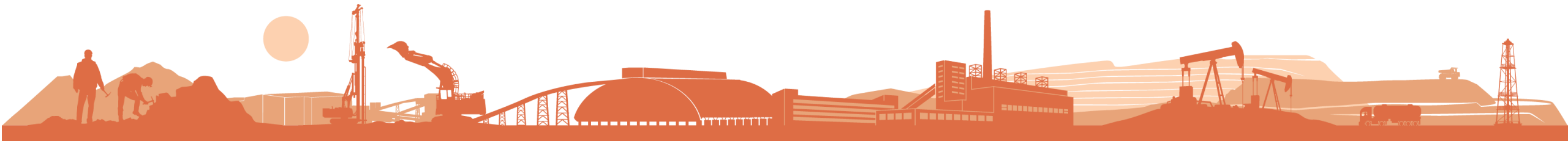


Dr. Baatartsogt

Federal Republic of Germany, University of Tübingen,
Geology-Mineralogy, Science Doctor (Ph.D)

Mongolia's Experience with the Direct Distribution of Natural Resource Revenues through Cash Transfers

31 January 2018, Paris, France



Distribution of revenue

State financial system

The annual budget proposal consists of the following:

- State budget, outlining the revenue and expenditure of GoM;
- Local budget, broken down into city, district, aimag, and soum budgets;
- The Future Heritage Fund budget, which replaced the Human Development Fund budget starting 1 January 2017,
- Social Insurance Fund budget, generated and spent in accordance with the Social Insurance Law of Mongolia. The main purpose of this fund is to finance social benefits that are available to citizens; and
- Health Insurance Fund budget, generated in accordance with the Social Insurance Law and the Health Insurance Law of Mongolia and spent in accordance with the Health Insurance Law.

The national budget revenue consists

Tax revenues include:

- - Taxes and fees set by the General Tax Law of Mongolia

Non-tax revenues include:

- - Dividends paid by state owned legal entities, legal entities owned by local government and entities with state and local government participation;
- - Royalties for the use of properties owned by state and local government;
- - Privatization, sales, and rental income from properties owned by state and local government;
- - Penalties;
- - Side operational revenue of budgetary entities;
- - Loans and aid to the government; and
- - Other income collected in the budget in accordance with laws and regulation.

Legislation related to national budget

The main legislation applicable to the national budget system consists of

- The Constitution of Mongolia,
- The Fiscal Stability Law,
- The Budget Law, and
- Other legislative acts enacted in accordance with the Budget Law.

EI revenue distribution in the national budget

Allocation of revenue generated from Extractive Industries as of end of 2016

	State budget	General local dev. fund	Fund for city and aimag	Fund for district and soum	Human Dev fund
Mineral resources royalties	30%	5%	NA	NA	65%
Mineral resources exploration and production license fees	50%	50%	NA	NA	NA
Oil exploration and production license fees	70%	NA	20%	10%	NA
Oil resources royalties	70%	30%	NA	NA	NA

Sub-national transfers and revenues for specific programmes

The General Local Development Fund

- 10% of total VAT of goods and services except that of imported goods and services;
- 5% of the received mineral resource royalties;
- Up to 15 % of the oil resource royalties;
- Grants and donations rendered by domestic non-governmental organizations and official foreign aid to support local development;
- Transfers from lower-level funds to upper-level funds;

In addition to these revenue sources, the following revenues are transferred to Local Development Funds of each 21 provinces from the State Budget.

- 30% of mega project revenue
- 50% of mineral resource exploration and production license revenue

Sub-national transfers and revenues for specific programmes

MNT m	Planned revenue	Collected revenue	Actual transfer to Local Development Fund
General Local Development Fund			
VAT except import revenue	41,800.0	45,887.8	46,624.0
Mineral resource royalties	12,769.6	14,435.7	14,435.7
Oil resource royalties	4,944.9	6,230.3	6,230.3
Grants, donations	-	-	-
Base budget profit allocation	16,141.6	16,141.6	16,141.6
Subtotal (General Local Development Fund)	75,656.1	82,695.4	83,431.6
State Budget			
Mega project revenue	29,005.8	28,597.1	24,714.7
Mineral resource exploration and production licence revenue	15,605.8	17,404.8	12,121.4
Subtotal (State Budget)	44,611.6	46,001.9	36,836.1
Total (General Local Development Fund and State Budget)	120,267.7	128,697.3	120,267.7

According to the Article 59 of the Budget Law, following indicators must be considered in defining transfers from the General Local Development Fund to local budgets in the fiscal year:

- Local development index;
- Population;
- Population density, remoteness and size of territory; and
- Local tax initiative.

Weighted allocation for each indicators

MNT m	Percentage	TF*25%
Local Development Index	25%	15,721.6
Population	25%	15,721.6
Population density, remoteness and size of territory	25%	15,721.6
Local Tax Initiative	25%	15,721.6
Total Fund in the General Local Development Fund /TF/excluding mineral resources royalties/	100%	62,886.5

Ministry of Finance provides the following parameters:

- Local Development Index for all 21 aimags
- National Average Development Index
- Remoteness index
- Tax Revenue Plan Performance Index

National Statistics Office provides the following parameters:

- Population of each 21 aimags
- Population Density Index of each 21 aimags
- Territory size of each 21 aimags

Mongolian Tax Authority provides the following parameters:

- Tax Coverage Index
- Tax Settlement Index

Respective Citizen's Representative Council at aimag level provides the following parameter:

- Tax Rate Index

The Local Development Fund E-System

(<http://tusuv-oronnutag.mof.gov.mn/>) was established in 2013 to provide transparency in the allocation of the General Local Development Fund to the local budgets. All 21 aimags upload their Local Development Fund reallocation amount and description of each project, for which the fund is used, including project name, type, funding, client, contractor, start date and end date.

The Future Heritage Fund Law

In 2016, plenary session of the Parliament approved the Future Heritage Fund Law. It replaced the existing Human Development Fund Law on 1 January 2017. The purpose of the law is to create a mechanism to collect part of the mineral revenues and other state income, and put these into a fund for future generations, together with regulating the use of the money in the fund.

The Fiscal Stability Fund

Fiscal Stability Fund						MNT b
Income	2011	2012	2013	2014	2015	2016
Mineral resource royalties	241.0	94.7	46.9	39.9	2.3	-
Total accumulation	241.0	335.7	383.5	307.3	314.5	332.4

The Fiscal Stability Fund

Average annual mineral income of MNT 7 billion and average annual interest income of MNT 4.7 billion are expected to be accumulated in the Fiscal Stability Fund for the next three years.

Fiscal Stability Fund			MNT b
Income	2017	2018	2019
Mineral resource royalties	7.8	6.1	7.1
Interest income	4.7	4.6	4.7
Total income	12.5	10.7	11.8

The Human Development Fund

The fund has the following revenue sources:

- Dividends from and sale of government shares in legal entities holding production licenses of strategically important mineral deposits;
- 65% of mineral resources royalties from legal entities extracting and producing mineral resources;
- Net profit from the Human Development Fund's investments in securities and bonds; and
- A certain part of loans and prepayments received in regards to the usage of strategically important mineral deposits.

The Human Development Fund

As reported in the 2016 Audit Report of the Human Development Fund by MNAO, revenue accumulated to the fund was MNT 189 billion, which was 11.8% higher compared to the planned amount of MNT 169 billion. 99.2% of MNT 189 billion was from the mineral resources royalties.

The Human Development Fund became ineffective starting from 1 January 2017 and its remaining balance was transferred to the Future Heritage Fund.

Government forecast for the country's budget

Revenue forecast for the General State Budget

MNT b	2018	2019	2020
General State Budget revenue	7,283.0	8,403.0	9,445.0
Extractive industry revenue to be accumulated in the General State Budget	1,315.6	1,510.4	1,619.3
Proportion of Extractive Industry revenue in the General State Budget	18%	18%	17%

Government forecast for the country's budget

Projected volume of export for the upcoming years

Thous. ton	2017	2018	2019	2020
Coal	25,800.0	27,500.0	29,500.0	30,700.0
Copper concentrate	1,371.3	1,236.0	1,340.0	1,510.0
Iron ore	5,581.0	5,890.0	6,200.0	8,200.0
Spar	268.6	288.6	300.6	300.6
Gold (except Oyu Tolgoi), tonne	17.0	16.9	17.0	18.5
Crude oil ¹	8,100.0	8,100.0	8,100.0	8,100.0

State participation in EI

- **Ministry of Mining and Heavy Industry (MMHI)**
- **Mineral Resources and Petroleum Authority of Mongolia (MRPAM)**
- **Nuclear Energy Commission**
- **Ministry of Environment and Tourism (MET)**
- **Ministry of Labor and Social Protection (MLSP)**
- **Mongolian Taxation Authority (MTA)**
- **Mongolian Customs Office (CO)**
- **General Authority for Social Insurance and Health (GASIH)**
- **National Security Council**
- **Mongolian National Audit Office (MNAO)**



Thank you for your attention