackle-health-impacts-of-air-pollution-in-mongolia).
- World Bank** (2019) 'Mongolia Central Economic Corridor Assessment, A Value Chain Analysis of the Cashmere-Wool, Meat, and Leather Industries.' Washington, DC: World Bank Group.
- World Bank** (2020) 'Towards Sustainable Management of Natural and Built Capital for a Greener, Diversified, and Resilient Economy; Towards Sustainable Management of Natural and Built Capital for a Greener, Diversified, and Resilient Economy : Policy Note for Mongolia.' Washington, DC: World Bank (<https://openknowledge.worldbank.org/entities/publication/079885f2-7da1-5b46-af4c-co8ded8ba99c>).
- World Bank** (2022) 'Mongolia – Improving the Business Environment and Competitiveness for Economic Recovery (English)'. Washington, DC: World Bank Group (<https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099245406302235161/p17746309b7668030aeco04b4dco85389e>).
- World Bank Group and ADB** (n.d) 'Climate Risk Country Profile: Mongolia'. Washington DC and Manila: The World Bank Group and Asian Development Bank (<https://climateknowledgeportal.worldbank.org/sites/default/files/2021-06/15813-Mongolia%20Country%20Profile-WEB.pdf>).



ODI is an independent, global think tank, working for a sustainable and peaceful world in which every person thrives. We harness the power of evidence and ideas through research and partnership to confront challenges, develop solutions, and create change

ODI

203 Blackfriars Road
London SE1 8NJ

+44 (0)20 7922 0300
info@odi.org

odi.org
odi.org/facebook
odi.org/twitter
