

**Minutes of Meeting of Multi-Stakeholder Working group of Mongolia Extractive Industries
Transparency Initiative
(2 June 2011)**

Mongolia EITI MSWG meeting started at 5.10 pm, 2 June 2011, in the Conference Hall of Mineral Resources Authority.

Members attending: B. Dolgor (MSWG Chair, Senior Prime Ministerial Advisor); J. Iveelen (Ministry of Finance's Accounting Policy Department Officer); D. Buuveijargal (Ministry of Mineral Resources and Energy's Mining and Heavy Industry Policy Department Officer); E. Oyun (Petroleum Authority's Investment Inspection Division Chair); Ya. Purvee (General Taxation Department's Specialized Inspection Division Chair); T. Tsetsegyam (General Taxation Department's Mineral Resource Tax Division, Department for Revenue Inspection, Senior Inspector); Enhtuya (General Taxation Department's Mineral Resource Tax Division, Department for Revenue Inspection, Inspector); B. Suhtulga (Mineral Resource Authority's Statistics and Research Division, Mining Research Department, Officer); D. Dulamsuren (Department of Independent Agency Against Corruption Chair); G. Lhagva-Ochir (Boroo Gold LLC Tax Accountant); B. Erdenedorj (Petro China Daqin Tamsag LLC CEO's Advisor); D. Nominzul (MongolRosTsvetMet LLC Chief Accountant); Ulziidelger (MAK LLC Manager); N. Alгаа (Mongolian National Mining Association CEO); B. Jantsan (Confederation of Mongolian Employers Business Affairs Division Chair); A. Batpurev (Inforum Center Head); B. Boldbaatar (My Mongolia-Motherland Movement Head); B. Batbold (Mongolian Environment NGOs Coalition President); E. Sarangerel (Coal Association Manager); B. Altanchimeg (Open Society Forum Officer); E. Sumiya (Cabinet Secretariat Senior Officer, MSWG Secretary). Of 25 EITI members, 19 were present (76%).

Others present: M. Ulziidelger (General Customs Agency Finance and Economics Division Chair); B. Osorgarav (Ulaanbaatar Audit Corporation CEO); N. Erdenetsog (Senior Auditor); B. Mendbayar (Senior Auditor); Ch. Nominchuluun (Auditor). Meeting organised by Sh. Tsolmon (EITI Secretariat Coordinator) and B. Delgermaa (Secretariat Finance Officer).

B. Dolgor, Senior Prime Ministerial Advisor and MSWG Chair, opened the meeting.

B. Dolgor: Good afternoon. Today's agenda has three main topics. First, progress on the EITI Mongolian 2009 audit reconciliation and final conclusions/findings; second, draft resolutions from the Government and Prime Minister on "Measures to ensure extractive industry transparency" and third, budget and cost projections for government funding of 2012 EITI activities.

She received approval on meeting rules and regulations and agenda.

1. TOPIC: progress on EITI Mongolian 2009 audit reconciliation and final conclusions/findings

B. Osorgarav (Ulaanbaatar Audit Corporation LLC CEO) gave a presentation on the EITI Mongolia 2009 audit reconciliation, outlining the overall process.

B. Osorgarav: MSWG met on 29 April 2011, when EITI reports showed unresolved discrepancies of MNT 2.4 billion. Since then we have worked for over a month with ministries and agencies. Today we present our final report, with unclarified discrepancies of MNT 774 million. Senior Auditor N. Erdenetsog will give a detailed presentation on final reconciliation conclusions and findings.

N. Erdenetsog (Ulaanbaatar Audit Corporation LLC Senior Auditor) gave a detailed presentation on EITI Mongolia 2009 audit reconciliation progress and findings (presentation attached).

B. Dolgor: Thank you. Any questions? Do you have final results or findings comparing companies last year and this year and analyzing whether discrepancies have increased or decreased?

N. Erdenetsog: With companies that were covered in the previous year's reconciliation, discrepancies were found in a few. Most discrepancies were found at companies newly involved with the reconciliation.

B. Dolgor: How many companies?

B. Osorgarav: Of the 2008 reconciliation companies, 9 had discrepancies. The other companies are new to the reconciliation; the 9 companies had discrepancies again this year.

B. Dolgor: What are the reasons?

B. Mendbayar: Discrepancies were mostly found in donations, 50% deposits and environmental conservation costs. In donations, companies showed documentation and other evidences that they had paid, but their counterparts offered formal letters denying that they had received donations. We have difficulty determining which party is responsible for the discrepancies.

B. Dolgor: What about issues relating to government agencies?

B. Osorgarav: Half of the MNT 77.4 million of unresolved discrepancies involve the Ministry of Environment and Tourism's Natural Resources Department. With all other government agencies, discrepancies are small. However, the Mineral Resources Authority pays little attention to us and is reluctant to respond. For instance, for some unknown reason the representative at the previous MSWG meeting did not offer information; they are reluctant to respond to our requests for clarification of discrepancies of MNT 2.4 billion, which is making our work difficult. The General Taxation Department is working towards discrepancy resolution in collaboration with auditors. As the Mineral Resources Authority was advertising the EITI in the media in previous years, we believed the agency to be very supportive of the initiative, but this has not proved to be the case during audit reconciliation. Perhaps it is because of the person responsible, so I don't mean that the whole of the MRAM was behaving badly. At the Labor and Welfare Service Agency, we met the chair in person and drew up formal documentation on unresolved discrepancies.

B. Dolgor: Any more questions?

B. Jantsan: Are we to understand that MNT 77 million of discrepancies remain unresolved in the reports of 22 of the 101 companies?

B. Osorgarav: Yes. For most discrepancies we have formulated formal documentation/protocols and received formal letters. Last year on the 2008 reconciliation, we found discrepancies of MNT 410 million; this year we found MNT 77 million of unresolved discrepancies and are in deadlock.

Sh. Tsolmon: It has been said that some discrepancies are related to the Ministry of Mineral Resources and Energy. What about this and what has happened?

B. Mendbayar: Datsan Trade LLC reported that it had paid MNT 1 million in donations, which remains unclarified. We sent a formal letter to the Ministry, to which it has not yet replied. We met chairman Bathuu, who told us to contact Erdenetsog, who is the former chair of the commission responsible for the celebration of anniversaries. We rang her, with no success. Donations to the Mineral Resources Authority also remain unresolved. Companies have claimed that they paid, but

the Mineral Resources Authority has sent us a letter claiming that no relevant documents have been found on its database.

B. Boldbaatar: How much money does it involve?

B. Mendbayar: MNT 8 million: MNT 3 million from Olon Ovoot Gold LLC and MNT 5 million from Beren Group LLC.

B. Dolgor: Who is here representing the Mineral Resources Authority? Can that representative answer the question? The report says that auditors found the Mineral Resources Authority hard to work with. How are you going to cooperate in the future?

B. Suhtulga: We have sent a formal letter to the Ulaanbaatar Audit Corporation LLC.

B. Mendbayar: They told us that they checked the data as thoroughly as possible, and no documents or data have been found. However, Mineral Resources Authority department chairs sent formal letters to companies soliciting payments; companies have shown evidence that they paid. A reply from the agency repeatedly says their database contains no such information.

B. Suhtulga: We sent a formal letter dated 25 May 2011; it explains and clarifies discrepancies on license fees and donations, which remain unresolved.

B. Dolgor: Say again? We cannot hear or understand you.

B. Suhtulga: Let me comment on each discrepancy at four companies: Oyu Tolgoi, MAK, Erdes Holding and Kommod.

B. Jantsan: Seems to me that the question was about donations from two companies.

B. Dolgor: Please comment on the MNT 8 million that two companies reported as having been paid!

B. Suhtulga: I am wondering about them and I am not aware of it.

B. Dolgor: What was the exact answer from the Mineral Resources Authority?

B. Mendbayar: We have no info on the donations.

B. Dolgor: Who signed the letter?

B. Mendbayar: The formal letter was signed by B. Tuvshinjargal, Chairman of the Administration and Management Department.

B. Dolgor: Does anyone have any more questions?

T. Tsetsegyam: It says reports on Template 3 will be reconciled by the General Taxation Department. Isn't that a template that oil companies use? That needs clarification.

Sh. Tsolmon: I understand that it was a mistake. It should have been Templates 4, 5 and 6. According to our old template, the General Taxation Department should reconcile reports using Template 3 while oil companies filling out Template 3, under the new regulations.

B. Boldbaatar: Companies give donations and aid to local governments. For instance, the Bold Tumur Yeruu Gol LLC says that paid MNT 200 million to Yeruu soum of Selenge aimag. But, no one

reported the payments; they all said they were not required to report. What should we do about it?

N. Alгаа: We check whether there are discrepancies, but not how the money is spent. The local community should do that. As I understand it, that is not related to our reports and reconciliation.

B. Boldbaatar: It is not related, but it may involve corruption as seen by civil society.

B. Dolgor: Our key job is to publicize audited data of payments, and the local community can use our data and oversight various aspects.

B. Osorgarav: This year the General Customs Agency Clselt collaborated with the reconcilers by giving high importance to the process. So I would like to thank the General Customs Agency, today represented by Finance and Economic Department Chairman M. Ulzuubat.

B. Mendbayar: The Mineral Resources Agency Finance and Economics Division produces all the data. I propose that representatives of this division attend MSWG meetings.

B. Osorgarav: There is also a government draft resolution, so I proposed a change of the name of the EITI Secretariat because the Secretariat is seldom accepted as an authoritative institution.

B. Dolgor: We understood that. The key point is to raise awareness. After all, the initiative is chaired and led by the Prime Minister. If we cannot raise understanding and the letter-heads say nothing, it is our fault. Are there any more questions? If not, any comments?

N. Alгаа: This is our 4th report. In the first, we had discrepancies of MNT 25 billion. Now the number of companies involved with our reconciliation has increased 10-fold, while the discrepancies have decreased by 300 times. In general I draw the conclusion that we have been very effective. Perhaps the Ulaanbaatar Audit LLC has become more experienced in two years, which may be the reason for our achievement. I have supported proposals in the Ulaanbaatar audit for 2-13 years. When we talk about a transparency initiative, we mean disclosure of everything, including firearm taxes and vehicles road tax; overall, we are going after small things and leaving the large issues. Especially, service fees and stamp fees are not relevant to materiality so should be removed from the Template, which will result in the work progressing faster and better ordered. The same with payments, some have given MNT 200-300,000 while some have given 10-20,000. So, we also need to consider the comparative amounts, because tracking all donations whether big or small would be difficult. So I propose we consider these ideas. In EITI implementation, I would say it is going well; and I represent companies.

B. Jantsan: EITI has been implemented for several years and this is the 4th reconciliation report. My key idea is publicly to promote in the media companies that produce accurate, authentic and timely reports. We must also publicize any agency that accepts donations but does not report that. Otherwise, we will keep meeting and talking about discrepancies, but it will remain nationally unclear how important the initiative is for stakeholders. So I propose a budget for advertising and public information dissemination.

E. Sumiya: Let me give you couple of proposals and comments on the report. Our auditors have worked very well since the last MSWG meeting. Thanks to Chair B. Dolgor meeting with government agencies and assigning work to improve government performance, the government agencies have also worked effectively, I believe. The Ulaanbaatar Audit Corporation and Hart Noirs have devoted a lot of attention and importance to current reconciliation and shifted to more detailed recommendations, as opposed to last year's general recommendations, and revealed the reasons for discrepancies, so I would like to underline these achievements. I have several comments regarding recommendations from reconcilers. First, I would prefer not to change the

Secretariat to, for example, the Prime Minister's Office or Government's EITI Secretariat. The name Secretariat is shared by all three stakeholders - government, extractive companies and civil society. If we rename it the Government Secretariat, we exclude the other two stakeholders. You may recommend improvement of the name Secretariat, but they should not imply a change to a government subsidiary; think about it. You also recommended increasing current staff numbers. We have asked the World Bank about raising Secretariat staff numbers to three. On the materiality level, I would expect concrete suggestion from the auditors. We don't get involved with the daily face-to-face work, so auditors, on the front line, should tell us what issues they encounter and make suggestions. We could discuss and modify the materiality description. We expect submission of a detailed report, which we will receive for submission to a National Council meeting, and will get comments from the respective ministries and agencies. So please submit your final report to us as soon as possible. Next, there is a terminology "unresolved net discrepancy." When we first reconciled, the discrepancy was over MNT 70 billion, which was reduced to MNT 2.4 billion when the MSWG discussed the initial report, not an MNT 77.4 million unresolved net discrepancy. So, please clarify this as it is confusing for people. Perhaps we should accompany an amount of initial reconciliation and discrepancy as of the date of the MSWG meeting. Please consider this. Thank you.

B. Dolgor: Any more comments?

T. Tsetsegyam: There is an issue related to 3 companies which claim that they reported they paid, but the tax agency reports they have no information. There are two ways that such a discrepancy may occur: either the money was paid and was lost in the recording; or the auditors are mistaken. If you give us a payment slip from these companies, we could clarify if it is an error or that the tax office has misreported in its database. As we have received no documents, as I mentioned, it has been impossible to clarify the discrepancies. If auditors show us payment documents, we can clarify and resolve issues relating to these three companies.

D. Buuveijargal: It is unnecessary to repeat what Mr Alгаа has said, that the initiative is doing well. Among broader stakeholders, understanding on the initiative differs; some say he is right, some not. Personally, I think we have taken a good step in getting companies to report. When we publicize those companies, we probably need to start off in a positive way, then gradually start negative ads, otherwise we may divert companies and create misunderstanding. I propose more positive advertising, then start publicizing negative info once stakeholders have the right idea.

B. Dolgor: Thanks. I agree with all of you. Our reconcilers have worked for two years and have produced a good report. They have particularly provided recommendations on some issues of violation in the reporting process and some pressing issues that need improvement; this has been very useful. Based on these recommendations, we have tried to resolve some issues and have seen some positive outcomes. As well, both companies and government agencies understand the issues and are taking positive action. For example, the General Taxation Department and the General Customs Agency should be applauded for the job they do. There is a need to raise public awareness on the importance of reporting. The key aim of our reports is to enable the community to oversee revenue streams. It is true that this work has not previously been adequately done because of limitations of finance and poor organization of our activity. We have been including and will continue to include all these issues in our work plans, and our Secretariat will pay considerable attention to it. In terms of materiality, it can be seen that there is a need to modify and improve. We are spending too much time and effort on small things, which impacts poorly on the overall result. So let's consider this in the future. I also fully agree that we must all work to improve government agency responsibility and performance. As to the Secretariat name, it is basically important for us to work hard on the Prime Minister's initiative. It is true that we have three stakeholders; but I don't think that the Prime Minister's leadership will change stakeholder participation. As Mr Sumiya said, we need to get the Mineral Resources Authority to provide opinion to the National Council meeting, because it is the agency where the major discrepancies

have been found. The Agency's report is insufficient, and it also has issues relating to donation reportage. Let's submit the report to the National Council and submit the unresolved discrepancies to the Minister of Finance for further tracking and follow-up, and offer suggestions for resolution to the National Council. Now, let's move on to the next topic.

RESOLVED to:

1. Agree that the MSWG (Chair B. Dolgor) will submit the EITI Mongolia 2009 reconciliation report to the National Council for approval in the near future.
2. Thank all stakeholders for their efforts to resolve discrepancies identified in the reconciliation report.
3. Advise MSWG Chair and Senior Prime Ministerial Advisor B. Dolgor to submit unresolved discrepancies to the Minister of Finance for further study, and track and offer recommendations of possible solutions for discussion at a National Council meeting.

2. TOPIC: Draft resolutions of Government and Prime Minister of Mongolia on "Measures to ensure extractive industry transparency"

B. Dolgor: Mr Sumiya will give a presentation on this topic.

E. Sumiya (Cabinet Secretariat Senior Officer and MSWG Secretary): OK, a draft resolution and copy of the presentation have been circulated. Mongolia was accepted as the 4th EITI implementing country after meeting all requirements. We have also developed a mid-term EITI Mongolia strategy, endorsed by the National Council. So we have an immediate need to move to the next stage of operation by changing government policy on the initiative and previous decisions (he detailed the draft resolutions). Comments will be received in writing (presentation attached).

B. Dolgor: Any questions?

B. Jantsan: Right now, which stakeholder are we representing?

E. Sumiya: Right now, you represent companies under Government of Mongolia resolution. We represent the same party, so we must not disagree: for example mining associations saying one thing while the employers' federation says something else. Ideally, you must closely work with all companies.

B. Jantsan: Does it mean that the current MSWG is liquidated?

E. Sumiya: No, it is a re-arrangement.

B. Dolgor: We have the National Council, the MSWG and the Secretariat. This structure won't change, but its membership does. The structure is effective and important, so we try to retain this form, but add representatives, including those of professional associations. Any questions?

A. Batpurev: Under the old structure, the three stakeholders had equal representation. Now the government has 60% representation, the other two stakeholders have 20% each. Why? Shouldn't all stakeholders have equal representation?

E. Sumiya: I ask that the number of representatives stay as is. If you have different ideas, we can change. But it is recognized internationally that there should be a preponderance of government representatives, as the National Council makes the final decision and takes responsibility. For the MSWG, one agency has been added to the previous government representation, as opposed to the former representation of 8 each.

B. Batbold: Must it be a particular person representing the agency. or can the representative individual be changed? If we allow a change, perhaps they don't pass on sufficient information and explain fully the process, which can make communication difficult. What should we do?

B. Dolgor: This issue relates to structure, so attention must be paid. We must stress that members should adopt more strict responsibilities.

N. Alгаа: What Batpurev said about equal representation is one issue; someone attending the meeting and representing another member, whether good or bad, is another issue. So we must have a mechanism to resolve these issues. We propose a resolution that the representation be not by name, but by agency or organization/entity, so an agency or organization/entity may change representative if that person is found to be inactive. In my opinion, we are now on the right track and mechanism. Correct?

E. Sumiya: Exactly. It means that the agency or organization will be responsible. Getting a resolution by Government or Prime Minister is not an easy game. As membership or representation of stakeholders changes every year, we propose this to sort out the issue.

B. Dolgor: Comments?

B. Boldbaatar: We will produce a soum-level EITI report with the Open Society Forum, to see to what extent the initiative is implemented at the sub-national level. Is it possible to present findings or violations identified by this report to an MSWG meeting and assign government agencies to investigate any violations found?

E. Sumiya: There is a MSWG regulation which covers this. It has also been agreed that sub-national reports will be included in the EITI Mongolia 2010 reconciliation report as annexes.

B. Dolgor: Any more comments?

J. Iveelen: I think that the EITI should send us a formal letter asking for comments in writing on this draft resolution.

E. Sumiyay: It is OK.

Ya. Purvee: I propose that MSWG send a formal letter and that all agencies and stakeholders give comments in writing.

E. Sumiya: We are not likely to get comments and feedback by formal letter. You work in the MSWG with full authority to represent your agencies. We are asking you as MSWG members for your comments on the draft resolution. We will get comments in writing from all ministers after presenting it to a National Council meeting. I am asking your comments now to improve the existing draft.

T. Tsetsegyam: OK, I will comment. I have been working on this for 2 months, during which I have supported the auditors. Information on exploration and mining license holders, companies with oil licenses and their sub-contractors, must be made clear by using an ID on state registration; this should be assigned to all agencies and stakeholders. I propose inclusion of this provision in the draft resolution. Also, existing EITI reports and reconciled national level data at the General Taxation Department should be expanded and improved in an electronic system or with software-based reports, to ensure and ascertain taxes, fees and charges paid to aimags, capital city, soum and districts. The resolution must contain some provisions on this. Another suggestion is to improve not only General Taxation Department databases and software. I propose

an attachment to EITI financial reports of reporting agencies, local administrations and companies, to ease compilation of data from reporting entities. As well, we propose the creation of web-based software based on data from state registration.

B. Dolgor: Important idea. Any more comments and proposals?

A. Batpurev: In principle, I agree with the idea of giving all rights and authority to each stakeholder. However, I ask you to re-visit the principle of membership. I also propose the inclusion of more detail on responsibilities and functions of sub-national branches or councils. It would be a great step for the initiative to be implemented at the local level, I believe.

RESOLVED to: 1. Assign MSWG Head and Senior Prime Ministerial Advisor B. Dolgor to include comments from MSWG members in the draft Government and Prime Minister resolution for submission to the National Council.

3. TOPIC: Budget and cost projections on government finance for 2012 EITI activities

B. Dolgor: As all presentations have been circulated, let's start with questions.

B. Batbold: Is there is any budget for advertising or is it included elsewhere?

Sh. Tsolmon: In 2011 and 2012, we will get USD 250,000 from the World Bank and EUR 450,000 from the European Bank for Reconstruction and Development. With this, we will start our larger scale activities, such as creating the legal environment, running training, holding workshops and on communications. As the EITI advertising costs will be covered by the donors, we have not included the expenditure in the draft budget.

N. Alгаа: Actually, we should not be dependent on the World Bank. Future Secretariat costs must be funded from the government budget. That is why we need to shift to government funding.

B. Batbold: I think it is right if we ourselves allocate an advertising budget.

E. Sumiya: One comment. The Ministry of Finance is coordinating the budget, credit and aid. In other words, the Ministry of Finance will identify what to finance and from where. Today, our principle is that reconciliation costs should be funded by the government. I propose a step-by-step approach.

A. Batpurev: It seems that we are going to get paid MNT 25,000 each: do we need it? I offer to shift this cost to other cost items.

B. Boldbaatar: One announcement. We are able to comment on the draft Minerals Law. I propose the EITI and National Council offer comment on the draft law.

B. Dolgor: If necessary, we can offer comment from the National Council or MSWG independently. I think that we should keep the meeting fees for members.

RESOLVED to: 1. Agree MSWG Head and Senior Prime Ministerial Advisor B. Dolgor and EITI Secretariat Coordinator Sh. Tsolmon include comments from MSWG members in the budget and cost projections for financing by the government for 2012 EITI activities, and submit final documents to a National Council meeting.

This concludes all topics for discussion. Thank you all.

MSWG Meeting finished at 7.30 pm.

Meeting minutes reviewed by:

B. Dolgor
Senior Prime Ministerial Advisor,
MSWG Chair

Minutes taken by:

B. Delgermaa
EITI Secretariat Finance Office