

Australia-Mongolia Extractives Program

Gold Sector Strategy: Final Report

December 2015

Acronyms

AMEP	Australia Mongolia Extractives Programme
ASI	Adam Smith International
DFAT	Department of Foreign Affairs and Trade
GASI	General Agency for Specialised Inspections
GoM	Government of Mongolia
M&E	Monitoring and Evaluation
MoF	Ministry of Finance
MoM	Ministry of Mining
MRAM	Mineral Resources Authority of Mongolia

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Executive Summary

The Government of Mongolia has begun a process to develop a 'Gold 2025' Program of work to expand the gold sector in Mongolia. To facilitate this process, it has submitted to the Australia-Mongolia Extractives Program a letter requesting support to the Ministry of Mining on the development of a national gold strategy. This request stems from the Government's commitment to leveraging gold exploration and production, in support of economic growth, and at a time when the Mongolian budget deficit is currently at 20%.

The assistance provided by the AMEP team has been organised according to a Work Plan in consultation with and approved by the Ministry of Mining. Work under the approved Work Plan has been scheduled in two phases, with each phase providing for specific deliverables. The first phase of the project, was to assist the Government of Mongolia in the preparation of a Baseline Report for the gold sector. The second phase of the project, to which this report is the third deliverable, builds upon the baseline report to prepare a Gold Sector Strategy.

This report is the final report to be submitted during the second phase of the Project. Following the submission of this report, the AMEP Gold Sector Experts, Galsandorj Damba and Dallas Davies will provide the Ministry of Mining with 10 days of assistance to finalise the documents once comments have been collected from other Ministries.

This report contains the following information: this executive summary, a background section, a section briefly explaining the drafting effort and a section describing project work completed to date.

Background

Mining and the economy

Statistical data provided by the Mineral Resources Authority of Mongolia (MRAM) in 2014 indicated that Mongolia's mining sector is the core sector of the country's economy, accounting for over 20% of GDP, 40% of state budget and 90% of export earnings.

Until 2011, the Mongolian economy developed at high speed with economic growth reaching 17.3%. However, due to high debt and the commodity downturn affecting the mineral exports, Mongolian economic growth only reached 7.8% in 2014 and is expected to be around 3.1 % at the end of 2015. Therefore, Mongolia's reliance on its mineral exports has entailed a significant economic impact since the commodity price downturn.

The gold sector

Mongolia is in the top ten of leading mineral rich countries in the world (copper, gold and uranium), in terms of discovered mineral resources. (Ministry of Mining statistical data, 2014).

Table 1: Gold Estimated Reserves (as of January 1, 2012)

Minerals	Estimated reserves (as January 1, 2012)
Gold (placer) (tonnes)	221.47
Gold (hard rock deposit) (tonnes)	2,180.9

(The Embassy of Mongolia to the United States of America, 2014)

There are ten major gold bearing areas in Mongolia, and gold production has started to rebound after a period of slowdown (see table below). MRAM projects that gold production will continue to increase in 2015 to 14 tons. This projection is not inclusive of the Oyu Tolgoi copper mine (gold – annually 20 tons as a by-product of copper concentrates) and the Gatsuert gold mine development (annually 4-5 tons), due to commence production in 2016, pending Cabinet's approval on the investment agreement.

Table 2: Gold production figures, Mineral Resources Authority and Bank of Mongolia

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014
Gold production, tons	22.5	17.5	15.2	9.8	6.0	5.7	5.9	9.7	12.0

According to Customs Statistics, during the first 8 months of 2015, gold ranked third after copper concentrates (48.2%) and coal (12.3%), accounting for 8.1% of total exports.

The State Minerals Policy commits the Government to expanding the gold sector, specifically boosting gold exploration in Mongolia and increasing gold sales to the Central Bank, with gold as the priority commodity for supporting economic growth in the country. Currently, there are 444 gold mining licenses that have been granted, equivalent to 34% of the total available mining licenses (1391) in the country (MRAM data).

In a move to strengthen the gold sector, the Minerals Law of Mongolia was amended in 2014 to reduce the royalty burden on investors, if gold is sold to the Central Bank; the royalty rate is reduced from 10% to 2.5% for the coming 5 years starting in 2014. This has served to increase gold production in 2014-2015. In 2014, gold production has increased from 6 tons to 12 tons. Mongolia exported gold worth 405 million of USD in 2014.

Therefore, in response to the current budget deficit of about 20% (expected to further increase by the end of 2015), and the negative outlook for copper and coal prices, the Government of Mongolia has developed a plan to support and strengthen the economy, detailing in part the expansion of Mongolia's gold sector. The initial draft of the gold development strategy, developed by the Ministry of Mining, contains both a baseline assessment of the current state of the gold sector and its management and an early strategy. Capacity and resource in the Ministry to move the strategy to a developed stage is low and therefore in this vein, the MoM has requested technical assistance from AMEP to support the completion of the gold sector strategy. **Such a strategy will support the government to manage the sub-sector more effectively, with prioritised and targeted activities and investments with the aim of expanding gold exploration and production.**

Preparation of the Draft Baseline Study and Gold Strategy

During the period of November through late December, 2015 the AMEP team prepared the report titled “Baseline Report: Gold 2025 Program” and the report titled “Strategy: Gold 2025 Program”. The effort was led by Galsandorj Damba who was supported by international gold sector expert Dallas Davis, and AMEP team members Oyunbileg Purev and Julia Baxter.

In preparing the strategy, the AMEP team was guided by the Baseline Report developed during Phase 1 of the Project. The team developed the documents on templates and draft documents set out by the Working Group. Where additional specific guidance was required to complete the work, the team communicated with the Working Group.

Baseline Assessment: A review of current legislation/regulation of gold mining in Mongolia and its implementation status; review of all key issues along the gold mining value chain, including but not limited to exploration, operational management, local beneficiation - gold processing plants and refineries, sales and export, and jewellery development and consumption; gold revenue projections for the coming years and its contribution (investment in gold exploration, sale value of gold to the Central Bank of Mongolia, percentage of mineral revenue, and job creation of gold mining) to the national economy.

Strategy: Based on the above assessment, the strategy will provide specific recommendations on short, medium and long term policy, legal and regulatory options to expand the gold sector, and enhance the potential socio-economic benefits of gold mining in Mongolia

Work Plan Progress

The Work Plan, as agreed with the Government of Mongolia and DFAT, has been successfully completed, apart from the final task. The final task “Final Gold Strategy” involves the finalisation of the strategy once comments from the Government of Mongolia have been collected.

The Working Group responsible for the development for the gold strategy approved the draft documents and submitted to the Minister of Mining for approval. The Minister of Mining gave his approval before sharing with his counterparts in other key and relevant Ministries. The AMEP team will provide 10 days of assistance to finalise the report at the appropriate time.

Action	Respon.	Oct	Nov	Dec	Jan
AMEP to select and procure experts	AMEP ISP				
Complete baseline report (30 days)	NME / NMPEE				
Develop gold strategy (20 days)	IGE/NME				
Final gold strategy (10 days)	IGE/NME				



Budget Progress

Remaining budget, as per the approved budget, is **999.65 AUD**.

Forecast spend	Actual spend to date	Remaining budget
76,130 AUD	66,133.35 AUD	9996.65 AUD



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