



MINISTRY OF  
FINANCE MONGOLIA

# The Case of Mongolia

## Mining revenue management

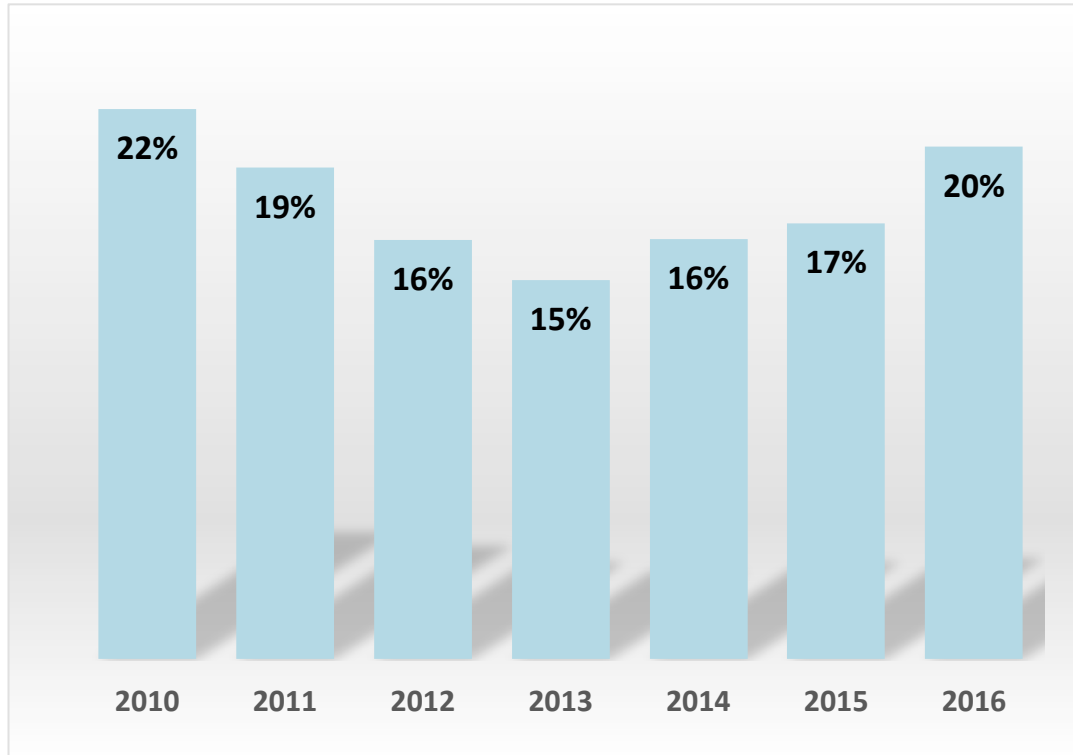
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**Economic Policy Department- Development policy and planning division**  
**Officer, Bilguun.E**

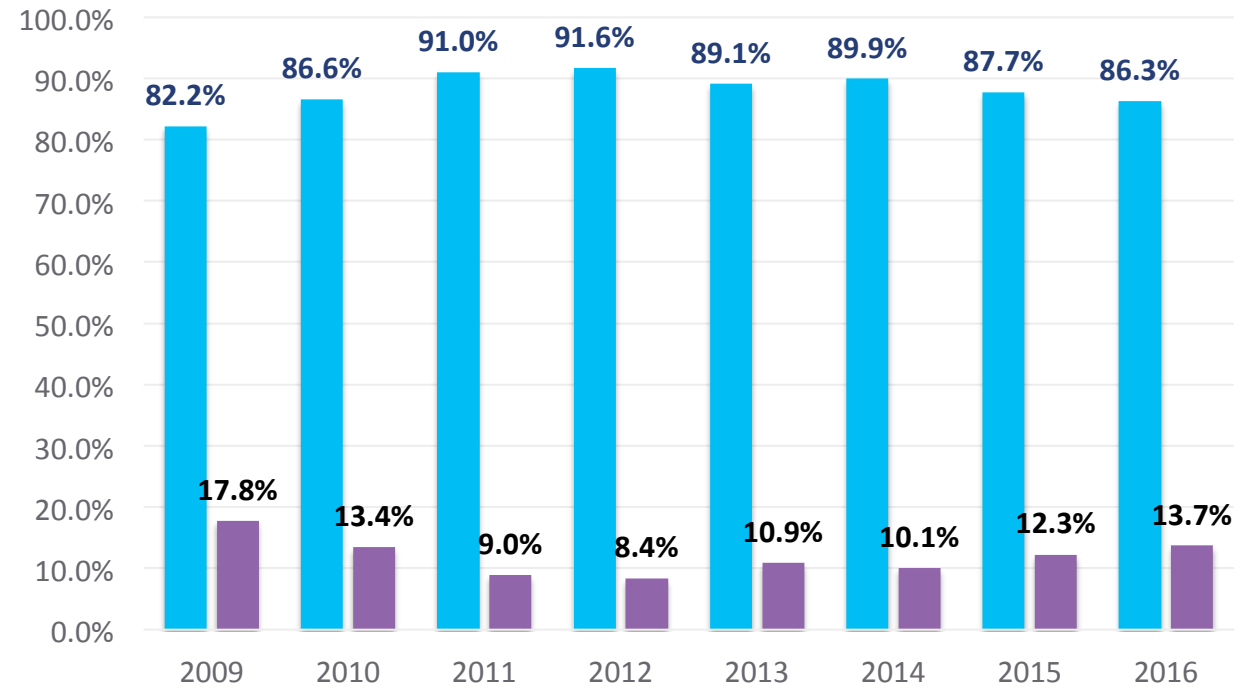
**Nov, 2017**

# Our Economy is dependent on the Mining sector

**% of Mining sector GDP**



**EXPORT Structure**



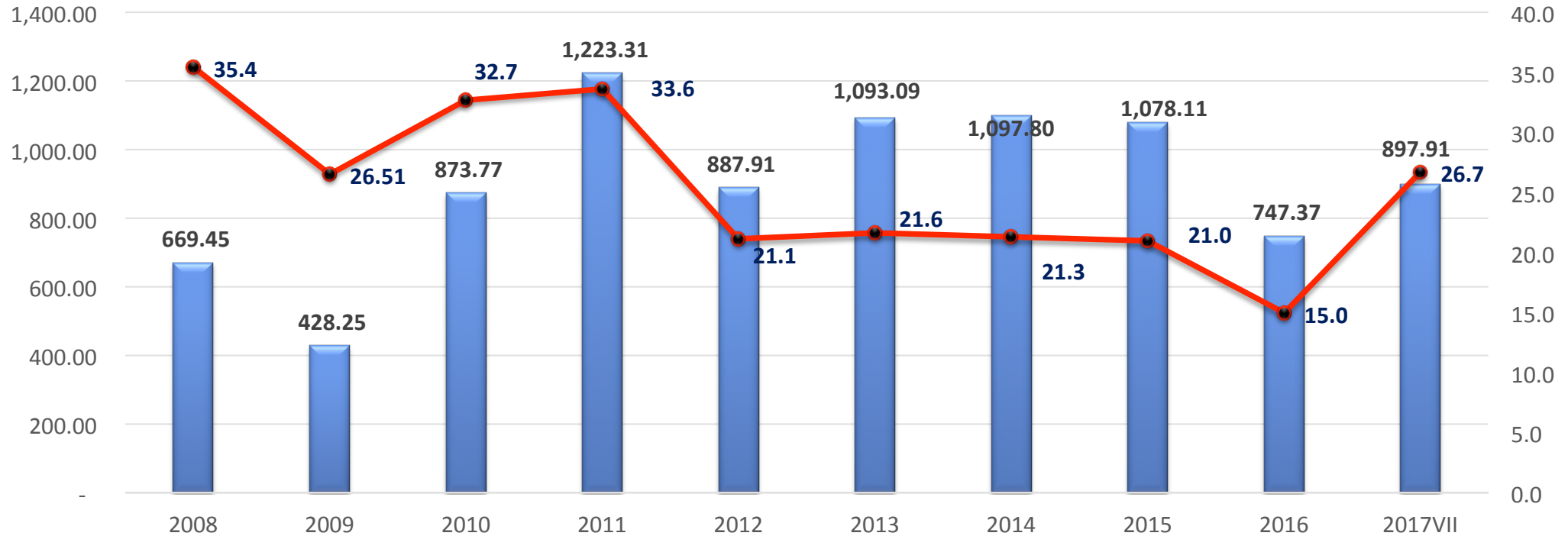
*Source: Ministry Of Finance Mongolia*

## Mining Revenue /types of minerals/

	Types of Minerals	Export product	Tax payment /Million dollar/			
			Royalty	Income tax	Other tax	Total
1	Copper /Thousand tonnes/	852.7	117.11	36.15	38.25	191.51
2	Coal /Thousand tonnes/	21,061.6	65.21	52.35	17.67	135.23
3	Gold /tonnes/банкинд тушаасан/	7.9	3.22	1.74	2.68	7.64
4	Iron ore /Thousand tonnes/	3,183.1	0.54	0.09	1.31	1.94
5	Zinc /Thousand tonnes/	70.2	5.21	9.33	0.85	15.39
6	Fluoride /Thousand tonnes/	164.7	0.52	0.07	0.89	1.49
7	Other minerals		4.55	0.87	7.88	13.29
	Total		196.36	100.61	69.52	366.49

*Source: Ministry Of Finance Mongolia*

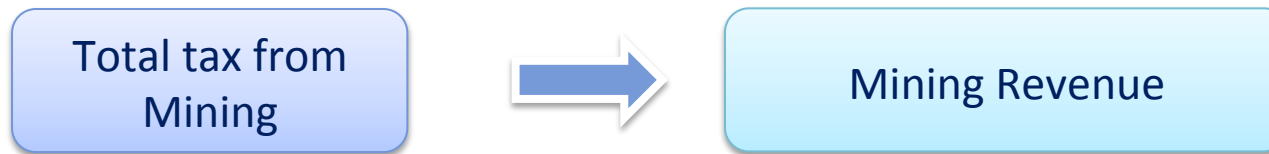
# Mining mineral sectors contribution to state Budget



*Source: Ministry of Finance Mongolia*

# Mining Revenue Management

- The Budget Law
- The Fiscal Stability Law
- The Future Heritage fund Law



<u>Local Development Consolidated Fund</u>	<u>The Fiscal Stability Fund</u>	<u>The Future Heritage Fund</u>
<p><b>Revenue source:</b></p> <ul style="list-style-type: none"> <li>✓ 5 percent of value-added tax on goods and services excluding imports</li> <li>✓ 5 percent of Royalty revenues</li> <li>✓ 30 percent of revenue from consumption of Crude oil resource</li> <li>✓ Aid and donations</li> </ul> <p><b>Allocation is based on:</b></p> <ul style="list-style-type: none"> <li>✓ Local development index</li> <li>✓ Local population</li> <li>✓ Local population density, distance, size of territories</li> <li>✓ Local tax initiative</li> </ul>	<p><b>Revenue source :</b></p> <ul style="list-style-type: none"> <li>✓ 35 percent of Excess surplus revenue over equilibrated budget</li> <li>✓ Government Reserve Fund and Risk fund surplus</li> <li>✓ Operational net income</li> <li>✓ Other income</li> </ul> <p><b>Spending condition:</b></p> <p>In case, if revenue of budget decrease because of unforeseen circumstances</p>	<p><b>Revenue source:</b></p> <ul style="list-style-type: none"> <li>✓ 65 percent of Excess surplus revenue over equilibrated budget</li> </ul> <p><b>Spending:</b></p> <p>Only operational expenditure of Corporation till 2030</p>

# Study on Extractive industry revenue allocation

- **Study objective:** how are fiscal revenues from the extractive industry being used for sustainable development through allocation to local governments
- **Supported by** the Poverty-Environment Initiative
- **Background:**
  - The Local Development Fund (LDF) was set up in 2013 to allocate a portion of revenues from mining and other sources to local (aimag/ province and soum/ county) governments.
  - Although the budget management is very centralized in Mongolia, LDF provides a possibility for local governments to spend on local development priorities.
  - The priority local projects funded by LDF are selected based on participatory methods.
  - Other revenues from the extractive industry go into a central government budget pool and get allocated together with other revenues. LDI

# Study on Extractive industry revenue allocation

- One set of findings and recommendations from the study was about the Local Development Index:
  - LDI was not updated since 2010. This means that LDF is allocated using outdated data.
  - The formula of allocation of LDF is complicated – consists of 3 indicators + LDI; LDI consisted of 65 indicators.
  - The lack of data for some of the LDI indicators at soum level led to allocation from aimags to soums using arbitrary indicators
  - Therefore, there is a need to update, rationalize and simplify the LDI.
  - This is why the PEI supported the study on LDI by the National Development Agency



Thank you