

# MONGOLIA FOURTEENTH EITI RECONCILIATION REPORT 2019

MONGOLIA EXTRACTIVE  
INDUSTRIES TRANSPARENCY  
INITIATIVE (MONGOLIA EITI)

Ulaanbaatar city  
2020



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The Report and all appendices relating to the report are intended for the use of the National Council of the Mongolia Extractive Industries Transparency Initiative and the Multi-Stakeholder group, under the request by EITI Secretariat

The appendices contain a large amount of information and are disclosed in Microsoft Excel format on the EITI Governance Support Project's website [www.eitimongolia.mn](http://www.eitimongolia.mn) therefore, the report is to be read in conjunction with these appendices.

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## ABBREVIATIONS

BO	Beneficial owner
BOD	Board of Directors
CGA	Customs General Administration
CIT	Corporate Income Tax
EITI	Extractive Industries Transparency Initiative
EPP	Environmental protection plan
GAPCSP	Government Agency for Policy Coordination on State Property
GBG	General Budget Governor
GDP	Gross Domestic Product
GDT	General Department of Taxation
IAS	International Accounting Standards
IFRS	International Standards on Financial Reporting
ISA	International Standards on Auditing
JSC	Joint Stock Company
GLDF	General Local Development Fund
LDF	Local Development Fund
LLC	Limited Liability Company
MEITI	Mongolia Extractive Industries Transparency Initiative
MLSP	Ministry of Labor and Social Protection
MMC	Mongolian Mining Corporation
MMHI	Ministry of Mining and Heavy Industry
MNAO	Mongolian National Audit office
MET	Ministry of Environment, and Tourism
MOF	Ministry of Finance
MPC	Mineral Professional Council
MRPA	Mineral Resources and Petroleum Authority
MSG	Multi-Stakeholder Group
MUST	Mongolian University of Science and Technology
NGO	Non-Governmental Organization
NSO	National Statistics Office of Mongolia
PAM	Petroleum Authority
PoM	Parliament of Mongolia
PSA	Product Sharing Agreement
PWYP	Publish what you pay
SAM	Sustainable artisanal mining
SE	Stock Exchange
SIF	Social Insurance Fund
SOC	State-Owned Company
SOE	State-Owned Enterprise
SOJSC	State-Owned Joint Stock Company
SPIA GASI	General Agency for Specialized Inspection
TEFS	Technical and Economic Feasibility Study
USA	United States of America
VAT	Value Added Tax
USD	United States Dollars
T.ton, t	Thousand Tonnes
%	Percentage

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December 21, 2020

Grant Thornton Audit LLC was selected by the Mongolia Extractive Industries Transparency Initiative to undertake EITI Reconciliation for Mongolia for 2019 and concluded the contract to prepare a Fourteenth EITI Reconciliation Report for Mongolia.

The audit reconciliation engagement for material revenue flow received by Government and paid by Mongolian extractive industry companies in 2019 and for disclosing non-revenue information under EITI Standard 2019 was carried between 02 November 2020 and 21 December 2020.

We performed this engagement in line with ISRS 4400 (International Standards on Related Services), "Engagement to perform agreed-upon procedures regarding financial information".

We report our reconciliation works for extractive industries information as required in the Terms of Reference and EITI standard in the accompanying report including its appendices. Because the procedures were not designed to constitute an audit or review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the transactions beyond the explicit statements set out in this report.

Our report is for the purpose of informing the Multi-Stakeholder Group and National Council on the matters set out in the terms of reference and does not extend to any financial statements of any entity taken as a whole.

**Grant Thornton Audit LLC**

# 1

## INTRODUCTION



## 1 INTRODUCTION

The Extractive Industries Transparency Initiative (EITI) is a global coalition of governments, companies and civil society equally working together to strengthen governance and improve stakeholders' responsibilities in accountable use of revenues from natural resources (minerals, oil, natural gas) for the benefits of society by ensuring the transparent reporting.

In EITI Reporting, companies in extractive industry publish what they pay and governments publish what they receive from these companies where such information is reviewed and reconciled by an independent administrator; the reconciled reports covering non-revenue information of extractive industries then to be prepared and released transparently to the public. This process will be performed under coordination and oversight of multi-stakeholder group comprised of government, companies and civil society

### 1.1 BACKGROUND

The Extractive Industries Transparency Initiative ("EITI") is a global standard for improving transparency and accountability in the oil, gas and mining sectors. The Government of Mongolia announced the country's adoption of EITI in 2006. In follow-up actions, a National EITI Council and a multi-stakeholder group (MSG), comprised of representatives of the government, mining companies, and civil society, were established to implement EITI.

Since adopting EITI, Mongolia has produced thirteen EITI Reports, and has appointed Grant Thornton Audit LLC as the Independent Administrator for the current (fourteenth) report.

The Principles and Requirements for EITI implementation were re-stated in 2016 and 2019, which was formally launched at the EITI Global Conference in Lima on 24-25 February 2016.

This EITI Standard encourages countries to make use of existing reporting systems for EITI data collection and make the results transparent at source. It requires that the identity of those that own and profit from extractive activities should now be disclosed: all countries must ensure that the companies that bid for, operate or invest in extractive projects declare who their beneficial owners are.

The EITI's quality assurance mechanism, Validation, which checks whether countries are adhering to the EITI Requirements, has also been refined in the 2016 EITI Standard. Although the bar for achieving compliance has not changed, the assessment will to a greater extent take into account the diversity in implementing country membership, recognise efforts to go beyond the minimum requirements and incentivise continuous improvements in implementation.

EITI Standard 2019 addresses implications of global issues such as environmental, social and gender equality issues, as well as encouraged all countries implementing EITI to make previously undisclosed mining sales, project reports and all contracts to be made in and after the year 2021 transparent.

This report is the first report to be produced in Mongolia under the revised EITI standard 2019.

### 1.2 INDEPENDENT ADMINISTRATIVE'S ROLE

The Independent Administrator's role for the fourteenth Mongolia EITI Report is set out in the Terms of Reference. The principal elements are to:

- Examine and comment on the scope proposed by the MSG for the reconciliation and report,
- Prepare data collection templates to gather the information for the report, and distribute to the government and private entities required to report, as decided by the MSG,
- Collect information from reporting entities, using the E-reporting system, data collection templates and other appropriate means,
- Compare the information received and reconcile it as far as possible,
- Comment on the comprehensiveness of the financial data reported and, as necessary, make recommendations for strengthening the reporting process in future,

- Prepare a report to be published by the MSG containing a reconciliation of the reported revenues and payments, and other information related to the extractive industries in Mongolia.

Our report is for the purpose of informing the Multi-Stakeholder group and the National Council on the matters set out in the terms of reference.

This report is prepared both in Mongolian and English languages. If there should be any discrepancies or contradictions between the Mongolian and English version, the Mongolian version will prevail.

### 1.3 PARTICIPANTS

Participants in the reconciliation comprised:

- government entities, both national and sub-national, which receive material revenue flows from extractive industry companies;
- government departments and agencies with responsibility for oversight, regulation and reporting for the extractive sector (see Section 5.6);
- state-owned entities operating in the extractive sector (see Section 5.7.1); and
- extractive industry companies making material payments to government, as defined by the relevant regulation (see Section 3.2.7).

The participating government entities and companies are detailed in Section 3.2 and Appendices 1, 2 and 3.

### 1.4 LIMITATIONS

Grant Thornton Audit LLC has been appointed as an Independent Administrator for EITI reconciliation report in late October 2020 and began the engagement on November 2, 2020. With our many years of professional experience, our firm's employees have worked intensively to prepare the Inception Report within 5 days, which was then presented at a meeting with MSG, and the scope of reconciliation work was approved on November 6, 2020. However, due to outbreak of COVID-19 in Mongolia, the Government of Mongolia declared the All-Out Readiness state imposed "strict lockdown" on November 11. As a result, all public and private entities closed or required to work from home, which created challenges for the participants to prepare and submit information related to the EITI reconciliation report. Regardless, the report was completed with information obtained with support of the ministers, public organizations relevant official, and executive directors and managers of private entities.

### 1.5 ACKNOWLEDGEMENTS

Grant Thornton Audit LLC would like to express sincere gratitude to Mr. Bayarkhuu Z, Project Coordinator of EITI Governance Support, Mongolian EITI Secretariat, led by Mr. Tsolmon Sh and Mr. Munkhbat O, IT specialist, for supporting and assisting the team in obtaining necessary permissions from the government and its various organizations and agencies, as well as with extractive companies; and for exchanging official confirmation letters to/from these parties, and other assistance extended to the consulting team.

We would like to express our deep gratitude to the Mongolia EITI National Council and members of Multi-Stakeholders Group: The Government of Mongolia, mining companies and representatives of civil society, who provided valuable advices and directions during their participation in the inception meeting and drafting the report of the consulting service.



# 2

## EXECUTIVE SUMMARY



## 2 Executive summary

### 2.1 Sector overview

The extractive sector is a major part of the economy and main source of economic growth of Mongolia, and in 2019 it represented 23.7% of GDP and earned USD 6.7 billion in exports, which equals to 83.7% of total exports for the year. It is also accounted for 57.5% of total industrial production and 49.9% of total investments (at current prices).

The government generates a significant proportion of its income from the extractive companies, and in 2017 received **MNT 3.8 trillion** from the sector. The government also participates directly in extractive activities through shareholdings in mining companies, especially from Erdenes Mongol LLC and its subsidiaries with its full ownership.

In 2019, the general government budget revenue amounted to MNT 11.9 trillion, which was an increase by MNT 1.9 trillion or 18.6% compared to the same period of the previous year. According to the National Statistics Office of Mongolia (NSO), out of it revenue generated from mineral resource sector amounted to MNT 2.9 trillion, which has increased by MNT 590.7 billion or 25.4% against the previous year. Extractive sector revenue that we confirmed is about MNT 900 billion higher than the statement of NSO due to multiple revenue streams outside the budget, which were covered in the reconciliation.

### 2.2 EITI engagement

The Government of Mongolia committed to implement EITI in December 2005 and was admitted as EITI Candidate on 27 September 2007, and after successful Validation against the old EITI Standard of its implementation, the country achieved compliance on October 19<sup>th</sup>, 2010

Since being admitted to EITI, Mongolia has produced thirteen reports; this current report is the fourteenth EITI Report and is the first to be produced under the 2019 EITI Standard.

In January 2017, the EITI Board approved the 2016 Mongolia EITI results for the first Validation. Later the assessment was made in January 2018 regarding Mongolia's progress in addressing eight corrective actions established by the EITI Board following Mongolia's first Validation. In February 2018 Mongolia became the second country to meet all the requirements of EITI standard among over 50 resource-rich countries joined the EITI, which was the remarkable achievement for the country.

### 2.3 Scope of the report

The report contains information on a range of topics concerned with the extractive sector, including:

- Revenue stream of the extractive sector
- Legal framework and budget policy
- Contribution from extractive sector to economy
- Mineral resource exploration, production and exports
- State participation in the extractive sector
- Licensing and contract transparency
- An overview of mineral and oil resources
- Social expenditures and rehabilitation activity
- Beneficial ownership.

Within the scope of amendments to EITI Standard 2019, the report contains detailed information on the below subjects.

According to the Standard, entities are required to ensure their transparency in credible and systematic manner (mainstreaming) in their normal course of business rather than solely focusing on EITI reconciliation report. As such, entities produced their information in line with the standard through use of their own public or private online network. We have evaluated their disclosed information and included the results in Appendix No.42.

EITI reporting form has been updated at the beginning of 2020 and accordingly, companies are required to report using the new form at project level. See Appendix No.24 for detailed information of the most probable revenue stream that shows receipts and payments by individual projects.

Earlier experts who performed Validation concluded that EITI requirements were unclear for SOEs. In compliance with this conclusion, major new requirements were added to the new Standard. Under these new requirements, this report discloses more detailed information on the following subjects as compared to prior year reports:

- Roles of Erdenes Mongol LLC including its subsidiaries are detailed in this report.
- Rules, procedures and practices related to regulation of financial relations between government and SOEs are also included in this report, including retained earnings, re-investment, dividends of SOEs and third-party investment.
- Source links to the relevant information for audited financial statements and key financial indicators which were made available to the public by SOEs are included in this report.
- Rules, procedures and practices related to SOEs' activities, capital and operating expenditures, procurement, sub-contractor and company governance are described in this report.
- Extractive companies' payments to SOEs, material payments between SOEs and government entities are disclosed in this report.

In accordance with the Standard which requires MSG to make efforts to improve gender equality and social participation which then must be documented, gender data has been reflected in employment data of mineral resources sector, as well as, level of participation of women in mineral resources sector has been presented.

Environmental issues are an important part of natural resource governance. Therefore, environmental impact of extractive sector, and how environmental impact monitoring and assessment are carried in Mongolia are presented in this report as follows:

- Environmental law and regulations enforced by the government,
- Environmental policy, programs and measures implemented by the government,
- Environmental impact assessment phases, status of implementation,
- Environmental management plan and its phases,
- Environmental protection special account registration,
- Mining sector rehabilitation performance, and
- Rehabilitation licensed organizations, their location.

Beneficial ownership information is disclosed according to the Terms of Reference. See Appendix 21 for details.

171 companies (including 10 SOEs) were selected by the Mongolia EITI Secretariat to report their payments to national and subnational government; and 43 government entities (including 28 local government entities) reported their receipts from these companies.

The receipts and payments were compared and reconciled, and the detailed results are set out in 4<sup>th</sup> section of this report and its appendix 10.

## 2.4 TOTAL GOVERNMENT RECEIPTS

### 2.4.1 Government receipts in 2019 from the entire sector

As of December 31, 2019, the government records disclose that 3,266 licenses were issued to 2,093 companies.

Government national and local entities report receipts from all extractive companies on the Mongolia EITI e-reporting system. They also report receipt from in total of 2,093 companies which includes 40 non-mining companies but hold licenses. This is discussed further in section 2.7.4.

We identified that 40 of these 2,093 companies were not engaged in extractive activities. Thus, total receipts from 2,053 companies amounted to MNT 3,748,081 million. See the table 2.1 below for government entities that received the amount.

Details of total revenues received from each revenue stream within the agreed scope of this EITI Report, including revenues that fall below agreed materiality thresholds<sup>1</sup> are shown in Appendix 6.

#### 2.4.2 Reconciliation coverage

During the scoping phase, the MSG selected 171 companies for reconciliation of flows reported by government and by the companies. The selection process is described in section 3.2. Table 2.1 below shows the government receipts from these companies after reconciliation, with a comparison to the flows from the total sector and the resulting coverage.

**Table 2.1 Government receipts, by government agencies, in MNT million**

Government entity	Government receipts		
	All extractive companies	Companies included in reconciliation	%age coverage in reconciliation
	After reconciliation	After reconciliation	
General Department of Taxation	2,477,732	2,453,715	99.03%
Mineral Resources and Petroleum Authority of Mongolia	314,711	293,597	93.29%
Social Insurance General Office	290,944	269,162	92.51%
Customs General Administration	317,521	245,285	77.25%
Ministry of Finance	152,940	152,940	100.00%
Ministry of Environment and Tourism	1,467	1,467	100.00%
Ministry of Labor and Social Protection	21,533	21,533	100.00%
Subnational level	135,863	132,087	97.22%
<b>Subtotal – adjusted flows</b>	<b>3,712,711</b>	<b>3,569,786</b>	<b>96.15%</b>
Donations and supports received by government entities	34,545	33,121	95.88%
Other	51,192	50,868	99.37%
<b>Total</b>	<b>3,798,448</b>	<b>3,653,775</b>	<b>96.19%</b>

<sup>1</sup> EITI Standard 2019, Requirement 4.1.d

### 2.4.3 Reconciliation of receipts reported by government

Table 2.2 shows a comparison of the initially reported government receipts and the government receipts after reconciliation for companies included in the reconciliation.

**Table 2.2 Revenue stream reported by Government, in MNT million**

Government entity	Government receipts			Deviation
	Companies included in reconciliation			
	Before reconciliation	Adjustment	After reconciliation	%age change
General Department of Taxation	2,386,773	66,942	2,453,715	2.80%
Mineral Resources and Petroleum Authority of Mongolia	293,197	400	293,597	0.14%
Social Insurance General Office	273,174	(4,012)	269,162	-1.47%
Customs General Administration	236,255	9,030	245,285	3.82%
Ministry of Finance	-	152,940	152,940	-
Subnational level	85,354	46,733	132,087	54.75%
Other	1,136	49,732	50,868	4377.82%
Donations and supports received by government entities	6,835	26,286	33,121	384.58%
Ministry of Environment and Tourism	-	21,533	21,533	-
Ministry of Labor and Social Protection	-	1,467	1,467	-
Total	3,282,724	371,051	3,653,775	11.30%

The major adjustments made to the government receipts as a result of the reconciliation work were:

- General Department of Taxation understated their initial report by MNT 66,942 million.
- The Customs General Administration underreported VAT and customs duty amounting to MNT 9,030 million paid by “Oyu Tolgoi LLC” indirectly via “National Electricity Distribution Network” SOJSC.
- There is persistent (annual basis) discrepancy exists due to uncertainty with which entity should report dividends - total of MNT 152,940 million dividends paid to State budget by SOEs.
- Subnational government administration underreported receipts and other income of MNT 46,733 million generated from mining companies.
- The government agencies underreported total of MNT 26,286 million due to their systemic failure to disclose or underreporting of the received donations and sponsorships. For example: donations amounting to MNT 13,163 million made to “Gobi Oyu Development Support Fund” by “Oyu Tolgoi” LLC was not reported.
- The Ministry of Environment and Tourism and Ministry of Labor and Social Protection have not entered their original / initial reports to e-reporting system.

See section 4.2 for the reconciliation details.

## 2.5 SUMMARY OF RECONCILIATION RESULTS

### 2.5.1 Comparison of reconciled government and company flows, and position after reconciliation.

The results of the reconciliation are summarized in the Table 2.3 below.

**Table 2.3 Result of the reconciliation of government and companies receipts flows, in MNT million**

Items		Amount
Government receipts after reconciliation		3,653,775
Company payment after reconciliation		3,617,536
<b>Total differences</b>		<b>36,239</b>
Companies not responding to reconciliation requests		(36,263)
<b>Other unresolved differences</b>		<b>(24)</b>
Over reported by government entities	15,138	
Under reported by government entities	(15,162)	

The initial reconciliation of payments and receipts resulted in a net difference of MNT 41,762 million. The Independent Administrator made adjustment of MNT 371,051 million as addition to the government report and MNT 293,050 million as addition to the companies' amounts and reduced the total difference to MNT 24 million. Achit Ikht LLC's MNT 35,548 million difference accounted for the majority (98%) of the MNT 36,263 million of unresolved differences due to the company's non-response to the reconciliation clarification request.

**Table 2.4 Unresolved differences in the reconciliation, by companies, in MNT million**

№	Reg No.	Company name	Revenue reported by the government	Revenue reported by the company	Comment
1	2788705	Achit-Ikht	35,548	0	Refused to provide information
2	5175933	Magic Bridge	715	0	Could not contact
<b>Total</b>			<b>36,263</b>	<b>0</b>	

### 2.5.2 Summary of extractive company contributions

According to the payments reported by company, after reconciliation to reported government receipts, 85% of all payments made by extractive companies in 2019 were made by top 10 companies; and payments from the top 20 extractive companies represented 92.8% of amounts received by government from extractive companies.

**Table 2.5 Top 20 extractive companies' payments, in MNT million, by percentage**

#	Company name	Reported by company	%age in total amount	%age in total amount (cumulative)
1	Erdenet Mining Corporation SOE	949,590	25.99%	25.99%
2	Erdenes Tavan Tolgoi JSC	710,293	19.44%	45.43%
3	Oyu Tolgoi LLC	526,114	14.40%	59.83%
4	Petrochina Daqing Tamsag LLC	281,682	7.71%	67.54%
5	Energy Resources LLC	225,646	6.18%	73.71%
6	Tavantolgoi JSC	120,048	3.29%	77.00%
7	Mongolyn Alt MAK LLC	101,472	2.78%	79.78%
8	Tsairt Mineral LLC	70,212	1.92%	81.70%
9	Southgobi Sands LLC	54,209	1.48%	83.18%
10	Usukh Zoos LLC	43,268	1.18%	84.37%
11	Xin Xin LLC	39,736	1.09%	85.45%

12	Mongolroostsvetment SOE	38,516	1.05%	86.51%
13	Achit-Ikht LLC	35,548	0.97%	87.48%
14	Dongshen Refinery Mongolia LLC	32,152	0.88%	88.36%
15	MoEnko LLC	29,621	0.81%	89.17%
16	Boldtumur Yeruu Gold LLC	27,329	0.75%	89.92%
17	C.O.A.L LLC	25,324	0.69%	90.61%
18	Khangad Exploration LLC	24,559	0.67%	91.28%
19	Tsagaan Uvuljuu LLC	19,879	0.54%	91.83%
20	Khishig Arvin Industrial LLC	16,072	0.44%	92.27%
21	Other companies	282,505	7.73%	
	<b>Total</b>	<b>3,653,775</b>		

Details of payments from all companies are given in Appendix 10.

## 2.6 COMPLETENESS AND ACCURACY OF DATE

Evaluation was made with adequacy of assurance over financial statements of government entities, public and private companies, and whether they have been audited by independent auditors under international standards. Evaluation results are as follows.

### 2.6.1 Government

Government entities except the Ministry of Environment and Tourism (MET) and the Ministry of Labor and Social Protection (MLSP) reported on the Mongolia EITI e-reporting system.

According to the Mongolia EITI 4.9a, Multi-Stakeholder group requires that adequate assurance over the data reported for the EITI reconciliation would only be provided by confirmation of the government entities and companies by means of written representation from senior management of reporting entities.

Accordingly, we, as an Independent Administrator, have requested 14 government agencies to provide a management representation letter to assure the completeness and accuracy of their information provided.

The National Audit Office is required to validate reports for EITI submitted by the government organizations. It is specified in 15.4.2 of the “Procedures for auditing financial statements” adopted by the National Audit Office that “Receipts from extractive entities generated to the state budget shall be agreed with the government organization received them and Mongolia EITI Secretariat, and accompanied by the relevant conclusions.” However, this inspection task has not been carried out so far.

### 2.6.2 State-owned entities (SOEs)

Provision of the information required by Mongolia’s EITI Secretariat is an important part of demonstrating the government’s commitment to a comprehensive EITI reporting process.

All 10 SOEs covered in the reconciliation reported on Mongolia’s EITI E-reporting system; however only 3 of them have provided Management representation letter, meanwhile other 7 have not done it. In addition, Darkhan Metallurgical Plant LLC and Mogoin Gol LLC have not made available their financial statements to the public.

According to the results of auditing the SOEs conducted by the National Audit Office in 2019, Erdenet Mining Corporation LLC was assessed as “qualified”, meanwhile other SOEs as “unqualified” in terms of disclosing their audit reports.



Erdenet Mining Corporation LLC's audited financial statements were issued a qualified audit opinion due to the following reasons. Particularly, "the company has not defined on what asset is impaired within inventory not in use for more than 3 years, amounting to MNT 41,229.6 million. Asset revaluation has not been carried out since 2014 therefore, with carrying amount of MNT 1,200,867.6 million were not presented at fair value in the financial statements, which does not meet "Valuation and Allocation" and "Accuracy" financial statement assertions resulted in not in compliance with relevant laws".

SOE's audited financial statements published on websites of the National Audit Office and SOEs are not complete, as they do not present supplementary attachments on comprehensive adjustments as required by IPSAS and IAS/ IFRS. This under-representation limits the public to obtain comprehensive information about SOE's financial and operational matters.

### 2.6.3 Private companies

Out of 161 private companies covered by the reconciliation, 140 companies provided their Management representation letters and other 21 entities failed to provide. These 21 companies have not entered their reports on Mongolia's EITI E-reporting system, and data were collected through additional templates.

Receipts reported by these companies amounted to MNT 62,952 million which equals to 2% of total receipts. According to government's data, receipts from companies that did not submit their initial report on the e-reporting system amounts to MNT 73,138 million.

Overall, 58 out of these 161 companies provided their financial reports supplemented by the statements regarding whether they were assured by independent auditors under ISA, and one of these financial statements had a qualified audit opinion and other companies had "unqualified" opinion.

Receipts from companies that did not submit their data from the audited financial statements amounted to MNT 3,345,935 million, which equals to 93% of total receipts.

Details of the companies failed to provide the management representation letter are included in Appendix 7.

In previous reconciliation works, audited financial statements were required from the companies. However, data in those financial statements were not applicable for the evaluation and presentation of the quality reports for EITI. This is due to facts that the financial statements are prepared on accrual basis, while EITI reports are developed on cash basis. Top 10 tax paying companies are shown below, along with their status of financial statements and accompanied audit certification.

**Table 2.6 Top 10 companies audited financial statements**

Name of the Company	Provided the Audit opinion	Provided Management representation letter	Payments reported (MNT billion)	%age of total payments	%age of total payments (cumulative)
Erdenet Mining Corporation	x	√	948,633	26.3%	26.3%
Erdenes Tavan Tolgoi	x	√	710,879	19.7%	45.9%
Oyu Tolgoi	x	√	525,033	14.5%	60.5%
PetroChina Daqing Tamsag	x	√	283,629	7.8%	68.3%
Energy Resources	x	√	226,592	6.3%	74.6%
Tavan Tolgoi	x	√	119,966	3.3%	77.9%
Mongolyn Alt MAK	x	√	101,210	2.8%	80.7%
Tsairt mineral	x	√	70,073	1.9%	82.6%
SoutghGobi Sands	√	√	54,768	1.5%	84.2%
Usukh Zoos	x	√	43,384	1.2%	85.4%



It is clear that management representation letters and audit reports issued on audited financial statements are inadequate to conclude that transparency reports submitted by these companies are accurate. Therefore, it is necessary for government entities and companies to supplement their transparency reports by independent audit firm's assurance.

## 2.7 KEY FINDINGS

### 2.7.1 Challenges in covering processing companies by the reconciliation

In Mongolia in addition to the payments from the licensed companies in extractive sector, processing plants and mining suppliers generate significant contributions to the country's revenues. At the inception workshop, MSG decided to include additional 6 companies in the reconciliation, which operate in processing industry. However, as these companies do not hold license, they are not required to enter their data to the e-reporting system, and they have limited understanding about EITI. These entities were interested as they have legal obligations to be part of the reporting. For examples:

- "Achit-Ikht" LLC is belong to the processing industry, and the company has responded that "We request you to provide us legal evidence or an official letter stating that Achit-Ikht is required to report to eitimongolia.mn; administrator conducting reconciliation is not a government body and is not entitled to request various data; EITI is an initiative, which means that adherence is voluntary; if legal obligation is justified, the company can provide data based on "confidentiality agreement" only.
- Areva company was selected. This company is a parent company of a uranium exploration company named Kojegobi LLC, serves as representative body, and it is non-operational currently. The company pays insignificant amount of taxes to Mongolia.

Therefore, considering the above facts MSG should introduce regulations to enable the processing industry companies and major mining suppliers to report to EITI by making preselection of the major representatives, then send them official notifications to participate in reconciliation, and enter basic requisites into the online reporting system.

### 2.7.2 Report submission and status of return letter

A total of 2,093 companies were required to submit their 2019 EITI reports, but 1,472 companies have submitted their reports, and 621 companies have not turned them yet. Concerning the government agencies, the Ministry of Environment and Tourism did not report 50 percent of conservation expenditures in a special account with the State Central Administrative Body in-charge of the environment, while the Ministry of Labor and Social Protection did not include payment data for foreign specialists and workers positions.

The consolidation summary indicates the following status of responses from the government agencies and companies covered by the report:

- Out of 171 companies, 2 companies (Achit-Ikht LLC and Bayan Airag exploration LLC) refused to return letter, while, Magic Bridge, Imperial Gold Mining and MongolCzech metal have not been contacted at all.
- Letters were sent to 14 government agencies, and MMHI only has not provided any official response. Information provided by the Ministry of Finance was in draft format or not officially provided.
- Letters for clarification of discrepancy were sent to 20 aimag and 8 districts. In return, Sukhbaatar, Songinokhairkhan districts and Orkhon aimag have not responded, and Khovd, Dornod, Dornogobi, Bayankhongor aimag and Chingeltei district provided incomplete information.

Although the annual reconciliation report provides recommendations for the participating companies and government agencies to institutionalize the EITI reports and ensure their quality and accuracy, still

there is no success as expected. This indicates the necessity to enact and enforce the country's Law on Transparency in the Mineral Resources Sector.

### 2.7.3 State organisations reports accuracy

During the reconciliation it was discovered that the General Taxation Department (GTD) has not reported initially royalties of MNT 18.1 billion received from 28 gold companies, however, it has not supplemented any additional information upon request. This was due to the amendment 47.12 introduced to the Law on Minerals that states, “*Mongol Bank and a commercial bank authorized by it shall deduct the royalty from the sales value of gold and transfer it to the state budget at the rate specified in Article 47.3.2 of this Law.*”. As a result, Mongol Bank now imposes a direct royalty on gold sold by the gold companies and transfers it as a bulk to the GTD.

This Law amendment has affected the procedure of GTD to impose royalty and payment from companies, however, it has no impacts on monitoring and ensuring accuracy of EITI reporting, imposing royalty and its payment. For this reason, GTD shall maintain and improve their information system, and it is expected to continue to focus on accuracy of the reporting to the EITI.

### 2.7.4 Data accuracy and reports validation

The EITI aims to introduce the international best practices by emphasizing the importance of data quality, especially as a prerequisite for systematic reporting by government entities and private companies, mainstreaming and minimizing the need for reconciliation of data by an Independent Administrator.

Although the government organizations, SOEs and private companies have provided validation of the payments, revenues and other additional information through auditor's assurance together with management representation letter, there are still observed discrepancies among the parties. This can be seen from the material adjustments of MNT 541 billion to the stakeholders' payments and revenues introduced by the Independent Administrator.

Therefore, more efforts needed to strengthen accountability of the EITI stakeholders, who provided erroneous reports and engage independent auditing firms to assure the quality of the reports in accordance with the Requirement 4.9.

### 2.7.5 Completeness of e-reporting

EITI report submission for 2019 was closed as of April 30, 2020, and evaluation for completeness was made based on data as of that date.

The Government reported receipts from 2,422 companies through the e-reporting system. The comparison of this report with the list of the license-holder companies in the database of Mineral Resources and Petroleum Authority (MRPA) by the Independent administrator indicated overreporting by 329 companies (Table 2.7).

**Table 2.7 The on-line reporting companies, revenue share, MNT million**

Description	Number of companies	Government's receipts (MNT million)
Number of companies registered at e-reporting system	2,422	3,452,974
Of which: Number of license-holder companies entered by MRPA	2,093	3,405,508
<b>Discrepancies</b>	<b>329</b>	<b>47,466</b>
Number of companies submitted reports under the same name, but with different registration numbers	70	25,991
Number of companies with other reasons	259	21,475

The clarifications regarding the report number discrepancies showed the following affecting factors:

- The local administration has granted an access to changing or adding the names of the reporting companies. However, some local government staff create new entries for a reporting company in the e-reporting system without thorough check of the company name and associated registration number, which result in double registry of the same entity. As a result, there were 70 companies with double registration.
- Local governments are authorised to issue license for common minerals; therefore, additional names of these companies could have been entered by the local governments. As a result, there are 259 companies entered into the system in addition.
- There are 106 companies with erroneous 1-6 digits registry data.
- There are 8 companies with incorrect numbers in 2-6 digits registered in the cadastral system of MRPA, including Golden Gravel, Dayan Erchis, Duuren Yondo, Sova, Khishigtkhundii, Erdesplasm, Erdes Plasm, Erdes plasm LLC.

### **2.7.6 Challenges with data quality collected through EITI new template and data for reconciliation adjustment**

Transparency reports for 2019 were obtained through the e-reporting system from companies both in new and old templates (2 templates). According to Secretariat's statement, reports up to April 30, 2020 were obtained in old templates and reports up to October 30 were obtained in new template.

The summary indicates that 1472 companies submitted their reports in old templates, 881 companies have not submitted reports, and 633 companies provided their reports in a new template. Two ministries, four government agencies and local governments of 19 aimag and 8 districts reported receipts electronically.

New templates are filled manually. Compatibility between previously used and new programs have not been yet updated, as a result information submitted through new templates have errors as follows:

- Duplicated information,
- Unable to identify information with multiple options, and
- Gaps in filling out the template by some companies.

This creates the risk of providing incomplete or incorrect information to the public and financial statements users.

Therefore, discussion should be held regarding disclosing above information to the public, or make sure the information of selected companies is evaluated by an independent administrator prior to releasing the public.

### **2.7.7. Disclosing financial statements of SOEs**

On webpages of National Audit Office, glass account and SOEs, the following information have been published with respect to audited financial statements of SOEs:

- Statement of financial position,
- Comprehensive statement of income,
- Statement of cash flow,
- Statement of changes in equity, and
- Audit report.

It is recommended that complete audited financial statements of all SOEs in extractive sector should be electronically published to the public, especially on webpages of the SOE and of the National Audit Office, EITI or MRPAM.

### 2.7.8. State participation and requirements disclosure

An evaluation was conducted by EITI Secretariat regarding Validation report 2018 and whether Mongolia is prepared for systematic disclosure of information. In this evaluation report and other documents, a special focus is given to inadequacy of disclosure of state participation in accordance with Standard requirements.

In particular, SOEs data on retained earnings, reinvestments, lending and financing by third party, and transactions between SOEs and government entities are disclosed inadequately to the public. Furthermore, there is a lack of transparency with matters about disclosure of audited financial statements of SOEs in accordance with EITI Standard 2019, assets and current expenditure, procurement, hiring contractors, regulations on company's governance, and practical operations.

If an entity will fulfill all obligations of the glass account for the SOEs, some of the above information gaps will be addressed, such as:

- Retained earnings (financial statements information can be viewed on glass account webpage),
- Reinvestment (bond, loan, debenture, similar financial instruments, public-private entities' partnership agreement, concession, budget, equity, assets, cash, debt, and any decisions to initiate receivables),
- Asset and current expenditures (glass account webpage discloses asset expenditure, investment project, action plan, performance, list of concession items (*annual and monthly*), general tender information of activities reflected in asset and current expenditures (*case based*),
- Procurement (glass account webpage discloses procurement plan (*annual*), procurement report (*annual*), audit reports of procurement, other monitoring, and inspection results).

However, SOE's have filled out some of forms related to procurement of 2019 on glass account webpage, and SOEs except Erdenes Mining Corporation, MongolRos Tsvetmet, Erdenes Tavantolgoi SOJSC have allocated incomplete information on the glass accounts.

Within the scope of annual EITI reporting, MSG should focus on evaluating the gaps in execution of the regulations related to financial relations of SOEs with the government and their actual implementation. In order to make evaluation more sustainable, MSG needs to cooperate with the Cabinet Secretariat of the Government of Mongolia, Erdenes Mongol and Government Agency for Policy Coordination on State Property (GAPCSP) to develop a system for disclosing financial information of SOEs operating in extractive industry.

A system needs to be established for SOEs to disclose their information in accordance with the Law on Glass Account, and dividends from SOEs shall be disclosed and published on GAPCSP's or other relevant state entity's webpages.

# 3

## RECONCILIATION METHODOLOGY & SCOPE



### 3 RECONCILIATION METHODOLOGY AND DETERMINATION OF SCOPE

#### 3.1 INTRODUCTION

Grant Thornton Audit LLC (“the Independent Administrator”) is required to undertake the work set out in the Terms of Reference for the Engagement. This includes undertaking a reconciliation of specified flows to the government from the companies in the extractive sector, as described further in this section.

The reconciliation has been carried out on a cash accounting basis.

If there are material payments or receipts omitted from the Mongolia EITI E-Reporting system or reporting templates by a government entity or a company, our work would not have been sufficient to detect them, and it poses risks of exclusion from the analysis. If either the government entity or the company has reported the flows, then it would be sufficient for us to complete the missing information and include in the report. Otherwise, any such receipts or payments which were omitted would not therefore be included in our report.

In conducting our work, the team has applied the completed reporting templates, information and explanations obtained from reporting entities. No verification is made as to the accuracy or completeness of such information.

We expect the information and explanations received from the reporting entities during the engagement to be true and accurate.

#### 3.2 DETERMINATION OF SCOPE

##### 3.2.1 Introduction

In assessing the scope for the 2019 EITI report for Mongolia, several areas were considered with the MSG: -

- Scope of contextual information concerning the extractive industries to be included in the report;
- Scope of additional information to be provided by the companies covered in the report;
- Determining the extractive companies making material payments to the government;
- Determining the government entities receiving material amounts;
- Determining financial flows of material payments to be covered in the report; and
- Mechanisms for reporting entities to provide assurance on the figures reported.

##### 3.2.2 Scoping and Inception workshop

During the inception phase, we reviewed the contents and information required in 2019 Mongolia EITI report including the documents in the ToR Appendix 4 and identified revenue streams of government entities and companies covered by the reconciliation, inspected systematic disclosure by stakeholders, and made clarifications about relevant information.

The objectives in the inception phase include agreeing on identifying the scope of the EITI reporting process at adequate level, preparing the reporting templates, data collection procedures and the schedule for the EITI reconciliation report publication.

The team attended a workshop convened by Mongolia EITI Secretariat on November 6, 2020 with participation of the members of Multi-Stakeholder group (MSG) and discussed contents of the EITI report, new standard requirements, relevant definitions, and thresholds for material amount disclosures. Comments received during this workshop were reflected in the Inception report, and the scope of EITI 2019 report was approved by the MSG members.

### 3.2.3 Changes to the EITI standard

The EITI Board made their decision to adopt the new standard with 2 sections and 21 requirements and start its implementation on June 17, 2019.

EITI standards of 2016 or 2019 are acceptable to EITI reports prior to December 31, 2019. However, reports after January 1, 2020 shall comply with EITI Standard 2019.

In the new EITI Standard, the following key changes were made:

- **Contract transparency.** A contract is made between government and extractive companies to determine how much tax is sourced from extractive sector in EITI implementing countries. Such contracts are usually made confidential and not disclosed to the public which makes often cast doubts on objectivity of receipts. In EITI Standard 2013, contract transparency on national level and development of the relevant policy were promoted. Majority of countries implementing EITI have taken actions towards contract transparency. The 2019 Standard requires that contracts signed and approved after January 1, 2021 be made transparent.
- **State participation and commodity sales.** EITI Steering Committee approved improvement of disclosure requirements for transactions related to state participation and state-owned entities, and kind of payments similar to budget expenditures. Accordingly, it is required that all income for sale of government shares and other non-monetary income earned through sale shall be disclosed by each buyer.
- **Environment.** Environmental impact of the extractive industry is one of the main contentious matters to the public. Under EITI 2019 Standard, material payment amounts for environmental protection paid by extractive companies to the government and basic data of environmental monitoring need to be disclosed.
- **Gender.** Under 2019 Standard, MSGs are required to consider gender balance, and provide employment figures by roles and gender.
- **Systematic disclosure.** EITI 2019 Standard will ensure more timely, reliable, and routine disclosures. Changes recognize more opportunities for MSF to shift towards more regular disclosures and reporting.

Summary of changed requirements and definitions are shown in the Table 3.1:

**Table 3.1 Changes to the Standard**

Type	Requirements N and title	Total changes
New requirements	Gender (#1.4, #6.3), Contracts (#2.4), Commodity sales (#4.2), Environmental impact reporting (#6.1)	5
New expectations	Company and SOE disclosures (#4.9, #2.6), Contracts (#2.4)	3
New encouragements	Licensing (#2.2), SOEs (#2.6), Production and exports (#3.2, #3.3), Commodity sales (#4.2), Subnational transfers (#5.2), Environmental reporting (#6.4), Gender (#7.1, #7.4), Recommendations (#7.3)	10
Introduced flexibility	Reconciliation (#4.9), Annual progress reporting (#7.4)	2
Clarifications	Contracts (#2.4), Beneficial ownership (#2.5), SOEs (#2.6, #6.2), Project-level reporting (#4.7), Public debate and open data (#7.1, #7.2)	7



### 3.2.4 Materiality

In order to determine the materiality, the government report provided by the EITI Secretariat on November 2, 2020 with data on revenue streams received by the government from mining industry were applied in the analysis. The findings of the analysis of this report are as follows:

**Table 3.2 Receipts reported by government, number of companies, MNT million**

No	Type	Company	Government reporting (MNT million)	%age of total	Cumulate %age
1	Over 100 billion	6	2,529,940	73.27%	73.27%
2	1 – 100 billion	71	810,302	23.47%	96.74%
3	500 million – 1 billion	40	28,711	0.83%	97.57%
4	300 – 500 million	70	26,636	0.77%	98.34%
5	Up to 300 million	2,235	57,385	1.66%	100.00%
<b>Total</b>		<b>2,422</b>	<b>3,452,974</b>	<b>100%</b>	

The internal analysis was carried out by the team using the list of companies provided by the government, information obtained from those companies' websites or by contacting them. As a result, the analysis has identified 40 companies that paid significant amount of taxes and payments to the state outside of the extractive (mining) industry.

**Table 3.3 Non-mining companies**

No	Reg No.	Company name	Amount in MNT million	No	Reg No.	Company name	Amount in MNT million
1	2082489	Magnai trade	57,130	21	5467446	Nutgiin buyan group	388
2	5860091	NPPetroleum	7,030	22	2579634	MEC	364
3	2659603	Ochir Undraa	4,123	23	2070251	Geosan	354
4	2054701	Gatsuurt	2,670	24	2034719	Khuvsgul road	346
5	2577127	GBT Trading	1,923	25	2685841	Commod	338
6	2293463	TESO	1,607	26	2068508	Reactive	310
7	2027194	Erel	1,053	27	5191823	Remicon	299
8	5186552	Tumurt-Urguu	1,041	28	2096102	DHL	298
9	2861224	Esto	971	29	3615243	Uguumurgaviluud	296
10	2571889	Molor Trade	892	30	2095092	Gangar invest	294
11	2072947	Shijir Alt	837	31	5272378	Zuunnaiman oil	272
12	2697807	Uujim-Od	806	32	5000505	Tavan tolgoi trans	268
13	2808676	BUTI	725	33	2580462	Cass town	226
14	2057573	Max Impex	712	34	2593009	Bridge Construction	226
15	5543495	KPMG Mongolia	604	35	2630478	Geomaster	169
16	5385075	Dardangobi	556	36	5961149	Circon geology	101
17	5850169	ESMP	487	37	2031256	Ochir center	82
18	2016192	Bayan-Uul	456	38	2660954	Agaiyn	51
19	2070022	Narantuul trade	418	39	5	Dornogobi Road Maintenance SOJSC	3
20	2120879	Border Troop 0119 unit	407	40	7	Khentii Us	2
<b>Total</b>			<b>89,389</b>				



In the calculation of materiality, the criteria were applied that at least 98% of total receipts reflected in the government report must be covered.

When receipts paid by companies that do not operate in mining industry were subtracted from the amount reported by the government, then in accordance with the methodology above, the share of companies with national level payments and revenues of more than MNT 300 million accounted for 98.4% of total receipts (Table 3.4). For examples:

**Table 3.4 The calculation of materiality**

No	Description	Companies	Government receipts (MNT million)
1	Total number of companies existing on e-reporting system	2,422	3,452,974
2	Companies with non-mining operations	40	89,389
3	General population	2,382	3,363,584
4	Companies that paid taxes and payments of more than MNT 300 million	163	3,310,330
5	Sample coverage	7.14%	98.4%

During the inception workshop, MSG approved threshold of MNT 300 million.

### 3.2.5 Selection of financial streams for inclusion

Out of total 31 national flows, apart from 6 flows that did not generate revenue streams, 25 companies paid national taxes and fees and 14 companies generated subnational types of taxes and payments to the government. A decision was made to cover all types of revenue streams in the reconciliation report 2019 and introduce adjustments for any differences.

### 3.2.6 Selection of government organizations

EITI requirements related to revenue collection include: 4.1 - comprehensive disclosure of taxes and revenues, 4.5 - SOE transactions, and 4.6 - Subnational payments

Based on the government reports, it is as shown in Table 3.5 below.

**Table 3.5 Government revenue**

No	National government entities	Amount	%age	%age /cumulative/
1	General Department of Taxation	2,411,378	69.8	69.8
2	Mineral Resources and Petroleum Authority	314,311	9.1	78.9
3	Customs General Administration	308,491	8.9	87.9
7	Social Insurance General Office	294,956	8.5	96.4
6	Local governments	122,966	3.6	100.0
5	General Agency for Specialized Inspection	872	0.03	100.0
4	Ministry of Environment and Tourism	-		100.0
8	Government Agency for Policy Coordination on State Property	-		100.0
9	Ministry of Labour and Social Protection	-		100.0
<b>TOTAL</b>		<b>3,452,974</b>	<b>100</b>	

According to MSG decision, above government organizations and the following local government institutions were included in the reconciliation:

- Governor's Office of aimag and Capital city;
- Governor's Office of Soum and districts; and
- Local government agencies.

### 3.2.7 Selection of companies

Considering the payments and revenue materiality the list of 163 companies was proposed and discussed at the Inception Workshop, and this list was approved by MSG. Moreover, the members of MSG proposed to add the companies that operate in fields of processing industry and radioactive mineral exploration. Accordingly, with these additional eight companies, total of 171 companies were selected for reconciliation.

There are total of 146 companies holding exploitation and exploration license, and this reconciliation covers 6 oil companies, 10 SOEs, 2 companies holding radioactive minerals license, and 7 processing companies. For examples:

**Table 3.6 Companies covered by the reconciliation, by payments level, in MNT million**

Type	Number of companies	Government receipts	Including	
			National	Subnational
Exploitation and exploration license holder	146	1,216,200	1,152,747	63,453
SOEs in extractive sector	10	1,685,895	1,637,985	47,910
Oil license holder	6	402,159	395,909	6,250
Radioactive minerals license holder	2	3,261	3,145	116
Processing plant	7	786	749	37
<b>Total</b>	<b>171</b>	<b>3,308,301</b>	<b>3,190,535</b>	<b>117,766</b>

See appendix 1 for details regarding the companies.

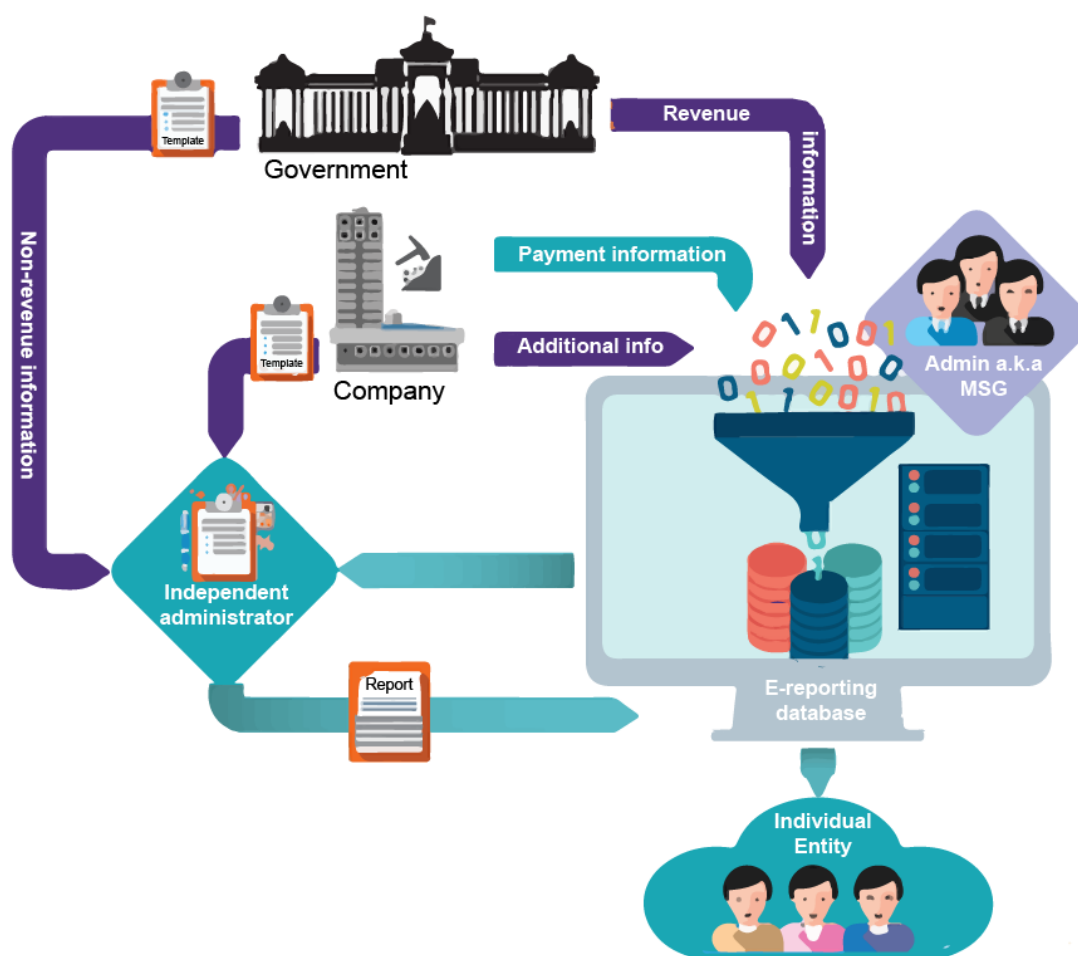
## 3.3 METHODOLOGY

### 3.3.1 Data collection

The Independent Administrator has retrieved financial and non-revenue information from the Mongolia EITI E-reporting system and based on it identified the initial discrepancies.

The companies with the initial discrepancies were requested to provide additional clarifications validated with data in hard copy, which are supplemented by the management representation letters. In addition, representation letters from the government organizations confirming the reliability of provided information regarding extractive sector background and other statistical data were received in hard copy.

The following Figure describes engagement of the concerned stakeholders in the e-reporting system.

**Figure 3.1 Stakeholders' participation in the e-reporting system**

### 3.3.2 Templates used in the reconciliation

Under the decision of Mongolia EITI National Council at the meeting on December 18, 2019, the MSG has carried out a task to update the EITI Company reporting template. The relevant Technical Task Forces were established with the representatives from the National Statistics Office, National Audit Office, MRPA, Erdenet Mining Corporation, Mongolian Coal Association, The Steps Without Border NGO, The Administration Reform NGO, and Transparency International Mongolia NGO, and they were assigned to update the Company reporting template and develop new templates based on the new EITI Standard and considering Mongolia specific features.

The new template was agreed by National Statistics Office and approved by MMHI Minister's Ordinance #A/37 dated March 05, 2020.

The following changes were made to the content of new template, including the detailed information on license application date, resource estimates, project-level reporting, quality of financial reporting, employees detailed information, mineral commodities production, detailed sales information, damaged land information, rehabilitation information, transportation cost of state and local government organizations, water, electricity, fuel, occupational safety, use of sanitary products, waste and chemicals management, concentrators, operators, subcontractors, impact zones, beneficial owners, dividends of state-owned enterprises, agreements with local authorities, implementation status, Board of Directors, infrastructure investment, barter, loans, loan guarantees, and product-sharing agreements.

### 3.3.3 Level of disaggregation

The EITI Standard requires (Requirement 4.7) that “the multi-stakeholder group should agree the level of disaggregation for the publication of data and that EITI data is presented by individual company, government entity and revenue stream”.

During the Inception Workshop with the EITI Working Group, it was agreed that the results of the 2019 reconciliation for Mongolia will be analyzed and reported by an individual company, a government organization, and revenue stream. Moreover, information was collected through the new template on the e-reporting system according to by-project reporting requirements, and the results can be found in the Section 6.10 of this report.

## 3.4 ASSURANCE

### 3.4.1 Audit and assurance background in Mongolia

The National Audit Office of Mongolia (MNAO) is the supreme audit institution of Mongolia. The MNAO is a member of INTOSAI and complies with the standards issued by this organisation.

The MNAO carries out financial audit of Ministries, Government agencies and state-owned entities and audit on the government consolidated financial statements, which are endorsed by State Great Hural (the Parliament). Subnational government agencies (aimags and soums) shall prepare their annual financial reports and audited by the local branch offices of MNAO.

While the MNAO is in-charge of annual financial statement audit of the SOEs; it also allows private auditing firms, selected by competitive tender, to execute those audit engagements. This practice prevails most cases. The private auditing firms perform audit engagement in compliance with the International Standards on Auditing.

Companies, which are required to have an external audit are responsible for submission of their audited financial statements to the Accounting Department of Ministry of Finance (MOF) by June of each year. However, MOF is restricted to disclose those financial statements without direct permission of the company due to confidentiality provision in the General Law of Taxation.

The Accounting Department of the Ministry of Finance may scrutinize the mining companies by imposing certain requirements with regards to their auditing.

The private companies are required to prepare their financial statements in accordance with IFRS as defined in the Article 4.1 of the Accounting Law of Mongolia. If the total sales income or net assets exceeds certain threshold, it is required by law that all companies shall be audited by external auditing firms.

### 3.4.2 Assurance Procedures for EITI reporting

The government organizations, SOEs and extractive companies are required to enter their information into the MEITI E-reporting system. If necessary, any additional information requested by the Independent Administrator, they are obliged to provide.

The reporting entities are responsible for the completeness and reliability of their reported data.

Also, the reporting entities must provide assurance on the reliability of their information provided to the Independent Administrator.

It was agreed by the MSG during the Inception Workshop in November 2020 that “senior management representation letter will be provided in written by reporting government entities/agencies as an assurance for its reliability of reports and information”.

According to the MNAO guidance on financial statement audit “Payments made by extractive entities to national budget shall be reconciled with EITI Secretariat and government entities which received revenues” MSG is required to provide assurance on the EITI data; however, this verification has not been carried out in 2019. It is evident that MNAO is not capable of performing this assurance task.

Also, it was discussed with MSG and agreed that executive management of companies will provide assurance for their information in written form by an individual authorised to represent their Board of Directors and to enter audited financial statements on the e-reporting system.

In the previous reconciliations, the Independent Administrator required the private companies and SOEs to provide an assurance letter from their external auditor to ensure that *“EITI reports are prepared basis on the financial statements in accordance with ISA and are true and fair”*. The results were summarized and reported as well. However, in EITI 2019 report, due to time limitations this validation was impossible to be conducted.

# 4

## RECONCILIATION



## 4 RESULTS OF THE RECONCILIATION

The initial reconciliation of payments and receipts resulted in a net difference of MNT 41,762 million, and the Independent Administrator made adjustment of MNT 371,051 million as addition to the government report and MNT 293,050 million as addition to the companies' amounts.

Due to 2 companies' non-response a discrepancy of MNT 36,263 million was not resolved during this reconciliation process (refer for the details to Table 2.4).

As a result of deduction of this discrepancy from the reconciliation amount MNT24 million or 0.001% of reported government receipts left as non-resolved (non-explained).

### 4.1 SUMMARY OF INITIALLY REPORTED STREAMS

Initially reported payments and receipts, and reconciliations were as follows (Table 4.1):

**Table 4.1 Initially reported streams and reconciliation, in MNT millions**

Reporting entities	No. of companies	Selected key revenue streams (MNT millions)		
		National level	Subnational level	Total
Initial reporting				
Government entities	171	3,190,535	92,189	3,282,724
Private companies	161	1,325,627	94,380	1,420,007
State owned entities	10	1,810,908	93,571	1,904,479
Initial difference	16	54,000	(95,762)	(41,762)
Reconciliation				
Adjustments to government receipts		298,032	73,019	371,051
Adjustments to companies' payments		310,336	(17,286)	293,050
Government total after adjustments		3,488,567	165,208	3,653,775
Companies total after adjustments		3,446,871	170,665	3,617,536
Unresolved difference		41,696	(5,457)	36,239
Less: companies not responded to reconciliation template		35,933	330	36,263
Final net unreconciled difference		5,763	(5,787)	(24)

See Appendix 9 for unreconciled differences by companies.

### 4.2 INITIAL UNRESOLVED DIFFERENCES AND NON-REPORTING COMPANIES

The Table 4.2 describes the principal reasons for the initial unreconciled differences:

**Table 4.2 Unreconciled differences, in MNT millions**

Revenue streams	Adjustments to initial reporting by companies	Adjustments to initial reporting by government	Reconciled total
Did not provide initial report, or some streams reported partially	87,211	269,481	356,692
Cash reporting, rounded to thousand	282,703	5	282,708
Under reporting	27,755	97,824	125,579
Over reporting	(41,737)	(12,123)	(53,860)
Voluntary information reporting	(27,318)	(457)	(27,775)

Revenue streams	Adjustments to initial reporting by companies	Adjustments to initial reporting by government	Reconciled total
Duplicated reporting	(26,899)	(24)	(26,923)
Under reporting of royalty deduced by bank	-	16,845	16,845
Improper categorization of revenue streams	(5,161)	(471)	(5,632)
Mixed reporting on related parties' transactions	(3,081)	(29)	(3,110)
Reporting as cumulative	(423)	-	(423)
<b>Total</b>	<b>293,050</b>	<b>371,051</b>	<b>664,101</b>

The summary of adjustments to errors in the e-reporting system entries shows that initial differences were mainly due to

- a) rounding to thousand in cash amount reporting;
- 6) missing initial reports or partial reporting of some streams.

Therefore, adjustments were made to increase the figures by MNT664,101 million. The significant reconciliation amounts are explained as follows, and these significant adjustments to the initial reports are shown by the companies:

- “PetroChina Daqing Tamsag” LLC provided their initial report with rounding to thousands – MNT282,702 million;
- “Erdenet Mining Corporation” double reported VAT paid to the Customs General Administration (CGA) – MNT21,237 million, and voluntary information reporting – MNT 21,462 million;
- “Khishig Arvin Industrial” LLC paid MNT16,598 million to the State budget as taxes and fees, but reported MNT0.4 million only in their initial report.

Government agencies which did not report revenues received by the Government are:

- Dividends per local government ownership, paid by Tavan Tolgoi JSC to Umnugobi aimag – MNT23,421 million;
- Dividends of state government ownership, paid by Erdenet Mining Corporation to the Treasury – MNT 150,000 million;
- Dividends of state government ownership, paid by “Mongolrostsnet” SOE to the Treasury – MNT 2,940 million; and
- Royalty fee and additional MNT3,527 million paid by “Boroo Gold” LLC to the General Taxation Department.

Under reported amounts by the Government in the initial reporting are:

- CGA did not report VAT and customs duties amounting to MNT47,097 million paid by Oyu Tolgoi LLC via “National Power Transmission Grid” SOJSC;
- The Ministry of Labor and Social Protection did not initially report fees for expats workers amounting to MNT21,512 million;
- Donations from “Oyu Tolgoi” LLC of MNT13,163 million to “Gobi Oyu Development Support Fund” were not reported;
- CGA did not report customs duty of MNT5,812 million and VAT of MNT2,779 million paid by “PetroChina Daqing Tamsag” LLC; and
- General Taxation Department did not report royalty fee of MNT16,845 million, withheld and transferred from the gold companies, by the Bank of Mongolia.

The above findings indicate that some government entities and companies enter their initial reports recklessly into the Mongolia EITI e-Reporting system. Therefore, more attention and focus should be drawn on entering the data for Government, its receipts and companies and their payments on the



Mongolia EITI e-Reporting system.

In 2019, the EITI reconciliation included 171 companies and only one (“Entree” LLC) of them provided their initial report without any difference from the figures reported by government (Table 4.3).

**Table 4.3 A company provided their initial report without any difference on the e-reporting system, in MNT million.**

#	Registration No.	Company name	Reported by government	Reported by company	Initial difference
1	2705133	entrée	2,536	2,536	-
<b>Total</b>			<b>2,543</b>	<b>2,543</b>	<b>-</b>

Out of reported entities, 16 companies have not entered their initial reporting to Mongolia EITI E-reporting system, which resulted in initial difference of MNT 20,877 million. The companies which created discrepancies due to missing their reports are shown as follows (Table 4.4):

**Table 4.4 Companies that did not initially report on the system, in MNT millions.**

#	Company name	Payments
1	Ulaanbaatar Railway /Chuluun zavod/ JVC	11,164
2	Cosmo Coal LLC	1,533
3	Oros Gerel LLC	1,476
4	Aduunchuluu LLC	1,042
5	Badmaarag Khash LLC	1,018
6	Monwolfram LLC	869
7	Friendship Resources LLC	751
8	Magic Bridge LLC	715
9	Starto LLC	550
10	Tuvshin LLC	466
11	Jinhua Ord LLC	414
12	Aurum Aurug LLC	312
13	Commonmax LLC	304
14	Erdenes Tavantolgoi Mining LLC	247
15	Khunbuu LLC	13
16	Areva Mongolia LLC	3
<b>Total</b>		<b>20,877</b>

### 4.3 UNRESOLVED DIFFERENCES

An analysis of the unresolved differences at the end of the reconciliation is shown in the Table 4.5.

**Table 4.5 Unresolved differences, in MNT millions**

Payments and revenue streams	Over reported by the government	Under reported by the government
Corporate Income Tax	38,510	-
Customs duty	-	(922)
Value Added Tax (General Taxation Department)	140	-
Value Added Tax (Customs)	1,305	-
Excise tax on gasoline and diesel	2	-

Payments and revenue streams	Over reported by the government	Under reported by the government
Royalty and additional payment	5,304	-
License fee for exploitation and exploration of mineral resources	-	(100)
Compensation for deposits explored by state budget fund	-	(330)
License fee for exploration and exploitation of petroleum	-	(2)
Payment for foreign specialists and workers	133	-
Air pollution charges	-	(15)
Employee social and health insurance premium paid by the employer	-	(768)
Customs service fee	12	-
Annual training bonus paid under Product sharing agreement	-	(1)
Penalty	-	(974)
Compensations	-	(30)
Deposit at rate of 50% to Environmental protection special account of the State Administration Office in-charge of Environment	-	(657)
Other	89	-
Property tax	-	(222)
Auto and self-propelling vehicles tax	300	-
Land fee	-	(630)
Water usage fee	-	(943)
Royalty fee for common minerals	-	(1,356)
Fees for foreign specialists and workers	-	(68)
Local development bonus received under production sharing agreement	-	(20)
Penalty	-	(1,498)
Compensations	-	(6)
Contribution at rate of 50% to Environmental Protection Special Account	-	(40)
Other	1,152	-
Donations and support to the government entities	-	(2,126)
<b>Net unreconciled discrepancies</b>	<b>46,947</b>	<b>(10,708)</b>

#### 4.4 NON-REPORTING COMPANIES

The review of the initial records of the government receipts at the E-reporting system of 171 companies selected for inclusion in the reconciliation, 2 companies have not provided response to the additional request during the reconciliation process. The net difference caused by these 2 companies totaled MNT 36,263 million. The detailed information regarding the companies missing the reports can be found in the Chapter 2.5.1 of the report.

#### 4.5 RECONCILIATION RESULTS

The national-level reconciliation results as shown below.

**Table 4.6 National level reconciliation, by revenue streams, in MNT millions**

	Initially reported			Adjustments		After adjustments		
	Govt	Company	Difference	Govt	Company	Govt	Company	Difference
Corporate Income Tax	858,944	859,731	(787)	38,128	(1,169)	897,072	858,562	38,510
Customs duty	54,080	67,672	(13,592)	2,949	(9,721)	57,029	57,951	(922)
Value Added Tax (paid to General Taxation Department)	129,906	120,449	9,457	108	9,426	130,014	129,875	139
Value Added Tax (Customs)	116,828	91,762	25,066	5,724	29,485	122,552	121,247	1,305
Excise tax on gasoline and diesel fuel	19	-	19	-	17	19	17	2
Tax on gasoline and diesel fuel	230	-	230	-	230	230	230	-
Royalty and additional fee	1,350,361	1,380,503	(30,142)	28,705	(6,741)	1,379,066	1,373,762	5,304
License fee for exploration and exploitation of mineral resources	15,902	17,946	(2,044)	130	(1,814)	16,032	16,132	(100)
Compensation payment for deposit explored by the state budget	4,246	2,531	1,715	-	2,045	4,246	4,576	(330)
Bonus after signing the product sharing agreement	-	430	(430)	-	(430)	-	-	-
License fee for exploration and exploitation of petroleum	1,721	2,966	(1,245)	138	(1,105)	1,859	1,861	(2)
Fees for foreign specialists and workers	-	10,442	(10,442)	21,533	10,958	21,533	21,400	133
Air pollution charge	47,332	47,290	42	-	57	47,332	47,347	(15)
Employees' Social and health insurance charges paid by entities	273,174	237,593	35,581	(4,012)	32,337	269,162	269,930	(768)
Customs service fee	65,328	54,225	11,103	356	11,447	65,684	65,672	12
Annual training Bonus paid under Product sharing agreement	1,864	1,462	402	-	403	1,864	1,865	(1)
Support program of representative office under provisions of product sharing agreement	728	393	335	-	335	728	728	-
Dividends on state property	-	152,940	(152,940)	152,940	-	152,940	152,940	-
Petroleum income per government under product sharing agreement	232,267	21,868	210,399	-	210,399	232,267	232,267	-
Royalty	35,944	5,764	30,180	-	30,180	35,944	35,944	-
Penalty	569	6,672	(6,103)	2,666	(2,463)	3,235	4,209	(974)
Compensations	525	2,592	(2,067)	132	(1,905)	657	687	(30)

	Initially reported			Adjustments			After adjustments		
	Govt	Company	Difference	Govt	Company		Govt	Company	Difference
50% contribution to Environmental protection special account of the State Administration Office in charge of Environment	-	4,106	(4,106)	1,467	(1,982)		1,467	2,124	(657)
Other	567	47,198	(46,631)	47,068	347		47,635	47,545	90
<b>National-level reconciliation total</b>	<b>3,190,535</b>	<b>3,136,535</b>	<b>54,000</b>	<b>298,032</b>	<b>310,336</b>		<b>3,488,567</b>	<b>3,446,871</b>	<b>41,696</b>

The subnational level reconciliation results by revenue streams are shown below.

**Table 4.7 Subnational level reconciliation results, by revenue streams, in MNT million**

Revenue streams	Initially reported			Adjustments			After adjustments		
	Govt	Company	Difference	Govt	Company		Govt	Company	Difference
Property tax	29,926	31,045	(1,119)	874	(23)		30,800	31,022	(222)
Auto and self-propelling vehicles tax	1,425	1,171	254	190	144		1,615	1,315	300
Land fee	6,279	28,069	(21,790)	21,037	(124)		27,316	27,945	(629)
Water usage fee	37,149	37,045	104	3,110	4,156		40,259	41,201	(942)
Water pollution charges	493	103	390	(469)	(79)		24	24	-
Royalty fee for common minerals	1,424	7,307	(5,883)	(258)	(4,786)		1,166	2,521	(1,355)
Fees for foreign specialists and workers	-	2,829	(2,829)	336	(2,424)		336	405	(69)
Local development bonus received under product sharing agreement	431	582	(151)	-	(130)		431	452	(21)
Dividend per local government ownership	-	23,020	(23,020)	23,020	-		23,020	23,020	-
Penalty	757	2,907	(2,150)	124	(528)		881	2,379	(1,498)
Compensations	2	1,565	(1,563)	124	(1,432)		126	133	(7)
Deposit at rate of 50% to Environmental protection special account	104	568	(464)	97	(327)		201	241	(40)
Other	7,364	23,755	(16,391)	(1,452)	(18,995)		5,912	4,760	1,152
Donations and sponsorships to government entities	6,835	27,985	(21,150)	26,286	7,262		33,121	35,247	(2,126)
<b>Subnational level reconciliation total</b>	<b>92,189</b>	<b>187,951</b>	<b>(95,762)</b>	<b>73,019</b>	<b>(17,286)</b>		<b>165,208</b>	<b>170,665</b>	<b>(5,457)</b>
<b>Total</b>	<b>3,282,724</b>	<b>3,324,486</b>	<b>(41,762)</b>	<b>371,051</b>	<b>293,050</b>		<b>3,653,775</b>	<b>3,617,536</b>	<b>36,239</b>

# 5

## THE EXTRACTIVE INDUSTRIES IN MONGOLIA



## 5 THE EXTRACTIVE INDUSTRIES IN MONGOLIA

### 5.1 LEGAL FRAMEWORK AND FISCAL REGIME (REQUIREMENT 2.1)

#### 5.1.1 Legislation relating to the extractive industries

This section contains an overview of the main legislation relevant to the extractive industries in Mongolia.

##### 5.1.1.1 Current situation of the legislation system for mining, oil and nuclear energy sector

Geology, mining, petroleum and heavy industry sectors are governed by around 30 laws including laws on: Minerals, Subsoil, Petroleum and Petroleum Products, Prohibiting Mineral Exploration and Production Near Water Sources, Protected Areas and Forests, Regulations for implementing the Law on Prohibiting Mineral Exploration and Production Near Water Sources, Protected Areas and Forests, on Industrial and Technology Parks, Nuclear Energy, on Common Minerals, Licensing of Business Activities, and 40 relevant other regulations. However, there are a few instances of inconsistencies between the laws and regulations, and unclarity in implementation mechanisms.

When global trends in mining are increasingly developing towards sustainable, mutually beneficial, and green development movements, there is a greater need for more tailored regulations, particularly on matters such as public services, the sustainable investment environment, and local community engagement.

According to Corruption Risk Assessment in Mining Sector of Mongolia (2016), main reasons for potential corruption risks occurring between the phases of “license granting” and “exploitation” were identified by legal documents in mining sector as follows: 1 – Overly generalized and lack of specialized regulations, 2 – unclear requirements of any regulations, 3 – related rules and procedures are not adequately based on professional methodologies.

Mongolia was assessed as “satisfactory in governance performance” in the 2017 Resource Governance Index Report issued by Natural Resource Governance Institute. However, there were component scores 54 of 100 in Revenue Management, 40 in “Governance of state-owned enterprises” and 42 in Sovereign Wealth Fund or Fiscal Stability Fund of Mongolia, respectively. In other words, the country scored lower than average in these key components and exhibit weak resource governance.

The Law on Minerals and the Law on Subsoil do not provide a comprehensive legal framework for all relations across mine lifecycle, and some of the provisions are not in line with latest development trends. The Minerals Law primarily regulates the relations concerning “licensing”, whereas those relations concerning the investment in and construction in the mining sector, exploitation, processing, production, rehabilitation, and mine closure are out of fair inclusion in the law, so there are still room for advancing and reforming the applicable laws and regulations.

#### Law on Transparency in the Minerals Resources sector, and its concepts

In the Implementation plan of the Government Action Program for 2016-2020 there is a measure to “develop and approve the Law on transparency in the mineral resources sector”. Accordingly, a working group was set up to draft the law, and in accordance with the Law on Legislation “Preliminary survey of needs and requirements, a concept for the law, and the law draft have been completed in 2020.

The mineral sector alone provides about 20-30 percent of Mongolia's GDP and has been a major source of economic growth and has a significant impact on other sectors of the economy. Based on the operations of this sector, there is a potential to strengthen the national economy, and at the same time there is persistent need to maintain comprehensive and effective oversight, analysis and reporting to ensure the sector's openness, transparency and responsibility, adequate generation of taxes to the state budget and mitigation of the negative impact on the environment and communities.

The extractive sector operates under licensing. IMF, OECD, World Bank and other international organizations involved in anti-money laundering and financial sanctions consider the mining and quarrying sector of the mineral resource rich countries are to be at high risk of corruption, bribery, money

laundering and other financial crimes. Moreover, reducing unfair competition and dominance of this sector will contribute to the reducing social inequality. The past cases of bribery among state-owned companies and enterprises through procurement at unrealistic prices and consequent significant damage to the country have highlighted the need for Mongolia to take critical steps to ensure transparency and comprehensiveness of the sector's information and reporting.

Regulations aimed at ensuring transparency in the global mineral sector are often code-based, which contain comprehensive information on natural resources such as minerals, deep processing, oil, gas, land and water. Moreover, the legislative acts create an environment where licenses of the legal entities operating in this sector, entities' ownership, beneficial owners, the contracts, the income, the tax payment, the local relations, the socio-economic benefits and impacts are regulated in a very detailed and coordinated manner and assuring stakeholders engagement in decision-making in free, prior and informed manner.

Mongolia has taken systematic steps to improve transparency in this sector and, along with 52 countries, has commitment to the international community to ensure the transparency of contracts and beneficiaries in the extractive industries by joining the Extractive Industries Transparency Initiative (EITI) in 2007 and the Open Government Partnership in 2013 that are aimed to improve the governance of the extractive sector, increase economic efficiency, and hold the public and private sectors accountable. In 2006, the Government of Mongolia issued Resolution No. 1 to support the Extractive Industries Transparency Initiative, and with the establishment of the National Council responsible for organizing and overseeing the implementation of the initiative Mongolia has officially launched the International Extractive Industries Transparency Initiative in the country. The council consists of the representatives from the governmental and non-governmental organizations and companies' representatives. Although many progressive efforts have been initiated and implemented to meet commitments under the EITI, the current legal environment with amendments to the relevant laws, introduction of new procedures and forms is still insufficient.

For this reason, there is a need to pass an independent law, create a database that provides comprehensive information on the sector, and define in details the rights, duties and responsibilities of stakeholders. Furthermore, as the number of licenses increases and the mining industry expands, the issue of accountability is the communities, and the public are becoming more critical regarding the mining. Building mutual understanding between the government, businesses and local communities will reduce the risk of investment in the extractive sector and prevent the mining sector development stagnation, which will accelerate the overall economic growth.

In addition, the extractive industry transparency is one of main drivers for delivering the economic benefits of the extractive sector to the people by redistributing the taxes generated from the sector to the citizens through the National Wealth Fund, support people's knowledge and obtain support from the public and increase the economic efficiency of mining.

The General Tax Law was revised in 2019 to eliminate the risk of tax evasion in the indirect transfer of mineral licenses as well as information of "beneficial owner" of the license-holder entities by registering these data by the relevant government entities.

The Chapter 5 of the Administrative Law, adopted in 2016, sets out the legal basis for administrative contracts and related relations. Now to adhere this law, there is a need to align the process of disclosure of certain types of contracts established under the Law on Minerals and other relevant laws with these provisions.

### **Draft Law on the Legal Status of Industrial and Technology Parks**

In March 2019, the Government submitted to the Parliament a draft law to amend the Law on the Legal Status of Industrial and Technology Parks. Under the Resolution #21 dated 2019 of Standing Committee on Economics of the Parliament a working group was set up to prepare the draft law for the initial discussion. The "Draft Law on Amendments to the Law on the Legal Status of Industrial and

Technology Parks” was included in the schedule of the legal documents to be discussed by the Parliament in 2020.

### **Draft Law on the National Wealth Fund**

The MMHI plans to submit a “Draft Law on the National Wealth Fund” in 2021.

### **Legal environment for artisanal mining**

The Sustainable Artisanal Mining Project was implemented in 2005-2019 with technical assistance from the Government of Switzerland. The project’s main result was creation of the legal environment for artisanal and small-scale mining, organizing the small miners’ partnerships and cooperatives, and Gold certification centers were established in Darkhan-Uul and Bayankhongor aimags. In cooperation with the Swiss Agency for Development and Cooperation, the “Responsible Artisanal Mining” forum was organized in November 2019 as part of the project closure. In addition to the project closure presentations, the forum organized consultations regarding the policy on artisanal and small-scale mining and its impacts, and issues which can be addressed as a priority.

At the initiative of the Mongolian National Mining Association, the “Unite Responsibly” campaign was launched in cooperation with the MMHI to integrate the Mongolian mining companies into the “Voluntary Code of Practice on Responsible Mining”. Companies such as Aspire Mining LLC, Baganuur LLC, Oyu Tolgoi LLC, SouthGobi Sands LLC, Terra Energy LLC, Energy Resources LLC, and Erdenet Mining Corporation have joined the campaign. Under the MoU, the parties will collaborate for developing responsible mining by defining, introducing, promoting, and following the best practices of sustainable development of mining sector in Mongolia.

#### **5.1.1.2 Main laws regulating the sector, and recent amendments**

The below is chronology of the main laws’ enactment and recent amendments:

- The Minerals Law, 2006 (amended twice in 2017, and amendments in 2018, 2019)
  - **Amendments in 2019:** Enabled registration and reporting of cooperatives and partnerships operating artisanal mining without license, including entities who purchased, exported minerals from them, generating royalty payment from concentrators and processing plants without exploitation license. Moreover, the amendment enabled an increase of the country’s foreign exchange reserves without reduction in the amount of gold sold to the Bank of Mongolia and growth of the budget revenue through the expansion of tax base and full collection of royalties.
- Law on Controlling the Circulation of Explosives and Explosive Devices, 2013, (2020 revision in 2020)
- The Law on Subsoil, 1988
- The Law on Common Minerals, 2014
- The Law on Nuclear Energy, 2009
- The Law on Petroleum, 2014 (revision in 2017)
- The Law on Petroleum products, 2005
- The Law on Prohibiting Mineral Exploration and Production near Water Sources, Protected Areas and Forests, 2009
- The Law on Regulations for the Compliance of the Law on Nuclear Energy, 2009
- The Law on Regulations for the Compliance of the Law on Prohibiting Mineral Exploration and Production Near Water Sources, Protected Areas and Forests, 2009, 2015



### 5.1.1.3 Improving legal environment of extractive sector: key regulations (as the 1<sup>st</sup> half of 2020; 2019)

Table 5.1 Legal regulations of the extractive sector

Article No.	Date	Main articles and interpretation
<b>89</b>	2019	Government resolution: Demark land areas in the state reserves prior developing 1: 50000 scale geological maps funded by the state budget during the period 2014-2020 Therefore, this resolution enables the government to demark all land areas covered by the basic geological surveys funded by the state budget as the state reserved areas.
<b>176</b>	2019	Government resolution: Establish a project unit to study rare earth elements, improve the legal environment for exploration, mining and use of rare earth elements, perform calculations of economic efficiency of the deposit with registered reserves, and cooperate with developed countries to use the elements for economic benefits.
<b>313</b>	2019	Government resolution: “General Safety Procedures for Blasting Operations”.
<b>355</b>	2019	Government resolution: Develop “Procedures for artisanal and small-scale mining” aimed at regulating artisanal and small-scale mining and to stop illegal mining.
<b>178</b>	2019	Government resolution: Petroleum registration and accounting procedures.
<b>214</b>	2019	Government resolution: “National Programme on Heavy Industry Development” (2019-2023) – Build the infrastructure of the Mongolian economy, address the problems facing the heavy industry sector, attract investment to the sector, and increase the production of value-added end products.
<b>284</b>	2019	Government resolution: The location of the copper concentrate processing plant was identified, and 466 hectares of land were taken for the special state needs area. The state shall own at least 10 percent of the total shares of the production free of charge without any investment costs.
<b>A/193</b>		MMHI Minister’s order: Guidelines for applying the classification of mineral resources and deposits to a particular type of minerals (uranium-thorium, coal, iron, gold, placer deposits, fluorspar, copper and petroleum)
<b>A/16</b>	2019.01.21	MMHI Minister’s order: “Approval of the regulations”, Appendix 1: Commissioning of mines, quarries and concentrators, Appendix 2: Compendium of documents required for commissioning of mines, quarries and concentrators, Appendix 3: Compendium of documents required for commissioning of a concentrator and processing plant.
<b>A/181, A/458</b>	2019.08.28	Joint order of the ministers of MMHI and Ministry of Environment and Tourism on “Rehabilitation and closure procedures for mines, quarries and concentrators” Appendix 1: Rehabilitation and closure procedures for mines, quarries, and concentrators, Appendix 2: Documents to be attached to the closure management plan
<b>A/205</b>	2019.10.17	MMHI Minister’s order: “Requirements for concentrator and operating procedures”
<b>A/231, A/368</b>	2019.12.11	Joint ordinance of the Ministers of MMHI and MLSP, “Revisions to the Safety Procedures of Open Pits”
<b>A/37</b>	2020.03.5	Minister of MMHI order: “Approval of the form and instructions for completion” and form on “Report on the Performance of Business Entities and Organizations Engaged in Mineral Exploration, Mining and Production for 20 ... (3-EITI-1)” as Appendix 1, its completion instruction under Appendix 2,

		“Report of Petroleum Exploration and Production Entities for 20.. (3-EITI-2)” form under Appendix 3, its completion instructions under Appendix 4.
<b>A/87</b>	2020.04.27	Minister of MMHI “Procedure for sorting, collecting, transporting, recycling, reusing and disposing the mining waste”
<b>A/155, A/132</b>	2020.05.29	Ministers of MMHI and MLSP: “General Safety Procedures for Mineral Concentrating and Processing Plant”
<b>A/180</b>	2019	MMHI Minister’s order: Action Plan for the Implementation of the National Heavy Industry Development Program (2019-2023)
<b>C/02</b>	2019	Head of Mongolian Agency for Standardization and Metrology’s order: “Methodology for calculating the normal loss of liquefied combustible gas Standard MNS 6742: 2019”

#### 5.1.1.4 Other legislations regulating the sector (summary)

**Table 5.2 Other legislation of the sector**

Environmental	Budget and Taxation
The Law on Air pollution charges, 2010 The Law on environmental protection, 1995 The Law on environmental impact assessment, 2012 The Law on Royalty, 2012  The Law on Land, 2002 The Law on land fee, 1997 The Law on Forest, 2012 The Law on Water pollution charge, 2012	The Law on Corporate Income Tax, 2006  The Law on Customs tariff and duty, 2008 The Law on Exemption of Customs duty, 2017 The Law on Exemption of Customs Duty and Value Added Tax, 2012 The Law on Future Heritage Fund, 2016 The Law on Value Added Tax, 2006, 2015 The General Tax Law, 2008 The Law on Fiscal Stability, 2010 The Law on Immovable Property Taxes, 2000 The Law on Stamp duty, 2010
Liabilities	Business relations and business environment
The Law on Auditing, 1997, 2015 The Law on Infringement, 2017 The Law on investigating and resolving infringements, 2017 The Law on Accounting, 2015  The Law on the Prevention of Conflict of Interest and the Regulation of Public and Private Interests in the Public Services, 2012	The Law on Licensing of Business activities, 2001 The Law on General Administration, 2015 The Law on Investment, 2013  The Law on Development Policy and Planning, 2015  The Law on Business Entities Operational Special License, 2001

### 5.1.2 State Policies on the Extractive Industry

#### 5.1.2.1 State policy on Mining Sector Development until 2025

The State policy in the mining sector is aimed at protecting genuine national interests by developing transparent and responsible mining based on the private sector and creating an economy with diversified sectors and the balanced structure within short-to- middle term.

The objectives of the State policy is to enhance quality of exploration, mining, processing of minerals, produce the value-added products and strengthen the competitiveness at the international market through creating the stable environment for its investments and supporting the environmentally-friendly advanced equipment, technology, and innovations.

This policy document intends to define the principles adhered in the mining sector and the sources of growth and improve governing systems. These principles and governing systems will be mainstreamed throughout the sector legislations, middle and long-term programs, sub-programs, and projects.

### 5.1.2.2 State policy on the development of petroleum sector (2018-2027)

In order to increase investments for the sector, and to improve capacity and qualifications of human resources “The State policy to adopt for the petroleum sector until 2017” was approved by the Government resolution #169 dated 2018.

The major objectives of the State policy on the development of petroleum sector are to intensify petroleum prospecting and exploration, increase petroleum reserves, increase extractions in the petroleum sector of Mongolia, construct a refinery plant and ensure reliable supply of petroleum products.

In order to ensure effective implementation of 6 main objectives reflected in this policy document, the “Action plan to implement the state policy on oil sector development until 2017” was adopted by MMHI minister’s order #A/163 dated 2019.

This revised policy will be realized in two phases, namely the 1<sup>st</sup> phase covering the period of 2018-2027: deepen the socio-economic impacts and enhance the sector’s competitiveness through the streamlining the state policies and legislative framework for the petroleum sector, improving infrastructure, increasing investments, and establishing a fully or partially state-owned petroleum company; the 2nd phase covering the period of 2012-2027: build solid foundations of the national petroleum sector to ensure stable supply of the petroleum products through the intensification of the prospecting and exploration activities in the areas with strategic importance; increasing the petroleum reserves and its extraction; operationalizing oil refinery plant; and strengthening the capacity of the sector’s human resources.

### 5.1.2.3 State policy for radioactive minerals and nuclear energy

The objectives of the State policy on the radio-active minerals and nuclear energy are to commence extensive use of nuclear energy for economic and social benefits and produce nuclear energy based on non-toxic for human health, ecologically clean, environmentally-friendly technologies through the deepening investigation of the reserves of these minerals and to becoming one of the leading countries which mine, process and export such minerals for peace intentions.

## 5.1.3 The legislation related to EITI implementation in Mongolia

Within the scope of implementing the EITI in Mongolia, amendments were introduced to the following six laws, namely the Minerals Law (2006), the Law on Nuclear Energy (2009), the Petroleum Law (2014), the Law on Common Minerals (2014), the Law on Infringement (2017), and the Law on Investigating and Resolving Infringements (2017).

The following policy documents were adopted in line with the EITI implementation:

- State Minerals Policy, 2014 sets out foundations for introducing the international initiatives on promoting transparent and responsible mining and institutionalizing the economic and social impact assessments;
- “The National Program on Combating Corruption” (2016) sets out provisions to ensure transparency of extractive industry;
- The Action Plan for the National Program on Combating Corruption (2017) approved by the GOM order includes 6 different measures to be implemented in two stages during the period of 2017-2023.

The GoM issued the order no.381 of 2013 and approved the 2nd stage of the National action plan for Open Governance Partnership (2016-2018) aimed at ensuring the transparency on information of beneficial ownership to use the natural resources.

The Order no.01 of 2006 issued by the GoM states the government commitments to join the Extractive Industry Transparency Initiative (EITI) and other two orders (the Order no. 222 of 2012 and the Order no. 263 of 2017) of the GoM assigns the relevant stakeholders to implement the specific actions towards ensuring transparency in extractive industry. The GOM Orders no. 190 of 2010

assigned the governors of capital city, aimag, soum and districts to report on annual basis and inform public about taxes, fees, charges, and penalties transferred by minerals exploration and mining license holder to local budget, and cash or in-kind donations provided to the Governor's secretariat office of capital city, aimag, soum and districts or any budget organization. The template for cooperation agreement between Minerals license holder and local community administration was approved by Order no. 179 of 2016 by GoM; and the template for Product Sharing Agreement was approved by Order no. 104 of 2015 by GoM, respectively.

Over 15 regulations, procedures, memorandum, and plans were approved by Decree of the Prime Minister, and orders and resolutions of the respective Ministers in order to regulate sector specific activities.

By the Order A/37 dated 2020 "Approval of the form and instructions for its completion" of MMHI minister, "Report on the activities of business entities and organizations engaged in mineral exploration, mining and production for 20 ... (3-EITI-1)" form was approved by Appendix 1, and "Report of Petroleum Exploration and Production Entities for 20.. (3-EITI-2)" was approved by Appendix 3, instructions for their completion were approved by Appendix 4.

Within the framework of this regulation, business entities and organizations engaged in mineral exploration, mining and production shall prepare their activity reports accurately with these forms and submit to the Mongolia Extractive Industries Transparency Initiative (EITI) e-reporting system by April 15 of the following year. Mongolia EITI secretariat shall submit electronically the reconciliation report of entities to the National Statistics Office before May 15<sup>th</sup>.

In addition, entities engaged in oil exploration and production shall also prepare their operating reports accurately and submit electronically to the EITI e-reporting system before April 15<sup>th</sup> of the following year. Similarly, Mongolia EITI secretariat shall submit electronically the reconciliation report of entities to the National Statistics Office before May 15<sup>th</sup>.

## 5.1.4 Fiscal policy and regulations (Requirement 2.1)

### 5.1.4.1 Budget revenue collection and its allocation

**Budget** means the financial instrument to implement socio-economic objectives, which represents the balance of income and expenditure including the total revenue to be collected in treasury fund for the current year and its allocation activities.

**Budget revenue** consists of tax and non-tax revenues and grants. Equilibrated revenue refers to total budget revenue net of Stabilization Fund and Future Heritage Fund.

Tax revenues comprise taxes, fees and payments as articulated by the General Tax Law. Nontax revenues comprise:

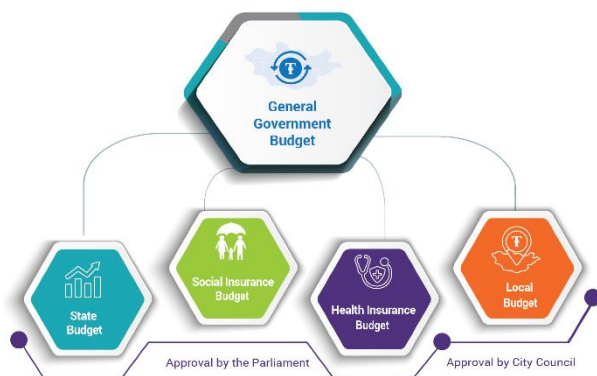
- (i) dividends from fully and partially state and locally owned enterprises for the share of state and local property;
- (ii) royalties for the use of state and local property;
- (iii) proceeds from privatization, sale and renting of state and local property;
- (iv) fines and penalties;
- (v) operational revenue from budget entity;
- (vi) loans and grants to the Government; and
- (vii) other types of revenues generated into the budget in accordance with respective laws.

**Budget expenditures** consist of recurrent and capital expenditures. Budget expenditures are consumed for implementing the state main functions such as education, health support services, national security, infrastructure, and social welfare.

Mongolia is a country with a general budget. The general budget of Mongolia comprises the state budget, local budgets, the budget of the Social Insurance Fund and the budget of the Health Insurance Fund. The local budget is comprised of aimag, capital city, soum and district budgets. The national

Parliament must discuss and approve the State budget, the budget of the Social Insurance Fund and the budget of the Health Insurance Fund, whereas local budget requires approval from City Council of the relevant jurisdiction.

**Figure 5.1 Structure of the budget**



**State budget** means a budget generated, allocated and expended by the President, the Parliament, the Government of Mongolia, the Ministries, and their agencies. State budget accounts for approximately 80% of the National budget.

**Local budget** means a budget approved by Citizens' Representative Khurals and Governors of aimag, capital city, soums and districts are responsible for collection of revenues and for expenditure relating to their jurisdiction. The Parliament approves the financial support/transfer to local budget or transfers from local budget to the state budget.

Source: Citizens Budget-2018, MoF.

**The Social Insurance Fund budget.** Income for the social insurance fund shall come from social insurance premiums paid by employee and employer according to the Social Insurance Law and funding allocated from the state budget. The fund shall be spent to finance social benefits and pensions as specified in the Social Insurance Laws.

**The Health Insurance Fund budget.** The purpose of the Fund is to finance health support services with health insurance premiums paid by the state, citizens and organisations according to the Health Insurance Law.

#### 5.1.4.2 Budget laws

The main legislation applicable to the national budgeting consists of the Constitution of Mongolia, the Fiscal Stability Law, the Budget Law, and other legislative acts enacted in accordance with the Budget Law.

The fiscal policy of Mongolia is regulated by the following laws.

**Budget Law.** The general budget is regulated by the Budget law. The purpose of this law is to establish the principles, systems, composition, and classification of the budget; to implement specific provisions of the budget; to define the rights, duties and responsibilities of bodies that participate in the budget process; and to regulate the procedures applying to budget preparation, budget approval, spending, accounting for, reporting and monitoring.

**Fiscal Stability Law.** The purpose of the Law is to determine and implement budget requirements and management principles to ensure fiscal stability; determine the rights and responsibilities of government organisations in monitoring fiscal stability; create renewable wealth; make investments that support economic development; and generate financial savings from mineral revenues. The Law consists of two major principal sections

- The percent of balanced loss in the future, permitted number of debts, percentage of expenditure increase, and estimation process of budget revenues were clarified by this law including:
  - The consolidated budget revenue shall be estimated by using a structural revenue policy.
  - The structural balance shall not exceed 2% of GDP of the current fiscal year.
  - The percent of increase in total expenditure of the National budget of particular year shall not exceed the greater of i) the percent of increase in non-mineral GDP of that year or ii) the average increase percentage of non-mining GDP of the previous consecutive 12 years,



- The present value of the Government debt shall not exceed 60% of GDP of that fiscal year (*this article is re-edited by the amendment law dated Sep 9, 2016*).
- The budget policy shall be defined by the mid-term fiscal framework statement approved in accordance with the special requirements of budget. This framework statement shall involve the financial objectives of Government, the expected budget performance, macro-economic (employment level, Consumer Price Index, etc.) projections and budget projections (budget balance, budget investment) of three subsequent consecutive years.

**Law on Special Funds of Government.** The purpose of this law is to determine the type of Government special funds and to regulate relations with respect to generating, expending, reporting of performance, and monitoring of such funds.

**The Law on Future Heritage Fund.** The Law on Future Heritage Fund was enacted in 2016 and became effective on January 1, 2017. The purpose of the law is to:

- Establish the Future Heritage Fund to implement the principle of balanced distribution of revenues from non-renewable minerals to the present and future generations.
- Regulate relations may arise with respect to setting out the organizational system and structure which is responsible for revenue collection, wealth distribution and management, performance reporting and monitoring of the Fund.
- Build up sustainable and effective system for macro-economic governance.

#### 5.1.4.3 Systematic disclosure (Requirement 2.1.a)

Information on fiscal policy, the level of budget allocation, local transfers (via joint local development fund or directly to aimag), and the legal environment for mandatory local payments must be disclosed on the Ministry of Finance's websites such as [www.mof.gov.mn](http://www.mof.gov.mn), [www.iltod.gov.mn](http://www.iltod.gov.mn), <https://shilendans.gov.mn>.

For the purposes of regular provision of knowledge and information about the budget to citizens, increasing citizens' control and participation in the budget and improving transparency, the Ministry of Finance has been preparing the "Citizens' Budget" brochure since 2018 in the form of "infographics" or "pictorial information" as an example of Mongolia's draft budget and budget execution information. The brochure is available at [www.mof.gov.mn](http://www.mof.gov.mn), [www.iltod.gov.mn](http://www.iltod.gov.mn) and social media pages of the Ministry of Finance.

## 5.2 MINING SECTOR

### 5.2.1 Overview of Mongolian minerals

As of December 31, 2019, 1,772 registered companies held licenses to conduct mining and exploration operations for minerals on 2,796 licensed areas. The mining sector accounted for 23.5% of Mongolia's GDP on average of the last three years. In 2019, the share of GDP from the sector has increased by 1.2% compared to 2018.

The share of mining sector in total industrial production of Mongolia was 72.1% on average of the last 3 years. In 2019, this indicator has increased by 0.2% compared to 2018.

The Table 5.3 summarizes the key statistics of mining sector for the last 3 years.

**Table 5.3 Key indicators of mining industry**

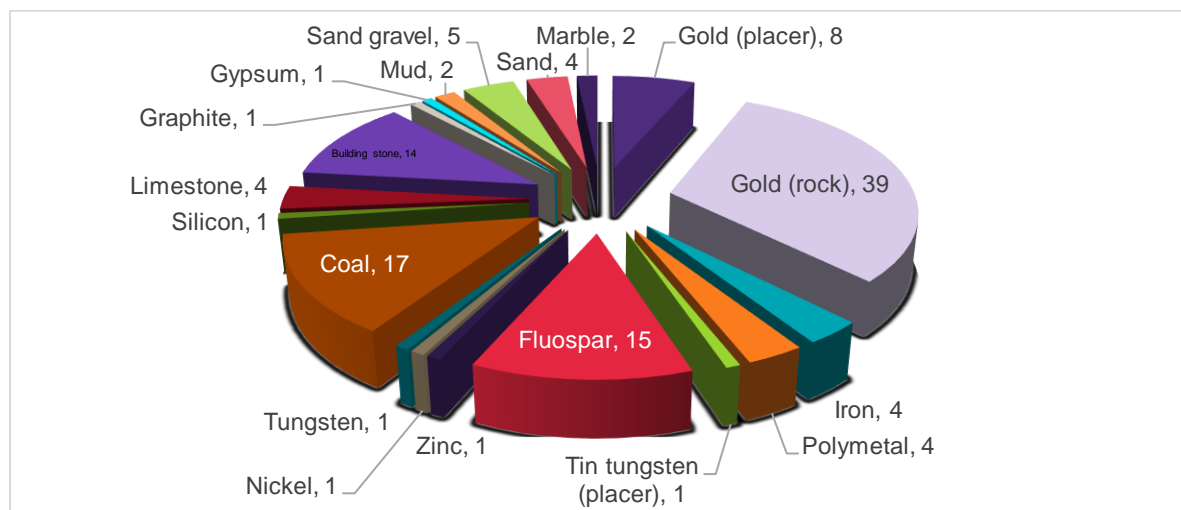
	Item	2017	2018	2019
1	<b>Number of valid licenses</b>	<b>3,369</b>	<b>3,078</b>	<b>2,796</b>
	Number of mining (exploitation) licenses	1,624	1,673	1,670
	Number of exploration licenses	1,745	1,405	1,126
2	<b>Valid licensed area</b>	<b>10.7 million ha</b>	<b>8.7 million ha</b>	<b>7.3 million ha</b>

	Licensed mining area	1.6 million ha	1.6 million ha	1.6 million ha
	Licensed exploration area	9.1 million ha	7.1 million ha	5.7 million ha
3	<b>Percentage share of licensed area in total territory, of which:</b>	<b>6.80%</b>	<b>5.50%</b>	<b>4.80%</b>
	Percentage share of licensed mining area	1.00%	1.00%	1.00%
	Percentage share of licensed exploration area	5.80%	4.50%	3.80%
4	<b>Percentage share percentage of mining sector in GDP</b>	<b>23.5%</b>	<b>23.8%</b>	<b>23.7%</b>
5	<b>Percentage share of mining sector in total industrial production</b>	<b>72.6%</b>	<b>71.9%</b>	<b>71.8%</b>
<b>Production of major mineral commodities</b>				
6	Copper concentrate (by metal recovery)	1,317.1 thous. t	1,310.8 thous.t	1262.4 thous.t
	Molybdenum concentrate (by metal recovery)	5,616.7 ton	5,486.1 ton	5302.8 ton
	Gold	19,846.0 kg	20,655.2 kg	16,251.3 kg
	Fluorites concentrate	55.2 thous. t	80.7 thous.t	47.5 thous.t
	Iron ore concentrate	3,675.0 thous. t	3,405.5 thous.t	3,386.4 thous.t
	Zinc concentrate	82.7 thous. t	87.9 thous.t	83.1 thous.t
<b>Key exporting mineral commodities</b>				
7	Iron ore concentrate	6,257.8 thous. t	7449.1 thous.t	8448.8 thous.t
	Copper concentrate	1,472.2 thous. t	1436.7 thous.t	1403.6 thous.t
	Zinc ore, concentrate	118.2 thous.t	123.9 thous.t	134.8 thous.t
	Raw or semi-processed gold	14,554.5 kg	3,431.9 kg	9,069.5 kg
	Coal	33,400.1 thous.t	36,671.4 thous.t	36,809.10 thous.t
8	<b>Coal production</b>	<b>49,480.3 thous.t</b>	<b>54,572.3 thous.t</b>	<b>57,128.80 thous.t</b>
9	<b>Coal beneficiation</b>	<b>41,904.6 thous.t</b>	<b>45,741.9 thous.t</b>	<b>47,047.80 thous.t</b>
10	<b>Geological survey works conducted by state budget</b>	<b>12.3 MNT billion</b>	<b>13.3 MNT billion</b>	<b>24.6 MNT billion</b>

Source: Mineral Statistics Information 2017, 2018 & 2019, Mineral Resources and Petroleum Agency of Mongolia, MMHI; Foreign trade bulletin 2018&2019, Mongolian National Statistics Office

Deposits registered with the Mongolian Mineral Resources Reserve Fund in 2019 (Chart 5.2)

**Figure 5.2 Deposits registered with Mongolian Resources Reserve Fund**



Source: Mineral Statistics Information 2019, page 15, Mineral Resources and Petroleum Agency of Mongolia, MMHI

### 5.2.2 Uranium overview

The Law on Nuclear Energy was approved in 2009 and at the time, there were 27 entities were holding 164 radioactive exploration and exploitation licenses which cover 2.6% of Mongolian territory. As of 2019, there were 6 entities with 14 uranium licenses.

As of 2020, there are 8 entities with 9 radioactive minerals and 7 exploration licenses registered at MRPAM. There were uranium mining licenses and 14 uranium exploration licenses from 8 companies. This covers 0.13% of Mongolian territory, which is 20 times less than in 2009.

As of July 2020, MRPAM has registered 192,241.02 tonnes of geological resources at 13 mines (Dornod, Gurvanbulag, Ulaan, Nemer, Mardain gol, Kharaat, Khaikhan, Gurvansaikhan, Ulziit, Dulaan-Uul, Zoovch-Ovoo, Enger ar, Dalt), which were also registered at the meeting of the Minerals Professional Council.

### 5.2.3 Deposits of strategic importance

Article 9, Clause 1.5 of the Minerals Law states that Government will deliver to Parliament its proposal to settle the percentage and amount of the strategically important deposits of minerals to be owned by the State. The definition of a strategically important mineral deposit refers to any deposit which might have an impact on the national security, national economy and social progress of the country and region, or the deposits which are capable to account for more than 5% of GDP of the particular year.

The minerals of strategic importance in 16 deposits are adopted by the Appendix 01 of Parliament Resolution 27 dated 2007; and Resolution No 11 dated January 23, 2015 as follows:

**Table 5.4 Deposits of strategic importance**

Deposits	Types of minerals	Location	License holders	Ownership %age	
				State	Private
<b>Asgat</b>	Silver	Nogoonuur, Bayan-Ulgii	Erdenes Mongol LLC	100	0
<b>Baganuur</b>	Coal	Baganuur, UB	Baganuur JSC	75	25
<b>Boroo</b>	Gold	Bayangol, Selenge	Boroo Gold	0	100
<b>Burenkhaan</b>	Phosphorite	Alag-Erdene, Khuvsgul	Sutaikhen tso LLC	0	100
			Topruonkhentso LLC		
			Talst Margad LLC		
<b>Gatsuurt</b>	Gold	Mandal, Selenge	Centerra Gold Mongolia LLC	Under discussion	
<b>Gurvanbulag</b>	Uranium	Dashbalbar, Dornod			
<b>Dornot</b>	Uranium	Dashbalbar, Dornod			
<b>Mardai</b>	Uranium	Dashbalbar, Dornod	Adamas Mining LLC		
<b>Nariin Sukhait</b>	Coal	Gurvantes, Umnugovi	Mongolyn Alt MAK LLC	0	100
			Chinhua MAK-NS LLC		
			SouthGobi sands LLC		
			Usukh Zoos LLC		
<b>Oyu Tolgoi</b>	Copper, gold	Khanbogd, Umnugovi	Oyu Tolgoi LLC	34	66
			Entrée LLC		
<b>Tavan tolgoi</b>	Coal	Tsogttsetsii, Umnugovi	Tavantolgoi JSC	51	49
			Energy resources LLC	0	100
			Erdenes TT JSC	100	0
<b>Tumurtei</b>	Iron	Khuder, Selenge	Darkhan Metallurgical Plant	100	0
<b>Tumurtei</b>	Zinc	Sukhbaatar, SB	Tsairt Mineral LLC	0	100
<b>Shivee Ovoo</b>	Coal	Sumer, Govisumber	Shivee Ovoo JSC	90	10
			Erdenes Mongol LLC		
			Eikusora LLC		
<b>Tsagaan Suvarga</b>	Copper, molybdenum	Mandakh, Dornogovi	Erdenes Tsagaan Suvarga	0	100
			Mongolyn Alt MAK LLC		
<b>Erdenetiin Ovoo</b>	Copper, molybdenum	Bayan-Undur, Orkhon	Erdenet Mining Corporation LLC	51	49



Under the Government Resolution No 300 dated 2018 “Demarcation of some strategically important mineral deposits”, 7 mines (Nariin Sukhait, Tavantolgoi, Shivee-Ovoo, Baganuur coal mines, and Tsagaan suvarga’s copper and molybdenum, Burenkhaan’s phosphorite, Erdenet’s copper and molybdenum) were demarcated.

## 5.2.4 Mineral reserves of Mongolia

The MRPAM is responsible for registering and reporting the mineral reserves of Mongolia. The following table summarizes the details of mineral reserves registered with the Mongolian State Mineral Reserve Fund for the last 2 years.

**Table 5.5. Mineral reserves, by years**

№	Types of deposits	Unit of measurement	2018		2019	
			Ore/concentrate	Metal	Ore concentrate	Metal
1	Gold (rock)	Thous.t	6,537.9	18,697.9	48,058.5	63,903.9
	Silver	t	-	-	-	265.3
	Blue lead	Thous.t	-	-	-	119.5
	Zinc	Thous.t	-	-	-	201.9
2	Gold (placer)	kg	5,140.2	4,600.6	4,049.2	3,621.6
3	Iron	Thous.t	44,969.8	18,287.9	15,545.9	-
	Iron	Thous.t	-	-	-	4,992.3
	Zinc	Thous.t	-	-	-	70.3
4	Polymetal	Thous.t	167,692.3	-	11,907.1	-
	Copper	t	-	51,909.0	-	1,284.8
	Zinc	t	-	1,174,190.0	-	94,319.7
	Blue lead	t	-	606,274.0	-	23,127.1
	Gold	kg	-	512,904.0	-	871.1
	Silver	t	-	132,224.9	-	91.3
5	Tin tungsten (placer)	t	-	-	-	-
	Tin	t	-	-	-	547.7
	Tungsten	t	-	-	-	75.4
6	Tungsten (placer)	t	-	-	-	-
7	Tungsten	Thous.t	36.6	1.4	74.9	965.3
8	Rare elements of earth	Thous.t	356.8	125.2	-	-
9	Mixed Copper molybdenum	Thous.t	55,871.2	-	-	-
	Copper	t	-	149.1	-	-
	Molybdenum	t	-	2.2	-	-
10	Fluorspar	Thous.t	6,932.0	1,239.1	3,538.3	1,572.3
11	Uranium	Thous.t	51,583.2	15.5	-	-
12	Zinc	Thous.t	-	-	3,273.9	-
	Zinc	Thous.t	-	-	-	308.6
	Blue lead	Thous.t	-	-	-	16.3
	Silver	kg	-	-	-	87.8
	Iron	Thous.t	-	-	-	636.7
13	Nickel	Thous.t	-	-	42,591.0	-
	Nickel	Thous.t	-	-	-	78.8
	Cobaltite	Thous.t	-	-	-	3.8
14	Coal	mln t	9,662.7	-	5,151.2	-
15	Silicon	Thous.t	-	-	182.1	-
16	Limestone	mln t	52.7	-	130.9	-
17	Building stone	Thous.t	-	-	336,337.7	-
18	Graphite	Thous.t	-	-	347.4	-
19	Gypsum	Thous.t	-	-	683.3	-
20	Mud	Thous.m3	-	-	3,796.4	-
21	Sand gravel	Thous.m3	-	-	6,571.6	-
22	Sand	Thous.m3	-	-	543.2	-
23	Marble	Thous.m3	-	-	81,596.8	-

Source: Mineral Statistics Information 2019, page 15, Mineral Resources and Petroleum Agency of Mongolia, MMHI

The list of mines approved in 2019 by Minerals Professional Council and minerals movement report are deemed to be confidential and not disclosed under MRPAM Head's Order No A/72 dated May 23, 2018.

### 5.2.5 Small-scale mining

#### Artisanal or small-scale mining

An artisanal or small-scale mining means an (usually illegal) activity of mining conducted by individuals (using manually intensive methods), typically organized in a cooperative, on the territory of Mongolia. Given that small-scale mining is seasonal, unsustainable and in view of the lack of official statistical data, in this report the small-scale mining is presented separately from the mining sector overview of Mongolia.

Within the scope of ensuring the implementation of the "Regulation on artisanal and small-scale mining" approved by the Government Resolution No. 151 dated 2017, mining activities are conducted at 616.42 ha area of 178 units covering 17 aimags, 34 soums, 1 district of the capital city, of which total damaged area is 203.1 ha and rehabilitated area is 62.7 ha. Artisanal miners are registered at total of 178 areas including 103 areas for gold (of which 6 are non-operational), 73 areas for fluorspar, 1 area for wolfram, 1 area for gravel (non-operational). It was reported that there are 2,028 male and 861 females among 2,889 artisanal miners operating in accordance with the adopted regulations<sup>2</sup>.

#### 5.2.5.1 Legal environment

In 2014, the Government's policy on mineral sector 2014-2025 was approved by the Parliament Resolution No.18. According to this policy, the Government of Mongolia is pursuing a policy of "support artisanal miners to pursue laws to operate in cooperative forms and to improve the legal environment".

The procedure on Small-Scale Mining was amended by Resolution No.151 of the Government in 2017. This amended regulation aims to contribute positively to the mining sector by transferring the small-scale mining activities into more formal sector via creating the cooperatives to engage in artisanal mining activities, and at the same time to allow more accurate estimates of the contributions from small-scale mine into the nation's economy as the artisanal miners started paying their taxes under relevant taxation laws.

This resolution also stipulates to increase the capacity building and responsibilities of aimag governments. The aimag government are required to carry responsibility for producing a consolidated report covering the activities of small-scale mines in soums and for delivering the consolidated report to the MRPAM. Moreover, the Resolution No.151 requires the local authorities to ensure compliance with safety regulations for the small-scale mines (integrated safety procedures for small-scale mines approved by Order No.153 of the Head of MRPAM in 2011), joint approval of the oversight and monitoring of rehabilitation methods for small-scale mines with the central state administration body in-charge of environment protection.

As of today, the Minerals Law, the Land Law, the Law on Infringement, the Law on Cooperatives, and the Law on Partnership apply to artisanal mining activities. In addition, the following Procedures on Small-Scale Mining, the Government resolutions are applicable to this sector:

- the "Gold-2" National Programme;
- Safety Procedures for small-scale mines approved by Resolution No.20 of the Government in 2017;
- Artisanal mining security procedures adopted by the Orders No. A/115, A/123 approved by Minister of Labour and Social Protection jointly with the Minister of Mining and Heavy Industry in 2017;
- "The procedure of Methodology for rehabilitation in the area damaged due to artisanal mining" Order No. A/269, A/182 approved by Minister of Environment and Tourism jointly with Minister of Mining and Heavy Industry in 2017;

<sup>2</sup> MPRAM

- The Government Resolution No. 355 on “some measures to be taken on artisanal mining” approved in 2019.

As a result of creating a legal environment regulating the micro-scale mining activities, the artisanal miners are able to receive public services and obliged to carry out needed rehabilitation. In addition, introduction of separation processes in ore concentrating units enabled the small miners to use of mercury in gold mining.

### 5.2.5.2 Contribution from small-scale mining to the economy

Artisanal and small-scale mining is an important way for many people to escape poverty, maintain living, and also contribute to both national and local economic development. Moreover, artisanal miners started to provide a significant contribution to increasing the Mongolia Bank's official foreign exchange reserves by selling their gold through the official channels, they help to create directly or indirectly jobs for the local communities, reduce rural-to-urban migration, and increase household income. Nevertheless, Mongolia still needs to provide more efforts to convert the entire gold supply chain into the formal systems. In Mongolia, gold formal chain is complete when gold is submitted to Bank of Mongolia at the final stage of the chain.

Statistics of gold submitted by the individuals to the Bank of Mongolia is available at <https://www.mongolbank.mn/dblistgoldbom.aspx>. Artisanal miners account for an average of 49.8 percent of the total gold submitted to the Bank of Mongolia over the past three years, and the details are shown in Table 5.6:

**Table 5.6 Gold submitted by the individuals to the Bank of Mongolia**

Year	Number of individuals (multiple counted)	Gold submitted by individuals /kg/	Total gold submitted /kg/	Percentage in total gold
<b>2018</b>	472	12,507.35	21,871.51	57.2%
<b>2019</b>	437	7,366.96	15,206.54	48.4%
<b>2020 (Jan-Sep)</b>	446	9,152.11	20,963.84	43.7%

Source: Mongol Bank

### 5.2.5.3 Distribution and source of small-scale mining data

The information about artisanal mines is shared to the local communities during voluntary activities and donation campaigns. The statistics related to artisanal miners and mining activities can be obtained from the Ministry of Environment and Tourism, Sustainable Artisanal Mine Project and National Federation for Artisanal and Small-Scale Mining of Mongolia.

In 2019, this federation has member 68 organisations located in 14 aimag and it unifies 631 cooperatives covering more than 7,917 artisanal miners, including 5,411 male miners and 2,505 female miners. See further information about the activities of the federation from the website, <http://bichiluurhai.mn/>.

Please refer to the Appendix 28 (a) for the information about local member NGOs.

The National Statistics Office conducts survey of artisanal miners every 5 years and has completed the second baseline study “Integrated report of artisanal miners, 2016” in cooperation with the Swiss Development Agency. The results of this study presented integrated data on artisanal miners and other associated activities by location and their contributions to the country's economic and social development. Please visit <http://sam.mn/бичил-уурхай-эрхлэгчдийн-судалгааны-нэгдсэн-тайлан-2016>.

According to MRPAM, the total area of artisanal and small-scale mining covers 1,113.4 hectares in 2019. Refer to the Table 5.7 for the details.

**Table 5.7 Total area of artisanal and small-scale mining by hectares**

No	Aimag	Number of area	Area (ha)
1	Arkhangai	1	4.8
2	Bayan-Ulgii	2	53.7
3	Bayankhongor	57	152.3
4	Bulgan	29	126.4
5	Govi-Altai	1	5.7
6	Darkhan-Uul	6	16.6
7	Dornogovi	12	59.6
8	Dornod	2	26.2
9	Dundgovi	13	104.4
10	Uvurkhangai	20	39.7
11	Umnugovi	20	86.2
12	Selenge	52	220.1
13	Tuv	12	78.3
14	Ulaanbaatar	5	19.0
15	Khovd	4	11.3
16	Khentii	36	109.4
	<b>Total</b>	<b>272</b>	<b>1,113.4</b>

Source: Mineral Statistics Information 2019, page 7, Mineral Resources and Petroleum Agency of Mongolia, MMHI

#### 5.2.5.4 Sustainable Artisanal Mining Project in Mongolia

The Sustainable Artisanal Mining (SAM) project has been successfully implemented in Mongolia in 4 phases between 2005 and 2019 with a grant from the Swiss Development Agency to create a legal and policy environment in the artisanal mining sector, artisanal mining safety, and benefit from social protection schemes. The project goal was creating environmental-friendly legal framework, expanding more transparent sales network, and sharing experiences on responsible mining, engaging the artisanal mining stakeholders, and establishing information platform among the miners. More information is available at <http://sam.mn/>

The European Union has declared to purchase gold and other three types of minerals with available certification of origin from 2021. In addition, the Bank of Mongolia is pursuing a policy to require a purchase agreement for domestic gold purchase process. The minerals extracted by artisanal miners will be exported with a certificate of origin only. Therefore, current focus of the Sustainable Artisanal Mining Project is enhancing the transparency of the sector and improving the certification of origin and supply chain of minerals from artisanal mining activities. For this purpose, a mineral certification laboratory was established in Darkhan and Bayankhongor aimags in 2018.

The Global Environment Facility launched the planetGold project in April 2019 in Mongolia for the period of 5 years. The project team is working to create an enabling environment for a formalized Artisanal mining sector that enhances the community development, improves productivity, reduces the use of mercury and use of new and advanced technologies in the artisanal mining. More information about the project is available at <https://www.planetgold.org/mn/mongolia>.

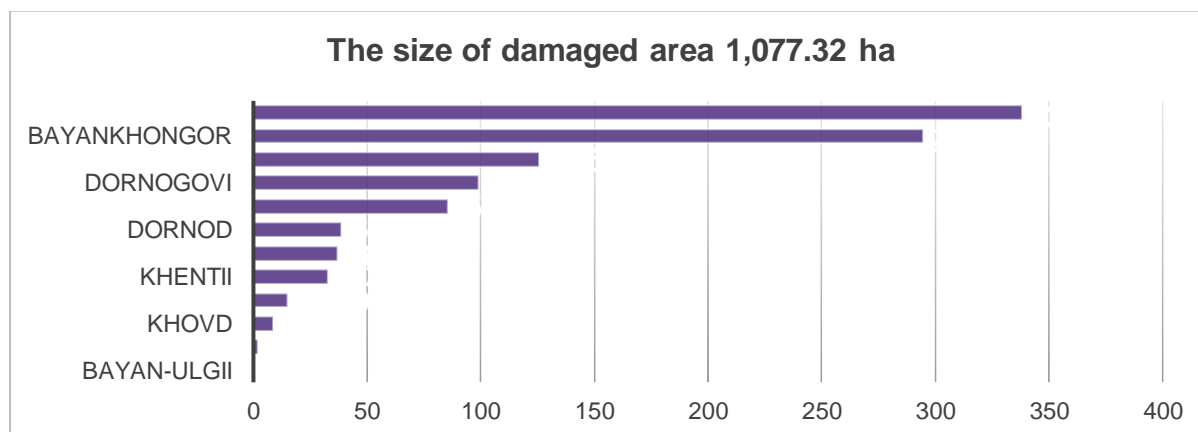
#### 5.2.5.5 Rehabilitation status

According to the regulation on artisanal and small-scale mining, the artisanal miners are required to sign an agreement with the local authority which includes Rehabilitation Plan with schedules and financing sources. Also, artisanal miners are required to carry out the technical and biological rehabilitation in the area before returning the mining area according to the "Methodology for rehabilitation in the area damaged due to artisanal mining" approved by resolution No. A/226, A/182 dated August 17, 2017, by the Minister of Environment and Tourism jointly with Minister of Mining and

Heavy Industry. Then environmental inspector's conclusion shall be submitted to the Mining Commissioning Group appointed by soum and district governors.

The following Figure 5.3 shows the size of area damaged by artisanal and small-scale mining as of November 2020.

**Figure 5.3 The size of damaged area**



Source: MET, 2000-2024 Rehabilitation Report

As of December 2020, according to National Federation for Artisanal and Small-Scale Mining of Mongolia, a total of 494.9 hectares of area has been rehabilitated, including 99.3 hectares in Bayankhongor aimag and 5.9 hectares in Bulgan aimag, respectively. The Table 5.8 presents the rehabilitation by aimags.

**Table 5.8 Artisanal mining rehabilitation, by aimag, ha**

№	Aimag	Areas rehabilitated with their own funding (ha)	Area rehabilitated with external funding and jointly (ha)	Size of rehabilitated area, (ha)
1	Bayankhongor	63.7	35.6	99.3
2	Bulgan	5.9	-	5.9
3	Govi-Altai	32.8	38.2	71.0
4	Darkhan-uul	19.0	-	19.0
5	Dornogovi	36.7	2.5	39.2
6	Dundgovi	38.7	8.0	46.7
7	Uvurkhangai	-	47.5	47.5
8	Umnugovi	26.0	2.2	28.2
9	Selenge	1.0	28.1	29.1
10	Uvs	-	10.0	10.0
11	Khovd	29.0	29.0	58.0
12	Khentii	30.9	10.0	40.9
Total		283.7	211.1	494.9

Source: National Federation for Artisanal and Small-Scale Mining of Mongolia

Appendix 28(b) shows the detailed information about rehabilitation on artisanal mining.

### 5.2.6 Mining Governance

Governance is the set of traditions and institutions that transfer and exercise the rights and powers in a national level and includes:

- Selection and replacement process of officers:
  - Voice and accountability,
  - Political stability and being separate from violence and terrorism;
- Capacity to develop and implement the government policies:
  - Effectiveness of the government action,
  - Monitoring;

- Respect of the coordinating institutions by individuals and the state:
  - Legal governance,
  - Monitoring corruption.

According to the study issued by the Economic Research Institute of Mongolia, the majority of public investment is used for imports, which is almost absorbed in the mining and construction sector.

When the commodity price is increased in the international market, the investment stream into the countries with abundant mineral resources like Mongolia tends to increase as well. In contrast, the investment to these countries reduces when coal and copper prices drop. The researchers conclude that political stability is very important for natural resource-rich countries to attract and utilise investment effectively.

Within the scope of the MMHI's goal to establish an integrated development policy and planning system for the geology, mining, oil and heavy industry sectors, mapping of minerals sector development until 2050 was outlined. Matrix of this policy is, through the implementation of relevant strategic and policy measures at the mineral resources, macro, and micro levels, focused on improving sector-wide competitiveness, increasing the productivity of mineral resources, increasing labor productivity, and ensuring the efficiency and effectiveness of resource governance and the national savings scheme.

### 5.2.7 Mining Licensing

The Table 5.9 sets out valid mining licenses for the reporting period together with size of area, analyzed by aimags and the capital city:

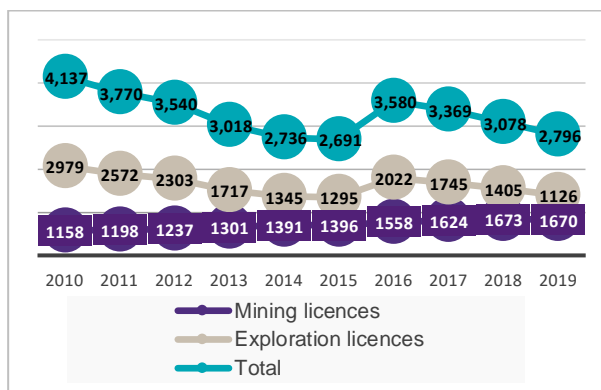
**Table 5.9 The number of valid mining licenses with size of area, by aimag and city**

№	Aimag, city	In total			Out of which:					
					Mining			Exploration		
		No. of license	Area /thousand ha/	% of licensed area to total territory	No. of license	Area /thousand ha/	% of licensed area to total territory	No. of license	Area /thousand ha/	% of licensed area to total territory
1	Dornogovi	346	1,282.1	11.7%	187	232.6	2.1%	159	1,049.5	9.6%
2	Umnugovi	178	1,113.8	6.7%	92	447.0	2.7%	86	666.7	4.0%
3	Govi-Altai	145	706.6	5.0%	50	73.5	0.5%	95	633.2	4.5%
4	Dundgovi	204	701.5	9.4%	106	182.6	2.4%	98	518.9	6.9%
5	Dornod	153	512.4	4.1%	73	63.0	0.5%	80	449.4	3.6%
6	Uvs	131	424.9	6.1%	49	21.4	0.3%	82	403.5	5.8%
7	Tuv	393	377.1	5.1%	294	153.1	2.1%	99	224.0	3.0%
8	Bayankhongor	149	355.7	3.1%	94	124.5	1.1%	55	231.2	2.0%
9	Khentii	217	339.4	4.2%	120	52.0	0.6%	97	287.4	3.6%
10	Sukhbaatar	98	299.1	3.6%	66	58.9	0.7%	32	240.2	2.9%
11	Zavkhan	56	271.9	3.3%	10	15.0	0.2%	46	256.9	3.1%
12	Khovd	103	266.9	3.5%	35	14.0	0.2%	68	252.9	3.3%
13	Bayan-Ulgii	61	180.5	3.9%	28	15.4	0.3%	33	165.1	3.6%
14	Bulgan	110	136.4	2.8%	74	35.7	0.7%	36	100.7	2.1%
15	Uvurkhangai	48	136.0	2.2%	28	15.7	0.2%	20	120.4	1.9%
16	Selenge	180	97.6	2.4%	141	42.9	1.0%	39	54.7	1.3%
17	Arkhangai	22	61.5	1.1%	15	6.2	0.1%	7	55.3	1.0%
18	Govisumber	18	45.6	8.2%	13	38.9	7.0%	5	6.7	1.2%
19	Khuvsgul	26	17.0	0.2%	21	10.3	0.1%	5	6.7	0.1%
20	Ulaanbaatar	172	14.7	3.1%	160	13.3	2.8%	12	1.4	0.3%
21	Darkhan-Uul	69	12.7	3.9%	63	7.6	2.3%	6	5.1	1.6%
22	Orkhon	9	11.1	13.2%	9	11.1	13.2%	-	-	0.0%
<b>Nationwide</b>		<b>2,796</b>	<b>7,364.5</b>	<b>4.8%</b>	<b>1,670</b>	<b>1,634.6</b>	<b>1.0%</b>	<b>1,126</b>	<b>5,729.9</b>	<b>3.8%</b>

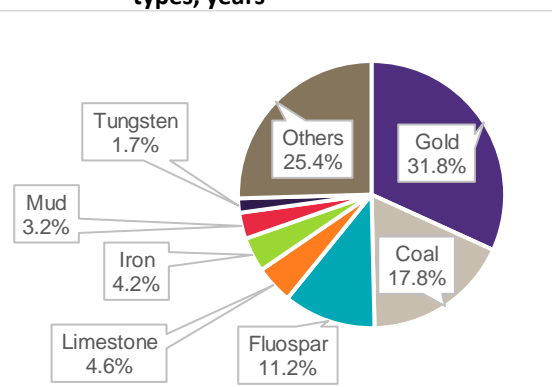
Source: Mineral Statistics Information 2019, page 4, Mineral Resources and Petroleum Agency of Mongolia, MMHI

Note: Some licenses cover more than one aimag territory. So, number of licenses added to each aimag.

**Figure 5.4 The number of valid mining & exploration minerals**



**Figure 5.5 Exploitation licenses by types, years**



Source: Mineral Statistics Information 2019, page 5 and 26, Mineral Resources and Petroleum Agency of Mongolia, MMHI

### 5.2.7.1 Regulations of rights and obligations related to exploration and exploitation license issuance specified in the Minerals Law

The notable regulations related to licensing activities according to the Mining Law are shown in Table 5.10

**Table 5.10 Legal regulations related to licensing activities**

Clauses in the Law	Stakeholders	Rights and obligations as specified in Minerals Law of Mongolia
8.1.5.	Parliament	Restrict or prohibit exploration and mining activities on or grants of exploration and mining licenses for certain territories, upon proposal by the Government or by its own initiative.
9.1.11.	Government	In cases other than specified in Clause 24.1 of this law, as proposed by state administrative body in charge of geology and mining, to determine coordinates of eligible area for granting exploration and mining license and notify the public
11.1.13.	Selection Committee appointed by the State Administrative body and the Cabinet member in charge of geology and mining	To organise selection process to issue license, to grant areas for small scale mining or minerals with common occurrences, and present conclusions
11.1.16.	State administrative body	To receive and register license applications to participate in selection process for granting minerals exploration license and mining license
11.1.19.	State administrative body	To issue exploration and mining licenses for minerals other than the minerals with common occurrences.
11.1.25.	State administrative body	To determine the coordinates and area for license application and approve the area for mining and exploration license under this law
20.1.	State administrative body	The selection process for exploration license shall be organised by the state administrative body according to the procedures stated in Clause 10.1.2 of the law
26.1	State administrative body, MRPAM	To accept, review and process the applications/ requests specified in 25.1 of the law

Source: revised Minerals Law of Mongolia dated June 21, 2018

### 5.2.7.2 Amendments introduced in license issuance process, 2018

Tendering procedure for license awarding was revised by the Minister of MHI order A/28 dated February 13, 2018. The significant changes in the revised procedures are shown in Table 5.11:



**Table 5.11 Tendering procedures for license granting**

Previous	Amendment
If selection area is overlapped with local use area or area impacted by illegal mining, locally-owner or state-owned entities used to be given limited right to participate in the selection (2017 revised procedure article 1.6)	The provision was revoked
Tender selection was valid when 70% or more of the selection committee members with voting right	This is changed to 80%.
Technical proposal evaluation and conclusion are made within 10 (ten) days.	Changed to 5 (five) days.
Submission to the Head of state administrative body within 2 working days.	Changed to 1 working day.
The Head of state administrative body shall make relevant order within 3 days after receipt of the Selection committee conclusion.	Changed to 2 days.
Publish detail information of licenses awarded through tender selection on the website of the State administrative body.	Publish on daily newspaper.

- Additional provision is included: In order to ensure continuous organization of selection and workload balance, up to 3 (three) selection committees may be appointed; and 2/3 of committee members may be changed semi-annually.
- Criteria for technical proposal are specified with more details compared to the previous procedures.
  - Transparency of tender selection was improved by adding certain provision related to publishing information: “Publish on newspaper or other media about the information on technical and financial proposals submitted by applicants/bidders and how they are evaluated.”; “The State administrative body shall publish area coordinates set by the Government on national daily newspapers and other means of media to the public.”
  - Starting from January 1, 2018, exploration licenses are granted only through tendering process. (Source: Amendment to the Minerals Law (article 7.1) approved by the State Great Hural on November 10, 2017. Please refer to the following sections for license awarding activities in 2017).

Moreover, the above tendering procedure has been amended additionally by the Minister of Mining and Heavy Industry Order No. A/16 of 2020, and the important changes are presented in Table 5.12.

**Table 5.12 The changes to the tendering procedure**

Previous	Amendment
4.3.8. When the tender committee evaluates the technical proposals submitted by the bidders, they may reject technical proposals if some documents are incomplete. Upon rejection, such tender documents will be returned according to 4.2.5 and 4.2.6 of the relevant procedure.	This provision was added by Order A/16 of 2020 of the Minister of Mining and Heavy Industry
5.1.6. In case of inability to carry out the activities specified in the tender proposal within the specified time, the deadline can be changed at the committee members' meeting and notified to the participants.	This provision was added by Order A/16 of 2020 of the Minister of Mining and Heavy Industry
Article 4.2.6; 4.6.5; 4.7.1; and 4.7.3 of the tendering procedure for license awarding	The changes were made by Order A/16 of 2020 of the Minister of Mining and Heavy Industry

The composition of committee members for tendering was appointed by the Minister of Mining and Heavy Industry's orders A/80 of 2018, A/38 of 2019, A/62 of 2019, A/204 of 2020 and A/215 of 2020, respectively.



### 5.2.7.3. Exploration and exploitation license awarding process

Process for awarding exploration and exploitation license in 2019 was the same as in the previous year. The following table 5.13 shows the process for exploration license awarding:

**Table 5.13 Exploration license granting process**

Steps	State administrative body	Process description
1	MRPAM	Application number will be issued to the applicant upon receiving the application
2	Cadaster division of MRPAM	To determine whether the area applied for is eligible for minerals prospecting and exploration.
3	Local government	MRPAM will refer the application to the governor of the relevant aimag or the city for approval. The governor has 30 days to review of and respond for the application. Failure by the governor to respond to the application within the 30-day period is deemed to be acceptance.
4	MRPAM	Prior to the grant of an exploration license by MRPAM, the applicant will be required to pay the first year's license fee upfront within 10 days upon the notification.
5	Cadaster division of MRPAM	Upon grant, an exploration license is valid for an initial term of three years with a right to renew for three subsequent three-year extensions.

Source: MRPAM

An applicant who requests exploitation license on area where he/she holds exploration license is prioritised over other applicants:

**Table 5.14 Process of transferring from exploration license to exploitation license**

Steps	State administrative body	Process description
1	MRPAM	Receipt of the application / request.
2	Legal unit of MRPAM	Verify compliance with laws regarding prohibitions or any outstanding payments
3	Cadaster division of MRPAM	Check if the exploration license is registered in Cadastral system.
4	Cadaster division of MRPAM	Check topography to make sure the area in interest does not overlap with other licensed area, water reserves, special purpose area and protected reserves.
5	Coal and mining unit of MRPAM	Check if the applicant is capable of undertaking rehabilitation works for damages to ecology due to production.
6	Legal unit of MRPAM	Check whether the applicant compliant with the plans of the head of Cadaster division and other laws and regulations.
7	Cadaster division of MRPAM	Approves the topography with coordinates. MRPAM must issue appropriate resolution and respond to the applicant within 20 business days upon the registering the application. If denied, cause and legal precedence must be included as part of the denied response in writing.
8	MRPAM	Pay annual fee for the 1 <sup>st</sup> year for the mining license within 10 days from receiving approval notice.
9	Cadaster division of MRPAM	Issues Mining license for 30 years within 3 days from first annual fee payment. Mining license can be extended twice for 20 years each.

Source: MRPAM

Exploration and exploitation license shall be awarded through open tender if one of the following criteria is met:

- An entity, which carried out exploration, has not applied for exploitation license;
- For area where exploration was carried out with state funding;
- License was revoked;
- Exploitation license term was expired.

**Table 5.15 Minerals license awarding through tendering**

Steps	State administrative body	Process description
1	MRPAM	Issue order to begin bidding process
2	MRPAM	Announce bid invitation to the public
3	MRPAM	Receive bid offers. Publish bid invitation on national daily newspaper or other media, in not less than 30 days before tender selection
4	Selection committee of MRPAM	Open technical bid offers
5	Selection committee of MRPAM	Evaluate bidders on the basis of documents received from them.
6	Selection committee of MRPAM	Open price bid offers
7	MRPAM	Announce the winner of the bid within 5 days after having the decision of selection committee.
8	MRPAM	Within 10 days, the notification will be sent to the winner about difference of price offer and threshold price, and about making payment for annual fee for the first year. Other bidders will be notified about the reason of failure to be selected.
9	Cadaster division of MRPAM	Issue license based on the decision of the head of MRPAM and the selection committee's decision.

Source: Procedure on minerals license awarding through tender selection, MRPAM

### Transfer process of minerals license

In the following cases, minerals license may be fully or partially transferred between entities:

- If a license holder is re-structured by merger or join, the license may be transferred to the new entity.
- An associate or a subsidiary may transfer the license to its parent company.
- The license may be transferred if an entity purchased primary documents and reports related to exploration and paid relevant tax.
- The license may be transferred if an entity purchased the mining along with equipment and documents and paid relevant tax.

**Table 5.16 Transfer process of mining licenses**

Steps	State administrative body	Process description
1	Cadaster division of MRPAM	Receive the required documents
2	Cadaster division and Legal Unit of MRPAM	Review documents received and other information.
3	Cadaster division of MRPAM	Make decision upon finishing review within 5 days

Source: MRPAM

### Technical and financial criteria for granting license (requirement 2.2.a.i)

The technical and financial criteria used for license granting on February 13, 2018 are shown in the Table 5.17:

Table 5.17 Technical and financial criteria for granting license

No	Criteria	Benchmark scores	Score range	Max score
<b>Evaluation of project documentations</b>				<b>25</b>
<b>1</b>	<b>Geological and exploration operations</b>		<b>0-15</b>	
	Optimal methods and planning, deployed advanced technology and methodologies, and the documents of the previous studies have been studied fully	13-15		
	Optimal methods and planning, deployed advanced technology and methodologies, but the documents of the previous studies have not been studied fully	10-12		
	Optimal methods and planning, and the documents of the previous studies have been studied fully	7-9		
	Methods and planning are not optimal, deployed advanced technology and methodologies, but the documents of the previous studies have not been studied fully	4-6		
	No methods and planning, no plan to use any advanced technology and methodologies, the documents of the previous studies have not been studied fully	1-3		
	<b>Planning of environment protection and its rehabilitation, considering the types, expenses and duration to conduct actions of environment protection and rehabilitation</b>		<b>0-6</b>	
	Fully satisfactory	6		
	Satisfactory	3		
	Not satisfactory	0		
	<b>Community development and community relations plan</b>		<b>0-4</b>	
	Complies to Clause 3.3.2.8 of this procedure	4		
	Not complies to Clause 3.3.2.8 of this procedure	0		
<b>2</b>	<b>Readiness of the professional personnel, their experience and skills</b>			<b>11</b>
	If % of Mongolian employees of the project is 100%	3	<b>1-3</b>	
	If % of Mongolian employees of the project is more than 90%	2		
	If % of Mongolian employees of the project is less than 90%	1		
	If consulting geologist of Mongolia will work for the project	3	<b>0-3</b>	
	If expert geologist of Mongolia will work for the project	2		
	If neither consulting geologist nor expert geologist will work for the project	1		
	If project engineers and geologists are 100% full time	5	<b>1-5</b>	
	If project engineers and geologists consists of both full time and temporary contractual employees	3-4		
	If project engineers and geologists are 100% temporary contractual employees	2		
	If the project does not specify any engineering workers and geologists	1		
<b>3</b>	<b>Geological and exploration experience and, operational experience</b>			<b>10</b>
	If operated for more than 10 years in geological and exploration sector	4	<b>1-4</b>	
	If operated for 5-10 years in geological and exploration sector	2-3		
	If operated for the period of up to 5 years in geological and exploration sector	1		
	If operated in other sectors for more than 10 years	2	<b>1-2</b>	
	If operated in other sectors for the period of up to 5 years	1		
	Has qualified extensive experience of independently executing geological and exploration project	3-4	<b>1-4</b>	
	Has experience of executing geological and exploration project and operated as subcontractor	1-2		
<b>4</b>	<b>Supply of equipment for the project</b>			<b>9</b>

№	Criteria	Benchmark	Score range	Max score
		scores		
	If project implementing entity has fully owned drilling, geophysical and other equipment to perform geological and exploration	7-9	1-9	
	If project implementing entity rents 50% or less of drilling, geophysical and other equipment to perform geological and exploration	4-6		
	If project implementing entity rents all drilling, geophysical and other equipment to perform geological and exploration	1-3		
TOTAL SCORE				55

The above criteria were revised by the Minister of MHI order A/16 dated February 10, 2020. The table 5.18 below shows the revised criteria:

**Table 5.18 Evaluation for granting license**

№		Criteria	Benchmark score	Score limits	Max score
<b>3</b>	<b>Geological and exploration experience and, operational experience</b>				<b>10</b>
	3.1	If operated for more than 10 years in geological and exploration sector	4	1-4	
		If operated for 5-10 years in geological and exploration sector	2-3		
		If operated for the period of up to 5 years in geological and exploration sector	1		
	3.2	If operated in other sectors for more than 10 years	3	1-3	
		If operated in other sectors for 6-10 years	2		
		If operated in other sectors for the period of up to 5 years	1		
	3.3	Has qualified extensive experience of independently executing geological and exploration project	3	1-3	
		Has experience of executing geological and exploration project and operated as subcontractor	1-2		

/Section 3 is amended by the Minister of MHI order A/16 dated February 10, 2020/

#### 5.2.7.4 Radioactive minerals mining license granting process

This process is regulated by the Nuclear Energy Law of Mongolia, and the following steps are required as per the article 18 “License granting procedure”: (Table 5.19)

**Table 5.19 License for radioactive minerals mining**

Steps	State administrative body	Process description
1	Nuclear Energy Commission	Provides proposal/ comments
2	General Intelligence Agency	Provides proposal/ comments
3	Professional Inspection Authority	Provides proposal/ comments
4	MRPAM	According to Law on Nuclear Energy, review the application and other related documents against the requirements for special license applicant
5	MRPAM	Make a decision on issuance of a license to conduct exploitation activities of this Law within 6-12 months and a license to conduct exploration activities within 1-3 months considering the specific characteristics of activities.
6	MRPAM	Provided the state administrative authority refuses to issue a special license, it shall give a written response specifying the justification of the decision.
7	MRPAM	If necessary, the state administrative authority shall have the right to have the documents of an applicant scrutinized and audited by a relevant organisation.

Source: Law on Nuclear Energy

**Requirements for an applicant for radioactive minerals exploration license**

- fully meet technical and operational safety requirements;
- fully meet occupational safety and sanitary requirements and standards;
- be active and involved in contributing to regional development, health, education and other social matters;
- promote and comply with the globally accepted standards of corporate governance, code of conduct and social responsibility;
- have qualified human resources specialized for the mine operations;
- be experienced in building capacity of the personnel and practical skills of manpower;
- have the financial capacity to conduct exploration of radioactive minerals;
- have the financial capacity to carry out environmental and biological rehabilitation;
- maintain responsible mining and have accumulated experience in this field;
- align the company mining operations, safety and occupational health procedures and practices with the international standards and requirements.

**Requirements for an applicant for radioactive minerals exploitation license**

- ensure the conditions specified above;
- have the capacity to sell radioactive minerals for peaceful purposes at world market price and be financially independent;
- have sustainable and leading position on the world market of processing and sales of radioactive minerals;
- have financial capacity to conduct extraction of radioactive minerals;
- have many years' experience in extracting and processing radioactive minerals;
- have leading technology to fully exploit reserves of radioactive mineral deposit;
- exploit more economically efficient and advanced technology in processing and using radioactive minerals;
- be capable of introducing nuclear technology.

**5.2.7.5 Exploration and exploitation license granting process for minerals of common occurrences**

This process is regulated by the Law of Mongolia on Minerals of common occurrences, and the following steps are required in awarding exploration license: (Table 5.20). The process is carried out under the following phases:

**Table 5.20 Exploration license for minerals of common occurrences**

Steps	State administrative body	Process description
1	Governor of the capital city and aimag	Receive and register applications.
2	Governor of the capital city and aimag	Upon the registration, Governors shall undertake preliminary review of the application and attached documents to check if requirements for license applicant stated in this law is met and the completeness of application materials. If requirements are not met, refuse to accept the application and respond to the applicant in writing, informing the reason and justification of the rejection and enter notice in logbook of applications.
3	Governor of the capital city and aimag	Identify if an area mentioned in the application does not overlap with areas restricted and prohibited for minerals exploration and exploitation, special purpose area, protected reserves, other licensed area or area requested prior by other applicants. Submit the application and related documents to state administrative body in electronic form.
4	State administrative body	Review area requested in the application together with related documents and notify about decision to grant exploration license or not.

Steps	State administrative body	Process description
5	Governor of the capital city and aimag	If state administrative body responded not to grant license, notify the applicant in writing and make entry to logbook of applications.
6	Governor of the capital city and aimag	If state administrative body responded positively to grant license, resolve whether to grant an exploration license for minerals of common occurrence within 10 working days considering the comments from the Council of soum, district, aimag or the capital city where the affected area is located.
7	Governor of the capital city and aimag	If decided to grant exploration license, notify the applicant to pay annual fee for the 1 <sup>st</sup> year for the license within the period stated in this law.
8	Governor of the capital city and aimag	When the applicant fails to have its special license within 1 month upon decision to issue license or to pay annual fee for the first year within the period stated in this law, the Governor of aimag or the capital city shall remove the application from the registration and notify the applicant about it, then make entry to logbook of applications.
9	Governor of the capital city and aimag	When the applicant successfully paid the annual fee for the first year within the period specified in this law, the license for minerals with common occurrences shall be issued for 3 years within 5 working days upon payment.
10	Governor of the capital city and aimag	Notify state central administrative body in-charge of construction and urban development, State administrative body, authority in charge of nature and environment matters for the aimag or the capital city where the affected area is located; and professional inspection agency on the issue of exploration license for minerals with common occurrences.
11	State administrative body	Add exploration license and the subject area into databases of licenses and topographies.

Source: Law on Minerals with common occurrences

Only the current license holder is entitled to apply for exploitation license for that area licensed for exploration of minerals with common occurrences. The following steps in Table 5.21 are required in awarding exploitation license:

**Table 5.21 Exploitation license for minerals of common occurrences**

Steps	State administrative body	Process description
1	Governor of the capital city and aimag	Receive and register applications.
2	Governor of the capital city and aimag	Stamp down the registered number, and date & time on each page of the application and its attached documents, then provide the confirmation to the applicant on this matter
3	Governor of the capital city and aimag	Upon the registration, undertake preliminary review of the application and attached documents to check if requirements for license applicant stated in this law is met
4	Governor of the capital city and aimag	If requirements are not met, refuse to accept the application and respond to the applicant in writing, informing the reason and justification of the rejection and make entry to logbook of applications.
5	Governor of the capital city and aimag	Make sure if the area requested by the application fits into the boundaries of exploration area if an existing exploration license holder applying for a mining license in the same area
6	Governor of the capital city and aimag	Identify if an area requested in the application does not overlap with areas restricted and prohibited for minerals exploration and exploitation, special purpose area, protected reserves, other areas already covered by valid licenses.
7	Governor of the capital city and aimag	Identify if mineral reserve estimated by the exploration activities and its valuation is sufficient enough to cover the cost of rehabilitation of any damages may cause to the nature and environment due to extraction activities
8	Governor of the capital city and aimag	Within 15 working days upon the application registered, make one of the decisions mentioned below and notify the applicant about the decision.

Steps	State administrative body	Process description
9	Governor of the capital city and aimag	If an existing exploration license holder applying for a mining license in the same area, the area will be granted for mining license as to the exclusive rights of such applicant, and have the applicant make payment of annual fee for the first year of the mining license within the period specified in the law.
10	Governor of the capital city and aimag	if an area requested in the application does overlap with areas restricted and prohibited for minerals exploration and exploitation, special purpose area, protected reserves, other areas already covered by valid licenses; refuse to issue mining license and respond to the applicant in writing, informing the reason and justification of the rejection and make entry to logbook of applications.

Source: Law on Minerals with common occurrences

## Statistics of license application

The comparative statistics of license application for the last 8 years are presented in the Table 5.22:

**Table 5.22 The statistics of license application**

Type of application	2012	2013	2014	2015	2016	2017	2018	2019
<b>TOTAL</b>	<b>1,050</b>	<b>626</b>	<b>791</b>	<b>3,002</b>	<b>613</b>	<b>813</b>	<b>1,187</b>	<b>698</b>
<b>New application</b>	<b>114</b>	<b>102</b>	<b>113</b>	<b>2,522</b>	<b>131</b>	<b>288</b>	<b>226</b>	<b>218</b>
a. Exploitation	114	102	98	87	103	65	78	73
b. Exploration	-	-	-	2,335	-	-	-	-
c. Tendering	-	-	15	100	28	223	148	145
<b>Extension</b>	<b>586</b>	<b>305</b>	<b>453</b>	<b>249</b>	<b>173</b>	<b>231</b>	<b>657</b>	<b>273</b>
<b>Transfer</b>	<b>187</b>	<b>10</b>	<b>53</b>	<b>92</b>	<b>139</b>	<b>153</b>	<b>157</b>	<b>72</b>
a. Exploitation	43	10	36	52	49	78	25	24
b. Exploration	144	-	17	40	90	75	132	48
<b>Pledge</b>	<b>50</b>	<b>67</b>	<b>44</b>	<b>22</b>	<b>33</b>	<b>37</b>	<b>61</b>	<b>25</b>
a. Exploitation	39	47	40	22	30	32	58	24
b. Exploration	11	20	4	-	3	5	3	1
<b>Area return</b>	<b>113</b>	<b>142</b>	<b>128</b>	<b>117</b>	<b>137</b>	<b>104</b>	<b>86</b>	<b>110</b>
a. Exploitation	7	18	12	24	26	14	12	12
b. Exploration	106	124	116	93	111	90	74	98

Source: Mineral Statistics Information 2019, page 12, Mineral Resources and Petroleum Agency of Mongolia, MMHI

Refer to Appendix 16(m) for a list of entities participating in tenders in 2019.

### 5.2.7.6 Licenses granted or transferred in 2019 (requirement 2.2.a.iii)

It is a requirement of the EITI Standard to include the details of all changes of license holders in the EITI report. The statistics of licenses in the MRPAM Statistics report differ from the information received by the team from the MRPAM. The detailed description is shown in in the EITI report 2015.

According to the information provided by the MRPAM, 59 exploitation licenses were issues, and there were no exploration licenses. Moreover, In total 71 licenses were transferred, and 189 licenses were revoked in 2019. Mining and geology statistics released by MRPAM are shown below (Table 5.23):



**Table 5.23 Licenses awarded and transferred**

Registration type	2012	2013	2014	2015	2016	2017	2018	2019
<b>Newly issued</b>	<b>95</b>	<b>72</b>	<b>113</b>	<b>827</b>	<b>750</b>	<b>151</b>	<b>85</b>	<b>130</b>
a. Exploitation	95	72	97	91	93	77	61	59
b. Exploration	-	-	2	697	629	41	5	-
c. Tendering	-	-	14	39	28	33	19	71
<b>Areas returned</b>	<b>141</b>	<b>146</b>	<b>119</b>	<b>150</b>	<b>166</b>	<b>97</b>	<b>91</b>	<b>93</b>
a. Exploitation	7	16	13	25	25	13	11	11
b. Exploration	134	130	106	125	141	84	80	82
<b>Revoked</b>	<b>270</b>	<b>347</b>	<b>123</b>	<b>173</b>	<b>241</b>	<b>237</b>	<b>181</b>	<b>189</b>
a. Exploitation	139	43	14	10	37	35	33	70
b. Exploration	131	304	109	163	204	202	148	119
<b>Expired</b>	<b>175</b>	<b>253</b>	<b>289</b>	<b>179</b>	<b>124</b>	<b>176</b>	<b>209</b>	<b>199</b>
<b>Transferred</b>	<b>200</b>	<b>8</b>	<b>51</b>	<b>88</b>	<b>146</b>	<b>136</b>	<b>172</b>	<b>71</b>
a. Exploitation	47	8	38	46	50	62	38	24
b. Exploration	153	-	13	42	96	74	134	47
<b>Extended</b>	<b>601</b>	<b>317</b>	<b>444</b>	<b>336</b>	<b>167</b>	<b>162</b>	<b>566</b>	<b>300</b>
<b>Pledged</b>	<b>38</b>	<b>61</b>	<b>40</b>	<b>22</b>	<b>29</b>	<b>39</b>	<b>56</b>	<b>24</b>
a. Exploitation	22	42	34	22	27	34	53	23
b. Exploration	16	19	6	-	2	5	3	-
<b>Bid security released</b>	<b>42</b>	<b>31</b>	<b>29</b>	<b>24</b>	<b>16</b>	<b>39</b>	<b>27</b>	<b>31</b>
a. Exploitation	15	29	24	19	12	38	26	30
b. Exploration	27	2	5	5	4	1	1	1
<b>Re-awarded</b>	<b>56</b>	<b>15</b>	<b>11</b>	<b>19</b>	<b>35</b>	<b>26</b>	<b>40</b>	<b>27</b>
a. Exploitation	16	9	7	10	15	19	13	14
b. Exploration	40	6	4	9	20	7	27	13

Source: Mineral Statistics Information 2019, page 12, Mineral Resources and Petroleum Agency of Mongolia, MMHI

Companies with 10 or more licenses as of the year end of 2019 are as follows (Table 5.24):

**Table 5.24 Companies holding 10 or more licenses**

№	Name of company	Number of license	Area size	Type of legal entity	Country of investor
1	Mongolroostvetmet LLC	26	15,086.00	Local entity	Mongolia
2	Mongolyn Alt MAK	22	60,037.60	Local entity	Mongolia
3	Gatsuurt LLC	17	9,557.30	Local entity	Mongolia
4	Tsaina Investment Mongolia LLC	15	207,645.00	100% foreign investment	Singapore
5	Olon Ovoot Gold LLC	14	90,111.60	Local entity	Mongolia
6	Gobicoal and Energy LLC	12	7,139.80	Local entity	Mongolia
7	Hunnu Gobi Altai LLC	12	2,206.70	Local entity	Mongolia
8	Platinumland LLC	11	3,621.30	Local entity	Mongolia
9	MonEnco LLC	10	12,807.40	100% foreign investment	Singapore
10	Erel LLC	10	10,960.90	Local entity	Mongolia
11	MAK Cement LLC	10	3,745.90	Local entity	Mongolia

Source: Mineral Statistics Information 2019, page 11, Mineral Resources and Petroleum Agency of Mongolia, MMHI



Companies which possess 100,000 or more hectares of area with minerals license as of the year end of 2019 are as follows (Table 5.25):

**Table 5.25 Mining license holders, by hectares**

No	Name of company	Number of license	Area size	Type of legal entity	Country of origin
1	Tsaina Investment Mongolia LLC	15	207,645.00	100% foreign investment	Singapore
2	Mongol Uranium Resources LLC	3	154,746.30	Local entity	Mongolia
3	Mon Laa LLC	4	108,679.00	Local entity	Mongolia

Source: Mineral Statistics Information 2019, page 11, Mineral Resources and Petroleum Agency of Mongolia, MMHI

As per report of the MRPAM, detailed information on licenses issued in 2019 through non-tendering selection (direct contracting, direct negotiations) are provided as follows:

- In accordance with the 26<sup>th</sup> notification of the Government meeting on June 12, 2019 and the official letter of the Minister of MHI order No. 1/1929 of 2019, an exploration license was issued to Erdenes Silver Resources LLC for the Salkhit deposit.
- In accordance with the 26<sup>th</sup> minutes of the Government meeting on June 12, 2019 and the official letter of the Minister of MHI order No. 1/1929 of 2019, an exploration license was issued to Erdenes Mongol LLC for the Baruun Khongor deposit.

See Appendix 16(p) for details of above licenses.

#### 5.2.7.7 License transparency (requirement 2.3)

The MRPAM's cadaster website (<http://cmcs.mram.gov.mn/cmcs#c=License>) shows information of 2,652 valid licenses. However, the information concerning license for uranium exploration and exploitation are not disclosed.

The Mongolia EITI Secretariat publishes minerals license information on its website. As of March 2020, information of 3,266 licenses is published; however, the number of licenses is different from the MRPAM's cadaster website due to the numbers have not been updated to date.

In addition, 'Transparency' section on the website presented statistical overview of the licenses as of December 31, 2014, which has not been updated since then. Moreover, 'Product and sales' and 'Taxation' sections are not updated since 2012. Some sections of the website are not accessible at all.

### 5.3 EXPLORATION, PRODUCTION AND EXPORTS (REQUIREMENT 3.1)

#### 5.3.1 Minerals exploration

##### Geological explorations carried out with state funds in 2019

Basic geological surveys included in the State Policy on Mineral Resources and the Government Action Plan for 2016-2020 have been carried out in 2016, 2017 and 2019 with funding of 9.3, 13.1 and 23.8 billion tugriks, respectively.

The exploration project funded by the state budget for 2019 is shown below<sup>3</sup>.

- 40.5 percent of Mongolia's territory was covered by 1: 50000 scale geological mapping and general prospecting, and its geological structure of the area and the distribution patterns of

<sup>3</sup> MMHI

minerals were determined, and a perspective assessment was carried out. This type of survey is being conducted for 5% of the areas.

- The National Geological Survey of 1: 200,000 scale was completed in 94% of the territory, and the results report was provided, and the related integrated database was created. The survey for the remaining 6% is currently in progress and results report is pending. Since 2016, the above surveys are being integrated into the K, L and M dimensions.
- Within the scope of the thematic research, a number of deposits, occurrences and mineralized points were inspected and evaluated by conducting a “Key Mineral Perspectives Study” nationwide.
- Within the scope of the Gold-2 national program, a study on gold mineralization and perspectives in the central, eastern, western, southwestern and Khangai regions of Mongolia was conducted and as a result, a large number of gold and placer deposits, occurrences and mineralized points were inspected and evaluated. Upon receipt of the report, the gold outlook in the two regions will be clarified.
- 5-channel survey of aerial geophysics at a scale of 1: 200,000 was carried out in the southwestern part of the country under the names Altai-1 and Altai-2, and the results report was provided. As a result of the study, criteria were identified for the detection of promising deposits of ferrous, non-ferrous, and precious metals in the region, and the directions for future works were identified.
- Survey task for geochemical 1: 1000000 scale mapping in 1,148,729 km<sup>2</sup> of the territory of Mongolia was commenced.
- The types of minerals identified in the territory of Mongolia were studied in combination with tectonic, metallogenic, and other geological factors and socio-economic factors such as infrastructure. The strategic importance minerals were investigated in line with the concept of regional development. As a result of this survey, GASAM project was launched for the purpose of detailed study of high-tech and energy raw materials that are in high demand in the world commodity market and identify the export potentials for the country.
- A research is being carried out to determine the size of disturbed land and pollution level for air, soil, water, and distribution of polluting elements in the territory of Ulaanbaatar and Erdenet cities and provide scientific conclusions and recommendations for mitigation.

Statistics for last 5 years of geological discovery carried out by the state funds is presented as follows (Table 5.26):

**Table 5.26 Geological discovery carried out with state funds**

Type of activities	2015		2016		2017	
	MNT mln	Execution	MNT mln	Execution	MNT mln	Execution
<b>ALL</b>	<b>9,280.60</b>	<b>82%</b>	<b>9,341.10</b>	<b>100%</b>	<b>12,255.10</b>	<b>91.80%</b>
1:200000 State geological mapping	330.5	63%	642.7	100%	482.3	100%
1:50000 Geological mapping and prospecting	5,556.70	78%	4,975.80	100%	5,355.87	100%
Thematic work	3,167.70	92%	3,476.10	100%	6,274.57	80.80%
Cooperation project	225.6	79%	246.6	100%	142.4	100%

Type of activities			2018		2019	
			Execution	Execution	Execution	Execution
<b>ALL</b>			<b>13,335.00</b>	<b>100%</b>	<b>24,621.00</b>	<b>100%</b>
1:200000 State geological mapping			408.5	100%	753	100%
1:50000 Geological mapping and prospecting			4,692.70	100%	8,115.10	100%
Thematic work			8,144.10	100%	15,471.60	100%
Cooperation project			90	100%	281.3	100%

Source: Mineral Statistics Information 2019, page 13, Mineral Resources and Petroleum Agency of Mongolia, MMHI

### Privately funded exploration activity

Certain articles of the Minerals Law apply for plan, work report, review and approval of cost for privately funded exploration activities. For instance, annual exploration plan is submitted as per the article 48.1.1, annual reports of exploration activities are received and reviewed as per the article 48.1.2, the minimum cost is specified as per the article 33.2 and exploration cost is approved based on a legal person's financial report for the year as per the article 33.2, respectively.

Since the number of submitted annual exploration plan, exploitation work report and the approved exploration costs have not been disclosed in 2019, the data in the Table 5.27 refer to 2018.

**Table 5.27 Approved exploration plan, report, cost, and license**

	2015	2016	2017	2018
<b>Plan</b>				
<b>Required to submit</b>	1,345	2,051	1,748	1,695
<b>Submitted</b>	1,307	1,750	1,724	1,674
<b>Submission Rate %</b>	97.20%	85.30%	98.60%	98.80%
<b>Report</b>				
<b>Required to submit</b>	1,802	1,974	1,745	1,408
<b>Submitted</b>	1,260	1,666	1,546	1,300
<b>Submission Rate %</b>	69.90%	83.00%	88.50%	92.30%
<b>Percentage of reviewed minimum expenditure in the exploration report</b>	97.00%	99.70%	98.00%	10.00%
<b>Percentage of validated expenditures by financial statements</b>	91.70%	94.90%	90.80%	8.00%

Source: Mineral Statistics Information 2018, page 15, Mineral Resources and Petroleum Agency of Mongolia, MMHI

In the reporting year of 2019, license holders executed geological and exploration works preliminary estimated at MNT 87.2 million. The Table 5.28 below presents the works executed for the last 5 years.

**Table 5.28 The expenses spent for geological and exploration works, by work type**

Type	2015 (MNT million)	2016 (MNT million)	2017 (MNT million)	2018 (MNT million)	2019 (MNT million)
Preparatory	2,998.70	8,924.20	3,615.20	3,447.80	2.60
Mapping work	2,314.20	5,815.30	1,886.10	3,444.10	1.00
Exploration route	2,789.20	6,383.50	2,334.60	2,746.30	1.30
Sampling	2,047.10	32,645.90	80,896.60	11,786.90	1.50
Geophysical work	10,716.50	9,826.50	15,008.90	10,461.70	4.10
Mining work	2,784.20	1,697.10	-	15,257.00	4.70
Drilling	49,794.50	68,917.00	5,825.90	75,064.20	49.40
Geochemical work	779.10	-	-	-	-
Laboratories	6,710.60	8,833.10	11,413.40	12,601.00	9.10
Topo-geodesic work	1,638.30	2,248.60	5,518.10	1,621.30	2.80
Hydrogeological work	2,549.90	1,174.10	943.70	1,442.80	0.80
Geo-ecological research	-	-	-	823.20	2.80
Transportation	3,112.80	17,331.00	341.40	3,761.30	-
Basic processing	11,055.00	11,685.70	1,120.40	1,118.20	0.30
Environmental rehabilitation	1,749.60	1,346.90	348.30	378.40	0.30
Field sampling	1,246.90	2,101.30	929.40	1,674.90	0.80
Geomorphologists	20.60	-	-	-	-
Archaeological and paleontological studies	140.10	231.20	162.20	6,638.40	0.50

Type	2015 (MNT million)	2016 (MNT million)	2017 (MNT million)	2018 (MNT million)	2019 (MNT million)
Contingent costs	-	-	-	173.20	5.00
Others	4,791.00	11,098.50	242.40	852.30	0.20
<b>TOTAL</b>	<b>107,238.30</b>	<b>190,259.90</b>	<b>130,586.60</b>	<b>153,292.90</b>	<b>87.20</b>

Source: Mineral Statistics Information 2019, page 14, Mineral Resources and Petroleum Agency of Mongolia, MMHI

\*Data for 2019 is in progress of review and thus the figures are preliminary.

### 5.3.2 Production of mineral commodities

In 2019, the mining sector production has been grown in general, and it consisted 23.7% of GDP and 71.8% of total industrial production was 71.8%, respectively. More details are shown in Table 5.29 below.

**Table 5.29 The mining production, by GDP, by percentage**

	2016	2017	2018	2019
GDP	23,942.90	27,876.30	32,411.20	36,897.60
Mining production	4,817.30	6,543.40	7,721.00	8,779.20
Gross industrial output	9,927.20	12,938.60	15,619.90	17,371.40
Mining and quarrying production	7,067.40	9,388.80	11,223.90	12,467.10
<b>Percentage in Gross Industrial Output</b>	<b>71.2%</b>	<b>72.6%</b>	<b>71.9%</b>	<b>71.8%</b>
<b>Percentage in GDP</b>	<b>20.1%</b>	<b>23.5%</b>	<b>23.8%</b>	<b>23.8%</b>

Source: GDP 2019, Industry 2019, Mongolian National Statistics Committee

Based on MRPAM statistics for the year 2019, the coal production, sales and export information for the last 6 years are shown in below Table.

**Table 5.30 Coal production, sales, export, by volume**

Year	Striping (thous. m3)	Production (thous. tonnes)	Sales (thous. tonnes)	Export (thous. tonnes)
2014	95,600.0	24,449.0	27,305.0	19,513.0
2015	92,975.0	23,979.0	22,125.0	14,468.0
2016	102,374.3	35,096.5	33,831.7	25,809.3
2017	197,240.8	49,480.3	41,904.6	33,400.1
2018	244,861.2	54,572.3	45,741.9	36,671.4
2019	292,181.7	57,128.8	47,047.8	36,809.1

Source: Minerals statistics 2019 – page 21, MMHI, Department of Minerals and Petroleum

The total coal sales for 2019 by its types are shown in the Table 5.3.1 below.

**Table 5.31 Total coal production, by coal types**

Coal type	Export (thous.t)	Domestic sales (thous.t)	Total sales (thous.t)
Washed coking coal	6,846.0	-	6,846.0
Raw coking coal	16,797.1	-	16,797.1
Weak coking coal	8,699.3	-	8,699.3
Thermal coal	4,466.7	-	4,466.7
Brown coal	-	10,238.7	10,238.7
<b>Total</b>	<b>36,809.1</b>	<b>10,238.7</b>	<b>47,047.8</b>

Source: Mineral Statistics Information 2019, page 21, Mineral Resources and Petroleum Agency of Mongolia, MMHI

The following Table 5.32 shows the production of main commodities of mining and quarrying sector for the last 5 years based on reports by Mongolian National Statistics Office.

**Table 5.32 Main industrial commodities production, by volume**

№	Type of minerals	Measuring units	2015	2016	2017	2018	2019	% change
1	Coal	Thous.t	18,471.7	29,339.6	40,707.4	43,353.9	48,448.5	12%
2	Brown coal	Thous.tKt	5,677.2	6,149.3	6,394.0	6,655.4	7,350.9	10%
3	Copper (metal concentrate)	Thous.tKt	1,334.7	1,445.1	1,317.1	1,310.8	1,262.4	-4%
4	Iron ore	Thous.t Kt	4,273.6	4,936.2	7,694.7	6,225.4	8,572.2	38%
5	Iron ore concentrate	Kt	6,899.8	2,209.9	3,675.0	3,405.5	3,386.4	-1%
6	Gold	Kg	14,532.8	18,435.7	19,849.0	20,655.2	16,251.3	-21%
7	Fluorspar	Kt	183.5	167.7	108.9	101.2	156.1	54%
8	Fluorspars concentrate	Kt	47.3	34.1	55.2	80.7	47.5	-41%
9	Zinc concentrate	Kt	89.6	100.2	82.7	87.9	83.1	-5%
10	Molybdenum metal concentrate	ton	5,207.0	5,174.4	5,759.6	5,486.1	5,302.8	-3%
11	Tungsten concentrate	ton	1,024.0	710.2	623.1	434.9	441.3	1%

Source: Industrial sector, page 25, 2019, Mongolian National Statistics Committee

As per report of Mongolian National Statistics Office, the output of mining and quarrying for the last 5 years is shown in the Table 5.33 in monetary terms.

**Table 5.33 Mining output, in MNT million**

№	Type of minerals	2015	2016	2017	2018	2019	% change
1	Mining of metal ores	5,863,579.5	5,891,282.7	6,685,608.2	7,914,168.9	8,189,457.6	3%
2	Mining of coal	952,491.7	1,612,627.3	3,880,567.2	5,312,415.8	6,832,966.9	29%
3	Extraction of crude oil	834,989.5	722,820.5	897,804.3	953,258.3	980,487.8	3%
4	Mining support service activities	361,648.0	347,637.2	402,940.9	704,260.6	782,774.0	11%
5	Other mining and quarrying	141,855.0	137,046.8	231,878.8	464,514.8	516,300.5	11%
<b>Total mining and quarrying</b>		<b>8,154,563.6</b>	<b>8,711,414.4</b>	<b>12,098,799.3</b>	<b>15,348,618.5</b>	<b>17,301,986.9</b>	

Source: Mongolian Statistical Yearbook 2019, page 738, Mongolian National Statistics Committee

The MRPAM estimates the mining production and sales based on the reports submitted by the mining companies, and it appears that these estimates differ from other calculations based on other sources. In accordance with the Minerals Law, 227 reports on Mineral Planning and Reporting Activity (MPRA) were submitted in 2019, and 187 reports from those submissions were approved. Based on the MPRA, the following Table 5.34 summarizes the output of the concentration and refinery plants as of the end of 2019.

**Table 5.34 The production of concentration and refinery plant, by volume**

№	Type of minerals	Amount of processed ore and sand		Production output	
		Measuring units	Amount	Measuring units	Amount
1	<b>GOLD (Total)</b>	-	-	<b>Kg</b>	<b>14,550.5</b>
	GOLD (gold extracted from concentration)	-	-	Kg	7,615.5
	GOLD (gold extracted from main and placer deposits)	-	-	-	6,935.0
	GOLD (gold extracted from main deposit)	Thous.t	4,998.7	-	2,045.0
	GOLD (gold extracted from placer deposits)	Thous.m <sup>3</sup>	7,517.9	Kg	4,890.1

<b>2</b>	<b>CONSTRUCTIONA MATERIAL</b>	-	-	-	-
	Cement	Thous.t	2,311.3	Thous.t	1,706.7
	Lime	-	-	Thous.t	55.6
	Limestone	-	-	Thous.t	412.4
<b>3</b>	<b>GYPSUM</b>	<b>Thous.t</b>	<b>189.4</b>	<b>ton</b>	<b>107.1</b>
<b>4</b>	<b>TUNGSTEN</b>	-	<b>291.2</b>	-	<b>165.5</b>
<b>5</b>	<b>COPPER</b>	Thous.t	<b>73,033.9</b>	Thous.t	<b>1,259.5</b>
<b>6</b>	<b>COPPER (CATHODE)</b>	Thous.t	<b>9,549.1</b>	Thous.t	<b>9.7</b>
<b>7</b>	<b>MOLYBDENUM</b>	Thous.t	<b>32,200.0</b>	Thous.t	<b>5.3</b>
<b>8</b>	<b>SILVER</b>	-	-	<b>Kg</b>	<b>2,972.6</b>
<b>9</b>	<b>SILVER (silver extracted from concentration)</b>	-	-	<b>Kg</b>	<b>76,891.6</b>
<b>10</b>	<b>POLISHING STONE</b>	Thous.t	<b>5,579.8</b>	<b>ton</b>	<b>369.9</b>
<b>11</b>	<b>IRON</b>	Thous.t	<b>15,305.8</b>	Thous.t	<b>9,623.7</b>
	Whole iron concentrate	-	-	Thous.t	1,372.8
	Powder iron concentrate	-	-	Thous.t	2,549.7
	Whole iron ore	-	-	Thous.t	2,226.9
	Powder iron ore	-	-	Thous.t	3,474.3
<b>12</b>	<b>FLUORITE</b>	Thous.t	<b>717.4</b>	Thous.t	<b>344.5</b>
	Fluorspar concentrate FF-97	-	-	Thous.t	58.3
	Fluorspar concentrate FF-95	-	-	Thous.t	26.7
	Metallurgical spar FK-92	-	-	Thous.t	2.8
	Metallurgical spar FK-85	-	-	Thous.t	3.5
	Metallurgical spar FK-80	-	-	Thous.t	1.1
	Metallurgical spar FK-75	-	-	Thous.t	32.7
	Metallurgical spar FK-65	-	-	Thous.t	15.1
	Fluorspar ore FR	-	-	Thous.t	204.3
<b>13</b>	<b>BLUE LEAD</b>	Kt	<b>839.3</b>	Thous.t	<b>29.6</b>
<b>14</b>	<b>TIN</b>	Km <sup>3</sup>	<b>57.4</b>	<b>ton</b>	<b>26.4</b>
<b>15</b>	<b>ZINC</b>	Kt	<b>1,511.9</b>	Thous.t	<b>123.7</b>

Source: Mineral Resources and Petroleum Agency of Mongolia, MMHI

### 5.3.3 Export of mining commodities (Requirement 6.3.c)

Total exports in the reporting year increased by 8.7 percent compared to the previous year, reaching a record high of USD 7.6 billion in the last 10 years. dollars. This growth was directly related to the growth of mining exports.

The volumes and values of exports of mining commodities for the last 5 years are illustrated in Table 5.35 as follows

**Table 5.35 Exports of mining commodities, by volume, by USD million**

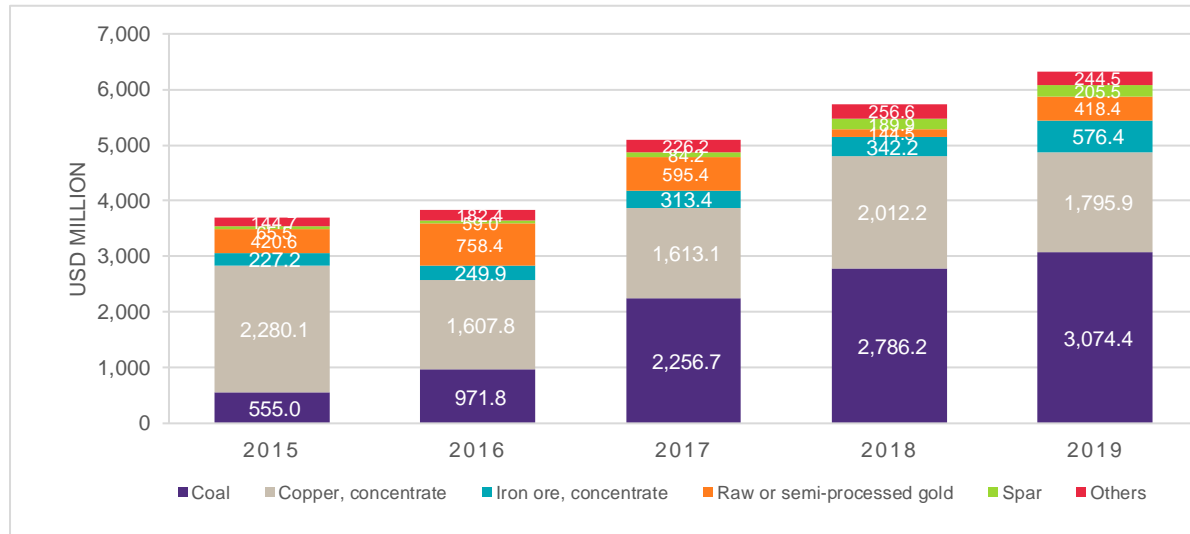
Type of minerals	Measuring units	2015	2016	2017	2018	2019
Coal	Thous.t	14,426.3	25,713.9	32,990.9	35,758.2	36,466.8
	USD million	555.0	971.8	2,256.7	2,786.2	3,074.4
Copper, concentrate	Thous.t	1,477.8	1,562.0	1,447.2	1,436.7	1,403.6
	USD million	2,280.1	1,607.8	1,613.1	2,012.2	1,795.9
Iron ore, concentrate	Thous.t	5,065.1	6,084.8	6,258.0	7,449.1	8,448.8
	USD million	227.2	249.9	313.4	342.2	576.4
Raw or semi-processed gold	Kg	11,343.2	19,168.5	14,554.5	3,431.9	9,069.5
	USD million	420.6	758.4	595.4	144.5	418.4
Spar	Thous.t	280.1	248.8	319.3	555.2	700.1
	USD million	65.5	59.0	84.2	189.9	205.5
Zinc ore, concentrate	Thous.t	84.1	126.0	118.2	123.9	134.8
	USD million	101.7	145.4	180.8	197.8	189.0
Molybdenum ore, concentrate	Thous.t	5.0	5.8	6.5	6.0	5.7
	USD million	29.5	26.4	37.4	49.9	49.0
Tungsten ore, concentrate	Thous.t	1.7	1.5	1.0	0.8	0.7
	USD million	13.5	10.5	8.1	8.8	6.5

Source: The Mongolian Customs Office

<https://www.customs.gov.mn/statistics/index.php?module=users&cmd=info&pid=0&id=131>

The following Figure 5.6 summarizes the export values of key minerals for the last 5 years.

**Figure 5.6 The export values of key minerals, by mineral type, by USD million**



Source: The Mongolian Customs Office

Comparing the above key mining exports by country, the majority of mining exports in 2019, or 91.3%, were exported to China, followed by the United Kingdom with 4.1%.

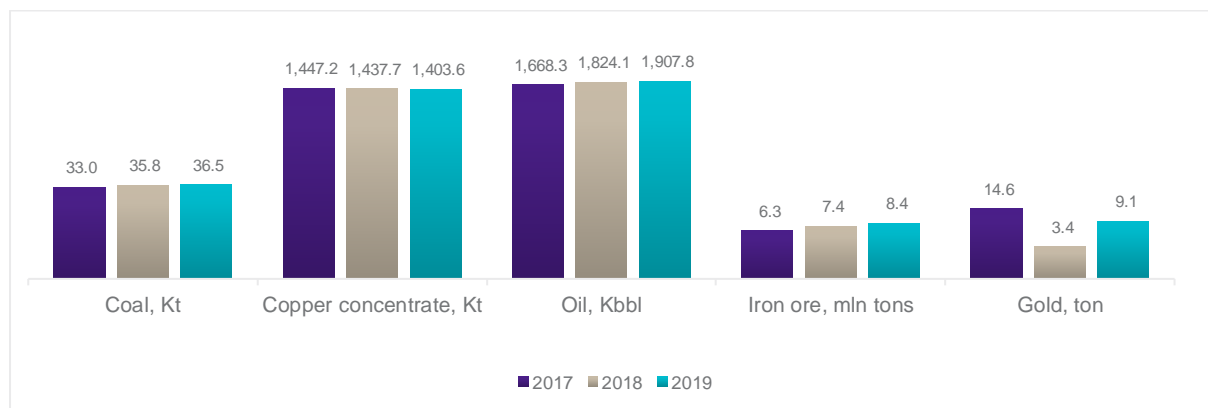
**Table 5.36 The key mining commodities exports, by country**

№	Country	Type of minerals	Measuring units	2017		2018		2019	
				Unit	Amount (USD million)	Unit	Amount (USD million)	Unit	Amount (USD million)
1	China	Coal	Thous.t	32,292	2,187,781	35,361	2,754,550	35,798	3,014,307
		Copper, concentrate	Thous.t	1,447	1,613,117	1,429	2,000,538	1,404	1,795,868
		Iron ore, concentrate	Thous.t	6,258	313,363	7,449	342,186	8,449	576,412
		Others	Thous.t	259	256,752	494	370,087	672	381,024
		<b>Total</b>			<b>4,371,014</b>		<b>5,467,361</b>		<b>5,767,611</b>
		<b>% in total export</b>			<b>85.9%</b>		<b>95.4%</b>		<b>91.3%</b>
2	The United Kingdom	Coal	Thous.t	490	55,391	98	12,076	333	35,838
		Raw or semi-processed gold	Kg	14,551	595,216	3,432	144,499	4,976	225,728
		<b>Total</b>			<b>650,607</b>		<b>156,575</b>		<b>261,566</b>
		<b>% in total export</b>			<b>12.8%</b>		<b>2.7%</b>		<b>4.1%</b>

Source: The Mongolian Customs Office

The following Figure 5.7 illustrates the volume of exports of mining commodities in last 3 years.

**Figure 5.7 The exports of mining commodities, by volume**



Source: GDP 2019, Mongolian National Statistics Office



## 5.4 PETROLEUM AND NATURAL GAS

### 5.4.1 Petroleum overview

In Altanshiree soum, 18 km northeast of Sainshand city, Dornogovi aimag, Mongolia, Oil refinery is planned to be built. The construction of its associated infrastructure was commissioned on October 8, 2019, and the plant construction and investment have officially commenced. The associated infrastructure outside the refinery consists of 27 km of railways and 17.2 km of heavy-duty roads, which were connected to the national main road and railway network. Furthermore, a 110kW power transmission line was constructed, and the plant site pad was prepared and leveled. There are currently a total of 32 licensed oil fields in Mongolia, where 21 contractors in 25 fields have entered into Product-Sharing Agreements, which were approved by the Government. There are two companies currently operating in three oil fields. PetroChina's subsidiary – “PetroChina Daqing Tamsag” LLC is one of leading producer and exporter of the crude oil.

Mongolia exports crude oil as there is no oil refinery plant, facilities, and equipment currently. Mongolia imports oil products for internal consumption mostly from Russia

As of 2019, Mongolia produces 80.0 percent of its electricity domestically and imports 20.0 percent from China and Russia. In meantime, Mongolia exports 95.2% of its oil. *Source: National StatisticsOffice of .Mongolia*

**Table 5.37 Information of companies in oil production**

Д/д	Fields	Contractor	Date of agreement
1	Toson-Uul XIX	Petrochina Daqing Tamsag LLC	1993/04/26
2	Tamsag-XXI		1995/12/11
3	PSA-97	Dongsheng Petroleum Mongolia LLC	1997/01/24

“PetroChina Daqing Tamsag” LLC and “Dongsheng petroleum Mongolia” LLC are operating at Toson-Uul XIX, Tamsag-XXI and PSA-97 fields, respectively. (Table 5.37)

Petrochina Daqing Tamsag LLC: In August 2005, SOCO International, USA transferred its rights and obligations of the PSA to operate in XIX, XXI, XXII contract areas in Tamsag basin to Daqing Oil Field Limited Company, a state-owned subsidiary of China National Petroleum Corporation. Daqing Oil Field Limited Company founded Petrochina Daqing Tamsag LLC in Mongolia with full investment from China and started petroleum operations in Toson-Uul XIX and Tamsag XXI areas located in Matad soum, Khalkh river, Dornod aimag.

Dongsheng Petroleum Mongolia LLC: Rock Oil (Gobi), Australia based company transferred its rights and obligations of the PSA which was approved on February 15, 2005 by the Mongolian Government order no.47 (February 19, 1997) to Dongsheng Jinggong Petroleum Development Group Stock, based in China. The Company then established Dongsheng Petroleum Mongolia LLC in Mongolia with 100% Chinese investment and started petroleum operations in the PSA-97 area located in Dornogobi aimag.

Petroleum operations include exploration and production related to crude oil. While unconventional petroleum operations are related to exploration and production of bitumen, oil shale, sand oil, gas sand, shale gas and coal methane.

### 5.4.2 Natural gas overview

According to the definition specified in the Petroleum Law, “petroleum” includes crude oil and natural gas. The MRPAM has not implemented any contract related to natural gas and no prospecting or exploration have been carried out for natural gas.

Erdene Methane LLC was established in February 2016 as a subsidiary of Erdenes Mongol LLC under its 100% ownership with the objective of exploration of conventional and unconventional natural gas and oil, to raise investment, manage transportation and provide consultancy.



A memorandum of understanding was signed in December 2019 between the Government of Mongolia and Gazprom of the Russian Federation. According to the memorandum, a working group in-charge of matters related to pipeline through Mongolia was established on February 18, 2020.

### 5.4.3 Oil reserve

There are five oil, seven coal seam methane and four shale exploration contracts currently being implemented in Mongolia. Under the PSA, 22 fields are being explored and three fields are being exploited. Gravity and three-dimensional vibration studies were conducted, and 1,534 wells are being drilled on 25 percent of the total area by the foreign and domestic investors. As a result of oil exploration, Mongolia has been declared as an oil-producing country. Accordingly, Mongolia has registered in its Mineral Reserves 332.64 million tons of oil reserves and 43.258 million tons of proven reserves in three fields. Source: [192@montsame.mn](mailto:192@montsame.mn)

Petrorchina Daqing Tamsag LLC and Dongsheng Petroleum Mongolia LLC have drilled total of 1702 wells for exploration, monitoring and production testing (982 wells at Toson-Uul XIX; 589 wells at Tamsag XXI; 131 wells at PSA-97 area) and carried out 2D seismic survey at 12.78 thousand kilometers of area (4.37 thous.km at Toson-Uul XIX; 3.27 thous.km at Tamsag XXI; 5.14 thous.km at PSA-97) and 3D seismic survey at 5.33 thousand sq.km area (2.32 thousand sq.km at Toson-Uul XIX; 2.67 thousand sq.km at Tamsag XXI; 339.6 sq.km at PSA-97).

The Mineral Resources Professional Council reviewed a supplementary report for petroleum reserves estimation of Toson-Uul XIX area in 2011. In accordance with the Mining and Energy Minister's order no.148 dated on June 21, 2011 (which was based on the Council's conclusion no.6 issued on June 3, 2011), 'proved reserves' of petroleum was increased to 60.06 million tonnes, of this, 'proved recoverable reserves' were increased by 6.5 million tonnes and registered these increases to the Mongolian Mineral Resources Reserve Fund. Total 'proved reserves' of petroleum equal 179.08 million tonnes at the registered areas, of which 20.17 million tonnes were 'proved recoverable reserves.'

The Mineral Resources Professional Council reviewed oil reserves estimation report for Tamsag XXI area and issued a conclusion No.01/12 on March 2, 2012. In accordance with the Mining and Energy Minister's order No.41 dated on May 16, 2012 and based on the conclusion, the 'proved reserves' of petroleum were registered in the Mongolian Mineral Resources Reserve Fund as 127.509 million tonnes, 'proved recoverable reserves' by natural energy at 14.01 million tonnes and proved recoverable reserve by water drive at 21.018 million tonnes.

In 1997, Shengli Oil Field Management Bureau's (Shangdong, PRC) Geological Research Institute developed a resource estimate report for the blocks TE-14 (Tsagaantsav), TE-1 (Shinekhudag), TE-27 (Shinekhudag), ZB (Tsagaantsav), SWZB (Tsagaantsav), EZB-1 (Tsagaantsav), EZB-4 (Tsagaantsav) and WTE-1 (Tsagaantsav) under PSA.

**Table 5.38 Oil reserve, by field**

Operating field	Location	Oil reserves rank / million tons /					
		Proven reserve	Proven reserve for exploitation	Probable	Probable for exploitation	Possible	Possible for exploitation
<b>Toson-Uul XIX</b>	Toson-Uul	179,08	20,17	16,81	-	-	-
<b>Tamsag-XXI</b>	Tamsag	127,509	21,018	10,261	3,145	7,844	1,62
<b>PSA-97</b>	Zuunbayan, Tsagaan-els	26,056	2,079	-	-	25,58	-
<b>Total</b>		<b>332,645</b>	<b>43,267</b>	<b>27,071</b>	<b>3,145</b>	<b>33,424</b>	<b>1,62</b>

Oil reserves at the area PSA-97 were estimated at 26.05 million tonnes, which equal to 186.3 million barrels, of this, 'proved reserves' were estimated at 2.07 million tonnes or 14,86 million barrels in the reserves estimation report. The report was discussed at the Mineral Resources Professional Council's meeting and the reserves were registered at the Mongolian Mineral Resources Reserve Fund in accordance with the Mining and Energy Minister's order no.3 dated June 8, 2011 based on the Council's conclusion provided on April 18, 2010.

Oil reserves at the PSA areas as of 2019 are shown in the Table 5.38.

Under the Petroleum Law and the Reserve Registration Order, MRPAM monitors and records annual oil resource flow reports. Annual oil production is deducted from calculations, and in addition to Reserve Registration Order, there are no other changes made, such as upgrading the reserve grade or increasing the resource by changing the mining method.

#### 5.4.4 Petroleum exploration

Petroleum exploration activities carried out in 2019 with private funding are presented in the table 5.39 below:

**Table 5.39 Petroleum exploration projects with private funding**

No.	Operating field	Location	Feasibility study	Proven reserves	Reserves	Exploration duration (as of now)
1	Matad XX	Dornod, Sukhbaatar	None	None	0	2009.07.29 - 2020.07.04
2	Galba XI	Dornogobi, South gobi	None	None	0	2009.05.20– 2019.05.20
3	Bogd IV	Bayankhongor, Gobi-Altai, Uvurkhangai	None	None	0	2009.07.29 - 2019.07.28
4	Ongi V	Bayankhongor, Dundgobi, Uvurkhangai, South gobi	None	None	0	2009.07.29 - 2019.07.28
5	Tukhum X (north)	Dundgobi, Dornogobi	None	None	0	2012.07.29 – 2020.07.28
6	Bayantumen XVII	Dornod	None	None	0	2010.12.08 – 2021.12.07
7	Daroganga XXIV	Sukhbaatar	None	None	0	2011.02.09 – 2021.02.08
8	Tukhum X (south)	Dundgobi, Dornogobi, South gobi	None	None	0	2012.07.29 – 2020.07.28
9	Sukhbaatar XXVII	Dornod, Sukhbaatar, Khentii	None	None	0	2013.01.05 – 2021.01.04
10	Kherlentokhoi XXVIII	Dornod, Sukhbaatar	None	None	0	2015.11.19 - 2023.11.18
11	Ar bulag XXIX	Dornod, Sukhbaatar	None	None	0	2017.08.29 - 2025.08.28
12	Ergel XII	Dornogobi	None	None	0	2017.06.12 – 2025.06.11

The Table 5.30 shows the companies conducted exploration at own cost and their Feasibility Study and reserves information.

**Table 5.40 Reserves of exploration fields with private funding**

No.	Company	Field	Location	Funding /million USD/		Availability of FS	Proven reserves	Proven reserves for exploration	Reserves /million tonnes/
				2018	2019		/exist, does not exist/		
				Private	Private				
1	PetroChina Daqing Tamsag	Toson-Uul XIX	Dornod, Matad soum	117.72	116.93	Yes	Exist	Exist	15.23
2	PetroChina Daqing Tamsag	TamsagXXI	Dornod, Khalkha gol soum	117.27	98.75	Yes	Exist	Exist	18.17
3	Dongsheng Refinery Mongolia	PSA in 1997	Dornogobi, Sainshand	10.66	16.6	Yes	Exist	Exist	0.70

Source: Department of Minerals and Petroleum

### 5.4.5 Petroleum Licensing

Matters related to oil prospecting, exploration and production are regulated by the Mongolian Law on Petroleum (<http://www.legalinfo.mn/law/details/10484>).

Petroleum prospecting means geological, geochemical, and geophysical survey work to be performed for the purpose of determining the prospects of petroleum and unconventional petroleum in a certain region.

Petroleum exploration means geological, geochemical, geophysical, drilling, and extraction testing work to be performed for the purpose of finding an oilfield and establishing an amount of the reserves.

Petroleum exploitation includes development and extraction of petroleum and unconventional petroleum deposit.

In November 2015, the Government approved (GOM decree no.430) 'Model agreement to support environmental protection and local development' to be concluded between local governments and petroleum license holders.

In March 2016, the Government approved (GOM decree no.179) 'Model Agreement on Issues of environmental protection, mine exploitation, and infrastructure development in relation to mine site development and jobs creation' as a model cooperation agreement between local governments and minerals exploration and exploitation license holders.

The Petroleum Authority of Mongolia, the Government implementing agency for licensing, registration and monitoring merged with the Mineral Resources Authority of Mongolia in 2016 and became Mineral Resources and Petroleum Authority of Mongolia (MRPAM)<sup>4</sup>.

### 5.4.6 Process of transferring and issuing Petroleum License (requirement 2.2.a.i)

#### Process of awarding petroleum exploration license

<sup>4</sup> (<http://www.pam.gov.mn/>)

**Table 5.41 Petroleum exploration license**

Phase	State central administrative body	Process description
I.	MMHI	Request to the MMHI: <ul style="list-style-type: none"> <li>- A copy of Product-Sharing Agreements (PSA);</li> <li>- Environmental impact assessment;</li> <li>- Work plan for the year;</li> <li>- A proof of deposit of cash amount equal to 3% of investment to the exploration work of the relevant year, or to 1% of its profit-bearing oil during an exploitation phase for that year respectively into an escrow account annually in a bank operating in Mongolia within 60 days from the approval of its plan and budget as a guarantee of contractor's full performance of its obligation for environmental rehabilitation and demobilization of exploration or exploitation buildings and facilities</li> </ul>
II.		Awarding of exploration license <ul style="list-style-type: none"> <li>- a term for petroleum exploration shall be up to 8 years, and Petroleum Agency may extend twice this period by up to 2 years;</li> <li>- a term for unconventional petroleum exploration shall be up to 10 years, and this period maybe extended once by up to 5 years;</li> <li>- an exploration term shall be counted beginning from a day a production sharing agreement was made;</li> <li>- the MMHI shall notify the respective local administrative body that an exploration license has been issued or extended.</li> </ul>

Source: The Petroleum Law on Mongolia

#### Process of awarding petroleum exploitation license

In exploitation license application, an applicant with exploration license holder is given priority over other applicants as per the Petroleum Law.

**Table 5.42 Petroleum exploitation licensing**

Үе шат	State central administrative body	Process description
I.	MMHI	Within 30 days of the MMHI issuing a decision accepting the reserves, a contractor shall apply for an exploitation license.
II.		The following documents should be submitted to the MMHI to apply for an exploitation license: <ul style="list-style-type: none"> <li>- A decision of MMHI registering the petroleum reserve</li> <li>- A draft of the work plan and budget for the respective year;</li> <li>- A deposit mining operation plan;</li> <li>- The detailed environment impact assessment for the current exploitation period;</li> <li>- An image on which the coordinates of the corner points of the exploitation area;</li> <li>- A proof of deposit of cash amount equal to 3% investment to the exploration work of the relevant year, or to 1% of its profit-bearing oil during an exploitation phase for that year respectively into an escrow account annually in a bank operating in Mongolia within 60 days from the approval of its plan and budget as a guarantee of contractor's full performance of its obligation for environmental rehabilitation and demobilization of exploration or exploitation buildings and facilities;</li> </ul>
III.	MMHI	The MMHI shall notify the respective local administrative body that an exploration license has been issued or extended.

Source: The Petroleum Law

As per the Government decree no.41 dated on January 11, 2016 the PSA for Dariganga XXIV area was transferred from Apedscro Investment LLC to Mongol Shin Liu LLC in 2016. Apart from this transfer, no other transfer of petroleum exploration or exploitation license has been executed to date.

The PSAs are awarded through bid selection.

A bid was announced for Arbulag XXIX area and although Tuvshin International LLC and CCF Petroleum LLC participated in the bid, neither of them were selected. Also, a bid was announced for Ergel XII area. Quanan Yuansheng Industry Trade LLC participated, but was not selected.

Technical and financial criteria for licensing are shown in the Table 5.43.

**Table 5.43 Technical and financial criteria for licensing**

No.	State central administrative body	Process description
1.	MRPAM	The MRPAM shall announce notification that an exploration area has been declared for open tender on its webpage and through the daily press and mass media no fewer than three times.
2.		<p>The period for accepting bids to participate in an open shall be up to 60 days, and the MRPAM shall arrange and announce the end of the period to accept exploration area bids within five days of acceptance of a first bid for the exploration area. A bidder shall provide the following documents</p> <ul style="list-style-type: none"> <li>- Documents evidencing a bidder's legal status; (<i>registration certificate</i>)</li> <li>- A prospectus for the bidder and its investment;</li> <li>- The full name, position, address, phone number, fax number, and email address of a person representing the bidder, evidence proving that the right of representation has been granted to that person;</li> <li>- Documents evidencing the bidder's technical, equipment, and professional capabilities;</li> <li>- Security of the funds to be spent on exploration work;</li> <li>- A work plan and budget to be performed during the exploration term;</li> <li>- Proof that the service fee for the exploration area bid in tugriks equal to an amount of USD20 thousand has been paid;</li> <li>- If a bidder is a consortium, the obligations of each party in exploration and exploitation operations and the percentage and amount of their participation;</li> </ul>
3.		The bidder shall be notified in writing within five business days as to whether or not its bid has been accepted.
4.	MMHI, MRPAM	The MMHI and the MRPAM shall not disclose information on the bidders to a third party until such time as a contract has been concluded.
5.	MRPAM	<p>The MRPAM shall define the bidder that submitted the most profitable proposal to the Government and the following terms shall be agreed:</p> <ul style="list-style-type: none"> <li>- the percentage of profit oil allotted to the Government</li> <li>- the percentage of royalties;</li> <li>- the limit of the percentage of cost oil;</li> <li>- the amount of exploration investment;</li> <li>- the amount of funds spent on environmental restoration;</li> <li>- the amount of the premium for instruction/training;</li> <li>- the amount of a bonus for signing the contract;</li> <li>- the amount of bonus for commencing the extraction;</li> <li>- the amount of a bonus for increasing the extraction;</li> <li>- the amount of a bonus for local development;</li> <li>- operational support of the representative office;</li> <li>- other profitable conditions proposed to the Government;</li> </ul>

### 5.4.7 Product-sharing agreement

The companies with PSAs as of 2017 are shown in Table 44.

**Table 5.44 The companies with PSAs**

No	PSA fields	PSA approval date; GoM decree number	Contractor company	Operator company	Contractor's country of origin	Size of area, sq.km
1	Toson-Uul XIX	1993.04.26	Daqing Oil Field Ltd	Petrochina Daqing Tamsag	PRC	650
2	Tamsag XXI	1996.08.07- Government resolution №183				209,2
3	1997-PSA	1997.02.19- Government resolution №47	Dongsheng Jingtong Petroleum Development	Dongsheng Petroleum Mongolia LLC	PRC	239,5
4	Matad XX	2006.07.19- Government resolution №170	Petromatad Invest Limited	Petromatad LLC	The British Isle of Man	10343,2
5	Nyalga XVI	2007.06.20- Government resolution №148	Panasian Energy Ltd	Sheiman LLC	The Nevis island of Canada	9239,4
6	Tsagaan-els XIII	2009.05.20- Government resolution №148	DWM Petroleum AG	Gobi Energy Partners GmbH LLC	Switzerland	1980
7	Zuunbayan XIV					1030,7
8	Galba XI	2009.05.20- Government resolution №147	Zong Heng You Tian Ltd	Zong Heng You Tian LLC	PRC	9769,2
9	Sulinkheer XXIII	2009.07.22- Government resolution №224	Shunkhlai Energy LLC	Shunkhlai Energy LLC	Mongolia	13576
10	Borzon VII	2009.07.29- Government resolution №236	Mongolia Empire Gas Mongolia LLC	Mongolia Empire Gas Mongolia LLC	The British Isle of Man	31432
11	Khukhnuur XVIII	2009.07.29- Government resolution №238	NPI LLC	NPI LLC	PRC	5276
12	Tukhum (north)	2009.07.29- Government resolution №237	Exploration Sansar Geology Exploration LLC	Sansar Geology Exploration LLC	Mongolia	9813
13	Tsaidam XXVI					11175,2
14	Bogd IV	2009.07.29- Government resolution №235	Central Asian Petroleum Corporation Limited	Capcorp Mongolia LLC	The British Cayman Islands	28998,6
15	Ongi V					21148,7
16	Bayan XVII	2010.12.08- Government resolution №316	Magnai Trade Group LLC	Magnai Trade LLC	Mongolia	7832
17	Dariganga XXIV	2011.02.09- Government resolution №39	Apexpro investment Limited	ApexPro LLC	The British Virgin Islands	17178
18	Tukhum X (south)	2012.07.25- Government resolution №253	Mongolyn Alt (MAK) LLC	Mongolyn Alt (MAK) LLC	Mongolia	24706,2
19	Sukhbaatar XXVII	2013.01.05- Government resolution №39	Wolf petroleum LLC	Wolf Petroleum LLC	Australia	23047,5
20	Nomgon IX	2014.02.09- Government resolution №39	South Mongolian Petroleum LLC			29866,8
21	Uvs I	2015.04.20, Government resolution №162	Mongolia Gladwill Uvs Petroleum LLC	Mongolia Gladwill Uvs Petroleum LLC	Hong Kong	19720
22	Хэрлэнтохой XXVIII	2015.04.20- Government resolution №162	Hong Kong Welpec Industrial Co.Ltd	Hong Kong Welpec Industrial Co.Ltd	Hong Kong	14280
23	Хар-уц II	2015.06.15- Government resolution №246	Renova Ilch LLC	Renova Ilch LLC	PRC	27409,3
24	Эгрэл-XII	2016.06.20- Government resolution №337,	Max Oil LLC	Max Oil LLC	Mongolia	/875+894.416/ 1769.416
25	Ар булаг-XXIX	2016.08.24- Government resolution №53	Smart Oil Investment Limited	Smart Oil Investment Limited	PRC	11035

Source: Department of Petroleum exploitation, and Department of Petroleum, MRPAM

### 5.4.8 Transparency of PSA (Requirement 2.4)

The government has raised no objection to disclosure of PSAs and on July 4, 2012 the Government passed a resolution No 222 requiring PSAs to be published.

In order to create contract transparency in mining sector, iltodgeree.mn was established by the Open Society Forum (OSF Mongolia) in cooperation with the MMHI and EITI Secretary of Mongolia. Disclosing 31 PSAs and 4 Oil prospecting agreement, which have been closed for many years, is a good practice in the extractive sector.

The following PSAs are disclosed in the Table 5.45.

**Table 5.45 Disclosed PSAs**

No	Name of contract	Date of sign	Contracting parties	
1	Renewed PSA between MPRAM and Mongolyn Alt LLC to conduct oil exploration and exploitation activities in the southern area of Tukhum X	2017-06-16	MPRAM	Mongolyn Alt LLC
2	PSA between the Petroleum Authority and Central Asian Petroleum Corporation Limited for Bogd-IV Oil Exploration Area	2009-07-08	Petroleum Authority	Central Asian Petroleum Corporation Limited
3	PSA between Mongolian Petroleum Bureau and Command Petroleum Limited, Tsagaan Shonkhor Oil Corporation, Soko Tamsag Mongolia Inc (contractor)	1995-12-11	Petroleum Authority	Tsagaan shonkhor oil Corporation; Command Petroleum Limited (Australia); Soko Tamsag Mongolia Inc.
4	PSA between the Petroleum Authority and Apexpro Investment Limit for Dariganga-XXIV oil exploration area	2010-12-17	Petroleum Authority	Apexpro investment limit
5	PSA between the Petroleum Authority and Central Asian Petroleum Corporation Limited for the Ongi-V area	2009-07-08	Petroleum Authority	Central Asian Petroleum Corporation Limited
8	Renewed PSA between the MPRAM and NPI LLC for oil exploration and exploitation activity in Khukh Nuur XVIII area		MPRAM	NPI LLC
9	PSA between the Petroleum Authority and Zong Heng You Tian LLC on Galba-XI oil exploration area	2009-04-27	Petroleum Authority	Zong Heng You Tian LLC
10	PSA between the Petroleum Authority and "Shunkhlai Energy" LLC on Sulinkheer XXIII oil exploration area	2009-07-22	Petroleum Authority	Shunkhlai Energy LLC
11	PSA between the MPRAM and Petro Matad LLC on Matad-XX area	2006-05-16	MPRAM	Petro Matad LLC
12	BSA between the Petroleum Authority and "Sansaryn Geology Exploration" LLC on Tsaidam - XXVI oil exploration area	2009-07-10	Petroleum Authority	Sansryn Geology Exploration LLC
15	Agreement on Environmental Protection and Local Development Support between Matad soum of Dornod aimag and PetroChina Daqing Tamsag LLC	2016-08-18	Governor's office of Matad soum, Dornod aimag	PetroChina Daqing Tamsag
16	PSA between the Petroleum Authority and "Shunkhlai Energy" LLC on Sulinkheer XXIII oil exploration area	2009-07-22	Petroleum Authority	Shunkhlai Energy LLC
17	PSA between the Petroleum Authority on behalf of the Government of Mongolia and Nescor Energy LLC	1997-01-24	Petroleum Authority	Nescor Energy LLC
18	PSA between Mongolian Petroleum company and Medallion Mongol Oil LLC on Toson Uul XIX area	1993-04-26	Petroleum Authority	Medallion Mongol Oil
19	PSA between the MPRAM and "Smart Oil Investment LLC" to conduct oil exploration and exploitation activities in "Ergel XII" area	2016-09-09	MPRAM	Smart oil investment LLC
20	PSA between the Petroleum Authority and "Max Oil" LLC to conduct oil exploration and exploitation activities in "Ar Bulag-XXIX" area	2017-07-06	Petroleum Authority	Max oil LLC



No	Name of contract	Date of sign	Contracting parties	
21	PSA between the Petroleum Authority and "Sansaryn Geology Exploration" LLC on Petroleum Exploration Nomgon - IX area	2014-01-26	Petroleum Authority	Space Geology Exploration LLC
22	PSA between the Petroleum Authority and "Sansaryn geology exploration" LLC on Tukhum North - X oil exploration area	2009-07-10	Petroleum Authority	Sansriin Geology Khaiguul LLC
23	PSA between the Petroleum Authority of Mongolia and N P I LLC of China on Khukh Nuur - XVIII oil exploration area	2009-07-06	Petroleum Authority	NPI LLC
24	PSA between the Petroleum Authority of Mongolia and DWM Petroleum AG on Tsagaan Els XIII Area	2009-05-20	The Petroleum Authority of Mongolia	DWM Petroleum AG
25	Tripartite agreement between the MPRAM, the Governor of Dornod Aimag and PetroChina Daqing Tamsag LLC	2018-10-29	Governor of Dornod aimag	PetroChina Daqing Tamsag LLC
26	Renewed PSA between the MPRAM and Wolf Petroleum LLC on conducting oil exploration and exploitation activities in Sukhbaatar-XXVII area		MPRAM	Wolf Petroleum
27	Renewed PSA between the MPRAM and Empire Gas Mongolia LLC to conduct oil exploration and exploitation activities in Borzon VII area	2017-06-16	MPRAM	Empire Gas Mongolia LLC
28	PSA between the Petroleum Authority and Magnai Trade LLC on Bayantumen-XVII oil exploration area	2009-12-23	Petroleum Authority	Magnai Trade LLC
29	PSA between the MPRAM and Shaman Resources Ltd. of Canada on the Nyalga-XVI contract area	2007-04-18	MPRAM	Shaman Resources Ltd.
30	PSA between the Petroleum Authority and "Renova-Ilch" LLC on conducting oil exploration and exploitation activities in "Khar Us - II" area	2015-04-17	Petroleum Authority	Renova Ilch LLCK
31	PSA between the Petroleum Authority of Mongolia and Hong Kong Welpack Industrial Company to conduct oil exploration and exploitation activities in Kherlen Tokhoi XXVIII area	2015-04-16		Hong Kong Welpack Industrial

The list of oil prospecting agreements is published on the website as follows (Table 5.46):

**Table 5.46 Oil prospecting agreements**

No	Name of contract	Date of sign	Contracting parties	
1	Oil prospecting agreement, Softrock LLC	2018-09-17	MRPAM	Softrock LLC
2	Oil prospecting agreement, Frontier Petroleum LLC	2018-06-07	MRPAM	Frontier Petroleum LLC
3	Oil prospecting agreement, Bigstone LLC	2019-01-25	MRPAM	Bigstone LLC
4	Oil prospecting agreement, Sarnii Suvdan Chuluu LLC	2018-09-13	MRPAM	Sarnii Suvdan Chuluu LLC

#### 5.4.9 Revenue from petroleum products

Under the Petroleum Law, the petroleum mining companies share oil revenue with the Government according to the percentages specified in the PSAs. According to the MRPAM the companies pay the sales profit to the Government in USD as per the agreed terms.

The model PSA specifies that the government is entitled to a share of the oil profit, which may be taken in-kind (as oil) or may request the contractor to sell its share and remit the proceeds to the government. The license holder is also liable to pay royalty to the government. Currently, the government does not accept its oil profit in-kind.

Requirement 2.4 of the EITI Standard states that “the government, including state-owned enterprises, are required to disclose the volumes sold and revenues received” for its share of production. The team accordingly requested from MRPAM the volume and value of the government’s share of oil produced, and MRPAM provided information on the amounts received on the sale of the government share, but stated their inability to provide the value terms.

The information reported by MRPAM is shown in the Table 5.47.

**Table 5.47 Produced mineral resources, thous. barrel**

No	Name of companies	Produced mineral resources (thous. barrel)	Total Government’s share		Sales revenue/MNT million/
			Percentage	Amount (MNT million)	
1	Petrochina Daqing Tamsag LLC	3172.44	24%	95,799.41	95,799.41
2	Petrochina Daqing Tamsag LLC	3323.39	27.80%	114,780.06	114,780.06
3	Dongsheng Petroleum Mongolia LLC	376.07	28.30%	21,687.65	21,687.65

#### 5.4.10 Petroleum production and exports

In 2019, 6,876,055 barrels of petroleum was sold in 3 areas and 6,546,397 barrels were exported (Table 5.48).

**Table 5.48 Petroleum production and exports, by companies:**

Company name	2019			
	Production		Export	
	Barrels	Actual, %	Barrels	Actual, %
Petrochina Daqing Tamsag	6,495,834.32	541.20	6,174,583.24	512.92
Dongsheng Petroleum Mongolia LLC	380,220.68	591.92	371,813.76	548.48
	<b>6,876,055.00</b>		<b>6,546,397.00</b>	

Generally, 100% of Mongolian Petroleum products are imported, and there were 2,108,444 thousand tons of oil products imported in 2019 for internal consumption.

**Table 5.49 Petroleum products import, by products type, month and tons**

Month	Gasoline A-80	Gasoline AI-92	Gasoline AI-95	Gasoline AI-98	Diesel fuel	Jet fuel TC-1	Liquefied petroleum gas	Others	Total
<b>Total</b>	70,554	509,424	25,845	1,139	1,169,265	51,849	44,757	235,611	2,108,444

In terms of import structure, the imports of petroleum products with more than 90 octane accounted for 25.44% of gasoline, 3.35% of gasoline with less than 90 octane, 55.46% of Diesel, 2.46% of Jet fuel TS-1, and 13.30% of others (oil, mazut, and bitumen), respectively. Also, 91.55% of the total petroleum imports are originated from Russia, 0.34% from the Republic of Korea, 7.72% from China, and the remaining 0.38% from other countries.

**Table 5.50 Petroleum products import, by products type, countries, and tons**

Types of products	Russia	China	South Korea	Other countries	Total
Gasoline -80	7,309	-	-	-	7,309
Gasoline AI-92	51,880	9,933	-	-	61,813
Gasoline AI-95	2,424	-	-	-	2,424
Gasoline AI-98	63	-	-	-	63
Diesel fuel	92,468	1,256	-	-	93,724
Jet fuel TC-1	3,285	-	-	-	3,285
Liquefied petroleum gas	3,406	-	64	-	3,470
Others	17,166	3,820	604	743	22,333
Total	178,001	15,009	668	743	194,421

Source: MRPAM, Petroleum Exploitation Division, Petroleum Product Division

#### 5.4.11 Price of oil products

For information on the average price of oil products traded on the world's major stock markets, refer to the following sources.

Source: [www.wtrg.com](http://www.wtrg.com), [www.bloomberg.com](http://www.bloomberg.com), [www.reuters.com](http://www.reuters.com), [www.topoilnews.com](http://www.topoilnews.com), [www.oil.in-en.com](http://www.oil.in-en.com), [www.nymex.com](http://www.nymex.com), [www.finmarket.ru](http://www.finmarket.ru), [www.ineng.org](http://www.ineng.org), [www.quandl.com](http://www.quandl.com).

#### 5.4.12 State participation in petroleum sector

As of 2019, prospecting operations are being carried out in 18 areas under petroleum and unconventional petroleum prospecting agreements (petroleum 10, coal bed methane 5, oil shale 3) and exploration and exploitation operations are being carried out in 25 areas under PSA (exploration 22, exploitation 3).

Outflows of cash generated in the petroleum sector have been increased as the majority of the international and local investments (approximately 90%) in the sector are spent on fees and payments on works, services, consultancy, fees for foreign specialist and workers due to non-existence of the national companies in petroleum prospecting, exploration, and production, lack of professional human resources and technical machinery and equipment, absence of refinery plant and lack of local supply, quality control and storage system of processed oil.

Therefore, the State policy on the petroleum sector until 2027 aims to build foundations for the oils sector by strengthening national petroleum security, intensifying petroleum prospecting and exploration, expanding oil reserves, increasing extractions in the national petroleum sector, supporting the regional development, constructing an oil refinery plant, ensuring sustainable supply of petroleum products and enhancing the human resource capacity in Mongolia.

In addition, the Government of Mongolia's Action Plan 2016-2020 included an objective to steadily increase petroleum exploration and build a refinery plant. Within this objective the Government issued a decree (no.92, 2017) to establish a state-owned entity in-charge of implementing the project on a refinery plant building. As a result, Mongol Petroleum Refinery Plant SOE was founded in accordance with the Government Agency for Policy Coordination on State Property order no.108 (April 4, 2017) and developed a Detailed Feasibility Study to build the refinery plant with a capacity to process 1.5 million tons of oil annually.

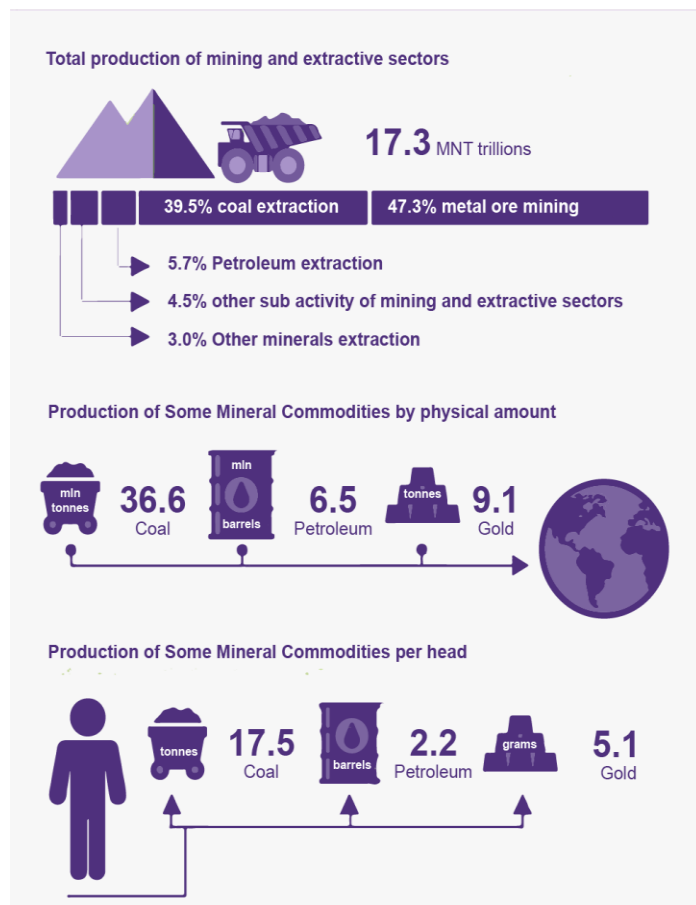
Since there is no oil refinery factory in Mongolia to meet domestic demand for petroleum products, the country depends on 100 percent imports of its fuel from Russia, China, and the Republic of Korea. The annual imports of fuel are approximately 1.3 million tonnes per year.

The state policy on petroleum sector until 2027 was approved by Resolution No 169 of 2019 of the GoM.

There are 97 warehouses, 1,252 gas stations, 10 liquefied gas filling stations (warehouses) and 78 Autogas filling stations in Mongolia performing wholesale and retail petroleum services.

Within the framework of intensifying the prospecting, exploration and exploitation of petroleum and unconventional petroleum, there is objective to sign PSAs for new 3 areas by 2022 and PSAs for new 2 areas by 2027.

## 5.5 CONTRIBUTION OF THE EXTRACTIVE SECTOR TO THE ECONOMY



### 5.5.1. Economic growth (requirement 6.3a)

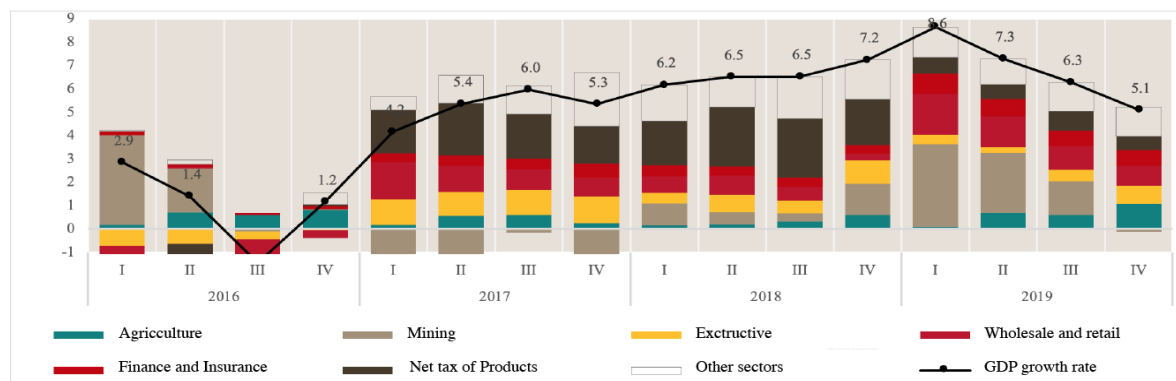
In recent years, the mining and minerals sector has developed rapidly and has become one of the leading sectors of the Mongolian economy. The economic turnover of large deposits of strategic importance creates conditions for further growth of mining production.

Real economic growth will be 5.1 percent in 2019. The mining sector accounted for 1.35 percentage points of economic growth in 2018 but declined to (-0.12) percentage points in 2019.

Coal production has hardly increased and the decrease in the metal content of the Oyu Tolgoi project's concentrate was main impact to decline in total mining output of mining sector<sup>5</sup>.

As of the end of 2019, the extractive industry reached for 23.7 percent of GDP.

Figure 5.8: Contributions of key sectors to GDP growth



Source: National Statistics Office

<sup>5</sup> In 2019, the amount of gold in Oyu Tolgoi concentrate decreased by 15 percent and the copper content decreased by 20.1 percent.

### 5.5.2. Production (Requirement 6.3a)

The mining and quarrying sector accounts for a large share of the Industrial sector. As of the end of 2019, the total production of the mining sector has reached MNT 12,467.1 billion, increasing by 11.0% compared to the same period of the previous year.

The production of the main commodities of the mining and quarrying industry is divided into the following 4 sub-sectors according to the international classification of the economic sectors, namely:

- Metal ore mining;
- Coal mining;
- Oil extraction; and
- Mining of other minerals.

#### Gold mining

In connection with the enactment and implementation of the Law on Prohibition of Mineral Exploration and Mining Activities in areas in the Headwaters of Rivers, Protected Water Reservoir Zones and Forested Areas in 2009, the production of gold has declined. Then the increase is observed from 2013 as a result of that the legal and tax environment of gold sector has been improved and gold production is encouraged by the Government. It was considered that further increase is needed for gold production, so that working group jointly formed in 2016 by the Ministry of Finance, the Ministry of Mining and Heavy industry, and the Bank of Mongolia, which has developed “Gold 2” programme and started its implementation from 2017 (Mineral Resources and Petroleum Authority).

In 2019, gold production amounted to 16.3 tonnes which means it has decreased by 4.4 tonnes or by 21.1% comparing to the previous year. Moreover, 9.1 tonnes or 55.8% of total gold mined were exported, so that the export of gold was decreased by 5.7 tonnes or 2.6 times compared to the same time of the previous year.

Average gold production per head in 2019 was around 5.1 grams, which has declined by 1.4 grams or 22.1% against the previous year.

Furthermore, within the scope of the “Gold 2” national program, field research was carried out on an area of 521,200 km<sup>2</sup> or 33.3 percent. In addition, areas, districts, nodes with gold mineralization, identified deposits, occurrences, mineralized points, and scattering areas have been identified in detail.

#### Coal mining

Mongolia is among the top 10 countries in the world with coal reserves. There are currently over 300 deposits from 15 basins, and Mongolia's coal reserves are estimated at 173.3 billion tonnes and may increase further. Currently, 7 state and locally owned entities in 8 the mines, 28 domestic and joint ventures and organisations in 33 mines, and 7 foreign investment companies in 8 mines operate in the mining sector (Source: the MPRAM).

In 2019, coal production reached 55.8 million tonnes, which was an increase by 4.4 million tonnes or by 8.5% from the previous year. Moreover, 36.6 million tonnes of coal or 65.6% of the total coal production were exported. Comparing to previous year, it has increased by 0.3 million tonnes or 0.9%, and coal has become a leading export product. In 2019, out of total coal production 48.8 million tonnes or 87.5% was raw coal and 7.0 million tonnes or 12.5% was brown coal. Coal has increased by 4.4 million tonnes or 10 % from the previous year.

Average coal production per head in 2019 was around 17.5 tonnes, which was an increase from the last year by 1.2 tonnes or 7.3%. Also, average raw coal production per head in 2019 was around 15.3 tonnes, and it has increased from the last year by 1.2 tonnes or 8.9%, while average brown coal production per head has increased by 2.2 tonnes. Average coal export for per head in 2019 was around 11.5 tonnes, it has grown by 1.3 tonnes or 13.1%.

In 2019, MNT 6.8 trillion produced from the coal mining, which was higher by MNT 1.5 trillion or 28.6 % than previous year.

The percentage of coal mining in the total industrial production reached 22.7% in 2019 with growth of 2.7 points from the previous year. Also, the percentage of coal mining in mining sector accounted 39.5% in 2019, which was an increase by 4.9 points compared to 2018.

**Table 5.51 The production of coal mining, MNT trillion**

Sector	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total production of enterprises	6.5	8.8	9.8	10.4	14.4	14.8	15.7	21.0	26.5	30.1
Mining & extractive industries	4.1	5.7	5.8	6.1	9.3	8.2	8.7	12.1	15.3	17.3
Coal mining	0.9	2.1	1.7	1.5	1.1	1.0	1.6	3.9	5.3	6.8
Cost of 1 tonnes of mining coal in MNT thous	33.9	40.3	44.5	36.4	34.5	32.1	38.6	52.0	80.3	101.6
Percentage of coal mining: Total production of enterprises	14.4	24.4	17.5	14.0	7.5	6.4	10.3	18.5	20.0	22.7
Mining and extractive enterprises	22.6	37.7	29.8	24.0	11.7	11.7	18.5	32.1	34.6	39.5

In terms of consumption, in Mongolia in 2019, 7.7 million tonnes or 78.9% of the total coal used was in Thermal Power Plants, 541.0 thousand tonnes or 5.5% in housing and public utilities, 176.0 thousand tonnes or 1.8% - in industry and construction, 56.0 thousand tonnes or 0.6% - in transport and communication, the remaining 1.3 million tonnes or 13.2% were used in other sectors, respectively.

### Petroleum extraction

The oil and petroleum industry have been developing since Mongolia produced oil in 1996. Out of 32 prospective oilfields were identified within the territory of Mongolia, the country has currently 25 licensed areas in which exploration activities are being undertaken by 21 contractor companies under PSA. Currently, PetroChina Daqing Tamsag LLC and Dongsheng Oil Mongolia LLC are engaged in the oil extractive.

In 2019, total oil production amounted to 6.9 million barrels which means it has increased by 0.5 million barrels or 7.6% compared to 2018, and 6.5 million barrels or 95.2% of total oil production exported, it grew by 0.4 million barrels or 5.7% from the previous year.

Oil production per head in 2019 was 2.2 barrels compared to last year it was dropped by 0.2 barrels or 7.8%. Whereas oil export per head in 2019 was 2.1 barrels which dropped by 0.1 barrels or 4.7% from the previous year.

In 2019, oil production accounted for MNT 980.5 billion. It has dropped by MNT 27.2 billion or 2.9% from the previous year. Oil production accounted for 3.8% of total industrial production in 2019, this has declined by 0.6 points from 2018 and by 4.5 points 2014, and but this has grown by 0.8 points from 2010.

Furthermore, oil production made up 5.7% of the extractive industry in 2019, but it decreased by 1.0 point from 2018 and 6.4 points from 2014, and but it has grown by 1.7 points from 2010, respectively.

**Table 5.52 Oil production, MNT Trillion**

Sector	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019*
Total production of enterprises	6.5	8.8	9.8	10.4	14.4	14.8	15.7	21.0	26.5	30.1
Mining & extractive industries	4.1	5.7	5.8	6.1	9.3	8.2	8.7	12.1	15.3	17.3
Petroleum extraction	0.2	0.3	0.4	0.8	1.1	0.8	0.7	0.9	1.0	1.0
Percentage of petroleum extraction: Total production of enterprises	2.5	3.1	4.4	7.4	7.8	5.6	4.6	4.3	3.8	3.3
Mining and extractive enterprises	4.0	4.8	7.4	12.6	12.1	10.2	8.3	7.4	6.7	5.7



### Mining of other minerals

In terms of production of other minerals, in 2019, production of fluorspar has risen by 54.9 thousand tonnes or 54.3% and Iron ore production rose by 2.4 thousand tonnes or 37.7%. But molybdenum concentrate production decreased by 0.2 thousand tonnes or 3.3%, fluorspar concentrate production has decreased by 19.1 thousand tonnes or 0.6% compared to the previous year. In addition, the production of copper metal concentrate in 2019 accounted 1,262.4 thousand tonnes, comparing to the previous year it dropped by 48.4 thousand tonnes or 3.7% and rose by 182.0 thousand tonnes or 16.8% from 2014 and by 740.4 thousand tonnes or 2.4 times from 2010.

**Table 5.53 Production of other minerals, by volume**

Minerals	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019*
Copper concentrate and metal content	522.0	513.7	517.9	803.0	1080.4	1334.7	1445.1	1317.6	1310.8	1262.4
Molybdenum concentrates and metal content	4.4.	4.0	3.9	3.7	4.1	5.2	5.2	5.8	5.5	5.3
Fluorite	727.0	658.7	484.0	161.7	303.0	183.5	167.7	108.9	101.2	156.1
Fluorspars concentrate	140.7	116.4	157.2	76.4	71.9	47.3	34.1	55.2	80.7	47.5
Iron ore	3076.6	5139.9	6898.0	5011.9	6293.1	4273.6	4936.2	7694.7	6225.4	8572.2
Iron ore concentrate	126.6	484.4	5214.1	6124.0	3967.4	1899.8	2209.9	3675.0	3405.5	3386.4
Zinc concentrate	112.6	104.7	119.1	104.1	93.2	89.6	100.2	82.7	87.9	83.1
Tungsten concentrate	-	-	0.1	-	1.0	1.0	0.7	0.6	0.4	0.4

In 2019, exports for copper ore concentrate reached 1,403.6 thousand tonnes, but dropped by 33.1 thousand tonnes or 0.3% from 2018; exports for tungsten concentrate reached 0.7 thousand tonnes but dropped by 0.1 thousand tonnes or 14.7% from 2018; and molybdenum concentrate exports reached 5.7 thousand tonnes and dropped by 0.3 thousand tons or 5.1% from the previous year, respectively.

On the other hand, export for iron ore concentrate in 2019 reached to 8,448.8 thousand tons, which is an increase by 1.0 thousand tonnes or 13.4% from 2018; and zinc concentrate exports reached to 134.8 thousand tonnes and increased by 10.9 thousand tonnes or 8.8% from 2018.

Average copper concentrate per head in 2019 was 395.7 kg, which has declined by 19.2 kg or 4.6% from the previous t year; molybdenum concentrate reached to 1.8 kg and remained as the same as the previous year; fluorspar concentrate reached to 14.9 kg, or drop by by 10.6 kg or 41.7% from 2018; iron ore concentrate reached to 1,061.5 kg, but dropped by 16.5 kg or 1.5% from 2018; and zinc concentrate reached to 26.0 kg, and declined by 1.8 kg or 6.5% by the previous year, respectively.

But average fluorspar concentrates per head in 2019 reached 48.9 kg, but dropped by 16.9 kg or 52.7% from 2018, and iron ore reached 2,687.2 kg, and rose by 716.5 kg or 36.6% from the previous year.

#### 5.5.3. Total government revenues from the extractive industry (requirement 6.3.b)

The actual revenue from extractive industry in 2019 totaled to MNT 3,138.5 billion, exceeded the budget by 4.6% or MNT 138.4 billion, and it has increased by MNT 744.9 billion or 31.1% from the previous year. This was mainly due to the increase in market price of gold and iron ore, the doubling spar volume, and increase in other revenue by MNT 96.0 billion (Source: Ministry of Finance).



**Table 5.54 Physical volume of mining products, equilibrium price, total revenue**

Commodity	Quantity			Price, USD/unit			Total income /bIn MNT /		
	2018	2019		2018	2019		2018	2019	
	Actual	Plan	Actual	Actual	Plan	Actual	Actual	Plan	Actual
Copper concentrate /th.tonnes/	1436.7	1400.0	1403.6	6524.8	6272.2	6004.6	999.0	1304.4	1333.3
Coal /th.tonnes/	36265.1	42000.0	36748.8	77.3	75-100	84.5	998.0	1310.8	1282.2
Gold /tonnes/	18.1	21.0	13.2	1266.5	1262.1	1389.6	80.0	82.5	116.8
Zinc /th.tonnes/	123.9	78.2	134.8	1596.3	2899.2	2548.6	78.0	56.2	76.6
Iron ore /th.tonnes/	7449.0	7550.0	8448.8	45.9	40.0	68.3	31.5	67.2	47.5
Fluoride /th.tonnes/	555.2	360.0	699.4	341.9	355.0	293.5	18.2	23.1	39.3
Other	-	-	-	-	-	-	188.9	155.9	251.8
Total							2393.6	3000.1	3138.5

Source: Information from Ministry of Finance

The revenue gap created by the optimistic planning of the physical volume of some key mining products was offset by rise in the commodity prices. Revenue from oil reached to MNT 231.7 billion, which was decline by MNT 103.9 billion or 30.9% than planned. It was due to the lower oil exports by 1.6 million barrels.

The mining sector accounted for 26.1% of national budget revenue and increased by 2.6 points compared to the previous year.

**Table 5.55 Tax revenue performance of extractive sector for the past 4 years, in MNT billion**

Income tax	Year				
	2016	2017	2018	2019	2019/ 2018
<b>Royalty</b>	288.7	847.8	1047.0	1425.7	136.2
<b>CIT</b>	225.8	443.7	653.1	869.2	133.1
<b>VAT</b>	22.1	30.8	31.3	43.1	137.7
<b>Others</b>	231.0	300.8	662.2	800.5	120.9
<b>Total</b>	767.6	1623.1	2393.6	3138.5	131.1

Source: Information from Ministry of Finance

In 2019, 45.4% of total revenue from mining sector was generated by fee for exploitation and exploration of mineral resources, 27.7% by CIT, 1.4% by VAT and 25.5% by other tax and non-tax revenue.

#### 5.5.4. Export revenues from the extractive industry (Requirement 6.3.c)

In 2019, total foreign trade turnover reached USD 13.7 billion, which increased by 6.7% from the previous year, and the foreign trade surplus reached USD 1.5 billion, which increased by 31.3% from the previous year.

Total exports of goods and raw materials in 2019 amounted to USD 7.6 billion, which was an increase by 8.7% compared to the previous year. An increase mainly was due to exports of mineral products, particularly coal, copper concentrate and spar.

As of the end of 2019, the mining exports alone accounted for 88.6% of total exports.

The global economic slowdown has pushed down world prices for key industrial inputs such as oil and copper, leading to a decline in exports in 2019. However, due to the high prices of some world commodities in 2019, the increase in Mongolia's exports of coal, crude oil, and iron ore, which are the main export products, contributed mainly to the trade surplus of USD 1.5 billion. Like other resource-rich and developing countries, Mongolia's industrial exports are based on a small number of low-value-added mining raw materials. According to the preliminary results of the industrial sector in 2019, 67.0 percent of value added is accounted for by mining and quarrying and 27.3 percent by manufacturing. This demonstrates that the share of mining and quarrying in the industrial sector is high.

Like other resource-rich and developing countries, Mongolia's industrial exports are based on a small number of low-value-added mining raw materials. According to the preliminary results of the industrial sector in 2019, 67.0 percent of value added is accounted for by mining and quarrying and 27.3 percent by manufacturing. This demonstrates that the share of mining and quarrying in the industrial sector remains high.

## 5.6 GOVERNMENT INSTITUTIONS

The names of government bodies with the most involvement in the extractive industries along with the general descriptions of their functions are provided below (5.56).

**Table 5.56 Government entities**

	The agencies	Websites
1	Ministry of Mining and Heavy Industry	<a href="http://www.mmhi.gov.mn">www.mmhi.gov.mn</a>
2	Mineral Resources and Petroleum Authority of Mongolia	<a href="http://www.mrpam.gov.mn">www.mrpam.gov.mn</a>
4	Ministry of Environment and Tourism	<a href="http://www.mne.mn">www.mne.mn</a>
5	Ministry of Labour and Social Protection	<a href="http://www.mlsp.gov.mn">www.mlsp.gov.mn</a>
6	Mongolian Tax Administration	<a href="http://www.mta.mn">www.mta.mn</a>
7	Mongolian Customs Office	<a href="http://www.customs.gov.mn">www.customs.gov.mn</a>
8	National Audit Office	<a href="http://www.audit.mn">www.audit.mn</a>
9	Nuclear Energy Commission	<a href="http://www.nea.gov.mn">www.nea.gov.mn</a>
10	State Agency for Policy and Coordination on State Property	<a href="http://www.pcsp.gov.mn">www.pcsp.gov.mn</a>

### Ministry of Mining and Heavy Industry

The mission of the Ministry of Mining and Heavy Industry is to establish a balanced economy with multi pillar structure and increase the mineral resource treasures by means of development of a transparent and responsible mining and heavy industry.

The main duties of this ministry are to develop and formulate laws, regulations, policies, medium and long-term strategy, programs and project development concerning the mining sector, fuel and oil sector, heavy industry sector and geological sector; to make policy analysis and exercise internal control and monitoring on the implementation thereof; to do financial review of budget financing, programmes, projects and capital expenditures; and to undertake internal audit and provide with risk management.

### Mineral Resource and Petroleum Authority

Mission of Mineral Resources and Petroleum Authority is to support formulation of state developmental policymaking for the geology, mining and petroleum sector; to provide prompt and unbiased services to consumers and investors; and to strengthen role of minerals and petroleum sector in the development of national economy in a way of implementing the state policy towards the sector.

The Petroleum Extraction and the Petroleum Products divisions of MRPAM are organised to ensure, monitor and support the implementation of Product Sharing Agreements in accordance with the Petroleum Law of Mongolia and relevant government resolutions.

### **Ministry of Environment and Tourism**

The primary functions of MET are to organise the implementation of national policy and legislation on environmental protection and the proper use and rehabilitation of natural resources; and to preserve sustainable environment through developing environment friendly, sustainable tourism. In addition, MET is also responsible for making decisions and approving regulations and policies to be followed by local administrative bodies and capital city administrations in regard to specific issues relating to environmental protection.

License holders are required to submit their environmental protection plan to MET within 30 days of receiving their license, and the Ministry is responsible for receiving and reviewing such plan. Furthermore, the Ministry is responsible for holding the amount equal to 50% of companies' environmental protection budgets for each particular year. These funds may be used for its intended purpose by the MET in case that a company did not fully execute their environmental protection plans.

### **Ministry of Labour and Social Protection**

The main function of MLSP is to develop employment policies and implement the policies to promote employment, facilitate decent working conditions, and develop human resources through the improvement of professional skills.

MLSP is also responsible for labour engagement and poverty reduction, the improvement of working conditions and living cost issues, and to regulate issues of the employment of foreign nationals within the territory of Mongolia, and issues of Mongolian nationals working abroad. Its mission is to create equal opportunities in the labour market and favorable conditions of work.

### **Mongolian Tax Administration**

As stipulated in the General Law of Taxation, the National Tax Administration comprises of state administrative body in-charge of taxes (MTA), tax offices of the aimags, the capital city, and the districts, and the state tax inspectors or tax units in soums. The MTA operates under the direct oversight of the Ministry of Finance which is the state administrative body in charge of financial matters of the Government of Mongolia.

Main functions of MTA are to organise the implementation of tax legislations; to provide taxpayers with information and advice, to conduct training and outreach to oversee implementation of tax legislations and to collect revenue for state and local budgets.

### **Mongolian Customs Office**

The Mongolian Customs is presided over by Mongolian Customs Office, which is the central administrative body in charge of customs and comprises of its affiliated customs offices in the capital city and aimags. Customs Office is a state administrative authority responsible for implementing customs legislation nationwide and it operates under the supervision of the Ministry of Finance.

The main functions of CO are to enforce the customs law and regulations at a national level and ensure its compliance; to determine customs control strategies; to regulate the activities of customs houses and customs branch offices; and to formulate and implement the Customs Development Programme.

### **Mongolian National Audit Office**

The National Audit Office is the supreme audit institution of Mongolia that functions under the Mongolian legislation, other laws, and resolutions of Mongolian Parliament.

It is not permitted to monitor the actions of National Audit Office and the General Auditor of Mongolia and assign any assignment to them except the officials and organisations as the Head of National Security Council and Mongolian Parliament.

National Audit Office has the full authority to conduct audit on the functions of the governmental organisations regardless of their funding sources except Mongolian Parliament.

The MNAO is comprised of five departments, namely performance audit office; financial audit office, compliance audit office; policy and planning department, and legal department.

### **Nuclear Energy Commission**

The Nuclear Energy Commission is responsible for utilization of radioactive minerals and nuclear energy on the territory of Mongolia for peaceful purposes, developing research to deploy nuclear technology, ensuring nuclear and radioactivity safety and security, and building up the foundations to prepare related human resource.

The primary functions of Nuclear Energy Commission are to organize the implementation of Government policy to coordinate exploitation of radioactive minerals and nuclear energy; granting and suspension of licenses pertaining to nuclear facilities, materials and radioactive minerals; coordinating and monitoring the activities of scientific research on the nuclear energy sector of Mongolia; and to ensure nuclear and radiation safety.

The Commission functions with four Departments as Administration Department, Nuclear Technology Regulatory Department, Nuclear Safety Regulatory Department and Foreign relations department.

### **State Agency for Policy and Coordination on State Property**

Mission of the State Agency for PCSP is to formulate, implement policy for and improve management of state property, to increase ownership returns by developing good governance in state-owned or with participation of state ownership, and to enable transparent and fair competition in procurement activities to the level which meets international standards.

“Regulations of the State Procurement Inspector” and “Regulation on keeping records of persons whose right to participate in tenders is restricted” were approved by Government resolution No. 274 dated July 3, 2019. Also, The Government Agency for Public Procurement, one of Government Implementing Agency, was established under the responsibility of the Prime Minister of Mongolia, resolution No. 438 dated on December 18, 2019.

## **5.7 STATE PARTICIPATION IN THE EXTRACTIVE SECTOR (REQUIREMENT 2.6)**

### **5.7.1 Definition of State-owned enterprises (SOEs)**

The EITI Standard (2.6.a.i) for purposes of EITI reporting defines a state-owned enterprise as “a wholly or majority government owned company that is engaged in extractive activities on behalf of the government”. Based on this, the multi-stakeholder group is encouraged to discuss and document its definition of SOEs, taking into account national laws and government structures. Definition of SOEs is not discussed and agreed by MSG.

As per law on State and Local property, state owned enterprises (SOEs) are classified as follows:

- State-owned,
- Partial state-ownership,
- State-owned enterprise,
- State-owned self-sustained enterprise,
- Local-owned enterprise,
- Local-owned self-sustained enterprise etc.

The Law on State and Local Property<sup>6</sup> article 13 states that “a state-owned legal entity is a legal entity established by the state solely with its own property with purpose of implementing state policy and to meet social needs”, and article 21.1 “A business entity with the state-owned shares or state investment is called a business entity with partial state-ownership”.

In accordance with the Law on State and Local Property article 15, enterprises solely state owned, invested and funded from the state budget are classified as state-owned enterprise and these enterprises are classified by its property rights as self-sustained enterprise and state-funded enterprise. A self-sustained enterprise is a self-financing legal entity that operates on the property provided and enters civil transactions independently. A state-funded enterprise is a legal entity that is funded from the state budget on the property allocated to it and carries out production, works and services exclusively for state needs.

Company Law of Mongolia<sup>7</sup> clause 12.5 states that State and its agencies can be a founder and a shareholder in the following cases:

- a company that is created through privatization of a state or local-owned enterprise;
- a state-owned company that is established through reorganization of a state-owned enterprise;
- a company that is deemed to be bankrupt in accordance with applicable laws, and whose shares the State has acquired in exchange for debts owed to the State by such company (In such case the State must sell the shares acquired within period of three (3) years);
- a company that is created jointly with a foreign legal entity;
- other companies permitted by the laws

### 5.7.2 Legal regulations on state participation in the extractive sector

In the current legal environment, state’s participation and stake in strategically important deposits are executed through Erdenes Mongol LLC and its subsidiaries.

The Government policy on minerals resource sector<sup>8</sup> (2014-2025) includes government regulation to ensure appropriate Government participation in mineral exploration and mining activities.

Representation of state ownership in SOE is regulated by the procedure<sup>9</sup> of implementing representation of state ownership in state owned legal entities. Section 2.3 of this procedure detail the appointment of representation of state ownership in extractive sector’s state-owned entities as following:

- Chairman and members in the Erdenes Mongol Board of Directors shall be appointed and dismissed as per Government decision pursuant to Clauses 7.1 and 8.2 of the Company Charter of Erdenes Mongol LLC, which was approved by GoM Resolution No. 104 in 2016.
- As per Cabined Secretariat of the GoM advisory the representative of Erdenes Oyu Tolgoi LLC to the Oyu Tolgoi LLC Board of Directors and Shareholders meeting will be recommended by Erdenes Oyu Tolgoi LLC and be appointed and dismissed as per Shareholders meeting.
- Chairman and members in the Board of directors of SOEs such as Erdenes Oyu Tolgoi LLC, Baganuur JSC, Shivee Ovoo JSC and Mon-Atom LLC, the subsidiaries of Erdenes Mongol LLC, shall be appointed and dismissed with pursuant to Clause 11.8 of Erdenes Mongol LLC’s Company Charter which was approved by GoM Resolution No. 104 in 2016.
- Chairman and members in the Board of Directors of Erdenet Mining Corporation LLC and Mongolrostsvetmet LLC shall be appointed and dismissed by state administrative body in charge of state policy coordination on state property as per directions given by the Cabinet Secretariat of the GoM.

<sup>6</sup> <https://www.legalinfo.mn/law/details/492>

<sup>7</sup> <https://www.legalinfo.mn/law/details/310>

<sup>8</sup> <https://www.legalinfo.mn/law/details/9756>

<sup>9</sup> <https://www.legalinfo.mn/law/details/12142>

- In cases other than those specified in Clauses 2.4-2.91 State administrative body in charge of policy coordination on state property shall appoint the state representation to sit in Shareholders' meeting and Board of Directors of SOEs.

### 5.7.3 Conditions for the transfer of ownership and changes in ownership of the government and state-owned enterprises in the extractive industry

The EITI standard section 2.6.a.ii states that the government and SOE(s) must disclose their level of ownership in mining, oil and gas companies operating within the country's oil, gas, and mining sector. It also includes subsidiaries and joint ventures with level of ownership held by the SOEs. Any changes in the level of ownership during the reporting period must be disclosed.

In accordance with the Company Law, clause 2.6, the owners of SOEs are Parliament on behalf of the GoM, and the local Citizens Representatives are the owners for local property-based companies, also the person or legal entity to represent the shareholders can be appointed by the Government and local Citizens Representatives Meeting.

Ownerships of state-owned 20 companies that operates in mining sector are owned through 2 state-owned holding groups. Erdenes Mongol owns state properties of 6 strategically important deposits' and Department of State Property Policy and Regulation owns state properties of the other 14 entities (construction material manufacturing companies, Erdenet Mining Corporation and Mongolrostsvetmet etc).

**Table 5.57 Mineral licensed SOEs**

No	Reg No.	SOEs	Included in the reconciliation	Number of licenses	Minerals	Shareholders	% of share
<b>Local ownership present</b>							
1	2014491	Bayanteeg JSC	Yes	1	Coal	Shunkhlai Group LLC Local property Other small shareholders	23.54% 70% 6.46%
2	3753298	Bayan Khishig Kharaa LLC	No	1	No clear	Local property, Crystal Top Mine Group	No information found
3	2034859	Mogoin Gol JSC	Yes	2	Coal	JIGJIDSUREN BATBOLD Trans oil LLC Local property Other small shareholders	16.33% 15% 51% 17.67%
4	3753603	Selenge Baigaliin Nuuts LLC	No	2	Gold	Development Bridge Selenge Bayalag Ireedui Renewable Natural Resources	No information found
5	2016656	Tavan Tolgoi JSC	Yes	1	Coal	Shandas Impex LLC Ajnai Corporation LLC Local property Other small shareholders	16.97% 19.73% 51% 12.3%
<b>State-owned</b>							
6	9011706	Correction Faculty No. 439, subsidiary of General Executive Agency of Court Decision, State-funded Enterprise	No	1	Limestone	GoM	100%
7	2550466	Mongolrostsvetmet state owned LLC	Yes	26	coal, copper, gold, fluorspar, tungsten, iron and limestone	GoM	100%

No	Reg No.	SOEs	Included in the reconciliation	Number of licenses	Minerals	Shareholders	% of share
8	9073523	Correction Faculty No. 419 under f General Executive Agency of Court Decision in Khentii aimag	No	2	clay, and widespread Minerals	GoM	100%
9	2053152	ShTN State owned enterprise	No	1	Limestone	GoM	100%
10	5124913	Erdenes Mongol LLC	Yes	9	Coal, silver	GoM	100%
11	6436226	Erdenes silver resouce LLC	No	1	Silver, Gold /dirt/	Erdenes Mongol LLC	100%
12	5435528	Erdenes Tavan Tolgoi LLC	Yes	7	Coal	Individual Entity Erdenes Mongol LLC	18.44% 0.06% 81.5%
13	2074192	Erdenet JSC	Yes	7	Copper, molybdenum, crushed stone and widespread minerals	GoM	100%
<b>Partially state-owned</b>							
14	2008572	Baganuur JSC	Yes	3	Coal, gravel and sand	Erdenes MGL LLC Mongolian Coal Corporation Other small shareholders	75% 21.06% 3.94%
15	2074737	Gurvan Saikhan LLC	No	4	Uranium	Erdenes Mongol LLC International Uranium LLC	15% 85%
16	2051303	Darkhan Metallurgical Plant JSC	Yes	3	Iron	GoM	100%
17	5976723	Mon Czech Uranium LLC	No	1	Not clear	Erdenes Mongol LLC Uranium Industry LLC	51% 49%
18	2004879	Shivee Ovoo JSC	Yes	1	Coal	Erdenes MGL LLC Other small shareholders	90% 10%
<b>State joint venture</b>							
19	2657457	Oyu Tolgoi LLC	Yes	3	Gravel, Gold, Copper, Mixed metal, Clay, and Sand	GoM Turquoise Hill Resource Rio Tinto	34% 66%
20	2076675	Mongolian Soviet Joint Stock Company Ulaanbaatar Railway (Ulaanbaatar Railway / Chuluun Factory/ JSC)	Yes	1	Crushed stone and widespread minerals	Ministry of Transport, Russia GoM	49% 51%

Source: The EITI e-reporting, information from Mineral Resources and Petroleum Authority of Mongolia, information submitted by the Companies and e-data of General Authority for State Registration of Mongolia as of October 29, 2020.



#### 5.7.4 Changes in state ownership

Company name	Percentage of state ownership before change	Percentage of state ownership after change
Erdenet Mining LLC <sup>10</sup>	51%	100%

“Erdenet” was a joint venture (51:49) by an agreement signed in 1991 between two governments of Mongolia and Russian Federation, in 2003 as per agreement it became a limited liability company and in June 2016 Russian “Rostec” corporation sold its 49% of the total share, the Government of Mongolia owned 51% and “Mongolian Copper Corporation” owned 49%.

The Government of Mongolia issued a resolution on March 21, 2019, transforming Erdenet Mining Corporation into a state-owned enterprise and approved its charter<sup>11</sup>.

As per resolution No. 7 of the Government of Mongolia dated January 4, 2018 regarding registration of “Erdenet Mining” LLC shares as state property and deduction of related payments, the payment for 49% ordinary shares of “Erdenet Mining” LLC to Trade and Development Bank are to be in form of deduction and settlement process of monetary assets deposited, dividends, promissory note and etc. placed in Trade and Development Bank from Development Bank of Mongolia and Mongol Bank, the settling process is still ongoing.

#### 5.7.5 Role of State-owned enterprises (SOEs) in the extractive industry

##### Erdenes Mongol LLC

“Erdenes Mongol” LLC is a company explicitly created to represent GoM's stake in developing and owning national strategically important mineral deposits within the territory of Mongolia.

Erdenes Mongol LLC operate in mining and other activities through their following subsidiaries:

**Table 5.58 Erdenes Mongol LLC Structure**

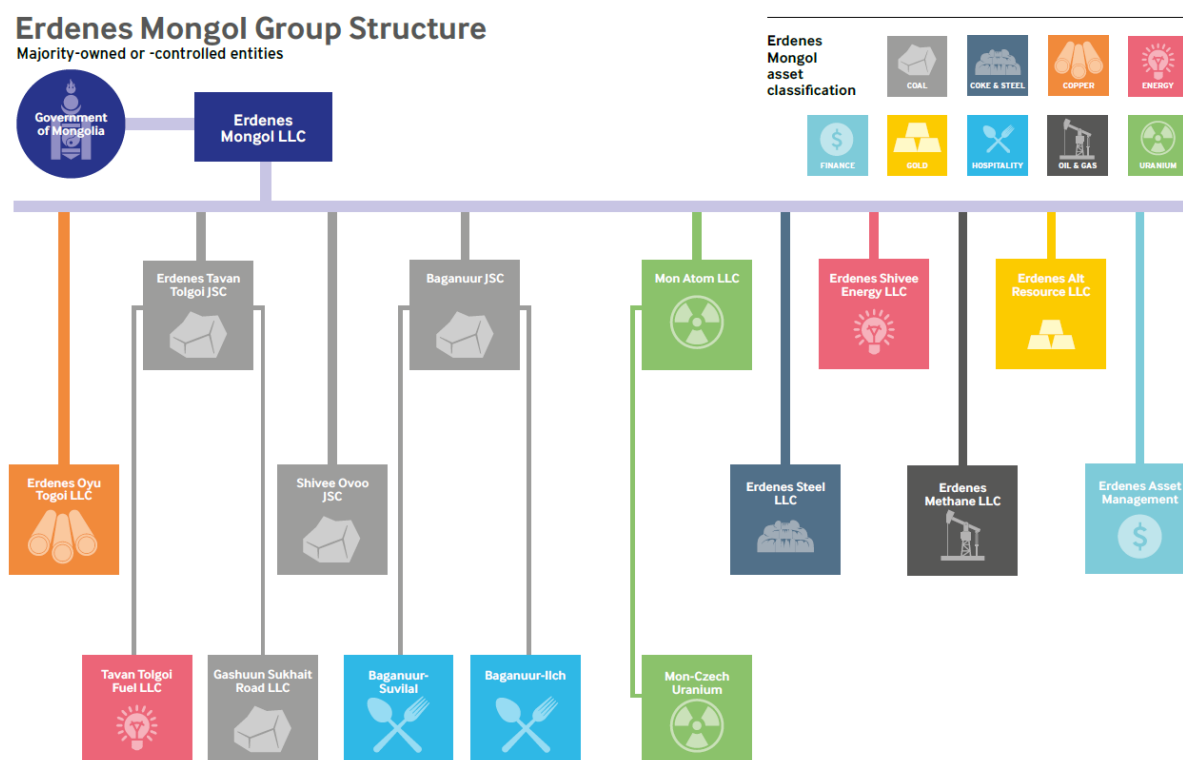
Company name	Role
1. Erdenes Oyutolgoi LLC	To represent the state ownership and implement shareholder's rights and duties in strategically important Oyu Tolgoi deposit that is operated by “Oyu Tolgoi” LLC.
2. Erdenes Tavan Tolgoi JSC	Utilize strategically important Tavan Tolgoi coking coal deposits into economic activity
3. Baganuur JSC	To supply coal to Power plants within central power grid system
4. Shivee Ovoo JSC	Local thermal coal demand and supply coal to Power Plant No.4 state-owned JSC
5. Mon-Atom LLC	On behalf of GoM represent state ownership and execution in geological exploration and mining of uranium and other radioactive minerals in accordance with relevant legislations individually or jointly with other legal entities.
6. Gashuun Sukhait Road LLC	To be responsible for the operation, maintenance, and utilization of the 239 km heavy load paved road from Tavan Tolgoi mine site to Gashuun Sukhait border crossing in Tsogttsetsii soum, Umnugovi aimag.

<sup>10</sup> <http://www.pcsp.gov.mn/togtool/7.pdf>

<sup>11</sup> [https://www.erdenetmc.mn/about\\_us/](https://www.erdenetmc.mn/about_us/)

Company name	Role
7. Erdenes Methane LLC	To execute methane gas exploration works in major coal deposits of Mongolia and dependent of the results estimate methane gas resource levels, prepare feasibility study, evaluate economic viability, raise funds, development works and production of coal bed methane.
8. Erdenes Shivee Energy LLC	To supply “Shivee Energy Complex Project for Energy Export” establishment with coal from the strategically important Shivee-Ovoo coal deposit
9. Erdenes Silver Resource LLC	Mining consulting service, mineral exploration, extraction and production of minerals and contract drilling service
10. Erdenes Alt Resource LLC	To execute Government of Mongolia’s implementing “Alt 2” program by exploring, mining, refining, and selling precious metals in explored in the territory of Mongolia.
11. Erdenes Ashid LLC	To conduct assessments and detailed studies on previously assessed and new concentrate plants, manage and operate the facilities and mine the mineral deposits and execute production
12. Erdenes Steel LLC	To implement complex industrial projects for coke and steel
13. Erdenes Asset Management Securities LLC	Attract investment from professional investors for strategically important projects
14. Rare Earth Element Project unit	To conduct research on rare earth elements in Mongolia and settle the deposits into economic circulation
15. Mongolian Minerals Exchange LLC	To regulate mineral exports through an integrated policy by establishing minerals exchange

Figure 5.9 Organizational Structure of Erdenes Mongol LLC's mining subsidiaries

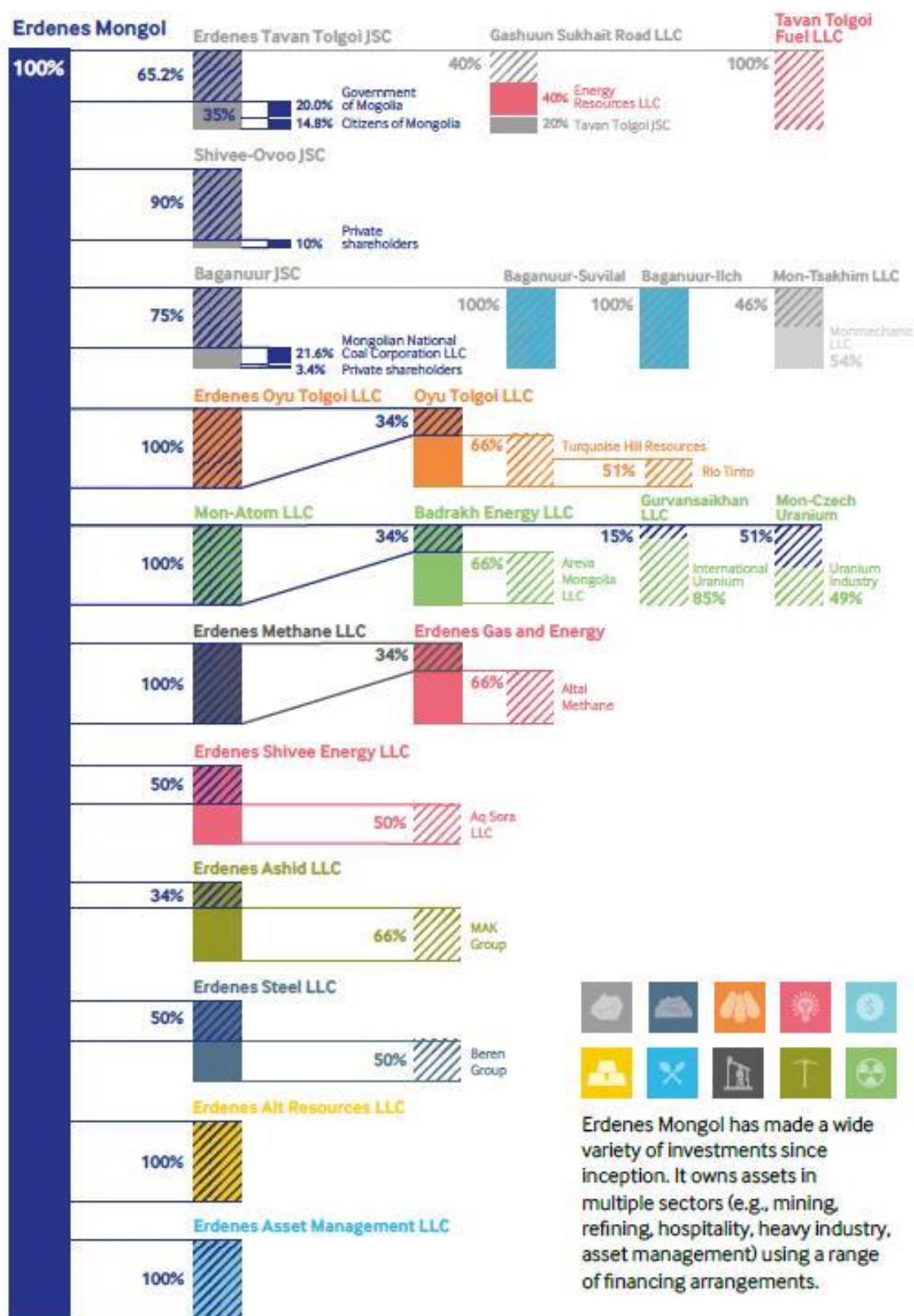


Source: "Erdenes Mongol" LLC <http://www.erdenesmongol.mn>

Source: International Natural Resource Institute of Governance

<https://resourcegovernance.org/sites/default/files/documents/erdenes-mongol-mongolian.pdf>

Figure 5.10 Shareholding structure of “Erdenes Mongol” LLC



Source: International Natural Resource Institute of Governance

<https://resourcegovernance.org/sites/default/files/documents/erdenes-mongol-mongolian.pdf>

### Establishment of “Erdenes Mongol” LLC

Erdenes Mongol LLC, through its subsidiaries, invests in mining sector and natural resources including copper, gold, molybdenum, silver, coking coal, zinc concentrates, iron ore, mixed metals, and phosphorus. The company was founded in accordance with Government Resolution No. 266 (15 November 2006) and the State Property Committee Resolution No. 52 (22 February 2007) and is based in Ulaanbaatar.

Procedure to Implement Representation of State Ownership in State Owned Legal Entities was approved through Resolution No.80 of the Government of Mongolia dated 2016.

Clause 2.6 of this procedure specified that “chairman and members of the Board of directors of Erdenes Mongol LLC’s subsidiary SOEs such as Erdenes Oyu Tolgoi LLC, Baganuur JSC, Shivee Ovoo JSC and Mon-Atom LLC shall be appointed and dismissed accordance to Erdenes Mongol LLC’s company Charter<sup>12</sup> which was approved by GoM Resolution No. 104 in 2016.

### Erdenes oyu tolgoi LLC

“Investment agreement” for exploitation of Oyu Tolgoi copper-gold deposit located in Khanbogd soum, Umnugobi aimag was signed in 2009 between the Government of Mongolia, Rio Tinto International Holdings Limited and Ivanhoe Mines Ltd. In 2010, “Shareholder’s agreement” was signed between shareholders of Oyu Tolgoi LLC.

According to the agreements, Erdenes Mongola LLC holds 34% of Oyu Tolgoi LLC on behalf of GoM.

State-owned Erdenes Oyu Tolgoi LLC was established as the subsidiary of Erdenes Mongol LLC pursuant to Resolution 348 of the Government of Mongolia and Resolution 28 of Board of Directors of Erdenes Mongol LLC dated 2011 and Erdenes Mongol LLC officially transferred the 34% shares of Oyu Tolgoi LLC held on behalf of Government of Mongolia to Erdenes Oyu Tolgoi<sup>13</sup> LLC.

The main purpose of Erdenes Oyu Tolgoi LLC is to own 34 percent "Oyu Tolgoi" LLC as shareholder representing Mongolia, to participate in operations of "Oyu Tolgoi" LLC and execute state’s participation during the mine production. When both open pit and underground mine are operational, Oyu Tolgoi is expected to be one of top five global copper producers and will contribute 24 percent of the total copper production from Asia.

### Erdenes Tavan Tolgoi JSC

Erdenes Tavan Tolgoi<sup>14</sup> JSC was founded in 2010, in accordance with the Mongolian Parliament Resolution No.39 and Government Resolution No.272 to be responsible for the development and utilization of strategically important Tavan Tolgoi coking coal deposit.

Main responsibilities of Erdenes Tavan Tolgoi JSC are focused on utilizing the strategic coal deposits that are highlighted by “Minerals law of Mongolia” into economic activity, extract and produce the deposits. and implement infrastructure projects.

"Erdenes Tavan Tolgoi" project will implement coal mining, product processing, infrastructure development, construction and development of the assets, water supply plant and system, additional exploration work, and surveying works at the deposit, products delivery into international markets, and stock exchange in domestic and international capital markets.

Obtained feasibility study approval of East Tsankhi mine and commenced mining in 2011. Obtained feasibility study approval of West Tsankhi mine in 2012 and commenced mining in February 2013.

<sup>12</sup> <https://www.legalinfo.mn/annex/details/7188?lawid=11796>

<sup>13</sup> <http://eot.mn/>

<sup>14</sup> <https://ett.mn/mon/>

Total reserve: 6.008 billion tonnes

- Coking – 2.050 billion tonnes
- Thermal – 3.757 billion tonnes
- Brown coal – 0.201 billion tonnes.

### Baganuur JSC

Baganuur JSC was established in 1978 with goal of supplying coal to Power plants within central power grid, and now operational for the 39th year. On February 9, 2015 it has reached production milestone of 100 million tonne of coal.

In 1995 it was re-organised into Baganuur JSC with majority ownership by the state. Currently 75% of its shares is owned by Erdenes Mongol LLC on behalf of the Government of Mongolia and the remaining 25% by individual shareholders.

The mine has annual production capacity of 4.0 million tonnes and dependent on domestic consumption produces 3.6 to 3.8 million tonnes of coal annually, has stripped 16.0-18.0 million cubic meters of ground and utilizes both with and without auto transport mining process. Baganuur JSC alone provides 60% of total coal demand in Mongolia and 70% of coal demand for the central region.

Studies of physical and chemical properties of Baganuur coal have concluded that it can be used not only for energy purposes, but when recycled also as a gas, fuel, liquid, briquette fuel, and other chemical raw materials.

Baganuur's Total Reserve: 812 060.6 Kt

- On balance sheet reserve – 584 458.4 Kt
- Off balance sheet reserve – 227 602.2 Kt

Preceding exploration works have determined that Baganuur's reserve as 599.7 Mt, subsequent explorations have determined that the total reserves as 812.1 Mt, increase of 212.4Mt.

### Shivee Ovoo JSC

As per shareholders' meeting resolution dated to September 12, 1995 the mine was re-organized the as Shivee Ovoo JSC with majority ownership by the state. Erdenes Mongol LLC on behalf of GoM holds 90% of the shares in Shivee Ovoo, and the remaining 10% held by individual shareholders.

In recent years, the mine's coal mining, sales, and stripping volumes have steadily risen, as well as strengthened position in the local coal market. The mine provides 30% of total Mongolian thermal coal demand and 50% of Power Plant No.4 SOJSC's coal consumption.

Shivee Ovoo coal mine is located in Shiveegobi soum of Gobisumber aimag, around 265km to southeast of Ulaanbaatar and at 1,200 meters above sea-level.

The mine covers 29,500 hectares of area and has total of 2,708.7 million tonnes coal reserves consisting of the following 3 sections:

Total reserve: 2,708.7 million tonnes

- Shine us - 564.1 million tonnes
- Uukhiin tsagaan - 1,147.9 million tonnes
- Nagoon toirom - 996.7 million tonnes

### Mon Atom LLC

Law on Nuclear Energy of Mongolia states that regardless of its size radioactive minerals deposit are considered strategically important and state's involvement is a must in its mining activities if permitted. To comply with the requirement, Mon Atom LLC was established in 2009 by GoM Resolution No.45 with main objectives of engaging in geological exploration and mining of uranium and other radioactive minerals standalone and/or jointly with other legal entities, execute legislated state ownership and



involvement on behalf of Government.

Company operated under Nuclear energy authority in terms of policy and planning to implement Mongolia's state policy on radioactive minerals and nuclear energy, regarding financial matters to State Property Committee.

### **Gashuun Sukhait Auto Road LLC**

In accordance with GoM Resolution No. 299 of 2013 “Measures to support coal exports”, ownership of 239-kilometer heavy-load paved road built and commissioned by privately owned Energy Resource LLC was transferred to Erdenes Mongol LLC in 2011.

In 2014 main coal exporters Energy Resources LLC, Erdenes Tavan Tolgoi JSC<sup>15</sup>, Tavan Tolgoi JSC and other exporters have partnered to establish Gashuun Sukhait Auto Road LLC, Erdenes Mongol LLC oversees the operation of the road.

### **Erdenes Methane LLC**

Erdenes Methane LLC was established in February 2016 as a subsidiary of a state-owned Erdenes Mongol LLC. Leading mission of Erdenes Methane LLC is to attract foreign direct investment and carry out estimation works of methane levels in Tavan Tolgoi and other coal deposits, to initiate methane extraction works, to reduce air pollution in Ulaanbaatar and other cities, and latter aim to make Mongolia a gas exporting country.

### **Erdenes Shivee Energy LLC**

Erdenes Shivee Energy LLC was established on March 4, 2016 as state and private entity partnership between Erdenes Mongol LLC and AqSora LLC Pursuant to the minutes of GoM 64<sup>th</sup> meeting dated November 16, 2016, Erdenes Shivee Energy LLC with 1.2 billion tonnes of strategically important Shivee-Ovoo coal deposit reserves will supply coal to the “Shivee Energy Complex Project of Energy Export” establishment.

50% of the company is owned by state-owned Erdenes Mongol LLC, and the remaining 50% is owned by Shine Shivee LLC that is owned by private entity AqSora LLC.

### **Erdenes Silver Resource LLC**

“Erdenes Silver Resource”<sup>16</sup> LLC was established in May 2019 as per resolution No.133 of the Government of Mongolia (GoM) dated 2014 and. resolution No.15 of the Board of Directors of “Erdenes Mongol” LLC in 2019.

“Erdenes Silver Resource” LLC operates in the following areas:

- Mining consultancy
- Minerals prospecting and exploration
- Exploitation and mining of minerals
- Contract drilling

Within framework of state's policy on the mineral resources sector, GoM MoM No.26 dated June 12, 2019 and the Mineral Resources and Petroleum Authority's resolution No.341 dated July 5, 2019, a mineral exploration license (XV-2021416) was granted for a Salkhit area covering 2887.85 hectares, located in Gurvansaikhan soum, Dundgobi aimag.

<sup>15</sup> <http://page.gsr.mn/>



**Erdenes Alt Resources LLC**

For the implementation of goals set in “Sustainable Development Concept of Mongolia 2030” and “Alt-2” national programs, “Erdenes Alt Resources” LLC was established in 2018 to execute exploration, extraction, refinery, and sales of precious metals. “Erdenes Alt Resources” LLC is wholly owned by “Erdenes Mongol” LLC.

**Erdenes Ashid LLC**

“Erdenes Ashid” LLC was established by “Erdenes Mongol” LLC in partnership with “Mongolyn Alt” LLC for the purpose of conducting exploration works in three areas located in the territory of Bayan-Ulgii aimag.

**Erdenes Steel LLC**

In cooperation with “Beren Group” LLC “Erdenes Steel” LLC was established on April 2017 to execute project to build coke and steel complex plant in anticipation of growing steel demand in Mongolia and to produce import-substituting products. Erdenes Mongol LLC holds 100% ownership.

**Erdenes Asset Management LLC**

The company’s main functions are to raise capital in the stock market, issue bonds, own shares, trade shares and consulting services. The company was licensed for investment management activities by the FRC Chairman’s Resolution No.296 dated November 25, 2019. Erdenes Mongol LLC holds 100% ownership.

**Rare element unit project**

In 2019, the Government of Mongolia (GoM) established a project unit to improve the legal environment for the exploration, extraction, and exploitation of rare earth elements, and to conduct research to assess the economic gains. Thus, the “Rare Earth Research Project Unit” was established by the GoM Resolution No.176 dated May 1, 2019 and Resolution No.16 of the Board of Directors of “Erdenes Mongol” LLC dated May 10, 2019.

**Mongolian Minerals Exchange LLC**

Mongolia’s Minerals Exchange was established per GoM Resolution No.211 dated June 28, 2014 by 100% private funding and in collaboration between domestic and foreign entities.

**5.7.6 SOEs included in the EITI****Erdenet Mining Corporation LLC**

Erdenet Mining Corporation LLC is one of the largest copper mining and processing plants in the world. Established in 1978 by an intergovernmental agreement between Mongolia and Russia.

In 2016, the 49% of shares held by Russian government were transferred to a Mongolian private entity, the agreement is under dispute in court. As of 2017, the mine has excavated approximately 657.3Mt of ore and processed it into copper concentrate<sup>17</sup>. Resolution of Mongolian Government dated March 21, 2019 has resolved that Erdenet Mining Corporation LLC to be re-organized to SOE and its charter approved.

<sup>18</sup> [https://www.erdenetmc.mn/about\\_us/](https://www.erdenetmc.mn/about_us/)

### **Mongolroostsvetmet LLC**

Mongolroostsvetmet is a fluorspar mining and production company with three underground and two open pit mines and a mineral processing facility. The company produces both acid and metallurgical grade fluorspar and gold concentrates.

At the present, company's operations are administration office located in Ulaanbaatar, "Bor-Undur" concentrator in Bor-Undur soum, Khentii aimag, Shijir Alt LLC in Zaamar soum, Tuv aimag, and "Zeregtsee" gold mines. In 2016 company's 49 percent shares owned by Russian government was transferred to Mongolia Mongolian government now owns 100%.

### **Darkhan metallurgical plant JSC**

The Darkhan metallurgical plant was established in 1990 on the base of Darkhan–Selenge iron-ore deposits mine. The deposit is a strategically important deposit with estimated reserves of 230Mt iron ore. As part of plan to develop Darkhan metallurgical plant, the plant built its iron ore wet magnetic processing facility in 2014. In 2015 Darkhan metallurgical plant undertook a management buy-out.

### **Gravel plant of UB railway**

UB railway is a Mongolian-Russian joint venture where GoM owns 50% and the remaining 50% is owned by the Russian government. Gravel plant is one of UB railway branches operational since 1956 with license to extract and produce gravel in the area located in Dalanjargalan soum, Dornogovi aimag.

### **Companies with local ownership**

#### ***Tavan Tolgoi JSC***

Tavan Tolgoi JSC on December 5, 1994 pursuant to Resolution 42 of the privatization committee of the Government of Mongolia restructured as a state-owned company., From 1995, Tavan Tolgoi JSC is operating as a locally owned joint stock company. The Tavan Tolgoi coal mine is located in Umnugobi aimag approximately 270 km from the Mongolian-Chinese border.

#### ***Mogoin Gol JSC***

Mogoin Gol JSC is a coal mining enterprise, established in 1970. The deposit is located in Khuvsgul aimag and the company has been listed on the Mongolian stock exchange since 1994.

#### ***Bayan Teeg JSC***

Bayan Teeg JSC is a coal mining enterprise, established in 1961, its deposit located in Uvurkhangai aimag, 560 km away from Ulaanbaatar. The company was restructured as a joint-stock company in 1995 and 70% of its share is owned by the local government. The company has been listed on the Mongolian stock exchange since 1994.

### ***Other SOEs***

Based on the licenses information provided by MRPAM, we identified additional SOEs. However, due to the fact these SOEs did not make any material payments in 2019 were excluded from our reconciliation scope. These SOEs include:

- Lime Brick Coal SOE,
- Bayan Khishig Kharaa LLC,
- Closed Prison No. 439 of the General Department of Judicial Enforcement, Government Entities, Department and State-Funded Entities
- Open Prison No.419 of the General Department of Judicial Enforcement in Khentii aimag
- Selenge Nature resources LLC.

See Section 5.4.12 for State participation in petroleum sector.

### 5.7.7 Financial relationship between the government and SOEs

#### 5.7.7.1. General Procedures governing financial relations between the government and SOEs

Relationship between the Government and SOEs are regulated by the Law on State and Local Property and associated regulations on state properties. If not specifically stated and covered by the law, the relationship between the Government and the SOEs are regulated by the Company Law and a company charter of the relevant SOE.

According to Article 21.15 of the Law on State and Local Property, the Parliament member in charge of finance and budget shall monitor the financial performance of all state-owned and partly state-owned legal entities, their financial impact and cash flow impact to budgetary entities, and their work performance.

According to Article 21.16 of the Law, state owned, or state-dominated legal entity shall obtain a loan and issue securities upon obtaining approval from the state's central administrative body in charge of finance and budget. /This part was added according to the Law dated February 18, 2015/ However, it does not apply to loans and securities with short repayment terms (within that financial year).

According to Article 21, paragraph 13 of the Law on State and Local Property, state's representative shall submit a written proposal on dividend rate and amount to be paid out by the state-owned or partially state-owned legal entity to the Board of Director for approval. regards the. If not otherwise stated, on Article 46.1 of the Company Law and Company charter, the Board of Directors (or the Shareholders' Meeting on behalf of the Board of Directors) shall determine whether to pay dividends, the amount of dividends per share, list of shareholders eligible to receive dividends with the date and the date of distribution of dividends.

The Government of Mongolia's Action Plan for 2016-2020 aims to improve the use of state and local properties increase profitability of state and local owned companies, improve governance, further implement privatization policies, and to bring public-private partnerships to a new level.

Special EITI standard template containing the requirements related to SOEs was sent to 10 SOEs that made material payments to the Government. The template includes standard requirements such as financial relations between the SOE and the Government, loans and credit guarantees, transfers, and budget expenditures.

#### 5.7.7.2. Retained revenue, dividends

According to Article 11.3 of the Law on State and Local Property, PCSP with consultation with relevant authorities shall determine the plan and distribution of profits from the state-owned legal entities. If not stated otherwise Article 46.1 of the Company Law, Board of Directors /in absence the shareholders' meeting/ shall determine whether to pay dividends, specify the amount of dividend to be paid for each share, determine the date of issue of the list of shareholders eligible to receive dividends and the dividends payment date.

According to Company Law, company post dividend payments must be solvent, its capital amount must be greater than the sum of its share capital, unpaid dividends on preferred shares and its liquidation value, also all their required security payments paid in full. When these conditions are met, dividends shall be paid on common shares.

Erdenes Tavantolgoi JSC disclosed its dividend regulations approved by the Board of Directors' Resolution No.05 dated February 25, 2019 on its website (Table 5.59) <sup>18</sup>.

<sup>18</sup> <https://ett.mn/mon/143/single1>

Table 5.59 Procedures regarding financial relationship

	Does the SOE have the right to approve and follow its dividend policy?	Does the SOE have the right to retain earnings?	Does the SOE have the right to reinvest in its operations?	Does the SOE have the right to raise funds from third parties? / by borrowing debt or issuing shares /
<b>Laws and rules</b>	Yes. For SOEs, BoD is eligible to make decisions on distribution of dividends in accordance with Articles 46 and 47 of Company Law	Yes. For SOEs, According to Company Law, the BoD decides margin of the profit to distribute and how much of the profits to accumulate, depending on the company's financial position and solvency.	Yes. There are no specific legal provisions that apply, BoD has the power to make reinvestment decisions within its authority.	Yes. Company Law 41.1. A company may issue bonds secured by its equity subject to interest and to redeem the bond after agreed period and due date.  42.1. The decision to issue authorized shares or other securities and bonds specified in the company charter is mandated to the BoDs (in its absence, the shareholders meeting) and the decision shall specify the type and number of such securities and the terms and conditions of their issuance.  It is required to disclose bonds, loans, promissory notes, guarantees and other similar financial instruments in accordance with the Article 6.4.8 and 6.8.1 of Law on Glass Account.

Table 5.60 Practical experience, Million MNT

	Dividend as of 2019's result	2019.12.31 Retained earnings (loss)	Reinvestment in 2019	Third party financing (loans, debt and equity)
Baganuur JSC	0	10,168	0	12,708
Bayanteeg JSC	500	5,764	0	0
Darkhan Metallurgical Plant	0	(33,450)	0	0
Mogoin gol JSC	0	2,029	0	0
Mongolrostsvetmet LLC	1,568	25,832	0	0
Tavantolgoi JSC	44,923	88,923	0	0
Shivee Ovoo JSC	0	(3,917)	0	0
Erdenes Mongol LLC	0	6,557	0	0
Erdenes-Tavantolgoi JSC	199,811	1,833,919	0	0
Erdenet Mining Corporation LLC	182,087	1,695,298	0	0
Erdenes Oyu Tolgoi LLC	-	(9,512)	0	0
Border Unit 0119 SOE	-	2,450	0	0
Erdenet alt resource LLC	-	(722)	0	0

Source: Audited financial statements, information provided by companies

#### 5.7.7.3. Issued loan, loan repayment schedule and interest

According to the EITI Standard 2019 Requirement 2.6.a.ii, when government or SOE provides loans or guarantees to oil and gas companies operating in the country, the related details must be stated in the EITI report. This includes repayment schedules, interest, and so on.

In order to meet the requirements of the EITI Standard, the Ministry of Finance, the DBM and the SOEs were requested to provide information on loans and loan guarantees. The DBM was requested to provide information on loans issued to SOEs operating in the extractive sector, but DBM declined to provide the information due to confidentiality factor in accordance with Article 7.2 of the Banking Law and the agreements made with their clients. Baganuur JSC and Erdenes Tavantolgoi JSC provided information from the list of SOEs.

#### Loan guarantee provided to “Erdenes Mongol” LLC, by the Government

Pursuant to the loan agreement USD35 million, repayable within 12 years, LIBOR + 0.60% variable interest rate (3385-MON) signed between Erdenes Mongol LLC and the Asian Development Bank on April 1, 2016, the Government of Mongolia has become the guarantor for the project aimed at strengthening the institutional system and management capacity of Erdenes Mongol. The guarantor agreement<sup>19</sup> was signed between the GoM and ADB on June 3, 2016. The project is scheduled to complete April 30, 2019.

See the terms of the loan agreement and repayment schedule on the ADB website.<sup>20</sup>

#### Loan

Information on SOEs outstanding loans at the end of 2019 from their audited financial statements is shown below:

**Table 5.61 SOE’s outstanding loan balances, 2019**

Company name	Loan balance 2019.12.31	Of which:				
		GoM	MoF /ADB/	Erdenes Mongol	Commercial bank	Other
Erdenes Mongol LLC	184,949	160,492.90	24,455.75	-	-	0
Erdenes-Tavantolgoi JSC	0	0	0	-	-	0
Baganuur XK	81,040	0	31,905	34,005	12,708	2,422
Shivee Ovoo JSC	4,897	Information is not disclosed				
Bayanteeg JSC	771	Information is not disclosed				
Mogoin gol JSC	0					0
Tavantolgoi JSC	0					0
Mongolrostsvetmet SOJSC	20,652	Information is not disclosed				
Erdenet Mining Corporation SOJSC	0					0
Darkhan Metallurgical Plant	196,325	Information is not disclosed				

Source: Audited financial statements of the companies

Baganuur JSC was issued the following loans by GoM and SOEs, and its outstanding balance is as of 2019 follows:

<sup>19</sup> <https://www.adb.org/sites/default/files/project-document/185252/49409-001-ga1.pdf>

<sup>20</sup> <https://www.adb.org/sites/default/files/project-document/185253/49409-001-lbj.pdf>

Table 5.62 Baganuur JSC Loans

Lenders	Date granted	Maturity date	Currency	Interest rate	Contract Amount /Million MNT /	Outstanding balance as of 31 Dec 2019 /Million MNT /	Purpose of Loan
MoF (MON 2854)	3/13/1997	6/1/2031	MNT	1.8%	25,062	20,587	Technical and technological upgrades to the lignite mining, strengthen mine's organizational structure and to develop a strategic plan for the coal sector
MoF (MON-P4)	2/6/1998	2/22/2022	MNT	1.8%	19,580	11,318	
Erdenes Mongol LLC	12/30/2014		MNT		10,205	10,105	
Erdenes Tavan Tolgoi LLC	6/7/2018	6/7/2019	MNT	2.0%	13,900	13,900	Reduce cash shortages and pay short-term loans and liabilities
Erdenes Mongol LLC	9/3/2018	2/28/2019	MNT	8.4%	6,000	6,000	2018-22019 winter preparations, purchase sufficient fuel to ensure sustainable production, accumulate coal reserves, and perform major maintenance works
Erdenes Mongol LLC	9/2/2019	12/20/2019	MNT	11.0%	4,000	4,000	Reduce cash shortages

Source: Information from the Companies

### 5.7.8 Transactions between SOEs (Requirement 4.5)

As per the requirements of the EITI Standard 4.5, payments made by extractive companies to SOEs, material payments made from SOEs to government agencies and vice versa must be disclosed.

Pursuant to Article 6.4.5 of the Law on Glass Account, revenue receipts and expenditures exceeding MNT 5 million must be disclosed with except to salary payments.

Of 11 SOEs included in the reconciliation, 4 SOEs disclosed their information on glass accounts. The material payments made between the SOEs from their cash inflows and outflows are summarized as follows:

Table 5.63 Material transactions of Erdenes Mongol LLC made with SOEs, million MNT

Names of Client SOEs	Deposit	Withdrawal	Description of transaction
Baganuur JSC	533	4,000	Loan and loan interest
Gashuun Sukhait Auto road LLC		13,454	Financing, in-between settlement
Mon-Atom LLC		1,147	Financing, in-between settlement
Development Bank of Mongolia		19,167	Loan and loan interest
Shivee Ovoo JSC		1,500	Road repair and construction under the contract
Energy Resource	16,405	-	Traffic revenue
Erdenes Alt resource LLC		2,334	Financing, in-between settlement
Erdenes Asset Management LLC		308	Financing, in-between settlement
Erdenes Methane LLC		297	Financing, in-between settlement
Erdenes Oyu Tolgoi LLC		755	Financing, in-between settlement
Erdenes Silver Resource LLC		468	Financing, in-between settlement

<b>Erdenes Tavan Tolgoi JSC</b>		309	Loan repayment under the contract
<b>Erdenes Oyu Tolgoi LLC</b>		70	Financing, in-between settlement
<b>Shivee Energy Complex Project of Energy Export</b>		212	Project financing, in-between settlement

Table 5.64 Material transactions between Shivee Ovoo JSC and SOEs, in MNT million

Name of Client SEOs	Deposit	Withdrawal	Description
<b>Amgalan Thermal Power Plant LLC</b>	3,121	-	Revenue from coal
<b>Bor Undur Plant</b>	1,393	-	Revenue from coal
<b>Department of Judicial Enforcement, 425<sup>th</sup> correctional facility in Gobisumber aimag</b>	-	100	Universal Joint LLC, TOB LLC's payment /tender/
<b>Thermal Power Plant 2 SOE</b>	615	-	Revenue from coal
<b>Military Unit 281</b>	20	-	Revenue from coal
<b>Ilchleg Shivee LEO</b>	10	-	Revenue from coal
<b>Ulaanbaatar Railway /Unit 3/</b>	-	47	Road maintenance service fee
<b>Nalaikh Thermal Power Plant SOE</b>	781	-	Revenue from coal
<b>Selenge Energo LOE</b>	205	-	Revenue from coal
<b>Selenge-Zuunkharaa LOE</b>	206	-	Revenue from coal
<b>Tuuliin Khishig LOE</b>	10	-	Revenue from coal
<b>Ulaanbaatar Railway JSC</b>	-	792	Transportation fee
<b>Administrative Department, Ulaanbaatar Railway JSC</b>	-	11	Package fee for e-freight service system software
<b>Ulaanbaatar TPP-4</b>	47,160	-	Revenue from coal
<b>Us-Du LOE</b>	269	-	Revenue from coal
<b>Border Unit 0129 (Ulaan-Uul)</b>	50	-	Revenue from coal
<b>Correctional Facility, Choir city</b>	21	-	Revenue from coal
<b>Chandmani Ilch LLC, Dornogobi</b>	1,515	15	Revenue from coal, Oil price /tender/
<b>Shivee Service LLC</b>	-	978	Employee meals, cloth washing fee paid to subsidiary Shivee service LLC
<b>Erdenes Mongol LLC</b>	1,500	-	Loan

Table 5.65 Material transactions between Monrosvetmet SOJCS and SOEs (excluding Quarter 1, 2019), in MNT million

Name of client SOEs	Deposit	Withdrawal	Description
<b>Baganuur-Southeast region power distribution station SOE</b>	-	7,261	Electricity bill
<b>Darkhan Selenge Electricity Distribution Network JSC</b>	-	761	Electricity bill
<b>Darkhan Selenge Electricity Distribution Network JSC</b>	-	302	Electricity bill
<b>Ulaanbaatar Railway JSC</b>	-	3,700	Transportation cost
<b>Underground Mining Museum, Training and Research and Tourism Center, Mongolia</b>	-	737	Financing
<b>Shivee Ovoo LLC</b>	-	893	Coal price
<b>Shijir Alt LOE</b>	521	-	Gold sales
<b>General Executive Agency of Court Decision</b>	165	-	Deposit refunded
<b>Erdenet Mining Corporation SOE</b>	-	6	Spare parts
<b>Institute for Energy Economics SOE</b>	-	82	Contract payment MP-2018-02-06 audit of energy consumption



**Table 5.66 Material transactions between Erdenet Mining Corporation SOJSC and SOEs (excluding Quarters 1, 2 of 2019) in MNT million**

Name of Client SEOs	Deposit	Withdrawal	Description
<b>Achit-Ikht LLC /34% of the shares owned by Erdenet Mining Corporation/ National Dispatch Center, SOJSC</b>	2,084	-	Water consumption fee
<b>Thermal Power Station</b>	32,271	-	National Dispatch Center SOE's income
<b>Mongol Us SOE</b>	1,108	-	Water consumption fee
<b>Mongol Post JSC, Orkhon aimag</b>	-	158	Payment for water usage permission /Water Supply Shop/
<b>Mon-Ilch LLC</b>	-	42	Postal fee
<b>Coal mining-Shariin gol</b>	-	2,223	Thermal Power Station BKZ 75-39 FB stove №3 overhaul, debt
<b>Ulaanbaatar Railway JSC</b>	-	17,429	Energy coal
<b>Khaan Khund Erdenet LLC</b>	2,300	24,000	RN:2074192 transportation fee, as of March 1, 2019
<b>Khutul Cement, Lime Plant</b>	-	5,990	Meal, 2019/04
<b>Post Office, Orkhon aimag</b>	54	2,500	Technology lime, on behalf of Cement line JSC
<b>Erdenet-Bulgan electricity distribution network, SOE</b>	-	484	Foreign and domestic newsletter subscription, 2017
<b>Erdmin LLC</b>	16,995	156,820	Energy supply, 2019/02
<b>Erdenet-Us SOE</b>	3,631	-	Dividend from Erdmin LLC
<b>Energy Regulatory Commission of Mongolia</b>	1,215	-	Water consumption fee/ Erdenet Water Thermal Power Station SOE
	-	172	Regulation service fee, 2019

Source: Transactions above MNT 5 million that are disclosed on glass account

### 5.7.9 Disclosure of SOE financial statements (Requirement 2.6.b)

Table 5.67 SOEs that disclosed their financial statements

Questions stated in the EITI Standard guidelines	Does the SOE prepare financial statements?	Are the financial statements audited?	Prepared in accordance to international accounting standard (IAS/IFRS)?	Audited in accordance to international standard?	SOE's reports disclosed to the public? If not, what is the reason?	If comprehensive financial statements were not disclosed, can summarized financial statements be disclosed?	What additional steps can be taken for the disclosure of financial an audit reports?
<b>Governing law and regulation</b>	Yes. Financial statements shall be prepared in accordance with the Article 8, Accounting.	Yes. It shall be required to audit in accordance with the Article 10, the Law on Auditing.	Yes. International standards shall be followed in accordance with Article 4, the Law on Accounting.	Yes. Article 14.1, the Law on State Audit and Article 5.1, the Law on Auditing	Yes.	According to Article 9.7 of the Law on Accounting, entities may disclose their comprehensive financial statements, summarized financial statements and auditor's report only after completed audit. JSCs registered on MSE post their key financial results on the MSE's webpage.	No additional step is required.
<b>Name of SOE</b>							
<b>Erdenes Mongol LLC</b>	Yes	Yes	Yesyes	Yes	No*		
<b>Erdenes-Tavantolgoi JSC</b>	Yes	Yes	Yes	Yes	Yes		
<b>Baganuur JSC</b>	Yes	Yes	Yes	Yes	Yes		
<b>Shivee Ovoo JSC</b>	Yes	Yes	Yes	Yes	Yes		
<b>Bayanteeg JSC</b>	Yes	Yes	Yes	Yes	Yes		
<b>Mogoin gol JSC</b>	Yes	Yes	Yes	Yes	Yes		
<b>Tavantolgoi JSC</b>	Yes	Yes	Yes	Yes	No*		
<b>Mongolroostsvetmet SOJSC</b>	Yes	Yes	Yes	Yes	No*		
<b>Erdenet Mining Corporation SOJSC</b>	Yes	Yes	Yes	Yes	Yes		
<b>Darkhan Metallurgical Plant</b>	Yes	No. Audit is in progress	Yes	N/A	No		

\*Audited financial statements were disclosed therefore non-audited financial statements were considered not necessary to be disclosed.

### 5.7.10 Financial statements of SOEs

The EITI Standard 2019 has new requirement that mandates state-owned entities to disclose their audited financial statements, if comprehensive financial statements not available, then their key summary financial statements (such as balance sheet, profit/loss statement, cash flow) to the public.

Mining companies listed on the Mongolian Stock Exchange (MSE) disclose their unaudited key financial statements and comprehensive detailed financial reports submitted to Ministry of Finance on Mongolian Stock Exchange website<sup>21</sup>.

Of the 11 state-owned and partly state-owned companies included in the reconciliation, 6 are public joint stock companies, 1 is a non-public joint stock company, and the remaining 4 are limited liability companies.

As per the Law on Glass Account, state-owned entities are required to disclose their financial and audit reports.

**Table 5.68 Transparency of SOE's financial statements**

Reg No.	Company name	Code at MSE	Financial statements are disclosed on glass account	Disclosed on MSE's website	Disclosed on the company's website	Link to disclosure of financial statements
5124913	Erdenes Mongol LLC	-	No	N/A	No	
5435528	Erdenes-Tavantolgoi JSC	-	No	N/A	Yes	<a href="https://ett.mn/mon/upload/news_files/d30062849c32a052e1d53a8b6f951d97.pdf">https://ett.mn/mon/upload/news_files/d30062849c32a052e1d53a8b6f951d97.pdf</a>
2008572	Baganuur JSC	BAN	Yes	Yes	Yes	<a href="https://shilendans.gov.mn/org/5244?form=4418385&amp;year=2019&amp;month=12&amp;group=0&amp;task=725">https://shilendans.gov.mn/org/5244?form=4418385&amp;year=2019&amp;month=12&amp;group=0&amp;task=725</a> <a href="http://www.baganuurmine.mn/?cat=38">http://www.baganuurmine.mn/?cat=38</a>
2004879	Shivee Ovoo JSC	SHV	No	Yes	Inactive webpage	<a href="http://mse.mn/mn/company/460">http://mse.mn/mn/company/460</a>
2014491	Bayanteeg JSC	BTG	No	Yes	No webpage	<a href="http://mse.mn/mn/company/445">http://mse.mn/mn/company/445</a>
2034859	Mogoin gol JSC	BDL	No	Yes	No webpage	<a href="http://mse.mn/mn/company/444">http://mse.mn/mn/company/444</a>
2016656	Tavantolgoi JSC	TTL	No	Yes	No	<a href="http://mse.mn/mn/company/458">http://mse.mn/mn/company/458</a>
2550466	Mongolrostsve tmet SOJSC	-	Yes	N/A	No	<a href="https://shilendans.gov.mn/org/5240?form=3857436&amp;year=2019&amp;month=12&amp;group=0&amp;task=728">https://shilendans.gov.mn/org/5240?form=3857436&amp;year=2019&amp;month=12&amp;group=0&amp;task=728</a>
2074192	Erdenet Mining Corporation SOJSC	-	Yes	N/A	Yes**	<a href="https://shilendans.gov.mn/pdfview?file=adf890a0265a7771b6cc5741918e5.pdf">https://shilendans.gov.mn/pdfview?file=adf890a0265a7771b6cc5741918e5.pdf</a>
2051303	Darkhan Metallurgical Plant	DTU	N/A	Yes	No	<a href="http://mse.mn/mn/company/526">http://mse.mn/mn/company/526</a>

\*Information un-disclosed on the glass account website because as outside of scope of law specified in Article 3 of the Glass Account Law.

\*\*Erdenet Mining Corporation has glass account section on their website which directly links to the government glass account.

<sup>21</sup> [www.mse.mn](http://www.mse.mn)

### 5.7.11 Audit reports of SOEs

#### 5.7.11.1. Law and regulation on disclosure of SOEs' audit reports

National Audit Office publishes audit reports on its webpage according to the Law on Public Audit.

The previous Law on Public Audit dated January 3, 2003 was in force in 2019, and Article 23.1 of the Law states that “Unless otherwise stated by law, the State Audit Office may print and publish performance audit and other reports or disclose them to the media and the public in another manner.”

As per Article 37.2 of the revised version of the Law on State Audit dated May 1, 2020, and in accordance with the clause set in the Law on Information Transparency and Right to Information the National Audit Office shall publish quarterly audit reports on its website, with exception to information related to state, official, organizational and personal secrets.

#### 5.7.11.2. Implementation of law and regulation on disclosure of audit reports of SOEs

According to the 2019 EITI Report submitted by the Government, there are a total of 20 SOEs holding exploration and mining licenses and of those 8 entities disclosed their audit reports on the website [www.audit.mn](http://www.audit.mn). Of the 10 SOEs included in the consolidation, 5 had their audit reports disclosed on the NAO website, and 1 entity's audited report was disclosed on the glass account website.

Non-disclosed audit reports of SOEs may be confidential according to explanation from NAO.

**Table 5.69 SOEs that did not disclose their audit reports**

Reg No.	Company name	Disclosed on the NAO website	Link to the disclosure
5124913	Erdenes Mongol LLC	Yes	<a href="https://tailan.audit.mn/api/pages/116166e5e709c8e7ff03da104c27c0d6/watermarked.pdf">https://tailan.audit.mn/api/pages/116166e5e709c8e7ff03da104c27c0d6/watermarked.pdf</a>
5435528	Erdenes-Tavantolgoi JSC	Yes	<a href="http://tailan.audit.mn/detail/5eba37ccd2ddc">http://tailan.audit.mn/detail/5eba37ccd2ddc</a>
2008572	Baganuur JSC	Yes	<a href="http://tailan.audit.mn/detail/5eba33d017718">http://tailan.audit.mn/detail/5eba33d017718</a>
2004879	Shivee Ovoo JSC	Yes	<a href="http://tailan.audit.mn/detail/5eba35f2df96f">http://tailan.audit.mn/detail/5eba35f2df96f</a>
2014491	Bayanteeg JSC	No	
2034859	Mogoin gol JSC	No	
2016656	Tavantolgoi JSC	No	
2550466	Mongolrostsvetmet SOJSC	Yes	<a href="http://tailan.audit.mn/detail/5eba34a1625c2">http://tailan.audit.mn/detail/5eba34a1625c2</a>
2074192	Erdenet Mining Corporation SOJSC	No	<a href="https://shilendans.gov.mn/pdfview?file=7e6f510f0a0265a75c12f6cd2df7d622.pdf">https://shilendans.gov.mn/pdfview?file=7e6f510f0a0265a75c12f6cd2df7d622.pdf</a>
2051303	Darkhan Metallurgical Plant	No	

### 5.7.12 SOEs' operation, capital expenditure, procurement, contractor, and regulations and practice on corporate governance (requirement 2.6.c)

#### 5.7.12.1. Operations of state-owned entities

Company Charter is the underlying document regulating operation of the SOE.

Links to the disclosed SOE chapters are shown below.

Table 5.70 Charter of SOEs

Reg No.	Company name	Date, number of approved Charter	Link to the disclosure
5124913	Erdenes Mongol LLC	Government resolution #104 dated 2016	<a href="https://www.legalinfo.mn/annex/details/7188?lawid=11796">https://www.legalinfo.mn/annex/details/7188?lawid=11796</a>
5435528	Erdenes-Tavantolgoi JSC	Shareholders' meeting resolution #01 dated 2018	<a href="https://ett.mn/mon/101/single1">https://ett.mn/mon/101/single1</a>
2008572	Baganuur JSC	Shareholders' meeting resolution dated 2016	<a href="http://www.baganuurmine.mn/?p=3708">http://www.baganuurmine.mn/?p=3708</a>
2004879	Shivee Ovoo JSC	Not disclosed	
2014491	Bayanteeg JSC	Not disclosed	
2034859	Mogoin gol JSC	Shareholders' meeting resolution dated Feb, 2015	<a href="http://governance.mn/upload/company/files/2015/12/18/b5c87eaa6f8f06f5a488687c8808ea88.pdf">http://governance.mn/upload/company/files/2015/12/18/b5c87eaa6f8f06f5a488687c8808ea88.pdf</a>
2016656	Tavantolgoi JSC	Not disclosed	
2550466	Mongolrostsvetmet SOJSC	PCSP Chairman's resolution #06 dated 2018	<a href="http://www.pcsp.gov.mn/togtool/6.pdf">http://www.pcsp.gov.mn/togtool/6.pdf</a>
2074192	Erdenet Mining Corporation SOJSC	PCSP Chairman's resolution #07 dated 2018	<a href="http://www.pcsp.gov.mn/togtool/7.pdf">http://www.pcsp.gov.mn/togtool/7.pdf</a>
2051303	Darkhan Metallurgical Plant JSC	Not disclosed	

#### 5.7.12.2. Procedures and practices related to SOE (operational/ current/ investment) expenditure management

##### Procedures related to SOE expenditure management

Article 11.3 of the Law on State and Local Property states that "The Government Agency for Policy Coordination on State Property (PCSP) shall have the following rights: To determine the planning and allocation of revenue by the state-owned legal entity, in agreement with the relevant organization".

Proposed business plan and procurement plans from SOEs are approved by PCSP dependent on the main economic indicators, targets, and investment plans of the SOE, and its implementation is monitored by members of the board who represent the PCSP.

In addition, according to the Law on Glass Account, state-owned entities must report the following monthly on glass account website:

1. Target level, performance, reasons and explanation of excess or savings (under the Articles 6.1.1, 6.1.6, 6.2.1, 6.2.2, 6.2.3, 6.2.6, 6.3.1, 6.3.3).
2. Capital expenditures, investment projects, action plans and execution (under the Articles 6.2.4, 6.3.7).

Application to disclose above two information on the SOE's glass account are shown in the Table below:

#### 5.7.12.3. Practicality of expenditure management by the SOE

Table 5.71 Glass account transparency

Reg No.	Company name	Whether disclosed on the glass account	
		1 <sup>st</sup> info	2 <sup>nd</sup> info
5124913	Erdenes Mongol LLC	No	No
5435528	Erdenes-Tavantolgoi JSC*	Yes	Yes
2008572	Baganuur JSC	No	No

Reg No.	Company name	Whether disclosed on the glass account	
		1 <sup>st</sup> info	2 <sup>nd</sup> info
2004879	Shivee Ovoo JSC	Not registered on the glass account	
2014491	Bayanteeg JSC	No	No
2034859	Mogoin Gol JSC	No	No
2016656	Tavantolgoi JSC	No	No
2550466	Mongolrostsvetmet SOJSC	Yes	Yes
2074192	Erdenet Mining Corporation SOJSC	Yes	Yes
2051303	Darkhan Metallurgical Plant JSC	Not registered on the glass account	

\*Published on their own website

#### 5.7.12.4. Regulations and practices related to SOE's procurement

The SOE shall carry out procurement activities in accordance with the Law on Procurement of Goods and Services with the State or Local Budget

SOEs adopt rules for domestic procurement that is in line with the law. For example, Erdenes Tavantolgoi JSC has its rules for procurement of goods and services, posted on their website.<sup>22</sup>

As per the Law on Glass Account, the following activities should be:

1. Procurement plan (under the Article 6.1.1),
2. Procurement report (under the Article 6.1.1,6.1.2)
3. Procurement audit reports and other monitoring results /if available/
4. General tender information of activities reflected in capital or current expenditures (under the Articles 6.3.6, 6.4.3, 6.8.2).

Disclosure of the aforementioned 4 information is summarized and shown in the Table below:

**Table 5.72 Procurement transparency**

Reg No.	Company name	Disclosed on the glass account				Link to the disclosure
		1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	
5124913	Erdenes Mongol LLC	Yes	No	N/A	Yes	<a href="https://shilendans.gov.mn/or/5231?group=0&amp;year=2019">https://shilendans.gov.mn/or/5231?group=0&amp;year=2019</a>
5435528	Erdenes-Tavantolgoi JSC	Yes	Yes	N/A	Yes	<a href="https://shilendans.gov.mn/or/5232?group=1&amp;year=2019">https://shilendans.gov.mn/or/5232?group=1&amp;year=2019</a>
2008572	Baganuur JSC	Yes	Yes	N/A	Yes	<a href="https://shilendans.gov.mn/or/5244?group=1&amp;year=2019">https://shilendans.gov.mn/or/5244?group=1&amp;year=2019</a>
2004879	Shivee Ovoo JSC					Not registered on the glass account
2014491	Bayanteeg JSC	No	Yes	N/A	Yes	<a href="https://shilendans.gov.mn/or/5681?group=2&amp;year=2019">https://shilendans.gov.mn/or/5681?group=2&amp;year=2019</a>
2034859	Mogoin gol JSC	Yes	Yes	N/A	Yes	<a href="https://shilendans.gov.mn/or/5356?group=2&amp;year=2019">https://shilendans.gov.mn/or/5356?group=2&amp;year=2019</a>
2016656	Tavantolgoi JSC	No	Yes	N/A	Yes	<a href="https://shilendans.gov.mn/or/7174?group=1&amp;year=2019">https://shilendans.gov.mn/or/7174?group=1&amp;year=2019</a>
2550466	Mongolrostsvetmet SOJSC	Yes	Yes	N/A	Yes	<a href="https://shilendans.gov.mn/or/5240?group=2&amp;year=2019">https://shilendans.gov.mn/or/5240?group=2&amp;year=2019</a>
2074192	Erdenet Mining Corporation SOJSC	Yes	Yes	N/A	Yes	

<sup>22</sup> <https://ett.mn/mon/112/item1/1341>

#### 5.7.12.5. Regulations and practices related to the agreement between SOEs and contractors

There is no specific regulation on agreements between SOEs and contractors. Therefore, SOEs did not provide any agreement related information.

### 5.7.13 Regulations and practices related to corporate governance

#### Regulations and practices related to Board members appointment

For partly state and locally owned companies, procedures for the representation of state and local ownership is regulated by the Law on State and Local Property; the election of independent members to the Board, and committees under the Board and the Secretary of the Board are regulated by the Company Law.

The Government resolution No. 80 dated 2016 defines the relations on implementing state representation in a state-owned legal entity, and the requirements, rights, duties and responsibilities of the state property representative. An entity is considered state-affiliated when state own 100% or a certain percentage of the total issued common shares. The State exercises its rights and responsibilities in the legal entity through a person appointed as a member in Shareholders' Meeting and the Board of Directors. Members of the Board shall be elected and dismissed by the shareholders meeting in accordance with the procedures set forth in Article 77.1 of the Company Law and the company's charter. As per 11.6 of the Law on State and Local Property, state property representative to a state-owned legal entity shall be appointed and shall monitor its activities.

According to Article 75 of the Company Law, the number of board members is determined in the Company's Charter and Board of Directors of a joint stock company or a state-owned company shall have nine or more members, and at least one third shall be independent members.

Article 77 of the Company Law addresses matters related to the election of the board of directors and the expiration of its term. The Board members are elected at the Shareholders' meeting. The Chairman of the Board shall be one of the elected Board members and decided by a majority vote involving all members. Chairman of the Board shall propose Secretary of the Board and the Secretary shall be appointed by the Board.

In the case of LLCs, the Board of Directors may, if deemed necessary, establish permanent or temporary committees in charge of specific matters. The Board of Directors of a joint stock company shall have committees for audit, salary, bonuses, and nomination.

Board's operations are approved and followed in accordance with the law on SOEs. The composition of the board of directors of the SOEs are shown in Appendix 21 of this report.

**Table 5.73 Remuneration and bonuses of the Board, in MNT million**

Company name	Board of Directors Bonuses	Discount, promotion	Travel expenses
Baganuur JSC	78.1	5.3	13.1

Source: Information provided by companies

#### 5.7.14 Quasi-fiscal expenditures

Pursuant to the EITI standards, quasi-fiscal expenditures are defined as arrangements whereby SOE(s) undertake public social expenditures that are outside of the national budget, such as payments for social services, public infrastructure, heating subsidies and national debt servicing.

We requested quasi-fiscal expenditures information from 10 SOEs covered in the reconciliation. Only Baganuur JSC provided their expenditure, and Erdenes Mongol LLC and Tavan Tolgoi JSC reported



that they have no such expenditure made in 2019 fiscal year. No response from remaining 7 SOEs. Please refer to the following table 5.73:

**Table 5.74 Quasi-fiscal expenditures, MNT Millions**

SOE	Quasi-fiscal expenditure		Payment method	Amount
Baganuur JSC	Heating subsidies/sold coal at discounted prices/			
	Thermal power plant No.4, state-owned JSC	Cash	1,300	
	Thermal power plant No.2, state-owned JSC		351	
	Darkhan power plant, state-owned JSC		235	
	Erdenet power plant, state-owned JSC		4	
	Thermal power station of Amgalan		80	
	Thermal power station of Baganuur		1,434	
Total			3,404	

Source: Information from companies

It can be noted from detailed information on Baganuur JSC's heating subsidies that the company sells coal to power plants at price 3 to 4 times lower than global market price.

**Table 5.75 Coal supply**

No	Entities	% in total procurement	Supplied coal, tonne	Supplied amount in /MNT mln/	Average unit price per tonne of coal /MNT/	Average unit cost per tonne of coal /MNT/	Average unit price per tonne of coal /USD/	Average price per 1 tonne of thermal coal at global market /USD/
<b>Baganuur JCS</b>								
1	TPP-4 SOJSC	100%	1,853,452	62,526	33,735	34,436	12.25	29.81
2	TPP-2 SOJSC	100%	239,780	7,906	32,970			
3	Darkhan TPP SOJSC	100%	129,817	4,236	32,627			
4	Erdenet TPP SOJSC	100%	2,935	97	33,026			
5	Amgalan TPP	100%	102,611	3,454	33,657			
6	Baganuur TPP	100%	61,196	673	11,000			

Source: Information from companies, global market price from MRPAM Statistics

MNT selling price of coal was converted to USD using 2019 average BoM exchange rate.

## 5.8 BUDGET PROCESS AND REVENUE ALLOCATION

### 5.8.1 Extractive Industry Income Allocation

Legal documents accompanying Law on State Budget of Mongolia 2019 contain the following amendments. These include:

- Revenue from mineral royalty payments will be transferred to the local administration starting from 2019.
- As the mining industry develops, social responsibility of mining industry increases, environmental protection and rehabilitation works required, as well as the higher allocation to the local community from revenue generated from mining sector is expected.
- Mining license revenues in accordance with Article 23.4.7 of Chapter 23 of the Law on State Budget is to be considered as tax revenues of the State Budget. 50 percent of the revenues shall

be distributed to aimag and capital city local development fund in accordance with Article 60.2.7 of the Law on State Budget, to be effective from 2020.

- Law's effective date is brought forward by a year with 50% of 2019 mineral exploration licence fees revenues and the remaining 50%, in total 100% of the revenues to be transferred to the local budget where the exploration area is. 50 percent of the mining licence revenues will be transferred to the local budget beginning 2020. This regulation shall be made effective by amendment to the Article 60.2.7 of the Law on State Budget and shall nullify Article 71.6 of the Law.

### 5.8.2 Case where revenue from the extractive sector was not accounted in the state budget (Requirement: 5)

We requested the Ministry of Finance to provide us with information on income that is not accounted in the state budget, taxes received in advance that might have been recorded as "debt". However, we were not received official response letter from MoF.

#### 5.8.2.1. Local transfer

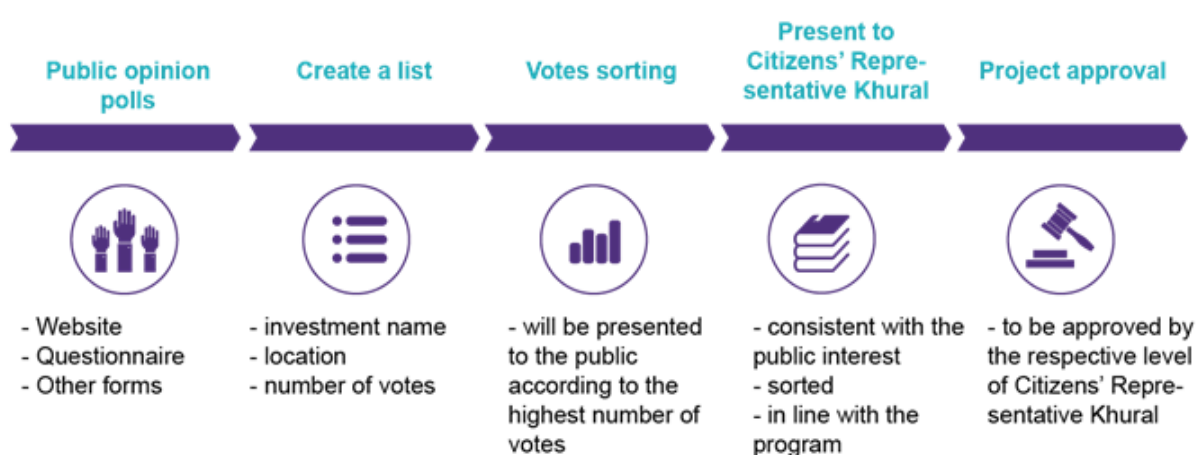
##### General Local Development Fund (Requirement 5.2)

The Local Development Fund is a budget that is governed by the citizens. The fund has the advantage of providing administrative units with their own investment options and programs and to finance their self-sustaining activities.

In 2019, total of 53.0 billion MNT was allocated to the fund, which consist of 5% of domestic value-added tax, 5% royalty payment, 30% royalty payment for oil reserves, incentives, and support from international organisations. The Fund when allocating each aimags and capital city share utilize a formula that takes into consideration population size, distance, territorial size, and local development index. Aimag and capital city after retaining their portion shall transfer minimum 30% of the fund allocated to their soum and district using the same formula.

Local community development funds should be expended on local community development, investments, programs, and projects that benefit community's actual needs and requirements and to be endorsed and approved at the local community meeting and Citizens' representatives.

Figure 5.11 Local Development Fund Participation



Source: Citizen's budget-2018, MOF

The Ministry of Finance adopted the integrated rural development fund system in 2013. This system allows to review the allocation of consolidated local development funds to aimags, capital city, soums and districts starting 2013. Refer to link: [www.tusuv-oronnutag.mof.gov.mn](http://www.tusuv-oronnutag.mof.gov.mn).

### 5.8.3 Income management and expenditure (Requirement 5.3)

#### 5.8.3.1. Participation of extractive sector in revenue generating

Legal documents accompanying Law on State Budget of Mongolia for 2019 “Actions to be undertaken in conjunction with approved 2019 State Budget of Mongolia” contain the following amendments. These include:

- Effectively utilize Aimag and Local Development Fund’s expenditure through prioritizing the new investments and projects and extend citizens participation in performance monitoring. From 2019 and onwards 50 percent of the revenues from mineral exploration licenses are transferred to the license locating aimag directly from state budget;
- 50 percent of the air pollution charges for raw coal and 30 percent of the oil license revenues generated are being transferred to that aimag from the state budget in order to effectively reduce air pollution, improve environmental protection, rehabilitation and reforestation activities, monitor its implementation.

#### 5.8.3.2. Revenue stability and dependence on natural resources (Requirement 5.3.b)

An Independent Administrator had requested from Ministry of Mining and Heavy Industry and the Ministry of Finance to provide information on future assumptions of fiscal cyclical changes, production projections on of extractive sector, mineral market pricing projections and assumptions, preliminary estimation of revenues from the extractive sector, projection of extractive sector’s revenue portion in the state budget. These ministries have not provided detailed information.

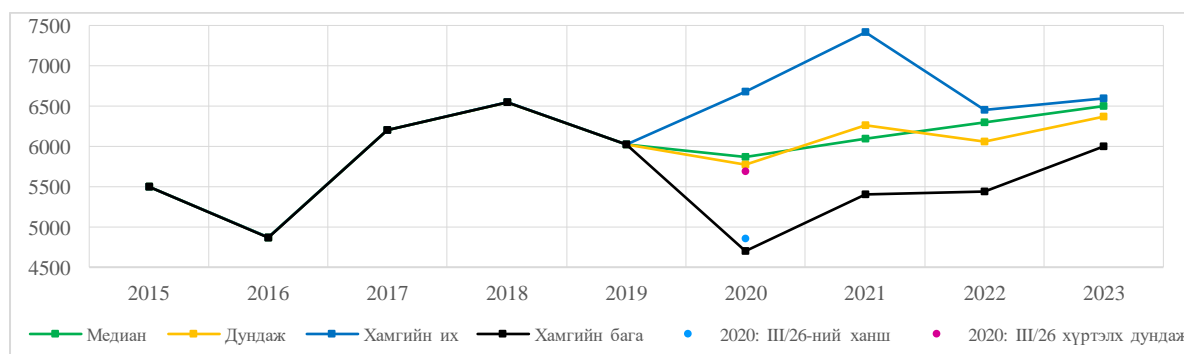
#### 5.8.3.3. Mining industry development trend

**World economic outlook.** As a result of the pandemic, the global economy is projected to contract 3 percent in 2020. In a baseline scenario—which assumes that the pandemic fades in the second half of 2020 and containment efforts can be gradually unwound—the global economy is projected to grow by 5.8 percent in 2021 as economic activity normalizes, helped by policy support. However, many factors affecting the global economic outlook, such as the outbreak, the development of vaccines, the results of measures to limit the spread, and global financial and commodity market volatility, remain unclear, which limits the ability to accurately predict future trends in the world economy. The International Monetary Fund (IMF) has warned that global economic growth in 2020 could not reach projected levels if the epidemic continues and spreads again in 2021.

#### 5.8.3.4. Market trends in key mineral products

**Copper.** Copper prices averaged \$ 6,020.3 in 2019, down 8.7 percent from the previous year. Majority of international analysts expect copper prices to fall in 2020 and rise in 2021. According to Bloomberg, over the past three months, analysts have lowered their forecast for copper prices in 2020. This is due to the slowdown in aggregate economic demand due to the spread of the COVID-19 virus. However, analysts are optimistic about copper prices in 2021.

**Chart 5.12. Copper price movement and forecast, USD,tonne**

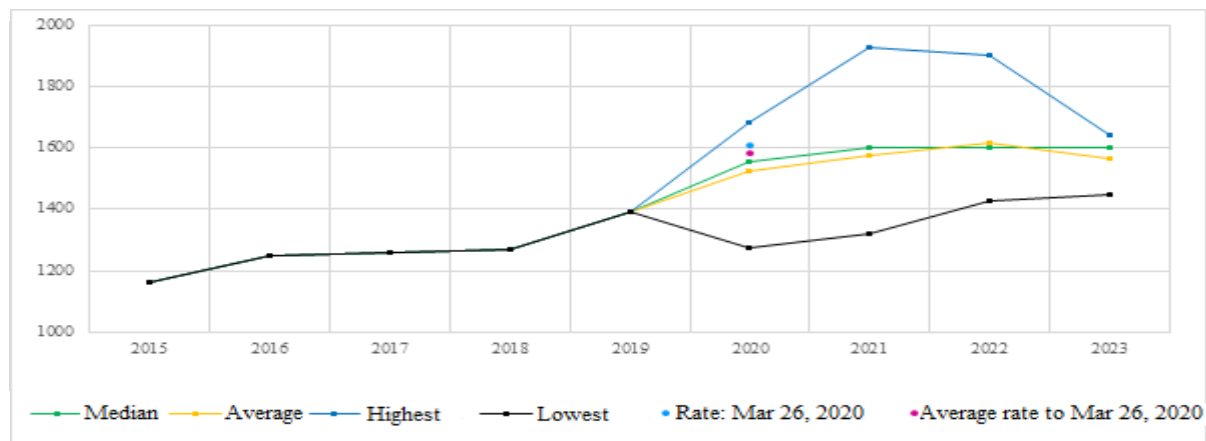


Source: Bloomberg terminal

**Gold.** Gold prices averaged \$ 1,393.4 in 2019, up 9.8 percent from the previous year. Although global gold consumption did not increase in 2019, investment in gold has increased due to market uncertainty. Increase in net gold purchases by central banks and a three-fold cut in interest rates by the US Federal Reserve also pushed up gold prices.

International analysts predict that gold prices will continue to rise in 2020. The world gold price is expected to average \$ 1,640.0 in 2020 and \$ 1,660.0 in 2021.

**Chart.5.13. Gold price movements and forecasts, USD, troy ounce**



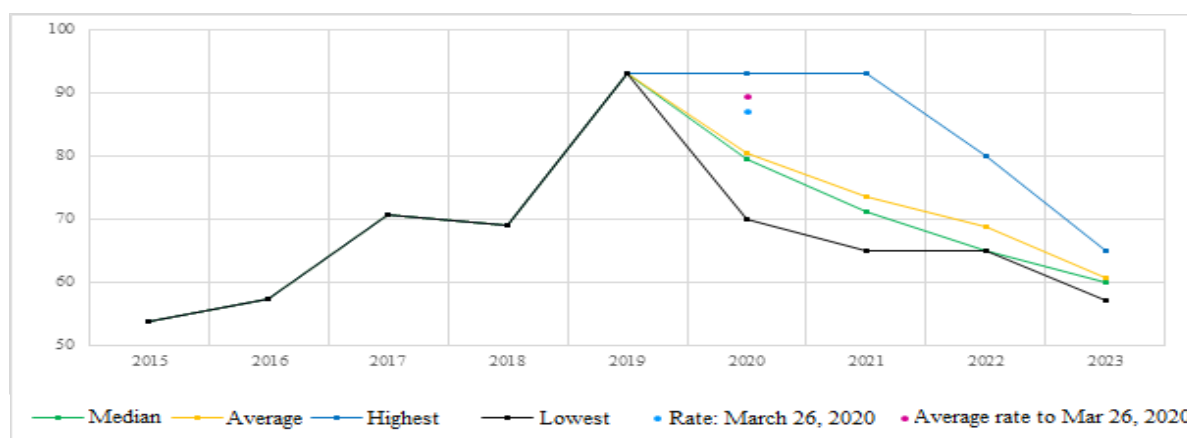
Source: Bloomberg terminal

Medium term rise in gold prices is due to financial markets volatility and political instability in world, as well as low global policy rates. High gold purchases by central banks due to uncertainty in the market support the demand for gold.

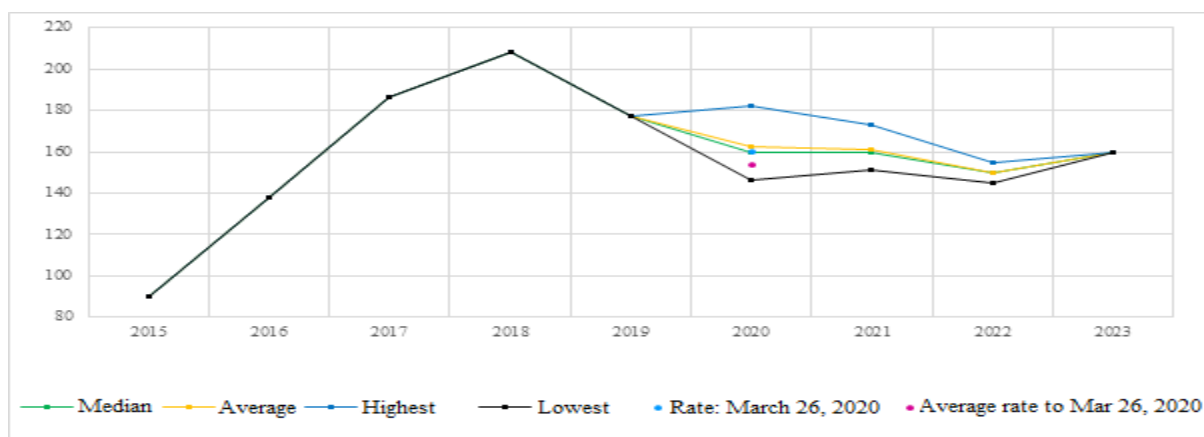
International analysts have raised their gold price forecasts for 2020 and 2021 compared to their previous forecasts.

**Iron ore.** Iron ore prices averaged \$ 93.1 in 2019, about 35 percent higher than previous year. Analysts expect steel consumption growth to slow down in 2020. Therefore, international organizations expect iron ore prices to fall in 2020-2023.

**Chart 5.14. Iron ore price movements and forecasts, USD, ton**

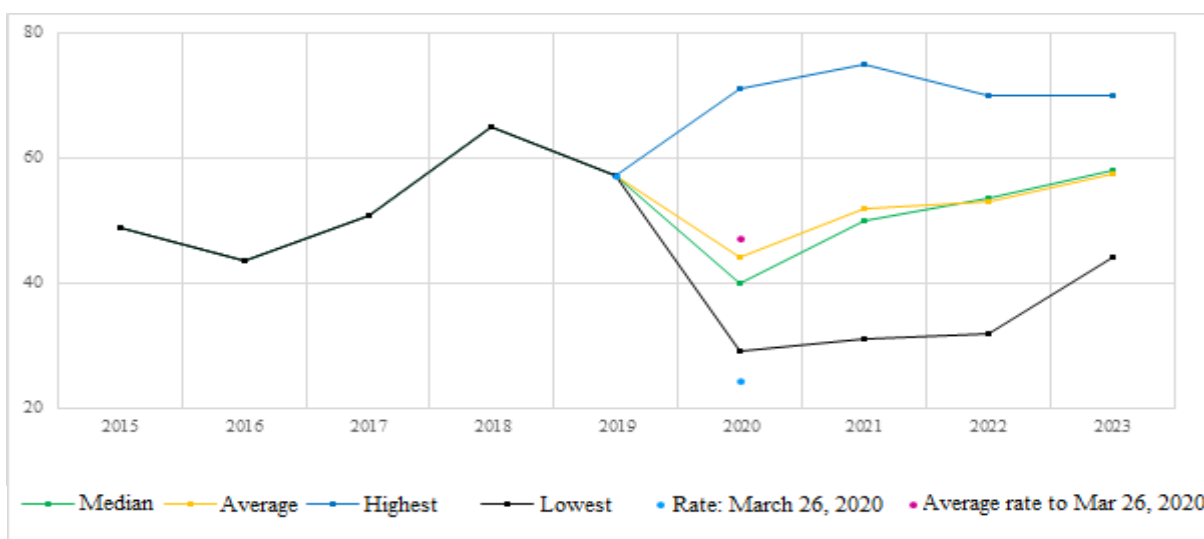


**Coal.** The price of high-quality Australian coking coal fell 15 percent in 2019 to \$ 177. Researchers expect Australian coal prices to fall in the medium term.

**Chart 5.15 Coal price movements and forecasts, USD, ton**

Source: Bloomberg terminal

**Oil.** Oil prices averaged \$ 57.0 in 2019, down 12 percent from the previous year. Analysts predict that oil prices will fall in 2020 and rise again in 2021. In recent months, most research institutions have downgraded their 2020 oil price projections.

**Chart 5.16 Oil movement and forecasts, SD, barrel**

Source: Bloomberg terminal

#### 5.8.3.5. Systematic disclosure (mainstreaming)

Disclosure of information on revenues, expenditures, and operations of funds generated from extractive sector (Requirement 5.3.a).

The public can access information and explanation on the state budget and audit activities, as well as on audit reports on budget preparation, spending, projects performance, through the following channels (Requirement 5.3.a).

Table 5.76 Open information of the state budget and audit activities

Website	Description
www.mof.gov.mn	Ministry of Finance's official website and provides information on the structure, policies, directions, and budget of the Ministry
www.iltod.gov.mn	Current budget information, annual budget information, budget-related laws, decrees and regulations
www.shilendans.gov.mn	Information on budgets and expenditures of all budgetary organizations and state-owned enterprises
www.tusuv-oronnutag.mof.gov.mn	Information on projects and programs funded by the Local Development Fund
https://publicinvestment.gov.mn <b>"Budget investment" application</b>	An online website for public investment financing activities and a mobile application "Budget Investment"
www.e-balance.mof.gov.mn	Integrated business reporting system, accounting instructions, decree, and advice
www.audit.mn	Audit plan, report, and recommendation
www.tender.gov.mn	State procurement online system
www.1212.mn	Integrated database of National Statistics Office
www.worldbank.org/mn/country/mongolia	Webpage of Mongolia, World Bank
www.imf.org/en/Countries/ResRep/MNG	Webpage of Mongolia, IMF
www.adb.org/countries/mongolia/main	Webpage of Mongolia, ADB
www.internation albudget.org	Webpage of International Budget Partnership NGO

# 6

## OTHER MATTERS





## 6 OTHER MATTERS

### 6.1 BENEFICIAL OWNERSHIP (REQUIREMENT 2.5)

A beneficial owner is the natural person(s) who ultimately owns, controls, or benefits from a company and is not the person(s) who is legal shareholder or the person(s) who work for or on behalf of the company. A beneficial owner is not necessarily a shareholder but is involved in and influences decision making, hides behind a complicated structure and directly or indirectly benefits from a company.

The EITI global Standard requires that by January 1, 2020, all implementing countries have to ensure that all corporate entity(ies) that apply for bid, operate or invest in extractive assets or hold a participating interest in an exploration or production oil, gas or mining license or contract should include the identity(ies) of their beneficial owner(s).

The EITI Board has undertaken several actions on beneficial ownership.

**Table 6.1 Beneficial ownership**

Year	Actions
May 2013	Agreed that the EITI to require disclosure of BO.
October 2013	A pilot of BO took place with the participation of eleven implementing countries.
January 2016	29 EITI implementing countries are implementing to certain degree. 9 countries are including BO information in the EITI report.
February 2016	Under the EITI Standard, as of 1 January 2020, it is required that implementing countries request, and companies disclose, beneficial ownership information for inclusion in the EITI Report.

#### 6.1.1 Mongolia's approach and the Government policy

In 2016, the Working Group appointed a sub-working group to investigate how the beneficial ownership requirements of the EITI Standard can be met in Mongolia. The sub-working group drafted a roadmap, which was approved by the National Council meeting on 20 January 2016 and further amended on 21 December 2017.

The roadmap includes 7 objectives with 32 actions to be implemented by 2020. Please refer to the link for detail: <http://www.eitimongolia.mn/mn/beneficial-ownership-disclosure>.

With respect to objective of disclosing the beneficial ownership, definition of terms, scope, materiality threshold and data for collection were finally approved at the meeting of EITI Working Group dated November 15, 2017. Before such approval, over 260 participants representing government, companies and civil society have involved in the series of discussion and then the final version was developed considering those comments received. The following definitions were agreed: -

**“Ultimate beneficial owner”** means the individual person(s) who directly or indirectly holds, owns, benefits 5% or more of company shares or any identical securities, 20% or more of voting rights and ...% or more of dividends of legal entity who is license holder, investor, bidder and the contractor in the extractive industry, and exercises management and controls of the company directly or indirectly, or exercise shareholder rights in other means.

**“Indirect holding and ownership”** mean indirectly to hold shares, any identical securities, and exercise voting rights through related parties with common interest using contract, power of attorney or other types of representation; OR to establish 1 or more legal entities referred to as the custody chain.

**“Direct management and control right”** means right of making decisions to appoint governing persons of company according to Article 84 of Company law and the Company Charter; and, individually or collectively with the party who has a common interest, to decide whether to enter into significant transactions.

**“Indirect management and control”** refer to situation where the one exercises management and controls of the company through related parties with common interests using contract, power of attorney or other types of representation.

If the ultimate beneficial owner is a **politically exposed person**, then materiality threshold shall not be applied (0%) for the ownership percentages of the beneficial owner and his/her related parties with common interests; public disclosure is mandatory.

**Politically exposed person** means officials defined in Article 20.2 of the Law on the Prevention of Conflict of Interest and the Regulation of Public and Private Interests in the Public Services.

A national anti-corruption programme was approved by the GoM Resolution No. 114 dated April 12, 2017. Per 4.1.6.5 of the attachment to this Resolution, it was planned to disclose beneficial owners within the framework of EITI standards, to implement compliance with this requirement for the period between 2020-2022 and that the MEITI Working group shall oversee it.

National Council of OGP Mongolia have developed and presented “National Action Plan II 2016-2018 of Mongolia” at the Cabinet meeting. At the meeting, the NAP had positive support and reflected comments from the Ministers; and final draft of NAP making 13 commitments was discussed and approved at the meeting of National Council dated June 7, 2016.

Commitment number 12 of the plan is related to transparency of information on beneficial ownership in mining sector; and the responsible ministries and agencies are state administrative body in charge of budget and finance, and state administrative body in charge of mining related issues.

### 6.1.2 Transparency of beneficial ownership

For the 2019 EITI report, a template was developed to identify beneficial ownership in a single inquiry and was uploaded onto the MEITI e-reporting system.

According to the EITI requirements, the following data will be collected using the template, however, the collected information will partially be available for the public:

- First and Last name,
- Nationality,
- Registration No.,
- Date of Birth,
- Citizenship, dual citizenship if applicable,
- Country of residence,
- Whether politically exposed person,
- Whether holding roles of executive management in the company,
- Address of the current employer,
- Percentage of ownership,
- Whether acting as attorney-in-fact to exercise rights on behalf of others.

Out of total 2093 companies 291 companies provided beneficial ownership information and 45 companies included in this consolidation.

Information provided on beneficial ownership by all 291 companies covered in the reconciliation are summarised as follows:

For reports of some beneficial ownership information in Mongolia since 2013, please refer to: [www.eitimongolia.mn/mn/beneficial-ownership-disclosure](http://www.eitimongolia.mn/mn/beneficial-ownership-disclosure)

For details of information submitted by companies, see Appendix 21(b, c).

**Table 6.2 Beneficial owners of certificate holding companies**

Country	Managerial staff	Individual	Other	Public company	Total
Mongolia	3	200	120	2	325
China	-	32	-	-	32
Canada	-	-	20	8	28
Japan	-	-	2	-	2
Russia	-	4	7	-	11
Thailand	-	5	1	-	6
Australia	-	-	-	1	1
Hong Kong	-	2	-	1	3
Spain	-	1	-	-	1
USA	-	2	2	-	4
The United Kingdom of Great Britain and Northern Ireland	-	-	-	2	2
Cook Islands	-	-	-	2	2
Switzerland	-	-	-	-	-
Bermuda	-	-	2	1	3
Germany	-	-	-	1	1
Luxembourg	-	-	-	1	1
Maine Island	-	-	-	1	1
Singapore	-	1	-	-	1
Spain	-	-	2	-	2
<b>Total</b>	<b>3</b>	<b>200</b>	<b>120</b>	<b>2</b>	<b>325</b>

## 6.2 CONTRACT TRANSPARENCY

### 6.2.1 Initiative to improve contract transparency

There have been several actions taken by government to improve the disclosure of contracts with extractive companies, including:

- Amendments to the Petroleum Law by the Parliament in 2014 enable to enforce regulations related to non-traditional oil. The clause related to the confidentiality in the Model Agreement for Product Sharing Agreements was revoked. The confidentiality clause in the Petroleum Product Sharing Model Agreement was repealed.
- The provision on transparency and mandatory disclosure of the government organisations' contracts was included in the Law on General Administration adopted in 2015.

During the recent years, the Government has signed a number of Concession agreements to support the construction of auto roads, railways, supply of power, heating, water and other logistics facilities associated with the extractive industry. Article 6 and Clauses 6.4 and 6.5.9 of the Law on Glass Accounts enacted in 2014 state the 'legal entities with state and local ownership shall disclose information on Concession Agreements and Partnership Concession Agreements'. This clause also enables the companies to disclosure partially the agreements' information.

On December 18, 2014, the EITI Secretariat, 'Publish What You Pay' Coalition and National Mining Association of Mongolia jointly organised the Multi-Stakeholders Consultations on Agreements Transparency in Mining Sector` under the Open Society Forum of Minerals in Ulaanbaatar city with support of the Standing Economic Committee of the Mongolian Parliament and the Ministry of Mining and Heavy Industry.

The consultations focused on the current laws relating to contracts / agreements transparency in mining sector, their implementation, exchanging the experiences and lessons of foreign countries, identifying the challenges in executing the agreements, and defining the ways to resolve them. The participants agreed that:

- In order to create contract transparency in mining sector, access to information and arrangement, there is a need to create integrated database, containing copies of each Stability Agreement, Investment Agreement, Product Sharing Agreement, Agreement for Geological Operations and Pre-Mining Agreements signed between the Government, the organisations related to Government and the Investors for minerals sector, petroleum sector, natural gas sector and other license holders. The full disclosure of the agreements should be ensured by displacing them on the web sites of the respective governmental organisations;

Under Article 42 of the Minerals Law, there is a need to increase contract / agreements transparency between the local government organisations and the license holders by publishing them on websites, information stands, and by the means most suitable for the local communities. Also, the entire process of the agreements developing shall be disclosed through regular information sharing, public hearings, consultations, and engaging with the local communities. These consultations helped to initiate the consensus building among the government, civil society and private stakeholders on issues related to contract / agreement disclosure and legal background improvement,

Therefore, [iltodgeree.mn](http://iltodgeree.mn) web was established by the Open Society Forum (OSF Mongolia) in cooperation with the EITI Secretary of Mongolia and the Ministry of Mining and Heavy Industry (MMHI). Original documents such as Investment and Production Sharing Agreements and Concession Agreements related to the use of natural resources such as minerals, oil, natural gas, radioactive and common minerals; and Local Agreements made between license holders and the local authority are allocated on this website.

A list of key legal provisions related to contract transparency, including the extractive sector are shown in the table below<sup>23</sup>.

**Table 6.3 Contract Transparency**

No	Name of the legislation	Related articles to contracts and its transparency
<b>Law</b>		
1	Constitution of Mongolia	Article 6.1 and 6.2; Article 16.17
2	Minerals Law	Article 5.3-5.5; Article 42
3	Law on Common Minerals	Article 40
4	Petroleum Law	Article 12;13;14; 17
5	Nuclear Energy Law	Article 29-31
6	Law on Investment	Article 20
7	Law on Concessions	
8	The Law to Prohibit Mineral Exploration and Mining Operations at River Headwaters, Protected Zones of Water Reservoirs and Forested Areas	Article 2.2; 3; 4
9	General Administrative Law	Article 11; 26-28
10	Law on the Information Transparency and Right to Information	Entirely
11	Law on Privacy of Organizations'	Article 4; 6
<b>State policy</b>		
12	State Policy on Mineral Sector	Article 3.1.7; 3.5.2
13	Law on Glass Accounts	Article 6.4.8; 6.5.9-6.5.10; 7.1.1
<b>Rules and Procedures</b>		
14	Procedural Rules for Investment Agreements	Entirely
<b>Resolutions of the Parliament</b>		

<sup>23</sup> <http://www.iltodgeree.mn/legal/3/detail>

15	Parliament Resolution on the Investment Agreement of Oyu Tolgoi Deposit	Entirely
16	Parliament Resolution on the Issues of Tavan Tolgoi Coal Deposit	Entirely
17	Parliament Resolution on the amendments to the Resolution on the Issues of Tavan Tolgoi Coal Deposit	Entirely
18	About the establishment of the state's share of the Gatsuurt deposit	Entirely
<b>Government resolution</b>		
19	Measures on the implementation of Extractive Industries Transparency Initiative	Article 7; 8
20	About some of the Tavan Tolgoi deposits	Entirely

Source: Resource Contracts Database, Open Society Forum, <http://www.iltodgeree.mn/>

### 6.2.2 Actual disclosure practice

On June 22, 2017, Open Society Forum, EITI, Ministry of Mining and Heavy Industry launched an online database for resource contracts to meet the EITI Standards requirement 2.4 on improvement of contract transparency. The database is designed to enable the public, civil society, journalists, and academics to do various analysis, monitoring and research through accessing to the full text of resource contracts and relevant documents.

As of December 14, 2020, there 769 contracts are posted in the resource database:

**Table 6.4 Contracts in the resource database**

No	Types of agreements	Quantity
1	Land Lease Agreement	124
2	Local Cooperation Agreement	180
3	Concession Agreement	4
4	Contract on water use	53
5	Contract under the Law on Prohibiting minerals exploration and exploitation in water heads and protected zone of rivers and forested areas	23
6	Production Sharing Agreement	26
7	Investment Agreement	4
8	Stabilization Agreements	11
9	Pre-mining Agreement	45
10	Reimbursement agreement for minerals exploration funded by state budget	67
11	Service Contract	1
12	Oil prospecting agreement	16
13	Artisanal mining agreement	238
14	Plans	1
15	Contract annex	1
16	Others	2
<b>Total</b>		<b>796</b>

For further information, visit: <http://www.iltodgeree.mn/>

### 6.3. IN KIND REVENUES (REQUIREMENT 4.2)

In accordance with the requirement 4.2.a of the Extractive Industries Transparency Initiative (EITI) Standard of 2019, MRPAM provided the following information on “Sales of shares from production to the state”:

**Table 6.5 Sales of shares from production to the state**

№	Company name	Type of minerals	Mineral production (extraction)	Belongs to the state		Sales of 2019 /MNT million/
				%	Amount (MNT million)	
1	Petrochina Daqing Tamsag LLC	Petroleum	3172.44 ths barrel	24%	95,799.41	95,799.41
2	Petrochina Daqing Tamsag LLC	Petroleum	3323.39 ths barrel	27.80%	114,780.06	114,780.06
3	Dongshen Refinery Mongolia	Petroleum	376.07 ths barrel	28.30%	21,687.65	21,687.65

Source: MRPAM

According to the requirement 4.2.b.c of the EITI Standard 2019, official letters were sent to SOEs requesting detailed information about how they (directly, indirectly) sold their products to the state, but none of them returned response to the letter. In addition, such information is not disclosed on Erdenes Mongol's webpage ([www.ett.mn](http://www.ett.mn)).

The sales data of the 3 SOEs that disclosed their information on the glass account are as follows. Other SOEs have not allocated their information on the glass account.

**Table 6.6 Sales data of SOEs**

№	SOEs	Sold products		Purchaser
		Type	Amount (MNT million)	
1	Shivee Ovoo JSC	Coal	3,120.8	Amgalan Thermal power plant LLC
		Coal	1,392.6	Bor-Undur factory
		Coal	615.1	Thermal Power Plant-2 SOE
		Coal	781.0	Nalaikh Thermal power plant SOE
		Coal	204.5	Selenge Energo Locally Owned Entity
		Coal	206.1	Selenge-Zuunkharaa Locally Owned Entity
		Coal	47,160.0	Ulaanbaatar Thermal Power Plant-4
		Coal	269.0	Us-Du Locally Owned Entity
		Coal	1,514.9	Chandmani Ilch LLC Dornogobi
		Coal	139.00	Khutul energy dulaan LLC
		Coal	821.50	Chandmani badral LLC
		Coal	1,500.00	Chandmani Ilch LLC XXK Dornogobi
		Coal	181.00	ENERGY PLUST LLC
		Coal	217.5	Other
2	Erdenet Mining Corporation SOE	Copper concentrate	6,634.60	TFMetall Limited ltd
		Copper concentrate	58,941.0	Gold Miles Limited LLC
		Copper concentrate	20,816.0	Gerard Metals ins
		Copper concentrate	11,226.0	Jin Song International PTE.LTD
		Copper concentrate	213,194.0	King Fine LLC
		Copper concentrate	17,437.0	Cliveden Trading AG
		Copper concentrate	1,239.0	ClearageTrading LLC
		Copper concentrate	240,685.0	Milliford Global Corporation LLC
		Copper concentrate	283,428.0	Ocean Partners
		Copper concentrate	165,575.0	Red Metal Inc
		Copper concentrate	256,470.0	Samsung Firma LLC
		Copper concentrate	240,852.0	Taurus Metal
		Copper concentrate	23,893.0	Trafigua
3	Mongolrostsnetmet SOE	Gold	521.5	Shijir-Alt Enterprise
		Fluorspar	4,694.0	Gan Erdenes Khuder LLC
		Fluorspar	5,740.0	Jintaihe LLC
		Fluorspar	3,968.0	Interstyle LLC
		Fluorspar	1,111.0	Mariya Trade LLC

№	SOEs	Sold products		Purchaser
		Type	Amount (MNT million)	
		Fluorspar	2,763.0	Rate Invest LLC
		Fluorspar	3,716.0	Rich Hill Mining LLC
		Fluorspar	20,026.0	Centuria Monggu LLC
		Fluorspar	3,160.00	Sentoru Monggu LLC
		Fluorspar	100.00	Circon Geology LLC
		Fluorspar	1,674.00	Eco Khelkhee LLC
		Fluorspar	118.50	MK Metal LLC
		Fluorspar	6,007.00	Bozhong trade Co LTD

Source: Glass account

#### 6.4. INFRASTRUCTURE INVESTMENTS AND BARTER ARRANGEMENTS (REQUIREMENT 4.3)

In some cases, in order to obtain license for mineral resources of a country the extractive companies enter into agreement with government entities to provide in-kind services and goods (infrastructure investment). Examples of investment may include road, railway, power station, school, and hospital.

The benefits obtained by these companies represented by use of petroleum oil, gas, mineral resources, land, energy and water and other elements. This kind of agreement is called barter agreement or 'resource-for-infrastructure swap agreement'.

For recompilation purposes the companies and the government entities were requested to provide information in new template on infrastructure investments and barter arrangements carried out in 2019. The companies responded that they have not engaged in any such transactions.

#### 6.5. TRANSPORTATION REVENUES (REQUIREMENT 4.4)

Where revenues from the transportation of oil, gas and minerals are material, the government, and state-owned enterprises (SOEs) are expected to disclose the revenues received.

The following Table reports the transportation revenue information of enterprises, the type of product transported, the unit of measurement of the transported product, and the names of government agencies that received the transportation revenue.

**Table 6.7 Transportation revenue of the entities**

№	Companies	Types of minerals transported	Transportation revenue recipient entity name	Total value /in million MNT/
1	Companies received transportation service in 2018	Coal	Mongolian Railway SOJC	2,534.50
2	Companies received transportation service in 2019	Coal	Mongolian Railway SOJC	3,802.60

Source: Mongolian Railway SOJC

The published information shall have the same breakdown as of other revenue, payment streams (4.7). The multi-stakeholder group is responsible for developing and implementing procedures related to the quality of transportation revenue information and the verification of the above information in accordance with Requirement 4.9. EITI implementing countries shall disclose the following information:

- Information on the organization of transportation, including the products being transported, the transportation route, the company involved in the transportation and the government organization (including state-owned enterprises);
- Description of transportation taxes, tariffs and other charges, and methods of calculating them;
- Disclosure of tariff rate and quantity, size of transported products;
- Disclosure of revenues received by government agencies and state-owned enterprises from the transportation of oil, gas and minerals.



The following table shows the details of the 2019 Mineral Transportation by Rail, obtained from the Policy and Planning Department of the Ministry of Roads and Transportation, are shown in the Table below:

**Table 6.8 Details of minerals transported by rail**

№	Name of cargo /minerals/	Car /qty/		Load /thous. thous.t/	
		2018	2019	2018	2019
1	Coal	133882	129462	8821.5	8550.3
2	Petroleum, petroleum product	10547	9362	641	564.7
3	Fluorspar, fluorspar concentrate	8215	10178	543.7	679.7
4	Copper and molybdenum concentrates	9893	9779	657.9	651.8
5	Iron ore	82301	101450	5780.1	7111.6
6	Zinc concentrate	389	484	24.1	30.1
7	Building materials. Including:	25067	32659	1621.8	2115
8	Cement	11143	13568	757.7	931.7
9	Basalt	6074	8839	368.1	543
10	Concrete	889	1060	51.8	61.4

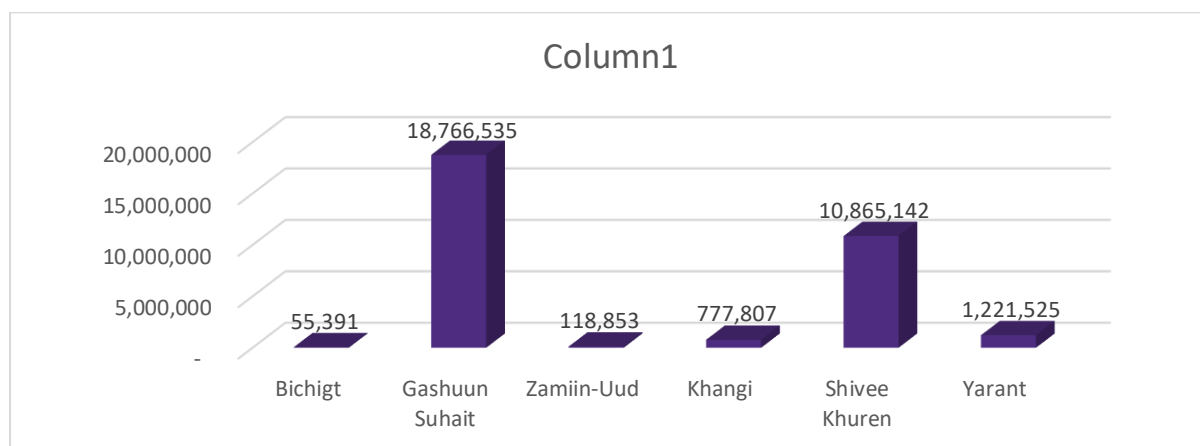
Source: Ministry of Road, Transportation Development

Information on minerals transported on road by international freight forwarding companies in 2019 were obtained from the Policy and Planning Department of the Ministry of Roads and Transportation, and they are shown in the table below:

**Table 6.9 Transportation on road**

№	Company name	Freight type /mineral/	Route	Freight volume /in thousand ton/	Freight turnover / thousand-ton km/	Revenue /MNT million/
1	Petrochina Daqing Tamtsag LLC	Oil, petroleum	Bichigt Port	283.4	232.3	22,469.0
2	Andiin Elch LLC	Brown coal, iron ore		76.4	6.1	1.0
3	Petrochina Daqing Tamtsag LL	Petroleum	Bayankhos huu-Uvdug Port	527.4	337.5	50.9
4	Altain Khuder LLC	Iron ore concentrate	Burgastai Port	1,006.5	80.5	27.5
5	Oyu Tolgoi LLC	Copper concentrate	Gashuun Sukhait Port	739.3	170.0	20.4
6	Entity	Coal		18,766.5	4.5	202.0
7	Entity /Individual	Coal	Zamiin-Uud	118.9	0.8	3.0
8	Individual	Fluorspar	Khavirga-Ar khashaat	7.4	-	-
9	Entity	Coal	Khangai	777.8	150.5	8.4
10	Entity	Zinc		2.3	0.4	-
11	Mon Laa LLC	Ore		81.3	1.6	-
12	Entity	Coal	Shivee khuren	10,865.1	706.2	117.3
13	Entity	Coal	Yarant	1,221.5	427.5	33.4
14		Ore		3.2	1.1	-

Source: Ministry of Transportation and Road Development

**Figure 6.1 Coal export volume, by ports**

## 6.6. SOCIAL EXPENDITURES (REQUIREMENT 6.1)

In 2019, 171 extractive companies covered by the EITI reconciliation have provided monetary and non-monetary donations and support to national and subnational governments. Due to under-reporting of receipts by the government there are discrepancies between amounts reported by government entities and companies, and this amount was reconciled during this process. Donations to government agencies were relatively small. Only those donations and supports which the MSG determined were mandatory reporting items were reconciled; amounts declared on a voluntary basis were not reconciled.

Donations after reconciliation by their purpose are shown below:

**Table 6.10 Total donation and support, by purposes**

Purpose	Donation amount /MNT million/	Percentage
Education	14,603	43.2%
Health	1,162	3.4%
Culture and sport	5,353	15.9%
Other	12,656	37.5%
<b>Total</b>	<b>33,774</b>	<b>100%</b>

In 2019, 72 companies reported MNT 33,774 million as monetary and non-monetary donations. Out of these transfers, 87.1% of all donations and supports were provided by ten companies, including Oyu Tolgoi LLC, Erdenet Mining Corporation SOE, Energy Resources LLC, MoEnKo LLC SouthGobi Sands LLC, Tod undarga LLC, Platinumland LLC, Badrakh Energy LLC, Khangad Exploration LLC and Tsairmineral LLC.

Total donations and supports classified by recipients after reconciliation were as follows:

**Table 6.11 Total donation and support, by government agencies**

Recipient of donations	Monetary donation /mill.MNT/	Non-monetary donation /mill.MNT/	Amount /mill.MNT/	Percentage
Ministry, agency	298.5	13.2	311.7	1%
Aimag, Capital	17,712.8	354.3	18,067.1	53.5%
Soum, District	4,099.1	6,289.5	10,388.6	30.5%
Other organizations	4,832.7	233.9	5,066.6	15%
<b>Reconciled donation amount</b>	<b>26,883.1</b>	<b>6,890.9</b>	<b>33,774</b>	<b>100%</b>

Following Table shows total received donation and support by aimags after reconciliation.

**Table 6.12 Total donation and support, by aimags**

Recipient of donations	Monetary donation /mill.MNT/	Non-monetary donation /mill.MNT/	Amount /mill.MNT/	Percentage
Bayankhongor	479.8	104.7	584.5	1.73%
Bulgan	1,646.70	8.1	1,654.80	4.90%
Govi-Altai	77.5	3.5	81	0.24%
Darkhan	3.5	90	93.5	0.28%
Dornogovi	571.8	639.4	1,211.2	3.59%
Dornod	113.5	60	173.5	0.51%
Dundgobi	425	107.8	532.8	1.58%
Orkhon	4,696.90	9.1	4,706	13.93%
Uvurkhanga	11.5	60	71.5	0.21%
Umnugovi	13,487.7	4,328.2	17,815.9	52.75%
Sukhbaatar	1,946	10.9	1,956.9	5.79%
Selenge	445.1	704.7	1,149.8	3.40%
Tuv	239.9	252.8	492.7	1.46%
Ulaanbaatar	904.1	55.7	959.8	2.84%
Uvs	44.3	13.8	58.1	0.17%
Khovd	1,860.40	342.2	2,202.60	6.52%
Khuvsgul	9.8	-	9.8	0.03%
Khentii	19.6	-	19.6	0.06%
<b>Total</b>	<b>26,901.2</b>	<b>6,872.8</b>	<b>33,774</b>	<b>100%</b>

## 6.7. REHABILITATION INFORMATION

In Mongolia, the mining sector's environment and social issues are regulated by three main government organizations: The Ministry of Mining and Heavy Industry (MMHI) and its agency Mineral Resources and Petroleum Authority (MRPAM), the Ministry of Environment and Tourism (MNET) and General Agency for Specialized Inspection (GASI).

The mining sector has its biggest negative impact on environment, utilizes nondepletable natural resources, and adversely effects on the traditional nomadic herding.

Therefore, the state central administrative body in-charge of environmental issues has been focusing on development, approval and implementation of laws, regulations and standards for environmental protection and rehabilitation.

### 6.7.1 State policy for protection and rehabilitation of environment

Foundation of legislations which regulate environment and mining rehabilitation were created from 1988 and the relevant laws have been approved and amended since.

The following laws are in effect for environmental protection and rehabilitation during mining exploitation:

- Subsoil Law (1988);
- Minerals Law (1997, 2006);
- Law to Prohibit Mineral Exploration and Mining Operations at River Headwaters, Protected Zones of Water Reservoirs and Forested Areas (2009);
- Environment Impact Assessment Law (2001, 2006, 2012); and
- Other environmental laws and legal acts.

The Law on Minerals was amended with regards to issues related to a license revoke. Furthermore, Provision No 56.1.5 dated May 2, 2019 was re-edited as follows “The state central administrative body in charge of nature and environment shall make a conclusion taking into account the proposal of the local administrative body that the license holder has a harmful impact on the environment or has not fulfilled its obligations specified in the rehabilitation and environmental management plan”.

In addition, there are over 30 regulations and methodologies which were approved for implementation of the laws. For instance:

- Regulation for monitoring of special account for environmental protection and rehabilitation (2014),
- Regulation for development, review, approval and reporting of environmental management plan (2014),
- Methodology for technical and biological rehabilitation in degraded land due to mining activities (2015),
- Procedure “Obtaining the results of environmental rehabilitation activities affected by oil and unconventional oil exploration and production activities” by Joint Order No. A / 50 and A / 31 of 2018 of the Minister of Mining and Heavy Industry and the Minister of Environment and Tourism
- “Regulation on rehabilitation and closure of mines, quarries and concentrators” - Joint Order No. A / 181 and A / 458 of 2019 of the Minister of Mining and Heavy Industry and the Minister of Environment and Tourism,
- "Procedure for developing, reviewing and reporting on environmental management plan" - Order No. A / 618 of the Minister of Environment and Tourism dated October 29, 2019

According to MET, the following policies on environmental protection and rehabilitation were set out in the State Policy for the minerals sector<sup>24</sup>:

- The objective of Article 5.1.10 in the State policy for 2020-2024 states to prohibit extraction of the minerals of common occurrences in the Tuul river area, rehabilitate and increase the water level.
- As per Article 5.1.8 of the Action Plan of the Government of Mongolia for 2020-2024 on increasing of rehabilitated land, “8,000 hectares of land damaged and abandoned due to mining shall be rehabilitated”, the Ministry of Environment and Tourism has initiated the joint initiative on “Rehabilitation-2024” by the Ministry of Mining and Heavy Industry, the General Police Department and the GASI.

Under the scope of the UNDP “Environmental Governance” project, the model of Participatory Environmental Monitoring (COPM) requires the active participation and cooperation of government, business, civil society and local communities in the resolution and decision-making process of mining-related environmental conflicts. In May 2020, Joint Participatory Environmental Monitoring was conducted in Khentii and Sukhbaatar aimag for the first time, by representatives of the Ministry of Environment and Tourism, the Ministry of Mining and Heavy Industry, and General Agency for Specialized Inspection, the National Human Rights Commission, the Ecological Police, the aimag's Environmental Protection Department and soum governors. The programme was piloted within selected companies and specific lessons and recommendations were drawn. The project also conducted, for the first time, a Human Rights Impact Assessment for coal mining and transportation at the Tavan Tolgoi group of deposits. The recommendations were provided regarding issues related to the environment and human rights in the mining region, such as environmental degradation, air pollution, dust, coal transportation safety, working conditions for drivers, public health and security, and access to the health care services. In the future, the group aims to develop a manual and methodology for the introduction of COPM<sup>25</sup>.

Within the framework of environmental rehabilitation, the Ministry of Environment and Tourism has carried out the following activities<sup>26</sup>:

<sup>24</sup> Ministry of Environment and Tourism

<sup>25</sup> Ministry of Environment and Tourism

<sup>26</sup> Ministry of Environment and Tourism

- As of 2019, in 72 soums of 21 aimags, 152 companies completed and submitted Form 1.3 (Environmental protection) within required deadlines. In addition, 152 enterprises planned to rehabilitate 632.89 ha, area of 843.95 ha was rehabilitated. Details are available on <https://eic.mn/box/box13.php>.
- A nationwide census of damaged land has been conducted, and results are available on the Environmental Database at [www.eic.mn](http://www.eic.mn).

### 6.7.2 Environmental Impact Assessment and Management Plan

The purpose of an environmental impact assessment is to define any impacts which might arise in connection with determining the policies for use of natural resources, engaging in industrial and service activities and to avoid any threats to people's health and security, pollution in environment ecological misbalance.

Accordingly, the extractive sector is heavily dependent on the Law on Environmental Impact Assessment (2012). The law requires an environmental impact assessment (EIA) to be conducted before implementation of any mining project, and this process is illustrated as follows:

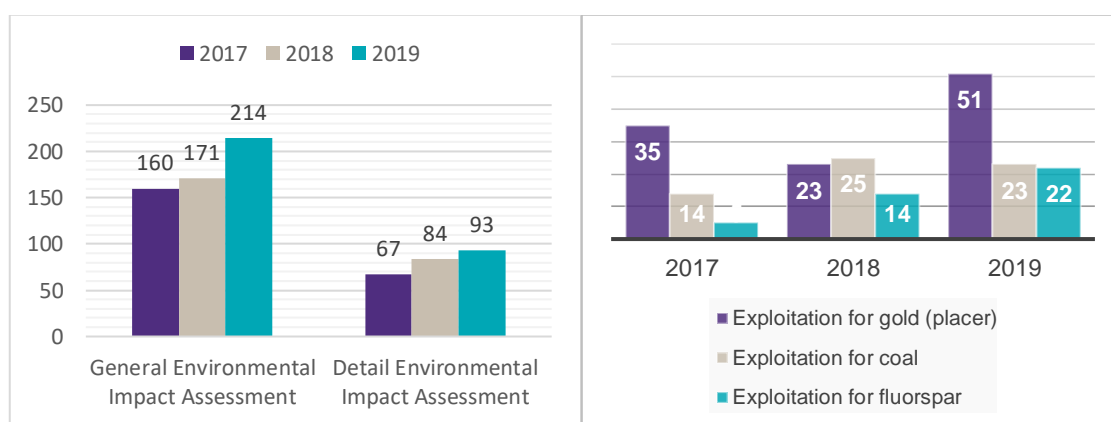
1. The Project Implementer shall engage and conduct the Environmental Impact Assessment (EIA) by an authorized professional organization prior to the commencement of the Project.
2. Based on the EIA, the Ministry of Environment and Tourism, including the Environmental Offices of aimag and capital city will issue a General EIA (GEIA) conclusion within 14 working days
3. In the event of conclusion that detailed EIA is required, a contract shall be signed with the competent professional body, which will develop a detailed EIA (DEIA) along with a 5-year Environmental Management Plan (EMP) and submit it to the Ministry of Environment and Tourism.
4. The expert who received the detailed EIA report shall conduct an evaluation analysis and issue a conclusion within 18 working days.
5. The EIA Professional Council of the Ministry of Environment and Tourism shall make a final decision on whether the project can be implemented based on the detailed EIA report, including expert and professional council's conclusions.

Environmental Management Plan and monitoring programs shall be developed from the detailed EIA, which are aimed at implementing the recommendations and conclusions stated in the EIA. In case of mining operations commencement, an EMP needs to be developed in the following steps. These include:

- 1 The Project Implementer shall update the EMP for each year in compliance with the environmental legislation, the results of the DEIA, and the approved EMP.
- 2 The EMP performance report must be submitted to the environmental departments of aimag and the capital city by November 1 of the same year, the implementation of the plan shall be inspected on site, and the working group's conclusion shall be issued by December 1.
- 3 The Project Implementor exploiting the mineral deposit shall submit the relevant information in accordance with the annual report on rehabilitation of the damaged land due to mining in accordance with Environmental Form-3 and submit it to the Governor's Office of the soum or district by November 25 of each year. The form must be attached to the Environmental Management Plan.
- 4 The Project Implementer shall prepare the next year's EMP and submit it to the Ministry of Environment and Tourism by December 20, together with the EMP implementation report and the relevant conclusion of the working group.
- 5 The Project Implementer shall submit to the Ministry of Environment and Tourism a DEIA report and an environmental audit report on the implementation of the EMP every two years in accordance with Article 10<sup>1</sup> of the Law on Environmental Protection, together with the annual environmental management plan.

- 6 The Ministry of Environment and Tourism shall receive a report on the implementation of the current year's environmental management plan, and review its implementation based on its findings, and review and approve the next year's environmental management plan.

**Figure 6.2 General and detail environmental impact assessment reports**



Details of the assessment reports are available on <https://eic.mn/eia/generalreport.php>.

As reported by the Ministry of Environment and Tourism and according to Chapter 7 of the Law on Environmental Protection, the Environmental Impact Assessment reports from the mining projects are integrated in the information section of the detailed environmental impact assessment reports on the environmental database. Currently, the database contains 86 entities pending the environmental assessments in the extractive sector, and in addition it contains 1,286 reports of the detailed assessment and 211 supplementary reports on the detailed impact assessment of mining projects. Moreover, there are 1,860 reports on the general environmental impact assessment of the mining sector.

The number of assessment reports submitted in the last 3 years, including the general environmental impact assessment reports by project type are shown below:

### 6.7.3 Special account for environmental protection

The license holders for mining exploration and exploitation are required to comply with the Environmental Protection Law and Minerals Law, Article 38 and 39 for environmental rehabilitation. Particularly, the Minerals Law Article 38 specifies obligations for the exploration license holders for environmental protection, while the Article 39 specifies obligations for the mining license holders.

The exploration license holders and mining license holders are required to deposit an amount equal to 50% of their environmental protection budget of the year in a special bank account established by the Governor of the relevant soum or district to ensure the discharge of their responsibilities with respect to environmental protection.

**Table 6.13 Special account for environmental protection, MNT million**

Year	2006	2007	2008	2009	2010	2011	2012
Revenue	22	612	566	385	942	1,216	2,014
Expenses	-	-	21	126	1	5	16
Outstanding balance	22	634	1,179	1,438	2,379	3,590	5,588

Year	2013	2014	2015	2016	2017	2018	2019
Revenue	1,545	2,273	1,027	1,317	1,102	1,411	2,317
Expenses	225	1	-	-	-	-	-
Outstanding balance	6,908	9,180	10,207	11,524	12,626	14,037	16,354

Source: Ministry of Environment and Tourism

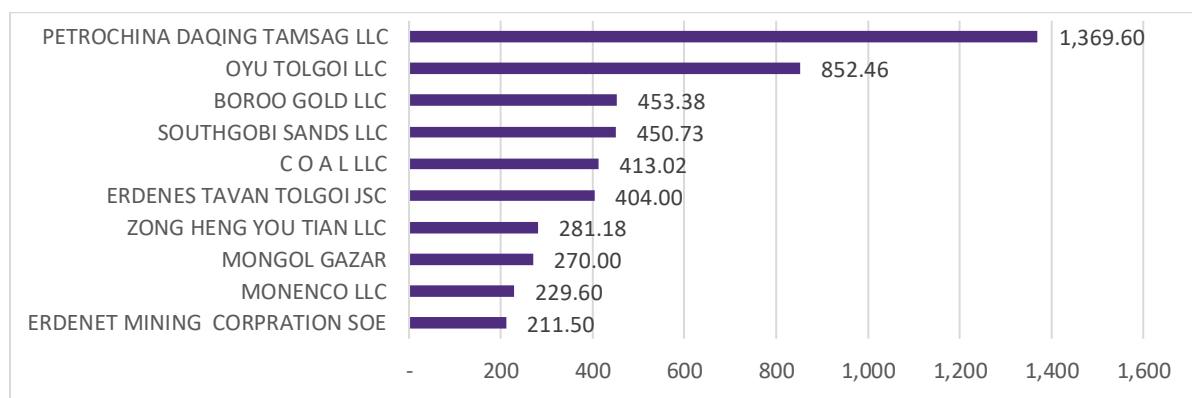
The deposit mentioned above shall be returned to the license holder's account upon compliance of all obligations specified in an Environmental protection plan (EPP) in accordance with the Minerals Law. The deposit shall be returned to the mining license holder during the closure stage if all the obligations set in an Environmental Impact Assessment (EPA) and the EPP are complied. In case if the obligations are not fully complied, the relevant soum or district governor shall assign a professional body to execute necessary rehabilitation with the deposit. In this case, the license holder shall provide any additional funds required for rehabilitation without any dispute.

As per the MET report, MNT2,317 million were deposited to the special account for environmental protection in 2019 and no refund has been made. An outstanding balance as of December 31, 2019 is MNT16,354 million. The special account information by year as shown in Table 6.13.

According to MET, a company can own several licenses, and the deposit shall be paid to each license. Based on the deposits paid by company as a total amount, the top 10 companies with highest deposits were selected. Among these selected entities, Petrochina Daqing Tamsag Mongolia LLC is the highest deposit of MNT 1,369.60 million to the special account for environment protection, and this amount has increased due to company's additional deposit of MNT 760.0 million in 2019. More details are shown below Figure 6.3.

Please refer to Appendix 23 for information of all the companies which transferred required rehabilitation expenses into special account in 2019.

**Figure 6.3 Special account for environment protection, by top 10 companies**



Source: Ministry of Environment and Tourism

#### 6.7.4 Mining operation and rehabilitation in 2019

The following table presents mining development and rehabilitation activities performance by mining license holders in 2019 and previous years:

**Table 6.14 Mining operation and rehabilitation**

Year	Areas of mining operations (hectare)	Areas of rehabilitation (hectare)	Rehabilitation percentage (%)	Rehabilitation expenses (MNT mln)
Previous years	24,636.0	18,355.0	75%	79,648.0
2014	1,560.7	959.6	61%	9,211.6
2015	871.0	750.0	86%	4,019.0
2016	703.5	876.4	125%	2,167.2
2017	1,002.3	677.2	68%	2,966.4
2018	1,059.3	924.2	87%	3,891.2
2019	467.3	2,470.2	529%	11,241.0
<b>Total</b>	<b>30,300.1</b>	<b>25,012.6</b>	<b>83%</b>	<b>113,144.4</b>

Source: Minerals Statistic Report - 2019, page 20, and Minerals Statistic Report – April 2020, page 20, The MRPAM, MMHI



According to the report of the MET, 4.3 thousand hectares of land were damaged in 2016 due to mineral exploration and mining activities, 3.3 thousand hectares in 2017, 21.7 thousand hectares in 2018 and 27.3 thousand hectares in 2019, respectively.

Also, the below report was provided from the MET, which indicate the results of the survey conducted between 2017 and 2019 on how much of land and subsoil was rehabilitated by the license holders with the support from the certified companies and individuals. These include:

- In 2017, 120 licensed companies, 17 professional rehabilitation companies, 3 Non-governmental organizations (NGOs), 6 partnerships and 1 association carried out technical rehabilitation on 734 hectares and biological rehabilitation on 325 hectares in 55 soums of 20 aimags and 2 districts. A total of 403 local people were contracted by the companies in rehabilitation activities as a part of their corporate social responsibility.
- In 2018, 108 licensed companies, 14 professional rehabilitation companies, 1 NGO, 8 partnerships and 1 association carried out technical rehabilitation on 912 hectares and biological rehabilitation on 335 hectares in 50 soums of 19 aimags and 4 districts. A total of 328 local people were contracted by the companies in rehabilitation activities as a part of their corporate social responsibility. In 2019, 97 licensed companies in 7 districts and 16 aimags carried out technical rehabilitation on 810 hectares and biological rehabilitation on 254 hectares, and the rehabilitation was reported to the local authorities via written notification.

The following Table presents total technical and biological rehabilitated area (ha) in last 4 years.

**Table 6.15 Technical and Biological rehabilitated area (ha)**

Year	Technical rehabilitation	Biological rehabilitation	Total rehabilitated area
2017	734 ha	325 ha	1,059 ha
2018	912 ha	335 ha	1,247 ha
2019	810 ha	254 ha	1,064 ha
2020	1,973 ha	634 ha	2,607 ha

Source: Ministry of Environment and Tourism

#### 6.7.5 Mining operation and rehabilitation plan and actual by the mining license holders (except coal miners)

As reported by the MRPAM in 2019, total of 183 companies reported their implementation of mining operation and rehabilitation plans. Refer to Appendix 20 for more information. Summary of mining operation and rehabilitation plan and actual performance are shown as below Table 6.16.

**Table 6.16 Mining operation and rehabilitation plan and actual by the mining license holders**

Mining operation and rehabilitation plan and actual by the mining license holders											
№	Types of minerals	Number of companies	Mining operations				Rehabilitation				
			Area (hectare)		Volume (m3)		Area (hectare)		Volume (m3)		Total cost (MNT mln)
			Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan
1	Gold (rock)	7	7	10	3,929,322	3,853,251	11,226	12,497	30,419	79,931	181
2	Gold (Derivative)	4	3	5	208,146	340,350	19	38	96,850	643,300	47
3	Gold (placer)	82	337	502	46,602,167	53,553,685	673	1,343	2,180,653	2,332,881	6,681
4	Construction material (Cement)	3	49	59	451,800	739,960	14	5	26,881	6,096	35
5	Gypsum	5	1	4	-	264,080	18	4	9,302	840	89
6	Tungsten (rock)	3	2	1	18,075	13,088	2	19	26,470	33,500	82
7	Copper	3	16	13	9,600	24,369	6	174	9,520	0	34
8	Iron	19	40	123	16,100,142	27,547,976	1,447	60	232,597	178,130	295
9	Fluorite	38	48	59	1,027,126	1,348,901	43	64	135,918	80,023	847
10	Jasper	1	2	0	102,900	54	-	-	-	-	-
11	Polymetal	5	51	56	530,660	588,400	8	14	63,800	74,600	149
12	White marble	2	15	13	-	-	3	60	-	-	10
13	Tin (placer)	1	-	3	-	57,899	20	7	40,000	5,250	6
14	Zinc	1	1	1	850,649	1,086,946	1	2	-	1,250	38
15	Limestone	9	113	115	561,996	325,742	13	36	35,474	30,970	141
<b>Total</b>		<b>183</b>	<b>683</b>	<b>964</b>	<b>70,392,583</b>	<b>89,744,700</b>	<b>13,493</b>	<b>14,323</b>	<b>2,887,883</b>	<b>3,466,771</b>	<b>8,634</b>

Source: Mineral Resources and Petroleum Agency of Mongolia, MMHI

### 6.7.6 Coal miners' mining development and rehabilitation: plan and actual performance

Coal related matters are coordinated by a separate division with the MRPAM and therefore, the report of mining development and rehabilitation plan and actual performance are different than those for other minerals. Total 60 coal mining companies reported their mining development plan and actual performance. Refer to Appendix 20 (b) for more detail.

### 6.7.7 Petroleum license holders' rehabilitation in 2019: plan and actual performance

Petroleum license holders' rehabilitation in 2019: plan and actual performance is shown in Table 6.17.

**Table 6.17 Petroleum license holders' rehabilitation in 2019: plan and actual performance**

No	Works	Unit price (USD)	Planned volume	Actual	Actual works
<b>Toson-Uul XIX area of Petrochina Daqing Tamsag LLC</b>					
1	Dilution and rehabilitation of drilling liquid waste	3,500	20	20	Zorgolyn Gunj LLC carried out technical rehabilitation in drilling liquid waste tanks of 20 wells drilled in 2019.
2	Soil sampling and laboratory testing	600	30	30	Performed by "Baikal Surveillance" LLC in accordance with MNS 3298-90 standard dated June 26-27, 2019. A total of 30 rehabilitated drilling fluid tailings ponds were sampled and analyzed.
3	Environmental assessment	20,000	4	4	Contracted with performed by "Ecological Productivity" LLC, for projects: Chemical storage, import, storage and use, and expansion of domestic wastewater treatment plant and expansion of TA 1 groundwater and oil water treatment plant, 53 oil and water wells and water heating installation in temporary field settlements
4	Biological rehabilitation and plantation	1	50000 m2		As part of the biological rehabilitation work, 600 elm trees were planted near the domestic wastewater treatment plant.
5	Water well drilling for ground water monitoring	12,500	2	0	No work has been performed
<b>Tamsag XXI area of Petrochina Daqing Tamsag LLC</b>					
6	Dilution and rehabilitation of drilling liquid waste	3,500	35	35	Zorgolyn Gunj LLC carried out technical rehabilitation in drilling liquid waste tanks of 35 wells drilled in 2019.
7	Soil sampling and laboratory testing	600	30	30	For the purpose of testing soil contamination, soil sampling from the 30-hole drilling mud tailings pond was sent to the Central Geological Laboratory and the Meteorological and Environmental Research Agency, an accredited laboratory in accordance with MNS 3298: 90, on July 3-4, 2019. The results of the analysis did not show that the number of pollutants exceeded the toxic and dangerous levels.
8	Environmental assessment	20,000	4	4	In 2019, detailed environmental impact assessments have been carried out for the following: By Mend Shuteen LLC: Expansion of the integrated workers' camp and construction of mobile homes -

No	Works	Unit price (USD)	Planned volume	Actual	Actual works
					By Ecological Productivity LLC: Construction of a new chemical warehouse at TA-2 - By Tsavchiriin khundii LLC: TA-21 Production base firefighting and security construction work, including construction work to increase production at Site 21.
9	Biological rehabilitation and plantation	1	24000 m2	24000 m2	From September 5 to 22, 2019, "Halodevelop" LLC has completed 100% biological rehabilitation work on a total area of 2.4 hectares. As part of this work, 160 kg of seeds were sown, of which 50 kg were fragile antlers and 110 kg were non-sorghum seeds.
10	Water well drilling for ground water monitoring	15,000	4	0	No work has been performed

Source: Mineral Resources and Petroleum Agency of Mongolia, MMHI

Technical rehabilitation, Environmental assessment and Environmental Impact Assessment are conducted for Central Asian Petroleum Corporation Limited LLC and Petromatad LLC are shown in Table 6.18.

**Table 6.18 Central Asian Petroleum Corporation Limited LLC and Petromatad LLC**

No	Works	Unit price (USD)	Planned area	Actual (USD)	Actual works
<b>Bogd IV and Ongi V area of Central Asian Petroleum Corporation Limited LLC</b>					
1	Technical rehabilitation	-	-	-	Included in drilling expenses
<b>Matad XX area of Petromatad LLC</b>					
2	Environmental assessment			48,000	
3	Environmental Impact Assessment Report			12,000	
4	Environmental consulting services			8,000	

Source: Mineral Resources and Petroleum Agency of Mongolia, MMHI

### 6.7.8 Rehabilitation license holders and locations

The rehabilitation license holder companies carry out rehabilitation works based on agreements with mining companies or the relevant district or aimag Governors.

The licenses are granted and extended in accordance with the "Procedure for granting licenses to professional environmental organisation" approved by the Government Resolution No.137 of 2006. It is prohibited to issue new rights since August 2018 or license renewal from April 2019, and since then no new rights have been issued or extended yet.

See further information about rehabilitation license holders on Environmental Database from the website, <https://eic.mn/dlid/orgname.php>.

In terms of locations, the rehabilitation license holding 45 companies are in Ulaanbaatar city, and the remaining 16 companies operate in Bayankhongor, Govi-Altai, Darkhan-Uul, Dornod, Orkhon, Uvurkhanga, Umnugovi, Selenge and Tuv aimag. According to MET most of the rehabilitation license holders sign the contract with mining companies, and the locations mentioned in data base do not represent the locations where they carry out rehabilitation activities.

The rehabilitation license holders' location of 2019 is summarized in Table 6.19.

**Table 6.19 Rehabilitation license holders, by location**

City/Aimag	District/Soum	Number of companies	City/Aimag	District/Soum	Number of companies
Bayan-Ulgii	Ulgii	1	Selenge	Sukhbaatar	1
Bayankhongor	Bayankhongor	1	Tuv	Bayanchandmani	1
Govil-Altai	Jargalant	1	Tuv	Zaamar	1
Darkhan-Uul	Darkhan	1	Ulaanbaatar	Bayangol	10
Dornod	Kherlen	4	Ulaanbaatar	Bayanzurkh	13
Orkhon	Bayan-Undur	1	Ulaanbaatar	Songinokhairkhan	2
Uvurkhangai	Arvaikheer	1	Ulaanbaatar	Sukhbaatar	9
Uvurkhangai	Uyanga	2	Ulaanbaatar	Khan-Uul	4
Өмнөговь аймаг	Dalanzadgad	1	Ulaanbaatar	Chingeltei	7
<b>Total</b>					<b>61</b>

Source: Ministry of Environment and Tourism

Refer to Appendix 26(a) for more information of 61 companies with licenses for rehabilitation.

Between 2018 and 2019, total number of 64 subsoil rehabilitation licenses were been revoked, and 62 of total companies' licenses were revoked by Resolution number A-153. The following Table presents the information, classified by Resolution number, aimag, city, soum and district.

**Table 6.20 Revoked subsoil rehabilitation licenses**

Resolution number, date	Aimag /city/	Name of Soum /District/	Number of revoked companies
Revoked /by Resolution A-23 of February 9, 2018/	Ulaanbaatar	Sukhbaatar	1
Revoked /by Resolution A-147 of May 22, 2018/	Ulaanbaatar	Khan-Uul	1
Revoked /by Resolution A-153 of May 1, 2019/	Bayankhongor	Bayan-Ovoo	1
	Bayankhongor	Bayankhongor	17
	Bayankhongor	Bumbugur	1
	Darkhan-Uul	Darkhan	1
	Orkhon	Bayan-Undur	1
	Uvurkhangai	Arvaikheer	1
	Uvurkhangai	Taragt	1
	Selenge	Yeroo	1
	Selenge	Mandal	1
	Tuv	Zuunmod	1
	Ulaanbaatar	Bagakhangai	1
	Uvs	Tarialan	1
	Ulaanbaatar	Bayangol	7
	Ulaanbaatar	Bayanzurkh	11
	Ulaanbaatar	Songinokhairkhan	4
	Ulaanbaatar	Sukhbaatar	3
	Ulaanbaatar	Khan-uul	4
	Ulaanbaatar	Chingeltei	3
	Khovd	Jargalant	2
<b>Total</b>			<b>64</b>

Source: Ministry of Environment and Tourism

Refer to Appendix 26(b) for more information of 64 revoked companies with licenses for subsoil rehabilitation.

## 6.8. E-REPORTING SYSTEM

### 6.8.1 Introduction of e-Reporting system

The purpose of the MEITI E-Reporting system is to provide accurate information to the public on governance of the natural resources of petroleum, gas and minerals and raise awareness and knowledge regarding these activities. As a result, of this awareness and cooperation the trust between the government, the extractive companies and the public will be strengthened. Therefore, the E-Reporting system has nationwide importance

**Figure 6.4 Introduction of E-reporting system**

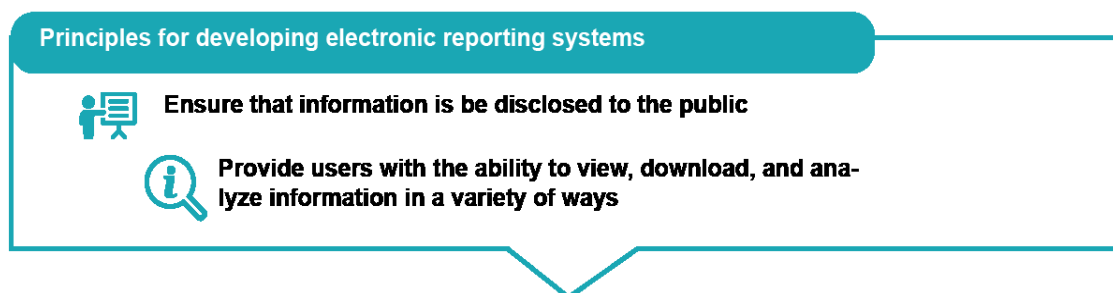


(<https://www.interactive.mn/projects/e-reporting-system-of-mining-and-oil-sector/>, 2020)

The e-Reporting system made possible to disclose key information of mining sector activities available and accessible to the public through the internet. Principles for development of the E-Reporting system are:

- Open and free information: Information is published online, so this information is available to the public free of charge;
- Public access: Information can be accessible using desktop or web-based tools, and stakeholders can view all types of information according to their needs.
- Self-service: Users can download information directly from Mongolia EITI database, and analyse or use them in various ways.

**Figure. 6.5 Principles for developing electronic reporting system**

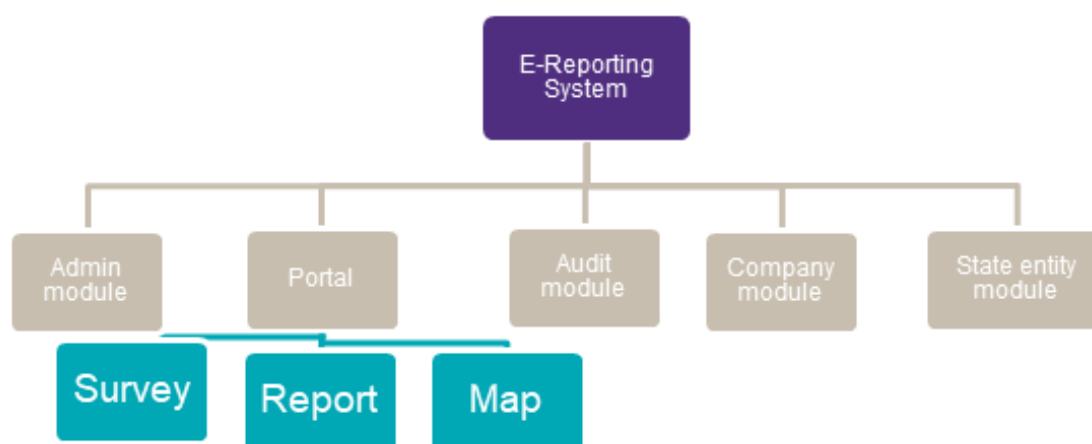


Source: E-Reporting Case study 'The development and implementation of an online system for the Extractive Industries Transparency Initiative', 2016, page 11)

Currently the MEITI website publishes MEITI reconciliation report appendices and statistical information of mining sector's main activities to the public free of charge (<http://eitimongolia.mn/>):

**Figure 6.6 Information on the web**

Source: ([www.eitimongolia.mn](http://www.eitimongolia.mn), 2020)

**Figure 6.7 Composition of the system**

(Source: *The EITI e-reporting system handbook*, page 3)

### 6.8.2 Status of e-reporting system

During the inception phase of the reconciliation of quantitative data reported by the government entities and the companies, there were several gaps in the MEITI E-Reporting system, and due to urgent measures taken by the Secretariat IT manager, the system's operations were restored.

Although the public and clients can access the company's reports from the e-reporting system, however, the EITI reporting by the companies is extremely inadequate.

MEITI E-Reporting system made certain statistical data open, however data are still outdated. The relevant observations are summarized in the Table 6.21.

The 2019 EITI reports were submitted by the companies in new and old templates via the e-reporting system. According to the MSG, reports in old template were received until April 30, 2020, and reports in the new template - until October 30, 2020, respectively.



**Table 6.21 e-Reporting system**

Types of summary statistics	Observations regarding data processing
Statistics of issued licenses	Data are shown as of December 31, 2014. No update has been made since then.
Statistics of transfer / movements of licenses	There is a link to show the detailed list, but it is not accessible due to updates in the MRPAM website information.
Statistics of exploration works;	Data are shown as of December 31, 2014. No update has been made since then.
Statistics of sales of minerals	Data are shown as of December 31, 2014. No update has been made since then.
Statistics of tax payments	Data are shown as of December 31, 2013. No update has been made since then.
Statistics of donations	Data are shown as of December 31, 2014. No update has been made since then.
Statistics of environmental rehabilitation	Data are shown as of December 31, 2014. No update has been made since then.
Contribution to the economy	Data are shown as of December 31, 2014. No update has been made since then.
Beneficial ownership	Data are shown as of December 31, 2013. No update has been made since then.
Transparent companies	Data are shown as of December 31, 2013. No update has been made since then.
Transparency of beneficiaries	Data of 190 companies are disclosed as of 2017.
Petroleum Production Sharing Agreement	Data are shown as of 2016. No update has been made since then.
Environment	Data are shown as of December 31, 2018.

A total of 1,472 companies submitted reports in old template, 881 companies have not submitted the reports, and 633 companies have submitted reports in new template. Furthermore, 2 government ministries, 4 agencies, and 19 aimag including 8 district administrations reported their receipts and revenues electronically.

The data from the new templates are filled manually. Compatibility between previously used and new programs have not been yet updated, as a result information submitted through new templates contain the following errors:

- Duplicated information,
- Unable to identify information with multiple options, and
- Information submitted by some companies were blank.

This above gaps in data supply can pose the risks of providing incomplete or inaccurate information to the public.

## 6.9. INFORMATION ON WATER CONSUMPTION

According to the suggestions by the members of the Mongolian EITI MSG, the extractive industry companies covered by 2019 reconciliation were requested to report and make public the data about their water use. Therefore, in order to obtain information on the water used by the companies, the MSG request to submit the reports in a new template on the e-reporting system within October 30.

**Table 6.22 Water consumption contract**

Item	Water consumption per contract (cubic meter)	Surface water used (cubic meter)	Underground water used (cubic meter)	Total volume of water used (cubic meter)	Greywater re-used (cubic meter)
Quantity	8,136,195.79	1,868,142.09	6,142,481.20	8,010,623.29	116,320.00

However, during this period, no companies have submitted their water consumption data in new template. The Independent Administrator's team has requested again to submit data for water consumption during December 7 to December 17, 2020, in e-template, and only 19 out of 171 selected

companies responded to this inquiry. In 2019, these 19 companies paid MNT 1,576.2 million to the government for water consumption fees.

The Table 6.23 shows the Top 10 companies with highest payments for water consumption fee in 2019.

**Table 6.23 Top 10 companies that paid water consumption fee**

Company	Water fee (MNT million)	Water consumption volume in cubic meter			Grey (re-used) water consumption (cubic meters)
		Surface	Underground	Total volume	
Oyu Tolgoi	14,825	Did not provide detailed information of water consumption			
Erdenet Mining Corporation	12,701.7	Did not provide detailed information of water consumption			
PetroChina Daqing Tamsag	2,873.4	Did not provide detailed information of water consumption			
Energy Resources	1,590.8	Did not provide detailed information of water consumption			
Baganuur	893.8	-	5,930,179.6	5,930,179.6	-
Mongolroostsvetmet	675.2	Did not provide detailed information of water consumption			
Burdel Mining LLC	510.6	Did not provide detailed information of water consumption			
Mongolyn Alt MAK	488.7	Did not provide detailed information of water consumption			
Tsagaan uvuljuu	440.9	Did not provide detailed information of water consumption			
Tsairtmineral	414.9	Did not provide detailed information of water consumption			

In 2019, the government received MNT 40,258.5 million in water consumption fees from 171 companies selected in the reconciliation, and these 10 companies accounted for MNT35,414.9 million or 87.97 percent.

## 6.10. WASTE INFORMATION

As requested by members of the MSG of Mongolia EITI, waste information of extractive companies selected for the reconciliation was disclosed. MSG decided to request waste information reports in new template from those companies and submit them within October 30, 2020.

However, during the specified time, no company submitted their reports in new template. As a result, Independent Administrator requested such reports from companies between December 7 to 17, 2020, and 16 companies responded to the request.

According to the integrated information provided from companies that filled out the form, 95.6 percent or 20,213.18 cubic meters are solid waste and 4.4 percent, or 890.29 cubic meters are hazardous waste. Also, 6646.2 cubic meters of waste was destroyed, of which 93.4 percent or 6209 cubic meters of waste was disposed of by landfill, 6.6 percent or 437.2 cubic meters of waste was destroyed by chemical and physical methods, incineration, and other methods.

Waste information provided by 16 companies are shown in Table 6.24 below:

Table 6.24 Waste information

Company	Location	Hazardous waste (cubic meter)	Non-hazardous waste (cubic meter)	Total waste (cubic meter)	Actual payments	Burial of hazardous waste (cubic meter)	Burial of hazardous waste (by landfill)
Khos-Khas	Bulgan	21.39	11.19	32.58	390	11	6
GOK Bulgan-uul	Khentii	-	-	-	1,784	-	-
South Gobi Coal Trans	South gobi	25	6	31	250	-	-
Khukh Burdnii Ekh	Khentii	-	-	-	904	-	-
MDFE	Dundgobi	1.5	-	1.5	200	1.5	-
lkh undarga mining	Tuv	0	-	0	360	4	-
MMJJEC	Tuv	5	-	5	361	-	-
Khukh shugam	Tuv	2	-	2	360	-	-
Sonor Trade	Selenge	6,233	439	6,672	-	6,173	6,173
Ulz gol	Tuv	-	-	-	36	-	-
Khanshashir	Khentii	-	-	-	3,600	-	-
Baganuur	Ulaanbaatar	48	9	57	1,115	-	-
ELGT	Uvs	4.5	0.5	5	0.6	-	-
Gobi coal and energy	Bayankhongor	2.5	-	2.5	350	0.2	-
Khuren tolgoi coal mining	South gobi	20	0.6	20.6	3,850	0.5	-
Tian Hong	Tuv	12,960	424	13,384	5,730.4	456	30

### 6.11. Level of disaggregation and format of EITI report (Requirement 4.7)

The payments information in this report is disaggregated for each company, government agencies, revenue stream and project levels. Details for each project levels can be found in Appendix 24.

An amendment to the EITI Standard in 2019 approved by EITI Board in 2017, defines what a project is, and the reason for the change is to disclose how much revenue the government receives from each project, as well the mandatory disclosure requirements for each project, with a breakdown of revenues for 2018 and beyond.

In accordance with the decision of the 18th meeting of the EITI National Council held in December 2019, MSG has updated the EITI Company Reporting Form, and implemented a new project-level reporting template with the participation of an Independent Administrator. However, by that time when the Independent Administrator commenced the reconciliation the companies had already reported, and the E-reporting system was closed. Therefore, the Independent Administrator had not chance to reflect the comments in the report format.

#### Definition of Project

Mongolia EITI MSG has defined the project as follows:

“A “project” means the operational activities that are governed by a single contract, license, lease, concession or similar legal agreement and form the basis for payment liabilities with a government.

‘Substantially interconnected’ means forming a set of operationally and geographically integrated contracts, licenses, leases or concessions or related agreements with substantially similar terms that

are signed with a government, giving rise to payment liabilities. Such agreements can be governed by a single contract, joint venture, production sharing agreement, or other overarching legal agreement.”

### **Project-level information obtained through EITI template**

The following basic information about the project is required when completing the EITI Electronic Report Form. These include:

- Project name,
- Project contract date,
- Date of Minerals Professional Council’s conclusion related to review of Feasibility Study,
- Reference number of Minerals Professional Council’s conclusion related to review of Feasibility Study,
- Exploitation duration,
- Total investment reflected in the feasibility study,
- Total investment performance since the start of the project,
- Planned investments for the current year,
- Investment performance for the current year,
- Annual capacity as stated in the feasibility study,
- Amount of output since the start of the project,
- Amount of output for the current year,
- Amount of output expected in the following year.

As per the template, the companies shall name their project according to the following types of taxes that can be broken down for the above licensed companies, and to mineral license number and name, as well as disclose their revenue by each project, namely:

- Royalty and additional payment,
- Licensing fee for mineral exploitation and exploration.

In the 2019 report, there are only two taxes reported by the project. However, in the future, companies should be able to systematically increase the types of payments and income that can be reported by the project by improving the availability and quality of information through utilization of the latest information technology and ERP systems to their accounting.

# 7

## RECOMMENDATIONS



## 7. RECOMMENDATIONS

### 7.1. IMPLEMENTATION OF PREVIOUS YEAR RECOMMENDATIONS

A summary of the implementation status of the recommendations made in 2019 is set out below.

**Table 7.1 Implementation status**

Recommendations	Implementation status in 2019 EITI report	
	Status	Comments
<b>1. Gender balance</b> According to the EITI Standard 2019, the multi-stakeholder group and each constituency should consider gender balance in their representation to progress towards gender parity by organizing consultations and undertaking other actions.	Requires further action	Interventions have been included in the work plan to ensure that the parties reach a common understanding on gender equality.
<b>2. Subcouncil's inactivity</b> Total of 22 subcouncils were established. However, sub-councils have not organized any meetings or activities before the EITI Report was published. In order to enable the implementation of EITI subcouncil's rules, more practical involvement is required. MSG needs to take steps to implement the government decree related to fundings of sub council.	Requires further action	Activities to increase access to information at the local level were carried out. <i>"Article 26.3 The budget of the Subcouncil shall be reflected in the budget of the Citizen's Representatives Khural (Local Parliament) of aimags, the capital city, soums and districts"</i> was included in the Draft Law on Mineral Sector Transparency
<b>3. Data transparency</b> Most company's Production Sharing Agreements are transparent; however, some company's information on contracts is missing. Therefore, the PSA and some clauses have not yet been publicly disclosed. It is recommended that name, title and work address of board members of state and locally owned entities should be included in the report classified as Erdenes MGL and other companies. It is recommended that information on salary, bonus and trip costs of board members of state and locally owned entities should be included in the report classified by subsidiaries.	In progress	New data of SOE's were included in the new templates and approved by the National Statistics Office (NSO). Number of online training was conducted regarding the new templates.
<b>4. Beneficial ownership information</b> Beneficial owners' information of the companies included in the reconciliation is made transparent each year. However, it should include all companies operating in the extractive industry. According to the requirement 2.5 of EITI standard, implementing countries must maintain a publicly available register of the beneficial owners of the corporate entity(ies) that apply for or hold a participating interest in an exploration or production oil, gas or mining license or contract.	Completed	MRPAM committed to pay attention to the information to be included in the application. Relevant provisions are included in the Draft Law on Mineral Sector Transparency.
<b>5. Discrepancy in information provided by Government agencies</b> When collecting contextual information to be included in the EITI Report, statistical data published on website of several government agencies were not consistent to each other. Statistical data related to mining sector licenses, production and export revenue and other revenues differ from the information reported by the Ministry of Mining and Heavy Industry, the National Statistical Office and the Ministry of Finance. It is recommended that the statistics on extractive industries should first be collected to the Ministry of Mining and Heavy Industry. After reviewing this statistical information, they should be distributed to other governmental organizations. In addition, information on artisanal and small mining, their gold submission provided by association differ from the data produced by the MRPAM.	Requires further action	The draft resolution of the government will be submitted to the MMHI.

Recommendations	Implementation status in 2019 EITI report	
	Status	Comments
<b>6. Government agencies and companies report on the MEITI E-reporting system complete and accurate information</b> Government agencies need to monitor the accuracy and truthfulness of the information they provide to the public. Aimag and local governments need to report their information to the EITI e-reporting system in a timely and comprehensive manner. Mongolia EITI Secretariat should set up a system to monitor and ensure the complete reporting by government entities.	Requires further action	Official letters to be sent from MMHI to aimag – pending.
<b>7. Reporting template needs improvement</b> Report the revenue streams by each project (license). Include detailed information of employee (additional information on the age of employees). Include detailed information of concentrator, processing plant in the reporting template. Include details of operator, subcontractor and supplier companies who cooperate with license holders under agreements.	Completed	These information have been included in the new template and approved by NSO.
<b>8. E-reporting system</b> Incorporate templates for contextual and additional information to collect information from government and companies to E-reporting system. This will require less time for gathering and reconciliation of data. Several issues can arise due to the information is not available in the E-reporting system or their official website and is required to send the entities official letters to collect information. Information on the EITI electronic system should be in the same way as the information submitted by relevant government agencies.	Completed	The information was entered into the E-reporting system by May 24, 2020, but the system was not operational. However, the team worked closely with Interactive LLC, system developer, and the system was activated on August 17. As a result, 511 companies were able to enter their reports to the system in new template.
<b>9. Contract information needs to be fully posted on the website – iltodgeree.mn (transparentcontract.mn)</b> Some contracts were posted on the website in such a way that some value items were could not be viewed, which leads to the contract not being 100% transparent. Therefore, all the terms of the contract should be posted on iltodgeree.mn without any gaps.	In progress	Aimags, the capital city and districts are posting their agreements. As of December 22, 2020, total of 796 contracts have been posted on the website iltodgeree.mn. It is not clear whether all terms of the contracts will be made transparent.

## 7.2. IMPLEMENTATION OF RECOMMENDATIONS REGARDING VALIDATION OF THE REPORTS

### Mongolia's second Validation conducted in January 2018, and corrective actions have carried out in accordance with the recommendations regarding the validation

The EITI International Secretariat has assessed the progress made in addressing the eight corrective actions established by the EITI Board following Mongolia's first Validation. The Secretariat's assessment concluded that Mongolia has shown "satisfactory progress" in implementing the corrective actions to meet the corresponding requirements.

In the second Validation, there were recommendations to improve 4 areas out of 8 corrective actions. The below is summary of the achievements (Table 7.2):



Table 7.2 Implementation status

№	General requirements for corrective actions given in the first Validation	Secretariat's Assessment	Corrective actions given in the second Validation	Implementation of recommendations given in the second Validation (EITI response)
1	In accordance with requirement 1.4.b.vi, the MSWG should ensure that there is an inclusive decision-making process throughout implementation, with each constituency being treated as a partner. The MSWG should agree and publish its procedures for nominating and changing multi-stakeholder group representatives. In accordance with requirement 1.4.b.iii, members of the MSWG should ensure that they liaise with their constituency groups.	The Secretariat is satisfied that the corrective action on multi-stakeholder oversight has been addressed, and considers that Mongolia has achieved satisfactory progress on requirement 1.4	None.	“The MSG shall ensure conditions for legal entities and civil society representatives to participate in the National Council in a transparent manner, open selection of representatives, and equal participation” was amended in the draft Law on Transparency in the Minerals Resources Sector.
2	In accordance with requirement 2.2.a, the government should ensure annual disclosure of which mining, oil, and gas licenses were awarded and transferred during the year, highlighting any non-trivial deviations from the applicable legal and regulatory framework governing license awards and transfers. In accordance with requirement 2.3, the government should also ensure that the dates of application for all oil, gas and mining licenses are publicly available and that the coordinates for oil and gas PSAs are published.	The Secretariat is satisfied that the corrective action on transparency in the license register(s) has been addressed and considers that Mongolia has achieved satisfactory progress on requirements 2.2 and 2.3.	The Secretariat has performed a significant work to assess the anomalies and practices of the legal and regulatory environment related to the issuance and transfer of licenses. However, lack of advice on infringements can cause issue. MSG can be involved in reviewing the licensing process and transfer process.	<p>Within the scope of the 2018 EITI reconciliation report, several cases of related infringements were investigated, and the results were published. <a href="http://eitimongolia.mn/sites/default/files/uploads/final-reports/Mongolia_2018_EITI_Report_MN-12.30.pdf">http://eitimongolia.mn/sites/default/files/uploads/final-reports/Mongolia_2018_EITI_Report_MN-12.30.pdf</a>, page 26.</p> <p>MRPAM is expected to take actions to publish the date of the license application.</p> <p>This is reflected in the draft Law of Mongolia on Transparency of Minerals Resources Sectors as follows:</p> <p>16.1.1.f. Explanation of types of licenses, issuance of licenses for minerals, petroleum, non-traditional oils, radioactive minerals, technical and financial criteria for business entities, process of transferring and termination of licenses and information on relevant regulations.</p> <p>16.1.1.g. cadastral information on the area where mining operations can be carried out, coordinates of the area, procedures for determining them, relevant decisions, explanations, and information on changes. In addition, Relevant requirements are reflected in the new templates approved in 2020.</p>
3	In accordance with requirement 2.6, the MSWG should provide an explanation of the prevailing rules and practices related to SOEs' retained	The Secretariat is satisfied that the corrective action on transparency in	It will be more effective if MSG works with technical assistance providers, such as Erdenes Mongol and the	The roles and functions of state and locally owned or partly state and locally owned entities and organizations is reflected in the Article 12 of draft law.

№	General requirements for corrective actions given in the first Validation	Secretariat's Assessment	Corrective actions given in the second Validation	Implementation of recommendations given in the second Validation (EITI response)
	<p>earnings and reinvestment. The government should also ensure annual disclosure of any changes in government ownership in SOEs or their subsidiaries and provide a comprehensive account of any loans or loan guarantees extended by the state or SOEs to mining, oil, and gas companies.</p> <p>In accordance with requirement 6.2, the MSGW should consider the existence and materiality of any quasi-fiscal expenditures undertaken by SOEs and subsidiaries in the extractive industries, including subsidies, and ensure that any material quasi-fiscal expenditures are disclosed.</p>	<p>extractives state-owned enterprises has been addressed and considers that Mongolia has made <u>satisfactory progress</u> against requirements 2.6 and 6.2.</p>	<p>International Finance Corporation, the International Monetary Fund and the Asian Development Bank, to disclose the information required by Requirement 2.6 of the Standard.</p> <p>In order to improve the implementation of the initiative, MSG may set a wider range of budget expenditures to ensure that budget expenditures are maintained on a regular basis in a system used by government agencies, such as the Ministry of Finance's website or the EITI Information Portal.</p>	<p>The Quasi-fiscal expenditure reporting template was approved by the decree of the Chairman of the National Statistics Office in 2018 and is still in use.</p>
4	<p>In accordance with requirement 4.5, the MSGW must ensure that the reporting process assesses the materiality and comprehensively discloses material payments to subnational government entities.</p>	<p>The Secretariat is satisfied that the corrective action on transparency in transactions related to state-owned enterprises has been addressed and considers that Mongolia has made satisfactory progress on requirement 4.5.</p>	<p>To further improve the implementation of the initiative, MSG should seek ways to disclose SOE-specific transactions through common government systems or the EITI information portal.</p>	<p>The draft law also addresses matters related to local payments. The new templates approved in 2020 also address these issues.</p>
5	<p>In accordance with requirement 4.9.b.iii and the standard Terms of Reference for the Independent Administrator agreed by the EITI Board, the MSGW and Independent Administrator should:</p> <p>a. examines the audit and assurance procedures in companies and government entities participating in the EITI reporting process, and based on this examination, agree what information participating companies and government entities are required to provide to the Independent Administrator in order to assure the credibility of the data in accordance with Requirement 4.9. The Independent Administrator should exercise judgement and apply</p>	<p>The Secretariat is satisfied that the corrective action on reliability of the reconciled data in EITI reporting has been addressed and considers that Mongolia has <u>achieved satisfactory progress</u> on requirement 4.9.</p>	<p>None</p>	<p>The Terms of Reference for an Independent Administrator consists EITI standards requirements and requests from Publish What You Pay Coalition.</p>

№	General requirements for corrective actions given in the first Validation	Secretariat's Assessment	Corrective actions given in the second Validation	Implementation of recommendations given in the second Validation (EITI response)
	<p>appropriate international professional standards in developing a procedure that provide a sufficient basis for a comprehensive and reliable EITI Report. The Independent Administrator should employ his /her professional judgement to determine the extent to which reliance can be placed on the existing controls and audit frameworks of the companies and governments. The Independent Administrator's inception report should document the options considered and the rationale for the assurances to be provided.</p> <p>b. ensure that the Independent Administrator provides an assessment of comprehensiveness and reliability of the (financial) data presented, including an informative summary of the work performed by the Independent Administrator and the limitations of the assessment provided.</p> <p>c. ensure that the Independent Administrator provides an assessment of whether all companies and government entities within the agreed scope of the EITI reporting process provided the requested information. Any gaps or weaknesses in reporting to the Independent Administrator must be disclosed in the EITI Report, including naming any entities that failed to comply with the agreed procedures, and an assessment of whether this is likely to have had material impact on the comprehensiveness of the report.</p>			
6	<p>In accordance with requirement 5.2.a, the MSWG should clarify the distinction between SOEs' direct subnational payments and subnational transfers prior to data collection. The MSWG should ensure that the EITI Report includes the revenue sharing formula used to calculate transfers to individual aimags and soums, and that it discloses any discrepancies between budgeted and executed subnational transfers.</p>	<p>The Secretariat is satisfied that the corrective action on transparency in subnational transfers has been addressed, and considers that Mongolia has <u>achieved satisfactory progress on</u> requirement 5.2</p>	None	<p>It was reflected in the Reconviction report 2018 Please refer to page 99.</p>

№	General requirements for corrective actions given in the first Validation	Secretariat's Assessment	Corrective actions given in the second Validation	Implementation of recommendations given in the second Validation (EITI response)
7	In accordance with requirement 6.1.a, the MSWG should agree a clear distinction between mandatory and voluntary social expenditures prior to data collection. Where mandatory social expenditures are provided in-kind, the MSWG should ensure that the nature and deemed value of such in-kind transactions are disclosed. Where beneficiaries of mandatory social expenditures are a third party, i.e. not a government agency, the MSWG should ensure that the name and function of the beneficiary be disclosed.	The Secretariat is satisfied that the corrective action on transparency in social expenditures has been addressed and considers that Mongolia has made <u>"beyond" satisfactory progress</u> with requirement 6.1.	None	Under the new template approved in 2020, the voluntary reporting section has been changed to mandatory reporting.
8	In accordance with requirements 7.4.a.iii and 7.4.a.iv and 7.4.b, the MSWG should, in preparing the next annual progress report, conduct an assessment of follow-up on EITI recommendations and impact of implementation based on consultations with a broad range of stakeholders.	The Secretariat is satisfied that the corrective action on the annual progress report has been completed and considers that Mongolia has made <u>satisfactory progress</u> in meeting requirement 7.4.	It is recommended that all stakeholders should be able to participate in the production of the annual progress report and reviewing the impact of EITI implementation. The Secretariat recommended that the MSWG discusses how this process can be improved in the future.	The 2020 Work Plan includes almost all the recommendations given in the 2018 reconciliation report. A number of recommendations have been implemented and are in the process of being implemented.

### 7.3. RECOMMENDATIONS FOR EITI REPORTING AND IMPLEMENTATION

Based on the work in preparing the 2019 EITI report, the team has proposed several recommendations to improve the implementation of EITI in Mongolia.

#### 7.3.1. Challenges encountered in coverage of the processing companies in the reconciliation

Besides payments from licensed companies in extractive sector, the processing plant and mining contractors also make significant contributions. At the inception workshop, the decision was made to include additional 6 companies in the reconciliation. However, these companies do not hold license and as a result, have no information reported on the e-reporting system and lack understanding about EITI, and on information inquiries these entities were requesting the Independent Administrator to present legal justification for reporting. For examples:

- MSG made a decision to include “Achit-Ikht” LLC from processing sector in the reconciliation. However, they responded that “We need you to provide us evidence such as official letter, decision or law provision that states Achit-Ikht is required to report to eitimongolia.mn; you have no right to make any inquiries to us since you are not a government entity; the initiative is understood to be voluntary; if the information will be provided, the confidential agreement needs to be signed based on a decision from authorities clearly indicating that the company is required to report to eitimongolia.mn.
- Erdmin LLC has no objection for information disclosure, however it took significant time to understand the requirements from EITI.
- Under the MSG’s proposal Areva company was selected. This company is the parent company of a uranium exploration company with inactive operation and since the company is merely operating as a representative office and pays very low taxes to Mongolia.

#### Recommendation

MSG should revise the EITI reporting process by reviewing major extractive companies and contractors, selecting the companies that make significant contributions to the state budget and notifying these companies, entering basic information into e-reporting system which enable them to provide required information, and only the after to cover them by reconciliation.

#### Bodies responsible for implementation:

MSG and Mongolia EITI Secretariat

#### 7.3.2. Status of reporting and response letter

For 2019 reconciliation report out of 2,093 companies 1,472 have submitted the reports, and 621 companies have responded. Among government agencies, the Ministry of Environment and Tourism did not report 50 percent of environmental protection expenditures in a special account with the State Central Administrative Body in-charge of nature and environment. Moreover, the Ministry of Labor and Social Protection failed to report information on the payment of foreign specialists and workers.

The response provided from government organisations and private companies on reconciliation clarifications summarized as follows:

- Out of 171 companies, 2 companies (Achit-Ikht LLC and Bayan Airag exploration LLC) refused to return letter, while, Magic Bridge, Imperial Gold Mining and MongolCzech metal have not been contacted at all.
- Letters were sent to 14 government entities, and MMHI only has not provided any official response. Information provided by the Ministry of Finance was in draft format or not officially provided.

- Letters for clarification of discrepancy were sent to 20 aimag and 8 districts. In return, Sukhbaatar, Songinokhairkhan districts and Orkhon aimag have not responded, and Khovd, Dornod, Dornogobi, Bayankhongor aimag and Chingeltei district provided incomplete information.

### Recommendation

Annual reconciliation reports provide recommendations for companies and government agencies on how to submit EITI reports and ensure the accuracy of the reports submitted, but no significant progress has been made so far. This shows the importance of adopting and enforcing the Law on Transparency in the Minerals Resources sector.

### Bodies responsible for implementation:

National Council and Ministry of Mining and Heavy Industry

### 7.3.3. Accuracy of reports submitted by government entities

During the reconciliation, General Taxation Department have not reported royalties of MNT 18.1 billion received from 28 gold companies, and also, they have not provided addition information for the reconciliation. This was due to the revision to the Article 47.12 of the Law on Minerals that states, “Mongol Bank and a commercial bank authorized by it shall deduct the royalty from the sales value of gold and transfer it to the state budget at the rate specified in Article 47.3.2 of this Law.”. As a result, Bank of Mongolia now imposes a direct royalty on gold submitted by gold companies and transfers it as a bulk to the GTD.

### Recommendation

Although the law amendment has affected the procedure of GTD to impose royalty and payment from companies, it does not prevent reports submissions to EITI reporting and imposing royalty and its payment processes. Therefore, it is recommended GTD shall continue to improve their information system and EITI shall continue efforts to focus on improving accuracy of the EITI reports.

### Bodies responsible for implementation:

Mongolian Taxation Agency

### 7.3.4. Completeness of e-reporting

EITI reports of 2019 was closed as of April 30, 2020, and review of data completeness was carried out as of this reference date.

The Government reported receipts from 2,422 companies on the e-reporting system. The comparative review of the companies lists with the license-holder companies in the system of Mineral Resources and Petroleum Authority (MRPA) by the Independent administrator revealed that 329 companies have over reported.

**Table 7.3 E-reporting system**

Description	Number of companies	Government revenue (MNT million)
Number of companies registered on e-reporting system	2,422	3,452,974
Of which: number of licensed companies entered by MRPAM	2,093	3,405,508
<b>Discrepancies</b>	<b>329</b>	<b>47,466</b>
Number of companies submitted their reports under the same name, but with different registration IDs	70	25,991
Other companies	259	21,475

Upon inquiry, the following reasons for discrepancies were identified:

- The local government has right to enter new names/ companies into the system. Therefore, during the data entry to the e-reporting system, the local government has not verified data for the name duplication, so the system created multiple names for the same taxpayer. As a result, the system has registry of 70 duplicated companies.
- The local governments are entitled to issue license for common minerals therefore, names of these companies could have been entered by local governments themselves, which resulted in additional 259 companies.
- There are 106 companies registered with incorrect 1-6 digital numbers.
- There are 8 companies with incorrect 2–6-digit numbers registered in the cadastral system of MRPA, including Golden Gravel, Dayan Erchis, Duuren Yondoi, Sova, Khishigtkhundii, Erdesplasm, Erdes Plasm, Erdes Plasm LLC.

### **Recommendation**

The carry out actions to eliminate discrepancies in reports provided by the MRPAM cadastre system and the EITI electronic system and operationalize the electronic reporting system based on a single data source. Information on common mineral licenses issued in rural areas should be entered into the cadastral system without delays and make available to the public.

### **Bodies responsible for implementation:**

Mineral Resources and Petroleum Authority of Mongolia and Mongolia EITI Secretariat

### **7.3.5. Quality of information, data collected in new EITI template**

Transparency reports for 2019 were obtained through the e-reporting system from companies in both new and old templates. According to Secretariat's statement, reports up to April 30, 2020 were obtained in old templates and reports up to October 30 were received in new template.

In old template, 1472 companies submitted their reports, 881 companies have not submitted any report, and 633 companies provided their reports in new template. Two ministries, four government agencies and local governments of 19 aimag and 8 districts reported receipts electronically.

New templates are filled manually. Compatibility between previously used and new programs have not been yet updated, as a result information submitted through new templates have errors as follows:

- Duplicated information,
- Unable to identify information with multiple options, and
- Gaps in filling out the template by some companies.

These issues can rise risk of providing incomplete or incorrect information to the public.

Therefore, discussion should be held regarding to disclose above information to the public, or make sure the information of selected companies is evaluated by an independent administrator in order to do so.

### **Recommendation**

The discussions need regarding whether the stakeholders need to verify the information, which they receive electronically and disclose to the public, or information on selected companies should be reviewed an Independent Administrator and made publicly available.

### **Bodies responsible for implementation:**

Mongolia EITI Secretariat



### 7.3.6. Disclosing SOEs financial statements

On webpages of the National Audit Office, glass account and SOEs, the following information have been published with respect to audited financial statements of SOEs:

- Statement of financial position,
- Comprehensive statement of income,
- Statement of cash flow,
- Statement of changes in equity, and
- Audit report.

The public lack comprehensive information about SOEs financial and operational status as the audited financial statements of SOEs are not compliant with IAS/IFRS requirements and these displayed statements do not show appendices.

It is recommended that complete audited financial statements of all SOEs in extractive sector should be electronically published to the public, especially on webpages of the SOE and the National audit office, EITI or MRPAM.

#### Recommendation

Comprehensive audited financial statements of all extractive entities should be published electronically, including disclosing on webpages of those entities, the National Audit Office, EITI and MRPAM.

#### Bodies responsible for implementation:

State-owned entities, National Audit Office, Mineral Resources and Petroleum Authority of Mongolia

### 7.3.7. Matters related to disclosure of state participation

The assessment was conducted by EITI Secretariat regarding assurance report 2018 and whether Mongolia is prepared for systematic disclosure of information. In this assessment report, common emphasize was made to the disclosure of state participation in accordance with Standard requirement being inadequate.

SOEs' retained earnings, reinvestments, lending, and financing by third party, and transactions between SOEs and government entities are disclosed inadequately to the public. Furthermore, there is a lack of transparency with matters about disclosure of audited financial statements of SOEs in accordance with EITI Standard 2019, assets and current expenditure, procurement, hiring contractors, regulations for company governance, and company operations.

When glass account information entry of SOEs is made complete, some of the above disclosure requirements can be met, such as:

- Retained earnings (financial statements information can be viewed on glass account webpage),
- Reinvestment (bond, loan, debenture, similar financial instruments, public-private entities' partnership agreement, concession, budget, equity, assets, cash, debt, and any decisions to initiate receivables),
- Asset and current expenditures (On glass account webpage: Asset expenditure, investment project, action plan, performance (*annual and monthly*), list of concession items, general tender information of activities reflected in asset and current expenditures (*by cases*),
- procurement (On glass account webpage: procurement plan (*for a year*), procurement report (*for a year*), audit reports of procurement, and other inspection findings).

However, SOE's only filled some of forms related to procurement of 2019 on glass account webpage, and SOEs other than Erdenes Mining Corporation, MongolRostsvetmet, Erdenes Tavantolgoi SOJSC have disclosed some information incompletely to glass accounts.

Within the scope of annual EITI report, MSG should focus on evaluating differences between requirements related to financial relations of SOEs to government and their actual practical applicability. In order to make reviews more sustainable, MSG should cooperate with Cabinet Secretariat of Government of Mongolia, Erdenes Mongol and Government Agency for Policy Coordination on State Property (GAPCSP) to develop a system for disclosing financial information of SOEs in mining industry.

### **Recommendation**

The system needs to be institutionalized which requires the SOEs to publish their information according to the Law on Glass Account and received dividend payments shall be disclosed on webpages of the Government Agency for Policy Coordination on State Property, and other relevant authorities.

### **Bodies responsible for implementation:**

Cabinet Secretariat of Government of Mongolia, Government Agency for Policy Coordination on State Property, State-owned entities

### **7.3.8. Inconsistencies between Government revenue and payments by companies**

There are significant inconsistencies identified between payments reported by the government and companies on the e-reporting system. Both the government and companies are accountable for these discrepancies. The Independent Administrator has clarified reasons for such inconsistencies, received explanations from related entities, made financial adjustments and reduced the discrepancies. However, these discrepancies can still re-occur in the following year.

### **Recommendation**

MSG should focus on disclosure of quality and accurate data and consider the following actions considering future lesser involvement the Independent Administrator:

- Provide training, advocacy and coaching to entities, which not reporting or breaching disclosure requirements or not taking responsibility towards reporting;
- Deliver the EITI 2019 reconciliation report accompanied with the official letter on areas of further cooperation;
- Maintain regular updates to the webpage of EITI secretariat. There is some outdated information, even related to the year 2013.

### **Bodies responsible for implementation:**

MSG, EITI Secretariat

### **7.3.9. Matters related to selection of an Independent Administrator**

In recent years, selection process of EITI Independent Administrator to the consulting services has been prolonged, which complicates the reconciliation work. Due to lack of sufficient timing, there are limitations to obtain information required by the standard and disclose them accordingly.

### **Recommendation**

It is recommended that MSG should maintain thorough oversight on the tendering of an Independent Administrator and adhering the national laws and regulations regarding the procurement, which enables to conduct selection on timely manner.

### **Bodies responsible for implementation:**

MSG and Ministry of Mining and Heavy Industry.

# 8

## APPENDICES



## 8. APPENDICES

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