

Reality in the commodity markets: *Opportunity for good governance reforms?*

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www.resourcegovernance.org

**Keynote speech at the Mongolia Economic
Forum Ulaanbaatar, Mongolia, 31 March 2016**

The Governance Challenge: Outline in brief

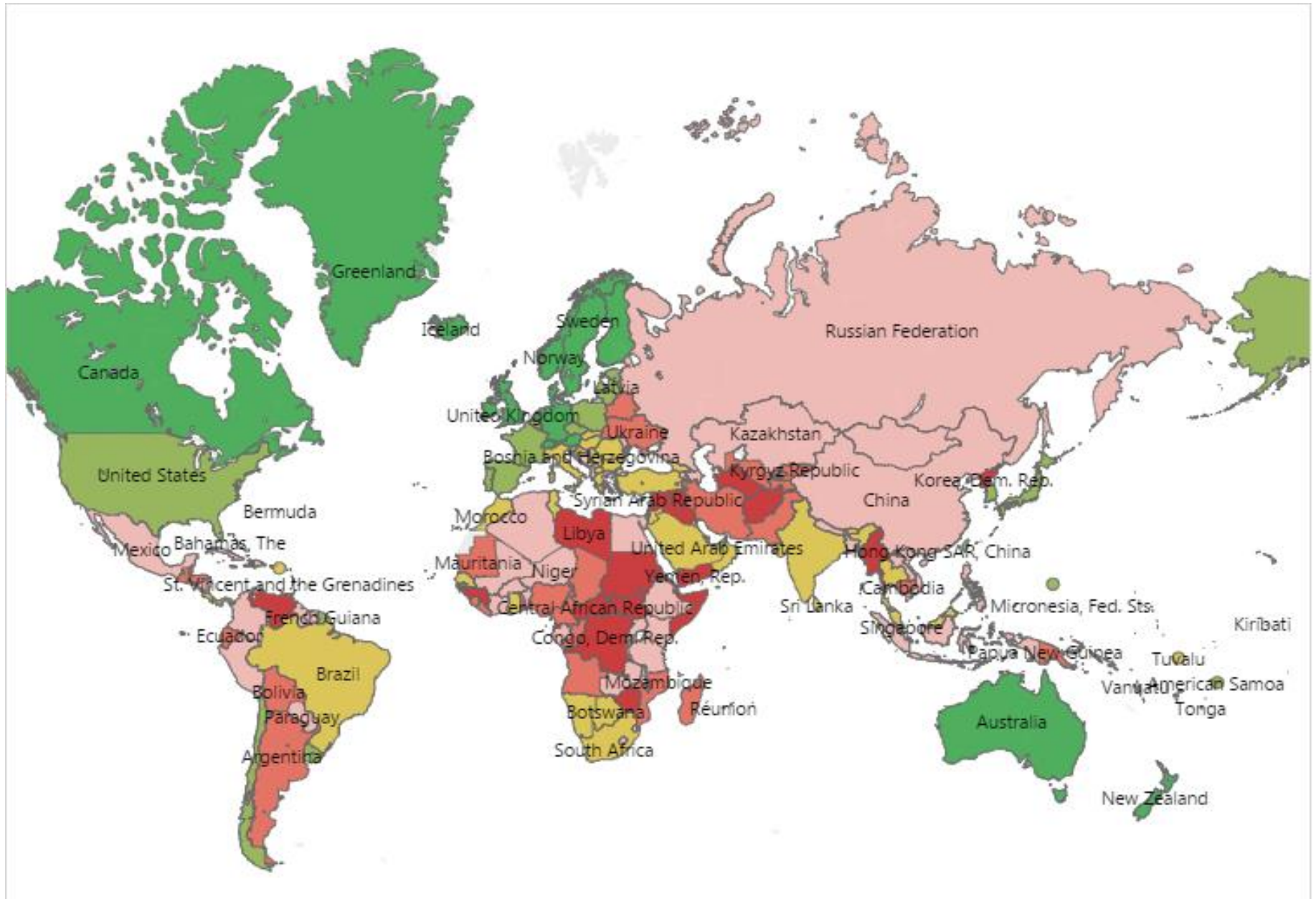
- ***Economics*: crucial, but not alone: integrating into governance – political, economic & institutional**
- **What is *Governance*; how measured; does it matter?**
- ***Evidence* from the world & Mongolia: Mixed performance specific strengths & vulnerabilities**
- **Governance in Extractives: a framework for assessment & main challenges & findings**
- **Lessons from global evidence & experience and some implications for Mongolia: Governance Reform Opportunity Now**

WGI: Six Dimensions of Governance

Governance as the set of traditions and institutions by which authority in a country is exercised-- specifically:

- **The process by which those in authority are selected and replaced**
 - **VOICE AND ACCOUNTABILITY**
 - **POLITICAL STABILITY & ABSENCE OF VIOLENCE/TERRORISM**
- **The capacity of government to formulate and implement policies**
 - **GOVERNMENT EFFECTIVENESS**
 - **REGULATORY QUALITY**
- **The respect of citizens and state for institutions that govern interactions among them**
 - **RULE OF LAW**
 - **CONTROL OF CORRUPTION**

WGI Rule of Law, 2014



Source: Kaufmann, Daniel, Kraay, Aart and Mastruzzi, Massimo, The Worldwide Governance Indicators: Methodology and Analytical Issues (September 2010). World Bank Policy Research Working Paper No. 5430. Available at SSRN: <http://ssrn.com/abstract=1682130>

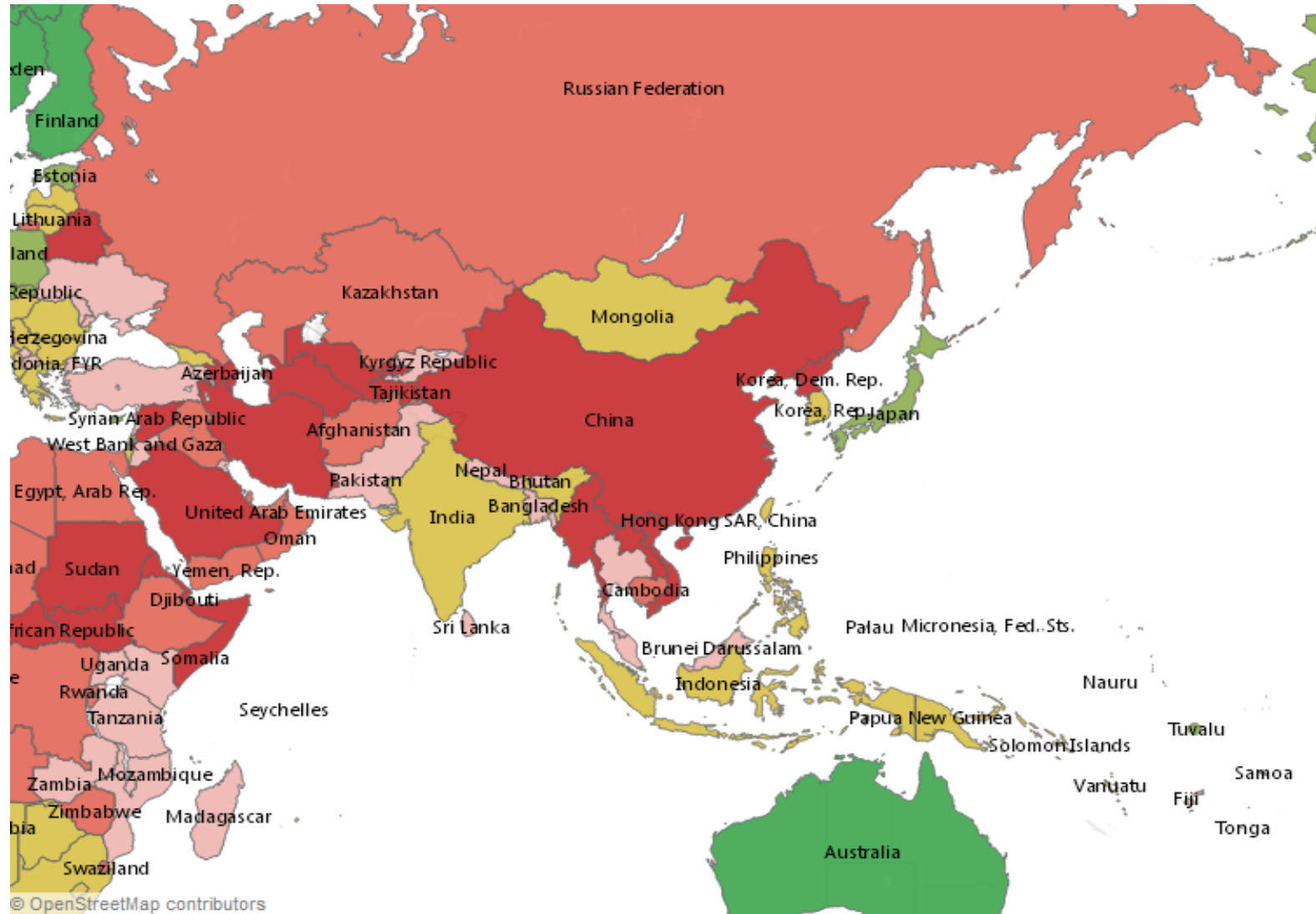
WGI Control of Corruption: the Americas, 2014



Percentile Range



Voice and Accountability Performance WGI: Asia

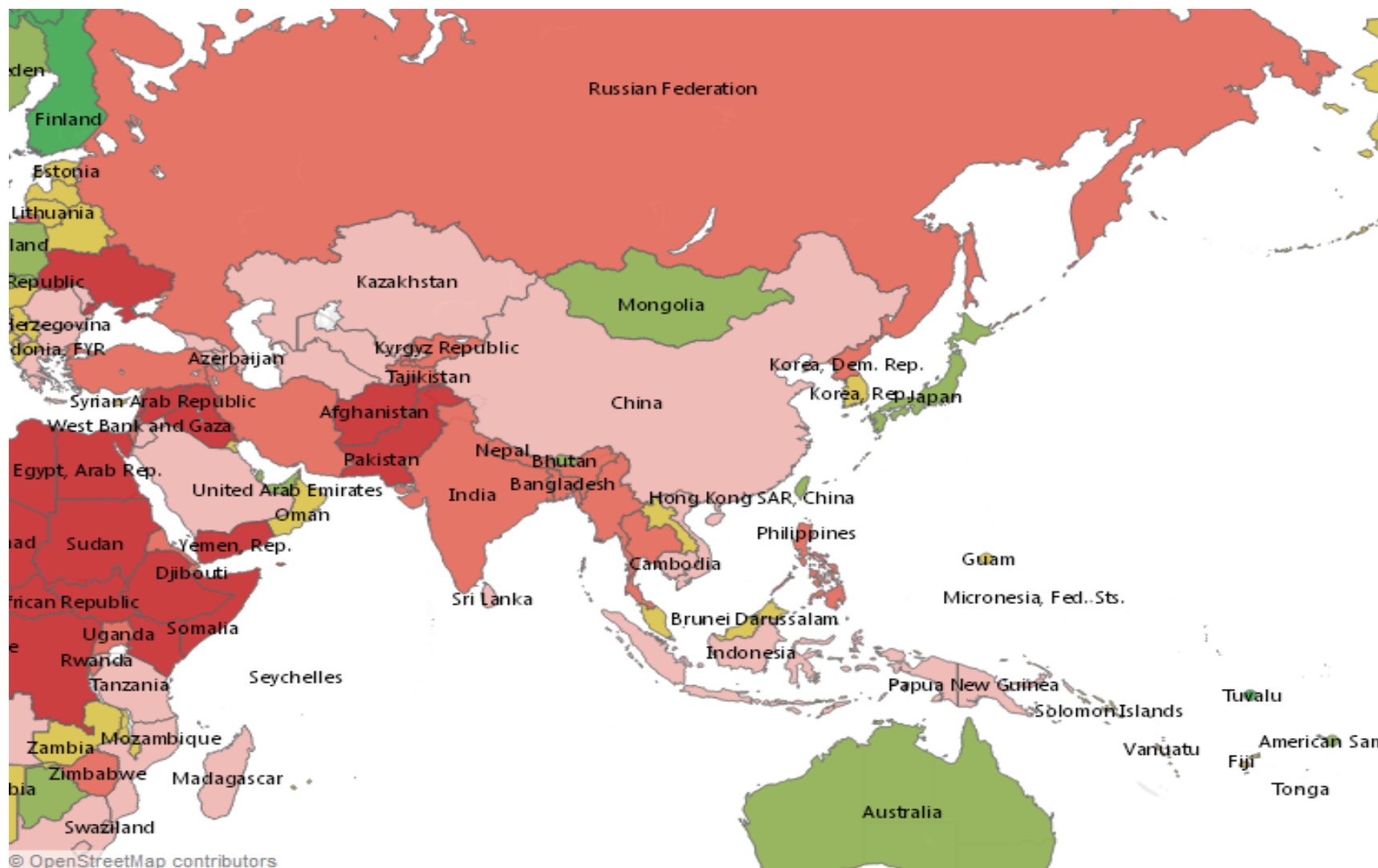


Percentile Range

No Data for Country
 0-10th
 10-25th
 25-50th
 50-75th
 75-90th
 90-100th

Source: Worldwide Governance Indicators (<http://www.govindicators.org>), additional information at Kaufmann, Daniel, Kraay, Aart and Mastruzzi, Massimo, The Worldwide Governance Indicators: Methodology and Analytical Issues (September 2010). World Bank Policy Research Working Paper No. 5430 (<http://ssrn.com/abstract=1682130>).

Political Stability & Absence of Violence Indicator: Asia



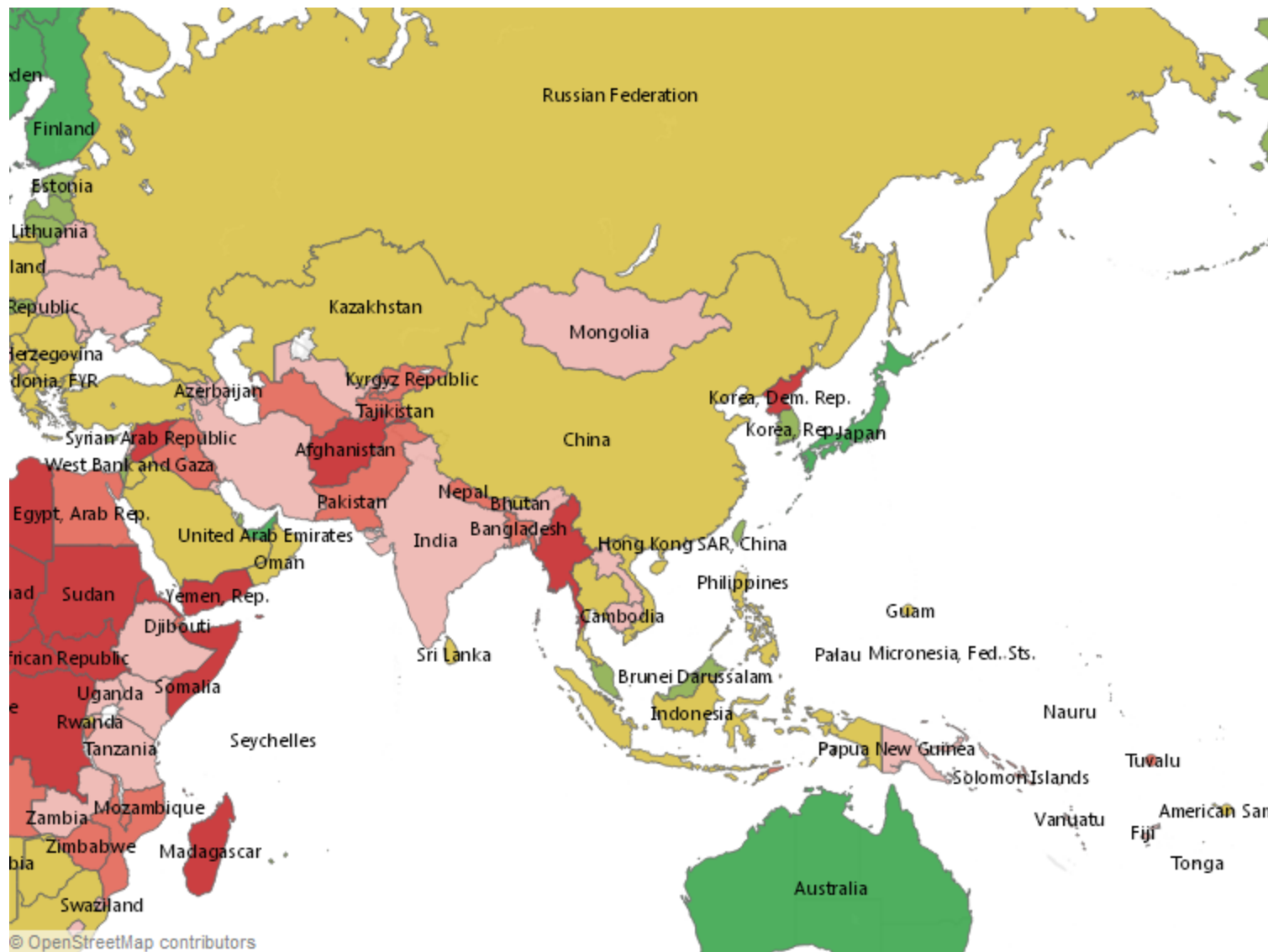
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(<http://ssrn.com/abstract=1682130>).

Government Effectiveness Indicator WGI: Asia



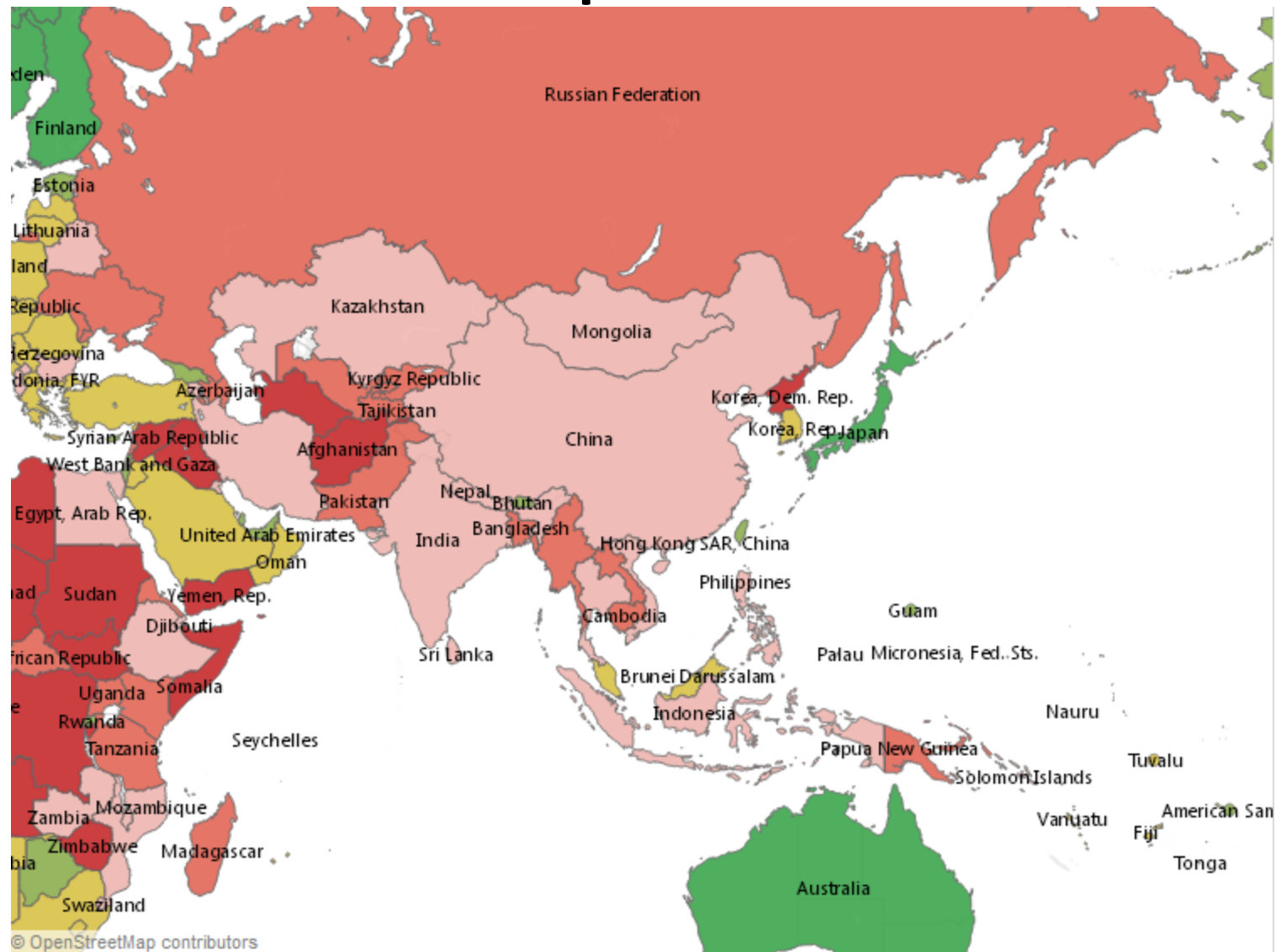
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(<http://ssrn.com/abstract=1682130>).

Control of Corruption WGI: Asia 2014

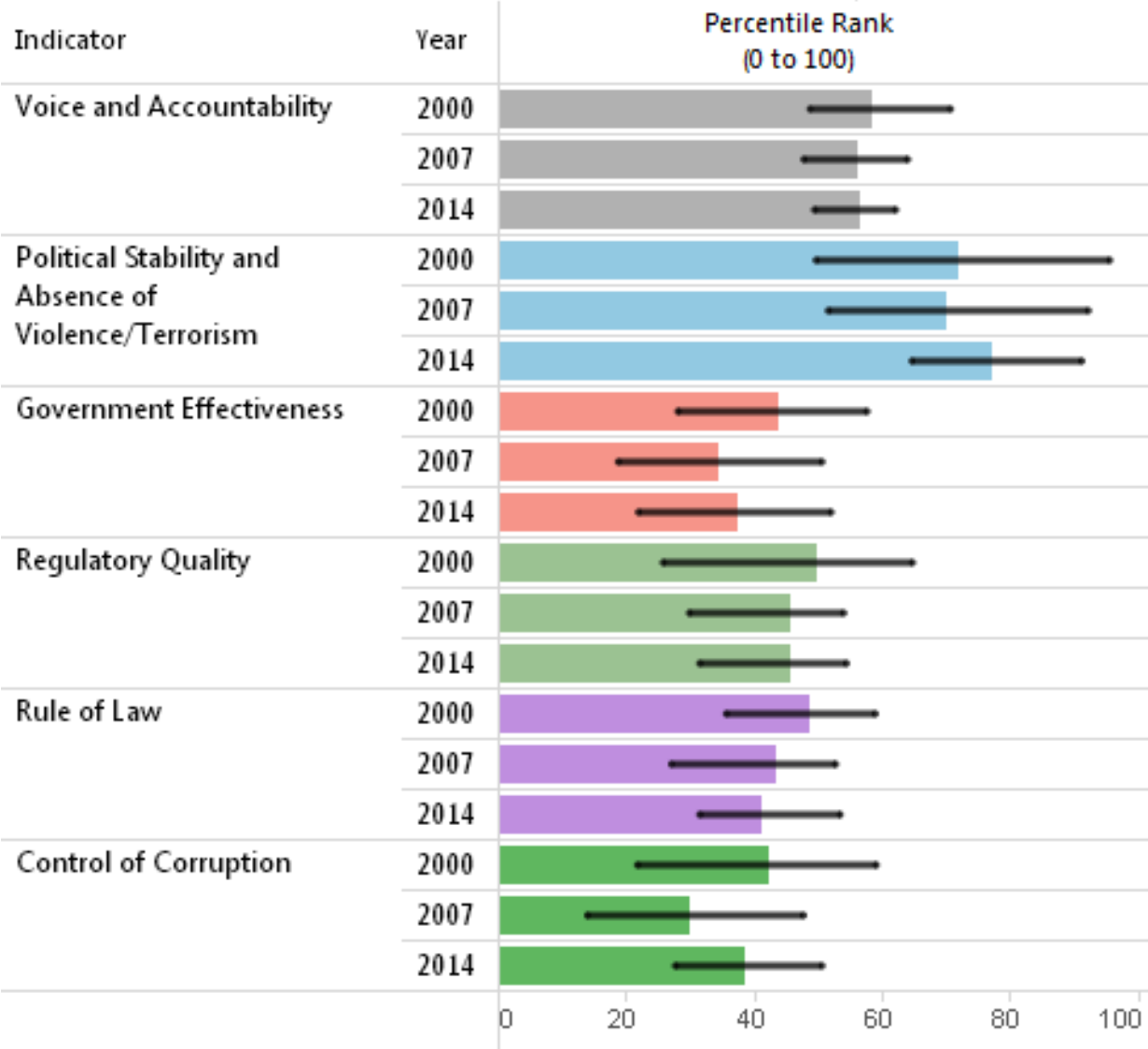


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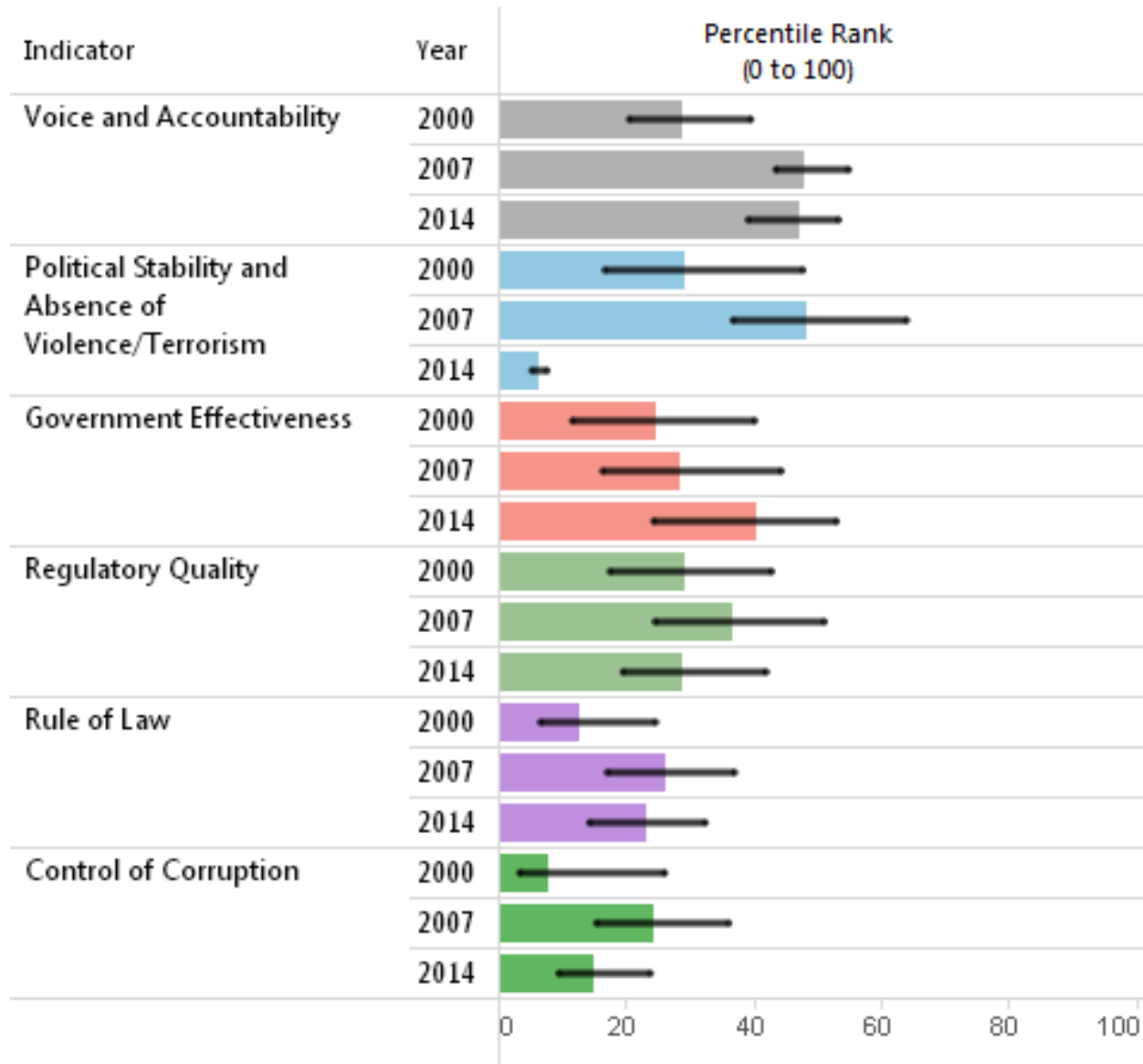
Source: Worldwide Governance Indicators (<http://www.govindicators.org>), additional information at Kaufmann, Daniel, Kraay, Aart and Mastruzzi, Massimo, The Worldwide Governance Indicators: Methodology and Analytical Issues (September 2010). World Bank Policy Research Working Paper No. 5430 (<http://ssrn.com/abstract=1682130>).

Mongolia Governance Indicators: WGI 2000, 2007, 2014

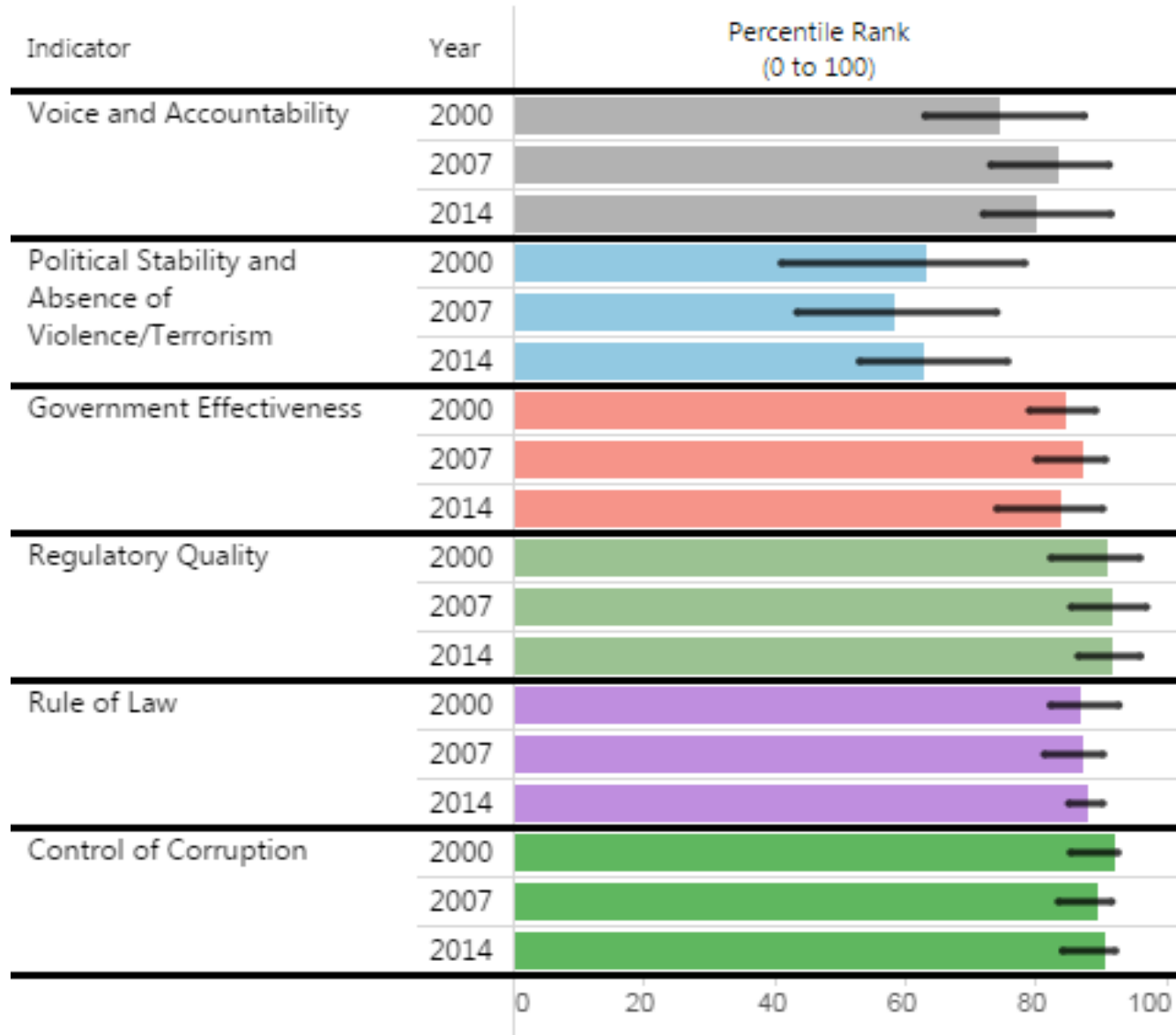


Source: Worldwide Governance Indicators (<http://www.govindicators.org>), additional information at Kaufmann, Daniel, Kraay, Aart and Mastruzzi, Massimo, The Worldwide Governance Indicators: Methodology and Analytical Issues (September 2010). World Bank Policy Research Working Paper No. 5430 (<http://ssrn.com/abstract=1682130>).

Ukraine Governance Indicators

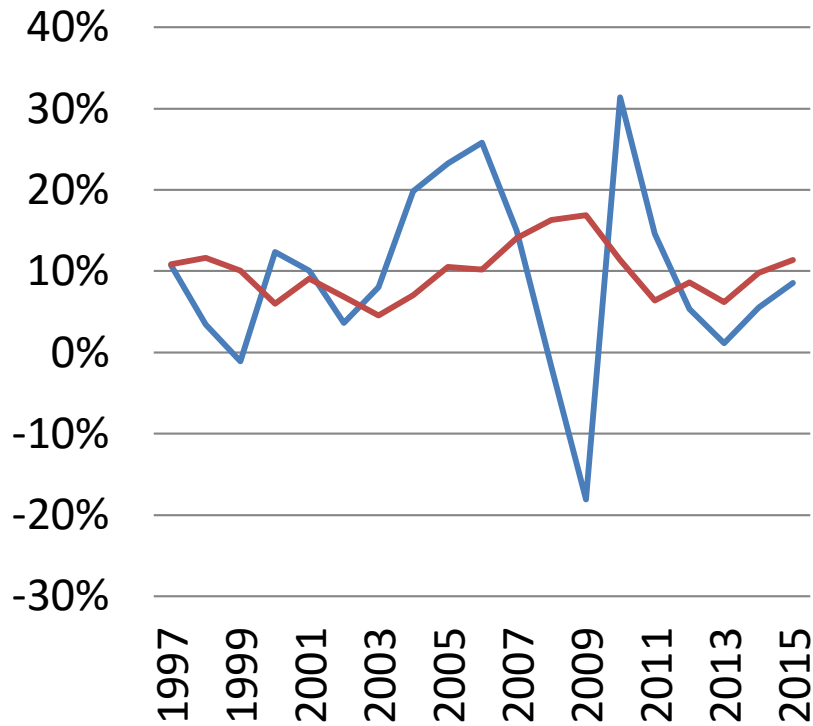


Worldwide Governance Indicators for Chile: 2000, 2007, 2014



Managing Volatile Revenues

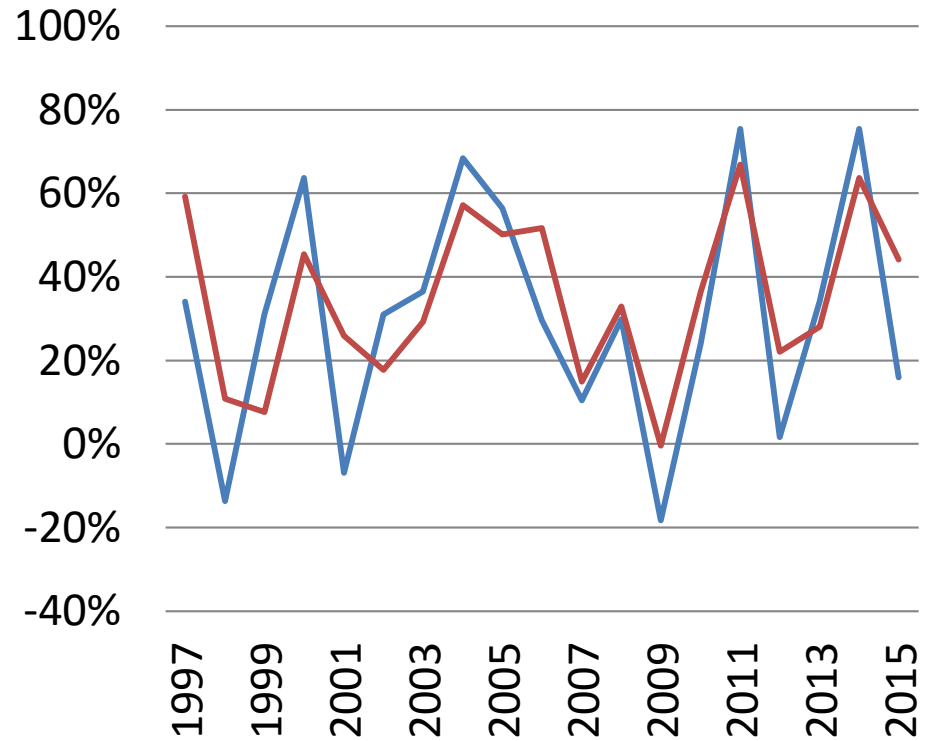
Chile



— Government revenue growth
(Chilean Peso)

— Government expenditure growth
(Chilean Peso)

Venezuela

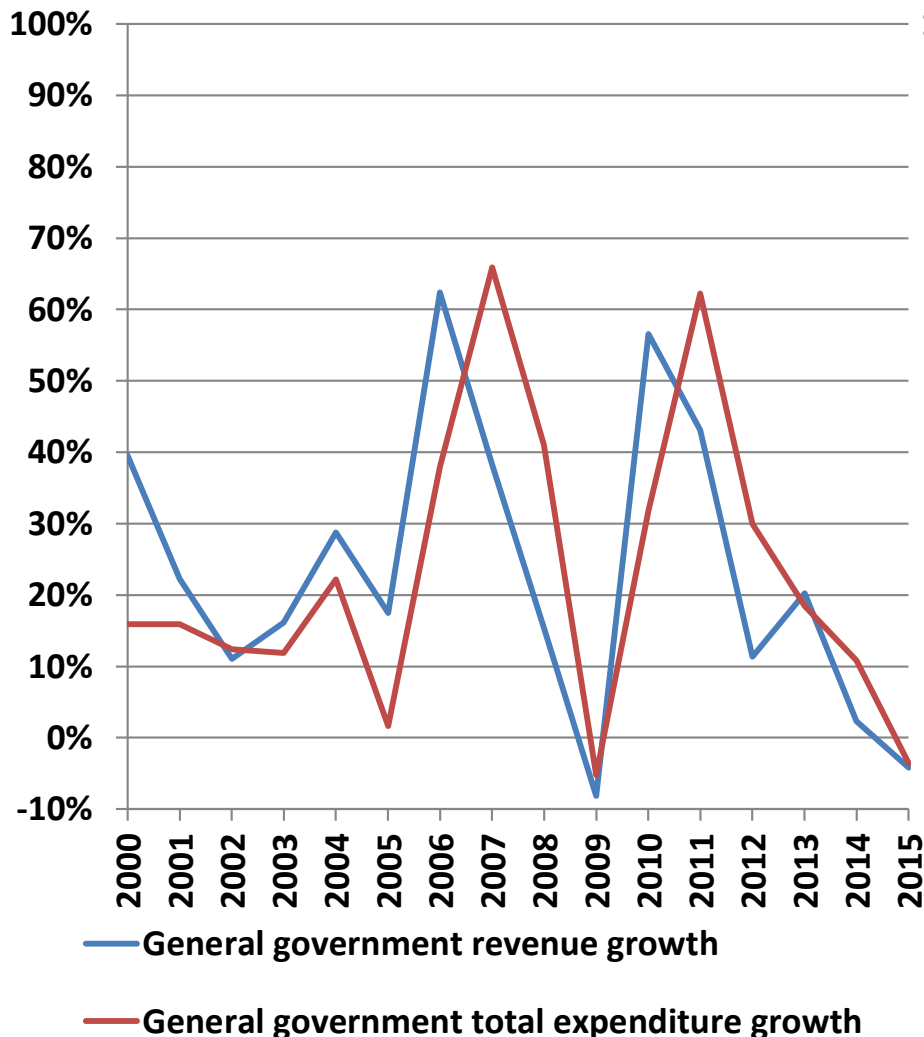


— Government revenue growth
(Venezuelan Bolívar)

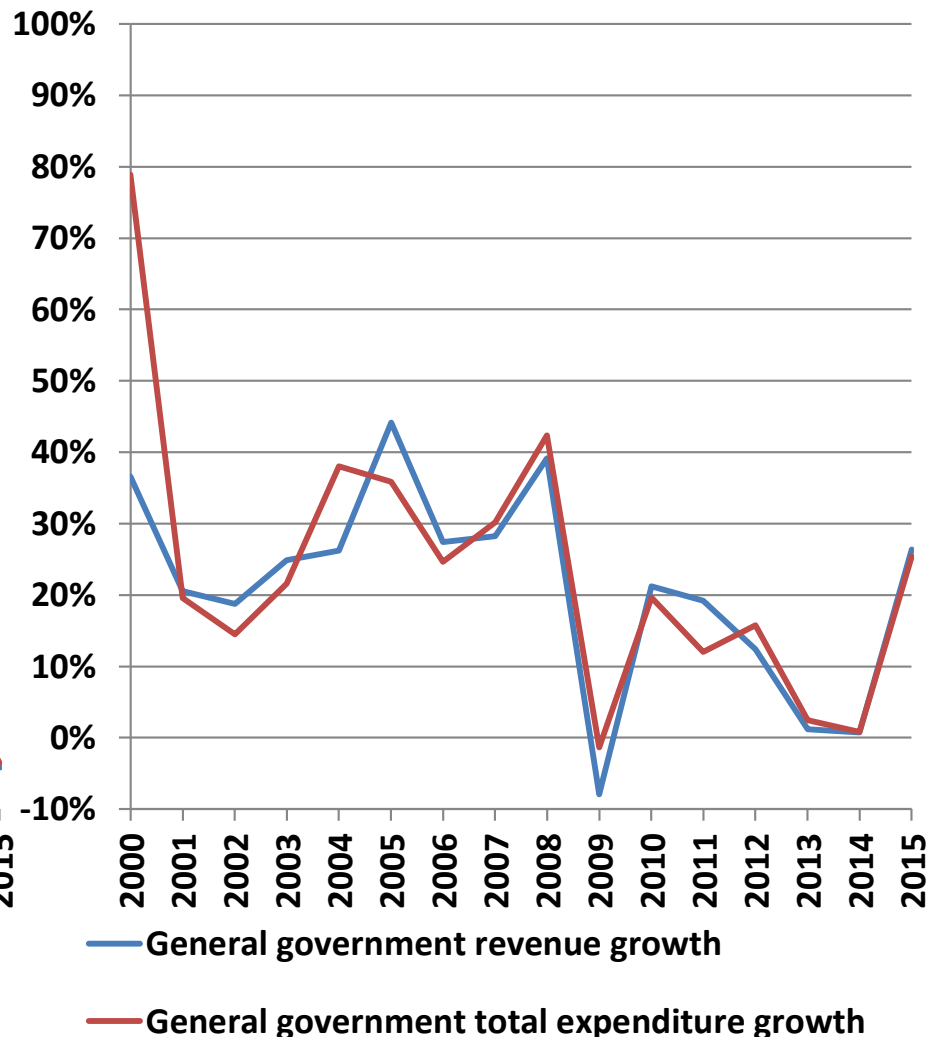
— Government expenditure growth
(Venezuelan Bolívar)

Expenditure volatility in Mongolia vs Ukraine

Mongolia



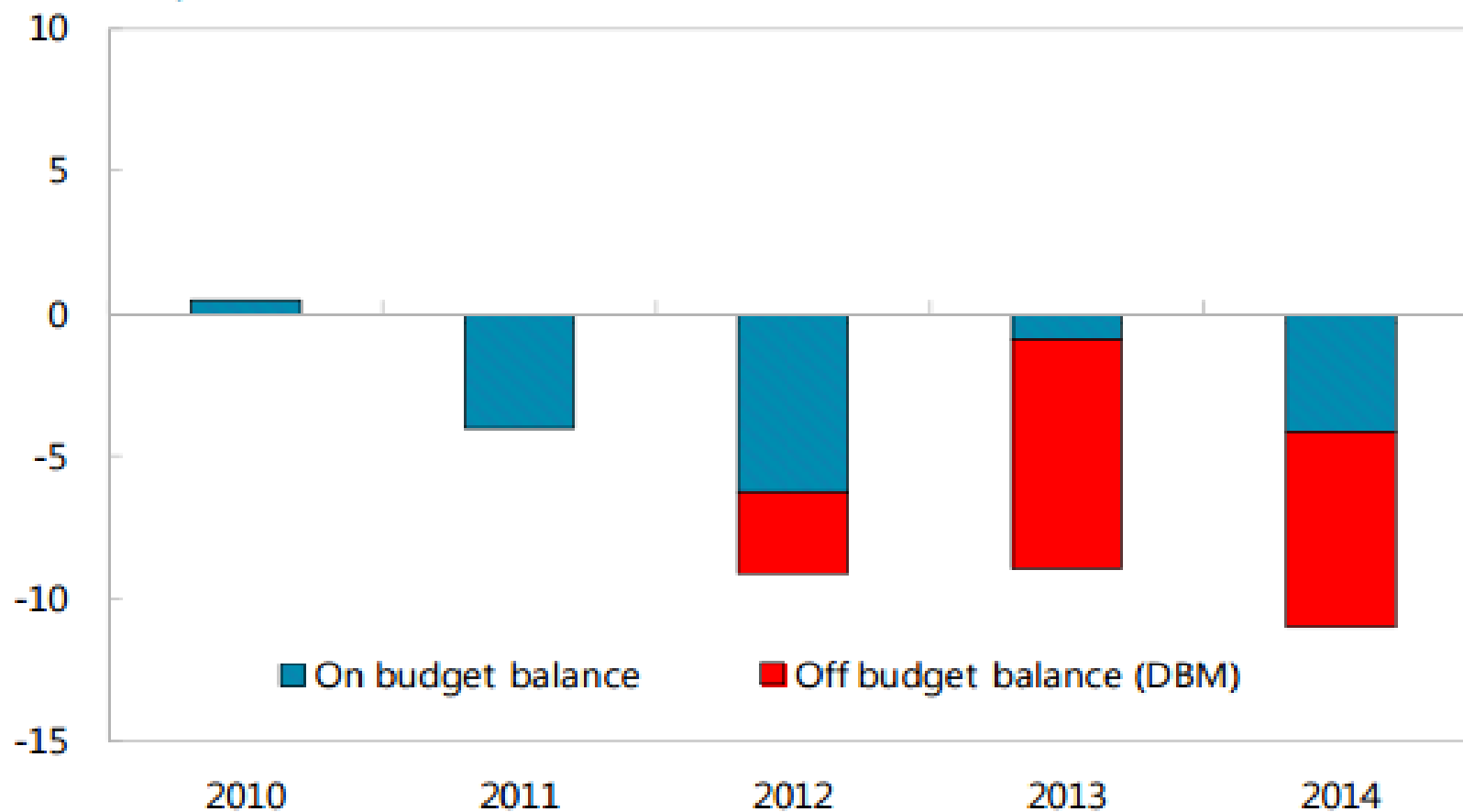
Ukraine



Mongolia's Borrowing and Saving: Fiscal Balance

Mongolia: Fiscal Balance

(in percent of GDP)

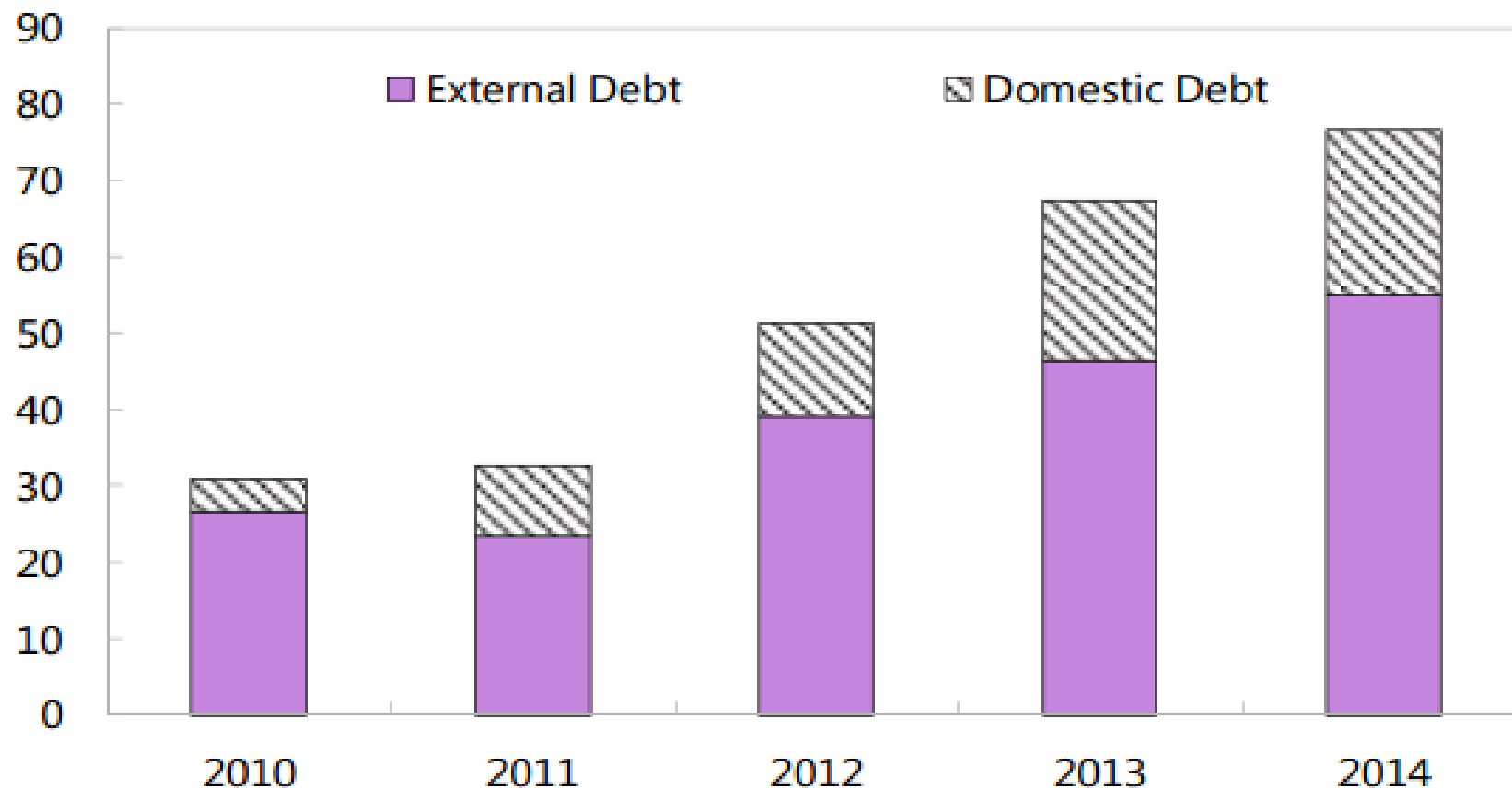


Sources: Mongolian authorities; and IMF staff estimates.

Mongolia's Borrowing and Saving: Debt Accumulation

External and Domestic Debt 1/

(In percent of GDP)

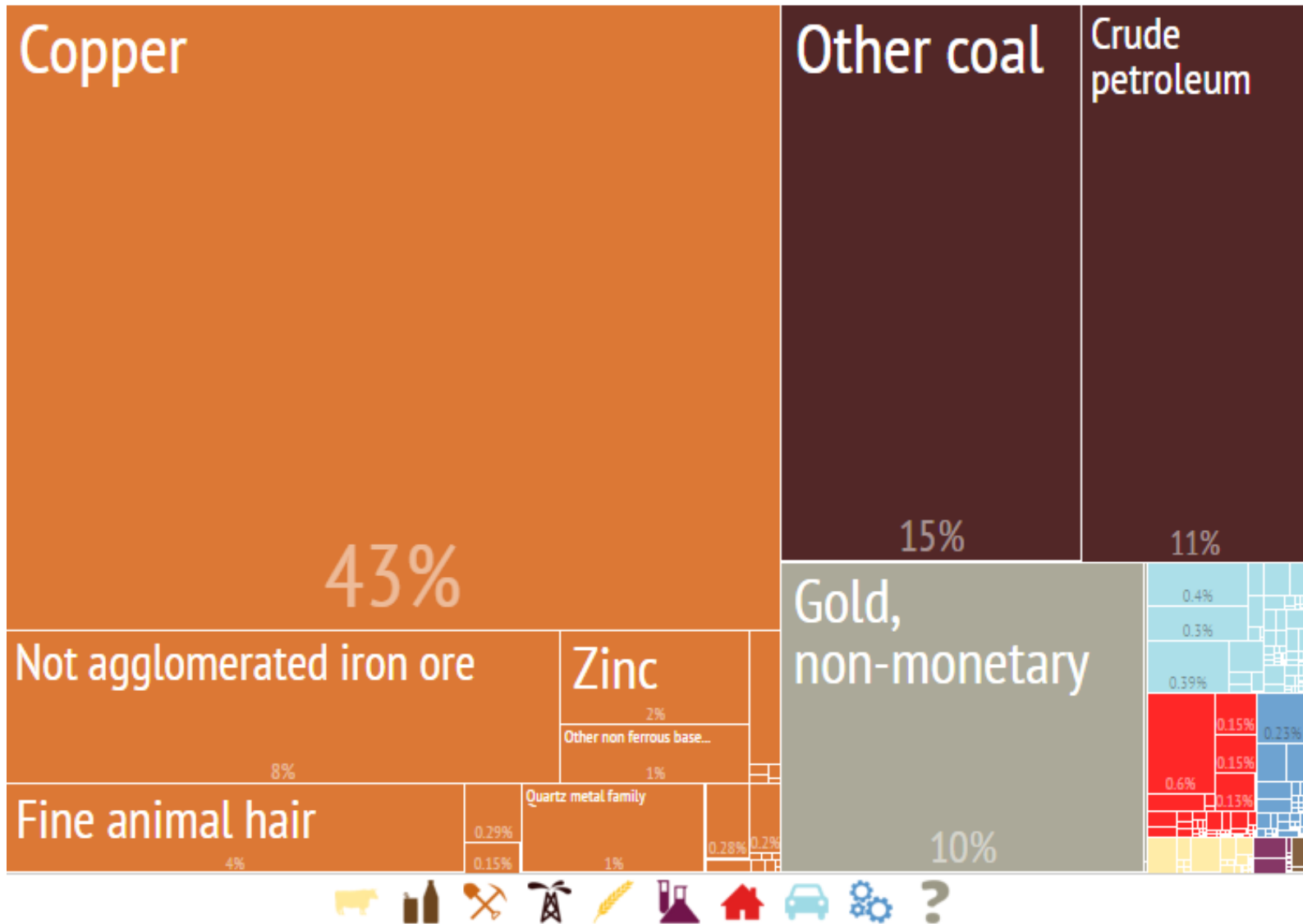


Sources: Mongolian authorities; and IMF staff estimates.

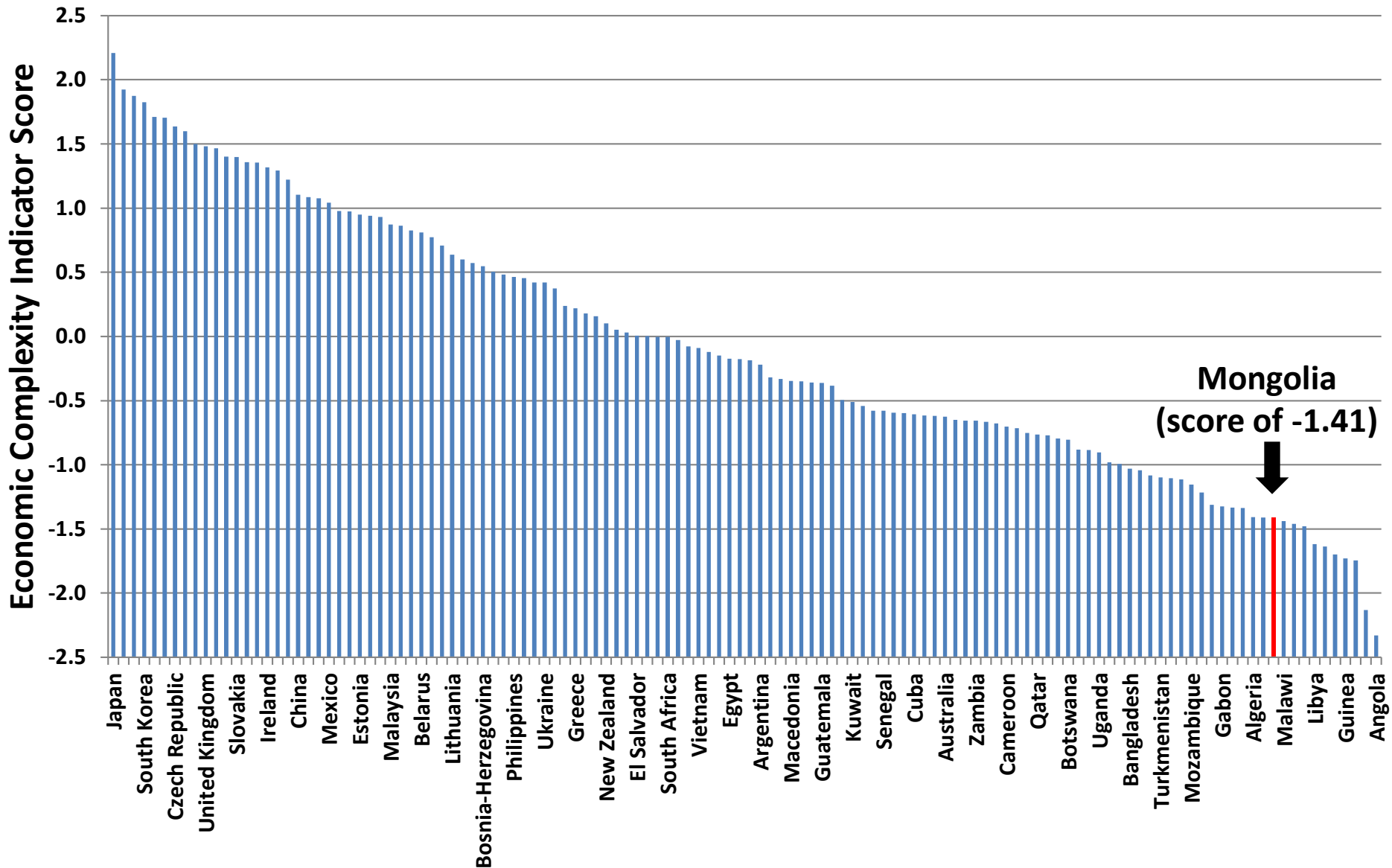
1/ Debt coverage expanded from 2013 onward.

Makeup of Mongolia's 2014 Exports

\$5.94B USD



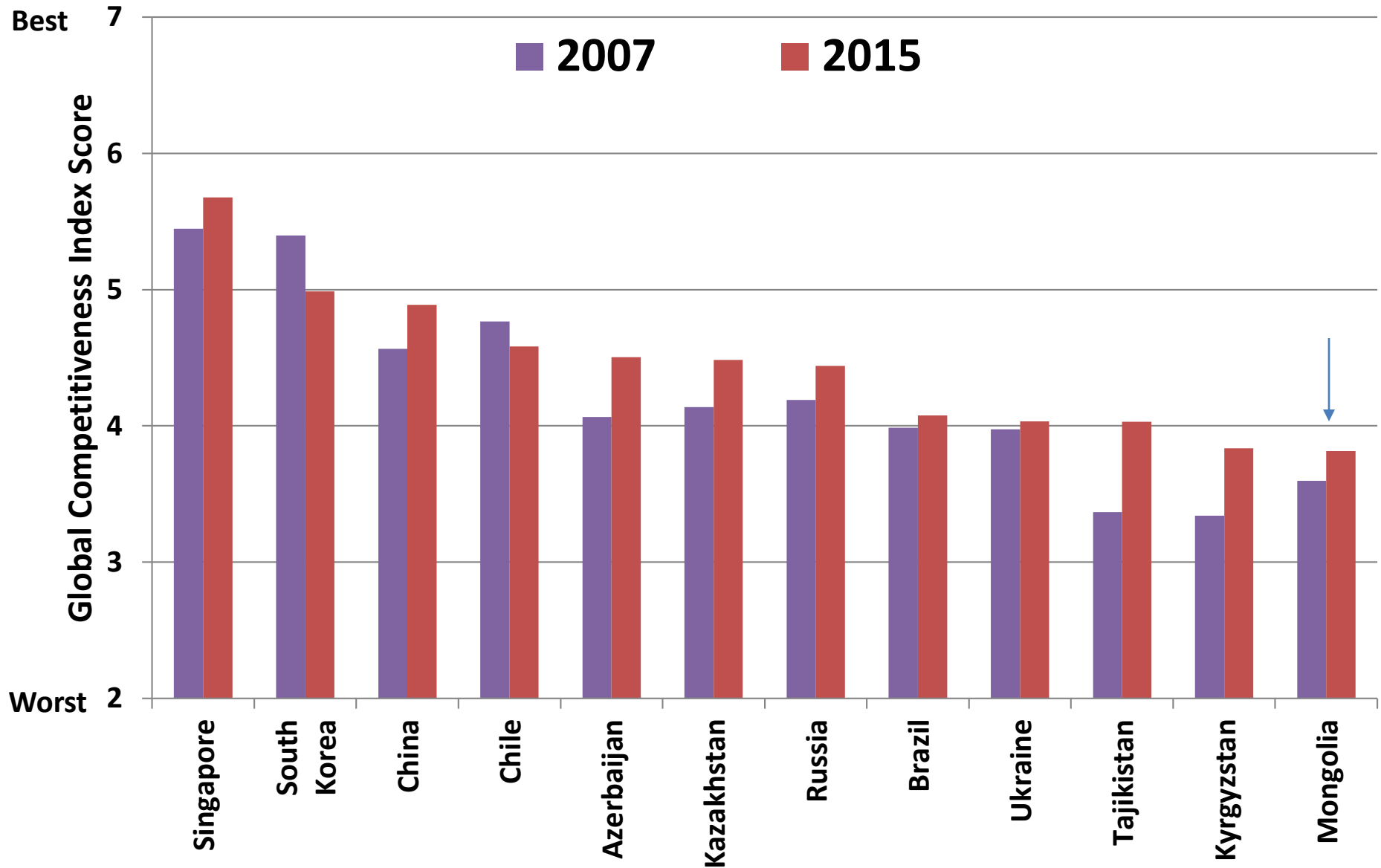
The Atlas of Economic Complexity: Country Rankings*



*Note: Due to number of countries covered, only select countries are labeled in this chart. Mongolia is ranked 114th out of 124 countries.

Source: The Atlas of Economic Complexity (http://atlas.cid.harvard.edu/explore/tree_map/export/mng/all/show/2014/) , this is a measurement of complexity that is calculated based on how many different products a country can produce and the number of countries able to make those products

Global Competitiveness Index: 2007-2015

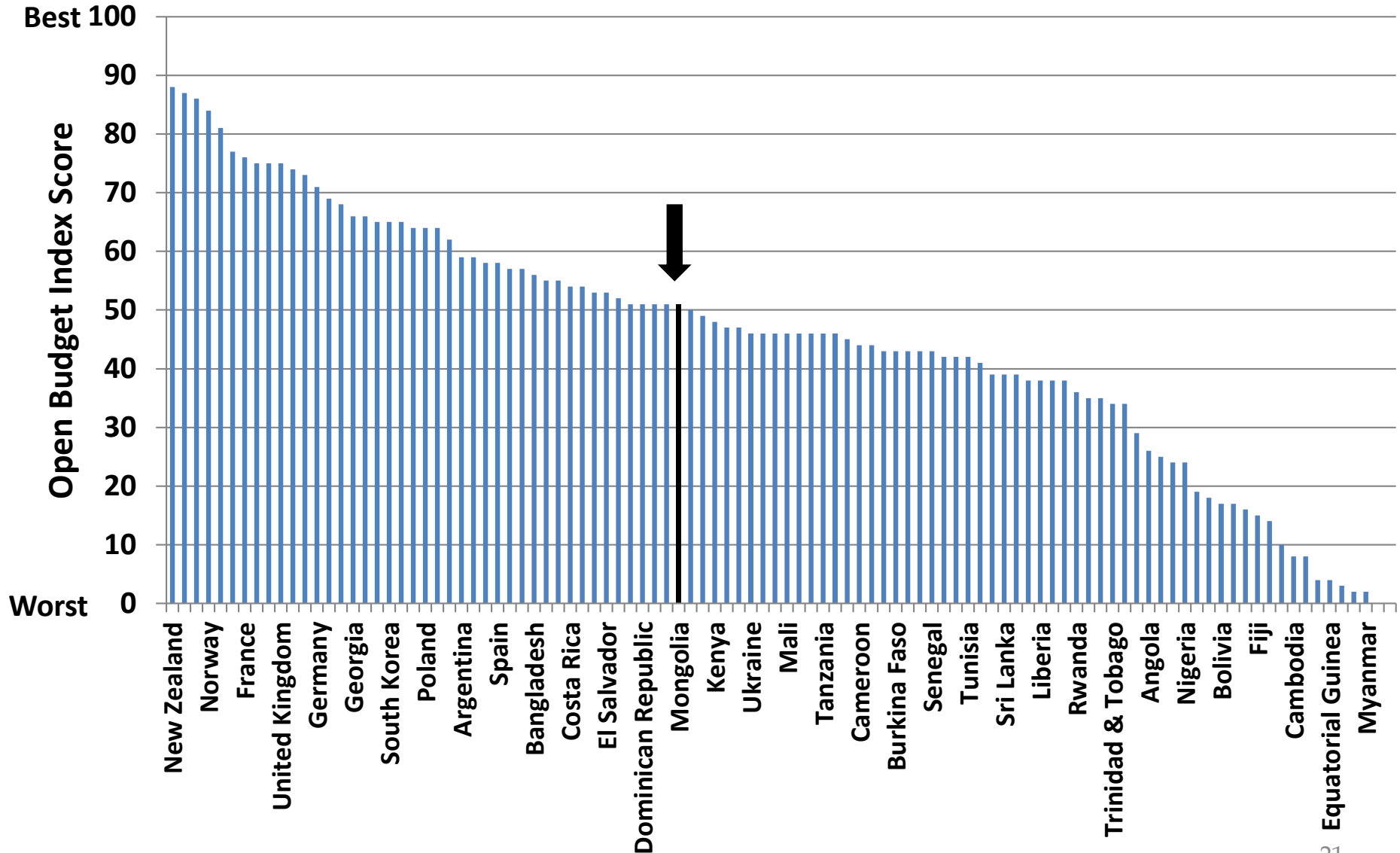


Note: Mongolia's rank in 2007 is 101 out of 131 and in 2015 is 104 out of 140.

Source: World Economic Forum, 2015-2016 Global Competitiveness Report, <http://reports.weforum.org/global-competitiveness-report-2015-2016/>

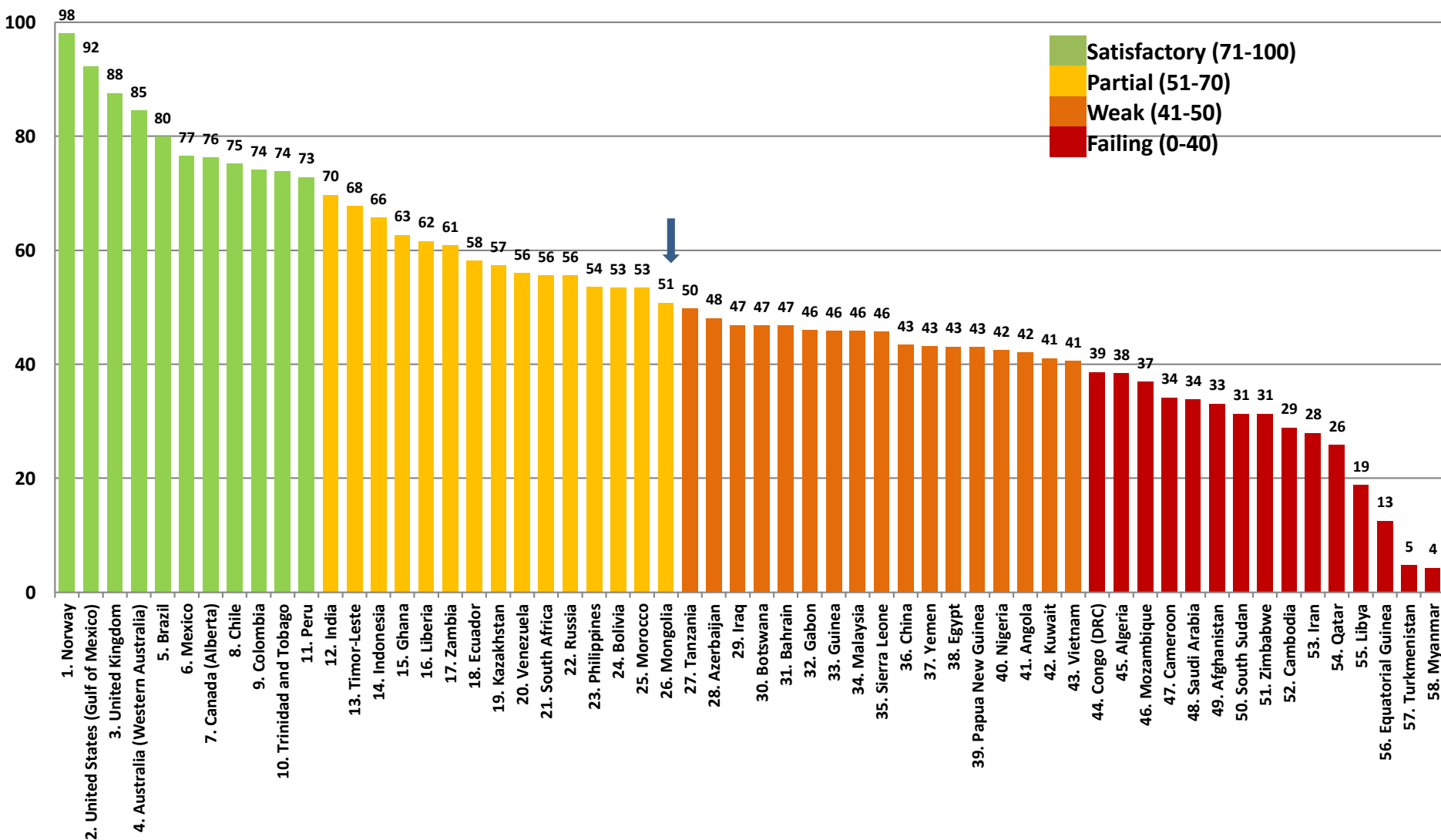
2015 Open Budget Index:

Mongolia scored 51 (ranked 39th among 102 countries)



Source: International Budget Partnership 2015 Open Budget Index, <http://internationalbudget.org/opening-budgets/open-budget-initiative/open-budget-survey/>

2013 Resource Governance Index



2013 Resource Governance Index: Mongolia

Rank (out of 58)		Score (out of 100)
26	COMPOSITE SCORE	51
9	Institutional and Legal Setting	80
	Freedom of information law	67
	Comprehensive sector legislation	67
	EITI participation	100
	Independent licensing process	83
	Environmental and social impact assessments required	50
	Clarity in revenue collection	100
	Comprehensive public sector balance	50
	SOC financial reports required	100
	Fund rules defined in law	--
	Subnational transfer rules defined in law	100
41	Reporting Practices	39
	Licensing process	67
	Contracts	33
	Environmental and social impact assessments	17
	Exploration data	83
	Production volumes	67
	Production value	56
	Primary sources of revenue	67
	Secondary sources of revenue	50
	Subsidies	33
	Operating company names	67
	Comprehensive SOC reports	0
	SOC production data	0
	SOC revenue data	0
	SOC quasi fiscal activities	0
	SOC board of directors	0
	Fund rules	--

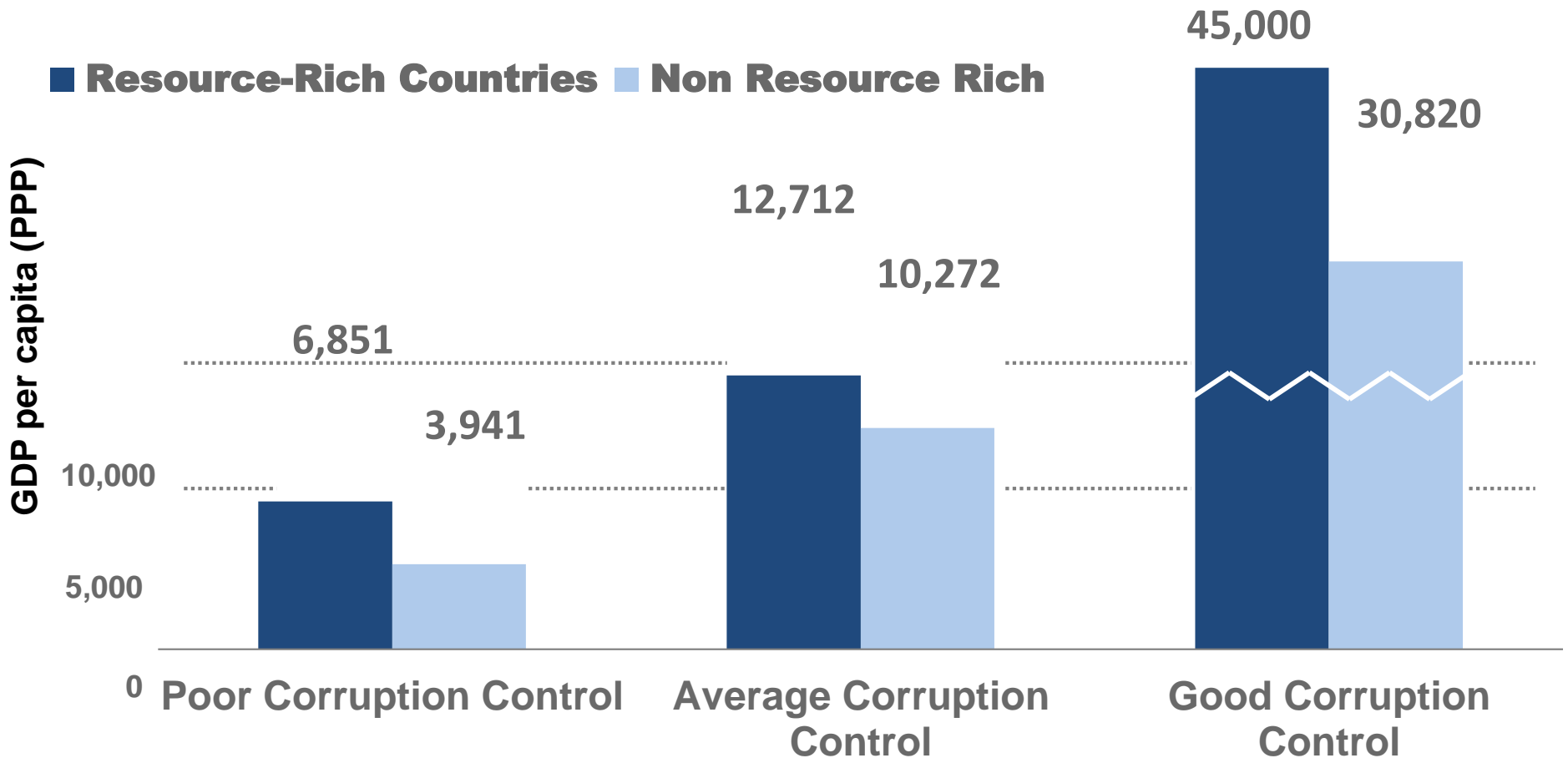
Rank (out of 58)		Score (out of 100)
	Comprehensive fund reports	--
	Subnational transfer rules	100
	Comprehensive subnational transfer reports	67
	Subnational reporting of transfers	0
37	Safeguards and Quality Controls	49
	Checks on licensing process	89
	Checks on budgetary process	78
	Quality of government reports	58
	Government disclosure of conflicts of interest	100
	Quality of SOC reports	0
	SOC reports audited	0
	SOC use of international accounting standards	0
	SOC disclosure of conflicts of interest	100
	Quality of fund reports	--
	Fund reports audited	--
	Government follows fund rules	--
	Checks on fund spending	--
	Fund disclosure of conflicts of interest	--
	Quality of subnational transfer reports	0
	Government follows subnational transfer rules	67
20	Enabling Environment	48
	Corruption (TI Corruption Perceptions Index & WGI control of corruption)	31
	Open Budget (IBP Index)	78
	Accountability & democracy (EIU Democracy Index & WGI voice and accountability)	56
	Government effectiveness (WGI)	32
	Rule of law (WGI)	41

■ Satisfactory ■ Weak
■ Partial ■ Failing

But does Governance Matter?

- **OK, governance can be measured, with caution**
- **But does it really matter?**

Development Dividend of good governance & corruption control: Resource-Rich vs. Non-Resource Rich countries



Sources: GDP per capita (atop each column) from World Bank World Development Indicators, 2012. Corruption Control data from Worldwide Governance Indicators (WGI, 2012) Countries grouped into terciles based on WGI Control of Corruption scores. Resource Rich country classification according to IMF (2010).

The Natural Resource Charter (NRC)

Domestic governance

Discovery &
deciding to
extract

Getting a
good
deal

Managing
revenues

Investing for
sustainable
development

International governance

Global Lessons and Some Implications

1. Consolidate & Build on earlier Transformative Achievements in *Political & Institutional* Dimensions of *Governance*

-- Political and Civil Liberties, Free Press

-- Anti-Corruption program

-- Transparency reforms: i) Budget; ii) Mining Transparency: Contracts, Beneficiary Ownership, Subnational, License allocation, SOE (Erdenes), EITI +

2. Addressing major challenges in *Economic Governance*

-- Macroeconomic & debt management, lowering risks of default or bailout: *consensus on prudent fiscal, monetary & debt policies*

-- Realism on mining prices, & policies of Future Heritage Fund

-- Reality of global mining foreign investments (& 'art of negotiation')

-- Economic diversification program: *implementation & macro.*

'Seizing the Moment': Towards national consensus