PAGE PARTNERSHIP FOR ACTION ON GREEN ECONOMY

MONGOLIA:

TURNING CHALLENGES INTO OPPORTUNITIES

Lessons Learned and Policy Recommendations from the Partnership for Action on Green Economy (PAGE)

2017

Over the past years Mongolia has experienced significant change. The country's economy grew by 17% in 2011, benefiting from growing commodity exports, but has since slowed down to an annual growth rate of 2.3% in 2015, and 1.4% in the first half of 2016[1]. The new Government – that took office after a landslide win in June 2016 – faces a substantial budget deficit, combined with high public debts (projected to reach over 90 percent of GDP)[2]. Unemployment rate was at 9.4% in the third quarter of 2016, according to the National Statistics Office[3]. The percentage of the population living below the national poverty line has dropped from 33.7% in 2011 to 21.6% in 2014, but a World Bank Economic Brief for Mongolia (September 2016) warns that many households near the poverty line may be sliding back to poverty. At the same time Mongolia continues to face important environmental challenges, such as land degradation, air and water pollution and increasing carbon dioxide emissions (up from 4.9 metric tons per capita in 2009 to 14.5 metric tons in 2014).

An inclusive green economy[4] approach can offer practical solutions to address fiscal, social and environmental challenges, while creating employment and sustaining economic growth.

The State Great Khural of Mongolia has endorsed a green development vision for the country, through the adoption of the National Green Development Policy in 2014 and the Sustainable Development Vision of Mongolia 2030 in February 2016. Mongolia is also committed to reduce national greenhouse gas emissions by 14% by 2030, compared to the projected emissions under a business as usual scenario[5].

Increase in carbon dioxide emissions

From 4.9 metric tons per capita in 2009

To 14.5 metric tons per capita in 2014

14%

Percentage that Mongolia is committed to reduce in national greenhouse gas emissions by 2030, compared to the projected emissions under a business as usual scenario. The baseline is 2010.

46.6%	Emission density reduction
23%	Job increase
10%	Decline in poverty

Projected green development outcomes

The modeling results provide evidence that green investments make business sense, and that they are vital to achieve Mongolia's Sustainable Development Vision.

1. Invest at least 4% of GDP in green development.

A macro-economic model and policy assessment carried out by the Economic Policy and Competitiveness Research Center (EPCRC) in collaboration with the Ministry of Environment and Tourism (MET), the Ministry of Finance (MOF) and PAGE shows that under a green investment scenario average economic growth until 2030 will be 0.43 percentage points higher compared to business-as-usual conditions (leading to a GDP in 2030 that is 7.1% higher compared to business-as-usual). Growth under a green scenario will be also more stable than in a business-as-usual scenario. Furthermore, the model signals the following positive effects by 2030, if 4% of GDP are invested in green development:

- Jobs increased by 23% (3.3% higher job creation under green scenario, particularly in the solid waste sector where job creation is 15% higher for the green scenario);
- Poverty will be down to 10% (from 20.4% in 2014);
- Access to sanitation will be significantly improved to around 85% (while under the business-as-usual scenario it will be around 45%);
- Access to clean water will be improved to 100% (compared to just 64.5% in a business-as-usual scenario);
- Emission intensity reduced by 46.6% (compared to an increase of 7.2% under the business-as-usual scenario).

Policy measures to incentive green investments include, for example, the introduction of a sustainable and stable fiscal system, credits to green and environmental friendly industries that meet requirements, i.e. on grey water use, waste management, as well as measures to promote effective utilization of resources/ energy efficiency. In addition, it will be important to focus on increasing foreign direct investment to amplify the effect of local investments in green sectors.

2. Make public expenditure smarter.

Under the pressure of significant budget deficits, environmental and social considerations in public expenditures are often omitted for the benefit of short-term cost-savings. This creates future problems and risks when costs for product disposal, energy consumption or polluting emissions are shifted to future budget years. The Government of Mongolia is committed to protecting social expenditures even under current macro-economic constraints. It has also piloted work in the area of green public expenditure taking advantage of eco-efficiencies and lower total costs.

The green school buildings work that the Ministry of Construction and Urban Development has been leading together with MET, PAGE and the Global Green Growth Institute (GGGI) shows that the up-front investment in a green school building can be set-off within approximately 3 years[6] through energy savings. At the same time a green school offers a much safer and healthier environment to school children than a standard school. Selecting less energy-intensive products reduces coal consumption, with positive effects on the environment and human health. Sustainable public procurement also supports the export and national market for green technologies and innovation, thus fostering an innovative private sector able to compete with their international counterparts.

Considering the significance of public procurement in the national market (in 2014, Mongolian government spending represented 32% of GDP, and public procurement of products and services accounted for about 12% of GDP[7]), this represents an important opportunity to leverage existing spending to promote key government priorities around risk reduction, fiscal responsibility, environmental stewardship and protection of human health. The Ministry of Finance has led work to change the public procurement law (PPLM) including a regulatory regime that could enable and promote sustainable public procurement. This policy work should be accelerated. In the meantime, smarter procurement must be continued to signal to industry and consumers to shift to more sustainable patterns of consumption.[8]

12%

of the GDP accounted for public procurement of products and services

Investments in greener government goods and services can often be off-set in the span of a few years.

Beyond the establishment of a targeted fund, the potential for scaling up green finance is substantial.

3. Create an enabling environment for green private finance.

PAGE in partnership with the Mongolian Sustainable Finance Initiative[9] and together with the UNEP Finance Initiative (UNEP FI) is supporting the strategic positioning of Mongolia's banking sector in unlocking private finance for green development. A working group for the establishment of a Green Credit Fund, led by the Mongolian Bankers Association and MET was established and has approved a work plan for 2016-2017. As the first phase of the Green Credit Fund initiative, MBA with the support of PAGE and other international partners, has conducted a market assessment of the demand for green project lending, reviewed the legal, regulatory and tax environment for the fund and developed a concept note for the Mongolian Green Credit Fund.

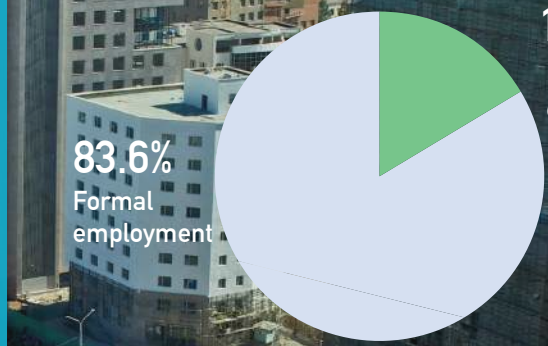
Internationally, only a small fraction of bank lending is currently explicitly classified as green according to national definitions. Less than 1% of global bonds are labeled green and less than 1% of the holdings by global institutional investors are green infrastructure assets. A stock taking of measures from other countries that could help scale up green finance has identified the following: (i) providing strategic policy signals and frameworks (ii) promoting voluntary principles for green finance (iii) expanding learning networks for capacity building (iv) supporting the development of local green bond markets (v) promoting international collaboration to facilitate cross-border investment in green bonds (vi) encouraging and facilitating knowledge sharing on environmental and financial risk, and (vii) improving the measurement of green finance activities and their impacts. The UN Environment Inquiry is available to conduct a study in Mongolia to identify country-specific barriers and opportunities for green finance, building on existing initiatives and partnerships.

4. Promote environmentally-sustainable and decent jobs ('green jobs').

The structural change towards greener and more sustainable growth will have implications on the employment and labour market dynamics of the Mongolian economy. Jobs are expected to be created and transformed, while others will be lost. New green technologies will demand different skills. In the context of rising unemployment (estimated to reach 9% as of 2016) and informality (reportedly reaching 16.4% in the first quarter of 2016), it is imperative that jobs created in environmental sectors[10] are decent and socially inclusive, leaving no one behind.

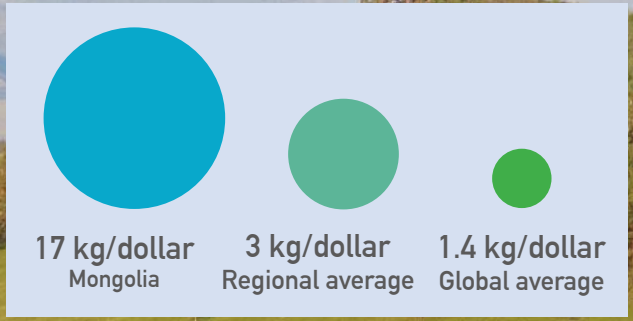
PAGE with EPCRC conducted a green jobs mapping, followed by a green jobs survey with the National Statistics Office (NSO) using a dedicated module in the Labour Force Survey in 2014 and 2016. The study quantified existing green jobs, mapped these out across economic sectors and sub-sectors as well as geographical areas and identified the decent work deficits in other jobs.

This points to considerable room for (1) production of environmental outputs and use of environmental processes in these sectors, as well as (2) improvement in job quality. The results also allow for employment projection studies thus informing which environmental and/or investment policies have the maximum job creation potential. Labour market policies should address the effects of structural change and promote social inclusion through, for example, support programmes for job seekers; establishing exit strategies for workers and enterprises with unsustainable environmental impacts, while supporting strategy formulation for infant industries; as well as skills development, education and training.



Types of employment

The survey shows that in the second quarter of 2016, 33.1% of jobs were in environmental sectors[11] and 10% of total jobs were green jobs.[12]



Mongolia uses 17 kilograms of natural resources for every dollar of economic activity, whereas the region's average is 3 kilograms per dollar and the global average is 1.4 kilograms per dollar.

5. Improve resource efficiency.

This is largely due to the economic focus on resource intensive sectors, extractives and livestock, and the early stage of secondary and tertiary sectors, such as tourism. The National Green Development Policy's first strategic objective is to "Promote resource efficient, low greenhouse gas emission and waste less production and services". This is in line with the principles outlined under the Sustainable Development Vision, which include "Use resources efficiently and effectively", and "Support clean technology and encourage low waste and sustainable production and consumption". At the same time, at the sector level, the Sustainable Development Vision outlines policy goals which imply increases in natural resource use, as well as value addition – an expected and reasonable ambition for a country at an early stage of economic development and infrastructure investment.

For example, the tourism sector should grow from 0.2 to 2 million tourists – which, if not distributed over the off-peak, will imply a ten-fold increase in hotel and transport capacity. In the industrial sector, the Vision outlines a plan to expand leather processing, develop industries for smelting copper and purifying gold, domestically processing petroleum, natural gas, oil shale and coal, and starting to manufacture chemical fertilizers and other chemicals – which would put additional pressure on resource use. Thus, in order to meet the Mongolia's resource efficiency goals, it would be important to integrate resource efficiency in all sectoral policies and support sectoral implementation.

6. Promote high-quality education and training for all.

Education is not only a fundamental human right, it is also a good investment in economic terms. A 2014 World Bank study indicates that every year of schooling raises an individual's potential earnings by 10%. This rate of return is higher than alternative investments, including bonds, stocks, deposits, and housing. Mongolia is already investing a significant proportion of GDP into the education sector (5.4% as in 2015).

With support of PAGE, Mongolia has developed a Green Economy Learning Strategy and is exploring opportunities to integrate green economy concepts and approaches in university programmes. The students of today will be the government and businesses leaders of tomorrow. Up-scaling investments in their education will help to set up Mongolia on a sustainable development path in the medium-term.

In a more immediate perspective, it is important to develop a cadre of public officials across institutions that are able to develop and analyse policy options to promote an inclusive green economy. A specific opportunity would be to establish a cross-governmental foundational training programme building on the existing learning materials developed under PAGE. To be sustainable such a programme would need to be built in partnership with national institutions regularly delivering trainings for civil servants

The Partnership for Action on Green Economy has been working with the Government and a range of national stakeholders since 2013 to advance green development in Mongolia. The partnership brings together the expertise of five UN agencies - UNEP, ILO, UNDP, UNIDO and UNITAR, offering a comprehensive package of technical assistance and capacity building services.

To turn education spending into investment with high returns, public investments should focus on access to education for all, put emphasis on the quality of learning, and expand technical and vocational training and higher education[14].

Footnotes

1 World Bank country data: http://www.worldbank.org/en/country/mongolia

2 World Bank: Mongolia Economic Brief, September 2016 (http://pubdocs.worldbank.org/en/539861473145444556/Mongolia-Economic-Briefs-0916.pdf)

3 National Statistics Office of Mongolia: http://www.en.nso.mn/

4 An inclusive green economy, in its simplest expression, is low carbon, efficient and clean in production, but also inclusive in consumption and outcomes, based on sharing, circularity, collaboration, solidarity, resilience, opportunity, and interdependence. It is focused on expanding options and choices for national economies, using targeted and appropriate fiscal and social protection policies, and backed up by strong institutions that are specifically geared to safeguarding social and ecological floors (PAGE Operational Strategy 2016-2020, based on UNEP (2015) Uncovering Pathways Towards and Inclusive Green Economy: A Summary for Leaders),

5 Mongolia's Nationally Determined Contribution: http://www4.unfccc.int/ndcregistry/PublishedDocuments/Mongolia%20First/150924_INDCs%20of%20Mongolia.pdf

6 Based on international experience with payback periods on energy efficiency technologies and green building techniques.

7 Market Readiness Analysis on Sustainable Public Procurement in Mongolia, conducted by Ms. Byambasuren Dorjnyambuu and Yanjinpagma Nyamsuren under PAGE and "Stimulating the demand and supply of sustainable products through sustainable public procurement and ecolabeling" (SPPEL) projects, Ulaanbaatar, 2016.

8 Low Carbon Green Growth Roadmap for Asia and the Pacific Retrieved from http://www.unescap.org/sites/default/files/33.%20FS-Green-Public-Procurement.pdf

9 Convened by Mongolian Bankers Association (MBA) and guided by the Central Bank of Mongolia, MEGDT, and the Financial Regulatory Commission.

10 Meaning any economic sector engaged in the production of environmental goods and services (outputs) or in the use of environmentally sustainable processes.

11 28.1% in the fourth quarter of 2014 and 34.2% in the first quarter of 2016.

12 5% in the first quarter of 2014 and 8.9% in the first quarter of 2016.

13 World Bank Education Global Practice Group (2014): Comparable Estimates of Returns to Schooling Around the World, Claudio E. Montenegro and Harry Anthony Patrinos (http://documents.worldbank.org/curated/en/830831468147839247/pdf/WPS7020.pdf)

14 https://blogs.worldbank.org/education/six-ways-turn-education-spending-investments-high-returns

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