



**Mongolia Extractive Industries Transparency initiative
Annual Activities Report**

2016

Mongolia EITI National Council, Working group and Secretariat

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ONE. 2016 ACTIVITIES AND RESULTS;

1.1.Overview of meetings of National Council and Working group

National Council

Mongolia EITI Council having functions to organize, monitor and coordinate implementation of EITI in Mongolia met once on **December 20, 2016**, which was chaired by H.E. Mr.J.Erdenebat, Prime Minister of Mongolia and chairman of National Council. The relevant decisions are made

The first topic was about Mongolia EITI 2015 or 10th Report produced by consortium of Mongolian company Ulaanbaatar Audit corporation and UK Hart Nurse, and below mentioned decisions have been made:

1. Mongolia EITI 2015 or 10th Report produced by consortium of Mongolian company Ulaanbaatar Audit corporation and UK Hart Nurse was supported and endorsed with input of proposals of members. Relevant decisions for the further activities are given.
2. It obliged all stakeholders to publish and post Mongolia EITI 2015 Report in their web site, and Secretariat to produce shorter of the report and advertise it publicly.
3. It obliges Secretariat to deliver Mongolia EITI 2015 Report, implementation of Mongolia EITI 2016 Work plan along with 2017 work plan to EITI International Secretariat before December 31, 2016.
4. It obliged the Cabinet media office to cooperate with the Secretariat to inform publicly this report and the meeting of National Council,
5. The decisions are made per each recommendation:

Recommendation 1

We recommend that The National Council raise this matter with the Minister of Mines, so that MRAM promptly makes publicly available all PSAs in accordance with the law.- **Ministry of Mining and Heavy industries is obliged to resolve this issue in accordance with recommendation before end of first half of 2017.**

Recommendation 2

We recommend that MRAM ensures that publicly available licence information at least complies with the minimum requirements of the EITI Standard (*recommendation made in previous years*). – **Authorities of Minerals and Petroleum is obliged to resolve this issue in accordance with recommendation before end of first half of 2017.**

Recommendation 3

We recommend that MRAM ensures that information it discloses on licences is consistent and that the Working Group follow this matter up with MRAM. – **Authorities of Minerals and Petroleum is obliged to resolve this issue in accordance with recommendation before end of first half of 2017.**

Recommendation 4

We recommend that the Working Group and National Council should engage with the Mineral Resources Authority to ensure that all extractive SOEs have in place an appropriate and complete rehabilitation plan, fully costed, and that their future financial statements include rehabilitation costs in accordance with the relevant International Financial Reporting Standards. – **Erdenes Mongol company is obliged along with Ministry of Environment and Tourism to resolve this issue in accordance with recommendation before end of first half of 2017.**

Recommendation 5

We recommend that the Working Group should discuss the qualifications on the audit reports with Ministry of Finance and the SOEs and confirm that there is a resourced and timebound action plan to make necessary improvements in financial control. – **Mongolia EITI Secretariat is obliged along with relevant organizations to resolve this issue in accordance with recommendation before end of first half of 2017.**

Recommendation 6

We recommend that in order to improve the assurance over the government EITI reports, the Working Group should engage with the MNAO so that the necessary resource and time to give an opinion on government EITI data can be incorporated in the workplan of the MNAO. – **MNAO is recommended to allocate costs in annual activities starting from 2018 budget.**

Recommendation 7

It is important that the level of compliance on these assurance points is improved. We recommend that the EITI Secretariat increase their engagement with companies to secure better compliance in the next EITI Report. – **Mongolia EITI Secretariat is obliged along with relevant organizations to resolve this issue in accordance with recommendation before end of first half of 2017.**

Recommendation 8

It is important that the level of compliance on these assurance points is improved. We recommend that the EITI Secretariat increase their engagement with companies, SOEs and government to secure better compliance in the next EITI Report.. – **Mongolia EITI Secretariat is obliged along with relevant organizations to resolve this issue in accordance with recommendation before end of first half of 2017.**

Recommendation 9

We recommend that the EITI Working group review the companies using the E-reporting system in advance of each EITI Report to remove any non-extractive companies. – **Mongolia EITI Secretariat is obliged along with relevant organizations to resolve this issue in accordance with recommendation before end of first half of 2017.**

Recommendation 10

The below recommendations and the recommendations mentioned in the bidding documents shall be concerned during full receipt of EITI Mongolia online system:

- Receive the system with the backup option
- Receive the handbooks needed for proper operations of the system (in particular, the handbooks of operating system installation, of the required security adjustments, adjustment of backup option and data bank installation)
- Receive authentic codes which will be required for further development of the system
- Prior to receive the system it needs to request to perform penetration test and stress test for the system from outside and inside

The below recommendations shall be concerned about security of EITI Mongolia online system:

- To supply the system with SSL certificate for application
- Regularly update operating system of the online reporting system
- Provide IP address solely for application by the users with administration rights, adjust application port and block other unnecessary ports
- Make the system capable to identify the applying and invasive information and block them.

The below recommendations are proposed to concern to secure the further, proper operations of the system:

- Determine the rights and duties of the users who will apply for online reporting system and include them to the procedure

An agreement to sign with a company to install online reporting system shall accurately reflect the clauses about the necessary security, backup option, data protection from illegal copying, load regulation and the continuous operation of the system. – **Mongolia EITI Secretariat is obliged along with relevant organizations to resolve this issue in accordance with recommendation before end of first half of 2017.**

Recommendation 11

The Independent Administrator should be selected and involved in the process as early as possible, in order to provide input to the report preparation. Ideally the Independent Administrator should be involved from late January, before decisions need to be taken about the contents of E-Report system templates. – **Mongolia EITI Secretariat is obliged along with relevant organizations to resolve this issue in accordance with recommendation before end of 2017.**

The second topic was about implementation of Mongolia EITI work plan for 2016 and below mentioned decisions are made:

1. Implementation of Mongolia EITI Work plan for 2016 was introduced.
2. All remaining and not implemented activities are in Mongolia EITI 2017 Work plan, and obliged the Secretariat to inform from regularly a progress.

The third topic was about a draft of Mongolia EITI work plan for 2017, which was approved with input of members' proposals and obliged the Working Group to control implementation progress on quarterly basis, also obliged Secretariat to check possibility to mobilize funds from budget package of Minister of Environment and Tourism for financing subnational councils, and forward official request to relevant authorities.

The fourth topic was about approving Mongolia EITI open data policy and procedure, which was approved, and fifth topic was a draft of Mongolia EITI Beneficial ownership transparency 2020 Road map. The road map was endorsed and the Secretariat was assigned to report every quarter on implementation progress.

The Motto of 2017 is to make 2017 the year of Subnational Councils capable and transparent Beneficial owners.

Working group

The Mongolia EITI Working having functions to implement EITI met 3 times, April, August, November 2016. The decisions of each meeting are given below.

April 22, 2016

Agenda and decisions are as follows:

1. Within Mongolia EITI, sub group with task to draft road map for Beneficial ownership was established. Mr. N.Enkhbayar, chairman of economic, financial and investment department of Ministry of Mining was approved as a chairman of this sub group.
2. The stake holders are requested to deliver names for membership in this sub group before May 1st.

August 4, 2016

Agenda and decisions are as follows:

1. Mongolia EITI Subnational communication pilot project to be funded by EBRD was discussed and approved¹.

November 18, 2016

Agenda and decisions are as follows:

1. The draft Mongolia EITI 2015 Report was discussed and recommended to be submitted to National Council for endorsement..
2. Draft of Mongolia EITI Beneficial ownership transparency 2020 road map was recommended to be submitted to National Council for consideration and endorsement.

¹ Some members of CSO do not recognize this meeting as meeting of WG.

3. Implementation of Mongolia EITI Work plan for 2016, and Work Plan for 2017 are recommended to be submitted to National Council for consideration and endorsement.

1.2. Summary of Mongolia EITI 2015 or 10th report

The consortium of Mongolian company Ulaanbaatar Audit corporation and UK Hart Nurse was selected as Independent administrator for Mongolia EITI 2015 or 10th Report, and commenced contract work by early July 2016.

The reconciliation covered payments of 202 companies and revenues of Government, inception seminar was organized in August, inception report was produced by September, draft report was presented to Working Group meeting in November, and National Council endorsed on December 20, 2016.

General part

The extractive industries in Mongolia produced 16.7% of GDP of Mongolia for 2015, it represented 63.2 of industrial output and 88% of export volume. As of end of first quarter of 2016, 9.5% of whole territory is under mineral licenses.

There are more 30 laws, and about 40 guidelines effective in this sector. As of December 31, 2015 there are 1866 companies possess 3329 licenses for exploration and exploitation, which are may have 57 type of minerals. The report includes as EITI standard required reserves of minerals covering coal, copper, iron ore, gold, fluor spar, molybdenum, zinc, uranium and deposits of strategic importance, small scale mining, rehabilitation activities, licensing, process for award and transfer of licenses technical and financial criteria to use for license allocation, licenses awarded and transferred in 2015, license register, geological and exploration operations financed from State budget, privately funded exploration activity, production and export. Furthermore, it covers petroleum resources, licensing and register, and concluded PSAs, including those in 2015. Now, there are 19 petroleum companies operating with 25 PSAs.

The total Government receipts in 2015 from extractive industries was 1422.2 billion MNT, of which, the royalties for use of mineral resources were 544.6 billion, the corporate income tax was 217.9 billion, petroleum receipts of GoM were 160.6 billion, employers social and health insurance was 127.6 billion, and donations was about 40 billion MNT.

The total number of employment of Mongolia for 2015 was 1,151,200 persons, 42,600 out of them was engaged in this sector, represented 3,7% from total number of persons, which decreased by 1,700 persons from previous year. As for the reconciled companies, only 126 of them disclosed number of employment. They informed the independent administrator that they have 22,000 working persons, 1206 out of them foreigners, which represents 5.5 10%.

The number of companies supposed to report for 2015 EITI was 1920, but 747 out of them reported electronically and represented 39%, which decreased by 240 companies or 30% from previous year.

The total sum payment of reported 747 companies was 1134 billion MNT, but the total sum of revenues of Government from 1920 companies was 1422.2 billion MNT, and after scoping and definition of materiality 202 companies were reconciled, which represented 98.8% of major revenue streams of 2015. As the result of reconciliation, adjusted Government sum was 1393 billion MNT, adjusted Companies sum was 1392 billion MNT, and unexplained discrepancies was 112 million MNT.

Donations as per 2012 report was 13,1 billion MNT, as per 2013 Report was 39,2 billion MNT, almost tripled from previous, but as per 2014 report 19 billion MNT and for 2015 it was more than 40 billion MNT, and increased from the previous year.

The Report revealed state owned companies, made study work, there is 16 such companies, of which 7 or Erdenes Mongol, Shivee-Ovoo, Baganuur, Erdenes Tavan tolgoi, Erdenet, Mongolrostsvetment, Darkhan metallurgical plant participated in reconciliation. There are 4 companies with local government ownership, and 3 of them, i.e. Tavantolgoi, Mogoin gol, Bayanteeg were included into reconciliation.

As for beneficial ownership study, 215 companies disclosed for 2013 Report, 30 companies for 2014 Report, and 51 companies did so for 2015.

Participation of Companies

Generally, a participation of companies in reconciliation process was good except those companies, which have not replied to the Independent administrator. So, there were names of 8 such companies, as per attachment.

Participation of Government institutions

Participation of Government institutions was sufficient level. Only, state owned enterprise Mon-Atom has got poor mark.

1.3 Selection of Independent Administrator for Mongolia EITI 2015 Report

The ToRs for Independent Administrator for Mongolia EITI 2014 Report was approved by the Secretariat of Mongolian Government late January, 2016 and the Evaluation Committee was formed at the same time. Mongolia EITI Working Group reviewed ToRs electronically before approval, amended and finalized it as EITI Standard 2013 required.

The selection was commenced from February till late June, and the consortium of Ulaanbaatar audit corporation and UK Hart Nurse was selected as Independent administrator for Mongolia EITI 2015 or 10th Report. The Contract commenced early July and completed late December, 2016.

1.4 Organization activities for 2015 Company and Government reporting

In order to facilitate to Companies in reporting 3 times of group SMS were organized, guidelines were posted at EITI and MRAM website, announcement board of MRAM. Several times, names of reported and not reported companies was published in central newspapers.

The Secretariat asked and wrote to Government institutions, which have duty to report, and provided password for electronic reporting. 32 Government institutions reported for EITI, covering revenues from 1920 companies.

1.5 EITI reporting

There is general tendency that the number of companies reporting for EITI is increasing and discrepancies are decreasing,

Year	Number of companies produced report	Number of companies On which Government Produced report	Number of Companies participates In National Report	Unexplained discrepancies
2006	64	137	25	4 billion MNT
2007	102	184	38	775 million MNT
2008	115	184	46	425 million MNT
2009	129	363	101	58 million MNT
2010	274	477	150	360 thousand MN
2011	301	518	200	75 million MNT
2012	1529	1829	200	360 million MNT
2013	1198	1617	250	36 million MNT
2014	992	1573	236	581 million MNT
2015	747	1920	202	112 million MNT

1.6 Implementation of Mongolia EITI Work plan for 2016

Mongolia EITI Work plan for 2016 planned 53 activities, and only 34 of could be implemented, success rate is 65%.

National Council met on December 20, and working group met 3 times, sub group met 2 times in 2016.

The core reason of unsuccessful implementation was delay of financing from World Bank, preparation of Grant agreement, it was delayed till August 20, as consequence, there was big loss of time. The main activities, which have not been carried out are activities related to capacity build- up of subnational councils, passing of draft law on transparency in mineral resources sector, but they moved to work plan for 2017, and should be implemented. But there are some activities, which should be mentioned.

1. Mongolia EITI delegation headed by Minister of Mining Mr.Jigjid participated in EITI Conference successfully, Mongolia received award of EITI Chairman for improvement of accessibility of EITI Information. During the Mongolian delegates met Government high officials from Peru and Colombia, and discussed bilateral issues.

2. The sub group for Mongolia EITI Beneficial ownership was established at Ministry of Mining and drafted a 2020 Road map, which was approved by National Council. NRGi supported in drafting Road, organized necessary 2 day work with training.
3. The second phase of electronic reporting was funded by EBRD and organized by EITI, Adam Smith institute, the final product was launched in April at the Ministry of Mining. The all relevant brochure, handbooks were translated and produced, and disseminated.
4. Working group at Economic standing committee to prepare a law on transparency in mineral resources sector met 3 times, and drafted version for the first reading, but Parliament had no time, as result of election, the new Government was installed, which called back all not passed drafts of law, including mentioned one.
5. In cooperation with GIZ and Mongolian Mining journal, regional EITI booklets were produced, namely north and western regions, were disseminated.
6. Mongolia EITI Contract transparency web- site was developed and completed in cooperation with Open society forum and Ministry of Mining.
7. Mongolia EITI Validation was organized art early July, 2016 and all relevant documentations passed except final decision of EITI board, which is expected in late December, 2016.
8. For better communication at provincial level, a pilot communication sub national project is prepared and will be funded by EBRD.
9. Important meeting of deputies of aimag Governments newly elected was organized along their specialist for mining sector, and the topic was capacity build-up for subnational councils, funding and planning.

TWO. STATUS OF MEETING OF EACH EITI REQUIREMENTS AND PROGRESS

On implementation of EITI new standard

2.1. On meeting of 2015 EITI report the requirements of EITI standard

The consortium of Ulaanbaatar audit corporation and UK Hart Nurse, Working group and Secretariat worked together that Mongolia EITI 2015 Reports meets 100% requirements of EITI standard, considered the results are acceptable and sufficient, National Council; endorsed the Report, included some activities into 2017 Work plan.

2.2. On findings of 2016 Mongolia EITI Validation report

Validation of Mongolia EITI was conducted by internationally and independently assessed in 2016, the major issue is participation of Government was not sufficient and we recognize this with other findings, and included into Work Plan for 2017 to improve performance.

		EITI REQUIREMENTS		LEVEL OF PROGRESS				
		No	Inadequate	Meaningful	Satisfactory	Beyond		
Categories	Requirements							
MSG oversight	Government engagement (#1.1)			Yellow				
	Industry engagement (#1.2)				Green			
	Civil society engagement (#1.3)				Green			
	MSG governance (#1.4)			Yellow				
	Workplan (#1.5)				Green			
Licenses and contracts	Legal framework (#2.1)				Green			
	License allocations (#2.2)			Yellow				
	License register (#2.3)			Yellow				
	Policy on contract disclosure (#2.4)				Green			
	Beneficial ownership (#2.5)	Grey	Grey	Grey	Grey	Grey	Grey	
	State participation (#2.6)		Orange					
Monitoring production	Exploration data (#3.1)				Green			
	Production data (#3.2)				Green			
	Export data (#3.3)			Yellow				
Revenue collection	Comprehensiveness (#4.1)				Green			
	In-kind revenues (#4.2)	Grey	Grey	Grey	Grey	Grey	Grey	
	Barter agreements (#4.3)	Grey	Grey	Grey	Grey	Grey	Grey	
	Transportation revenues (#4.4)	Grey	Grey	Grey	Grey	Grey	Grey	
	SOE transactions (#4.5)			Yellow				
	Direct subnational payments (#4.6)				Green			
	Disaggregation (#4.7)				Green			
	Data timeliness (#4.8)				Green			
Data quality (#4.9)			Yellow					
Revenue allocation	Revenue management and expenditures (#5.1)				Green			
	Subnational transfers (#5.2)			Yellow				
	Distribution of revenues (#5.3)	Grey	Grey	Grey	Grey	Grey	Grey	
Socio-economic contribution	Mandatory social expenditures (#6.1.a)			Yellow				
	Discretionary social expenditures (#6.1.b)	Grey	Grey	Grey	Grey	Grey	Grey	
	SOE quasi-fiscal expenditures (#6.2)		Orange					
	Economic contribution (#6.3)					Green		
Outcomes and impact	Public debate (#7.1)				Green			
	Data accessibility (#7.2)	Grey	Grey	Grey	Green	Grey	Grey	
	Follow up on recommendations (#7.3)				Green			
	Outcomes and impact of implementation (#7.4)			Yellow				

THREE. ACTIVITIES OVERVIEW OF ACTIVITIES CARRIED BY NATIONAL COUNCIL AND WORKING GROUP;

3.1.Meetings of National Council

Mongolia EITI National Council met in December 20, 2016. The National Council issued all necessary decisions, also Prime Minister of Mongolia himself, participated in and chaired the meeting as chairman of National Council.

3.2.Meetings of Working group

Mongolia EITI Working group met 3 times in 2016, attendance 70%.

More 10 decisions were elaborated by these meetings, and they are more to day-to-day character, so the most of them implemented.

3.3. Deliberation of EITI related draft law in Parliament

Working group at Economic standing committee to prepare a law on transparency in mineral resources sector met 3 times, and drafted version for the first reading, but Parliament had no time, as result of election, the new Government was installed, which called back all not passed drafts of law, including mentioned one.

3.4. EITI Sustainable financial sources

Since 2010 the Government of Mongolia finances costs of annual reconciliation report and is doing well in this regard, since then, and it disbursed 201,1 million MNT in 2012, 183 million MNT in 2013, 220.1 million in 2014, and 169 million MNT in 2015. It is disbursed for Mongolia EITI 2015 Report 152.3 million MNT in 2016.

Financing of the Secretariat operational costs is still funded by/from World Bank and there was a delay of financing from World Bank, preparation of Grant agreement. It was delayed till August 20, as consequence, there was big loss of time. The new grant is provided till end of 2018, covering 450.000 USD.

FOUR. IMPLEMENTATION OF WORK- PLAN 2014, SIGNIFICANCE OF ACHIEVED OBJECTIVES

4.1. Mongolia EITI Work plan for 2016 had 53 activities and 34 out of them were achieved and success rate is 65%.

4.2. The main activities, which have not been carried out are activities related to capacity build- up of subnational councils, passing of draft law on transparency in mineral resources sector, but they moved to work plan for 2017, and should be implemented.

FIVE. FURTHER ACTIVITIES TO BE CARRIED OUT AND IMPROVE INVOLVEMENT OF STAKE-HOLDERS

Conclusion of Mongolia EITI Working Group on EITI performance

- 1.1. Mongolia has produced 10 EITI Reconciliation Reports and number of companies reporting is increasing on the other hand unresolved discrepancies are decreasing..
- 1.2. Further, the use of EITI reports should be improved, training, promotion works should be activated.
- 1.3. Although EITI is implemented in Mongolia sustainable way, we have to recognize that opportunity is still limited, as limited financial resource and unclear legal environment do not go beyond.
- 1.4. Implementation of some work, activities in annual work plan must be carried out by professional associations of mining sector, civil society organizations on contract basis, and respectively to minimize overcharge of the Secretariat.
- 1.5. The participation of Government is in general relatively good, but participation of leading officials is enough. Turn out of Working group and National Council is still not satisfactory, there is still representing at the meetings. Within seven days after minutes of meeting is issued, turn-out will be posted at web site and publicly available.
- 1.6. Companies are still not active, especially leading and big companies, which can be good example of transparency. There is still high number of companies not reporting for EITI.
- 1.7. There are needs to process reporting, reconciling, and relevant information under new EITI standard and policy at level of aimag, capital city, soum and districts, make relevant organizations capable, insure better legal and financial environment, provide necessary guidelines.

SIX. COMPLICATIONS IN MONGOLIA EITI 2016 IMPLEMENTATIONS, RESPONSES

As of a delay of financing from World Bank, preparation of Grant agreement for 8 months impacted and 20 activities could not be carried out. Secretariat asked several donors for assistance, but it was not successful.

So, we are determined for next year to improve implementation of indicators which received not good assessment as of Mongolia EITI validation report, to activate capacity build up subnational councils, implement Road map of beneficial ownership and make more transparent contracts and for the year of better capacity of subnational councils and creating legal environment for beneficial ownership.

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