

LAW ON THE NATIONAL SOVEREIGN WEALTH FUND AND ITS IMPLEMENTATION: RISKS AND POLICY OPTIONS

Borgil Surenkhuu

INTRODUCTION

In April 2024, the Parliament of Mongolia passed the Law on the National Sovereign Wealth Fund, which consolidated three funds:

- The Future Heritage Fund
- The Accumulation Fund
- The Development Fund

According to this law, the Future Heritage Fund is to be classified as a specialized fund within the National

Sovereign Wealth Fund and remains regulated by the Law on the Future Heritage Fund enacted in 2016.

As of the end of December 24, 2024, the total accumulation in these funds reached MNT 4,710 billion, and it is projected to reach MNT 7,368 billion by 2025¹. The accumulation for each fund according to actuals and projections is as follows (Table 1):

Table 1. Accumulation of the National Sovereign Wealth Fund: Actual and Projected

Name of Fund	Future Heritage Fund	Accumulation Fund	Development Fund
2024 Actual	3,973 billion MNT	497 billion MNT	240 billion MNT
2025 Projected	5,822 billion MNT	1,002 billion MNT	544 billion MNT

Regarding the Future Heritage Fund, in February 2016, the Parliament passed the Law on the Future Heritage Fund with the goal of "equitably distributing mineral resource revenues between present and future generations," marking the beginning of Mongolia having a national wealth fund² governed by a standalone law. The main source of the Future Heritage Fund's revenue is 65% of the remaining portion of royalties from mineral resource utilization,

after allocations are made to the Fiscal Stability Fund and the Local Development Fund.

The Law on the Future Heritage Fund came into effect on January 1, 2017, and stipulates that by 2030, the fund's asset management shall be undertaken by the Future Heritage Fund Corporation³.

Additionally, the Law on Procedures for the Implementation of the Law on the Future Heritage

¹ Prime Minister L. Oyun-Erdene: "Citizens have begun to benefit from the profits accumulated in the National Wealth Fund," source: <https://gogo.mn/r/57ewy>, online news platform, December 24, 2024

² Previously, funds such as the National Investment Fund and the Human Development Fund were established, but these were unable to function as true national wealth funds in their full meaning.

³ Law on the Procedures for the Implementation of the Law on the Future Heritage Fund, Article 52, February 5, 2016

Fund was amended six times, specifying that until the Future Heritage Corporation independently operates with a sustainable structure and capacity, the fund shall be managed by the "central administrative body responsible for financial and budgetary affairs⁴," and, if necessary, may also be managed "through the Bank of Mongolia on a contractual basis⁵." However, despite these legal provisions, the following activities related to the operation of the Future Heritage Fund have not yet been implemented:

- The Future Heritage Fund Corporation has not been established, and a Board of Directors has not been elected.
- The fund's assets have not been invested in international financial instruments⁶ as required.
- Detailed documents related to the Future Heritage Fund's operational plan, regulations, investment policy, and mandate are not publicly available⁷.

From this, it can be concluded that the operation of the Future Heritage Fund is not fully aligned with its legal purpose and is functioning more like a continuation of the former Human Development Fund, primarily serving social welfare policy objectives. The next steps regarding aligning the Future Heritage Fund's operations with its legal goals, the policies to be formulated, and most critically, the timeline for commencing international investment activities, have not yet been clarified.

Regarding the Accumulation and Development Funds, according to the National Sovereign Wealth Fund Law:

- The source of the Accumulation Fund is 34% of the dividends from state-owned legal entities in the mining and mineral processing sectors.
- The source of the Development Fund is 50% of the additional budget revenue arising from mineral prices exceeding the benchmark prices calculated in the annual state budget.

Moreover, general relations regarding these funds and the Future Heritage Fund are governed by the Law on Government Special Funds, while their relations related to characteristics of funds' sources and expenditure are regulated by separate laws⁸.

The Future Heritage Fund is governed by its specific standalone law such as the Law on the Future Heritage Fund, while the Accumulation and Development Funds do not yet have separate detailed laws. Due to the lack of specific regulation, there are questions regarding:

- Whether governance, management, oversight, and investment policies for these funds will align with internationally recognized standards, such as the Santiago Principles⁹;
- The level of transparency and public oversight;
- The categorization of these funds;
- The future policy directions.

⁴ Law on Amending the Law on the Procedures for the Implementation of the Law on the Future Heritage Fund, November 13, 2019

⁵ Law on the Procedures for the Implementation of the Law on the Future Heritage Fund, Article 52, February 5, 2016

⁶ Law on the Future Heritage Fund, Article 12.1.5

⁷ No information on this matter was found in publicly available information sources.

⁸ Law on Government Special Funds, Article 3.2

⁹ The Santiago Principles - the globally recognized standards covering governance, management, investment, transparency, oversight, and reporting of sovereign wealth funds - were first introduced in 2008 by the founding members of the International Forum of Sovereign Wealth Funds.

FUND TYPES WITHIN THE NATIONAL SOVEREIGN WEALTH FUND

Let's look at how the Future Heritage Fund, Accumulation Fund, and Development Fund are categorized within internationally recognized concepts.

Future Heritage Fund:

According to the Santiago Principles — which are adhered to by the International Forum of Sovereign Wealth Funds and other international financial organizations¹⁰ — as well as the World Bank's definition¹¹ regarding Sovereign Wealth Funds, the Future Heritage Fund qualifies as a Sovereign Wealth Fund under internationally recognized classifications.

When reviewing the philosophy, introduction, and associated studies related to the Law on the Future Heritage Fund, it is clear that many international standards, particularly the Santiago Principles, have been incorporated into the law. In other words, the Law on the Future Heritage Fund enacted in 2016, and the fund itself, possess the common characteristics and standards of a Sovereign Wealth Fund recognized internationally.

Accumulation and Development Funds:

The Accumulation and Development Funds are legally designated as specialized funds under the umbrella of the National Sovereign Wealth Fund. Although the purpose of each fund differs, their revenue sources are similar to that of the Future Heritage Fund — primarily coming from the mining sector, particularly from mineral extraction and resource usage revenues.

While the fact that these funds are sourced from non-renewable natural resource revenues might qualify them under the broader "wealth fund" category, their purpose and functions are fundamentally different from those of the Future Heritage Fund. Thus, it would be inaccurate to immediately classify them as sovereign wealth funds.

Such funds with similar purposes and functions are internationally known as Strategic Investment Funds, and since the year 2000, over 30 such funds have been established globally. According to researchers, Strategic Investment Funds are a subset of sovereign wealth funds, and they serve as tools for countries to address investment gaps in sectors like social welfare, education, healthcare, employment promotion, and poverty reduction.

World Bank researches¹² identify the following key characteristics of Strategic Investment Funds:

1. These funds are initially established¹³ by government entities or quasi-sovereign enterprises, which provide full or partial financing.
2. They operate under a "double bottom line mandate" — meaning they aim to achieve both financial returns and additional public policy goals. This mandate¹⁴ typically includes two or more objectives: for example, achieving profitability and promoting social policies such as reducing unemployment.

¹⁰ International Forum of Sovereign Wealth Funds is an organization that includes sovereign wealth funds from many countries around the world as its members.

¹¹ Mongolia's Proposed Sovereign Wealth Fund, World Bank, September 2020, page 4

¹² Strategic Investment Fund, Shanthi Divakaran, Havard Halland, Gianni Lorenzato, Paul Rose, and Sebastian Sarmiento-Saher, World Bank group, 2022, page 15, 16

¹³ Quasi-sovereign entities, also referred to as "near-government" institutions, are enterprises that operate with a certain level of government support and influence, while also maintaining a degree of independence from the government. These entities typically borrow funds, make investments, and manage assets on behalf of the state, but are not directly part of the core government structure.

¹⁴ Most newly established Strategic Investment Funds operate under dual-purpose mandates. For example, Ireland's Strategic Investment Fund has a dual mandate: not only to make profitable commercial investments, but also to engage in economic activities and promote employment. Similarly, Nigeria's National Investment Fund has a dual mandate to increase returns from the country's infrastructure investments and to attract and promote foreign investment in the infrastructure sector.

3. They attract commercial co-investment into their projects and the fund itself.
4. They can collateralize their assets to generate long-term investment capital.
5. They operate with professional managers working to safeguard investor interests.
6. They are typically structured under various legal forms, such as investment companies, partnerships, or corporations with multiple sources of funding.

Since the Law on the National Sovereign Wealth Fund incorporates several of these essential features to a certain extent, it is appropriate to classify the Accumulation and Development Funds as Strategic Investment Funds (See Table 2).

Table 2. Basic Characteristics of the Accumulation and Development Funds

Basic Characteristic of Strategic Investment Funds	Accumulation Fund	Development Fund
1. Established by the government	Established by the government under the Law on the National Sovereign Wealth Fund.	
2. Double bottom line mandate	<ul style="list-style-type: none"> - To distribute mineral resource benefits fairly among present citizens for health, education, and housing support purposes¹⁵; - Must operate profitably¹⁶ 	<ul style="list-style-type: none"> To distribute mineral resource benefits fairly among both present and future citizens by supporting development projects and programs aligned with Mongolia's medium and long-term development policy documents¹⁷; -Must operate profitably¹⁸
3. Attracts commercial co-investment	No prohibition against co-investment with private and foreign investors for project implementation	
4. Ability to provide various assets	Legally open - allowed to issue long-term bonds and debt instruments using fund assets as collateral	
5. Operates for investor interests	Accumulation Fund is operated under the Ministry of Family, Labor and Social Protection	Development Fund is operated under the Ministry of Economy and Development
6. Multiple sources and Forms	The government is tasked with approving asset management policies and providing integrated management. However, no state-owned companies or corporations specifically managing the funds have been established yet. Sector ministries perform management roles instead.	

The reason why a universally accepted and comprehensive definition of Strategic Investment Funds has not yet been fully developed is partly because Strategic Investment Funds are a relatively new concept, and partly because each country establishes its such funds differently depending

on their national priorities, goals, and needs. Nevertheless, the World Bank's 2022 study¹⁹ "Strategic Investment Funds" outlines the common features found in the legal frameworks governing Strategic Investment Funds across various countries, as summarized in Table 3:

¹⁵ Law on the National Sovereign Wealth Fund, Article 10.1.2

¹⁶ Law on the National Sovereign Wealth Fund, Article 5.1.6

¹⁷ Law on the National Sovereign Wealth Fund, Article 10.1.3

¹⁸ Law on the National Sovereign Wealth Fund, Article 5.1.6

¹⁹ Strategic Investment Fund, Shanthi Divakaran, Havard Halland, Gianni Lorenzato, Paul Rose, and Sebastian Sarmiento-Saher, World Bank group, 2022, page 51

Table 3. Common Legal Provisions for Strategic Investment Funds

Legal Provision	Explanation
1. Preliminary definitions	Defines the fund's name, governing law, management, and general principles.
2. Mandate	Clearly states the fund's dual purpose (financial and policy objectives), and which is prioritized.
3. Fund structure and lifespan	Specifies the fund's organizational structure and expected duration of operation.
4. Fund capital contributors and management	Identifies who provides funding and who manages the fund.
5. Fund resources and withdrawals	Details the sources of capital, conditions for withdrawing or reinvesting income, and borrowing provisions.
6. Prohibitions on fund use	Specifies whether the fund's assets can be loaned, used as collateral, or provide guarantees.
7. Liability for fund debt	Determines if and how the government will assume liabilities arising from the fund's operations.
8. Fund structure and operations	Describes the fund's operational structure and interaction with other entities.
9. Relationship with government entities	Describes how the fund coordinates with ministries, agencies, and other institutions, as well as how the fund's governing law aligns with other legislation - including whether the fund is subject to taxation.
10. Governance	Fund governance is the most critical component and must be regulated in as much detail as possible by law. This includes mandatory provisions to insulate the fund and its investment decisions from political influence. In addition to clearly defining the role of the fund's owner, if that role is to be exercised by a board of directors or a sector ministry, the responsibilities and accountability of each participating party must be explicitly outlined.
11. Investment policy and strategy	The investment policy that supports the dual-purpose mandate of the Strategic Investment Fund should clearly define its guiding principles and align investment activities with both the fund's mandate and the objectives of its financiers (sources of capital). This section should also specify the types of financial instruments in which the fund is allowed to invest.
12. Reporting, disclosure, and Risk management	The fund's reporting, external oversight mechanisms, and transparency requirements must be established by law. Specifically, it should mandate public disclosure of operational and financial reports, accounting standards, and clearly define the general framework for the fund's risk management system.

The core legal provisions that should be required for Strategic Investment Funds, as outlined above, are either not detailed in the National Sovereign Wealth Fund Law or, in some cases, completely absent. For example, while the regulations for the Development Fund and Accumulation Fund included in the National Sovereign Wealth Fund Law meet some of the mandate characteristics listed

under point 2 in the comparative Table 3, the legal provisions corresponding to points 6, 8, 10, 11, and 12 — including those related to prohibited uses, organizational structure, governance, investment strategy, and transparency —are not yet included or do not exist in detailed form.

Among these, it is most urgent to establish and enforce legal provisions on organizational structure,

operations, and governance in order to prevent potential risks that may arise in the management of the funds.

In this context, it is concerning that in 2024, the Government transferred MNT 500 billion²⁰ into the Accumulation Fund—a move that, on the one hand,

helped address housing loan financing needs, but on the other hand, sets a precedent for continuing such types of social financing in response to public demand, despite the absence of a clear governance and structural framework.

CURRENT POLICY ENVIRONMENT AND ISSUES TO CONSIDER IN THE IMPLEMENTATION

Since the enactment of the Law on the Future Heritage Fund in 2016, no investments of the accumulated fund assets into international financial markets have been made in line with the primary purpose of the law. This situation is related to several reasons and challenges:

1. Financing needs for domestic mega projects:

According to a 2017 study by the Bank of Mongolia, "Mongolia had planned or initiated around 46 large-scale projects nationwide, of which 11 projects required over USD 1 billion in investment²¹," highlighting the high demand for mega project financing. Although detailed financial requirements have not yet been calculated for the 14 mega projects announced by the coalition government in 2024, based on the fact that 4 of the major projects alone require MNT 7,813 billion in funding²², it is clear that financing needs are very substantial.

2. Funding social welfare activities: According to the World Bank's April 2022 report "Braving the Storms"²³, social assistance expenses related to the COVID-19 pandemic in Mongolia reached 6.5%,

7%, and 3.5% of GDP in 2020, 2021, and 2022 respectively, which is twice as high as in other countries. Moreover, over 80% of households reportedly received government support during the pandemic. According to joint²⁴ studies by the National Statistics Office and the World Bank, the amount of assistance per household continuously increased between 2014 and 2020, and by 2020, the amount had risen by 40% compared to 2014 levels. These studies show that Mongolia's social welfare-oriented policies have been sustained for a long time and will likely continue to require significant public financing.

3. Differences between external loan interest rates and investment returns: For Mongolia, the interest rates on loans taken from foreign banks and financial institutions are significantly higher than returns available from foreign financial markets. In other words, investing fund assets in international markets with lower returns than external borrowing costs is economically irrational, and this situation persists today. The World Bank²⁵ and other researchers²⁶ have noted

²⁰ The National Sovereign Wealth Fund's Accumulation Fund account has been opened, News, Bank of Mongolia, May 9, 2024, <https://www.mongolbank.mn/mn/r/6502>

²¹ Mega Projects: International Experience, Mongolia's Current Situation, and Economic Impact By Ts. Byambatsogt and D. Tsenddorj, Research Paper Series, No. 2, Bank of Mongolia, 2017

²² Eg River Hydropower Plant — MNT 3,700 billion, Tavantolgoi 450 MW Power Plant — MNT 2,300 billion, Multimodal Transport Terminal — MNT 957 billion, Erdeneburen Hydropower Plant — MNT 856 billion; Source: https://www.youtube.com/@oyunerdene_mn

²³ Braving the storms, World Bank, April 2022

²⁴ Mongolia 2020 Poverty report, National Statistics Office of Mongolia, World Bank

²⁵ Mongolia's Proposed Sovereign Wealth Fund in the Broader Fiscal Framework, EGPS, World Bank group, Sep 2021, Page 5

²⁶ How "Premature Funds" Can Leave Countries Poorer, Andrew Bauer and David Mihalyi, January 2018, <https://blog-pfm.imf.org/en/pfmblog/2018/01/how-premature-funds-can-leave-countries-poorer>

that creating savings with returns lower than external debt costs is economically questionable.

4. High level of external debt: According to the World Bank's assessment²⁷, the excessive increase in external debt obligations borne by the state (e.g., public debt reaching 70% of GDP by 2020) has become a major obstacle to starting the international investment activities of the Future Heritage Fund.

From these circumstances, it can be seen that the high domestic financial demand caused by economic and social needs has been the main reason why the Future Heritage Fund has not operated in accordance with its original legal purpose.

The financing needs for major projects, as well as sustained social welfare and benefit programs, could not be fully met solely through the budget or foreign sources. Moreover, the initial legal requirement to concentrate a significant share of mineral revenues into the Future Heritage Fund reduced the resources available for other needs.

The establishment of the Accumulation Fund and Development Fund under the broader umbrella of the National Sovereign Wealth Fund was a move intended to address these pressing economic and social needs.

According to the National Sovereign Wealth Fund Law:

- The Future Heritage Fund is tasked with savings accumulation,
- The Accumulation Fund is tasked with supporting social-oriented activities, and
- The Development Fund is tasked with financing major projects and programs.

On the other hand, the purpose of these funds aligns with Article 6.2 of the Constitution of Mongolia, which states: "When utilizing strategic mineral deposits, the principle of ensuring that natural resources remain the property of the people shall be

upheld, and the law shall ensure that the majority of benefits are distributed equitably to the people." It also aligns with the provision that: "State policy on the use of natural resources shall be based on long-term development policies, guaranteeing the rights of all current and future generations to live in a healthy and safe environment, and the benefits of underground resources shall be accumulated in the National Sovereign Wealth Fund and equitably distributed."

Thus, from the government's perspective, establishing three types of funds under the National Sovereign Wealth Fund Law can be seen as completing the first step of accumulating the benefits of natural resources.

The Law on the Future Heritage Fund provides detailed regulations on:

- governance,
- management,
- investment policy,
- asset management,
- transparency,
- reporting,
- and oversight mechanisms.

It also stipulates a two-tier institutional structure, composed of:

- a Board of Directors, and
- an operating entity (the Future Heritage Fund Corporation).

However, for the Accumulation and Development Funds, such detailed governance, management, investment, and transparency structures have not yet been established, which raises numerous risks (See Table 4).

By Government Resolution No. 223 dated December 20, 2024, it was decided to study and present to the Cabinet a proposal for establishing a unified management and operational structure for the

²⁷ Mongolia's Proposed Sovereign Wealth Fund in the Broader Fiscal Framework, EGPS, World Bank group, Sep 2021, Page 9

National Sovereign Wealth Fund. Because the Future Heritage Fund is already governed by a specific law, this resolution primarily applies to the Accumulation and Development Funds. If the Future Heritage Fund is to be included under this new structure, then amendments to the Law on the Future Heritage Fund would be necessary.

Regarding to the Accumulation Fund, the Ministry of Family, Labor and Social Protection developed the "Procedure for Creating, Managing, and Utilizing Individual Accumulation Accounts for Every Citizen of Mongolia," which was approved by Government Resolution No. 224 of December 20, 2024²⁸. However, this procedure does not include any regulations on the governance and management of the Accumulation Fund.

Regarding to the Development Fund no publicly available regulations or detailed procedures in terms of operation of the fund have been found yet.

Although it is not yet clear how much will be spent from the Development Fund in 2025, it has been announced that MNT 490 billion will be transferred into the Accumulation Fund in 2024, and MNT 524 billion in 2025, thereby creating a mortgage loan fund of MNT 1.3 trillion²⁹.

At this point of view, starting in 2025, these funds are anticipated to have significant expenditures. If such large expenditures are carried out without first establishing clear legal regulations on governance, management, operations, and asset management, it will create conditions for the emergence of the risks listed in Table 4.

RISKS ASSOCIATED WITH THE ACCUMULATION AND DEVELOPMENT FUNDS

Table 4. Potential risks related to the Accumulation and Development Funds

Risk Category	Description	Impact on Accumulation and Development Funds
Political interference	Risk of political influence on fund management, making poor investment decisions, and misuse of fund resources for political purposes.	Loss of public trust; Misallocation of fund resources.
Corruption	Risk of fund embezzlement and non-transparent financial transactions by high-ranking officials, politicians, and influential persons.	Financial loss; Damage to the fund's reputation.
Lack of transparency	Lack of transparency in reporting and information disclosure fosters mismanagement of the fund and makes fight against corruption difficult.	Limits accountability in fund management.
Weak governance	Absence of independent boards and weak or nonexistent regulatory frameworks fosters conflict of interest.	Poor investment returns; Fund asset depletion.
Lack of external oversight	Absence of oversight mechanisms involving civil society and multiple stakeholders increases risks of political interference and corruption.	Misappropriation of fund assets; Lack of accountability; Systemic deterioration.
Lack of professional human resources	Operations managed without experienced professionals and experts.	Poor management of fund assets; Wrong decisions leading to losses.

²⁸ Unified Legal Information System, <https://legalinfo.mn/mn/detail?lawId=17355676272241>

²⁹ MNT 490 billion will be allocated to the Accumulation Fund this year, and MNT 524 billion next year, Montsame – Mongolian National News Agency, October 4, 2024, <https://montsame.mn/mn/read/352951>

At present, it is unclear how much additional resources will be accumulated in the Accumulation and Development Funds after 2025. However, Prime Minister L.Oyun-Erdene stated during the Parliament session on December 26, 2024, that: "Once the 14 mega projects outlined in the Government Action Program are implemented, it is estimated that the Accumulation Fund under the National Sovereign Wealth Fund will reach MNT 18-20 trillion by 2030." This estimate suggests that a large amount of resources will flow into these funds over the next five years. Thus, there is an urgent need to establish proper governance, management, oversight, and operational systems for these funds.

Although no detailed studies have yet been conducted specifically on the Future Heritage Fund, in the 2020 study "The Assessment of Mongolian Sovereign Funds" by researcher T. Bayarjargal³⁰, the structures, governance, transparency, and reporting of Mongolia's Fiscal Stability Fund and Future Heritage Fund were evaluated by Truman Scoreboard methodology and Linaburg Maduell Transparency Index³¹. According to the Truman Scoreboard

methodology, the Fiscal Stability Fund scored 33 out of 100, while the Future Heritage Fund scored 41 out of 100. The Linaburg-Maduell Transparency Index, which evaluates transparency and disclosure practices, gave the Fiscal Stability Fund a score of 4 out of 10, and the Future Heritage Fund 3 out of 10. These scores indicate insufficient operations and transparency for both funds.

Additionally, according to the Natural Resource Governance Institute's methodology³², the Future Heritage Fund scored 53 out of 100, which is categorized as "insufficient."

Furthermore, according to the 2024 Global SWF Governance, Sustainability, and Resilience (GSR) evaluation³³, the Future Heritage Fund received only 12 out of 100 points³⁴, and ranked at 99 out of 100 sovereign wealth funds worldwide. This low ranking can partly be attributed to the fact that the Future Heritage Fund has not yet commenced active operations. However, the Law on the Future Heritage Fund's provisions were evaluated against the detailed questions and criteria of the 2024 GSR evaluation, resulting in such a score.

³⁰ The Assessment of Mongolian Sovereign Funds, Bayarjargal Turgenbayar, The Mongolian Journal of International Affairs Vol.21, 2020

³¹ The Linaburg-Maduell Transparency Index is a metric that evaluates the transparency of sovereign wealth funds based on 10 criteria, with each criterion scored up to 10 points. A fund that scores 8 to 10 points is considered to have an adequate level of transparency.

³² The Natural Resource Governance Institute (NRGI) is an independent, non-profit organization dedicated to supporting improved governance of natural resources in countries around the world, headquartered in New York City, the institute operates in Mongolia and approximately 20 other countries globally.

³³ Global SWF is an organization that evaluates the performance of sovereign wealth funds and pension funds worldwide. GSR stands for Governance, Sustainability, and Resilience. Using a variety of methodologies, GSR assesses and ranks sovereign wealth funds based on their governance, sustainability, and resilience. This evaluation enables fund-owning countries to benchmark and compare their funds against others around the world.

³⁴ 2024 GSR scoreboard, Global SWF; <https://globalswf.com/reports/2024gsr>

POLICY RECOMMENDATIONS

Regarding to the Future Heritage Fund

Governance structure: To urgently establish the governance structure as stipulated in the law, the following bodies should be established:

- (1) Supervisory board authorized to oversee the activities of the Board of Directors of the Future Heritage Fund Corporation,
- (2) Advisory team tasked with advising the Prime Minister on the fund's investment mandate and operational issues.

Nomination Committee: Preparation to establish the Future Heritage Fund Corporation should begin immediately. (*According to the Minister of Finance, as of the end of 2024, preparations are underway to transfer MNT 4.3 trillion accumulated into the Future Heritage Fund Corporation's management in 2025.*)³⁵ As part of this preparation, it is necessary to urgently establish a Nomination Committee responsible for selecting the members of the Corporation's Board of Directors.

Establishing the Future Heritage Fund Corporation: Regarding the location of incorporation³⁶ and the design of corporate governance structures, it is recommended to seek guidance from international experts and legal professionals with experience in establishing similar entities abroad.

Approving relevant documents: The following documents must be urgently developed and approved:

- The Investment Policy,
- Asset Management Frameworks,
- Mandate Options for the Corporation.

Commencing asset investment activities: Although the Future Heritage Fund Corporation has not yet been established, it is vital to immediately initiate the investment of accumulated assets to preserve their value and avoid time delays, as stipulated by law. This investment activity should be carried out either through the World Bank³⁷ or through the Bank of Mongolia³⁸. The key benefits of starting investment activities now are:

- Preserving the value of accumulated assets,
- Gaining the initial experience of investing in international financial markets,
- Preventing time loss.

Clarification and Interpretation: Additional legal clarifications and interpretations³⁹ must be made regarding the Law on the Future Heritage Fund. Since a significant portion of investment activities — including hiring or contracting international financial market specialists and purchasing financial instruments — will be governed under the Law, official legal clarifications and an official English translation should be prepared to prevent misunderstandings or disputes.

³⁵ As of the end of 2022, the Future Heritage Fund had accumulated 2.7 trillion MNT, Montsame — Mongolian National News Agency, October 28, 2023, <https://montsame.mn/mn/read/330067>

³⁶ Various tax and legal issues will depend on the country in which the Future Heritage Fund Corporation is initially registered. In this context, locations such as New York, Singapore, and London are being considered as potential options.

³⁷ In October 2019, the Natural Resource Governance Institute organized a meeting involving representatives from international banks, financial institutions, and the Ministry of Finance. During this meeting, given that the Future Heritage Fund Corporation had not yet been established, a proposal was submitted to the Ministry of Finance to have the accumulated assets of the Future Heritage Fund managed by the World Bank's asset management team.

³⁸ Chile's sovereign wealth fund was under the Ministry of Finance, but in its early stages, the Central Bank initially managed the fund's assets, drawing on its experience in international financial markets. This experience can be applied to Mongolia.

³⁹ The experts who conducted research on the Future Heritage Fund, stated during a meeting at the Ministry of Finance: "Under the Law on the Future Heritage Fund, the fund is prohibited from investing in shares of legal entities engaged in the production or trade of military equipment, weapons, narcotics, tobacco, or alcoholic beverages. For example, under this provision, the Future Heritage Fund would not be allowed to invest in Boeing stock, since the company manufactures both civilian and military aircraft. As this clause is being interpreted literally, it is important that the Government issues official clarifications on such provisions."

Regarding to the Accumulation and Development Funds

Improving governance, management, and oversight structure: Although the Accumulation and Development Funds are more closely classified internationally as Strategic Investment Funds rather than pure sovereign wealth funds, they are currently designed to operate under the direct authority of respective ministries. However, governance, management, oversight, and transparency structure that are essential for Strategic Investment Funds are either extremely weak or nonexistent for these funds, creating a very high-risk environment. From the government's actions so far, there appears to be little distinction between these new funds and older funds previously established, in terms of expenditure, oversight, and governance practices.

Therefore, before conducting any large-scale expenditures or disbursements from these funds, it is absolutely necessary to develop and enforce legal documents regulating governance, management, oversight, and transparency.

Establishing a two-tier Institutional structure: The management structure should include:

- (1) Board of Directors for fund governance,
- (2) Independent legal entity responsible for the fund's day-to-day operations and asset management.

This two-tier structure could adopt the same institutional model stipulated for the Future Heritage Fund in the Law. Specifically, the establishment of a Nomination Committee tasked solely with selecting the Board of Directors would act as a safeguard against political interference. The Board of Directors should include not only sectoral experts but also

representatives from civil society, independent oversight organizations, and the private sector. This structure would serve as the primary mechanism for preventing political risks that typically afflict such funds.

Currently, both the ministries responsible for sectoral policy and the entities generating the funds are simultaneously involved in management and operations, which create significant risks (see Table 4).

Filling gaps in transparency and oversight: Although detailed studies have not yet been conducted regarding the Future Heritage Fund, foreign experts⁴⁰ and research organizations⁴¹ have evaluated the Law on the Future Heritage Fund as containing detailed provisions on transparency and accountability. Chapter 6 of the Law on the Future Heritage Fund addresses transparency requirements separately and in detail. However, in the Law on the National Sovereign Wealth Fund and the Law on Special Government Funds, there is almost no regulation regarding transparency for the Accumulation and Development Funds, which creates a major legal and operational gap.

Thus, it is necessary either to amend the Law on the National Sovereign Wealth Fund to include transparency and oversight requirements, or issue specialized regulatory procedures addressing these issues.

Establishing asset management regulations: Currently, the mandates of the Accumulation and Development Funds do not include investment goals or requirements for achieving financial returns. However, Strategic Investment Funds are generally expected to at least cover their own costs by generating returns, meaning that they must have investment authority and mechanisms.

⁴⁰ Mongolia: Establishing Sovereign Wealth Fund, Dr. Malan Rietveld, Dr. Ashby Monk, Project Number: 51082-001, April 2019, ADB Management Institution, Technical assistance consultant's report, Project Number: 51082-01

⁴¹ Natural Resource Governance Institute (2015) Discussion on Mongolia's Draft Future Heritage Fund Law. Natural Resource Governance Institute

The Law on the National Sovereign Wealth Fund only addresses how these funds should be spent, but not how their assets should be grown or managed — a significant shortcoming. There was an attempt to address this issue for the Accumulation Fund through Government Resolution No. 224 of December 20, 2024, which approved the "Procedure for Creating, Managing, and Utilizing Individual Accumulation Accounts." In Article 5.5 of that Procedure, it is stated that "The central administrative body shall conclude agreements related to investing the Accumulation Fund's cash assets into financial and investment instruments through the Bank of Mongolia or the Ministry of Finance."

This provision implies that it is allowed to invest the Accumulation Fund's assets via the Bank of Mongolia or through arrangements associated with the Future Heritage Fund.

However, it remains unclear whether any similar provisions exist for the Development Fund.

At present, there is no clear regulation regarding how to manage the surpluses or residual assets of these funds. Under international classifications, if these are Strategic Investment Funds, their asset management practices must be clearly defined.

Although Article 5.1.6 of the Law on the National Sovereign Wealth Fund states that these funds should operate profitably, there is no regulation authorizing them to actively invest or generate returns. Thus, it is essential to develop a detailed regulatory framework similar to that of the Future Heritage Fund to govern:

- How surplus or residual assets of these funds are to be grown,
- How these funds will be financed sustainably,
- What their investment mandates should be.



AUTHOR: BORGIL SURENKHUU

Since 2013, S. Borgil has been conducting research in the fields of economics, banking and finance, and mining, with a focus on public budgeting, government bonds, public finance, the extractive sector, investment, and climate change.