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Mining Sector Contribution to the Efficiency and Effectiveness of the Local Development Fund: A Case Study of Zaamar district, Mongolia

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ABBREVIATIONS

LDF	Local Development Fund
DSF	Development Support Fund
GDP	Gross Domestic Product
LG	Local Government
VAT	Value Added Tax
CRH	Citizens' Representative Khural
NGO	Non-Governmental Organization

1 Abstract

The main goal of this thesis is to study the effectiveness and efficiency of the Local Development Fund in Zaamar soum, with special focus on the interaction between the local government and the local community. The purpose of the LDF is to create conditions for a transparent and accountable governance by collective decisions with the participation of citizens and the local governor. During the research, unexpected feature was Zaamar soum had their own unique fund which called Development Support Fund. Both LDF and DSF were analyzed and suggestions were conducted in the thesis. Moreover, optimization of public spending was created in order to improve current utilization.

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2 Introduction

2.1 Background

With vast amounts of unexploited natural resources, the Mongolian economy has a massive growth potential and will therefore play a significant role for the future development of the country. From figure 1, mining accounts for approximately 83% of Mongolia's exports and 39% of its GDP (1). At the same time, there are concerns not only about the economic sustainability of the mining boom (2), but also about its impacts on local livelihoods (3), the environment (4) and public health (5).

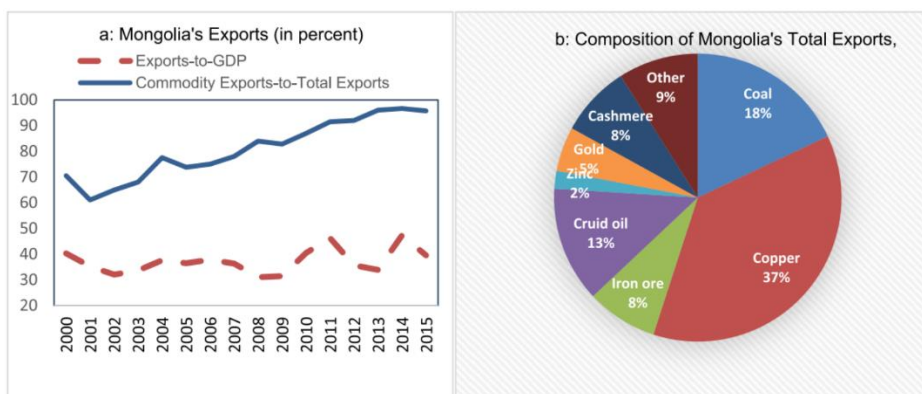


Figure 1: Exports and Commodity in Mongolia

Source: IMF database, Bank of Mongolia, authorities, and authors' estimate.

This Bachelor thesis looks at a case study of Zaamar district in Mongolia. Even though stricter regulations have led to the closure of some mines near the Tuul river, Zaamar district remains an important gold mining region, and adverse environmental effects of the mining have been well documented (4). Nevertheless, mining plays an important role for the regional economy. Moreover, reforms of Mongolia's national budget law have created the instrument of Local Development Fund (LDF), with the basic idea that the local population should benefit from mining developments beyond their direct employment effects (6). According to the website of Local Development Fund (8), 1.137 trillion tugriks were transferred from General Local Development Fund to local development funds during last 7 years.

2.2 Objective of the research:

Via the instrument of LDFs, all private and public mining companies are expected to contribute to local development at the soum (district) and aimag (province) levels. For example, it is reported that the local government of Zaamar soum negotiates a

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contribution ranging from 50 million MNT to 100 million MNT per year from each mining company operating in the district. This thesis critically questions the benefits of LDFs for the local population in Zaamar, which is exemplary for mining in other rural areas of Mongolia. Based on the assessment of the LDF's efficiency and effectiveness, recommendations for an optimized implementation are to be developed.

Following goals were researched within scope of the thesis.

Goal 1: Investigate the effectiveness and efficiency of the local governmental spending of the mining sector contribution to the local development

- Revenue analysis of mining companies' contributions to LDF
- Financial spending analysis on Local Development Fund

Goal 2: Identify the most significant factors in evaluating the effectiveness and efficiency of investments from LDF

- Case study of Zaamar
- Socio-economic analyses (e.g. cost-benefit and PESTLE analysis)

Goal 3: Develop recommendations for optimized LDF implementation

- Develop advise for local decision-makers and businesses
- Suggest control mechanisms for monitoring LDF efficiency and effectiveness

The data used for analysis were collected from various research articles written by scientists and environmentalists, also documents regarding to the LDF of Zaamar soum were approved and taken from the governorl office of Zaamar soum. The research articles on mining sector were selected carefully and the focus of the present study was not to bias the results of the research.

The result of research enables the local citizens to be more participative to the LDF and the local government to be more transparent. The research contributes to the development and implementation of LDF. Its findings can be used for evaluating

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effectiveness and efficiency of LDF funded projects. It could contribute to assessment of current performance of the projects by local government.

3 Literature review

Mongolia is a developing country with enormous amount of natural resources, and exploration of copper and coal deposits are generating substantial amount of revenue. In the report (9) of National Statistics Office of Mongolia, fiscal revenues from mining represent 21 percent of government income in 2010, a figure rose to 24 percent in 2018. In Mongolia, the commodity exports such as mineral fuels, crude oil, iron ore, cashmere and nonmonetary gold account for about 96% of its total exports on average in 2011–2015 (Fig. 1a). And copper itself is the largest exported good, which represents 37% of the total exports, as shown in Figure 1.

Driven largely by the rapidly growing mining industry, the country experienced solid double-digit economic growth from 2010 to 2013. However, in 2015 the weakening of the global commodity market for copper and coal, Mongolia's main export partner, slowed GDP growth to 2.3% in 2015. Mongolia's current population is slightly over 3.0 million, with two-thirds living in urban areas. The poverty rate declined steadily over the past decade, dropping from 39% in 2010 to just below 22% in 2015, though many remain near the poverty line (2). The country's fiscal stance has improved significantly to a surplus of 1.4% in 2019 and 2.6% in 2018 from a deficit of 15.3% of GDP in 2016.

According to an article by Lhagva et al (10), natural resources should ease government budgetary constraints and support an increase in public and infrastructure investment and job creations. Despite its abundant natural resources, Mongolia is still a low-middle income country characterized by weak infrastructure with problematically high external debt.

3.1 Challenges and opportunities in resource-dependent economies

Researchers led by Sachs and Warner argue that resource-rich countries are at the risk of being affected by the “Dutch disease” (11). The origin of Dutch disease started when the Netherlands experienced a huge increase in its wealth in the 1960s, after discovering large deposits of natural gas in the North Sea. Although the Dutch economy increased its revenue from natural gas exports, the significant increase of the national currency from the large foreign currency inflow into the sector resulted in the country's higher unemployment rate, as well as a decline in the manufacturing sector. “Dutch

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disease” model by Corden W et al (12) divides an economy with an export boom into three sectors: the booming export sector and the lagging export sector, both of booming and lagging sectors are considered as traded-goods sectors; and the nontraded-goods sector. The booming sector is generally the exploitation of natural resources such as coal, gold, oil, natural gas, diamond and even coffee. The lagging sector is usually manufacturing and agriculture. The nontraded goods sector includes retail trade, the service industry, and construction.

The article (12) describes an increase in exports of natural resources in the country raises incomes, as more foreign currency flows in. If the increased foreign exchange were spent entirely on imports, the country's money supply or demand for domestically produced goods would have no direct impact. But suppose that the foreign currency is converted into local currency and spent on nontraded domestic goods. What happens next depends on whether the exchange rate of the country is either fixed by the central bank or flexible.

1. If the exchange rate is fixed, the foreign currency's conversion into local currency would increase the country's money supply, and domestic demand pressure would push up domestic prices. This would add up an appreciation of the real exchange rate which means a unit of foreign currency would buy fewer domestic goods and services than it had previously done.

2. If the exchange rate is flexible, the increased foreign currency supply would drive up the domestic currency's value, which also implies an appreciation of the real exchange rate. In this case, an increase in the nominal exchange rate happen rather than an increase in domestic prices.

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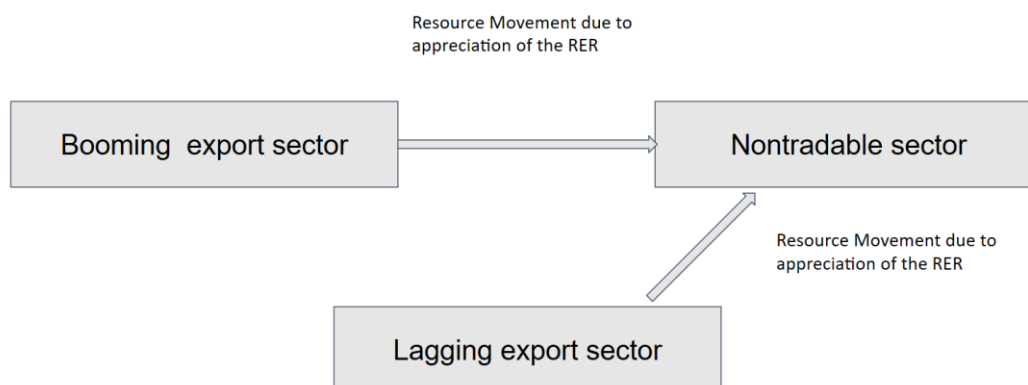


Figure 2: Consequences of the Spending effect

Source: Author's own figure

Real appreciation of the exchange rate weakens the competitiveness of the country's exports in both cases, and causes its lagging export sector to shrink. That whole process is called the spending effect (12) and shown in figure 2. At the same time, capital and labor resources would shift to the production of nontraded domestic goods to meet the increase in domestic demand and the booming export sector. Both of these transfers reduce production in the lagging export sector which is now falling behind. The article (12) defined this as the resource movement effect and shown in figure 3.

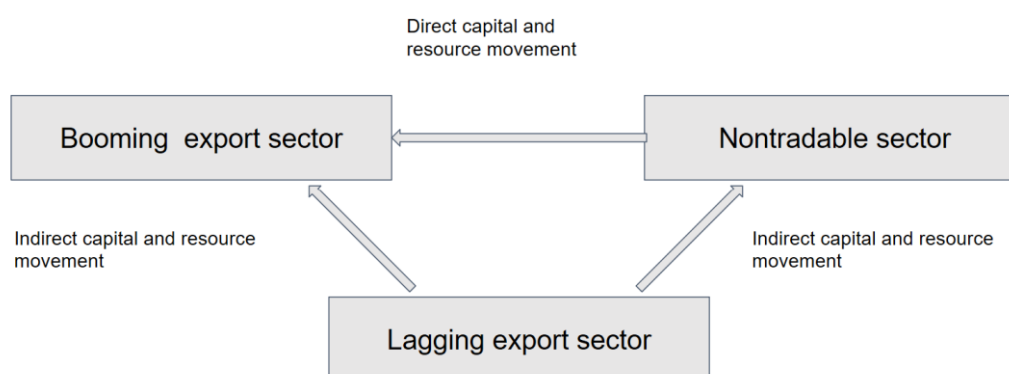


Figure 3: Consequences of the Resource movement effect

Source: Author's own figure

The Spending effect and the Resource movement are the key indicators for "Dutch Disease". The article (2) by Dagys, and K. Heijman, W.J.M. et al (2019) states "the empirical evidence indicates that Dutch disease symptoms were present in the

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Mongolian economy during the booming period”. It emphasizes booming mineral extraction could be harmful to the Mongolian economic in long-term. Mongolian economy will be heavily dependent on revenues from the export of mineral commodities, such as copper, coal and gold while other sectors will be lagging behind. If the global mineral price decreases, Mongolian economy will be in a harmful position.

Some (13) argue that mineral resources are a good opportunity and that a “resource curse” or the “Dutch disease” can be avoided by intelligent politics. Government control over revenues from highly valuable natural resources enhances a political strategy of rentier politics, which enables the political viability of policies to limit the “Dutch Disease”. With good management on the mineral resources utilization, it is possible to limit or avoid too much dependency on the mineral resources. The proper government policies could help to turn it an opportunity rather than a challenge. Botswana is one of the example for tackling the Dutch disease, however Botswana has not entirely avoided symptoms of Dutch Disease. Botswana has kept them largely in check despite the fragility of government when diamonds were discovered. With rentier politics, it is possible to enhance the competitiveness of lagging sector and limit the appreciation of the currency. The development funds such as the Local Development Fund, and SMEs Support fund could be a way to the greater development.

3.2 The Local Development Fund

The Local Development Fund (LDF), which was established through the Budget Law (7) of 2011, is one of the ingenious innovations of the Government of Mongolia. Based on the provisions of the Budget Law of Mongolia, Article 59 “General Local Development Fund” and Article 60 “Local Development Fund”, local governments shall allocate funds from the state budget to support local development. The aim of the LDF is to create conditions for transparent and accountable governance by collective decisions with the participation of citizens and the local governor, to implement, monitor and report on projects, programs and activities. Unlike the other funds, the LDF is not an instrument that the governor or some group can use in order to improve living condition by his/her own decision. The Local Development Fund raised from budget revenues of

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the Government which includes VAT, oil royalty tax, mineral royalty tax, and exploration and exploitation license fee from mining.

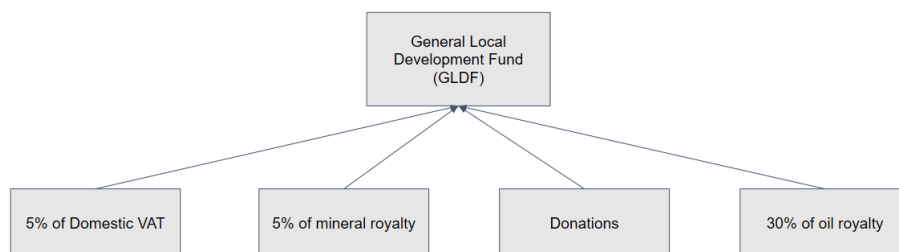


Figure 4: Composition of General Local Development Fund

Source: Author's own chart based on Article 59 of the Budget law

As shown in the fig 4, The General Local Development Fund (GLDF) comprises four sources, including 5 percent domestic VAT, 5 percent mineral royalty, 30 percent oil royalty and Grants and donations rendered by domestic NGOs and official foreign aid to support local development. All of those revenues directly go to the General Local Development Fund.

The GLDF is part of the state budget and 60 percent or a higher portion of GLDF must be allocated to the Soum and District Local Development Fund by considering the allocation criteria.

Allocation criteria are:

- Development index of local government;
- Population;
- Population density, remoteness and size of territory;
- Tax initiatives of local government.

When allocating royalties from the General Local Development Fund to local governments, the local area with mining exploitation receives 10 percent higher than other non-mining areas.

The fund transfer has been shown in the figure 5. Accumulated budget revenues in the General Local Development Fund transfers fund to the LDF of Aimags and Capital city. After receiving the project plans of the next year, LDF of Aimags and Capital city distributes the fund to the LDF of Soum and Districts.

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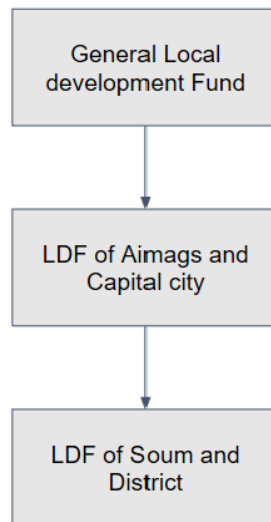


Figure 5: LDF transfer stages

Source: Author's own chart based on Article 59 of the Budget law

Possible projects and activities are stated in the Local Development Fund guideline. In the guideline, projects that provide public utilities, public sanitation, street lighting, cleaning and garbage disposal in the soum territory, should be considered. Moreover, environmental protection, infrastructure development and pasture management projects are feasible to implement for LDF.

According to the budget law, it is prohibited to spend Local Development Fund for the following purposes:

- Programs and programs other than those legally approved to be financed from the local budget;
- Political party and NGOs spending;
- Holidays, marking anniversaries and religious activities other than national holidays;
- Activities which are not in the public interest;
- Issue loans, provide financially consequential guarantees and pledge to cover losses or damages;
- Expenditures and initiatives which do not represent the interests of the local community and are not expressed and accepted in the municipal budget.

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LDF work by first receiving proposals from the local people and selecting the best projects. Local Development Fund has 3 stages which are planning, implementation and reporting stages.

Planning stage will cover following activities:

1. Submit proposals to the bagh / khoroo governor (by filling out a questionnaire, group interview, or in electronic form by the end of January-May of each year)
2. Public meeting (to be held before May 31. Citizens' proposals will be ranked and approved. Citizens will participate.)
3. The soum / district LDF working group will compile and rank the proposals. (Working group will be taking into account the fact that the proposals are not included in the prohibitions, are in line with the soum / district economic and social development guidelines, land management plans, and are available to many people)
4. The soum / district governor shall present to the meeting of the Governor's Council.
5. Soum / district governors shall submit the consolidated list to the soum / district Citizens' Representative Khural together with the draft budget.
6. Soum / district Citizens 'Representatives' Khurals shall discuss and approve the consolidated list for each investment, program, project and activity.

Implementation stage:

1. Investors, programs, projects and measures approved by the respective level CRH shall be selected and executed in accordance with the legislation on procurement of goods, works and services with state and local property.

Reporting stage:

1. The bagh / khoroo governor, in cooperation with the soum / district governor's office, shall provide a detailed presentation on the results of the previous year's LDF activities and the investments, programs and projects to the public.
2. Soum / district governors must inform citizens who submitted the proposal whether the list of investments, programs, projects and activities to be financed by the LDF or not.;

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The LDF of Mongolia is not studied thoroughly. There are only a few numbers of research and analysis were conducted at the moment in Mongolia. The first research was named “Rural Mongolia’s Early Experience with Local Development Fund Utilization under the Integrated Budget Law: Findings and Recommendations” by Peter Blunt in 2013 when the LDF is introduced and implemented for first time. His paper (6) reports on the early experiences of soum and aimag local governments with LDF utilization, and the main problems that have been encountered from a development standpoint. To name some of his findings, the most striking feature of LDF-funded development projects is their restricted range of variability. The same project implemented and still show up over again in every level of local government. The most common projects were street lighting, garbage collection, kindergartens, and public bath houses. The paper criticizes that those projects are may not the most cost-effective or urgently needed. The feasible project list of LDF causing restriction on range and variable of projects. It is caused the shortcoming of public participation. The paper mentioned that citizens did not know what was best for their community from a development standpoint, and there was a lack of public interest. In the early LDF utilization, all of the local governments were using public money to finance investments for private profit. Therefore, project cost estimation was inaccurate. The cost was much more the letter than the former. The study recommended the followings:

1. Rewording the sections of the law that provide examples of LDF projects to make it clear that they are just examples, expanding the range of examples, and placing greater emphasis on the use of LDF for development projects
2. Providing rural soum LGs with access to good quality substantive planning capability
3. Rewarding the design and implementation of effective development projects
4. Providing examples of LDF utilization in selected rural soums throughout the country for others to learn from.

Another research (14) was conducted by Mongolian researchers. In their study, the research team looked at the challenges, experiences, and lessons learned from the implementation of soum development plans, the state budget, and local development funds to improve their coherence by increasing citizen participation. Saintsagaan and Delgertsogt soums of Dundgovi aimag, which are developed and implelenting their soum

development plans, and Binder and Tsenkhermandal soums of Khentii aimag, which are in the process of developing their plans, were selected as cases in their study. To summarize the findings from their study:

1. The soum development master plan defines the future development trends of the soum, plans the work to be done in stages in budget and timeframe, and used as a guideline for successive soum governors regardless of party or political force.
2. It is important to train and develop qualified managers who are able to plan and implement projects, and who understand the role of local development could impact the country's development and economy.
3. Planning the development master plan is slowing down due to the limited capacity of soums to develop and plan projects and programs in rural areas, aimags, and the country while considering socio-economic situation and environmental benefits.
4. When the development plan is realistically developed and the solutions are defined correctly, the conditions for proper budget spending are created, and the public participation is increased. Dissemination of information to the public play a crucial role in mentioned process.

3.3 Effectiveness and Efficiency in public spending

The concepts of efficiency and effectiveness are widely used within the field of public spending, but are rarely defined. However, the calculation of public spending's efficiency and efficacy remains a conceptual problem. The problem arises because public spending has several target projects and outcomes. The outcomes of public spending are often not sold on the market which means that statistics on costs are not available and that output cannot be quantified. Figure 6 illustrates the conceptual framework of efficiency and effectiveness. It makes the connection between input, output and outcome. The most basic measure of efficiency is the input-output ratio. According to Mandl U et al (15), the higher the output for a given input or the lower the input for a given output, implies the activity is more efficient. Effectiveness connects the input or output to the final objectives to be accomplished, that is to say the result. The outcome

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is often linked to goals of welfare or development, and therefore can be affected by multiple factors.

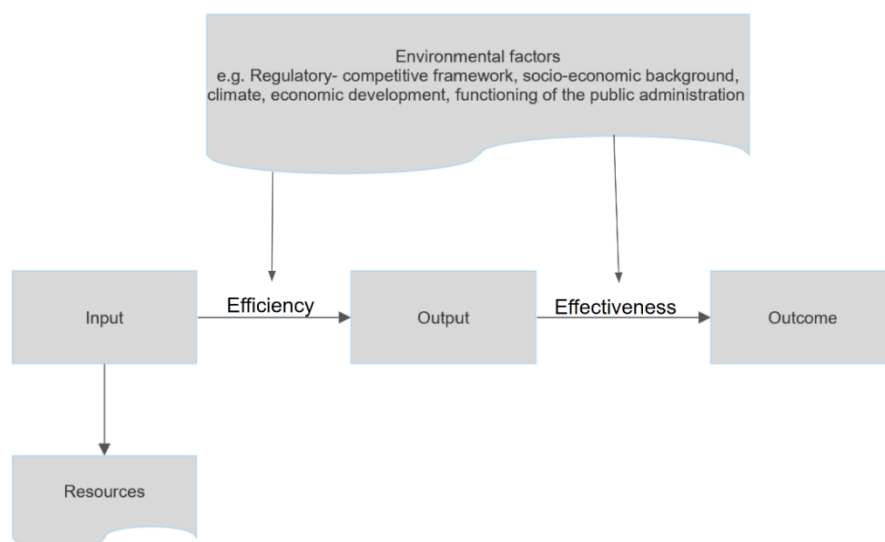


Figure 6: The conceptual framework of efficiency and effectiveness

Source: Author's own chart based on articles (15).

Efficiency cannot be directly measured. There are many approaches to examine efficiency such as revenue analysis, financial statement analysis. Effectiveness of public spending can be defined by degree of public desired outcome.

3.4 Optimization of public spending

The goal of the thesis is to optimize the current way of public spending. The main delivery of the public spending can be achieved through implementing projects which are beneficial to the community. The main optimization process of public spending is establishing participatory processes. Participatory processes include public needs-identification, project prioritization, and project selection process.

Needs-identification is important because it helps the community determine the gaps that are preventing it from reaching its desired goals. Knowing what was working well from the past and what needs to be changed is crucial to progressing effectively toward goals.

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From both a technical standpoint and as a community organizing process, assessing the community needs is difficult (16). Involving the community leader, governmental representatives, and residents makes the needs assessment more accurate and more likely to lead to a broad base of support than if experts alone determine the projects. Blum (17) suggests that needs-identification process involve two fundamental steps.

- The application of a measuring tool or assortment of tools to a defined area.
- The application of judgment to assess the information gathered in order to determine priorities for project planning.

The community and local government must decide what information will generate the most comprehensive identification and assessment of needs in the local area, and what proportion of fund resources reasonably be allocated for the project. Within the limits of current assessment methodologies (18), information about needs is useful in:

- Describing demands for services
- Assessing service resources
- Developing detailed community descriptions
- Examining the relevance of existing projects
- Enumerating factors that aid or impede effective service delivery.

Project prioritization is where people align their project, quantify which projects add value and which are don't add value, and determine project delivery to the community. Prioritization refers to ranking or scoring projects, based on certain criteria. Based on the Supporting good local governance through social funds and decentralization article (), countries have two main approaches when selecting the public project. The first approach is that communities select projects from a social fund's menu through a community meeting and send those projects to the fund. The second approach is that local government coordinate a systematic local planning process in which the community first selects its priority, and those priorities are then discussed and ranked at the municipal level by local government and community representatives. Giving the project selection power to the local community, the delivery of the project better than centrally-controlled and implemented programs. Social funds are central government programs that are national in scope and provide local funding through a scheme that enormous funds for small scale investments. To understand development funds' contribution to good local governance, the analysis of public fund financing must be placed.

4 Methodology and Data collection

The aim of the thesis addresses a practical research problem. Both qualitative and quantitative approaches were used to examine the data. In a quantitative approach of the research, I aim to produce generalizable knowledge about the efficiency of the LDF. The research was conducted with valid and reliable data from the Governor's office of Zaamar soum. It is carefully designed with a reliable variable that can be replicated by other researchers.

The materials used in this article were received from Zaamar soum governor's office. Also, data of development support fund of Zaamar soum were collected directly its office. The data were originally produced in order to report annual budget of LDF to the government. In this research, data collecting criteria were credibility, transferability, dependability and conformability.

Criteria	Issues	Solution
Credibility	Truth value	Prolonged & persistent observation, Triangulation, Peer check, Supervisor check
Transferability	Applicability	Thick description, referential adequacy, prevention of premature closure of the data
Dependability	Consistency	Researcher review, external audit
Conformability	Neutrality	Reflexive journal

Table 1: Research quality

In a qualitative approach, I aim to produce contextual real-world knowledge about the behaviors, social structures and shared beliefs about LDF among citizens of Zaamar soum. As this methodology is less controlled and more interpretive, I reflect on my position as researcher, taking into account how my participation and perception might influence the results.

Location issues were one of the difficulty during the survey and data collection. The soum I chose is 200 km away from Ulaanbaatar. In order to gather information, I had to go to Zaamar soum to meet with the people. Also, there were no detailed report on each

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project implemented by the local development fund. It put some limitations on my research.

No	Expenditure list	Projected budget MNT	Actual transfer MNT	Contracting authority	Completion percentage
1	50 percent of bagh governors' motorcycle procurement	1,700,000	1,700,000	locals	100%
2	Security camera installation in budget	24,000,000	0	No responsible authority	0%
3	Hospital building maintenance	58,193,400	54,816,772	citizen Altangerel	100%
4	Payment for public street lighting	11,030,000	11,030,000	"DSTSTS" LLC	100%
5	High school plumbing and electrical line renovation cost	5,103,811	5,103,811	"Nanobrilliant" LLC	100%
6	Festival cost	5,000,000	5,000,000	Accountant	100%
7	Homeless dog extermination cost	5,000,000	5,000,000	citizen Nergui	75%
8	The remainder(2017) of the cost of installing water treatment equipment in drinking water wells	13,345,680	13,345,680	"AAB" LLC	100%
	Total	99,372,981	95,996,263		84.3%

Table 1: Expenditure of LDF 2018

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No	Expenditure list	Projected budget MNT	Actual transfer MNT	Contracting authority	Completion percentage
1	Maintenance of the roof of a school, dormitory and cultural center	75,000,000	69,852,255	"Munara Construction" LLC	100%
2	Teaching development center in schools	17,000,000	17,000,000	"Zaamar construction" LLC	100%
3	Equipment on Mongolian script cabinets in schools.	19,000,000	18,800,000	"Zaamar baylag" LLC	100%
4	Installing the water treatment equipment in drinking water well	10,000,000	9,990,000	"Usnii zun" LLC	100%
5	Payment for public street lighting	12,302,800	7,800,000	"DSTSTS" LLC	100%
6	Architectural consulting service	9,000,000	4,053,800		100%
7	Concrete bridge maintenance cost	23,000,000	22,950,000	"Chanad deleg" LLC	100%
	Total	165,302,800	150,446,055		100%

Table 2: Expenditure of LDF 2019

No	Expenditure list	Projected budget MNT	Tender issue date	Tender signing date
1	Creating pasture well	36,000,000	2020.2.3	2020.5.1
2	Putting address on households in Tuv and Khailaast bagh	25,000,000	2020.2.3	2020.4.1
3	Installation of cameras in public	15,000,000	2020.1.13	2020.2.15

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	areas (Khailaast bagh)			
4	Improve the road and area of the 1st section of Tuv bagh	165,000,000	2020.2.3	2020.6.1
5	Water reserve tank maintenance	14,000,000	2020.2.3	2020.3.1
6	Maintainance of public lighting	12,829,700	2020.1.23	2020.3.1
7	Striped grass mice extermination	23,000,000	2020.1.17	2020.4.1
	Total	312,829,700		

Table 3: Projected budget of LDF 2020

№	Name of the business entity	The amount of the cooperation agreement MNT	Deposit to the fund account MNT	The amount of labor done by agreement MNT	Not transferred MNT
1	“Gurwal tamga” LLC	50,000,000		50,000,000	
2	“Zaamar gold” LLC	100,000,000	73,850,000	26,350,000	
3	“Ilt gold” LLC	100,000,000	68,350,000	31,650,000	
4	“Tsarig Shonkhor” LLC	50,000,000	30,000,000	20,000,000	
5	“MJJIC” LLC	50,000,000		40,000,00	10,000,000
6	“Uuls Zaamar” LLC	100,000,000		100,000,000	
7	“Erd khul” LLC	50,000,000			50,000,000
8	“Mongol Mining and Expolation” LLC	200,000,000	100,000,000	100,000,000	
9	“Tugs mining” LLC	40,000,000		40,000,000	

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10	"Bayangol Eco Zaamar" LLC	95,000,000		72,951,000	22,049,000
11	"Tsui hang invest" LLC	70,000,000	70,000,000		
12	"Mon Dulaan trade" LLC	50,000,000	50,000,000		
13	Other SMEs	430,000,000	116,000,000	144,000,000	170,000,000
		1,535,000,000	465,244,000	669,711,000	400,045,000

Table 4: Funding amount of Development Support Fund of Zaamar soum

5 Case Study: Current situation in Zaamar soum

5.1 Mining impact on livelihood in Zaamar soum

During the socialist regime, Zaamar soum was one of the biggest agricultural key area to Mongolia. During its peak time, many people used to work in both agriculture and herding. However, many gold deposits are found and the nomadic herders began to dig and pan for a gold in Zaamar soum in late 90s. “This was the period when about 130 placer gold mining companies were established” as stated by Lahari-Dutt (3). More and more gold mining companies were established during the first decade of the twenty-first century and it leads thousands of people to leave their homes and occupations to dig and sift for gold on a part-time or full-time basis. The Mongolian Business Development Agency describe these events as the “First” and the “Second” gold rush. Many herder families were unable to continue their nomadic lifestyle due to loss of livestock and poverty. Herders, impoverished by dzud and drought, have migrated from western aimags to Zaamar soum. In early 2000s, former herders were the largest source of informal miner or ninja. Eventually, herders and farmers changed their profession to miners (3).

Although the mining revenue from gold deposits are crucial to the economy of Zaamar soum, placer mining has caused extensive damage to the Tuul river, and the Orkhon and Selenge river ecosystems (4). The gold mining companies and towns are located along the banks of the Tuul river. Over 80 mining companies and multiple illegal miners named Ninja are extracting gold from placers and/or hydrothermal deposits on the banks of the Tuul. Most of the placer miners use the mechanical separation with a bucket-line dredge and the washing with pressurized water spraying to extract gold grains from alluvial sediments near the river. During the dredging and washing with water, alluvial sediment particles of clay and silt are mixed with water and produce a very high turbidity of brownish-colored water. Direct release of this turbid water to the Tuul river cause the negative impact on the drinking water quality. Tuul river waters are highly enriched in sulfate, locally exceeding the drinking water standard (250 mg/l). This issue could rise health problem to the people in near future.

In addition, the natural land cover in the Zaamar region primarily consists of a poorly vegetated grassland steppe. The sparse vegetation in combination with grazing makes

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the landscape vulnerable to erosion and degradation. According to Jarsjö, J et al(4), the local Arsenic concentrations in Zaamar soum were on the average about four times higher than the state-permitted level, up to nine times in several points. Therefore, soil erosion rate within Zaamar soum, is high considering the arid conditions, showing values on the order of $10\text{t month}^{-1} \text{ km}^{-2}$.

5.2 Development Support Fund of Zaamar soum

Aside from the Local Development Fund, Zaamar soum has their own unique fund which is called the Development Support Fund. The Development Support Fund of Zaamar soum (DSF) founded in order to create a better livelihood for the people of Zaamar soum. The DSF has its own objectives and system which are similar to the LDF in some ways. The DSF has the following objectives:

- To determine the direction of local development
- To research possible local development programs and activities
- To implement projects regarding to local development
- To organize meetings and workshops with the local people

The DSF Is funded by cooperation agreements with local mining companies. The cooperation agreement stipulates that the local mining company is required to pay 50-100 million MNT to the DSF of Zaamar soum or equivalent labor has to be performed in the Zaamar soum. The DSF is also required to cooperate with Citizen representation Khural of Zaamar soum. DSF aims to keep financial and operational reports transparent to the public.

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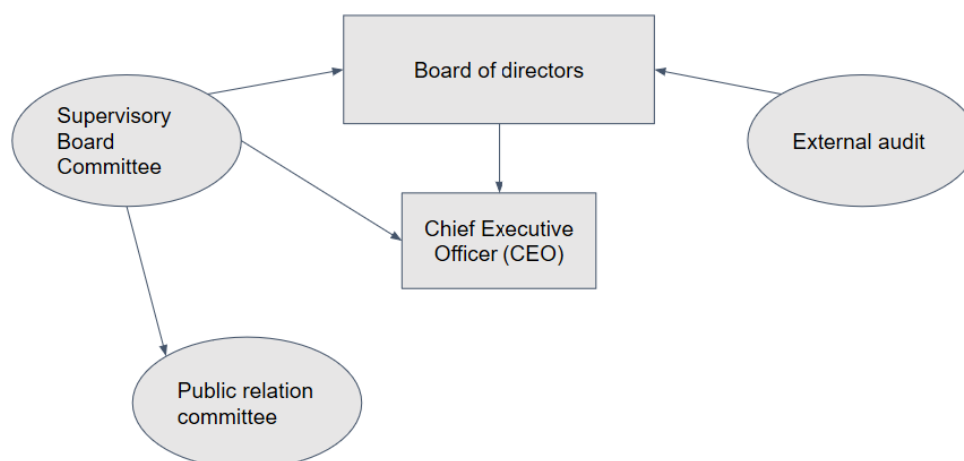


Figure 7 DSF organizational structure

Source: Author's own chart based on DSF guideline

Board of directors of DSF has 9 members.

Responsibility of each committee and personals are describes in the following:

1. CEO: To submit citizens' suggestions, projects and programs at the board meeting, to fulfill the tasks given by the board in accordance with the rules, and to participate in meetings and agreements on behalf of the foundation.
2. External audit: To overseeing the funding and spending of the Fund
3. Supervisory Board Committee: To monitor and to organize implementation of all activities including projects and programs of the DSF.
4. Public relation committee: To build positive relationship with both local government and citizens.

Board of directors is fully committed to collective decision-making for choosing project and programs. Meetings of Board of directors has two types which are regular and irregular. Regular meetings shall be held at least 4 times a year and shall be planned in the annual working plan. Irregular meeting shall be help by the request of 1/3 of board members.

In the regulations of DSF, the feasible projects and programs in different fields are described and in the following:

- Agriculture and manufacture

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The projects that aim to provide positive impact on the livelihood of soum residents. Feasible projects cover topics regarding to support and develop intensive animal husbandry, improve the quality of livestock and increase the crop yield.

- Education, culture, science and sport

It covers all projects aimed at improving the quality and standards of educational services, increasing the capacity of human resource, and providing a comfortable environment for children. Also, it provides tuition and stipends to students pursuing a bachelor's degree or higher. It supports projects and programs to protect historical and cultural monuments and to educate people about those monuments.

- Infrastructure and construction

Support projects to build public infrastructure, public facilities and equipment that will contribute to the improvement of living standards, social services and local development in Zaamar soum.

- Environment

Support projects and programs such as creating green facilities, protecting against desertification, protecting drinking water sources for people and animals, and improving waste management.

- Emergency aid

Emergency aid can be provided to the target groups including people who are in critical medical conditions.

5.3 Dutch Disease symptom in Zaamar soum

Both the Spending effect and the Resource movement effect of Dutch Disease can be seen in the Zaamar soum. The economy of the Zaamar soum is generating significant amount of revenue from mining sector. Before the introduction of gold mining, Zaamar soum was known as their animal husbandry and agriculture. There have been a lot of activities regarding to the agriculture during the communist regime. Moreover, agriculture have been core of the revenue until gold ore discovery. Due to the gold ore deposit in Zaamar soum, a lot of companies from other areas and foreign countries invested hugely in mining. Those investments led labor migration to Zaamar soum. The mining sector should be considered as booming export sector and agriculture should be

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considered as lagging export sector. Due to the huge investment in the mining sector, people who used to work in the agriculture moved to the mining sector and the agriculture began to decline. This is symptom of the resource movement effect of Dutch Disease. Also, due to the migration of people, the number of small stores, service sector has significantly increased. Therefore, Zaamar soum significantly higher spending than other neighbor soums and its governmental spending is growing.

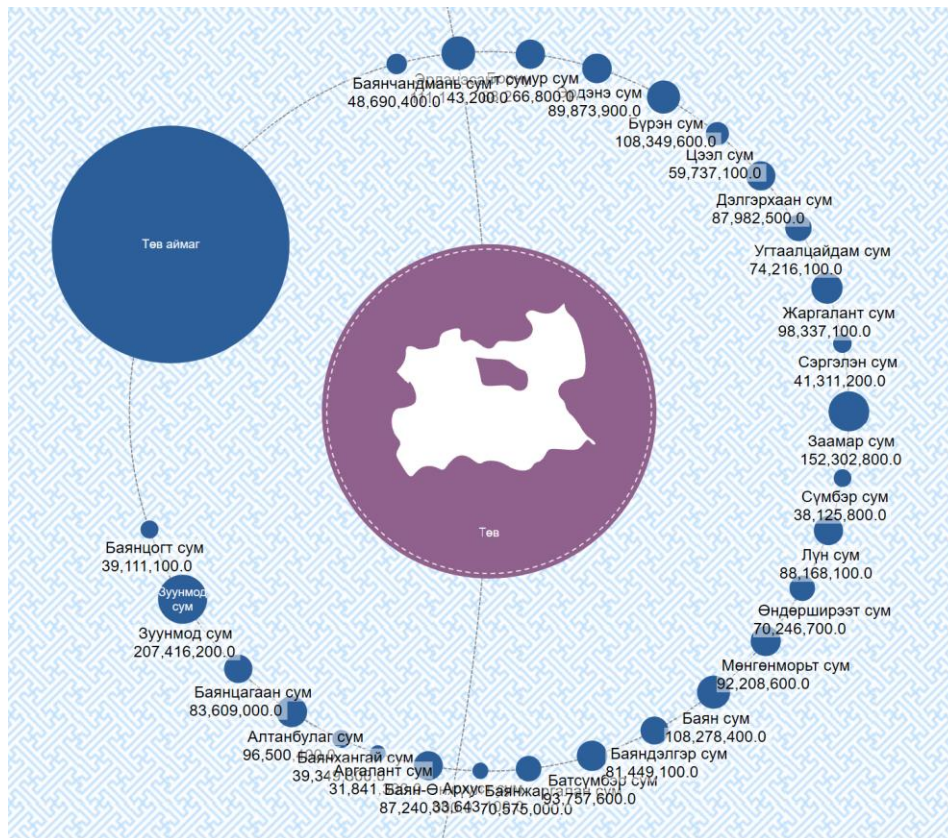


Figure 8: LDF allocation to the soums of Tuv aimag 2019

In the figure 8, Zaamar soum has significantly higher governmental spending that the other soums except Zuunmod sum. The reason of Zuunmod sum is higher than Zaamar sum is that Zuunmod is the capital of Tuv aimag and the most populous settlement in Tuv aimag. It is clear evidence of the spending effect. Since 1993, one of the most dynamic sector of the Mongolian economy became mineral production. Mongolian economy tripled in size from \$3.4 to \$11.5 billion between 2006 and 2013. Meanwhile, the service sector had 13% of increase, from 37% to 50% of the economy at the expense of the agricultural sector, which declined from 20% to 16% of the economy (2). From the observation, it can be said that Dutch disease exist in Zaamar soum which

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is harmful in the long-term economy. Maybe in 10 to 20 years, the mining ore will be depleted and the agricultural sector could not handle pressure from the disappearance of mining sector. For this reason, the LDF should focus on sustainable development to the local area. The sustainable development should focus on continuous revenue generation with minimum amount of exposure to the environment. The energy sector should be considered within this context. Because, the power outage became ordinary in last 2 years in Zaamar soum. The mining leading company which is called “Shijir alt”, had built the small power plant and providing electricity to the local area. In recent years, the company depleted their reserve and initiated movement to the other area. It resulted inconsistency of electricity.

6 Result and Discussion

Financing for development in highly centralized governments may take a considerable amount of time to filter through various bureaucratic layers before it reaches local government. According to the interview with local governor, it takes considerable amount of time and pressure from the higher level of authorities. To reduce both time and pressure, Local development fund is used as a source of funding for development that is transferred directly to local governments and communities, promoting faster, more direct disbursement of the funds in case of Zaamar soum. This can provide some degree of fiscal autonomy for the local government and communities over their own development agenda, and lead to development projects that are in line with both their needs and management capacities. The LDF in Zaamar soum are often used to finance community-based, small-scale development projects, such as maintaining public buildings and connecting roads between baghs. When properly designed and implemented, the LDF should serve to unload higher-level government micro-management burdens and empower local authorities and communities with discretion over how funds will managed. Keeping LDF projects small and simple allowed citizens to contribute to society to a certain contribution through voluntary participation and labor. In my point of view, community participation will increase community ownership and decrease opportunities for corruption. The diversity of local demands for public benefit, projects under LDF should be vary across many different fields. Those projects also should be selected depending on the impact on their lives within the budgetary constraints. The local people are able to align their demands with resource allocation.

To assess efficiency of the LDF, the cost-benefit analysis was conducted on projects of LDF in 2018 and 2019. The budget of the LDF in 2018 was 88,223,400 MNT and 152,302,800 in 2019. The benefits in cost-benefit analysis, is typically in quantity, but the benefits of the LDF projects are can't be quantified. The most of the projects are used in maintenance and street lighting.

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No	Expenditure list	Total cost MNT	Benefit
1	50 percent of bagh governor's motorcycle procurement	1,700,000	By owning motorcycle, the bagh governor could visit more citizens than before.
2	Hospital building maintenance	54,816,772	The hospital building was renovated and remodeled. The patients and customers would feel more comfortable. Also, the maintenance would increase the usable year of the building.
3	Payment for public street lighting	11,030,000	Unlike the urban area, there is a limited amount of lighting in rural area. By establishing more street lighting, the people would feel more secure during night time. It would also improve appearance of the local area
4	High school plumbing and electrical line renovation cost	5,103,811	Increase the usable year of the building. Create more friendly environment to the students.
5	Festival cost	5,000,000	Relieve the burden of the general budget of Zaamar soum.
6	Homeless dog extermination cost	5,000,000	People would feel more secure around the public area. No more infection from homeless dogs.
7	The remainder(2017) of the cost of installing water treatment equipment in drinking water wells	13,345,680	Increase the living condition of the people in rural area. The citizens have more access to the drinking water.

Table 5: Expenditures and benefits of LDF in 2018

In the table 5, the procurement of governor's motorcycle and festival cost are prohibited utilization of the LDF. Both of them are not effective and efficient. If it was necessary in that situation, the governor should have used another financing by the state budget or DSF. The highest portion of the expenditure in 2018 was hospital building maintenance. The maintenance is an ineffective and in efficient way to utilize the LDF. Because, there have been a lot of maintenances and renovations to the hospital in previous years. Since the budget was high, the money should have spent on alternatives which are to solve more threatening and urgent matters. In my view, the procurement on water treatment

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equipment is an example of utilizing the LDF, because area with the mining operation is having contaminated water.

№	Expenditure list	Total cost MNT	Benefit
1	Maintenance of the roof of a school, dormitory and cultural center	69,852,255	Increase the usable year of the building. Create more friendly environment to the citizens.
2	Teaching development center in schools	17,000,000	Teaching methods have improved. Teacher can focus on their improvement. Students have more access to the teachers.
3	Equipment on Mongolian script cabinets in schools.	18,800,000	Students have more interest in Mongolian script and history. Students could invest more in to their hobbies.
4	Installing the water treatment equipment in drinking water well	9,990,000	Increase the living condition of the people in rural area. The citizens have more access to the drinking water.
5	Payment for public street lighting	7,800,000	By establishing more street lighting, the people would feel more secure during night time. It would also improve appearance of the local area.
6	Architectural consulting service	4,053,800	More sustainable development of infrastructure planning.
7	Concrete bridge maintenance cost	22,950,000	The people in the rural area have more access to the soum center. The bridge was outdated and out of order. With the maintenance, the citizens travel faster than before now.

Table 6: Expenditures and benefits of LDF in 2019

In 2019, the soum governor was replaced and a new person was appointed. This has led LDF spending to move in a slightly different direction than in other years. From the table 6, the implemented projects are more effective and urgent than previous years. For example, teaching development center and equipment on Mongolian script were very successful projects. A lots of student from Zaamar soum participated Mongolian script competition and awarded. In addition, installing water treatment equipment is one of the crucial aspect in rural area. However, the majority of the budget went to the maintenance

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on several public facilities. It is not clearly effective or efficient project at all in my opinion. Because, there are some possible ways to finance maintenance which are the state budget and the Development Support Fund. The bridge maintenance was one of the urgent need for the locals.

No	Expenditure list	Projected budget MNT	Benefits
1	Creating pasture well	36,000,000	People in rural area will get more access to the drinking water.
2	Putting address on households in Tuv and Khailaast bagh	25,000,000	Some households don't have legit address.
3	Installation of cameras in public areas (Khailaast bagh)	15,000,000	Increase social security and decrease crime.
4	Improve the road and area of the 1st section of Tuv bagh	165,000,000	The local appearance will be significantly improving.
5	Clean water reserve tank maintenance	14,000,000	The tank had no maintenance in long time. The repairing it would secure the clean water reserve.
6	Maintainance of public lighting	12,829,700	By establishing more street lighting, the people would feel more secure during night time. It would also improve appearance of the local area
7	Striped grass mice extermination	23,000,000	The grass mice are causing a damage to the pasture land. The extermination is required to save pasture land.

Table 7: Expenditures and benefits of LDF 2020 plan

The biggest portion of the plan is the improvement of the road and its area. In my point of view, this project is not efficient utilization of the LDF. In the table 7, this project expected to cost about 165 million MNT which is roughly equal to the LDF budget of 3 or 4 soums. Since it is very costly to build the road and the return on the road is long-term, it is not urgently needed and efficient. But, the road improvement should be financed through the Development Support Fund. The DSF has available cash for the

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moment. There are some effective projects in the 2020 plan such as creating pasture wells, installation of cameras, and putting address.

The most repeated project implemented by LDF is Maintenance of public lighting. This kind of project is not only common in Zaamar soum, but all over the Mongolia. The 10 million MNT might be not big number for the soum LDF, however in bigger picture the lighting maintenance cost could be more than 1 billion MNT. Instead of spending this, the government should focus on innovation the current situation.

The Development Support Fund

In 2018, the DSF signed cooperation agreements with 17 mining companies and agreed to receive 1.2 billion MNT in funding, but received 457 million MNT. In same way, the fund signed cooperation agreements with 18 different mining companies and agreed to be funded 1.5 billion MNT in 2019. But, the fund received 465 million MNT in cash into their account. In budget wise, while LDF had 163 million MNT budget, DFS had agreed to be funded 1.2 billion MNT. It shows that DFS is far superior in budget than LDF. To compare LDF with Development Support Fund (DSF) of Zaamar soum, there were a lot of ambiguity among expenditure of the DSF. In table 4, the DSF of Zaamar soum supposedly financed more than 1.5 billion MNT through agreement with mining companies operating in local area. However, only 30% of fund were transferred as a monetary. 43.6% of DSF were considered as fulfilled by other activities such as road pavement and maintenance. Remaining 26.7% of fund were never deposited to DSF account. It shows there is no responsibility among DSF. On the other hand, LDF is regularly monitored by citizens and audits from higher lever government.

DSF effectiveness

No	Sectors	Budget available to spend MNT	Actual transfer to projects MNT	Remaining budget MNT
1	Agriculture	161,031,650	130,340,470	30,691,180
2	Education, culture and science	78,424,655	58,148,829	20,275,826

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3	Infrastructure	487,001,550	321,269,178	165,732,372
4	History and culture	41,254,655	28,978,183	12,127,472
5	Health	27,730,995	12,385,405	15,345,590
6	Others	136,140,852	99,686,202	36,454,650
	Total	931,584,357	650,808,267	280,776,090

Table 8: Sectorial expenditure of DSF 2018-2019

The DSF of Zaamar soum spent huge amount of money on many sectors as shown in the table 8. The agriculture and infrastructure sector had the biggest portion of the money. As shown in the figure 9, 49% of the DSF were used in infrastructure sector and 20% of the DSF were used on agricultural sector.

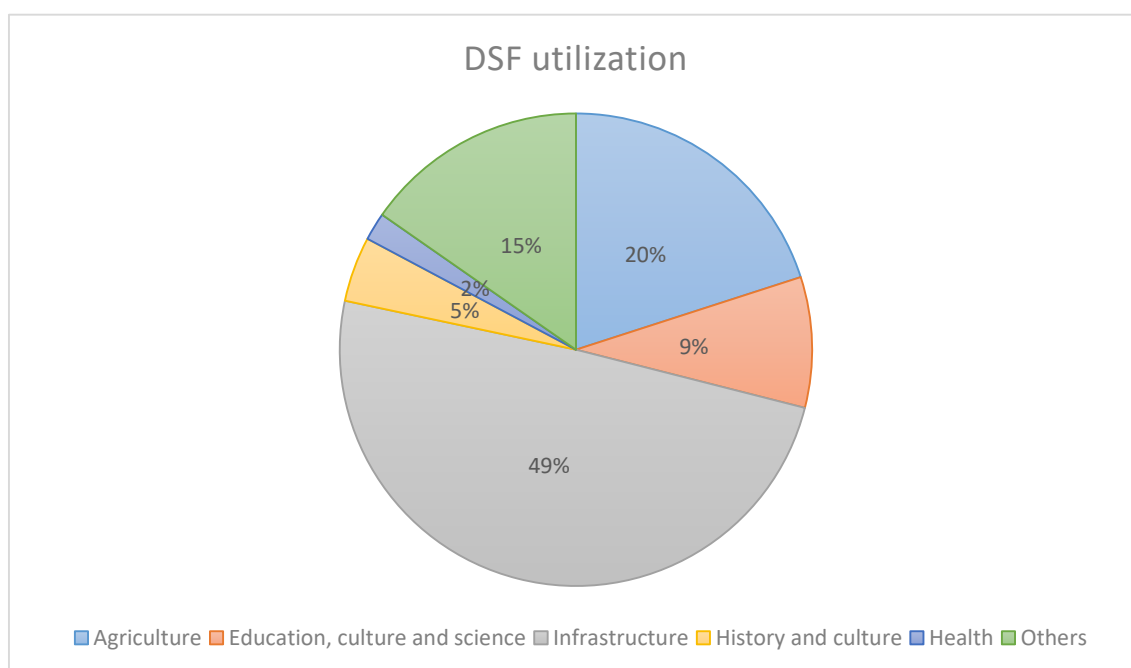


Figure 9 Sectorial utilization percentage of the DSF

In infrastructure sector, the local community spent 240 million MNT for designing a new structure planning of the soum. This project is named “New Zaamar” and it is much wider and bigger project than any other at the moment. In concept of “New Zaamar” project, the DSF built two houses for showcase which are worth 130 million MNT. The project has been very progressive until mid-2019 and it has been stopped due to political issue.

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In my point of view, huge investment on infrastructure is not best solution to the Dutch disease. This kind of investments are more likely to improve living condition of the citizens but it is completely ignoring the income inequality among the community. There are limited opportunity for generating revenue in the community. Within 10 to 15 years, the most of the mining companies will completely exploit the resource and will be gone. In this case, the remaining sectors will be surely go bankruptcy. In order to prevent it, the soum governor, the local community, and development funds should more focus on alternative ways to generate and sustain income. The agricultural sector has been core of the income before 2000s and it has been ignored for years. Since Zaamar soum has fertile soil and vast land, the right investment on agriculture could be the way in the future. Not only cultivating crops, the intensive animal husbandry could be another way to generating revenue. To compare with other distant soums from Ulaanbaatar, Zaamar soum has more access to the capital city.

Similarities and difference between the LDF and the DSF

The Local Development Fund in the Zaamar soum was insufficient in terms of budget and availability to the local people. For this reason, I assume that the DSF were created. Significantly higher impactful bigger projects are cannot be funded by the LDF. In such cases, the DSF can be used. According to the DSF report, "New Soum" project was received initial investment of 150 million MNT from the DSF. This amount of investment is almost same as the LDF budget. Therefore, project selection process of LDF takes much longer and more detailed, some urgent projects and programs cannot be implemented by LDF. Therefore, the local people who missed to first deadline of the LDF have to wait one more year if they need to get funding from the LDF.

The DSF provides loans to individuals at the soum, rather than to community development projects. Providing loans are not good utilization of the fund. My assumption is that since the DSF has not active projects at the moment, they have an excess cash. This is not optimal condition.

Since the main purpose of both LDF and DSF is the same, there are many similarities in these two funds. Both of them aim to support development in the local area. Table 6 shows difference between LDF and DSF. In budget wise, DSF is much bigger than LDF. The LDF is not used freely by local people. The local community decides what is the best project and what is the public interested project. On the other hand, DSF is available to

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every citizen with purpose of development. The project prioritization and selection process of DSF is much more flexible than the LDF. In terms of fund scope, both of the funds are aim to development of Zaamar soum. However, the DSF is covers more field than the LDF. The DSF is used to support local entrepreneurs, lend a loans, and pay medical fees for local people who are in critical conditions. Since the community participation is key leverage for both development funds, transparency of projects is clear. Multiple audits from higher level authorities check procedures of the LDF. The DSF published semi-annual and annual financial report to the public however, the report lacks detailed information about fund spending.

	Local Development fund	Development Support Fund
Budget	150 to 200 million MNT	1.2 billion to 1.5 billion MNT
Availability to the public	Limited to the local community	It can vary from the local people to the local community
Scope	Development of the local area	Development of the local area, support the local community
Transparency	Local community report, External audit from the government, transparent to the people	Local community report, Annual financial report, detailed reports are don't provided to public
Responsibility of the chosen project	High responsibility	Limited responsibility

Table 9: Key characteristics of funds

The optimization of the Local Development Fund at soum level

Local community participation

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Due to the remoteness of the area, many of herders are not available to participate in the community meeting. In some cases, citizens don't know what is best for their community from a development standpoint, lack of the public interest in LDF, and the people who showed up to community meetings tended to be the elderly and the unemployed. The local government should take an action to get more participants in the meetings. Also, locals should be more involved in the meetings for their future, because mining sector has limited capacity to sustain local incomes. New ways to support citizen participation need to be researched and implemented. In Ulaanbaatar, citizen involvement successfully implemented online via SmartUB application in 2019. In this method, citizens of 42 khoroos in 6 districts participated, and 43 percent or 76,330 of the total 176,00 citizens voted the given projects using the SmartUB application. This method has a great potential.

Needs-Identification in Zaamar soum

The local community needs to learn what are their needs, and how to prioritize proposals and selection. The LDF uses financing bottom-up planning which the local community plays a participatory role, but the alignment of funding to community need is not a simple process. The community is not well defined their needs. There should be processes for identifying community needs. My suggestion for community needs identification is the people in Zaamar soum should assign representatives among themselves. The representatives should hold a meeting among the community and understand the current needs of the community. Then, representatives should act as a bridge between the local government and the local community. The officials from the local government should advise on socio-economic development issues to the representatives. The representatives take the task of formalizing community needs into proposals. Unlike the current assessment, this should be an iterative process, with much revision and direct discussion with local communities. The suggestion is shown in the figure 10.

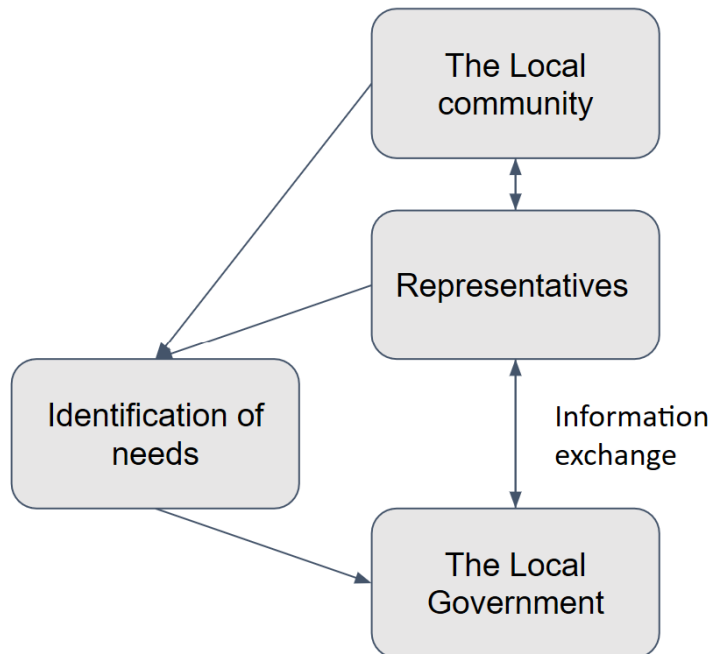


Figure 10: The community need identification

Source: Author's own suggestion

Needs assessment

This thesis suggests needs assessment form for identifying the current need for the local community. The suggestion to needs assessment form is in the annex 1. The local representatives should give the form to the local people. In the form, it asks the current problem to the locals and solution for it. Also, what kind of activities has already done to the problem and what resources are available locally to help the needs, were questioned in the form. The main goal of the form is to conduct the survey among the community to support representatives who are collecting the needs that are present in the community. Downside of this form is that it is might be vague for the local people to fill out, also it only asks about the short-term problems. To sustain the local area, long-term plan and bigger needs should be assessed. This form should be improved in next time.

When the community needs assessment is conducted, it should be summarized by the community representatives and government. Suggested assessment summary form is

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in the annex 2 and annex 3. While filling this form for needs assessment summary, the key planning considerations are reviewed and decisions should be recorded. By outlining the assessment objectives, design, division of labour, and risks, the form serves as a reference manual throughout the assessment. In annex 2, local government and local representatives must co-operate together to fill the form based on the needs assessment from the locals. Annex 3 also helps to ensure all stakeholders are on one page regarding the assessment format and output. In my point of view, annex 3 should be conducted before the annex 2. The annex 3 describes the details of the needs and its methodologies.

Proposal Prioritization and Selection

Needs of community are collected through meetings and proposals of the project should be submitted to a particular fund, such as the LDF or the DSF. The proposals are not necessarily linked to the particular fund. The meeting among locals should be held to determine the best-aligned funding source for a given proposal. Proposals are prioritized and selected according to their alignment with fund objectives. However, criteria and objectives of the LDF for the project is limited and the objectives of DSF are vague. There is a way exist in how proposals are prioritized and selected. Committee members should base their decisions on factors such as community participation to the project, number of benefits, and poverty incidence in the area. Moreover, projects that received funding last year ineligible for project funding this year while keep in the mind that other government or local funding is taken into account. Although suggested needs-identification system is a promising, but it lacks formality, and the community is may not actively involved in the decision-making process. An another risk is that there is no guarantee in the needs gathered by chosen representatives actually in line with what the community voiced.

A local planning system increases efficiency by promoting a process by which the community express its preferences. The following two conditions were identified as important for achieving greater efficiency when implementing a project planning system.

- Project prioritization should be based on an open menu of choices, although it is appropriate for funds to limit the types of project they support financially.

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- Guidelines are required to avoid the dominance or unequal manipulation of the expression of local preferences by representatives.

Project	Scoring	Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Total Project Score	Priority
		25%	15%	20%	10%	30%		
Project A	Rating	9	8	7	6	4	6.65	2
Project B	Rating	8	5	4	7	3	5.15	3
Project C	Rating	8	7	9	6	8	7.85	1

Figure 11: Project prioritization for local government (example)

To prioritize projects which are suggested from the local community, figure 11 can be used. The figure 11 is an example to illustrate how this works. Each projects should be rated from 10 and each criterion should be weighted. Criteria can be anything such as urgency, cost, relevance to the development, and result. The project with the highest score should be prioritized first.

The governor should incorporate strategic planning into the local development fund. There are two elements facilitate making good local strategic decisions.

- First, the possibility of discussing tradeoffs between alternative investments to arrive at the option with the highest benefits.
- Second, the possibility of integrating investments across sectors and levels of government to achieve synergistic development gains.

If the public fund doesn't go through a comprehensive local planning process, the most essential project would miss the opportunity to get investment. The most of approved projects are with little or no consideration of broader development plans or priorities.

The most significant factor of success or failure of the project is determined by how well implementation is carried out. Releasing funds and handling procurement are the main responsibility of the local government. The effective way of handling procurement can provide benefits in terms of effective supervision, accountability, and production

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efficiency. By using transparent and objective criteria to fund projects, development funds foster accountability by reducing discretion and establishing clear procedures of the fund that can be enforced. LDF funds should only be used for citizen-approved and guaranteed investments. Therefore, the Local Development Fund is not a lending fund. It is a public investment fund which must be beneficial for citizens.

LDF in the future and Ensuring Project Sustainability

The LDF has decreased substantially in size since its introduction, it is important to invest in the long-term growth and coordinated development of the soum. There are 27 soums overall in Tuv aimag. Most of soums don't have mining companies or significant revenue generating sector. There is huge gap of LDF budget between Zaamar soum and others soums. The LDF of Zaamar soum sometimes triples the amount of others due to its mining sector. However, total amount of the LDF decreased in 2014, 2017 and 2018. Table 8 shows the LDF of both Tuv aimag and Zaamar soum. It can be concluded that fund is decreasing. There is ambiguity that whether the LDF will increase or not in next years.

Year	The LDF budget of Tuv aimag MNT	The LDF budget of Zaamar soum MNT
2013	7,621,699,990	246,099,800
2014	10,307,469,400	271,810,800
2015	4,580,953,669	127,704,400
2016	6,679,827,408	596,229,400
2017	1,808,210,106	167,049,500
2018	3,211,887,323	88,223,400
2019	5,094,685,600	152,302,800

Table 10: LDF budget from 2013 to 2019

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Source: The General Local Development database, www.onhs.mof.gov.mn/

The Government of Mongolia is implementing the “Third Sustainable Livelihood Project (SLP3)” which aims to improve governance and community participation for the planning and delivery of investment in rural areas of Mongolia. Within this broader development objective, the SLP3 focuses on building enhanced information sharing to the citizens of the local area, and to improve the management of the LDF at the local aimag and soum levels.

Perspective

Foster entrepreneur activity and environment. The local government should more emphasis on entrepreneur activity among the local communities. Maintenance projects should be done by DSF. The LDF should more focus on initiating the sustainable project and further investment could be financed by the DSF.

Choosing same project over again for the LDF is not optimal, to sustain the long-term project, the DSF should inherit the responsibility to implement the LDF based projects. Also, the DSF has excess cash in their account, instead of saving them, it is better to sustain more development focused projects. However, using the LDF and other funds to co-finance will require careful design. It is possible that if the fund is only required to use in specific sectors, local governments with limited budget will have an incentive to use all their own untied funds for investments in these required sectors. It will result in reducing government capacity to respond to other local priorities. This incentive could be solved through mixture of the development funds. The soum development master plan should be conducted and implemented. The purpose of the plan is to ensure the sustainable long-term development in the local area. In the development plan, the financing the projects should be clearly stated. Since the soum governor has more power than other communities when it comes to utilization of public spending, replacement of soum governor could impact the sustainability of development direction. If the new governor follows the development plan, the risk of sustainability will be tackled. The most notable thing of the LDF funded projects is their limited variability range. The reason LDF is not effective in some ways is that LDF project eligibility criteria is restricting tons of projects. In some instances, urgent and important matters – such as heating maintenance – could not be implemented due to restrictions. Same projects such as

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street lightning, waste collection and disposal, public facility maintenance show up repeatedly since the introduction of LDF. This doesn't mean those projects are not necessary, but more like they are not the best solution to the problem or most urgently needed. The effective projects should more focus on to optimize sustainable human development such as health, education and income or to reduce inequality.

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8 ANNEX

TUV AIMAG, ZAAMAR SOUM

Community Needs Assessment form

...-... Month 20...

Explanation: Local Development Fund projects requesting the investment must include a community needs assessment. Needs assessment shall help the community to identify the current problems and find solution for it. Please provide detailed answers to the following questions.

1. Name:
2. Describe the current problem that you are facing. If possible, please include any relevant statistics about the problem.

3. What is the solution in your opinion?

4. What is already being done to respond to the problem?

5. What resources are available to help meet the needs?



Annex 1 Needs assessment for the local community

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ASSESSMENT CONCEPT NOTE > [Assessment Name](#) / [Date of note](#)

Assessment Summary

..... Month 20....

Explanation: Community needs should be formalized and formatted. The purpose of summary is to formalize the community needs.

Timeframe	
General Objective	
Specific Objectives	
Targeted groups	
Sectors covered	
Budget	
Outputs	
Responsibility	

Annex 2: Assessment summary for local representatives and government

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ASSESSMENT CONCEPT NOTE > [Assessment Name](#) / Date of note

Assessment objective

Background and rationale

Insert the background for undertaking a needs assessment with a brief introduction to the context in the local area, the current information landscape and the rationale for the exercise.

Objectives

Indicate the general and specific objectives of the exercise as agreed with all those involved. Ensure objectives, or key questions to be answered, are sufficiently specific, including the scope, coverage, timeframe. Define at strategic and/or operational decisions need to be made and who will be making those decisions.

Scope

Geographic scope, targeted groups of interested, clusters/sectors covered, time.

Methodology

Information needs and analysis framework

Explanation on how information needs were developed and prioritized. Include analysis framework and data analysis plan, including required disaggregation.

Methods

Describe the initial methodology of the needs assessment, ensuring to detail data collection techniques, unit of measurement, sample method, data capture methods, tools and training.

Definitions of key concepts

Define main terms used within the assessment to ensure an agreed interpretation. Presumed common humanitarian terms, such as household, urban, vulnerability, are often interpreted in different ways.

Timeline and work plan

Indicate the timeframe for the needs assessment exercise and outline a timeline for planned activities.

Governance

Detail the governing and coordinating structure. Make sure to record who needs to sign off on which assessment activity and output, as this is often a bottleneck and cause of delays.

Implementation

Indicate the different organisations and stakeholders involved, elaborate on their specific role and contribution to the process.

Assumptions and risks

Outline assumptions and potential risks impacting the needs assessment.

Annex 3: Details for the Needs Assessment summary