

# Board decision on the Validation of Mongolia

Decision reference: 2017-1/BC-224

On 11 January 2017, the EITI Board came to the following decision on Mongolia's status:

The Board agreed that Mongolia has made meaningful progress overall in implementing the 2016 EITI Standard. In taking this decision the EITI Board noted the effective oversight provided by the Mongolian Multi-Stakeholder Working Group (MSWG), efforts to improve the accessibility of data through an online Data Portal, progress in establishing sub-national multi-stakeholder councils as well as the impact on public debate, particularly at the local level. The EITI Board highlighted that the EITI has provided a positive platform for discussion and debates about mining sector management, involving all stakeholders and the wider public. The EITI Board was encouraged by the government's efforts to make government systems transparent and urged the MSWG to work towards further mainstreaming EITI disclosures.

The Board's determination of Mongolia's progress with the EITI's requirements is outlined in the assessment card, below. The EITI Board agreed that Mongolia had not made satisfactory progress on requirements 1.4, 2.2, 2.3, 2.6, 4.5, 4.9, 5.2, 6.1, 6.2 and 7.4. The major areas of concern relate to MSG governance (#1.4), license allocations (#2.2), license registers (#2.3), state participation (#2.6), including SOE transactions (#4.5) and quasi-fiscal expenditures (#6.2), data quality (#4.9), subnational transfers (#5.2), social expenditures (#6.1) and documentation of impact (#7.4). The EITI Board disagreed with the validator on the following requirements: government engagement (#1.1), export data (#3.3) and in-kind revenues (#4.2).

Accordingly, the EITI Board agreed that Mongolia will need to take corrective actions outlined below. Progress with the corrective actions will be assessed in a second validation commencing on **11 January 2018**. Failure to achieve meaningful progress with considerable improvements across several individual requirements in the second Validation will result in suspension in accordance with the EITI Standard. In accordance with the EITI Standard, the Mongolian Multi-Stakeholder Group may request an extension of this timeframe, or request that Validation commences earlier than scheduled.








The Board's decision followed a Validation that commenced on 1 July 2016. In accordance with the 2016 EITI Standard, an initial assessment was undertaken by the International Secretariat. The findings were reviewed an Independent Validator, who submitted a Validation Report to the EITI Board. Mongolia's Multi-Stakeholder Working Group were invited to comment throughout the process. The Multi-Stakeholder Working Group's comments on the report were taken into consideration. The final decision was taken by the EITI Board.

## Assessment card

The EITI Board agreed the following assessment card:

EITI Requirements		Level of progress				
Mongolia 2017 Validation assessment card		No progress	Inadequate	Meaningful	Satisfactory	Beyond
Categories	Requirements					
<b>MSG oversight</b>	Government engagement (#1.1)					
	Industry engagement (#1.2)					
	Civil society engagement (#1.3)					
	MSG governance (#1.4)					
	Work plan (#1.5)					
<b>Licenses and contracts</b>	Legal framework (#2.1)					
	License allocations (#2.2)					
	License register (#2.3)					
	Policy on contract disclosure (#2.4)					
	Beneficial ownership (#2.5)					
	State participation (#2.6)					
<b>Monitoring production</b>	Exploration data (#3.1)					
	Production data (#3.2)					
	Export data (#3.3)					
<b>Revenue collection</b>	Comprehensiveness (#4.1)					
	In-kind revenues (#4.2)					
	Barter agreements (#4.3)					
	Transportation revenues (#4.4)					
	SOE transactions (#4.5)					
	Direct subnational payments (#4.6)					
	Disaggregation (#4.7)					
	Data timeliness (#4.8)					
	Data quality (#4.9)					
<b>Revenue allocation</b>	Distribution of revenues (#5.1)					
	Subnational transfers (#5.2)					
	Revenue management and expenditures (#5.3)					
<b>Socio-economic contribution</b>	Mandatory social expenditures (#6.1.a)					
	Discretionary social expenditures (#6.1.b)					
	SOE quasi-fiscal expenditures (#6.2)					
	Economic contribution (#6.3)					
<b>Outcomes and impact</b>	Public debate (#7.1)					
	Data accessibility (#7.2)					
	Follow up on recommendations (#7.3)					
	Outcomes and impact of implementation (#7.4)					
<b>Overall assessment</b>	<b>Meaningful progress</b>					

*Legend to the assessment card*

-  The country has made no progress in addressing the requirement. The broader objective of the requirement is in no way fulfilled.
-  The country has made inadequate progress in meeting the requirement. Significant elements of the requirement are outstanding and the broader objective of the requirement is far from being fulfilled.
-  The country has made progress in meeting the requirement. Significant elements of the requirement are being implemented and the broader objective of the requirement is being fulfilled.
-  The country is compliant with the EITI requirement.
-  The country has gone beyond the requirement.
-  This requirement is only encouraged or recommended and should not be taken into account in assessing compliance.
-  The MSG has demonstrated that this requirement is not applicable in the country.

## Corrective Actions

The EITI Board agreed the following corrective actions to be undertaken by Mongolia. Progress in addressing these corrective actions will be assessed in a second Validation commencing on 11 January 2018:

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.
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.
3. In accordance with requirement 2.6, the MSWG should provide an explanation of the prevailing rules and practices related to SOEs' retained 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. In accordance with requirement 6.2, the MSWG 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. .
4. In accordance with requirement 4.5, the MSWG must ensure that the reporting process assesses the materiality and comprehensively discloses material payments to subnational government entities.
5. In accordance with requirement 4.9.b.iii and the standard Terms of Reference for the Independent Administrator agreed by the EITI Board, the MSWG and Independent Administrator should:
  - a) examine 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 appropriate international professional standards<sup>1</sup> 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

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<sup>1</sup> For example, ISA 505 relative to external confirmations; ISA 530 relative to audit sampling; ISA 500 relative to audit evidence; ISRS 4400 relative to the engagement to perform agreed-upon procedures regarding financial information and ISRS 4410 relative to compilation engagements.

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.

- 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.
  - 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.
6. 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.
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 is a third party, i.e. not a government agency, the MSWG should ensure that the name and function of the beneficiary be disclosed.
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 MSWG is encouraged to consider the other recommendations in the Validator's Report and the International Secretariat's initial assessment, and to document the MSWG's responses to these recommendations in the next annual progress report.

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*This decision can be found online under: <https://eiti.org/validation/mongolia/2017>*

*The documentation on this Validation (Validation Report, MSG Comments and initial data collection) can be found here: <https://eiti.org/document/validation-mongolia-2017-documentation>*