

# 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.**

## ABBREVIATIONS

<b>BO</b>	Beneficial owner
<b>BOD</b>	Board of Directors
<b>CGA</b>	Customs General Administration
<b>CIT</b>	Corporate Income Tax
<b>EITI</b>	Extractive Industry Transparency Initiative
<b>EPP</b>	Environmental protection plan
<b>GAPCSP</b>	Government agency for policy coordination on state property
<b>GBG</b>	General budget governor
<b>GDP</b>	Gross Domestic Product
<b>GDT</b>	General Department of Taxation
<b>IAS</b>	International Accounting Standards
<b>IFRS</b>	International Standards on Financial Reporting
<b>ISA</b>	International Standards on Auditing
<b>JSC</b>	Joint Stock Company
<b>LDCF</b>	Local Development Consolidated Fund
<b>LDF</b>	Local Development Fund
<b>LLC</b>	Limited Liability Company
<b>MEITI</b>	Mongolia Extractive Industry Transparency Initiative
<b>MLSP</b>	Ministry of labor and social protection
<b>MMC</b>	Mongolian Mining Corporation
<b>MMHI</b>	Ministry of mining and heavy industry
<b>MNAO</b>	Mongolian National Audit office
<b>MNEGDT</b>	Ministry of Nature, Environment, Green Development and Tourism
<b>MOF</b>	Ministry of Finance
<b>MPC</b>	Mineral professional council
<b>MRPA</b>	Mineral Resources and Petroleum Authority
<b>MSWG</b>	Multi-Stakeholder Working Group
<b>MUST</b>	Mongolian University of Science and Technology
<b>NGO</b>	Non-governmental Organization
<b>NSO</b>	National statistics of Mongolia
<b>OSF</b>	Open Society Forum
<b>PAM</b>	Petroleum Authority
<b>PoM</b>	Parliament of Mongolia
<b>PSA</b>	Product Sharing Agreement
<b>PWYP</b>	Publish what you pay
<b>SAM</b>	Sustainable artisanal mining
<b>SE</b>	Stock Exchange
<b>SIF</b>	Social Insurance Fund
<b>SOC</b>	State-Owned Companies
<b>SOE</b>	State-Owned Entities
<b>SOJSC</b>	State-Owned Joint Stock Company
<b>SPIA</b>	State Professional Inspection Agency
<b>TEFS</b>	Technical and Economic Feasibility Study
<b>USA</b>	United States of America
<b>USD</b>	United States Dollars
<b>VAT</b>	Value Added Tax



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December 14, 2020

“Grant Thornton Audit” LLC was appointed by the Mongolia Extractive Industries Transparency Initiative to undertake EITI Reconciliation for Mongolia, for 2019 and to prepare a Fourteenth Report on this Reconciliation (Engagement) and conducted the contract.

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 14 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**

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 multistakeholder 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 the 2016 and 2019 EITI Standard, 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 ADMINISTRATOR'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)
- 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 DIFFICULTY**

“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 worked intensively to prepare Inception Report within 5 days which was then presented it at a meeting with MSG and the scope of reconciliation work was approved in November 6, 2020. However, due to outbreak of Covid-19 in Mongolia, Mongolian government declared public readiness and imposed “strict lockdown” in November 11. As a result, all public and private entities closed or worked from home which made it impossible to prepare and submit information related to the EITI reconciliation report. Regardless, the report was eventually made complete as we have gathered information by communicating at limited scope with ministers of public organizations, officials of relevant units, directors of private entities and managements.

### **1.5 ACKNOWLEDGEMENTS**

“Grant Thornton Audit” LLC would like to express sincere thanks 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 us obtaining necessary permissions from the government and its various organisations and agencies, as well as with extractive companies; and for sending and receiving official confirmation letters to/from these parties, and for assistance with other procedures.

## 2 EXECUTIVE SUMMARY

### 2.1 SECTOR OVERVIEW

The extractive sector is a major part of the economy and main source of economy growth of Mongolia, and in 2019 it represented 23.7% of GDP and earned USD 6.7 billion in exports, some 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 for the current year.

The government obtains a significant proportion of its income from 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 the wholly owned Erdenes Mongol LLC and its subsidiaries.

In 2019, the general government budget revenue amounted to MNT 11.9 trillion, increased by MNT 1.9 trillion or 18.6% from which revenue generated from mineral resource sector amounted to MNT 2.9 trillion, increased by MNT 590.7 billion or 25.4%, as reported by National Statistics Office of Mongolia (NSO). Extractive sector revenue that we confirmed is about MNT 900 billion higher than the statement of NSO and this is related to multiple revenue streams outside the budget were covered in the reconciliation.

### 2.2 EITI PARTICIPATION

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 19th October 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 found that Mongolia had made meaningful progress in implementing the 2016 EITI Standard for the first Validation. Later the assessment was made in January 2018 regarding if Mongolia had made 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 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 verification 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 MSWG 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 steps 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
- Rehabilitation licensed organizations, their location

Beneficial ownership information are 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 at 31 December 2019, government records disclose that 3,266 licenses have been 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 MSWG 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 Nature, 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	After reconciliation	Adjustment	%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 Nature, Environment and Tourism	-	21,533	21,533	-
Ministry of Labor and Social Protection	-	1,467	1,467	-
<b>Total</b>	<b>3,282,724</b>	<b>371,051</b>	<b>3,653,775</b>	<b>11.30%</b>

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

- General Department of Taxation understated their initial report by MNT 66,942 million.
- VAT and customs duty amounting to MNT 9,030 million paid indirectly via “National Electricity Distribution Network” SOJSC, by “Oyu Tolgoi” LLC were not reported by the Customs General Administration.
- Due to uncertainty with which entity should report dividends, total of MNT 152,940 million dividends paid to State budget by SOEs raises differences. This difference occurs every year.
- Subnational government entities underreported receipts of MNT 46,733 million received from mining companies.
- Due to issues with government entities’ failure to report or underreport received donations and supports, total of MNT 26,286 million was not reported. For example: Donations amounting to MNT 13,163 million made to “Gobi Oyu Development Support Fund” by “Oyu Tolgoi” LLC was not reported.
- Ministry of Nature, Environment and Tourism and Ministry of Labor and Social Protection was not reported on e-reporting system initially.

See section 4.2 for the reconciliation details.

## 2.5 SUMMARY OF RECONCILIATION RESULTS

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

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

Table 2.3 Result of the reconciliation, 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. Achitlkht LLC's MNT 35,548 million difference accounted for the majority (98%) of the MNT 36,263 million difference due to the companies that did not respond to the adjustment request during the reconciliation.

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

No	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	no 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 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 SOJSC	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	Mongolrostsvetment 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 DATA AND ASSURANCE

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 for Ministry of Nature, Environment and Tourism (MNET) and Ministry of Labor and Social Protection (MLSP) reported on the Mongolia EITI e-reporting system.

It was a requirement of the Mongolia EITI 4.9a, Multi-Stakeholder group 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 requested 10 ministries and government agencies to provide a management representation letter to assure the completeness and accuracy of their information provided; so far they did not return a letter.

National Audit Office is required to validate reports for EITI submitted by government entities. It is specified in 15.4.2 of the "Procedures for auditing financial statements" adopted by National Audit Office that "Receipts from extractive entities pooled to the state budget shall be agreed to Government entities received them and Mongolia EITI Secretariat, and draw relevant conclusion." However, this inspection task has not been carried out so far.

### 2.6.2. State-owned entities (SOEs)

Provision of the information required by the Mongolia 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 the Mongolia EITI E-reporting system; however only 3 of them did provide Management representation letter, meanwhile other 7 did not. In addition, Darkhan Metallurgical Plant LLC and Mogoin Gol LLC did not make their financial statements available to the public.

According to the result of audits of SOEs conducted by National Audit Office in 2019, Erdenet Mining Corporation LLC was issued a “qualified” audit report, meanwhile other SOEs that made their audit reports transparent were issued “unqualified” audit reports.

Erdenet Mining Corporation LLC’s audited financial statements were issued a qualified audit opinion due to the following matters. Basis of qualification includes, it was not definite 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 and not in compliance with relevant laws as well.

SOE’s audited financial statements published on websites of National Audit Office and SOEs are not made available to the public together with their complete disclosures which are in accordance with IPSAS and IAS/ IFRS. This makes it difficult for the public to obtain comprehensive information about SOE’s finance and operation.

### 2.6.3. Private companies

Of the 161 private companies included in the reconciliation, 140 companies provided their Management representation letters and other 21 did not. These 21 companies failed to use the Mongolia EITI E-reporting system, and data was 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.

58 out of these 161 companies provided the information regarding whether their financial statements were assured by independent auditors under ISA, and 1 of these financial statements had a qualified audit opinion meanwhile others had unqualified audit opinion.

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

Details of the non-complied companies are included in Appendix 7.

In previous reconciliation works, audited financial statements were required from companies. However, information in those financial statements was hardly adequate to evaluate the quality of information reported in EITI. This is due to facts that financial information is prepared on accrual basis meanwhile EITI report is prepared on cash basis. Top 10 tax paying companies are shown below, along with their status of financial statements and audit opinion issued.

Table 2.6 Top 10 companies audited financial statements

Company	Audit opinion	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%

Company	Audit opinion	Management representation letter	Payments reported (MNT billion)	%age of total payments	%age of total payments (cumulative)
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%

Based on above management representation letters and audit reports issued on audited financial statements, it is not reasonable to conclude that transparency reports submitted by these companies are fair and accurate. Therefore, it is necessary for government entities and companies to have their transparency reports assured by independent audit firms.

## 2.7 KEY FINDINGS

### 2.7.1. Difficulty with covering extractive companies in the reconciliation

Besides payments from licensed companies in extractive sector, processing plant and mining contractors make significant contributions as well. At the inception workshop, MSWG made decision to include additional 6 companies in the reconciliation which operates in concentration industry. As these companies do not hold license, no information reported on the e-reporting system and no understanding about EITI and asked us about legal requirements when requested to provide information. For examples:

- "Achit-Ikht" LLC from concentration industry 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 demands for us since you are not a government entity; initiative is understood to be voluntary; we can give you information through confidential agreement only when you deliver a decision from authorities clearly indicating we are required to report to eitimongolia.mn.
- Areva company was selected. This company has inactive operation and is the parent company of a uranium exploration company named Kojegobi LLC. Since the company is merely operating as a permanent establishment, it pays significantly lower tax to Mongolia.

For this reason, MSG should preselect major factories and contractors in processing sector then give them official notification and create conditions for them to report information before including them in the reconciliation.

### 2.7.2. 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. Of the government agencies, the Ministry of Nature, 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.

The responses of government agencies and companies covered by the report during the consolidation are as follows:

- Of 171 companies, 2 companies (Achit-Ikht LLC and Bayan Airag exploration LLC) refused to return letter meanwhile, Magic Bridge, Imperial Gold Mining and MongolCzech metal did not answer.

- Letters were sent to 14 government entities and only MMHI did not return letter. Information provided by the Ministry of Finance was not officially validated.
- Letters for clarification of discrepancy were sent to 20 aimag and 8 districts. Sukhbaatar, Songinokhairkhan districts and Orkhon aimag did not return letter, and Khovd, Dornod, Dornogobi, Bayankhongor aimag and Chingeltei district provided incomplete information.

Although the annual consolidation report provides recommendations for companies and government agencies to adopt EITI reports and ensure the accuracy of their reports, the lack of significant progress underscores the importance of enacting and enforcing the Minerals Transparency Law.

### 2.7.3. Accuracy reports of SOEs

During the reconciliation, General Taxation Department did not report royalties of MNT 18.1 billion received from 28 gold companies, and also did not provide additional information for the reconciliation. This was due to the revision 47.12 in 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 royalties on gold submitted by gold companies and transfers it as a bulk to the GTD.

Changes to the law has affected the procedure of GTD to impose royalty and payment from companies, however, it did not affect controls over accurate EITI reporting, imposing royalty and its payment. For this reason, GTD should improve their information system and expected to continue focusing accurate reporting to the EITI.

### 2.7.4. Accuracy and assurance of reports

The EITI emphasizes the importance of data quality, especially as a prerequisite for systematic reporting by government entities and private companies, mainstreaming and reduction in the need for reconciliation of data.

Although government entities, SOEs and private companies provided assurance on the payments, revenues and other additional information through auditor’s assurance together with management representation letter, those reports have discrepancies with each other. As a result, an independent administrator made material adjustments of MNT 541 billion to the stakeholders’ payments and revenues.

For this reason, improvement is needed for accurate reporting by stakeholders who prepared EITI report inaccurately as well as reports should be assured through national or independent audit organizations, as stated in Requirement 4.9.

### 2.7.5. Completeness of e-reporting

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

Government reported receipts from 2,422 companies on the e-reporting system. When agreeing these companies to the list of license-holder companies in the system of Mineral Resources and Petroleum Authority (MRPA), Independent administrator found 329 companies appear to have over reported.

Description	Number of company	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 different registration numbers	70	25,991
Number of companies with other reasons	259	21,475

Upon inquiry, reasons for discrepancies are as follows:

- New name can be entered when local government types information on the e-reporting system. However, the local government staff did not check company names, registration number already registered on system but instead, they themselves created new name and registration number when typing local government receipts to the e-tax reports. As a result, they reported 70 duplicate companies.
- Local governments independently issue license for common minerals therefore, names of these companies could have been entered by local governments themselves and there are 259 companies.
- There are 106 companies registered with incorrect numbers in 1-6 digits.
- There are 8 companies with incorrect numbers in 2-6 digits registered in the cadastral system of MRPA, including Golden Gravel, Dayan Erchis, Duuren Yondoi, Sova, Khishigtkhundii, Erdesplasm, Erdes Plasm, Erdes plasm LLC.

#### **2.7.6. Difficulties with data quality and reconciliation adjustment of information gathered through EITI new template**

Transparency reports for 2019 were obtained through the e-reporting system from companies in new and old 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.

In old template, 1472 companies submitted their reports, 881 companies did not submit reports, and 633 companies submitted 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,
- Information submitted by some companies were blank

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

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.

#### **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,
- Audit report.

Audited financial statements of SOEs do not have IAS/IFRS-compliant and complete appendices and disclosures. This makes it difficult for the public to obtain information about SOEs' finance and operation.

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 also of National audit office, EITI or MRPAM.

### **2.7.8. Matters related to disclosure of state participation**

Evaluation was conducted by EITI Secretariat regarding assurance report 2018 and whether Mongolia is prepared systematic disclosure of information. In this evaluation report, common emphasize was made to the disclosure of state participation in accordance with Standard requirement being inadequate.

In particular, 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 practical operation.

When glass account information of SOEs are made transparent, some of the above requirements can be disclosed, 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 (*monthly*)),
- Procurement (On glass account webpage: procurement plan (*for an year*), procurement report (*for an year*), audit reports of procurement, and other examination results).

However, SOE's only filled some of forms related to procurement of 2019 on glass account webpage, and SOEs other than Erdenes Mining Corporation, MongolRos investment, Erdenes tavantolgoi SOJSC placed their some information incompletely to glass accounts.

Within the scope of annual EITI report, MSG should focus on evaluating differences between rules related to financial relations of SOEs to government and actual practice. In order to make evaluation more reliable, MSG should as well 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.

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

## **3 DETERMINATION OF SCOPE AND RECONCILIATION METHODOLOGY**

### **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 government from 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. If either the government entity or the company reported, then it would be sufficient for us to obtain 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, we have relied upon 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;
- 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 clarification about relevant information.

The objectives in the inception phase include appropriately identifying the scope of the EITI reporting process, reporting templates, data collection procedure and the schedule for the EITI reconciliation report publication.

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

### **3.2.3. Changes to the EITI standard**

National Council of Mongolia EITI made their decision to adopt the new standard with 2 sections and 21 requirements, on June 17, 2019.

EITI standards 2016 or 2019 may be applied to EITI reports prior to December 31, 2019. However, reports after January 1, 2020 shall comply 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 took action for 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 other income earned through sale.
- 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 ecosystem paid by extractive companies to the government and basic knowledge of environmental monitoring need to be disclosed.
- Gender. Under 2019 Standard, MSGs are required to consider gender balance, and provide employment figures by role and gender.
- Systematic disclosure. EITI 2019 Standard will ensure more timely, reliable and routine disclosures. Changes recognize the shift towards more regular disclosures and the key role of the multi-stakeholder groups in ensuring that these are in line with the EITI Standard.

Summary of changed requirements and definitions are shown in the below table:

**Table 3.1 Changes to the Standard**

Type	Requirements	Total
New requirements	Gender (#1.4, #6.3), Contracts (#2.4), Commodity sales (#4.2), Environmental 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, we considered the revenue streams received by the government from mining industry using the government report provided by the EITI Secretariat on November 2, 2020. An analysis of this report is as follows:

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

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>	

We did our own analysis on the list of companies provided by the government and also obtained appropriate information from those companies' websites or by contacting them. As a result, we identified 40 companies that paid significant amount of taxes and payments to the state but do not operate in mining industry.

**Table 3.3 Non-mining companies**

№	Reg No.	Company name	Amount in MNT million	№	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>Нийт дүн</b>							<b>89,389</b>

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

When we subtract receipts paid by companies that do not operate in mining industry from the amount reported by the government then in accordance with the methodology above, selected companies with national level payments and revenues of more than MNT 300 million, the result accounted for 98.4% of total receipts. For examples:

**Table 3.4 The calculation of materiality**

№	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 operation	40	89,389

3	Sampling population	2,382	3,363,584
4	Companies that paid taxes and payments of more than MNT 300 million	163	3,310,330
5	Sampling 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, companies paid 25 national, 14 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 adjust any differences.

### 3.2.6. Selection of government entities

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 Nature, 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>	

Under the decision by MSG, above government entities and the following local governments were included in the reconciliation.

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

### 3.2.7. Selection of companies

The list of 163 companies which were proposed taking into consideration of their payments and revenue materiality, was discussed at the inception workshop and approved by MSG. In addition, the members of MSG proposed to include companies that operate in fields of processing plant and radioactive material exploration. Accordingly, additional eight companies were included therefore, total of 171 companies were selected.

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

**Table 3.6 Companies covered by the reconciliation, and their payments 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 of companies.

### 3.3 METHODOLOGY

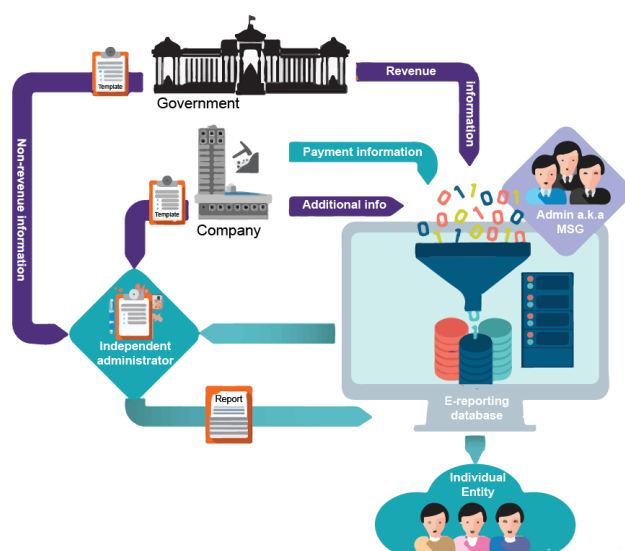
#### 3.3.1. Data collection

The Independent Administrator used the Mongolia EITI E-reporting system to collect financial and non-financial information and to determine initial differences

Information from companies regarding the reasons for initial discrepancies was gathered in hard copy, and management representation letters from the companies were also collected in hard copy to assure reliability of collected information. In addition, representation letters from government entities for confirming the reliability of their provided information regarding extractive sector background information and statistical data were collected in hard copy.

Scheme of participation of parties on the e-reporting system is shown as follows:

**Figure 3.1 Stakeholders’ participation on the e-reporting system**



#### 3.3.2. Templates used in the 2019 reconciliation

Under the decision of Mongolia EITI National Council at the meeting on December 18, 2019, Secretariat carried out task to update EITI Company reporting template. Relevant technical working group was established by representatives of 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, who updated the Company reporting template along with some other templates based on the new EITI Standard and features of Mongolia.

The new template was agreed by National Statistics Office and approved by MMHI minister's Ordinance #A/37 dated 2020.03.05.

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

### **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 reconciliation should be reported analysed by individual company, government entity and revenue stream in the 2019 Mongolia report. In addition, information was collected through the new template on the e-reporting system according to by-project reporting requirement. See Section 6.10 for the results.

## **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 standards issued by the organisation.

The MNAO carries out financial audit of Ministries, Government agencies and state owned entities and audit on Government consolidated financial statements and reports to State Great Hural. Subnational government entities (aimags and soums) should be audited by local MNAO audit offices every financial year.

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. In practice, this is the case in most occasion. 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, it is impossible for MOF 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 MOF may play certain role in compliance of audit related requirements for mining companies.

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 entities, SOEs and extractive companies are required to enter their information onto the MEITI E-reporting system. If necessary, any additional information is to be provided to Independent Administrator as requested.

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

Reporting entities must provide assurance on the reliability of their information provided to Independent Administrator.

It is agreed by the MSG on “senior management representation letter will be provided in written by reporting government entities/agencies as an assurance for its reliability of reports and information” during the discussion of inception workshop in 2019.

We discussed with the MNAO their ability to provide assurance on the EITI figures from each national government department and note that internal MNAO guidance on financial statement audit specifies that “Payments made by extractive entities to national budget shall be reconciled with EITI Secretariat and government entities which received revenues” however, this exercise was not done in 2019. It looks like MNAO is not capable of performing this assurance task.

The MSG decided to require executive management of companies to provide assurance for their information in written form by an individual authorised to represent their Board of Directors and to provide audited financial statements on the e-reporting system.

In the previous reconciliation, the MSG required private companies and SOEs to provide an assurance letter from their external auditor to ensure that “EITI reports are agreed with audited financial statements, which are audited in accordance with ISA and expressed true and fair”, and reported the results. However, in 2019, there was no time opportunity to perform such assurance.

## 4 RESULTS OF THE RECONCILIATION

The initial reconciliation of payments and receipts resulted in a net initial difference of MNT41,762 million. The Independent Administrator made adjustments of MNT371,051 million to the receipts reported by Government and adjustments of MNT293,050 million to payments reported by private companies.

Two companies did not respond to requests for information during the reconciliation process; the difference between figures reported by government and these two companies of MNT36,263 million remains unresolved (see further Section 4.6)

Other differences remaining unresolved totalled MNT24 million, which is 0.001% of reported government receipts.

### 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
<b>Initial reporting</b>				
Government entities	171	3,190,535	92,189	3,282,724
Private companies	161	1,325,627	94,380	1,420,007

Reporting entities	No. of companies	Selected key revenue streams (MNT millions)		
		National level	Subnational level	Total
State owned entities	10	1,810,908	93,571	1,904,479
<b>Initial difference</b>	<b>16</b>	<b>54,000</b>	<b>(95,762)</b>	<b>(41,762)</b>
<b>Reconciliation</b>				
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 providing a reconciliation template		35,933	330	36,263
<b>Final net unreconciled difference</b>		<b>5,763</b>	<b>(5,787)</b>	<b>(24)</b>

See Appendix 9 for unreconciled differences per company.

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

The principal reasons for the initial unreconciled differences include:

*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 not reported in complete	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)
Duplicate reporting	(26,899)	(24)	(26,923)
Under reporting of royalty deduced by bank	-	16,845	16,845
Improper categorisation of revenue streams	(5,161)	(471)	(5,632)
Mixed reporting with 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 reports on the e-reporting system shows that initial differences were mainly due to

- a) Cash was rounded to thousand and reported,
- b) Initial report was not provided, or some streams were not reported.

Therefore adjustments were made to increase the figures by MNT664,101 million. Significant reconciliation amounts are specifically explained as follows

Significant adjustments to the initial reports of the companies are:

- “PetroChina Daqing Tamsag” LLC provided their initial report, rounded to thousand –

MNT282,702 million, voluntary information reported – MNT21,462

- VAT paid by “Erdenet Mining Corporation” SOJSC to the Customs General Administration (CGA) was duplicate-reported – MNT21,237 million
- “Khishig Arvin Industrial” LLC paid MNT16,598 million to the State budget but reported MNT0.4 million in their initial report.

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

- Dividends per local government ownership, paid by Tavan Tolgoi JSC to Umnugobi aimag– MNT23,421million;
- Dividends of state government ownership, paid by Erdenet Mining Corporation SOJSC to the Treasury – MNT 150,000 million,
- Dividends of state government ownership, paid by “Mongolrostsvetmet” SOJSC to the Treasury – MNT 2,940 million,
- 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
- Ministry of Labor and Social Protection did not report accommodation cost for expats and local workers amounting to MNT21,512 million due to not providing initial report,
- Donations of MNT13,163 million to “Gobi Oyu Development Support Fund” given by “Oyu Tolgoi” LLC was not reported,
- Customs duty of MNT5,812 million and VAT of MNT2,779 million paid to CGA, by “PetroChina Daqing Tamsag” LLC was not reported,
- General Taxation Department did not report royalty fee of MNT16,845 million, withheld and transferred from gold companies, by Mongolbank.

According to these findings, some government entities and companies do not appear to have taken sufficient care in the initial reporting on the Mongolia EITI e-Reporting system. Therefore, it could be reflected that it is necessary to exercise higher accountability for Government to report its receipts and companies to report 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	Entree	2,536	2,536	-
<b>Total</b>			<b>2,543</b>	<b>2,543</b>	<b>-</b>

16 companies did not initially report to the Mongolia EITI E-reporting system, giving rise to an initial difference of MNT 20,877 million. The companies which have not reported are 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

#	Company name	Payments
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 below.

*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	-
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 recruiting foreign and local workers	133	-
Air pollution charges	-	(15)
Employee social and health insurance premium paid by the employer	-	(768)
Customs service fee	12	-
Training bonus paid for the year 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)
Payment for recruiting foreign experts and expats	-	(68)
Local development bonus received under production sharing agreement	-	(20)

Payments and revenue streams	Over reported by the government	Under reported by the government
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

Of the 171 companies selected for inclusion in the reconciliation from initial government receipts recorded on the E-reporting system, 2 companies did not send subsequent report according to additional request during the reconciliation process. The net difference caused by these 2 companies totalled MNT 36,263 million. The companies did not report due to the following reasons:

*Table 4.6 Companies that did not report on the e-reporting system, in MNT million*

	Registration No.	Company name	Revenue over reported by the government	Revenue over reported by the company	Explanation
1	2788705	Achit-Ikht	35,548		Refused to give
2	5175933	Magic Bridge	715		No contact
<b>Total</b>			<b>36,263</b>	-	

#### 4.5 RECONCILIATION RESULT

National-level reconciliation result as shown below.

*Table 4.7 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)
Payment for recruiting expats	-	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
Training Bonus paid for the year 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>

Subnational level reconciliation results by revenue streams

*Table 4.8 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)
Payment for recruiting foreign experts and expats	-	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 supports 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

### 5.1 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 and subsoil, petroleum and petroleum products, Prohibiting Mineral Exploration and Production Near Water Sources, Protected Areas and Forests, Rule for the Compliance of 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 regulations. However, in a number of instances there are inconsistencies between these laws and regulations for implementation.

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

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 Subsoil and the Minerals Law of Mongolia 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**

Implementation plan of the Government Action Program for 2016-2020 provides “Development and approval of a draft of 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” a draft law 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 activities of this sector, comprehensive monitoring, analysis and accountability will be carried out in order to strengthen the national economy, keep the sector open, transparent and accountable, centralize taxes to the state budget, and reduce the negative impact on the environment and society. Based on activities of this sector, there is a need to implement comprehensive, effective monitoring, analysis and relevant reporting in order to strengthen the national economy, keep the sector open,



transparent and accountable, centralize taxes to the state budget, and to mitigate adverse impacts on the environment and society.

The extractive sector operates under licensing. IMF, OECD, World Bank and other international organizations such as money laundering and financial sanctions organizations consider the mining and quarrying sector of countries rich in mineral resources to be at risk, and the risk of corruption, bribery, money laundering and other financial crimes to be high. Therefore, reducing unfair competition and dominance in the sector is seen as a real contribution to bridging social equality. Past examples of bribery among state-owned companies and enterprises through procurement at unrealistic prices and its significant damage to the country have highlighted the need for Mongolia to take significant steps to ensure comprehensive information for sector transparency.

Regulations aimed at ensuring transparency in the global mineral sector are often code-based which contains comprehensive information on natural resources such as minerals, deep processing, oil, gas and land and water. It also created 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 all interested parties are free to participate in any planning decisions.

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 after 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, with the participation of governmental and non-governmental organizations and company representatives, Mongolia has officially launched the International Extractive Industries Transparency Initiative. Although new and progressive changes are taking place in the EITI, the current legal environment in which Mongolia implements its commitments under the EITI, such as changes in legislation, procedures and forms, are insufficient.

For this reason, it is necessary to develop an independent law, create a database that provides comprehensive information on the sector, and define in detail the rights, duties and responsibilities of stakeholders. Furthermore, as the number of licenses increases and the mining industry expands, the issue of accountability is becoming more acute for citizens and the public. Mutual understanding between the government, businesses and local communities will reduce the risk of investment in the extractive sector and prevent the development of the sector from stagnating, which will make a significant contribution to the economy.

In addition, one of the key issues in delivering the economic benefits of the extractive sector to the people is the mainstay of the government's policy to properly manage the distribution of tax revenues through the National Wealth Fund, and to support public awareness and increase the economic efficiency of mining which will ensure the transparency of extractive sector.

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 are registered by the relevant government entities.

Chapter 5 of the Administrative Law, adopted in 2016, sets out the legal basis for administrative contracts and related relations. As a result, there is a need to bring the process of disclosure of certain types of contracts made under the Law on Minerals and other relevant laws in line with the above law.

#### **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 in 2019, a working group was set up to prepare the draft

law for the initial discussion. The list of laws to be discussed by the Parliament in 2020 includes the “Draft Law on Amendments to the Law on the Legal Status of Industrial and Technology Parks”.

### **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 under a grant from the Government of Switzerland. Through the implementation of this project, the legal environment for artisanal and small-scale mining were created and artisanal miners are organized in the form of partnerships and cooperatives, and Gold sampling units have been established in Darkhan-Uul and Bayankhongor aimag. 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. The forum presented the results of the project and discussion was held regarding the policy on artisanal and small-scale mining and its impact as well as related issues were addressed.

At the initiative of the Mongolian National Mining Association, the “Unite Responsibly” campaign was launched in cooperation with the MMHI to integrate 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 joined the campaign. Under the MoU, the parties will work together for the sustainable development of the Mongolian mining sector by promoting, introducing and adhering to responsible mining and good standards.

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

Main laws of the sector and recent amendments are listed below in years:

- The Minerals Law, 2006 (amended twice in 2017, and revisions in 2018, 2019)
  - **Revisions in 2019:** Enabled registration and reporting of cooperatives and partnerships operating artisanal mining without license, including entities who purchased, exported minerals from them, as well as, royalty payment from concentrators and processing plants without mining. The Revision also enabled no reduction in the amount of gold delivered to the Bank of Mongolia, increasing the country's foreign exchange reserves, and collecting royalties to the state budget and expanding the tax base
- 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 Rule for the Compliance of the Law on Nuclear Energy, 2009
- The Law on Rule 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 Key regulations for the purpose of improving legal environment of extractive sector (In the first half of 2019-2020)

Table 5.1 Legal regulation of the extractive sector, 2019

Article No.	Date	Main articles and comments
89	2019	Government resolution. 1: 50000 scale geological map is implemented with state budget funds between for the period of 2014-2020, general prospecting area is taken over by the state reserve. Therefore, the state shall reserve the land for basic geological research at the expense of the state budget.
176	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 put it into economic circulation
313	2019	Government resolution, "Unified safety rules of blasting activities"
355	2019	Government resolution, Develop "Procedures for artisanal and small-scale mining" for the purpose of regulating artisanal and small-scale mining and to stop illegal mining
178	2019	Government resolution, Petroleum registration and accounting procedures
214	2019	Government resolution, "National Heavy Industry Development Program" (2019-2023) – Build the infrastructure of the Mongolian economy, solve the problems facing the heavy industry sector, attract investment in this sector, and increase the production of value-added end products
284	2019	Government resolution, The location of the copper concentrate processing plant was identified and 466 hectares of land were taken for special state needs. The state shall own at least 10 percent of the total shares of the production free of charge without any investment costs.
A/193		MMHI minister's ordinance, Guidelines for applying the classification of mineral resources and deposits to a particular type of mineral /uranium-thorium, coal, iron, gold, placer deposits, fluorspar, copper and petroleum/
A/16	2019.01.21	MMHI minister's ordinance, "Approval of regulations", Appendix 1 Commissioning of mines, quarries and concentrators , Appendix 2 Completion of documents required for commissioning of mines, quarries and concentrators, Appendix 3 Completion of documents required for commissioning of a concentrator and processing plant
A/181, A/458	2019.08.28	Joint ordinance of ministers of MMHI and Ministry of Nature, Environment and Tourism, "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
A/205	2019.10.17	MMHI minister's ordinance, "Requirements for concentrator and operating procedure"
A/231, A/368	2019.12.11	Joint ordinance of ministers of MMHI and MLSP, "Renewal of open pit safety rules"
A/37	2020.03.5	Minister of MMHI "Approval of the form and instructions for completion" and "Report on the activities of business entities and organizations engaged in mineral exploration, mining and production for 20 ... (3-EITI-1)" forms under Appendix 1, its completion guide under Appendix 2,

		“Report of Petroleum Exploration and Production Entities for 20.. (3-EITI-2)” form under Appendix 3, its completion guide under Appendix 4.
<b>A/87</b>	2020.04.27	Minister of MMHI “Procedure for sorting, collecting, transporting, recycling, reusing and disposing of mining wastes”
<b>A/155, A/132</b>	2020.05.29	Ministers of MMHI and MLSP “Unified safety rules for mineral concentrating and processing plant”
<b>A/180</b>	2019	MMHI minister’s ordinance, Action plan for the implementation of the National Heavy Industry Development Program (2019-2013)
<b>C/02</b>	2019	Head of Mongolian Agency for Standard and Metrology’s ordinance, “Methodology for calculating the normal loss of liquefied combustible gas Standard MNS 6742: 2019”

#### 5.1.1.4 Other legislations regulating the sector is summarized in the following table.

*Table 5.2 Other legislation of the sector*

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

#### 5.1.2. State Policies on the extractive sector

##### 5.1.2.1 State policy for extractor sector until 2025

The State policy to adopt for the mining sector is directed to develop transparent and responsible mining relying on private sector, to create the balanced structure with numerous supporting pillars for economy within short term and middle terms for the genuine national interests.

The objectives of the State policy to adopt for the mining sector are to create the stable environment for its investments, support the advanced equipment, technology, innovations which are friendly to environment, subsequently improve quality of exploration, mining, processing of minerals, produce the value-added products and strengthen the capacity to compete for international market.

The documents of this State policy aiming to determine the principle to adopt by State for the mining sector and directions of growth, improve governing systems and these polices will be reflected to

legislation of this sector, middle and long-term programs, sub-programs, projects and being implemented.

#### **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 plant to refining petroleum and reliably supply the demands of petroleum products.

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

This revised policy will be realised through two phases for the period of 2018-2027: (1st Phase 2018-2021 ) socio-economic impacts and competitiveness will be improved as a result of measures taken to improve state policies and legislative framework for the petroleum sector, improve infrastructure, increase investments, and initiate establishment of fully or partially state-owned petroleum company; (2nd Phase 2012-2027 ) petroleum prospecting and exploration activities will be intensified in the areas with strategic importance; petroleum reserves and its extraction will be increased; oil refining plant will be put into operation; capacity of human resource in the sector will be strengthened; and foundation for the national industrialisation of the petroleum sector will be formed at the level to ensure stable supply to the demands of the petroleum products.

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

The objectives of the State policy to adopt for the radio-active minerals and nuclear energy are to investigate the reserves of these minerals, to become one of the leading countries which mine, process and export such minerals for peaceful purposes, extensively use nuclear energy for economic and social demands, produce nuclear energy by non-toxic for human health, ecologically clean, environmentally-friendly technologies

#### **5.1.3. The legislation related to EITI implementation in Mongolia**

Within the scope of implementing EITI in Mongolia, additions and changes were made to the following six laws, namely the Minerals Law (2006), the law on Nuclear Energy (2009), the Petroleum Law (2014), the Law on minerals with common occurrences (2014). The Law on Infringement (2017), the Law on Investigating and Resolving Infringements (2017).

The EITI implementation has been reflected into state policy documentations as follows:

- State Minerals Policy, 2014 sets out to introduce and encourage international initiatives such as transparent and responsible mining and assessment of its social and economic impacts
- “The National Program on Combating Corruption” (2016) sets out to ensure transparency of extractive industry
- In the Implementation Plan for the National Program on Combating Corruption (2017) approved by the order of GoM, it has planned to take 6 different measures in two stages for the period of 2017-2023

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

The Order no.01 of 2006 issued by the GoM encouraged the extractive industry transparency initiative and in the two other orders (the Order no. 222 of 2012 and the Order no. 263 of 2017) of the GoM it

has resolved to implement some actions towards ensuring transparency in extractive industry. The Order no. 190 of 2010 by GoM assigned the governors of capital city, aimag, soum and districts to annually report 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 budget entities. 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.

Under the Ordinance 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 was 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.

#### **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 government functions and 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 Stabilisation Fund and Future Heritage Fund.

Tax revenues comprise taxes, fees and payments as articulated by the General Tax Law. Non tax 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 privatisation, 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.

The **National 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 budget policy of Mongolia is regulated by the following laws.

**Budget Law.** National 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 amount 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 midterm fiscal framework statement approved in accordance to 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 in order 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 organisational 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) *хуудас*, <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. The share of GDP from the sector arising in 2019 is 1.2% higher than in 2018.

The share of mining sector in total industrial production of Mongolia was 72.1% on average of the last 3 years. The share of industrial production from the sector arising in 2019 is 0.2% higher than in 2018.

The following table summarises the key statistics of mining sector for 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 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

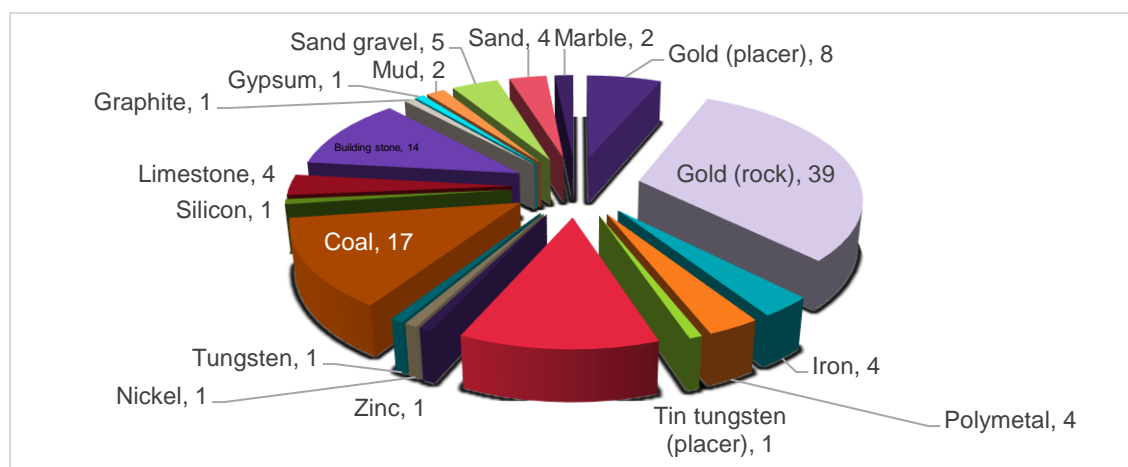


	Licensed exploration area	9.1 million ha	7.1 million ha	5.7 million ha
3	<b>Share percentage of licensed area in total territory, of which:</b>	<b>6.80%</b>	<b>5.50%</b>	<b>4.80%</b>
	Share percentage of licensed mining area	1.00%	1.00%	1.00%
	Share percentage of licensed exploration area	5.80%	4.50%	3.80%
4	<b>Share percentage of mining sector in GDP</b>	<b>23.5%</b>	<b>23.8%</b>	<b>23.7%</b>
5	<b>Share percentage of mining sector in total industrial production</b>	<b>72.6%</b>	<b>71.9%</b>	<b>71.8%</b>
<b>Production of main types of mineral commodities</b>				
6	Copper concentrate (by metal recovery)	1,317.1 kiloton	1,310.8 kiloton	1262.4 kiloton
	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
	Fluorite concentrate	55.2 kiloton	80.7 kiloton	47.5 kiloton
	Iron ore concentrate	3,675.0 kiloton	3,405.5 kiloton	3,386.4 kiloton
	Zinc concentrate	82.7 kiloton	87.9 kiloton	83.1 kiloton
	<b>Key exporting mineral commodities</b>			
7	Iron ore concentrate	6,257.8 kiloton	7449.1 kiloton	8448.8 kiloton
	Copper concentrate	1,472.2 kiloton	1436.7 kiloton	1403.6 kiloton
	Zinc ore, concentrate	118.2 kiloton	123.9 kiloton	134.8 kiloton
	Raw or semi-processed gold	14,554.5 kg	3,431.9 kg	9,069.5 kg
	Coal	33,400.1 kiloton	36,671.4 kiloton	36,809.10 kiloton
8	<b>Coal production</b>	<b>49,480.3 kiloton</b>	<b>54,572.3 kiloton</b>	<b>57,128.80 kiloton</b>
9	<b>Coal beneficiation</b>	<b>41,904.6 kiloton</b>	<b>45,741.9 kiloton</b>	<b>47,047.80 kiloton</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)

Chart 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 and 20 times less than 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, Khairkhan, Gurvansaikhan, Ulziit, Dulaan-Uul, Zoovch-Ovoo, Enger ar, Dalt) which were also registered at the meeting of 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 is `any deposit which might have an impact upon national security, national economy and social growth of the country and region, or the deposits which are capable to account for more than 5% of GDP of that year.`

Minerals of strategic importance in 16 deposits are named in 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
1	Asgat	Silver	Nogoonuur, Bayan-Ulgii	Erdenes Mongol LLC	100	0
2	Baganuur	Coal	Baganuur, Ulaanbaatar	Baganuur JSC	75	25
3	Boroo	Gold	Bayangol, Selenge	Boroo Gold	0	100
4	Burenkhaan	Phosphorite	Alag-Erdene, Khuvsgul	Sutaikhen tso LLC	0	100
				Topruonkhentso LLC		
				Talst Margad LLC		
5	Gatsuurt	Gold	Mandal, Selenge	Centerra Gold Mongolia LLC	Under discussion	
6	Gurvanbulag	Uranium	Dashbalbar, Dornod			
7	Dornot	Uranium	Dashbalbar, Dornod			
8	Mardai	Uranium	Dashbalbar, Dornod	Adamas Mining LLC		
9	Nariin Sukhait	Coal	Gurvantes, Umnugovi	Mongolyn Alt MAK LLC	0	100
				Chinhua MAK-NS LLC		
				SouthGobi sands LLC		
				Usukh Zoos LLC		
10	Oyu Tolgoi	Copper, gold	Khanbogd, Umnugovi	Oyu Tolgoi LLC	34	66
				Entrée LLC		
11	Tavan tolgoi	Coal	Tsogttsetsii, Umnugovi	Tavantolgoi JSC	51	49
				Energy resources LLC	0	100
				Erdenes TT JSC	100	0
12	Tumurtei	Iron	Khuder, Selenge	Darkhan Metallurgical Plant JSC	100	0
13	Tumurtei	Zinc	Sukhbaatar, Sukhbaatar	Tsairt Mineral LLC	0	100
14	Shivee Ovoo	Coal		Shivee Ovoo JSC	90	10

			Sumber, Govisumber	Erdenes Mongol LLC Eikusora LLC		
15	Tsagaan Suvarga	Copper, molybdenum	Mandakh, Dornogovi	Erdenes Tsagaan Suvarga LLC Mongolyn Alt MAK LLC	0	100
16	Erdenetiin Ovoo	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, Baganaur 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 summarises the details of mineral reserves registered with the Mongolian State Mineral Reserve Fund for last 2 years.

Table 5.5. Mineral reserves, by year

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

16	Limestone	mln tn	52.7	-	130.9	-
17	Building stone	Kt	-	-	336,337.7	-
18	Graphite	Kt	-	-	347.4	-
19	Gypsum	Kt	-	-	683.3	-
20	Mud	Km3	-	-	3,796.4	-
21	Sand gravel	Km3	-	-	6,571.6	-
22	Sand	Km3	-	-	543.2	-
23	Marble	Km3	-	-	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 Ordinance 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 organised 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, we considered small-scale mining separately from the mining sector overview of Mongolia in this report.

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 are conducted at 616.42 ha area of 178 units comprising 17 aimags, 34 soums, 1 district of the capital city, 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 doesn't operate), 73 areas for fluor spar, 1 area for wolfram, 1 area for gravel (which doesn't operate). It was informed that there are 2,028 male and 861 female among 2,889 artisanal miners operating in accordance with the rule<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 cooperate legally 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 have positive impact in the better officialisation of small-scale mining activities – mostly in the form of cooperative to engage in artisanal mining activities, but it also allowed to estimate accurately 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 stipulates the capacity building and increased responsibilities of aimag governments. The aimag government is responsible for producing a consolidated report covering the activities of small-scale mines in soums and for delivering the consolidated report to the MRPAM. Also, Resolution No.151 states compliance with safety rule for small-scale mines (integrated safety rule of small-scale mines approved by Order No.153 of the Head of MRPAM in 2011), approval and monitoring of rehabilitation methods for small-scale mines jointly with 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. Also the Procedure on Small-Scale Mining, Government resolutions, such as:

<sup>2</sup> MPRAM

- the "Gold-2" National Programme;
- Safety rule of small-scale mines approved by Resolution No.20 of the Government in 2017;
- Artisanal mining security rules or orders No. A/115, A/123 approved by Minister of Labour and Social Welfare jointly with 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 Nature, Environment and Tourism jointly with Minister of Mining and Heavy Industry in 2017;
- The Resolution No. 355 of Government on measures to be taken on artisanal mining has been approved in 2019.

Having a legal environment regulating the micro-scale mining activities, artisanal miners are allowed to receive public services and required to do rehabilitation. In addition, the use of mercury may be reduced as the gold is separated in an ore concentration plant

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

Artisanal and small-scale mining is an important tool for many people to lift themselves out of poverty and earn a living and also make sizable contributions to both national and local economic development. Artisanal miners are making a significant contribution to increasing the Mongolia Bank's official foreign exchange reserves by selling their gold through the official chain and also directly or indirectly creates jobs, neutralizes rural-to-urban migration, and increasing household income. Nevertheless, Mongolia's gold supply chain still not completely made official. It becomes official through the final stage of the gold chain in Mongolia which is the submission of gold to the Mongol Bank.

Statistics of gold submitted by civilians to Mongol Bank 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 Mongol Bank over the past three years, and details are shown in Table 5.6 below:

**Table 5.6 Gold submitted by civilians to Mongol Bank**

Year	Number of civilians (in duplicate)	Gold submitted by civilians /kg/	Total gold submitted /kg/	Percentage in total gold
2018	472	12,507.35	21,871.51	57.2%
2019	437	7,366.96	15,206.54	48.4%
2020 (I - XI month)	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 given to the local citizens through voluntary activities and donation campaign. Statistics relating to artisanal miners and mining activities can be obtained from the Ministry of Nature, Environment and Tourism, Sustainable Artisanal Mine Project and National Federation for Artisanal and Small-Scale Mining of Mongolia.

In 2019, this federation has 68 member organisations located in 14 aimag, which incorporate 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 see Appendix 28 (a) for the information of local member NGOs.

The National Statistics Committee conducts survey of artisanal miners every 5 years, and has completed the second baseline study "Integrated report of artisanal miners 2016" in cooperation with Swiss Development Agency. The results of this study have great positive impact on classifying artisanal

miners of Mongolia and their activities geographically and determining their contributions into 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 was 1,113.4 hectares in 2019, See Table 5.7 for details.

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

№	Aimags	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 in order to create a legal and policy environment in the artisanal mining sector, artisanal mining safety, and benefit from social protection schemes. The project has completed with the goal of using environmental-friendly, making the sales network more transparent and sharing their experiences, and artisanal mining stakeholders continued to learn and share information after the project. More information is available at <http://sam.mn/>

From 2021, the European Union declared it would require certification of origin for purchases of gold and three other types of minerals. 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 tend to be exported with a certificate of origin. For this reason, the goal of the Sustainable Artisanal Mining Project is focused on the transparency and improvement of origin and supply chain of minerals from artisanal mining activities. For this purpose, a mineral testing laboratory has opened in Darkhan and Bayankhongor aimags in 2018.

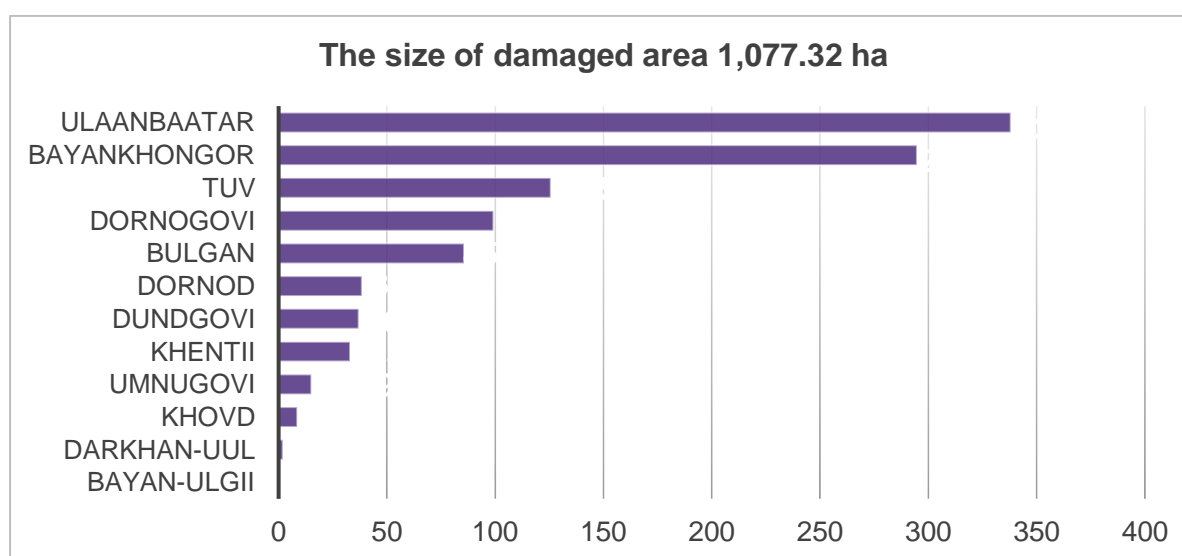
The Global Environment Facility launched the planetGold project in April 2019 in Mongolia to implement over the period of 5 years. The project team is working to create an enabling environment for a formalized Artisanal mining sector that enhances community development, improves productivity, reduces 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 statement

The artisanal miners shall make a plan, budget and guarantee for costs for rehabilitation work in the area of extraction and include in the contract with the soum and district governors in accordance with the Procedure on Artisanal and Small-Scale Mining. Also, artisanal miners are required to do 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, Minister of Nature, Environment and Tourism jointly with Minister of Mining and Heavy Industry. Then environmental inspector's judgment shall be submitted to the Commission 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: MNET, 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, the largest in 99.3 hectares in Bayankhongor aimag and the lowest in 5.9 hectares in Bulgan aimag, respectively. The following is presented in Table 5.8.

Table 5.8 Rehabilitation on artisanal mining, by aimag, ha

No	Aimag	Areas rehabilitated with their own funding (ha)	Area rehabilitated with external funding and jointly (ha)	Size of rehabilitated area, in hectare
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 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 expenditure 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, analysed by aimag 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:					
		No. of license	Area /thousand ha/	% of licensed area to total territory	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
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%



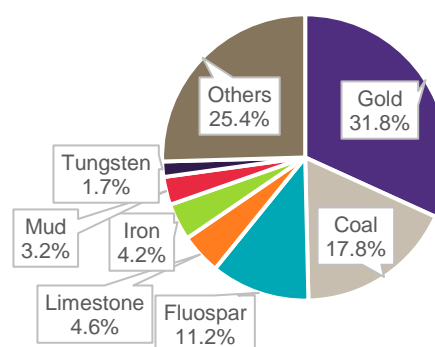
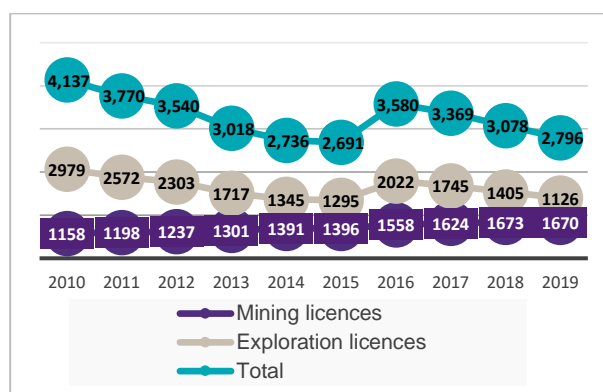
№	Aimag, city	In total			Out of which:					
		No. of license	Area /thousand ha/	% of licensed area to total territory	Mining			Exploration		
					No. of license	Area /thousand ha/	% of licensed area to total territory	No. of license	Area /thousand ha/	% of licensed area to total territory
14	Bulgan	110	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 license is added to each aimag.

Figure 5.4 The number of valid mining and exploration by types of for the last 10 years

Figure 5.5 Exploitation licenses minerals



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 awarding specified in the Minerals Law

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

Clauses in the Law	Stakeholders	Rights and obligations as specified in Minerals Law of Mongolia
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 grant license, to grant areas for small scale mining or minerals with common occurrences, and draw opinion
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 grant exploration and mining licenses for minerals other than the minerals with common occurrences.
11.1.25.	State administrative body	To determine and send selection area for approval by its coordinates which is available for granting minerals exploration or mining 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 resolve 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 made to Tendering procedure for license awarding, 2018

Tendering procedure for license awarding was revised by the Minister of MHI order A/28 dated February 13, 2018. Significant changes in the revised procedure are (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 consistent organization of selection and workload balance, up to 3 (three) selection committee may be appointed; and 2/3 of committee members may be changed semi-annually.
- Criteria for technical proposal is specified with more detail compared to previous procedure.
  - 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 procedure. (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.

In addition, the above tendering procedure has been amended again 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 within incomplete documents. 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 procedure within the specified time, the deadline can be changed at the committee members' meeting and notified to 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	Cadastre 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	Cadastre 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 transfer from exploration license to exploitation license**

Steps	State administrative body	Process description
1	MRPAM	Receipt of the request.
2	Legal unit of MRPAM	Determine if there is any prohibitions by the law, or any outstanding payments

Steps	State administrative body	Process description
3	Cadastre division of MRPAM	Check if the exploration license is registered in Cadastral system.
4	Cadastre 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 requestor is capable of undertaking rehabilitation work which may have caused by production.
6	Legal unit of MRPAM	Check whether the requestor complied with the plans of the head of Cadastre division and other laws and regulations.
7	Cadastre 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 mining license within 10 days from receiving approval notice.
9	Cadastre 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 completed.

**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	Cadastre 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	Cadastre division of MRPAM	Receive the required documents
2	Cadastre division and Legal Unit of MRPAM	Review documents received and other information.
3	Cadastre 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 criterias used for license granting on February 13, 2018 are shown below:

**Table 5.17 Technical and financial criterias for granting license**

№	Criteria	Benchmark	Score limits	Max score
		scores		
<b>Evaluation of project documentations</b>				<b>25</b>
1	<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		
2	<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		

№	Criteria	Benchmark scores	Score limits	Max score
	If neither consulting geologist nor expert geologist will work for the project	1		
	If project engineers and geologists are 100% full time	5	1-5	
	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		
3	<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	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		
	If operated in other sectors for more than 10 years	2	1-2	
	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	1-4	
	Has experience of executing geological and exploration project and operated as subcontractor	1-2		
4	<b>Supply of equipment for the project</b>			<b>9</b>
	If project implementing entity has fully prepared with own 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 of drilling, geophysical and other equipment to perform geological and exploration	1-3		
<b>TOTAL SCORE</b>				<b>55</b>

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
3	<b>Geological and exploration experience and, operational experience</b>			10
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	

No	Criteria	Benchmark score	Score limits	Max score
	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	Proposal/ comments
2	General Intelligence Agency	Proposal/ comments
3	Professional Inspection Authority	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 scrutinised and audited by a relevant organisation.

Source: Law on Nuclear Energy

#### Requirements for applicant for radioactive minerals exploration license

- fully meet technical and safe operation requirements;
- fully meet labour safety and sanitary requirements and standards;
- be motivated and involved in solving issues of regional development, health, education and other social matters;
- in compliance with universally accepted standards of company governance, social responsibility and ethics
- have qualified human resources specialised for intended activity;
- be experienced in resolving issues of employees’ training and practicing;
- have the financial capacity to conduct exploration of radioactive minerals;
- have the financial capacity to make environmental and biological reclamation;
- maintain responsible mining and have accumulated experience in this field;
- conduct activities ensuring international standards and requirements of labor protection and safe operation of mining industry

#### Requirements for applicant for radioactive minerals exploitation license

- ensure the conditions specified above;
- have the capacity to sell radioactive minerals for peaceful purposes by world market price and be wholly independent in financial terms;

- 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 make entry to 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 in applications comes before. 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.
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 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 sou), 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 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



Steps	State administrative body	Process description
		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.
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

Statistics of license application for last 8 years are presented as follows (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>

Type of application	2012	2013	2014	2015	2016	2017	2018	2019
<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	<b>39</b>	<b>47</b>	<b>40</b>	<b>22</b>	<b>30</b>	<b>32</b>	<b>58</b>	<b>24</b>
b. Exploration	<b>11</b>	<b>20</b>	<b>4</b>	<b>-</b>	<b>3</b>	<b>5</b>	<b>3</b>	<b>1</b>
<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 and list of tender evaluation.

#### 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 detail of all changes of license holders in the EITI report. Statistics of licenses in the MRPAM Statistics report differs from the information we received from the MRPAM. We described this in detail in the EITI report 2015.

According to the information provided by the MRPAM, 59 exploitation licenses and no exploration license were awarded and 189 licenses were revoked in 2019. Mining and geology statistics which the MRPAM published are as follows (Table 5.23):

Table 5.23 Licenses awarded and transferred, by year

Registration type	2012	2013	2014	2015	2016	2017	2018	2019
<b>Newly awarded</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	<b>139</b>	<b>43</b>	<b>14</b>	<b>10</b>	<b>37</b>	<b>35</b>	<b>33</b>	<b>70</b>
b. Exploration	<b>131</b>	<b>304</b>	<b>109</b>	<b>163</b>	<b>204</b>	<b>202</b>	<b>148</b>	<b>119</b>
<b>Completed</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>

Registration type	2012	2013	2014	2015	2016	2017	2018	2019
<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**

No	Name of company	Number of license	Area size	Type of legal entity	Country of investor
1	Mongolrostsvetmet 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 have 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 Companies operating on 100,000 or more hectares of area under minerals license**

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 (competitive bidding or direct negotiations) is provided as follows:

- In accordance with the 26th 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 Silver Resources LLC for the Salkhit area.
- In accordance with the 26th 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 area.

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

#### **5.2.7.7 License transparency (requirement 2.3)**

The MRPAM's cadastre website (<http://cmcs.mram.gov.mn/cmcs#c=License>) published information of 2,652 valid licenses. License information for uranium exploration and exploitation is not disclosed.

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

In addition, 'Transparency' section in the website presented statistic overview of the licenses as of December 31, 2014; however, the information is not updated since. Moreover, 'Product and sales' and 'Taxation' sections are not updated since 2012. Some sections of the website are not in operation

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

#### **5.3.1. Minerals exploration**

##### **Geological explorations carried out with state funds**

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 minerals were determined and a perspective assessment was provided. This type of survey is being conducted for 5%.
- 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 reports is pending. Since 2016, the above surveys are being integrated into the K, L and M planes.
- 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 clear.
- 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, criterias were identified for the detection of promising

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<sup>3</sup> MMHI

deposits of ferrous, non-ferrous and precious metals in the region, and the direction for future works was given.

- 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, and minerals considered to be strategically important in this period have been brought into 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 export trends.
- A research is being carried out to determine the amount of pollution of disturbed land, air, soil, water and distribution of polluting elements in the territory of Ulaanbaatar and Erdenet cities, and provide scientific conclusions and recommendations.

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

**Table 5.26 Geological research 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	
	MNT mln	Execution	MNT mln	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.

The number of submitted the annual exploration plan and work report and the approved exploration costs have not been disclosed in 2019. Therefore, the following Table 5.27 presents the number of submitted of those reports in 2018.

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

	2015	2016	2017	2018
<b>Plan</b>				
Must submit	1,345	2,051	1,748	1,695
Submitted	1,307	1,750	1,724	1,674
Attendance %	97.20%	85.30%	98.60%	98.80%
<b>Report</b>				
Must submit	1,802	1,974	1,745	1,408
Submitted	1,260	1,666	1,546	1,300
Attendance %	69.90%	83.00%	88.50%	92.30%
Percentage of control on minimum expenditure for exploration report	97.00%	99.70%	98.00%	10.00%
Percentage certified by financial statements	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 estimated at MNT 87.2 million (in-progress). 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)
Preliminary	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
Search 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
Topogeodesic 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
Ecological restoration	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 research	140.10	231.20	162.20	6,638.40	0.50
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

There were general increases in the main mining production in 2019. Percentage of the mining sector in GDP reached 23.7% as well as the mining sector in total industrial production was 71.8%. More details are shown in Table 5.29 below.

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

	2016	2017	2018	2019
GDP, at current prices	23,942.90	27,876.30	32,411.20	36,897.60
Mining production, at current prices	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	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

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

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

Year	Striping (ths m3)	Production (ths tonnes)	Sales (ths tonnes)	Export (ths 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

Total coal sales by types is shown in the Table 5.3.1 below.

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

Coal type	Export (Kt)	Domestic sales (Kt)	Total sales (Kt)
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 in last 5 years reported by Mongolian National Statistics Committee.

Table 5.32 Main industrial commodities production by volume and units

No	Type of minerals	Unit of measurement	2015	2016	2017	2018	2019	% change
1	Coal	Kt	18,471.7	29,339.6	40,707.4	43,353.9	48,448.5	12%
2	Brown coal	Kt	5,677.2	6,149.3	6,394.0	6,655.4	7,350.9	10%
3	Copper metal concentrate	Kt	1,334.7	1,445.1	1,317.1	1,310.8	1,262.4	-4%
4	Iron ore	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	Fluorspar concentrate	Kt	47.3	34.1	55.2	80.7	47.5	-41%
9	Zincum 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 Committee, the output of mining and quarrying in last 5 years is shown in the Table 5.33.

Table 5.33 Mining output, in MNT million

No	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 and lignite	952,491.7	1,612,627.3	3,880,567.2	5,312,415.8	6,832,966.9	29%
3	Extraction of crude petroleum	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

Please note that MRPAM estimates the mining production and sales based on the reports submitted by the mining companies so that outcome may be incomplete and different from other sources. In accordance with the Minerals Law, 227 reports on Mineral Planning and Reporting Activity (MPRA) were submitted in 2019 and 187 out of those were approved. Based on the MPRA, the following Table 5.34 shows the output of the concentration and refinery plant as of the end of 2019

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

No	Type of minerals	Amount of processed ore and sand		Production output	
		Unit of measurement	Amount	Unit of measurement	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)	Kt	4,998.7	-	2,045.0
	GOLD (gold extracted from placer deposits)	Km <sup>3</sup>	7,517.9	Kg	4,890.1
2	<b>CONSTRUCTIONAL MATERIAL</b>	-	-	-	-



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

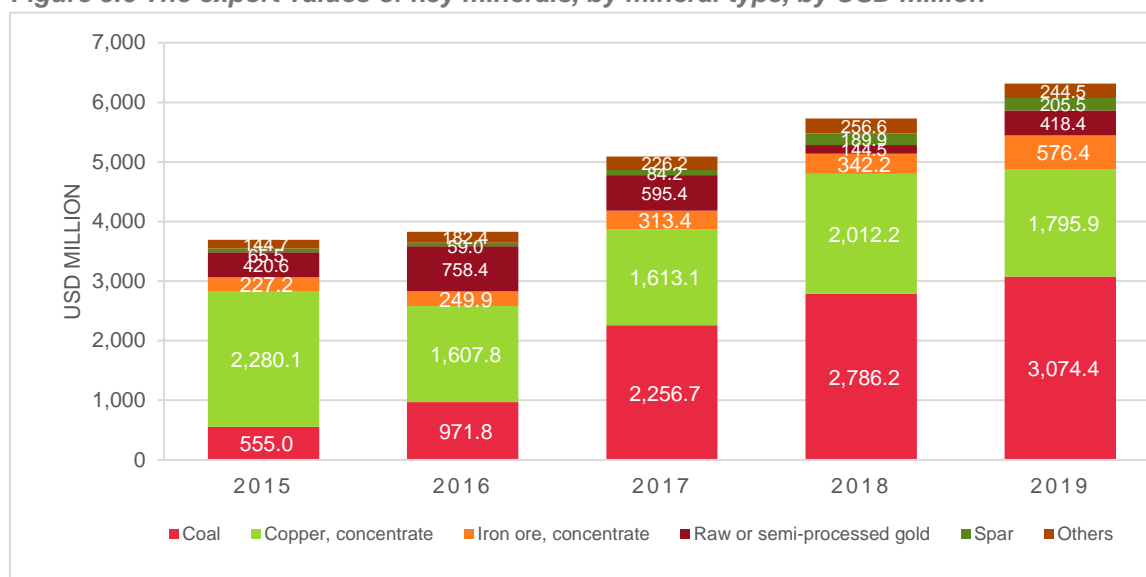
Table 5.35 Exports of mining commodities, by volume, by USD million

Type of minerals	Unit of measurement	2015	2016	2017	2018	2019
Coal	Kt	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	Kt	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	Kt	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	Kt	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	Kt	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	Kt	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	Kt	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 summarises the export values of key minerals in 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%.

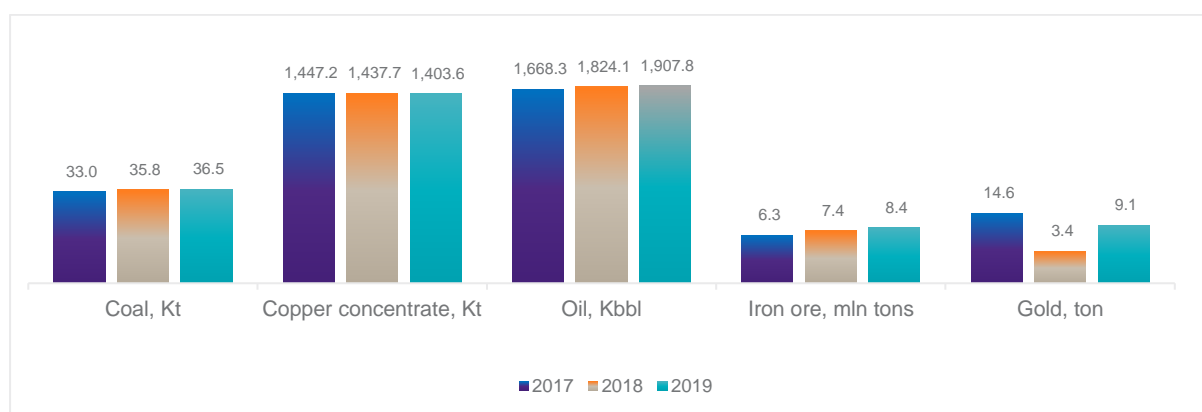
**Table 5.36 The key mining commodities exports, by country**

№	Country	Type of minerals	Unit of measurement	2017		2018		2019	
				Unit	Amount (USD million)	Unit	Amount (USD million)	Unit	Amount (USD million)
1	China	Coal	Kt	32,292	2,187,781	35,361	2,754,550	35,798	3,014,307
		Copper, concentrate	Kt	1,447	1,613,117	1,429	2,000,538	1,404	1,795,868
		Iron ore, concentrate	Kt	6,258	313,363	7,449	342,186	8,449	576,412
		Others	Kt	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>
		% in total export		85.9%		95.4%		91.3%	
2	The United Kingdom	Coal	Kt	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>
		% in total export		12.8%		2.7%		4.1%	

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 and its surrounding infrastructure was commissioned on October 8, 2019, and the construction and investment have officially started. As part of the infrastructure development outside the refinery, 27 km of railways and 17.2 km of heavy-duty roads were built and connected to the national main road and railway. Furthermore, a 110 kW power transmission line was constructed and the plant site was prepared and leveled. There are currently a total of 32 licensed oil fields in Mongolia, of which 21 contractors in 25 fields have entered into Product-Sharing Agreements which was approved the Government. There are two companies currently operating in three oil fields. PetroChina's subsidiary – "PetroChina Daqing Tamsag" LLC is one of them and leading in oil production and export.

Mongolia exports crude oil as there is no oil refinery plant and equipment currently. Mongolia imports oil products for local demand mostly from Russia

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

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

Д/д	Field in use	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 of 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 petroleum. 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, 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 have been studied in 25 percent of the total area, and 1,534 wells are being drilled with foreign and domestic investors. As a result of oil exploration, Mongolia has become an oil-producing country and has identified 332.64 million tons of oil reserves and 43.258 million tons of proven reserves in three fields which have been registered in the Mineral Reserve of Mongolia. 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, evaluation 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 kilometres 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 re-discussed an additional 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 at 60.06 million tonnes, of this, 'proved recoverable reserves' were increased by 6.5 million tonnes and registered the increases to the the Mongolian Mineral Resources Reserve Fund. Total 'proved reserves' of petroleum at the area were registered as 179.08 million tonnes, of which 20.17 million tonnes were 'proved recoverable reserves'.

The Mineral Resources Professional Council discussed petroleum 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 for 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) 6a WTE-1 (Tsagaantsav) under PSA.

Petroleum 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 a reserves estimation report. The report was discussed at the Mineral Resources Professional Council's meeting and the reserves were registered to the 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

Petroleum reserves at the PSA areas as of 2019 are shown in the Table 5.38:

Table 5.38 Oil reserve, by field

Operating field	Location	Oil reserves rank / million tons /					
		Proven reserve	Proven reserve for exploitation	Probability	Probability of exploitation	Possibility	Possibility of 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>

Under the Petroleum Law and the Reserve Registration Order, MRPAM monitors and records annual oil resource flow reports. Annual oil production is deducted for calculation and besides Reserve Registration Order, there are no other changes made, such as upgrading the reserve rank 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
			None	None		
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

Feasibility Study, reserves information are shown in the Table 5.40 below:

Table 5.40 Reserves of exploration fields with private funding

No.	Company	Field	Location	Funding /million USD/		FS conducted?	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	Tamsag XXI	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 Mineral and Petroleum

#### 5.4.5. Petroleum Licensing

Matters related to oil prospecting, exploration and production are regulated by the Petroleum Law of Mongolia (<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 in Issues of environmental protection and local development support' to be concluded between local governments and petroleum licence 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 licence 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>.

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

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

##### Process of awarding petroleum exploration licence

Table 5.41 Petroleum exploration licence

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 demobilisation of exploration or exploitation buildings and facilities</li> </ul>
II.		Awarding of exploration licence <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 licence has been issued or extended.</li> </ul>

Source: The Petroleum Law on Mongolia

##### Process of awarding petroleum exploitation licence

In exploitation licence application, an applicant with exploration licence 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 licence.
II.		The following documents should be submitted to the MMHI to apply for an exploitation licence: <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 operations plan;</li> <li>- The detaile environment impact assessment current for the 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>

Үе шат	State central administrative body	Process description
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. Since this transfer no other transfer of petroleum exploration or exploitation licence has been done 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 criterias 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.		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 <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	The MRPAM shall define the bidder that submitted the most profitable proposal to the Government and the following terms shall be agreed: <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> </ul>



No.	State central administrative body	Process description
		<ul style="list-style-type: none"> <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 as follows:

*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 Jinggong 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	ZuunbayanXI V					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

No	PSA fields	PSA approval date; GoM decree number	Contractor company	Operator company	Contractor's country of origin	Size of area, sq.km
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-ус II	2015.06.15- Government resolution №246	Renova Ilch LLC	Renova Ilch LLC	PRC	27409,3
24	Эрэл-ХII	2016.06.20- Government resolution №337,	Max Oil LLC	Max Oil LLC	Mongolia	/875+894.41 6/ 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 example.

The following PSAs are disclosed in the Table 5.45.

Table 5.45 Disclosed PSAs

№	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

No	Name of contract	Date of sign	Contracting parties	
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
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 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

No	Name of contract	Date of sign	Contracting parties	
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 petroleum 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 profit oil, which it may take in kind (as oil) or may request the contractor to sell its share and remit the proceeds to the government. The licence holder is also liable to pay royalty to the government. Currently, the government does not take its profit oil 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. We accordingly requested from MRPAM the volume and value of the government’s share of oil produced: MRPAM provided information on the amounts received for the sale of the government share but stated that it was unable to provide the volumes.

The information reported by MRPAM is shown in the table 5.47:

Table 5.47 Produced mineral resources, Kbbbl

No	Name of companies	Produced mineral resources (Kbbbl)	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 are presented by companies:

Company name	2019			
	Production		Export	
	Barrels	Actual, %	Barrels	Actual, %
<b>Petrochina Daqing Tamsag</b>	6,495,834.32	541.20	6,174,583.24	512.92
<b>Dongsheng Petroleum Mongolia LLC</b>	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 domestic demand.

Table 5.49 Petroleum product imports 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
Total	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 accounted for 25.44% of gasoline with more than 90 octane, 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 came 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 product imports by products type, countries, and tons

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

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, see 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 is increasing as the majority of the international and local investments (approximately 90%) in the sector is spent on fees and payments on works, services, consultancy, work force employed from external sources due to the reasons such as no presence of national companies in petroleum prospecting, exploration, and production, shortage of professional human resources and technical 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 strengthen national petroleum intensify petroleum prospecting and exploration, increase petroleum reserves, increase extractions in the petroleum sector of Mongolia, support the regional development, the construct an oil refinery plant, reliably supply the demands of petroleum products and strengthen human resource capacity.

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 to implement a refinery plant building project. 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 detail feasibility study to build the refinery plant with a capacity to refine 1.5 million tons of oil annually.

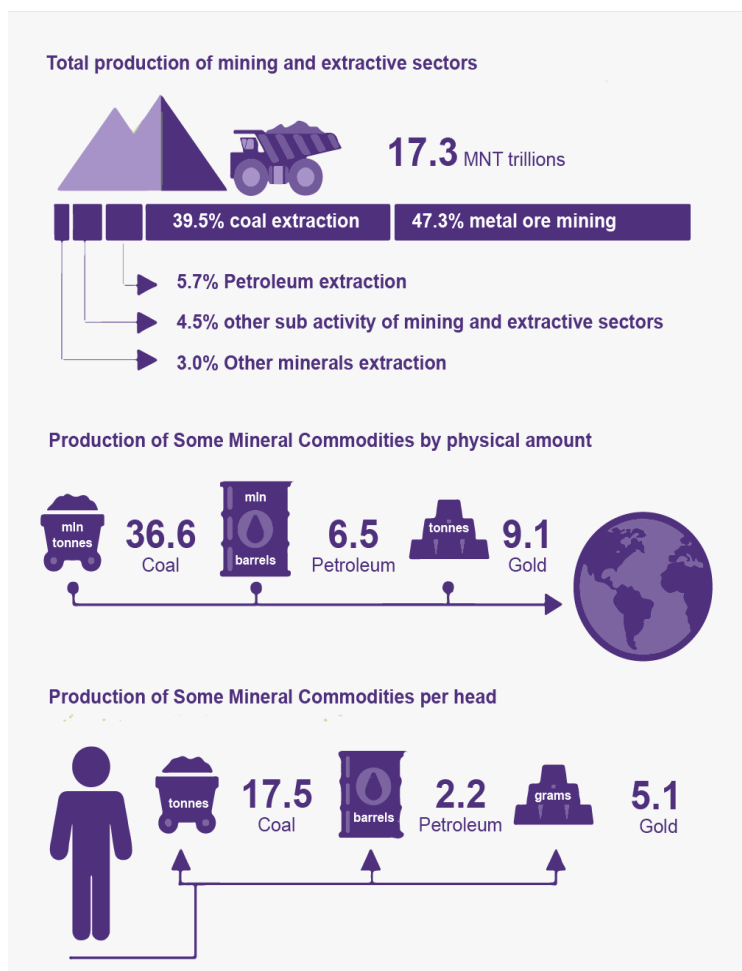
Mongolia doesn't have an oil refinery factory to meet domestic demand for petroleum products and imports 100 percent of its fuel from Russia, China, and the Republic of Korea, importing approximately 1.3 million tons of fuel per year.

The state policy on petroleum sector until 2027 were 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 for providing wholesale and retail petroleum services.

Within the framework of intensifying the prospecting, exploration and exploitation of petroleum and unconventional petroleum, the objective is 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)

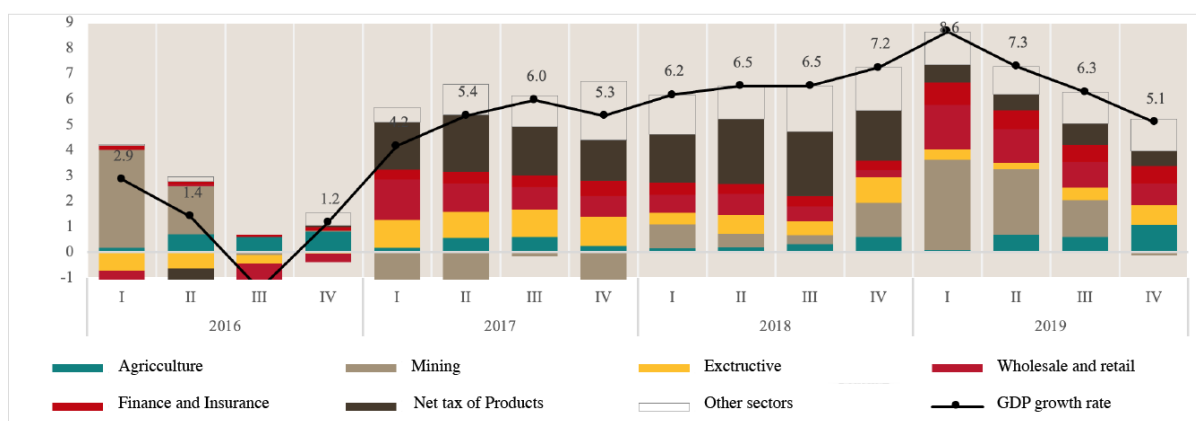
6. In recent years, the mining and minerals sector has developed rapidly and has become one of the leading sectors of the Mongolian economy. The economic turnover of large deposits of strategic importance creates conditions for further growth of mining production.

7. 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.

8. 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: Key sectors for 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 by type as an international economic activity sector.

- Metal ore mining
- Coal mining
- Oil extraction
- 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 was 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 has developed Gold II programme and started implementing it 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 last year. 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 last year.

Average gold production per head in 2019 was around 5.1 grams, it has decreased from the last year by 1.4 grams or 22.1%.

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 the 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, increased by 4.4 million tonnes or by 8.5% from the previous year. 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, 48.8 million tonnes or 87.5% of the total coal production 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, it has increased 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, 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 MNT 1.5 trillion or 28.6 % greater than last 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 increased 4.9 points comparing 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	26.5	30.1
Mining and 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	1.6	3.9	5.3	6.8
Cost of 1 tonnes of mining coal, in MNT thousand	33.9	40.3	44.5	36.4	34.5	32.1	38.6	52	80.3	101.6
Percent of coal mining:										
Total production of enterprises	14.4	24.4	17.5	14	7.5	6.4	10.3	18.5	20	22.7
Mining and extractive industries	22.6	37.7	29.8	24	11.7	11.7	18.5	32.1	34.6	39.5

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% was 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% comparing 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 last year.

Oil production per head in 2019 was 2.2 barrels comparing 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 last 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 went down by 0.6 points from 2018 and by 4.5 points 2014, and but this went up by 0.8 points from 2010.

However, oil production made up 5.7% of the extractive industry in 2019, it decreased by 1.0 point from 2018 and 6.4 points from 2014, and but it rose 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	25.3	30.1
Mining and 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	1
Percent of petroleum extraction:										
Total production of entities	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	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 went down by 19.1 thousand tonnes or 0.6% comparing 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*
	Thousand tonnes									
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 concentrate 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	484.4	161.7	303.0	183.5	167.7	108.9	101.2	156.1
Fluorspar 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	5193.9	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	0.0	0.0	0.1	0.0	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, dropped 33.1 thousand tonnes or 0.3% from last 2018; exports for tungsten concentrate reached 0.7 thousand tonnes, dropped by 0.1 thousand tonnes or 14.7% from 2018; and molybdenum concentrate exports reached 5.7 thousand tonnes, 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, rose by 1.0 thousand tonnes or 13.4% from 2018; and zinc concentrate exports reached to 134.8 thousand tonnes, rose by 10.9 thousand tonnes or 8.8% from 2018.

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

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

### 5.5.3. Total government revenues from the extractive industry (req 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		
		2018 Actual	2019			2018 Actual	2019		2018 Actual	2019
			Plan	Actual	Plan		Actual	Plan		Actual
1	Copper concentrate /th.tonnes/	1436.70	1400.00	1403.60	6524.80	6272.20	6004.60	999.00	1304.40	1333.30
2	Coal /th.tonnes/	36265.10	42000.00	36748.80	77.30	75-100	84.50	998.00	1310.80	1282.20
3	Gold /tonnes/	18.10	21.00	13.20	1266.50	1262.10	1389.60	80.00	82.50	116.80
4	Zinc /th.tonnes/	123.90	78.20	134.80	1596.30	2899.20	2548.60	78.00	56.20	67.60
5	Iron ore /th.tonnes/	7449.00	7555.00	8448.80	45.90	40.00	68.30	31.50	67.20	47.50
6	Fluoride /th.tonnes/	555.20	360.00	699.40	341.90	355.00	293.50	18.20	23.10	39.30
7	Others	0.00	0.00	0.00	0.00	0.00	0.00	188.90	155.90	251.80
<b>Total</b>								<b>2393.60</b>	<b>3000.10</b>	<b>3138.50</b>

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 rising commodity prices.

Revenue from oil reached to MNT 231.7 billion, which was MNT 103.9 billion or 30.9% less 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 26.1% 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
Royalty	288.7	847.8	1047	1425.7	136.2
CIT	225.8	443.7	653.1	869.2	133.1
VAT	22.1	30.8	31.3	43.1	137.7
Others	231	300.8	662.2	800.5	120.9
	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, it has increased by 8.7% comparing 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 gold and iron ore, which are the main export products, mainly contributed 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 is 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 Ministries	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 Nature, 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 main purpose 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; 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 policy-making 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 Nature, Environment and Tourism**

The primary functions of MNET 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, MNET is also responsible for making decisions and approving rules and policies to be followed by local administrative bodies and capital city administrations in regard to specific issues relating to environmental protection.

Licence holders are required to submit their environmental protection plan to MNET within 30 days of receiving their licence, 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 MNET 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 favourable 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 utilisation 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 organise the implementation of Government policy to coordinate exploitation of radioactive minerals and nuclear energy; granting and suspension of licences 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 (SAPCSP)**

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 in 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) defines a state-owned enterprise, for purposes of EITI reporting, 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,
- State-ownership participation,
- 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 of states that “a state-owned legal entity is a legal entity established by the state alone by its own property with the purpose of implementing its policy and

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

to meet social needs”, and article 21.1 “The business entity with the state-owned shares or with asset of the state invested is called a business entity with a state-ownership participation”.

In accordance with the Law on State and Local Property article 15, enterprises based solely on state property and financed from the state budget are classified as state-owned enterprise and those enterprises are classified by its property rights as self-sustained enterprise and state-funded enterprise.

A self-sustained enterprise is a legal entity that operates on the principle of self-financing on the basis of the property provided to it and enters into civil transactions independently.

A state-funded enterprise is a legal entity that is financed from the state budget on the basis of the property allocated to it and carries out production, works and services exclusively for state needs.

The Law on Company<sup>7</sup> clauses 12.5 states that “the State and its agencies may 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 by the 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 such shares within a period of three (3) years);
- a company that is created jointly with a foreign legal person
- other companies as permitted under the laws.”

### **5.7.2 Legal regulations for state participation in the extractive sector**

In the current legal environment, the state participates and has a stake in strategic importance deposits through Erdenes Mongol LLC and its subsidiaries.

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

Representation of State Ownership in SOE is regulated by the Procedure<sup>9</sup> to Implement Representation of State Ownership in State Owned Legal Entities. Section 2.3 of this procedure describes the representation of state ownership in extractive sector’s state-owned entities as follows:

- Chairman and members in the Erdenes Mongol Board of Directors shall be appointed and dismissed 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.
- Erdenes Oyu Tolgoi LLC shall participate in the Oyu Tolgoi Board of Directors; and shall appoint and dismiss the representation of state ownership to sit in Oyu Tolgoi Board of Directors as advised by the Cabinet Secretariat of the GoM;
- 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.
- In cases other than those specified in Clauses 2.4-2.9 of the Procedure to implement state ownership, state administrative body in charge of policy coordination on state property shall appoint state representation to sit in Shareholders’ meeting and Board of Directors of SOEs.

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<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>

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

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 their level of ownership held by SOE subsidiaries and joint ventures, and any changes in the level of ownership during the reporting period must be disclosed.

In accordance with the Law on Company, clause 2.6, the shareholders represent the state for a state-owned company, and the local Citizens Representatives Meeting represents for local property-based companies, the shareholders representing them may persons authorized by the Government and local citizens Representatives Meeting.

Ownerships of state-owned 20 companies that operates in mining sector are basically related with 2 state-owned holding groups. Erdenes Mongol controls state properties related with 6 strategic deposits and Department of State Property Policy and Regulation owns state property of other 14 entities (construction material manufacturing companies, Erdenet Mining Corporation and Mongolrostsvetmet etc).

**Table 5.57 Mineral licensed SOEs**

No.	Reg No.	SOEs	Included to reconciliation	Number of license	Minerals	Shareholders	%age of share
<b>Partly locally-owned</b>							
1	2014491	Bayanteeg JSC	Yes	1	Coal	Shunkhlai Group LLC Local property, and other small shareholders	23.54% 70% 6.46%
2	3753298	Bayan Khishig Kharaa LLC	No	1	Unclear	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, The Court Decision Enforcement Agency - Government Agency, Department, State-funded Enterprise	No	1	Limestone	GoM	100%



No	Reg No.	SOEs	Included to reconciliation	Number of license	Minerals	Shareholders	%age of share
7	2550466	Mongolrostsve tmet state owned LLC	Yes	26	coal, copper, gold, fluorspar, tungsten, iron and limestone	GoM	100%
8	9073523	Correction Faculty No. 419 under General Implementing Department in Khentii aimag	No	2	clay, and widespread Minerals	GoM	100%
9	2053152	ShtN State owned enterpise	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	Un 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%

No	Reg No.	SOEs	Included to reconciliation	Number of license	Minerals	Shareholders	%age of share
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: 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 the agreements signed in 1991 between two governments of Mongolia and Russian Federation and became a limited liability company under agreement in 2003. As Russian “Rostec” corporation sold its total share, the Government of Mongolia owns 51% and “Mongolian Copper Corporation” owns 49% in June 2016.

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

Under resolution No. 7 of the Government of Mongolia dated January 4, 2018 on registration of shares as state property and deduction of related payments, 49% ordinary shares of Erdenet Mining Corporation payment settling process is not yet completed by monetary assets deposited in “Trade and Development Bank” and Mongolbank, dividends and promissory note etc.

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

##### “Erdenes Mongol” LLC

Erdenes Mongol is a special purpose company created in order to represent GoM's stake in developing and owning nationally strategic mineral deposits within the territory of Mongolia.

Erdenes Mongol LLC and its subsidiaries operate in mining and other activities as follows:

*Table 5.58 Structure of Erdenes Mongol*

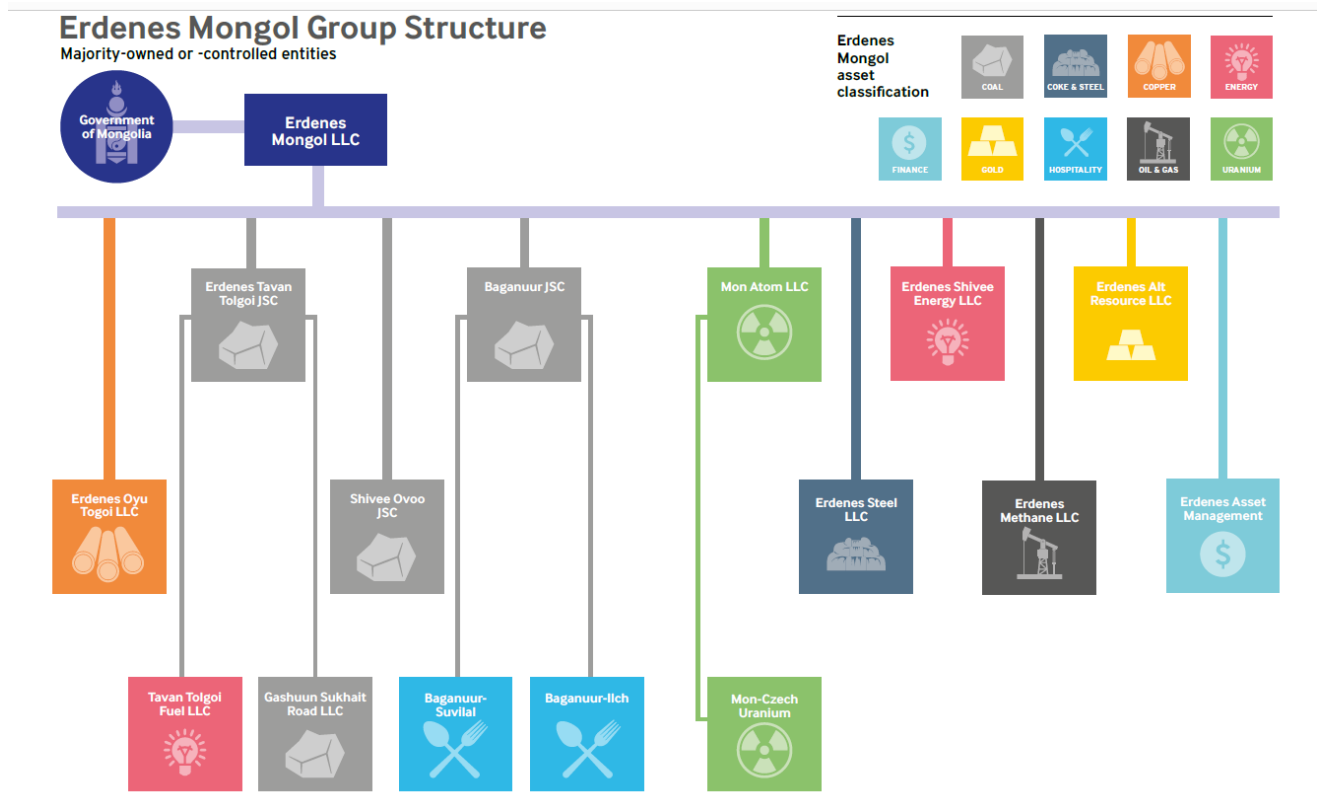
Company name	Role
1. Erdenes Oyutolgoi LLC	To own state ownership of "Oyu Tolgoi" LLC which is strategically-important, to participate in operations of "Oyu Tolgoi" LLC, to utilize state participation during the mine production and implement rights and duties of the shareholder

<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
2. Erdenes Tavan Tolgoi JSC	To put Tavan Tolgoi coking coal strategic mine deposits into economic activities
3. Baganuur JSC	To supply coal to Power plants within central power grid
4. Shivee Ovoo JSC	To provide local demands of thermal coal and Power Plant No.4 state-owned JSC
5. Mon-Atom LLC	To execute the state ownership as required by legislation and participating on behalf of Government, individually or jointly with other legal entities, in geological exploration and mining of uranium and other radioactive minerals
6. Gashuun Sukhait Auto Road LLC	To be responsible for the operation, maintenance and utilization of the 239 km paved road from the Tavan Tolgoi mine in Tsogtsetsii soum, Umnugobi aimag to the Gashuun Sukhait border crossing.
7. Erdenes Methane LLC	Developing coal bed methane of major coal deposit of Mongolia by carrying out prospecting and exploration, estimating methane gas resources, preparing feasibility studies, evaluating economic viability, raising funds and further development and production of coal bed methane.
8. Erdenes Shivee Energy LLC	To supply “Shivee Energy Complex Project for Energy Export” by coal based on strategically-important Shivee-Ovoo coal deposit
9. Erdenes Silver Resource LLC	Mining consulting service, the exploration for minerals, extraction and production, contract drilling service
10. Erdenes Alt Resource LLC	To explore, mine, refine and sell precious metal in the territory of Mongolia which was the frame of Government of Mongolian implementing “Gold-2” program’s purpose.
11. Erdenes Ashid LLC	To conduct assessments, detailed studies, and manage and operate the concentrate plants and other facilities based on the mineral deposits.
12. Erdenes Steel LLC	To implement complex industrial projects for coke and steel
13. Erdenes Asset Management Securities Company	To get investment from professional investors for strategically-important projects
14. Project unit for Rare Earth Element	To conduct research on rare earth elements in Mongolia and put the deposit into economic circulation
15. Mongolian Minerals Exchange LLC	To establish a mineral exchange to regulate exports through an integrated policy

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

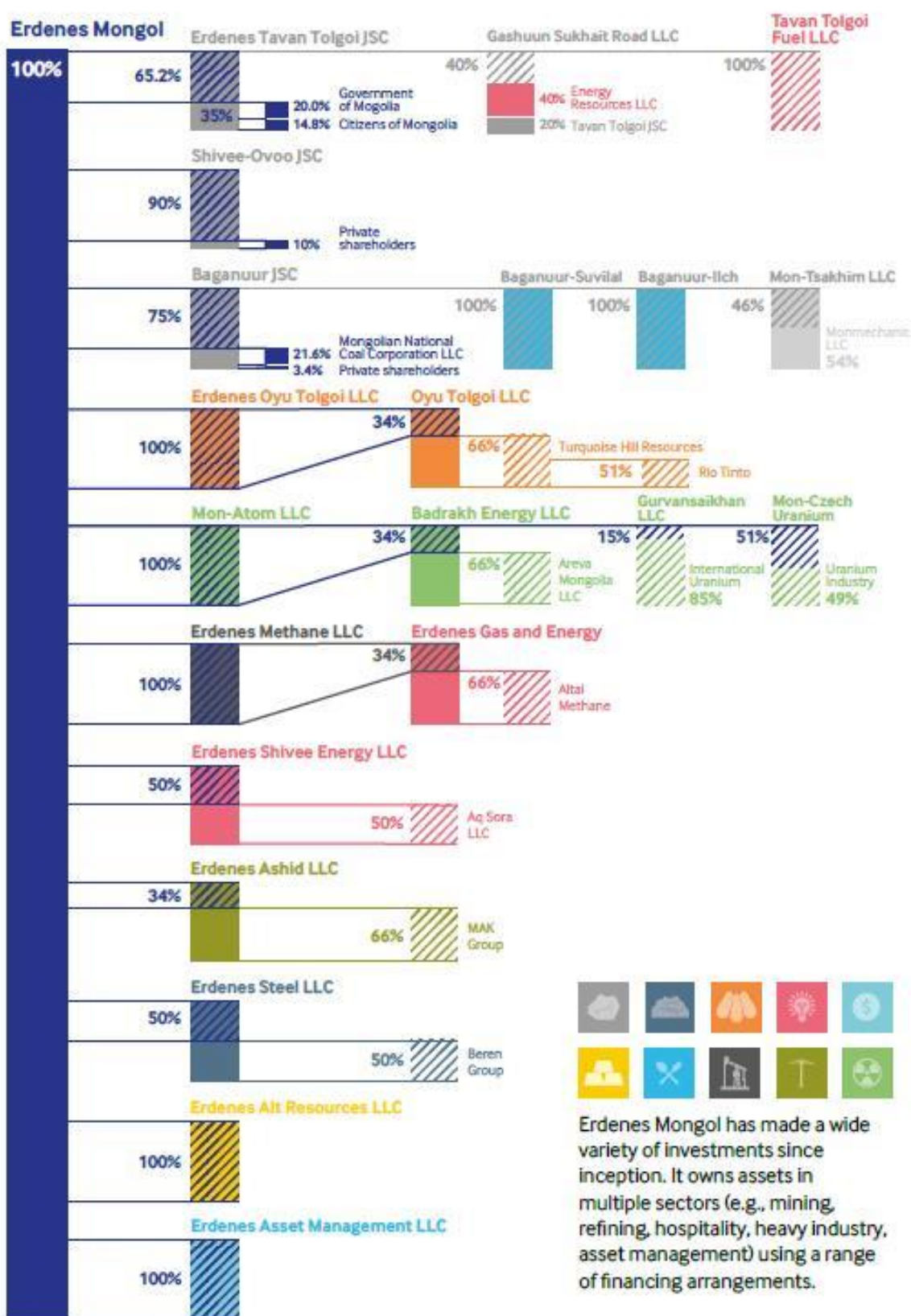


Source: "Erdenes Mongol" LLC <http://www.erdnesmongol.mn>

Source: International Natural Resource Institute of Governance

<https://resourcegovernance.org/sites/default/files/documents/erdnes-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 activities producing 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 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 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-molybdenium deposit located in Khanbogd soum, Umnugobi aimag was concluded in 2009 between the Government of Mongolia, Rio Tinto International Holdings Limited and Ivanhoe Mines Ltd. In 2010, shareholders agreement also were signed between owners of Oyu Tolgoi LLC.

According to these agreements, the GoM holds 34% of Oyu tolgoi LLC and now had Erdenes Mongol LLC to hold the said 34%.

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. Erdenes Oyu Tolgoi<sup>13</sup> LLC officially transferred the right to hold 34% of Oyu Tolgoi LLC shares on behalf of the Government of Mongolia from Erdenes Mongol LLC.

The main purpose of Erdenes Oyu Tolgoi LLC is to own 34% stake held by the Mongolian side and to take part in the activities of Oyu Tolgoi LLC while exercising the state participation during the minerals exploitation.

Oyu Tolgoi is expected to be one of the top five global copper producer once both open pit and underground mines get commissioned and will contribute 24 per cent to the total mine production from Asia.

### **Erdenes Tavan Tolgoi JSC**

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

The main operation of Erdenes Tavan Tolgoi JSC focuses on putting strategic mine deposits into economic activities, carrying out exploitation on the deposits and implementing infrastructure projects.

"ErdenesTavan Tolgoi" project will be implemented involving areas such as: coal mining, product processing, developing an infrastructure and plants as well as water supply system, additional exploration work and surveying at the deposit, delivering products into international markets, and stock exchange in domestic and international capital markets.

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<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/>

The company started mining in East Tsankhi coalfield in 2011 after approval of feasibility study whereas the feasibility study of West Tsankhi coalfield approved in 2012 and started mining operation in February 2013.

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 for purpose of supplying coal to Power plants within central power grid, and now operating in its 39th year. On Feb 9, 2015 its production has reached 100Mt of coal.

In 1995, it was re-organised into Baganuur JSC with majority ownership of the state. Currently 75% of its shares are 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 4.0Mt but depending on the domestic consumption, actual production mines coal of approximately 3.6-3.8Mt, overburden stripping of 16.0-18.0 square meters and the mining process uses the system with and without vehicle transportation. Baganuur JSC alone provides 60% of total coal production of Mongolia and 70% of coal consumption of central region.

Studies have shown that Baganuur coal, by its physical and chemical properties, can be used not only for energy purposes, but also as a recycled gas, fuel, liquid and briquette, 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

As result of previous explorations, Baganuur's reserve was determined at 599.7 Mt, and with recent explorations the reserve has increased by 212.4Mt reaching to 812.1Mt.

### **Shivee Ovoo JSC**

The shareholders' meeting dated September 12, 1995 re-organised the mine as Shivee Ovoo JSC with majority ownership of the state. The Government via Erdenes Mongol LLC holds a 90% share in Shivee Ovoo, and the remaining 10% held by individual shareholders.

In recent years, volume of mining activities (coal mining, sales, and stripping) was continuously increased so that the market position has been strengthening in the local coal market. This mine provides 30% of total Mongolian demands of thermal coal and 50% of the consumption of the Power Plant No.4 SOJSC.

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

The mine covers an area of 29,500 hectares and contains total of 2,708.7Mt coal reserve, consisting of three blocks as follows:

Total reserve 2,708.7 million tonnes

- Shine us - 564.1 million tonnes
- Uukhiin tsagaan - 1,147.9 million tonnes
- Nogoos toiron - 996.7 million tonnes

### **Mon Atom LLC**

Law on Nuclear Energy of Mongolia requires to classify the radioactive minerals deposit as the "Grant Thornton Audit" LLC

strategically important mineral resource deposit, regardless of its size and the state shall participate in exploitation phase. To comply with these requirements, Mon Atom LLC was established in 2009 by GoM Resolution No.45 with main objectives of executing the state ownership as required by legislation and participating on behalf of Government, individually or jointly with other legal entities, in geological exploration and mining of uranium and other radioactive minerals.

The company in the beginning used to operate under Nuclear energy authority in terms of policy and planning within the framework of implementing the state policy of Mongolia on radioactive minerals and nuclear energy sector and under State Property Committee in terms of financial matters.

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

In 2011, 239-kilometer heavy-load paved road was built and put into operation by privately owned company Energy Resources LLC. The ownership of the road was transferred to Erdenes Mongol LLC in 2013 according to GoM Resolution No. 299 on “Some measures to take in order to support coal exports”.

With the participation of main coal exporters namely, Energy Resources LLC, Erdenes Tavan Tolgoi JSC<sup>15</sup> and Tavan Tolgoi JSC, Gashuun Sukhait Auto Road LLC was established in 2014 and now is operating as an entity in charge of the road.

### **Erdenes Methane LLC**

Erdenes Methane LLC was established in February 2016 as a subsidiary of a state-owned Erdenes Mongol LLC. Mission of Erdenes Methane LLC is firstly to attract foreign direct investment and further to coal bed methane deposits estimation for Tavan tolgoi and other mines and to initiate methane extraction in order to reduce air pollution in Ulaanbaatar and other cities, and later to become gas exporter country.

### **Erdenes Shivee Energy LLC**

As a public private partnership, Erdenes Shivee Energy LLC was established by the agreement signed between Erdenes Mongol LLC and AqSora LLC on March 4, 2016. Pursuant to the minutes of GoM 64<sup>th</sup> meeting dated November 16, 2016, Erdenes Shivee Energy LLC has 1.2 billion tonnes of coal deposit and will provide coal supply of “the Shivee Energy Complex Project of Energy Export”, to be implemented based on Shivee-Ovoo strategic coal deposit.

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

### **Erdenes Silver Resource LLC**

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

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

The main activities of Erdenes Silver LLC are:

- Mining consulting
- Minerals prospecting
- Exploration exploitation of minerals
- Contract drilling

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

<sup>16</sup> <http://erdenessilver.mn/6/single>



Within the scope of the state policy in the mineral resources sector, under the 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 an area of 2887.85 hectares called Salkhit, located in Gurvansaikhan soum, Dundgobi aimag.

#### **Erdenes Alt Resources LLC**

For the implementation of actions reflected in the "Sustainable Development Concept of Mongolia 2030" and "Alt-2" national programs, "Erdenes Alt Resources" LLC was established in 2018 under the functions of exploration, extraction, refinery and sales of precious metals. "Erdenes Mongol" LLC is a 100% ownership of "Erdenes Alt Resources" LLC.

#### **Erdenes Ashid LLC**

"Erdenes Ashid" LLC was established by "Erdenes Mongol" LLC in cooperation with "Mongolyn Alt" LLC for the purpose of conducting exploration activities in three areas located in the territory of Bayan-Ulgii aimag.

#### **Erdenes Steel LLC**

In order to meet the growing demand for steel in Mongolia and to produce import-substituting products, the project of a coke and steel complex plant was initiated in cooperation with "Beren Group" LLC and "Erdenes Steel" LLC<sup>17</sup> was established on April 2017 with the participation of SOEs implementing the project. Erdenes Mongol LLC is the 100% ownership.

#### **Erdenes Asset Management LLC**

The Company operates to raise capital in the stock market, issue bonds, owns shares, trades and provide consulting services. The company was licensed for investment management activities by the FRC Chairman's Resolution No.296 dated November 25, 2019.

#### **Rare element unit project**

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

#### **Mongolian Minerals Exchange LLC**

Under the GoM Resolution No.211 dated June 28, 2014, Minerals Exchange was decided to be established with 100% private funding based on partnerships between domestic and foreign companies.

#### **5.7.6. SOEs included in the EITI**

#### **Erdenet Mining Corporation LLC**

Erdenet Mining Corporation LLC is one of the largest copper mines and processing plants in the world. Its operations started in 1978 when it was established through an intergovernmental agreement between Mongolia and Russia.

In 2016, the shares held by the Russian Federation were transferred to a Mongolian private company. Such negotiation falls into the center of public attention and under dispute however ownership percent of GoM was not subject to change for the period of our report drafting. As of 2017, the mine has

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<sup>17</sup> <https://erdenessteel.mn/about-us-2/>

excavated approximately 657.3Mt of ore in total and processed into copper concentrate<sup>18</sup>.

### **Mongolrostsvetmet LLC**

Mongolrostsvetmet 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.

Today, the Company operates with its administration in Ulaanbaatar, “Bor-Undur” concentrator in Bor-Undur soum, Khentii aimag, Shijir Alt LLC in Zaamar soum, Tuv aimag, and “Zeregtsee” gold mines. The Company’s 49 percent shares held by the Russian government was transferred to Mongolia in 2016, and the Mongolian government now owns 100 percent.

### **Darkhan metallurgical plant JSC**

The Darkhan metallurgical plant was established in 1990 on the basis of Darkhan–Selenge iron-ore deposits. The deposit is listed as a strategic deposit with estimated reserves of 230Mt iron ore. Within the framework of a plan to develop Darkhan metallurgical plant, the plant launched its iron ore wet magnetic processing facility in 2014. Privatization of Darkhan metallurgical plant has taken place in the method of management buy-out in 2015.

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

UB railway is a Mongolian-Russian joint venture where GoM owns 50% and the rest is owned by the Russian government. As one of UB railway branches, the gravel plant holds a production licence and it started extracting gravel in the area of Dalanjargalan soum in Dornogovi aimag since 1956.

### **Companies with local ownership**

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

Tavan Tolgoi JSC restructured as a state-owned company on December 5, 1994, pursuant to Resolution 42 of the privatisation committee of the Government of Mongolia. From 1995, Tavan Tolgoi JSC started operating as a locally owned joint stock company. The Tavan Tolgoi coal mine is located in Umnugobi aimag, which is approximately 270 km north of 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 is located in Uvurkhangai aimag, in 560 km 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 licence information provided by MRPAM, we noted some further SOEs were not involved in our reconciliation scope, because these companies did not make any material payments to the national budget in 2019. 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

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

- 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 rules governing financial relations between the government and SOEs**

The financial relationship between the Government and SOEs is regulated by the Law on State and Local Property and associated regulations for state properties. Unless specifically stated otherwise in those laws, relationship between the Government and the SOEs are regulated by the Corporate 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 impact on the financial and cash flows of budgetary entities, and their performance.

According to Article 21.16 of the Law, a state-dominated legal entity shall obtain a loan and issue securities upon obtaining permission from the state central administrative body in charge of finance and budget. / *This part was amended according to the Law dated February 18, 2015* / However, it does not apply to short-term loans and securities with repayment terms for the financial year.

According to Article 21, paragraph 13 of the Law on State and Local Property, a state-owned shareholder shall submit a proposal to the Board of Directors in writing to set a dividend rate to be paid by a state-owned or partly state-owned legal entity. Unless otherwise provided in Article 46.1 of the Company Law, the Board of Directors (or the Shareholders' Meeting on behalf of the Board of Directors) shall decide whether to pay dividends, and determine the amount of dividends per share and the list of shareholders entitled to receive dividends, the date of issue 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 property, the profitability of state and local owned companies, governance, and privatization policies, and to bring public-private partnerships to a new level.

A special template containing the requirements related to SOEs of EITI standard 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**

The dividend policy of the SOE is governed by different laws depending on its status.

According to Article 11.3 of the Law on State and Local Property, PCSP shall determine the planning and distribution of profits to be followed by the state-owned legal entity in consultation with the relevant authorities. Unless otherwise provided in Article 46.1 of the Company Law, (in the absence of the Board of Directors) the shareholders' meeting shall decide on whether to pay dividends, which should specify the amount of profit to be paid for each share, the date of issue of the list of shareholders entitled to receive dividends and the date of payment of dividends.

After the payment of dividends in accordance with the Company Law, the company 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, and also the full redemption of the securities. When these conditions are met, dividends shall be paid on common shares.

Erdenes Tavantolgoi JSC discloses its dividend regulations approved by the Board of Directors'

Resolution No.05 dated February 25, 2019 on its website (Table 5.59) <sup>19</sup>.

**Table 5.59 Rules regarding financial relationship**

	Does the SOE have the right to approve and follow its dividend policy?	Does the SOE have the right to distribute a profit?	Does the SOE have the right to reinvest in its activity?	Does the SOE have the right to raise funds from third parties? / by borrowing debt or issuing shares /
Laws and rules	Yes. For SEOs, BoD makes decision to distribute dividend in accordance with the Articles 46 and 47, Law on Company	Yes. For SEOs, According to the Company Law, the BoD decides how much profit to distribute and how much to accumulate, depending on the company's financial condition and solvency.	Yes. There are no specific legal provisions, but the board has the power to make reinvestment decisions within its authority.	Yes. Law on Company 41.1. A company may issue bonds secured by its owners' equity subject to terms to pay interest and to redeem the bond after the expiration of a state period  42.1. the decision to issue authorized shares or other securities and bonds specified in the company charter shall be adopted by the Board of Directors (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.

Practical experience MNT	Million			
	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

<sup>19</sup> <https://ett.mn/mon/143/single1>

	Does the SOE have the right to approve and follow its dividend policy?	Does the SOE have the right to distribute a profit?	Does the SOE have the right to reinvest in its activity?	Does the SOE have the right to raise funds from third parties? / by borrowing debt or issuing shares /
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, the information provided by companies

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

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

In order to satisfy 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 replied that it was not possible to provide information on borrowers in accordance with Article 7.2 of the Banking Law and the agreement with clients. Baganuur JSC and Erdenes Tavantolgoi JSC provided information from 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 of a project aimed at strengthening the institutional system and management capacity of Erdenes Mongol. The guarantor agreement<sup>20</sup>- was signed between the GoM and ADB on June 3, 2016. The project is scheduled to end on April 30, 2019.

See the terms of the loan agreement and repayment schedule on the ADB website.<sup>21</sup>

## Loan

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

**Table 5.60 SOE's outstanding loan balances, 2019**

Company name	Loan balance 2019.12.31	GoM	MoF/ADB/	Of which:		
				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			

<sup>20</sup> <https://www.adb.org/sites/default/files/project-document/185252/49409-001-ga1.pdf>

<sup>21</sup> <https://www.adb.org/sites/default/files/project-document/185253/49409-001-lbj.pdf>

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 information of the companies

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

**Table 5.61 Loan of Baganuur JSC**

No	Lenders	Date granted	Maturity date	Currency	Interest rate	Contract Amount /Million MNT /	Outstanding balance as of 2019-12-31 /Million MNT /	Purpose of Loan
1	MoF (MON 2854)	3/13/1997	6/1/2031	MNT	1.8%	25,062	20,587	Make technical and technological update of lignite mining, to strengthen the organization of the mine, and to develop a strategic plan for the coal sector
2	MoF (MON-P4)	2/6/1998	2/22/2022	MNT	1.8%	19,580	11,318	
3	Erdenes Mongol LLC	12/30/2014		MNT		10,205	10,105	
4	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
5	Erdenes Mongol LLC	9/3/2018	2/28/2019	MNT	8.4%	6,000	6,000	Purchase sufficient fuel to ensure reliable operation in preparation for winter 2018-2019, create ready coal reserves, and perform major repairs
6	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 EITI Standard 4.5, payments made by extractive companies to SOEs, material payments made between SOEs and government agencies must be disclosed.

Pursuant to Article 6.4.5 of the Law on Glass Account, revenue and expenditure cash flows exceeding MNT 5 million, except for salary expenses must be disclosed.

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 5.62 Material transactions of Erdenes Mongol LLC made with SEOs, million MNT**

“Grant Thornton Audit” LLC

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

**Table 5.63 Material transactions between Shivee Ovoo JSC and SOEs, in MNT million**

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

**Table 5.64 Material transactions between Monrosvetment SOJCS and SOEs (excluding 1Q of 2019)***in MNT million*

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

**Table 5.65 Material transactions between Erdenet Mining Corporation SOJSC and SOEs (excluding 1, 2Q of 2019)***in MNT million*

Name of Client SEOs	Deposit	Withdrawal	Description
Achit-Ikht LLC /34% of share owned by Erdenet Mining Corporation /	2,084	-	Water consumption fee
National Dispatch Center, SOJSC	32,271	-	National Dispatch Center SOE's income
Thermal Power Station	1,108	-	Water consumption fee
Mongol Us SOE	-	158	Payment for water usage permission /Water Supply Shop/
Mongol Post JSC, Orkhon aimag	-	42	Postal fee
Mon-Ilch LLC	-	2,223	Thermal Power Station BKZ 75-39 FB stove №3 overhaul, debt
Coal mining-Shariin gol	-	17,429	Energy coal
Ulaanbaatar Railway JSC	2,300	24,000	RN:2074192 transportation fee, as of March 1, 2019
Khaan Khund Erdenet LLC	-	5,990	Meal, 2019/04
Khutul Cement, Lime Plant	54	2,500	Technology lime, on behalf of Cement line JSC
Post Office, Orkhon aimag	-	484	Foreign and domestic newsletter subscription, 2017
Erdenet-Bulgan electricity distribution network, SOE	16,995	156,820	Energy supply, 2019/02
Erdmin LLC	3,631	-	Dividend from Erdmin LLC
Erdenet-Us SOE	1,215	-	Water consumption fee/ Erdenet Water Thermal Power Station SOE
Energy Regulatory Commission of Mongolia	-	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 5.66 SOEs that disclosed their financial statements**

Matters stated in the EITI Standard guideliness	Does SOE prepare financial statements	Is the financial statements audited?	Prepared under international accounting standard (IAS/IFRS)?	Audited under international standard?	SOE's reports disclosed to the public? If not, what is the reason?	If comprehensive financial statements were not disclosed, summarized financial items can be disclosed?	What additional steps can be taken for the disclosure of financial an audit reports?
Governing law and regulation	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 Account, entities may disclose their financial statements only for the audited year, together with its summary and audit reports. JSCs registred at DBM post their key financial items on the DBM's webpage.	No additional step is required.
<b>Name of SOE</b>							
Erdenes Mongol LLC	Yes	Yes	Yesyes	Yes	No*		
Erdenes-Tavantolgoi JSC	Yes	Yes	Yes	Yes	Yes		
Baganuur JSC	Yes	Yes	Yes	Yes	Yes		
Shivee Ovoo JSC	Yes	Yes	Yes	Yes	Yes		
Bayanteeg JSC	Yes	Yes	Yes	Yes	Yes		
Mogoin gol JSC	Yes	Yes	Yes	Yes	Yes		
Tavantolgoi JSC	Yes	Yes	Yes	Yes	No*		
Mongolrostsvetmet SOJSC	Yes	Yes	Yes	Yes	No*		
Erdenet Mining Corporation SOJSC	Yes	Yes	Yes	Yes	Yes		
Darkhan Metallurgical Plant	Yes	No. Audit is in progress	Yes	N/A	No		

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

### 5.7.10. Financial statements of SOEs

The new EITI Standard 2019 requires that state-owned entities disclose their audited financial statements, or when there is no financial statements, their key financial indicators (such as balance sheet, profit/loss statement, cash flow).

Mining companies listed on the Mongolian Stock Exchange (MSE) disclose their key unaudited financial indicators and comprehensive financial statements to the Ministry of Finance through the website<sup>22</sup> of Mongolian Stock Exchange.

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 5.67 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=adfabf890a0265a7771b6cc5741918e5.pdf">https://shilendans.gov.mn/pdfview?file=adfabf890a0265a7771b6cc5741918e5.pdf</a>
2051303	Darkhan Metallurgical Plant	DTU	No	N/A	No	<a href="http://mse.mn/mn/company/526">http://mse.mn/mn/company/526</a>

\*Does not disclose information on the glass account website as it the information is not within the scope of the law specified in Article 3 of the Glass Account Law

<sup>22</sup> www.mse.mn

\*\*Erdenet Mining Corporation has created a menu on their glass account webpage therefore, it is directly linked to glass account of the government.

### 5.7.11. Audit reports of SOEs

#### 5.7.11.1. Law and regulation on disclosure of audit reports of SOEs

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 provided by law, the State Audit Office may publish performance audit and other reports or otherwise disclose them to the media and the public.”

As per Article 37.2 of the revised version of the Law on State Audit dated May 1, 2020, and in accordance with the procedures set out in the Law on Information Transparency and Right to Information the National Audit Office shall publish quarterly audit reports and publish them on its website, except for information related to state, official, organizational and personal secrets,

#### 5.7.11.2. Practice of implementing 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. Audit reports of 8 of these entities were disclosed on the website [www.audit.mn](http://www.audit.mn). Meanwhile, audit reports of 5 out of 10 SOEs included in the consolidation were disclosed on the NAO website, and audited report of 1 entity was disclosed on the glass account website.

Non-disclosed audit reports of SOEs may be confidential according to explanation from NAO.

**Table 5.68 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/116166e5e709c8efff03da104c27c0d6/watermarked.pdf">https://tailan.audit.mn/api/pages/116166e5e709c8efff03da104c27c0d6/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 corporate governance regulations and practice (requirement 2.6.c)

#### 5.7.12.1. Operations of state-owned entities

Company Charter is the underlying document regulating operation of SOE.

Links to the disclosure in the charters of SOEs are shown below.

**Table 5.69 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 decision #01 dated 2018	<a href="https://ett.mn/mon/101/single1">https://ett.mn/mon/101/single1</a>
2008572	Baganuur JSC	Shareholders' meeting decision 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. Rules and practices related to SOE (operational / current / investment) expenditure management

#### Rules 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 to be followed by the state-owned legal entity, in agreement with the relevant organization".

According to the main economic indicators, targets, and investment plans of the SOE, PCSP approves its business plan and procurement plan based on the proposal 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 on a monthly basis on the glass account website:

1. Target level, performance, reasons and explanation of excessive 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).

Disclosures of above two information on the SOE's glass account are shown in the Table below:

### 5.7.12.3. Practice of expenditure management by the SOE

**Table 5.70 Glass account transparency**

Reg No.	Company name	Whether disclosed on the glass account	
		1	2
5124913	Erdenes Mongol LLC	No	No
5435528	Erdenes-Tavantolgoi JSC*	Yes	Yes

2008572	Baganuur JSC	No	No
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 its own website

#### 5.7.12.4. Regulations and practice related to SOE's procurement

The SOE shall carry out procurement in accordance with the Law on Procurement of Goods and Services with the state or local budget

SOEs adopt rules of domestic procurement in line with the law. For example, Erdenes Tavantolgoi JSC posted its rules for procurement of goods and services, on its website.<sup>23</sup>

As per the Law on Glass Account, the following activities should be disclosed from time to time, including:

1. Procurement plan (under the Article 6.1.1),
2. Procurement report (under the Article 6.1.1,6.1.2)
3. Audit reports and other inspection results of the procurement /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 above 4 information are summarized and shown in the Table below:

**Table 5.71 Procurement transparency**

Reg No.	Company name	Disclosed on the glass account				Link to the disclosure
		1	2	3	4	
5124913	Erdenes Mongol LLC	Yes	No	N/A	Yes	<a href="https://shilendans.gov.mn/org/5231?group=0&amp;year=2019">https://shilendans.gov.mn/org/5231?group=0&amp;year=2019</a>
5435528	Erdenes-Tavantolgoi JSC	Yes	Yes	N/A	Yes	<a href="https://shilendans.gov.mn/org/5232?group=1&amp;year=2019">https://shilendans.gov.mn/org/5232?group=1&amp;year=2019</a>
2008572	Baganuur JSC	Yes	Yes	N/A	Yes	<a href="https://shilendans.gov.mn/org/5244?group=1&amp;year=2019">https://shilendans.gov.mn/org/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/org/5681?group=2&amp;year=2019">https://shilendans.gov.mn/org/5681?group=2&amp;year=2019</a>
2034859	Mogoin gol JSC	Yes	Yes	N/A	Yes	<a href="https://shilendans.gov.mn/org/5356?group=2&amp;year=2019">https://shilendans.gov.mn/org/5356?group=2&amp;year=2019</a>

<sup>23</sup> <https://ett.mn/mon/112/item1/1341>

Reg No.	Company name	Disclosed on the glass account				Link to the disclosure
2016656	Tavantolgoi JSC	No	Yes	N/A	Yes	<a href="https://shilendans.gov.mn/org/7174?group=1&amp;year=2019">https://shilendans.gov.mn/org/7174?group=1&amp;year=2019</a>
2550466	Mongolroostsvetmet SOJSC	Yes	Yes	N/A	Yes	<a href="https://shilendans.gov.mn/org/5240?group=2&amp;year=2019">https://shilendans.gov.mn/org/5240?group=2&amp;year=2019</a>
2074192	Erdenet Mining Corporation SOJSC	Yes	Yes	N/A	Yes	

#### 5.7.12.5. Regulations and practice related to the agreement made between SOE and contractor

There are no specific regulation on the agreement between SOE and contractor. Therefore, SOEs did not provide the information related to such agreement.

#### 5.7.13. Regulations and practice related to corporate governance

##### 5.7.13.1. Regulations and practice related to appointment of Board members

For partly state and locally owned companies, procedures for the representation of state and local property are regulated by the Law on State and Local Property; the election of independent members of the Board, and the relation between committees under the Board and the Secretary of the Board are regulate by the Company Law..

The Government resolution No. 80 dated 2016 defines the relations related to the implementation of state property representation in a state-owned legal entity, and the requirements, rights, duties and responsibilities of the state property representative. A state-owned entity is considered to own 100% or a certain percentage of the total issued common shares. The State exercises its rights and responsibilities through a person appointed as a member to represent the state property in the Shareholders' Meeting and the Board of Directors of the legal entity. 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, A state property representative to a state-owned legal entity shall be appointed and monitor its activities.

According to Article 75 of the Company Law, the number of board members shall be determined by the Company's charter. The Board of Directors of a joint stock company or a state-owned company shall have nine or more members, and at least one third of them 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 shall be elected at the Board meeting. The Chairman of the Board shall be elected from the Board members by a majority vote of all members. The Secretary of the Board shall be appointed by the Board upon the proposal of the Chairman of 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, incentive and nomination.

The operating rules of the board are approved and followed in accordance with the law on SOEs. The composition of the board of directors of the SOEs is shown in Appendix 21 of this report.

**Table 5.72 Remuneration of the Board, in MNT million**

Company name	Bonuses	Discount, promotion	Travel expenses
Baganuur JSC	78.1	5.3	13.1

Source: Information provided by companies

"Grant Thornton Audit" LLC

### 5.7.14 Quasi-fiscal expenditures

Pursuant to the EITI standards, quasi-fiscal expenditures include arrangements whereby SOE(s) undertake public social expenditure such as payments for social services, public infrastructure, heating subsidies and national debt servicing, etc outside of the national budgetary process.

We requested quasi-fiscal information from 10 SOEs covered in the reconciliation. Only Baganuur JSC reported their expenditure, and Erdenes Mongol LLC and Tavan Tolgoi JSC reported that there was no such expenditure. There was no response from other 7 SOE(s). Please refer to the following table 5.73:

**Table 5.73 Quasi-fiscal expenditures, MNT Millions**

SOE	Quasi-fiscal expenditure	Payment method	Amount
Baganuur JSC	<b>Heating subsidies/sold coal at discounted prices/</b>		
	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		
<b>Total</b>			<b>3,404</b>

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 times lower than market price.

**Table 5.74 Heating subsidies**

No	Entities	% in total procurement	Supplied coal, tonne	Supplied amount In /MNT/	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 ton 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. Income allocation in Extractive Industry Income Distribution

Legal documents that are accompanying Law on State Budget of Mongolia for 2019 are containing amendments in following manner. 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 are needed, as well as the need for revenue allocation from the mining sector to local communities increased.
- Royalties and licence fees stated in the Article 23.4.7 of Chapter 23 of the Law on State Budget is the part of the tax revenues of the State Budget. The draft law states that 50 per cent of this income source is provided by law shall be distributed to aimag and Capital City Local Development Fund in accordance with Article 60.2.7 of the Law on State Budget, which will be effective from 2020.
- The law enforcement is brought over for one year with revision of 50% of the revenue from mineral exploration licence fees will be paid in 2019 and the remaining 50% or in full 100 % will be transferred to or 100% will be transferred to the local budget in 2020 where the exploration area is located. In contrast, 50 percent of the mining licence revenues will be transferred to the local budget in 2020. This regulation shall be made by amendment to the Article 60.2.7 of the Law on State Budget and in accordance with this law, it shall be deemed to invalidate the Article 71.6 of the Law.

### 5.8.2. Case where existing revenue from the extractive sector to the state budget is not accounted (Requirement: 5)

We requested the Ministry of Finance to provide us with information on income that is not accounted in the state budget, future receivables of taxes that might have been recorded as a "debt". However, we were informed that such information is not available.

#### 5.8.2.1. Local transfer

#### Integrated Local Development Fund (Requirement 5.2)

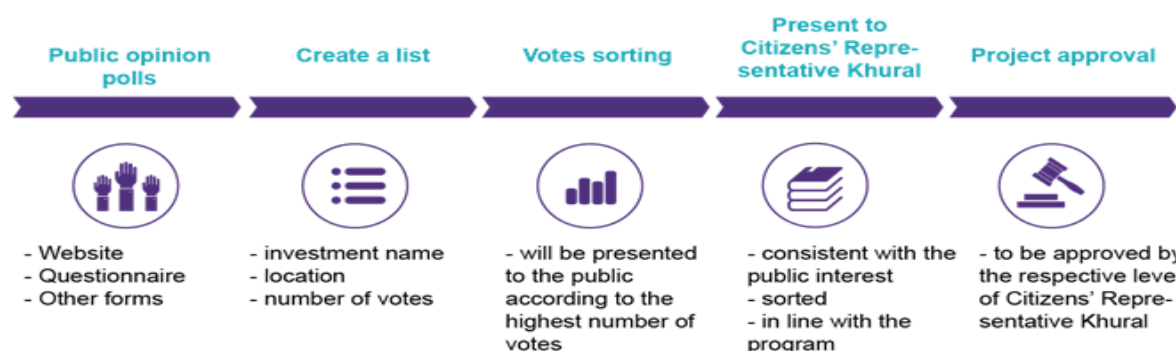
The Local Development Fund is a budget for citizens to be decided on. The fund has the advantage of providing administrative units with their own needs-based investment programs and financing their implementing duties.

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 and incentives and support from international organisations.

The Fund will be allocated by the formula, taking into account the population size, distances, territorial size, and local development index to aimags and capital. Aimag and the capital city should leave its share, and at least 30% shall be transferred to the same soum or district using the same formula.

Local community development funds should be spent on local community development funds, programs, and projects that are conducive to the community's real needs and will be supported and endorsed by the local community and Citizens representative hural's decisions.

**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 view the allocation of consolidated local development fund from 2013 to aimags, capital city, soums and districts. 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. Involvement of extractive sector in budget revenue**

Draft legal documents that are accompanying Law on State Budget of Mongolia for 2019 are containing amendments in following manner. These include:

- To increase the participation of citizens in planning and spending the funds efficiently by sorting out new investment projects in aimags due to the allocation of 50 percent of the revenues from mineral exploration licences in aimags from the state budget to the Aimag Local Development Fund from 2019 onwards to;
- To oversee efficiency of air pollution reduction, environmental protection, rehabilitation and reforestation activities, monitor its implementation in aimags due to the allocation of 50 percent of the air pollution charges for raw coal and 30 percent of the oil revenues generated from the state budget for coal and oil extraction.

#### **5.8.3.2. Revenue stability and dependence on natural resources (Requirement 5.3.b)**

An independent administrator (Ulaanbaatar Audit Corporation LLC) had requested information from Ministry of Mining and Heavy Industry and the Ministry of Finance to provide with future assumptions about the fiscal cyclical changes and the projections of the extractive sector, forecast price of mineral market, preliminary estimation of revenues from the extractive sector, forecasts of predicted share of extractive sector revenues in the state budget. These ministries haven't provided detailed information.

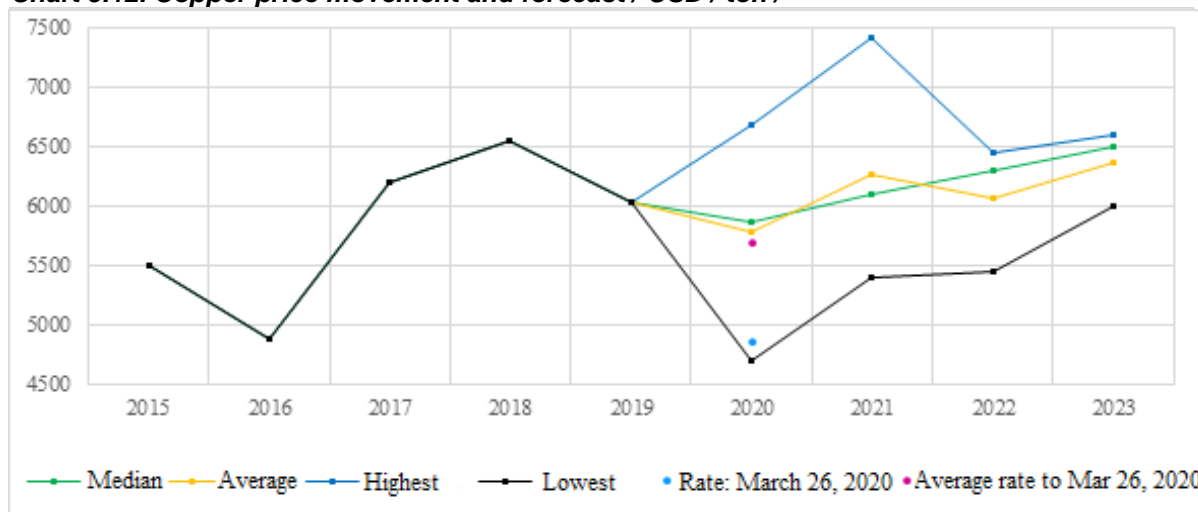
#### **5.8.3.3. Mining industry development trend**

**World economic outlook.** As a result of the pandemic, the global economy is projected to contract sharply by –3 percent in 2020, much worse than during the 2008–09 financial crisis. 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, still 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. Most 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 / ton /**

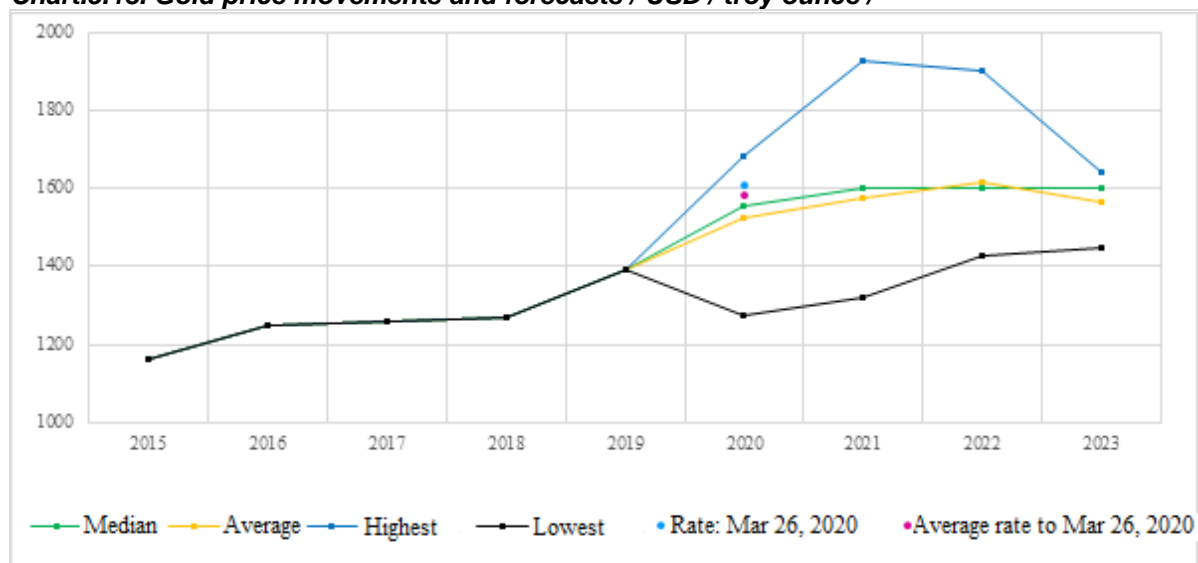


Source: Bloomberg terminal

**Gold.** Gold prices averaged \$ 1,393.4 in 2019, up 9.8 percent from the previous year. Although real gold consumption did not increase in 2019, investment in gold has increased due to market uncertainty. 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 /**

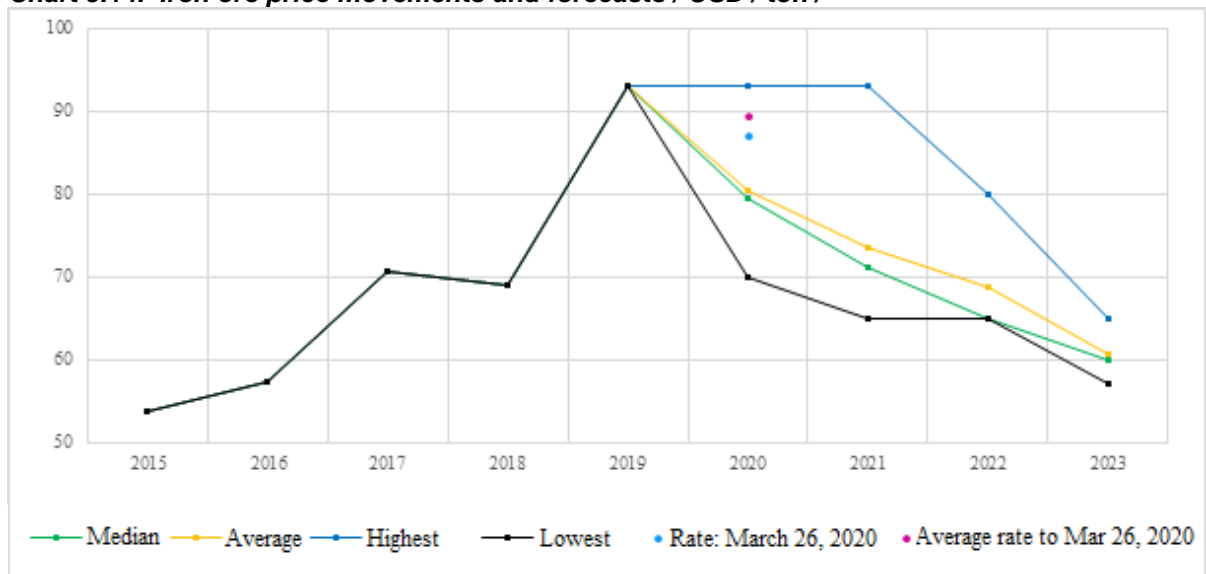


Source: Bloomberg terminal

The rise in gold prices in the medium term is due to financial and political instability in world markets, 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 to higher than previously thought.

**Iron ore.** Iron ore prices averaged \$ 93.1 in 2019, up about 35 percent from the previous year. Analysts expect steel consumption growth to slow in 2020. Therefore, international organizations expect iron ore prices to fall in 2020-2023.

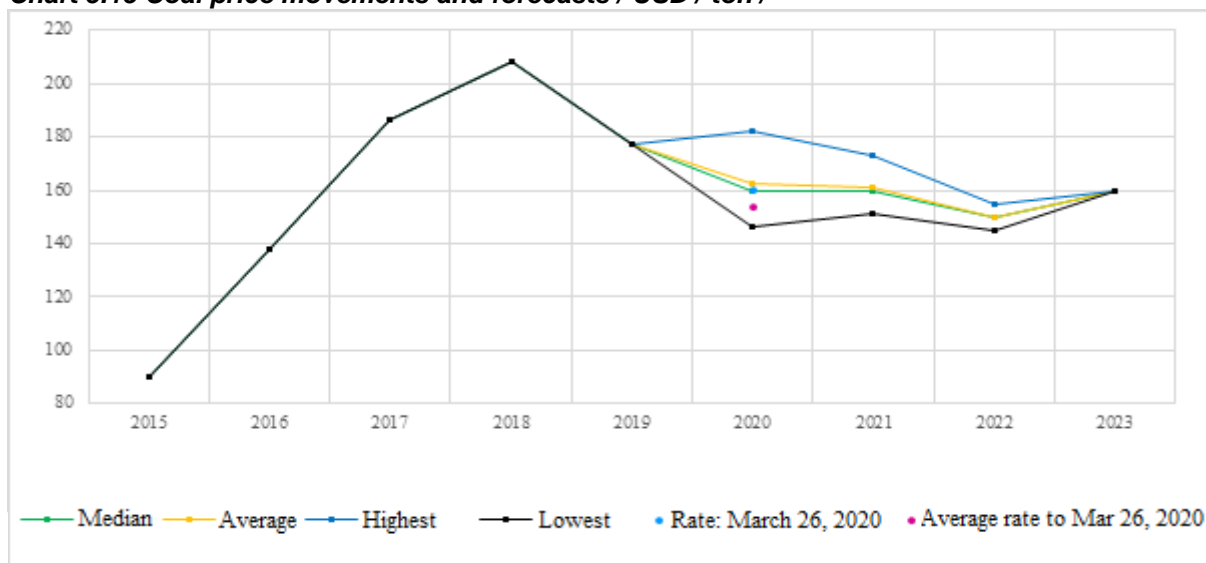
**Chart 5.14. Iron ore price movements and forecasts / USD / ton /**



Resource: Bloomberg terminal

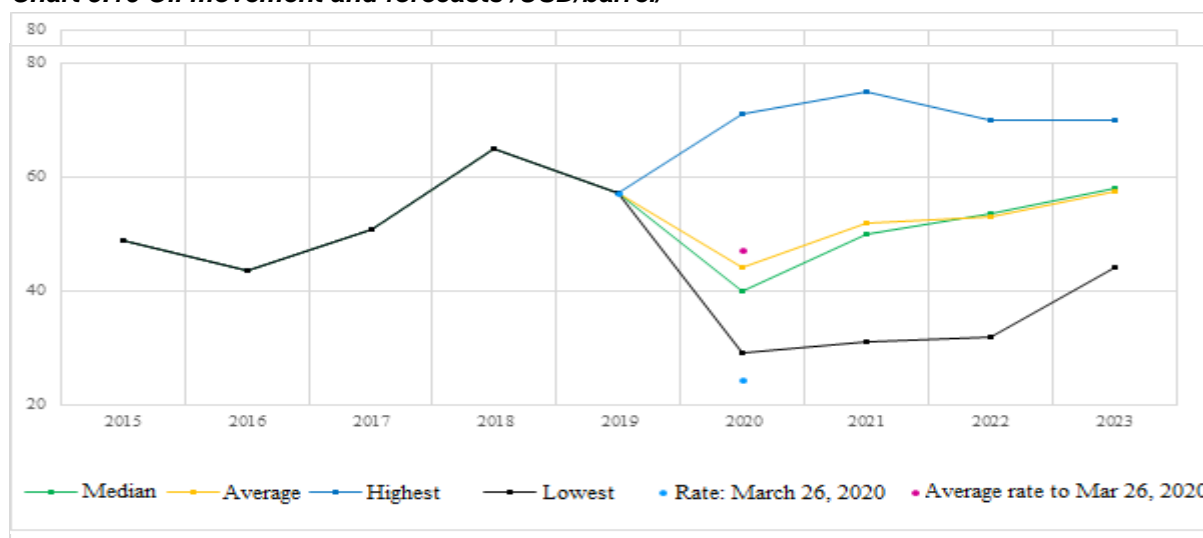
**Coal.** The price of high-quality Australian coking coal fell 15 percent in 2019 to \$ 177. Researchers expect Australian coal prices to fall in the medium term.

**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 /USD/barrel/**

Source: Bloomberg terminal

### 5.8.3.5. Systematic disclosure (mainstreaming)

Disclosure of information on revenues, expenditures, and operations of extractive funds (Requirement 5.3.a).

The public can access information on the state budget and audit activities, as well as on budget preparation, spending, and audit reports on project implementation, through the following channels (Requirement 5.3.a).

**Table 5.75 Open information of the state budget and audit activities**

Website	Description
<a href="http://www.mof.gov.mn">www.mof.gov.mn</a>	It is the main website of the Ministry of Finance and provides information on the structure, policies, directions and budget of the Ministry
<a href="http://www.iltod.gov.mn">www.iltod.gov.mn</a>	Current budget information, annual budget information, budget-related laws, decrees and regulations
<a href="http://www.shilendans.gov.mn">www.shilendans.gov.mn</a>	Information on budgets and expenditures of all budgetary organizations and state-owned enterprises
<a href="http://www.tusuv-oronnutag.mof.gov.mn">www.tusuv-oronnutag.mof.gov.mn</a>	Information on projects and programs funded by the Local Development Fund
<a href="https://publicinvestment.gov.mn">https://publicinvestment.gov.mn</a> "Budget investment" application	An online website for public investment financing activities and a mobile application "Budget Investment"
<a href="http://www.e-balance.mof.gov.mn">www.e-balance.mof.gov.mn</a>	Integrated business reporting system, accounting instructions, decree and advice
<a href="http://www.audit.mn">www.audit.mn</a>	Audit plan, report and recommendation
<a href="http://www.tender.gov.mn">www.tender.gov.mn</a>	Electronic public procurement system
<a href="http://www.1212.mn">www.1212.mn</a>	Integrated database of National Statistics Office
<a href="http://www.worldbank.org/mn/country/mongolia">www.worldbank.org/mn/country/mongolia</a>	Webpage of Mongolia, World Bank
<a href="http://www.imf.org/en/Countries/ResRep/MNG">www.imf.org/en/Countries/ResRep/MNG</a>	Webpage of Mongolia, IMF
<a href="http://www.adb.org/countries/mongolia/main">www.adb.org/countries/mongolia/main</a>	Webpage of Mongolia, ADB
<a href="http://www.internationalbudget.org">www.internationalbudget.org</a>	Webpage of International Budget Partnership NGO

## 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 Standard requires that by January 1, 2020, all implementing countries have to ensure that all corporate entity(ies) that bid apply for, operate or invest in extractive assets or hold a participating interest in an exploration or production oil, gas or mining licence or contract should include the identity(ies) of their beneficial owner(s).

The EITI Board has undertaken a number of actions on beneficial ownership:

**Table 6.1 Beneficial ownership**

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 in 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 taking into account 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 licence 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”** means 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**” refers 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 be in charge of 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 although not all the data will be disclosed to 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 is summarised as follows:

**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

Country	Managerial staff	Individual	Other	Public company	Total
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>

For reports of some beneficial ownership information in Mongolia since 2013, please go 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).

## 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:

- Amendments to the Petroleum Law by the Parliament in 2014 made it possible to regulate relations related to non-traditional oil. The clause related to the confidentiality in the Model Agreement for Product Sharing Agreements was terminated.
- The confidentiality clause in the Petroleum Product Sharing Model Agreement was repealed.

During the recent years, the Government has signed Concession agreements to support the construction of motorway, railway, structures of power, heating, water supply and other logistics structures devoted to the extractive industry. Article 6 and Clauses 6.4 and 6.5.9 of the Law on Glass Accounts enacted in 2014 state `Legal entities with state and local ownership shall disclose information on Concession Agreements and Partnership Concession Agreements`. Despite this clause, only limited information has been published but not entire agreements`.

On December 18, 2014 the EITI Secretariat, `Publish What You Pay` Coalition and National Mining Association of Mongolia jointly organised a Discussion of Multi-Stakeholders `Contract transparency in mining sector` under the Open Society Forum of Minerals in Ulaanbaatar city with support of the Standing Economic Committee of Mongolian Parliament and Ministry of Mining.

The discussion covered the current laws relating to contract transparency in mining sector, their implementation, the experiences and lessons of foreign countries, problems experienced by participants relating to contract transparency, the ways to resolve them. The participants agreed that:

- In order to create contract transparency in mining sector, access to information and arrangement, there needs to be a united data bank, containing genuine 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 holders of licences. These agreements should be placed on the web sites of the respective governmental organisations to make them entirely transparent for the public;

- Under Article 42 of the Minerals Law, there needs to be increased contract transparency between the local governing organisations and the licence holders. These agreements should be published on web sites and in information bulletins of local governing organisations; and the local governing organisations and licence holders should collaborate and initiate activities to distribute the information into local residents in a suitable manner.

The discussion was the initial steps to build consensus among key stakeholders further collaboration for legal environment supporting on contract transparency.

Therefore, iltodgeree.mn web is 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 archived in this fund.

A list of key legal provisions related to contract transparency, including the extractive sector are shown in the table below<sup>24</sup>.

**Table 6.3 Contract Transparency**

No	Name of the legislation	Related articles to resource 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 Commonly Dispersed 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>		
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>		

<sup>24</sup> <http://www.iltodgeree.mn/legal/3/detail>



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

In June 22, 2017, Open Society Forum, EITI, Ministry of Mining and Heavy Industry launched an online database for resource contracts in order to meet the EITI Standards requirement 2.4 on improvement of contract transparency. The database is designed to enable general 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.

In 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 2019, MRPAM provided the following information on “Sales of shares from production to the state”. Including:

**Table 6.5 Sales of shares from production to the state**

No	Company name	Type of minerals	Mineral production (extraction)	Belongs to the state		Sales of 2019 /MNT million/
				%age	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 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 put their information on the glass account are as follows. Other SOEs did not put their information in the glass account.

**Table 6.6 Sales data of SOEs**

№	SOEs	Sold products		Purchaser
		Sort	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
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	Mongolrostsverment 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
		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, extractive companies enter into agreement with government entities to provide in-kind services and goods (infrastructure investment) in order to obtain licence for mineral resources of a country. Examples of investment may include road, railway, power station, school and hospital.

Benefits which those companies are uses 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'.

We requested the companies and the government entities covered in the reconciliation to provide information in new template on infrastructure investment and barter arrangements carried out in 2019. Some companies responded they did not do 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.

The following table shows SOEs received transportation revenues.

**Table 6.7 Transportation reveune of the entities**

No	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 SOEC	2,534.50
2	Companies received transportation service in 2019	Coal	Mongolian Railway SOEC	3,802.60

Source: Mongolian Railway SOJSC

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**

No	Name of cargo /minerals/	Car /qty/		Load /kiloton/	
		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 is shown in the table below:

**Table 6.9 Transportation on road**

No	Company name	Freight type /mineral/	Route	Freight volume /in thousand ton/	Freight turnover / thousand ton.km/	Revenue /mill.MNT/
1	Petrochina Daqing Tamsag 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 Tamsag 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 /Person	Coal	Zamiin-Uud	118.9	0.8	3.0
8	Person	Fluorspar	Khavirga-Ar khashaat	7.4	-	-
9	Entity	Coal	Khangi	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 in the EITI reconciliation reported monetary and non-monetary donations and support to national and subnational governments but there were discrepancies between amounts reported by government entities and companies which required reconciliation. 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 their intended uses**

Purpose	Donation amount /mill.MNT/	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. 87.1% of all donations and supports were given 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 were as follows after reconciliation:

**Table 6.11 Total donation and support by SOE**

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%
Uvurkhangai	11.5	60	71.5	0.21%

Recipient of donations	Monetary donation /mill.MNT/	Non-monetary donation /mill.MNT/	Amount /mill.MNT/	Percentage
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><u>26,901.2</u></b>	<b><u>6,872.8</u></b>	<b><u>33,774</u></b>	<b><u>100%</u></b>

## 6.7. REHABILITATION INFORMATION

Mining sector's nature environment and social issues in Mongolia are regulated by three main government organisations: Ministry of Mining and Heavy Industry (MMHI) and its agency Mineral Resources and Petroleum Authority (MRPAM), Ministry of Nature Environment and Tourism (MNET) and State Professional Inspection Agency (SPIM).

Mining sector has its biggest impact on nature environment and results in irrecoverable loss of natural resources. It also adversely affects traditional nomadic herding.

Therefore, the State Central Administrative Body in charge of Nature Environment 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 nature 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 in relation to 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 aforementioned 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 Nature, 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 Nature, Environment and Tourism,
- "Procedure for developing, reviewing and reporting on environmental management plan" - Order No. A / 618 of the Minister of Nature, Environment and Tourism dated October 29, 2019

According to MNET, the following policies on environmental protection and rehabilitation will be set out in the State Policy for the minerals sector<sup>25</sup>:

- The objective of Article 5.1.10 in the State policy for 2020-2024 is to stop 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, “8,000 hectares of land damaged and abandoned due to mining shall be rehabilitated”, the Ministry of Nature, Environment and Tourism initiated the “Rehabilitation-2024” joint event with the Ministry of Mining and Heavy Industry, the General Police Department and the State Inspection Agency.

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 Nature, Environment and Tourism, the Ministry of Mines, the State Inspection Agency, the National Human Rights Commission, the Ecological Police, the aimag's Environmental Protection Department and soum governors. For this activity, the mining company has been tested and given relevant recommendation. 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. Recommendations were given on 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 access to health care. In the future, the group aims to develop a manual and methodology for the introduction of COPM<sup>26</sup>.

Within the framework of environmental rehabilitation, the Ministry of Nature, Environment and Tourism has carried out the following activities<sup>27</sup>:

- As of 2019, in 72 soums of 21 aimags, 152 companies completed and submitted Form 1.3 (Environmental protection) on thin specified time. In addition, 152 enterprises planned to rehabilitate 632.89 ha and rehabilitated 843.95 ha. Details are available on <https://eic.mn/box/box13.php>.
- A nationwide stocktaking of damaged land has been conducted and is available on the Environmental Database at [www.eic.mn](http://www.eic.mn).

### 6.7.2. Environmental Impact Assessment and Management Plan

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<sup>25</sup> Ministry of Environment and Tourism

<sup>26</sup> Ministry of Environment and Tourism

<sup>27</sup> Ministry of Environment and Tourism

The purpose of an environmental impact assessment is to determine the policies for use of natural resources, engage in industry and services without adversely affecting the environment and public health in order to ensure the living in a safe environment, protection from environmental pollution and disturbance of the natural balance.

Accordingly, the extractive sector is heavily dependent on the Law on Environmental Impact Assessment (2012). Such 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 have the Scope of Environmental Impact Assessment (EIA) approved by an authorized professional organization prior to the commencement of the Project
2. Based on the EIA, the Ministry of Nature, Environment and Tourism including Environmental Offices of aimag and capital city will issue a General EIA (GEIA) report 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 the Ministry of Nature, 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 Nature, Environment and Tourism will 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.

Once mining operation begins, 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 Nature, 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 Nature, 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 Nature, 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.

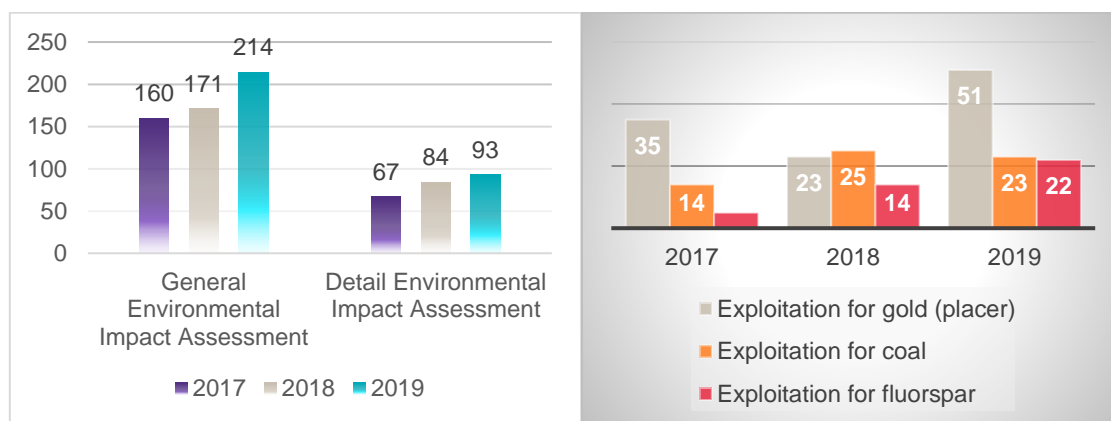
As reported by the Ministry of Nature, Environment and Tourism and according to Chapter 7 of the Law on Environmental Protection, the Environmental Impact Assessment report of a mining project shall be collected in the information section of the detailed environmental impact assessment report of the environmental database. The database contains 86 entities conducting environmental assessments in the extractive sector, and 1,286 general and 211 supplementary reports on the detailed impact



assessment of mining projects have been approved so far. There are also 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:

**Figure 6.2 General and detail environmental impact assessment reports**



Details of the assessment reports are available on <https://eic.mn/eia/generalreport.php>

### 6.7.3. Special account for environmental protection

Licence 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. The Minerals Law article 38 specified obligations of exploration licence holders for environmental protection while the article 39 specified obligations of mining licence holders.

Exploration licence holders and mining licence 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.

The deposit mentioned above shall be returned to the licence 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 licence holder 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 licence holder shall provide any additional funds required for rehabilitation without any dispute.

As per the MNET 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 follows:

**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
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Source: Ministry of Nature Environment and Tourism

According to MNET, each company has several licences, and the deposit shall be paid to each licence. Based on the deposits paid by company as a whole, the top 10 companies with highest deposits are listed. Petrochina Daqing Tamsag Mongolia LLC is the highest deposit of MNT 1,369.60 million to the special account for environment protection, due to company’s additional deposit of MNT 760.0 million in 2019. More details are shown below:

**Figure 6.3 Special account for environment protection, by Top 10 companies**



Source: Ministry of Nature Environment and Tourism

Please see Appendix 23 for information of all the companies which transferred 50% of their rehabilitation expenses in 2019.

#### 6.7.4. Mining operation and rehabilitation in 2019

The following table presents actual mining development and rehabilitation activities 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 MNET, 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, MNET states that the results of the survey conducted between 2017 and 2019 with the participation of licensed mineral companies, subsoil rehabilitation companies and local people are as follows. 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 to rehabilitate.
- 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 companies to rehabilitate.
- 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 documents were reviewed by the local authorities.

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 Nature Environment and Tourism

**6.7.5. Mining operation and rehabilitation plan and actual by the mining licence 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 is shown as follows:

**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				Total cost (MNT mln)
			Area (hectare)		Volume (m3)		Area (hectare)		Volume (m3)		
			Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	
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

Coal related matters are coordinated by a separate division with the MRPAM and therefore, the report of mining development and rehabilitation plan and actual is different than those for other minerals. Total 60 coal mining companies reported their mining development plan and actual. Refer to Appendix 20 (b) for more detail.

### 6.7.7. Petroleum licence holders' rehabilitation in 2019: plan and actual

Table 6.17 Petroleum license holders' rehabilitation in 2019: plan and actual

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 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 amount 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 - 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.

No	Works	Unit price (USD)	Planned volume	Actual	Actual works
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

**Table 6.17 Central Asian Petroleum Corporation Limited LLC and Petromatad LLC**

No	Works	Unit price (USD)	Planned volume	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

Rehabilitation license holder companies carry out rehabilitation works based on agreements with mining companies or the relevant district or aimag Governors.

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 and to renew them since April 2019, and no new rights have been issued or extended after this period.

See further information about rehabilitation license holders on Environmental Database from the website, <https://eic.mn/dlid/orgname.php>.

Locations of those rehabilitation license holders are: 45 companies in Ulaanbaatar city, and the remaining 16 companies reside in Bayankhongor, Govi-Altai, Darkhan-Uul, Dornod, Orkhon, Uvurkhangai, Umnugovi, Selenge and Tuv aimag. The MNET reported that most of the rehabilitation license holders contract with mining companies and the locations mentioned here do not represent the locations where they carry out rehabilitation.

Places of residence of the rehabilitation license holders in 2019 are shown in the below table:

**Table 6.18 Rehabilitation license holders, by places**

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 Nature Environment and Tourism

Refer to Appendix 26(a) for more information of 61 companies with licences for rehabilitation.

Between 2018 and 2019, total number of 64 subsoil rehabilitation companies have been revoked, and 62 of total companies revoked by Resolution number A-153. The following table presents the information, classified by Resolution number, aimag, city, soum and district.

**Table 6.19 Revoked subsoil rehabilitation companies**

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 Nature 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 how natural resources of petroleum, gas and minerals are managed and raise awareness of such information. As a result, enhancement of cooperation and trust between the government, the extractive companies and the public is expected. Therefore, the E-Reporting system has nationwide importance.



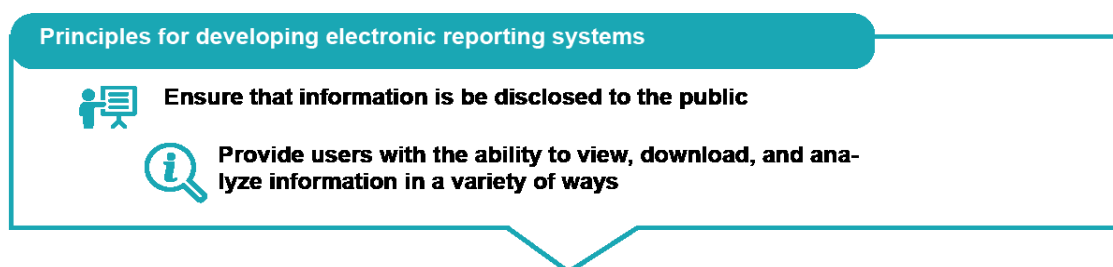
**Figure 6.4 Introduction of E-reporting system**

(<https://www.interactive.mn/projects/e-reporting-system-of-mining-and-oil-sector/>, 2020)

The e-Reporting system made it 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 can be published online so that the information can be made 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 analyze or use them in various ways.

**Figure. 6.5**

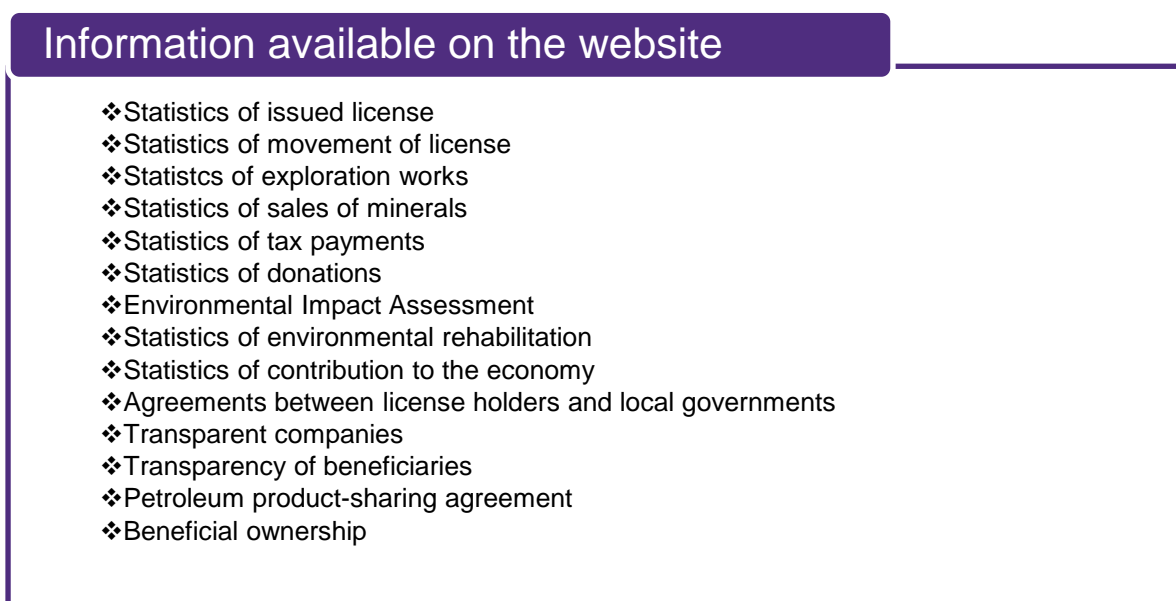


(Source: *E-Reporting Case study 'The development and implementation of an online system for the Extractive Industries Transparency Initiative'*, 2016, page 11)

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/>):

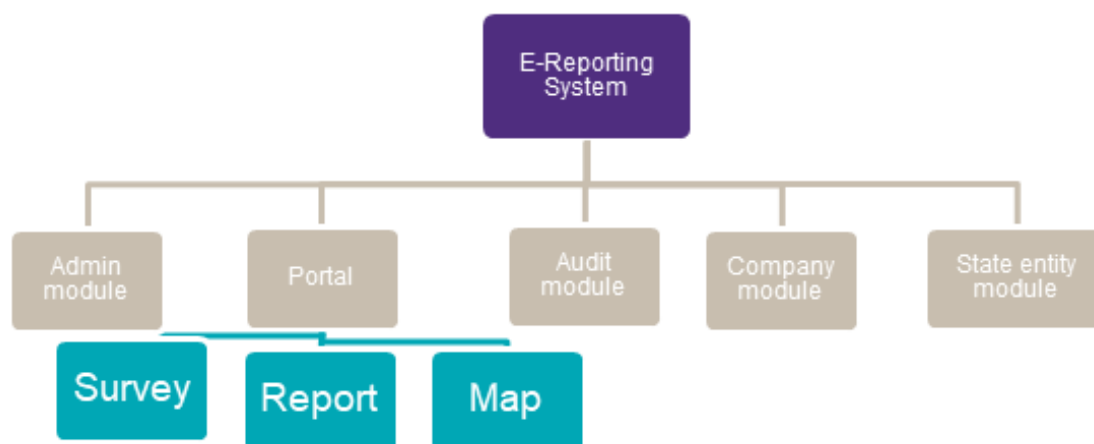


Figure 6.6



(www.eitimongolia.mn, 2020)

### 6.8.2 Composition of the system



(Source: The EITI e-reporting system handbook, page 3)

### 6.8.3 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 difficulties in the MEITI E-Reporting system but upon timely measures taken by the Secretariat IT manager, the system was working properly.

Although the public and clients are able to access the company's reports from the e-reporting system, reporting EITI by companies are inadequate.

MEITI E-Reporting system made certain statistical data open, however data quality is insufficient. Relevant observations are summarised in the table below:

**Table 6.20 e-Reporting system**

Types of summary statistics	Observation for data processing
Statistics of issued licenses;	Data is shown as of December 31, 2014. No update has been made since then.
Statistics of movements of licences;	There is a link to show the detailed list but not accessible due to updates in the MRPAM website information.
Statistics of exploration works;	Data is shown as of December 31, 2014. No update has been made since then.
Statistics of sales of minerals;	Data is shown as of December 31, 2014. No update has been made since then.
Statistics of tax payments;	Data is shown as of December 31, 2013. No update has been made since then.
Statistics of donations;	Data is shown as of December 31, 2014. No update has been made since then.
Statistics of environmental rehabilitation	Data is shown as of December 31, 2014. No update has been made since then.
Contribution to the economy	Data is shown as of December 31, 2014. No update has been made since then.
Beneficial ownership	Data is shown as of December 31, 2013. No update has been made since then.
Transparent companies	Data is shown as of December 31, 2013. No update has been made since then.
Transparency of beneficiaries	As pf 2017, data of 190 companies have been disclosed.
Petroleum Production Sharing Agreement	Data is shown as of 2016. No update has been made since then.
Environment	Data is shown as of December 31, 2018.

The 2019 EITI reports were submitted from companies in new and old templates on the e-reporting system. According to the MSG, reports in old template will be received until April 30, 2020, and reports in the new template until October 30, 2020.

A total of 1,472 companies submitted reports in old template, 881 companies did not submit reports, and 633 companies submitted reports in new template. Furthermore, 2 government ministries, 4 agencies, and 19 aimag including 8 district administrations reported their receipts and revenues 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,
- Information submitted by some companies were blank

This raises the risk of providing incomplete or incorrect information to the public and financial statements user.

## 6.9. INFORMATION ON WATER CONSUMPTION

Members of the Mongolian EITI MSG requested that the amount of water used by the extractive companies covered in the 2019 EITI Reconciliation Report be made public. Therefore, in order to obtain information on the water used by the companies, the MSG stated that they received reports in a new template on the e-reporting system until October 30.

However, during this period, the most companies did not submit any water consumption data in new template. As a result, only 19 out of 171 selected companies responded to an independent administrator's request for water consumption data for the period from December 7 to December 17, 2020, in e-template. In 2019, these 19 companies paid MNT 1,576.2 million to the government for water consumption fees.

**Table 6.21 Water consumption agreement**

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)
<b>Quantity</b>	8,136,195.79	1,868,142.09	6,142,481.20	8,010,623.29	116,320.00

Top 10 companies that paid the most water consumption fee in 2019.

**Table 6.22 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	
<b>Oyu Tolgoi</b>	14,825	Did not provide detailed information of water consumption			
<b>Erdenet Mining Corporation</b>	12,701.7	Did not provide detailed information of water consumption			
<b>PetroChina Daqing Tamsag</b>	2,873.4	Did not provide detailed information of water consumption			
<b>Energy Resources Baganuur</b>	1,590.8	Did not provide detailed information of water consumption			
<b>Mongolrostsvetmet</b>	893.8	-	5,930,179.6	5,930,179.6	-
<b>Burdel Mining LLC</b>	675.2	Did not provide detailed information of water consumption			
<b>Mongolyn Alt MAK</b>	510.6	Did not provide detailed information of water consumption			
<b>Mongolyn Alt MAK</b>	488.7	Did not provide detailed information of water consumption			
<b>Tsagaan uvuljuu Tsairtmineral</b>	440.9	Did not provide detailed information of water consumption			
<b>Tsairtmineral</b>	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 until October 30, 2020.

However, during that 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 ordinary 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 as below:

**Table 6.23 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	-
Ikh 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)

Payments information in this reports are detailed 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 2019, 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 this time, companies had already reported and the E-reporting system was closed therefore, we the Independent Administrator did not reflect our opinion 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, licence, 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, licences, 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 discussion of Feasibility Study
- No. of Minerals Professional Council's conclusion related to discussion 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.

- 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

### 7.1. IMPLEMENTATION OF PREVIOUS YEAR RECOMMENDATIONS

A summary of the implementation status of recommendations made in 2019 is set out in the table below:

**Table 7.1 Implementation status**

Recommendations	Implementation status in 2019 EITI report	
	Status	Comment
<p><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.</p>	Requires further action	Interventions have been included in the work plan to ensure that the parties reach a common understanding on gender equality.
<p><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 subcouncil.</p>	Requires further action	Activities to increase access to information at the local level were carried out. "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" was included in the Draft Law on Mineral Sector Transparency
<p><b>3. Contract and data transparency</b> Most company's Production Sharing Agreements are transparent; however, some company's contracts are missing. Therefore, the PSA and some clauses have not yet been publicly disclosed. It is recommended that name, title and work addresses 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.</p>	In progress	New information 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.
<p><b>4. Beneficial ownership information</b> Beneficial owners 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.</p>	Implemented	MRPAM stated that it would pay attention to the information to be included in the application. Relevant provisions are included in the Draft Law on Mineral Sector Transparency.
<p><b>5. Information between Government agencies differs from each other</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.</p>	Requires further action	The draft resolution of the government will be submitted to the MMHI.

Recommendations	Implementation status in 2019 EITI report	
	Status	Comment
<p><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.</p>	<b>Requires further action</b>	Official letters to be sent from MMHI to aimag – pending.
<p><b>7. Reporting template needs improvement</b>                      Report the revenue streams by each project (license). Included 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</p>	<b>Implemented</b>	These information have been included in the new template and approved by NSO.
<p><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.</p>	<b>Implemented</b>	The information was entered into the E-reporting system by May 24, 2020, but the system was not responding. However, we managed to activate the system on August 17 by working with Interactive LLC, which is in charge of system development. As a result, 511 companies filed their reports to the system in new template.
<p><b>9. Contract information needs to be posted in complete 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 makes the contract not 100% transparent. Therefore, all the terms of the contract should be posted on iltodgeree.mn without any omissions.</p>	<b>In progress</b>	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 GIVEN IN VALIDATION REPORTS

### Mongolia’s second Validation conducted in January 2018, and recommendations given by the validation and its corrective actions have taken

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 is that Mongolia has addressed all of the corrective actions and has made “satisfactory progress” on the corresponding requirements.

In the second Validation, 4 out of 8 corrective actions were given for improvement. Related implementations are as follows:

**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 of Mongolia 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 also 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 earnings and reinvestment. The government	The Secretariat is satisfied that the corrective action on transparency in extractives state-owned	It will be more effective if MSG works with technical assistance providers, such as Erdenes Mongol and the International Finance Corporation, the	roles and functions of state and locally owned or partly state and locally owned entities and organizations isreflected 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>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>enterprises has been addressed, and considers that Mongolia has made satisfactory progress against requirements 2.6 and 6.2.</p>	<p>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. 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</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 achieved satisfactory progress 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 as well. beside .</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>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 achieved satisfactory progress on requirement 5.2</p>	None	<p>It was reflected in the Reconciliation report 2018 Please refer to page 99.</p>
7	<p>In accordance with requirement 6.1.a, the MSWG should agree a clear distinction between mandatory and voluntary social expenditures</p>	<p>The Secretariat is satisfied that the corrective action on transparency in social</p>	None	<p>Under the new template approved in 2020, the voluntary reporting section has been changed to mandatory reporting.</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>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.</p>	<p>expenditures has been addressed, and considers that Mongolia has made “beyond” satisfactory progress with requirement 6.1.</p>		
8	<p>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.</p>	<p>The Secretariat is satisfied that the corrective action on the annual progress report has been completed, and considers that Mongolia has made satisfactory progress in meeting requirement 7.4.</p>	<p>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..</p>	<p>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.</p>

### **7.3. RECOMMENDATIONS FOR EITI REPORTING AND IMPLEMENTATION**

Arising from our work in preparing the 2019 EITI report, we have a number of recommendations to improve the implementation of EITI in Mongolia.

#### **7.3.1. Difficulties encountered when covering extractive companies in the reconciliation**

Besides payments from licensed companies in extractive sector, 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. But these companies do not hold license and as a result, have no information reported on the e-reporting system and no understanding about EITI, and asked us about legal requirements when requested to provide information. 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 demands for us since you are not a government entity; initiative is understood to be voluntary; we can give you information through confidential agreement only when you deliver a decision from authorities clearly indicating we are required to report to eitimongolia.mn.
- Erdmin LLC said to be able to provide information but due to their poor understanding on this matter, it is taking significant time.
- Under the MSG’s proposal, for example, 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 permanent establishment, it pays significantly lower tax to Mongolia.

#### **Recommendation**

MSG should study major extractive companies and contractors in order to preselect those companies that make significant contribution to the state budget, and give official notification to such companies before entering their general information on the e-reporting system as well as enable the condition for them to submit reports and finally include them in the reconciliation.

Responsible body

MSWG and Mongolia EITI Secretariat

#### **7.3.2. Status of reporting and return letter**

Among government agencies, the Ministry of Nature, 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, meanwhile the Ministry of Labor and Social Protection did not report information on the payment of foreign specialists and workers.

Return letters from government entities and private companies included in the reconciliation as of December 13, 2020 are as follows:

1. Of 171 companies, 133 returned letter, 12’s letters are pending, 21 said to return letter once lockdown is lifted on December 14, 3 did not answer, and remaining 2 companies had other reasons not to return letter. During the lockdown due to viral outbreak, we managed to contact and receive answers from 78% of all companies included in the reconciliation.
2. We sent official letters to 14 government entities and as of December 13, 2020, 5 of them (General Taxation Department, National Statistics Office, General Customs Administration, Ministry of Road, Transportation Development, Mongolian Railway

SOJSC) returned letter meanwhile the remaining 9 of them (Mineral Resources and Petroleum Authority, Ministry of Nature, Environment and Tourism, Ministry of Mining and Heavy Industry, Ministry of Labor and Social Protection, Ministry of Finance, Social Insurance General Office, Government Agency for Policy Coordination on State Property, Development Bank of Mongolia) did not return letter. These organizations replied that they were unable to prepare and return letter due to lockdown.

### 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 of Minerals Standard.

Responsible body

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 did not report royalties of 18.1 MNT billion received from 28 gold companies, and also did not provide additional information for the reconciliation. This was due to the revision 47.12 in 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 submitted by gold companies and transfers it as a bulk to the GTD.

### Recommendation

Changes to the law have affected the procedure of GTD to impose royalty and payment from companies, however, it did not affect controls over accurate EITI reporting, imposing royalty and its payment. For this reason, GTD should improve their information system and is expected to continue focusing on accurate reporting to the EITI.

Responsible body

Mongolian Taxation Office

### 7.3.4. Completeness of e-reporting

EITI reports of 2019 were closed as of April 30, 2020, and evaluation for completeness was made based on data as of the date.

Government reported receipts from 2,422 companies on the e-reporting system. When agreeing these companies to the list of license-holder companies in the system of Mineral Resources and Petroleum Authority (MRPA), Independent administrator found 329 companies appear to 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 different registration numbers	70	25,991
Other companies	259	21,475

Upon inquiry, reasons for discrepancies are as follows:

- New name can be entered when local government types information on the e-reporting system. However, the local government staff did not check company names, registration number already registered on system but instead, they themselves created new name and registration number when typing local government receipts to the e-tax reports. As a result, they reported 70 duplicate companies.
- Local governments independently issue license for common minerals therefore, names of these companies could have been entered by local governments themselves and there are 259 companies.
- There are 106 companies registered with incorrect numbers in 1-6 digits.
- There are 8 companies with incorrect numbers in 2-6 digits registered in the cadastral system of MRPA, including Golden Gravel, Dayan Erchis, Duuren Yondoi, Sova, Khishigtkhundii, Erdesplasm, Erdes Plasm, Erdes Plasm LLC.

### **Recommendation**

Differences in information between the MRPAM cadastre system and the EITI electronic system need to be resolved, and an electronic reporting system needs to be run on a single source. Information on common mineral licenses issued in rural areas should be entered into the cadastral system without delay and made available to the public.

Responsible body

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 new and old 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.

In old template, 1472 companies submitted their reports, 881 companies did not submit reports, and 633 companies submitted 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,
- Information submitted by some companies were blank

These issues the risk of providing incomplete or incorrect information to the public and financial statements user.

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**

Stakeholders must verify the information they receive electronically and make it available to the public, or information on selected companies should be evaluated and improved by an independent administrator and made public.

Responsible body

Mongolia EITI Secretariat

### 7.3.6. 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,
- Audit report.

Audited financial statements of SOEs do not have IAS/IFRS-compliant and complete appendices and disclosures. This makes it difficult for the public to obtain information about SOEs' finance and operation.

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 also of National audit office, EITI or MRPAM.

#### Recommendation

Comprehensive audited financial statements of all extractive entities should be published electronically, especially on webpages of those entities, National Audit Office, EITI and MRPAM.

Responsible body

State-owned entities, National Audit Office, Mineral Resources and Petroleum Authority of Mongolia

### 7.3.7. Matters related to disclosure of state participation

Evaluation was conducted by EITI Secretariat regarding assurance report 2018 and whether Mongolia is prepared systematic disclosure of information. In this evaluation report, common emphasize was made to the disclosure of state participation in accordance with Standard requirement being inadequate.

In particular, 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 practical operation.

When glass account information of SOEs are made transparent, some of the above requirements can be disclosed, 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 (*monthly*)),
- procurement (On glass account webpage: procurement plan (*for an year*), procurement report (*for an year*), audit reports of procurement, and other examination results).

However, SOE's only filled some of forms related to procurement of 2019 on glass account webpage, and SOEs other than Erdenes Mining Corporation, MongolRos investment, Erdenes tavantolgoi SOJSC placed their some information incompletely to glass accounts.

Within the scope of annual EITI report, MSG should focus on evaluating differences between rules related to financial relations of SOEs to government and actual practice. In order to make evaluation more reliable, MSG should as well 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.

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

#### **Recommendation**

According to the law on Glass Account, SOEs should disclose their information, for example dividend payments on webpages of PCSP and other relevant authorities.

Responsible body

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 identified to be responsible for it. Independent Administrator has clarified reasons for such inconsistencies, received explanations from related entities, made financial adjustments and reduced the discrepancies. However, these discrepancies are still recurring in the following year.

#### **Recommendation**

MSG should pay attention to the fact that as the involvement of independent administrator decreases, the quality and accuracy of the data will be more crucial when taking actions below:

- Provide training and consulting to entities not reporting the information with most discrepancies or not taking responsibility to report.
- Official letter of Mongolia EITI 2019 reconciliation report should be delivered and be advised on cooperation.
- Information on the webpage of EITI secretariat should be regularly updated. There are some outdated information related to 2013.

#### **7.3.9. Matters related to selection of independent administrator**

In recent years, selection process of EITI independent administrator for consulting service has been prolonged and made the reconciliation work difficult. Furthermore, the information required by the standard could not be disclosed due to the lack of sufficient time for the independent auditor to complete the consolidation work.

#### **Recommendation**

It is recommended that MSG should adhere to the state laws and regulation when announcing tenders and selecting contractors, as well as ensure that the contractors are selected in timely manner and follow the relevant rules and regulations.

Responsible body

MSWG and Ministry of Mining and Heavy Industry



## 8. APPENDICES

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