



A Golden Opportunity?

Unpacking the relationship between Mongolia
and the World Bank

B*i*C

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Note: All figures in USD unless otherwise noted.

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Introduction

Mongolia is a large, sparsely populated country sandwiched between Russia and China whose economy has been growing rapidly over the past 10 years due to the discovery of vast mineral deposits such as coal and copper. Competition between foreign investors for the right to develop these deposits has become fierce, especially in the case of the Tavan Tolgoi coking coal mine, where it has become symbolic of the international struggle between the United States and China for supremacy in East Asia. Both China (state-owned Shenhua Energy) and the US (St. Louis-based Peabody Energy) have companies with bids on Tavan Tolgoi, and both see winning the contract as a bargaining chip in their diplomatic relationships with Mongolia.¹ As a result, the extractives industry Mongolia has become a political as well as economic game.

The role of the World Bank Group (WBG) and other international financial institutions in supporting the broader development goals of Mongolia is less politically-charged than these bilateral negotiations. However, the WBG can influence country policies and foreign investment by example through the projects it funds, as the Bank is a globally recognized leader in international development. The Bank's strategy for Mongolia, where it has been active since 1991, has focused almost exclusively on developing the energy and mining sector as the main engine of growth at the expense of traditional sectors such as agriculture, which still employs over a third of the Mongolian labor force.

¹ New York Times, [In Mongolia, A New, Penned-In Wealth](#)

One example of the Bank's singular vision of "responsible mining" in Mongolia is the proposed International Finance Corporation (IFC) investment in the Oyu Tolgoi copper/silver/gold mine in the South Gobi. The mine is thought to be one of the largest untapped copper deposits in the world and it is expected to increase Mongolia's GDP by 30% once production begins in late 2012. As civil society groups such as Oyu Tolgoi Watch have pointed out, this mine will have potentially serious environmental and social impacts that must be fully addressed before the IFC proceeds with the \$300 million investment. Water is of primary concern, as it is an already scarce resource in the Gobi, and nomadic herders have had to abandon their traditional livelihoods due to competition over land and water resources with the mining company.

In the eyes of many, this is a golden opportunity for the World Bank Group, the Government of Mongolia, and foreign investors to cash in on Mongolia's mineral riches. If handled correctly, the country has the potential to become the next United Arab Emirates. But with Mongolia's poverty rate on the rise and cases like Oyu Tolgoi threatening the stability of a fragile ecosystem, it appears that the social and environmental costs of the Bank's extractive-dependent strategy have been largely ignored. We should therefore question whether the World Bank model can be developmentally sustainable in this context. This paper seeks to address this by unpacking the model and partnership strategy employed by the World Bank in Mongolia.

The World Bank Matters in Mongolia

The World Bank Group (WBG) is an influential international development actor. Billions of dollars are spent each year by the WBG in Africa, the Middle East, Eastern Europe, Asia, and Latin America to provide loans, grants, and technical and financial assistance to governments and private companies alike. By virtue of its position as a major lender, knowledge broker, convener, and gatekeeper for development finance the Bank impacts the direction of development in countries like Mongolia.

- As a major lender, the WBG provides much-needed seed money for development projects in the poorest countries, but often through instruments like Development Policy Loans (DPLs) that come with stipulations such as structural reform.
- As a knowledge broker, the World Bank Group publishes the majority of research on development to countries who often do not have the capacity to access alternate research, meaning that the WBG alone is responsible for shaping the development discourse in those countries.
- As a convener, the World Bank has increasingly become a visible player in inter-ministerial and multi-dollar coordination. It has also become an important actor in mobilizing private finance and shaping various forms of public and private partnerships in development lending.
- As a gatekeeper for development finance, WBG research and

assessments on things like country policy and investment climate influences the behavior of other investors in the target country. Lenders may also take their cues from the World Bank country strategies in determining which sectors to invest in.

The World Bank Group has been active in Mongolia since the country joined the institution on February 14, 1991. While the WBG has invested in projects across a variety of sectors, the focus of the Bank has been to tap into the country's vast mineral resources as the main driver of development. The WBG projects that if handled correctly, Mongolia can avoid the "resource curse" that has plagued similar nations and use the new-found mineral wealth to support growth in other sectors.

The Mongolian mining industry is one of the most liberalized in the world, which removes many constraints from foreign direct investment in extractives. This, however, yields questions on government oversight of extractive industry corporations. Coupled with a central government widely perceived as being weak and prone to populist politics, this partnership between the WBG and the energy and mining sector raises issues on whether it could do more harm or reduce/prevent harms to the environmental and social fabric of the country. It is therefore imperative that the hidden costs and development sustainability of the WBG investments in Mongolia be monitored.

A Resource-Dependent Economy

Though Mongolia is one of the largest landlocked countries in the world, it is also the least densely populated due to its cold and dry climate, with a population of only 2.7 million people. As a result, Mongolia has remained relatively isolated from the pace of global economic growth. But when large deposits of mineral resources such as coal, copper, and gold were discovered in the Southern Gobi, Mongolia began to attract the attention of outside investors. The estimated value of Mongolia's mineral reserves is around \$1.3 trillion dollars, and mining constitutes 21.8% of the \$6.125 billion GDP (2010).² This new mineral wealth is thought to be responsible for the 17.3% growth in GDP Mongolia experienced in 2011.

In spite of the country's increasing GDP, as much as 39% of the population lives below the national poverty line. Agriculture, particularly livestock herding, remains a major employer, representing 33.5% of the labor force, though in 2010 it only accounted for 15.9% of the overall GDP.³ Official unemployment rates are pegged at 3.6%, though the real rate could be much higher.

The Government of Mongolia (GoM) has passed several laws regarding the mining industry, such as the Mineral Law (2006 amendment) that allows the GoM to have up to 50% ownership of any mine on or abutting any deposit deemed strategically important. This was done to ensure that the revenues generated by these mines could be used in social programs, which is possible only if the exploration was done by public companies or

resources. Mining currently makes up 33% of the revenues, though government spending practices in the lead-up to the parliamentary elections in June 2012 may mean that those funds will not be used wisely.⁴

Although largely influenced by its neighbors Russia and China, Mongolia is not as dependent on Official Development Assistance (ODA) as it used to be. In 2010, only 5.5% of its GDP was from ODA, compared to nearly 21% of GDP in 2000. While the Asian Development Bank (ADB) and the World Bank were in the top five major donors to Mongolia in 2010, Japan and other bilateral donors made up 73% of the total ODA shares.⁵

But even though Mongolia's economy has begun to skyrocket, the country is still not a part of any regional trade agreement. Mongolia joined the World Trade Organization (WTO) in 1997, but its every attempt to join the Asia-Pacific Economic Cooperation (APEC) has been blocked. As a result, Mongolia has had to rely heavily on its bilateral trade agreement with China, which provides 45% of Mongolia's imports and receives over 90% of the country's exports. The World Bank and other multilateral donors will thus have to contend with the interests of Japan and China in Mongolia's development.

² ADB, *Key Indicators for Asia and the Pacific 2011*, [Mongolia](#)

³ *Ibid*

⁴ Revenue Watch Institute, *Mongolia*

⁵ OECD, *Aid at a Glance*, [Mongolia](#)



Box 1: Finance Minister Statement

“Mongolia... was one of the hardest hit countries in the East Asia and Pacific region [by the global financial crisis]. After a few years of rapid growth, Mongolia’s economic growth dropped to a negative 1.9 percent in 2009... As a response to the crisis, the Government of Mongolia has successfully implemented a Stand-by program with the IMF, Development Policy Credit with the World Bank and Social Sector Support Program with ADB and Government of Japan. Together with our partners Mongolia has made major strides forward reforming our fiscal system, to instill fiscal sustainability and responsibility, as well as taking policy measures to avoid future pro-cyclical policies.”

Bayartsogt Sangajav, Former Mongolian Finance Minister and WBG Board Governor, WBG/IMF Annual Meetings Statement, 8 Oct 2010

World Bank Investments in Mongolia

The main goal of the Bank in the past 20 years has been to assist Mongolia in its transition from a centralized communist economy to a free-market economy, focusing on the country’s extensive mineral resources as the basis for economic growth. While the range of projects has changed over the years, energy and mining and their related infrastructures have remained the core of the Bank’s development blueprint for Mongolia.

Past Bank Development Strategies

Any time the World Bank begins to lend actively in a country, it prepares a Country Assistance Strategy (CAS) to determine what the perceived development challenges are and to lay out an action plan for investment or technical assistance from the Bank. A CAS generally covers a period from three to five years, but this may be extended or suspended depending on the country’s economic or political climate.

In Mongolia, only three Country Assistance Strategies have been written since 1991. While the Bank funded a few economic

recovery projects in the early 1990s to help ease the shock of losing support from the Soviet Union, the first CAS was not brought before the Board until June 1995. After that the Bank drafted a CAS fairly regularly, publishing the second CAS in April 1998 and the third in April 2004.

While the specific methods undertaken by the Bank vary between each CAS, the development challenges have remained largely the same. In each CAS, the objectives fall into three general categories: 1) managing the transition to a market economy and the macroeconomic changes that entails; 2) investing in infrastructure development; and 3) reducing inequality and vulnerabilities of target populations.

The majority of the Bank strategies for Mongolia during this period were Technical Assistance Loans or Strategic Investment Loans intended to help build capacity within the government and private sector for effective fiscal and monetary policy, although two projects were financed through Sectoral Adjustment Credits. In the 1995 CAS, the

Bank's emphasis was on policy dialogue, which in a sense allowed the Bank to help shape government policies related to energy, transportation, urban infrastructure, the environment, social services, and institutional reform. The 1998 CAS continued this trend with an emphasis on resource management and sectoral diversification. The 2004 CAS focused more on establishing institutional frameworks that support privatization and free market enterprise, with a nod towards the role of NGOs in building public awareness and government transparency.

Current Development Blueprint

The World Bank currently does not have an active CAS in Mongolia, though a strategy is in the process of being drafted for FY2012-2016. In its stead, the Bank is working off of an Interim Strategy Note (ISN) written in 2009 that was only meant to cover the Bank's involvement in Mongolia through the end of 2010. The fact that the Bank has been working off an ISN for three years is concerning, especially because an ISN is meant for short term recovery work, not as a replacement for a CAS (see Box 2).

The development challenges present in the ISN are very similar to those of the past Country Assistance Strategies, with one major difference. In the past, the World Bank has used the energy and mining infrastructure as a means to promote development, but it was always just a small part of the overall strategy. In the case of the 2009 ISN, mining has taken center stage. Macroeconomic stability and protection for vulnerable populations are still in the strategy note, but these are both addressed in relation to the management of mining revenues and investments.

Box 2: Interim Strategy Notes

Interim Strategy Notes (ISNs) are generally prepared by the World Bank to support countries that are transitioning from a period of conflict, such as Burma. They are usually written to cover a period of 24 months and are geared to meet short-term needs. In the case of Mongolia, it was an economic crisis, rather than a humanitarian one, that prompted the Bank to adopt an ISN.

The global economic downturn in 2008 caused copper prices to drop sharply, dealing a harsh blow to the mineral-dependent Mongolian economy. The country's budget fell to a 5% deficit from a steady three-year surplus. The Bank decided to forego the planned CAS strategy for that year in favor of the ISN, which is meant to be more responsive to destabilized financial structures.

As this ISN was written to assist Mongolia from recovering from a shock in global mineral prices, in this case copper, the focus on mining makes sense in the short term. The Bank, seeing a weakness in the way mining revenues were handled, understandably sought to address the crisis through this note. However, the dependence on the ISN past its projected end date of 2010 is troubling as the call for export diversification in the previous 2004 CAS is noticeably absent. For the World Bank, "export diversification" may simply be rhetoric, but to leave it out altogether indicates that they do not want to consider other avenues of development. It is also of note that the World Bank country representative at the time, Arshad Sayed, is currently the President/CEO of Peabody Energy in Mongolia, and thus there is a chance that this focus on mining is a result of his particular agenda. As the Bank believes

the next CAS will probably adopt the same objectives as the current ISN, we should be concerned that mining has become the sole focus of the Bank's strategy in Mongolia.

Project Lending Overview

The World Bank has sponsored 58 projects in Mongolia since 1991, 26 of which are currently active. These projects have been funded through a mix of IDA loans (known as credits) and grants as well as trust funds from other donors. The cost of all the past projects is around \$775 million, with the active project costs reaching \$305 million. The World Bank also has two projects in the pipeline valued at \$31 million.

Sectoral Priorities

The World Bank portfolio in Mongolia has been diversified across many sectors, with at least one project approved in each sector since 1992. However, the Energy and Mining, Public Administration, and Finance sectors have been the main focus of the Bank as outlined in the previous country strategies. As shown in Table 1, Energy and Mining sector projects have remained in the portfolio across each CAS period, while the emphasis on supporting sectors has shifted depending on the particular goals of the corresponding strategy. For example, during the 2004 CAS period more projects were approved in the Health and Other Social Services Sector than in Energy and Mining, in accordance with the CAS commitment to providing equitable access to social services. The trend in overall spending is similar, with the Energy and Mining (\$180 million) and Finance (\$110 million) sectors receiving the bulk of the Bank's \$620 billion commitment (see graph 1).

Sector	Pre-CAS	1995	1998	2004	2009	Total
Agriculture, Fishing, and Forestry	--	--	1	4	1	6
Education	--	--	--	3	2	5
Energy and Mining	2	1	2	3	5	13
Finance	--	1	2	1	2	6
Health and other social services	--	1	1	2	3	7
Industry and Trade	--	--	1	--	--	1
Information and Communications	--	--	--	3	--	3
Public Administration, Law, and Justice	1	1	3	4	2	11
Transportation	1	--	1	--	1	3
Water, Sanitation, and Flood Protection	--	1	--	1	1	3
Total	4	5	11	21	17	58

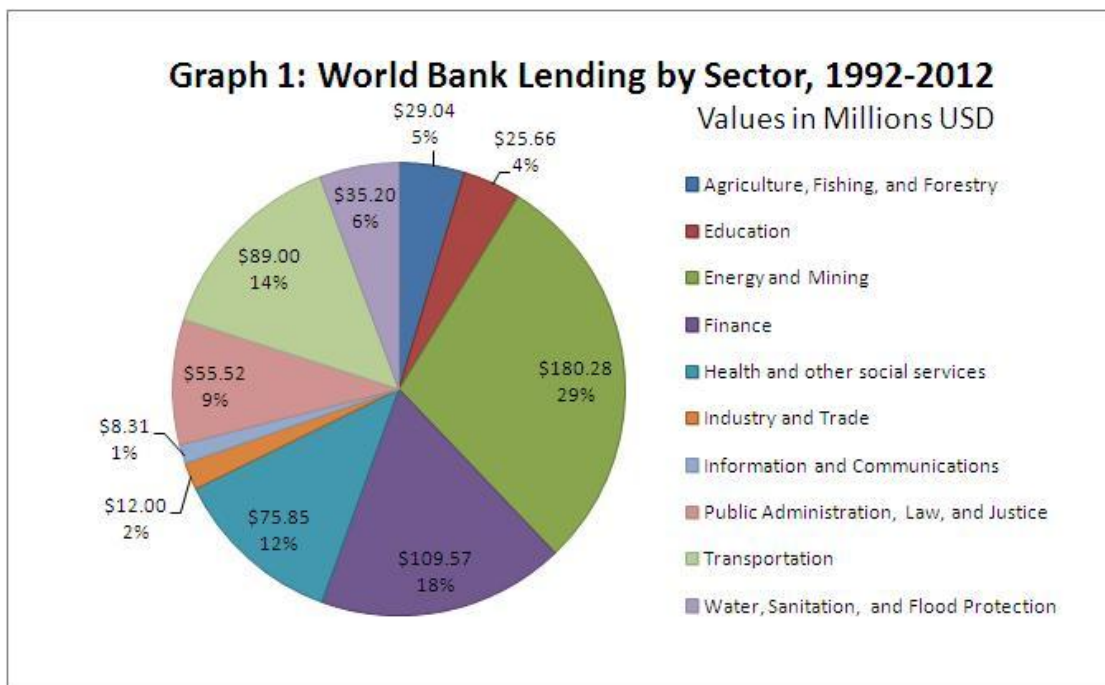
This sectoral emphasis highlights the Bank's plan for Mongolia, which can be boiled down to "mining for sustainable development."⁶ The Bank has justified this choice by saying that its absence from social sectors such as health and education is deliberate because other donors are already heavily invested in these sectors. Citing comparative advantage, the Bank has decided to focus its efforts on its proclaimed areas of expertise, namely the financial and administrative sectors.⁷ This focus could prove to be problematic given the vulnerability of mineral-based markets to external shocks.

IBRD/ IDA

The International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) are the two branches of the World Bank Group that provide loans and grants to governments of developing nations. The IBRD provides financing for middle-income countries it has deemed creditworthy, while

⁶ World Bank, [Mongolia Country Survey FY2011](#)

⁷ World Bank, 1998 CAS, *Strategic Partnerships and Aid Coordination*



the IDA provides soft funds to low-income countries or those who lack the capacity to pay back IBRD loans. Together, these branches make up what we call the World Bank (WB).

While Mongolia joined both the IDA and the IBRD in 1991, Mongolia did not qualify for loans from the IBRD despite meeting the standards for middle-income classification. As a result, the IDA provides the majority of the funding for Bank projects in Mongolia, committing a total of \$579 million over the past 20 years. The IDA currently has \$210 million committed to active WB projects, as well as \$20 million in one of the proposed projects. However, on March 7, 2012 Mongolia was declared creditworthy by the Bank, and will now likely transition into a blended investment country, receiving aid from both the IBRD and the IDA.⁸

IFC

The International Finance Corporation (IFC) is the private lending arm of the World Bank Group, specializing in providing investment and advisory services to entities such as banks and local corporations. This private sector initiative is supported by the

Multilateral Investment Guarantee Agency (MIGA), which insures the investments made by member countries in order to provide a stable financial environment for Foreign Direct Investment (FDI) in the host country. While MIGA can and often does extend guarantees to projects financed by the IFC, the two branches are independently operated.

Although Mongolia joined both the IFC and MIGA in 1991, the IFC did not begin actively investing in the country until 1997. Since then, 15 projects have been financed by the IFC at a total project cost of \$280.1 million, although commitment from the IFC is closer to \$195 million. Of these 15 projects, 11 are active for a total project cost of \$267 million. True to its commitment to increase access to finance and promote local businesses, nearly 35% of the money invested in Mongolia since 1997 has gone to support the Commercial Banking and Microfinance sectors. However, the IFC is also interested in investing in the mining and infrastructure industry as addressed in the current Interim Strategy Note, though no direct involvement has occurred as of yet. MIGA is currently not active in Mongolia, extending only a single guarantee in 2006 that has since closed.

⁸ World Bank Press Release, [Mongolia](#)

Assessing Risk in Bank Projects

The World Bank, as part of its mandate to reduce global poverty, has created a set of safeguard policies to mitigate the environmental and social risks associated with proposed projects. As part of the appraisal stage, projects are assessed on their potential impacts and then placed into four different categories (see Box 3). If any of the 10 World Bank safeguard policies are triggered, an Environmental Impact Assessment (EIA) is required before the project can move forward.⁹ The IFC has a similar set of 8 policies in place called Performance Standards, which differ from the World Bank safeguards with the inclusion of labor.¹⁰

The annex contains tables that lay out the Active and Proposed World Bank projects as well as the active IFC projects, illustrating which safeguard policies or performance standards are triggered most often. In the current World Bank portfolio, one of the 26 active projects is Category A and ten are Category B, while both of the pipeline projects are Category B. The IFC portfolio is similarly weighted, with four Category B projects and seven Category FI projects. Category FI can be problematic because the recipient of the funds, rather than the IFC, is now responsible for performing the environmental assessments. Unfortunately, there is less accountability under this framework, and it ultimately allows the IFC and the Bank to absolve themselves of responsibility if there ends up being an issue with the project.

Box 3: Environmental Assessment Categories

Category A: The project is likely to have significant adverse environmental impacts that are sensitive, diverse, or unprecedented. The borrower is required to provide a full EA.

Category B: The project is likely to have limited, but still adverse environmental impacts, requiring an EA that is narrower in scope than a Category A project.

Category C: The project is likely to have minimal to no environmental impact. Beyond screening, no additional EA is required.

Category FI: The project involves investment of Bank funds through a financial intermediary. An EA is required when subprojects may have adverse environmental impacts.

⁹ [World Bank Safeguard Policies](#)

¹⁰ [IFC Performance Standards](#)



Project Watch: Oyu Tolgoi Mine

Project Overview

Located in the Omnogovi Aimag (province) in the Southern Gobi Desert region, the Oyu Tolgoi copper-gold mine is one of the largest undeveloped copper and gold deposits in the world. Estimates of the total copper and gold reserves of the mine have reached 37 million tons and 46 million ounces respectively. The Mongolian GDP is expected to increase by 30% once Oyu Tolgoi (OT) begins production, which is likely to start in the third quarter of 2012.¹¹

The mine is jointly owned between the Government of Mongolia (with 34% stake in the project) and the companies Ivanhoe Mines (Canada) and Rio Tinto (UK) (with 66% ownership). However, the IFC and the European Bank for Reconstruction and Development (EBRD) have expressed interest

in financing the project for as much as \$300 million each as a part of their strategic development plans for Mongolia, though no board approval date has been set in the case of the IFC. OT LLC has also begun negotiations with MIGA, though nothing has been decided formally.

Project Concerns

Civil Society Organizations (CSOs), both in Mongolia and abroad, are concerned about the negative environmental and social impacts the mine will have. Two fact-finding missions were undertaken in 2011, one by a USAID field team and another by a coalition of CSOs. The general consensus between these reports is that the long-term interests of the mining companies and the traditional herding communities that live nearby are incompatible. The problems with the OT project are outlined below.

¹¹ Resource Capital Investment, [Mongolia 101, Mining](#)

- *Water Resources:* Water in the South Gobi is severely limited, and climate change has exacerbated the problem. As water is a necessary component of both mining operations and livestock maintenance, competition between the Oyu Tolgoi mine managers and the neighboring herders is fierce. Herders are worried about pollution from run-off as well as a draw-down of the water table as a result of the mine activities. Dust from the unpaved mine roads also poses a huge health risk for herders and their livestock. A regular application of water on these roads is needed to manage the dust problem, further adding to the strain on water supplies.

As there are concerns that there is not enough water available in the South Gobi to carry OT for the life of the project, the government has said that it may be pursuing two river diversion projects. The first is the Orkhon-Gobi project, which the World Bank is providing \$3.2 for a feasibility study. The Orkhon River is one of the key tributaries to the Selenge River, which feeds into Lake Baikal in Russia. The second project is the Kherlen-Gobi project, which feeds into Lake Dalai in China. Both of these lakes are protected under the Ramsar Convention, and any water diversion projects will have transboundary impacts. Water experts have said that neither river would survive the diversion.

- *Government Capacity:* The GoM has passed several laws related to mining since 1997, but it currently does not

have the capacity or resources to provide sufficient oversight of the extractive industry. The local government in the nearby soum center Khanbogd also does not possess the resources to support the explosion in population growth that will occur once OT becomes operational. Though mining companies have promised to finance the development of social services such as schools and hospitals, there is still an uncertainty on the part of the local governments on whether they will ever see the revenues generated by the mining industry.

- *Involuntary Resettlement:* Traditional nomadic herders have lived in the area of the Oyu Tolgoi mine for generations, following their livestock to the best pasture lands. Unfortunately, their land abuts the valuable Oyu Tolgoi deposit. The mine owners have attempted to get around this problem by resettling the eleven families that live near the mine to camp sites that are inferior to the ones they were forced to leave. The herders are concerned about the quality of their camps and wells as well as the fracturing of their pasture lands, which has affected over 300 households. The international airport, for example, has taken away the herder's best reserve pasture. Once construction starts on the power plant and railroad, even more households will be impacted.
- *Information and Inclusiveness:* The herders affected by the OT project generally feel that the Oyu Tolgoi

project managers do not respect their lifestyle. The herders are often unaware of the plans surrounding the mine due to a lack of disclosure, and they are asked to sign agreements without fully understanding the consequences. As a result, the voices of those who are affected the most by

this project are not being heard in the development process. According to the fact-finding missions, the reports institutions like the EBRD are basing their financing decisions on do not match the situation on the ground, so addressing the issue of accurate and inclusive information is crucial.

CSO Spotlight: Oyu Tolgoi Watch



Sukhgerel Dugersuren is the Executive Director of Oyu Tolgoi Watch, a Mongolian NGO dedicated to monitoring investment in the Oyu Tolgoi copper/gold/silver mine in the South Gobi. A civil society activist since 2006, she is motivated by the violation of human rights for development and by development organizations in developing countries and the alarming pace of environmental degradation caused by development. The following interview outlines some of the major concerns Sukhgerel has with the pending IFC investment in Oyu Tolgoi.

Could you talk a little bit about your work with Oyu Tolgoi Watch? What is the background of the organization?

OT Watch was established to monitor compliance of Oyu Tolgoi mine – the largest foreign investment in Mongolia – with international environmental and human rights standards. It was established after civil society failed to stop an unfair investment agreement it had stalled for 6 years. The agreement was signed by government in October 2009 amidst a hunger strike,

conditional acceptance of technical feasibility, and general public disagreement. OT Watch was officially registered in March 2010 and it has spent the past two years establishing links and relations with organizations monitoring mining operations at both the local and international levels. During this time we have also carried out seven field missions and communicated our findings to Oyu Tolgoi LLC, the government and IFIs.

It has been 10 years since the World Bank Group began its Extractive Industries Review to develop best practices for its EI projects. Why is OT Watch concerned about the WBG's financing in the Extractives Industry?

The World Bank has policies and guidance in place but does not always seem to apply them to the best of its knowledge and ability. For instance, the World Bank has failed to put a country strategy in place for Mongolia, yet it continues to support mining without implementing compliance monitoring mechanisms or impact assessments. The Bank is extending too much credit to Mongolia for mining and support infrastructure without this country strategy. There is no update IMF analysis of Mongolia's debt condition that takes into consideration all the credit this country is taking to support mining.

We believe that the World Bank leadership pushed too hard for the government to sign the unfair Oyu Tolgoi investment agreement, and this is also an issue that civil society raises in Mongolia. The former World Bank resident representative Arshad Sayed, for example, has been the largest supporter of

this OT investment agreement and has made many public statements about this agreement being the model mining investment agreement for Mongolia. He has since moved directly from this position to heading Peabody Energy in Mongolia. Another former World Bank mining advisor is now the head of the Erdenes Mongol mining company. Pro-mining policies will definitely benefit the companies being run by these former World Bank officials.

Specifically, what are your concerns regarding the Oyu Tolgoi mining project? What are the development impacts, if any? What are the potential risks?

This is a mega-size mine with a 30 to 60 year project life located in the Gobi Desert. Documents and statements by the mining company fail to demonstrate the availability of water resources for the life of the project as required by sustainability requirements. Rio Tinto CEO Tom Albanese confirmed at the 2010 Annual General Meeting that there is only enough water available for production for 5 to 10 years. The project is currently using bottled water for its 18,000 strong workforce.

Of primary concern in the region is water. Can you tell us more about it?

Oyu Tolgoi is not the only mine in the region. There is now the famous world's largest untapped coking coal deposit at Tavan Tolgoi, located only 160km from OT, and the Tsagaan Suvraga copper mine located about 230km north. These mines are large enough to be funded by the EBRD and other private banks. There are also five to six medium-sized mines in the same region within a 500km radius and all face water resource scarcity.

Rio Tinto adamantly rejects the need to take water from the Orkhon-Gobi water diversion project. It claims that it will not use fresh water for mining, but it is silent on the use of this water for its workforce and other needs. The World Bank is funding the technical feasibility study of the Orkhon-Gobi project because OT, TT, Tsagaan Suvraga and other mines which Peabody and a long list of other western companies have expressed interest in need this water.

OT Watch is also concerned with the World Bank funding the technical feasibility for the Shuren Hydropower Station on the Selenge River. The Orkhon River is one of the Selenge River's key tributaries, and the Selenge River is key to the well-being of Lake Baikal, which is protected under the UN Ramsar Convention. This means that there is a potential transboundary impact on river basins in the region, in addition to the fact that some water experts are skeptical about the Orkhon River surviving such a diversion.

Should the project move forward? If so, under what conditions? If not, why not?

We have raised public awareness around the need for cumulative and aggregate impact of underground water depletion in this waterless ecosystem. The project should not proceed without demonstrating that the cumulative impact will not cause significant negative effects in the environment, human and wildlife populations and without addressing the extent to which the project may add to climate change, desertification, Gobi dust impacts on the region and oceans, etc. The cost of mitigating the possible cumulative negative impact should be factored into calculations of the profit, with additional analysis done on the investment risks and overall impact on Mongolia's debt.

People talk about alternatives to mining for sustainable development. Is this possible for Mongolia in the context of Oyu Tolgoi?

Mongolia only has a population of 2.8 million, and the poverty statistics were lower before the country embarked on the path of mining. Mongolia had this image of “the end of the world”, “true wilderness”, and “ecologically pure, green agriculture products produced by ancient nomadic herding culture”. The Gobi Desert and dinosaur graves were key tourist attractions, along with the Mongolian nomadic lifestyle. Ecotourism was picking up speed in Mongolia.

Mongolia has the opportunity to develop “organic beef” and other organic livestock products as a means of export growth. The largest chunk of Mongolia’s 38 million head livestock sector is sheep and there are interested markets in the Middle East. Mongolian cashmere was also one of its important exports and was gearing towards penetrating high-end markets prior to shift to mining. Agricultural sector employs 40 percent of Mongolia’s workforce.

If the same amount of credit was made available to developing world standards products and services from these sectors Mongolia could sit on its wealth until there is dire need to disturb the earth. Unfortunately, this does not coincide with the interest of the World Bank to support Western industries to extract and sell minerals to China.

But if mining is the future, the population is 96.0% literate, and it only has to wait five to ten years to develop its own mining technical capacity, especially the monitoring skills, to exploit the mineral wealth at its own pace and need.

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Who's Handling Mongolia at the World Bank?

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Annex: Active and Pipeline WBG Projects

Table 2: Active World Bank Projects											
Project Information [Name, Cost (Millions USD), Location, Approval Date, Closing Date]	EA	NH	PM	IP	IR	F	SD	IW	DA	PCR	
Public Administration, Law, and Justice											
TA : Economic Capacity Building TA \$7.86, Nationwide, 6/24/2003, 3/31/2013	C										
Governance Assistance Project \$14, Ulaanbaatar, 5/23/2006, 12/31/2013	C										
Mongolia Mining Sector Technical Assistance Project \$10.3, Ulaanbaatar and mining-impacted communities, 6/26/2008, 12/31/2012	B										
Enhanced Justice Sector Services Project – Mongolia \$6.95, Nationwide, 6/26/2008, 12/31/2012	B			X							
MONSTAT: Strengthening the National Statistical System of Mongolia \$3.1, Urban Mongolia, 6/12/2009, 12/31/2014	C										
MONSTAT: Strengthening the National Statistical System of Mongolia \$0.65, Urban Mongolia, 8/2/2010, 12/31/2014	C										
Energy and Mining											
Energy Sector Project \$30, Nationwide, 5/3/2001, 9/30/2013	B										
Renewable Energy for Rural Access Project (REAP) \$12, Rural and isolated communities, 12/19/2006, 6/30/2012	C						TBD				
MN- Renewable Energy for Rural Access – GEF \$18, Rural and isolated communities, 12/19/2006, 6/30/2012	C										
MN-Energy Sector Additional Financing \$12.5, Ulaanbaatar, 3/25/2010, N/A	B										
MN-Mining Infrastructure Investment Supp \$25, Umnogovi, Dornogovi, and Dundgovi Aimags, 5/10/2011, 9/30/2016	A										
Mongolia: Post Compliance I \$0.25, Nationwide, 7/13/2011, 10/22/2012	C										
Ulaanbaatar Clean Air Project \$2.33, Ulaanbaatar, 4/3/2012, 6/30/2017	B										
Health and other social services											
MN-Sustainable Livelihoods II \$49.4, Nationwide, 6/19/2007, 6/30/2013	B	X		X							

Table 2, Cont: Active World Bank Projects											
Project Information [Name, Cost (Millions USD), Location, Approval Date, Closing Date]	EA	NH	PM	IP	IR	F	SD	IW	DA	PCR	
Health and other social services											
Community-led Infrastructure Development for the Urban Poor in Ulaanbaatar Phase 2 \$2.77, Ulaanbaatar, 5/3/2011, 7/5/2015	B				X						
Second Sustainable Livelihoods Project Additional Financing \$11, Nationwide, 6/9/2011, N/A	B	X		X							
Mongolia E-Health Project \$15.15, Nationwide, 9/16/2011, 12/31/2012	B										
Education											
Rural Education and Development (READ) Project (formerly Rural Education Support Project) \$4, Nationwide, 5/23/2006, 2/28/2013	C										
Supplement Rural Education and Development (READ) Project (formerly Rural Education Support Project) \$1, Nationwide, 6/26/2008, N/A	C										
Mongolia Global Partnership for Education Early Childhood Education Project \$12.12, Nationwide, 2/13/2012, N/A	B			X							
Mongolia: Improving Primary Education Outcomes for the most vulnerable children in rural Mongolia \$2.46, Nationwide, 3/22/2012, N/A	C										
Agriculture, Fishing and Forestry											
MN-Index-Based Livestock Insurance \$9.88, Bayankhongor, Uvs, and Khenti Aimag, 5/26/2005, 3/31/2014	C										
Index based Livestock Insurance Project Additional Financing \$10.7, Bayankhongor, Uvs, Khenti, and Sukhbaatar Aimag, 2/23/2010, N/A	C			X							
Information and Communications											
Information and Communications Infrastructure Development Project \$11.85, Nationwide, 6/8/2006, 3/31/2012	C										
Finance											
Mongolia Multi-Sectoral Technical Assistance Project \$12, Nationwide, 6/28/2010, 12/31/2014	C			X							
Water, Sanitation, and Flood Protection											
Solid Waste Management Demonstration Project for the Urban Poor in Ulaanbaatar \$0.51, Ulaanbaatar, 12/2/2010, N/A	C										

Environmental Safeguards

EA: Environmental Assessment, NH: Natural Habitats, PM: Pest Management, IP: Indigenous Peoples, IR: Involuntary Resettlement, F: Forests, SD: Safety of Dams, IW: International Waterways, DA: Disputed Areas, PCR: Physical Cultural Resources

Table 3: Pipeline World Bank Projects											
Project Information [Name, Cost (Millions USD), Location, Approval Date, Closing Date]	EA	NH	PM	IP	IR	F	SD	IW	DA	PCR	
Third Ulaanbaatar Urban Services Improvement Project \$21.89,Ulaanbaatar, Pending, TBD	B				X						
Mongolia Integrated Livestock-based Livelihoods Support Project \$11,TBD, Pending, TBD	B		TBD	TBD							

Environmental Safeguards
EA: Environmental Assessment, NH: Natural Habitats, PM: Pest Management, IP: Indigenous Peoples, IR: Involuntary Resettlement, F: Forests, SD: Safety of Dams,
IW: International Waterways, DA: Disputed Areas, PCR: Physical Cultural Resources

Table 4: Active IFC Projects								
Project Information [Name, Cost (Millions USD), Location, Approval Date]	PS1	PS2	PS3	PS4	PS5	PS6	PS7	PS8
Agricultural Bank of Mongolia \$3, Ulaanbaatar, 6/14/2004	FI							
XacBank \$5, Ulaanbaatar and Nationwide, 6/5/2007	FI							
Khan Bank Loan \$15, Ulaanbaatar, 10/26/2007	FI							
Xac Bank Equity \$15, Ulaanbaatar, 11/30/2007	FI							
MCS Group \$25, Ulaanbaatar, 5/1/2008	B	X	X	X	X	X		
XacBank Sub Debt \$5, Ulaanbaatar and Nationwide, 6/25/2010	FI							
Mongolia Opportunities Fund I, L.P. \$7.5, Ulaanbaatar, 8/6/2010	FI							
Suu Dairy \$8.6, Ulaanbaatar, 2/3/2011	B	X	X	X				
Khan Bank Sub D \$20, Ulaanbaatar and Nationwide, 5/12/2011	FI							
Shangri-La Ulaanbaatar Hotel LLC \$123, Ulaanbaatar, 5/25/2011	B	X	X	X	X			
Newcom Corp \$40, Ulaanbaatar and Tov Aimag, 6/29/2011	B	X	X	X	X	X		

Performance Standards
PS1: Assessment and Management of Environmental and Social Risks and Impact
PS2: Labor and Working Conditions
PS3: Resource Efficiency and Pollution Prevention
PS4: Community Health, Safety, and Security
PS5: Land Acquisition and Involuntary Resettlement
PS6: Biodiversity Conservation and Sustainable Management of Living Natural Resources
PS7: Indigenous Peoples
PS8: Cultural Heritage