



Mongolia:
Enhancing Resource
Management through
Institutional Transformation

Revenue Flows in the Extractive Sector of Mongolia: Case of Dornod Province

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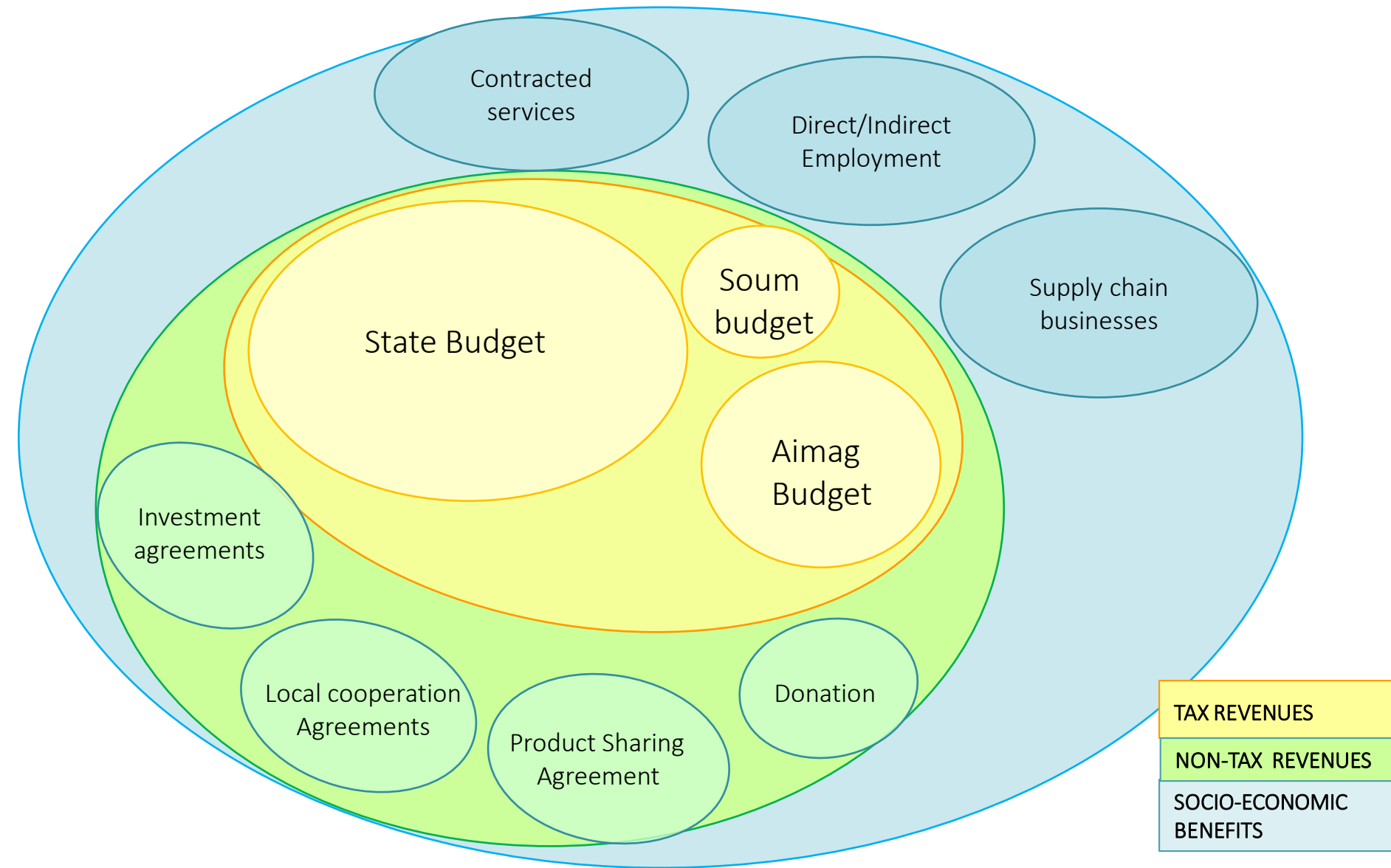
Contents

- Overview of revenues in the extractives sector
- Revenue flows in the minerals and petroleum sector
- Challenges/ limitations in revenues' data management
- Potential sources of revenue for Dornod Aimag
- Workforce estimations, challenges and opportunities
- Next steps for MERIT

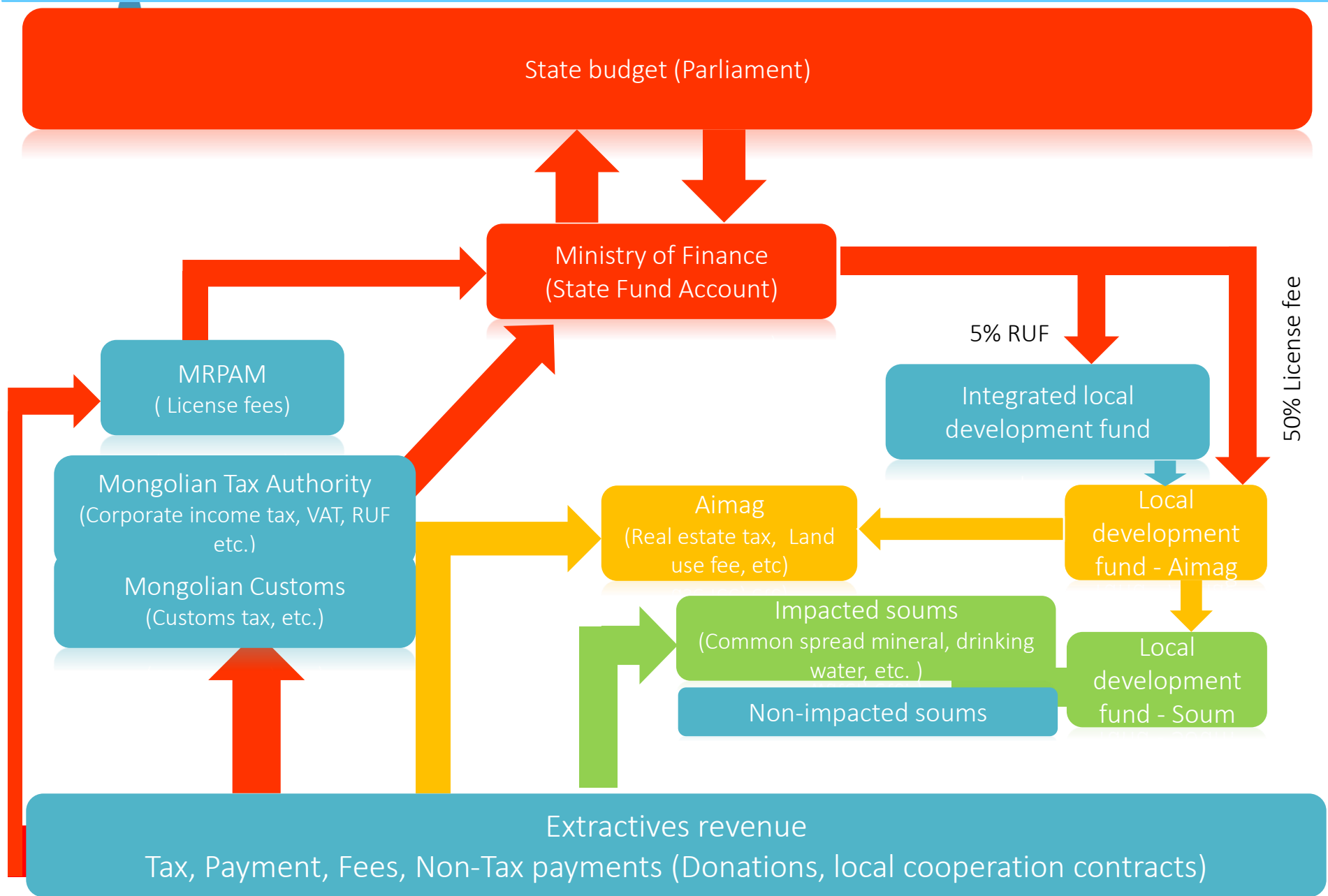
Objectives and Expected Results

- Discuss revenue flows and case of Dornod province
- Discussion of proposed next steps for MERIT project
- Partner/WG feedback and direction on next steps for MERIT

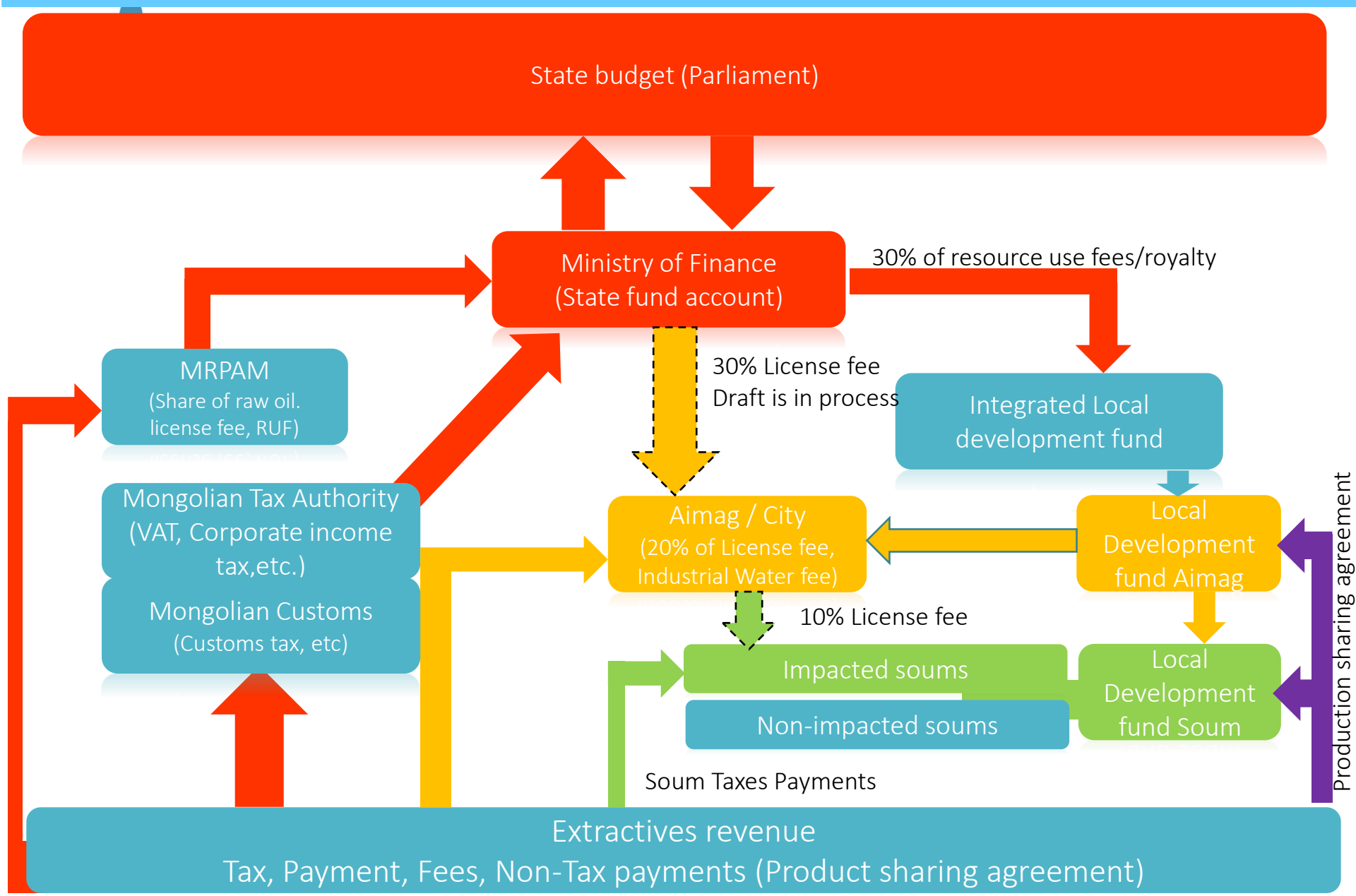
Revenues in the extractives sector



Revenue flows for minerals

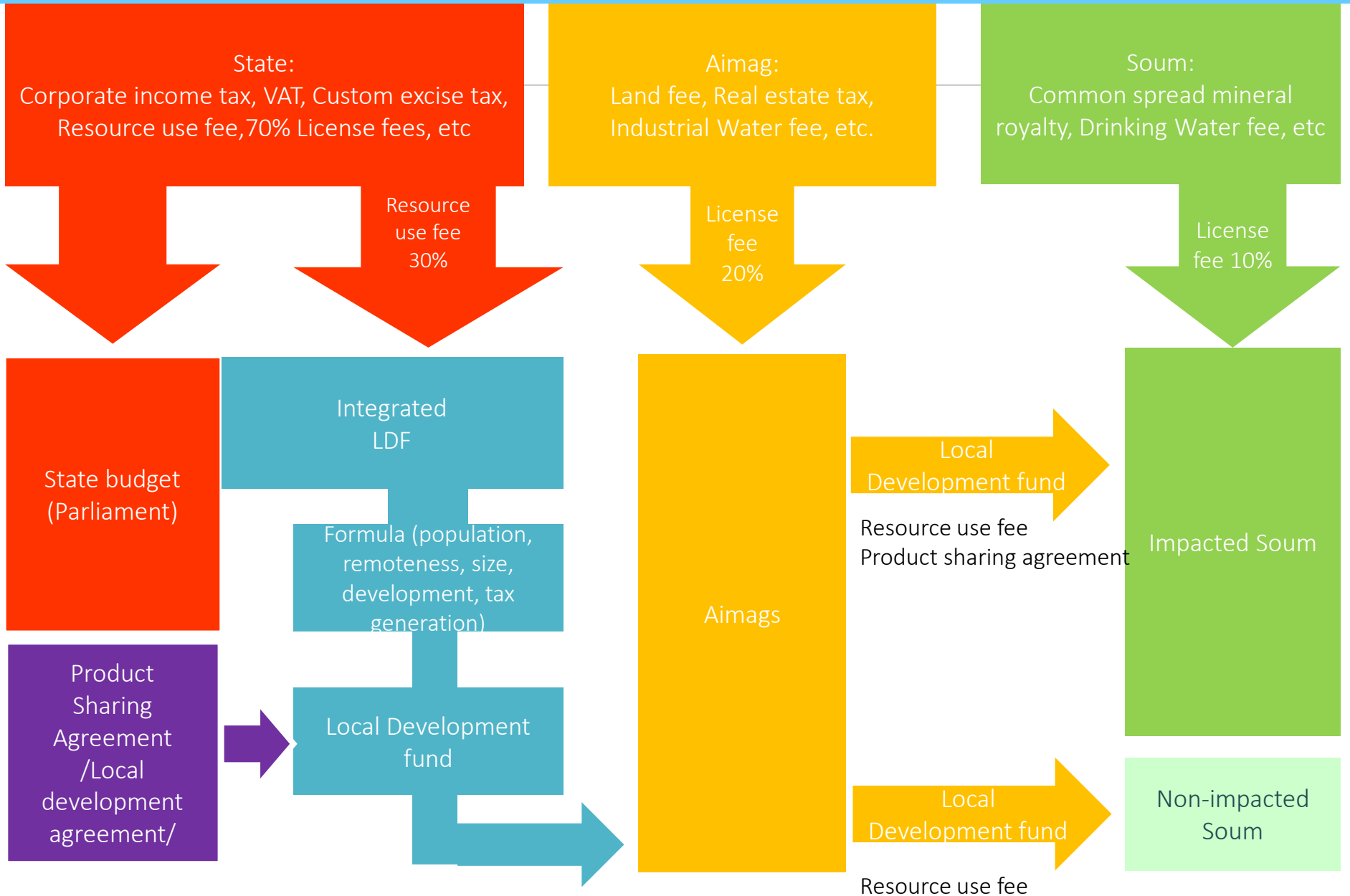


Revenue flows in petroleum: Product sharing agreements



RUF – Resource use fee /Royalty as specified in Product sharing agreements

Taxes, payments, and fees in the petroleum sector



REVENUES

Challenges / Limitations in Revenues' Data

- Data sources
 - *Transparency/ confidentiality of Product Sharing Agreements*
 - *Access to Aimag and Soum level financial data*
 - *Lack of specifics in financial reports*
- Missing data
 - *Consumption levels of water in the mines (water use fees)*
 - *Detailed cadastral information (land use fees)*
 - *Access to registry of real estates at Aimag level and their values (real estate fee)*
 - *Numbers of foreign citizens employed by each mine (fees)*
 - *Registration of vehicles used/owned by mines*
 - *Consumption levels of common minerals (fees)*

Actual payments in 2016: Petroleum Royalty

Name of tax, payment, and fee	Receiver	Actual payment, MNT (2016)
Royalty	State budget	126,131,358,756.00₮
	Dornod Aimag budget	<i>30% distributed to 21 provinces through Integrated LDF</i>

Source: EITI e-report (2016)

Actual payments in 2016: Petroleum License Fee

Name of tax, payment, and fee	Receiver	Actual (2016)
Petroleum License fee	State budget	422,597,926.80 ₮
	Dornod aimag budget <i>20% of license fee of PetroChina Daqing XIX, XXI sites</i>	0
	Matad soum budget <i>10% of license fee of PetroChina Daqing XIX site</i>	0
	Khalkhgol soum budget <i>10% of License fee of PetroChina Daqing XXI site</i>	0

Source: EITI e-report (2016)

Actual payments in 2016: Petroleum

Name of tax, payment, and fee	Receiver	Legally due	Actual payment, MNT (June 2017)
Payment for employing foreign workers	State budget		1,461,504,000.00₮
Payment for employing foreign workers	Dornod aimag budget	Need to know exact foreign worker and local worker numbers	0

Source: EITI (2016), Government report

Actual payments in 2016: Petroleum

Name of tax, payment, and fee	Receiver	Legally due	Actual payment, MNT (June 2017)
Tax on vehicles and self-moving mechanism	Dornod Aimag budget or other aimag and city budget	Need to know Petrochina's vehicles registration	47,282,000.00₮

Source: EITI e-report (2016)

Actual payments in 2016: Petroleum

Name of tax, payment, and fee	Receiver		Legally due	Actual payment, MNT (June 2017)
Fee for water use	Dornod budget	Aimag	Water consumption information is required.	2,935,902,515.00₮

Source: EITI e-report (2016)

Extractive Industry Fees to Local Governments, 2017

	'000T	as % of Total Discretionary Revenue Budget
Dornod Aimag Mining Process Water& Land Fees	3,340,000	6.9%
Bayandun Drinking Water Fees	n/a	n/a
Dashbalbar Drinking Water Fees	26,700	5.8%
Khalkhgol Drinking Water Fees	0	0.0%
Matad Drinking Water Fees	0	0.0%

Source: Dornod aimag and soum budget bills and Maarten Ingen-Housz (2017) personal communications

Potential

Drinking water fee is 20.97₮ - 419.4₮ (average 218 ₮) per cubic meter
Estimate 4000 workers, 0.1m³ (100 l) per person/day = 30 Million MNT per year

Potential Sources of Revenue for Dornod Aimag

- Share of royalty payments (currently flows to Integrated LDF)
- Petroleum license fees (currently no flow to Aimag/Soum)
- Payment for employing foreign citizens
- Vehicle registrations
- Fees (use of water, common minerals, waste service, air pollution)
- Bonus for local development in % (petroleum contracts)
- Local cooperation/ development agreements (e.g. Petrochina)

JOBS AND WORKFORCE

Dornod Extractive Industries Workforce Estimate

- **Contractor jobs**

- *Approximately 3,640 jobs (full-time basis)*
- *1070 (29%)– Mongolian workers in Dornod*
- *2340 (64%) – Mongolian employment*
- *230 (>1%)– Induced employment in Dornod, mostly Choibalsan*

- **Supplier jobs**

- *Not integrated: meat suppliers, scrap metal-based spheres*
- *Soum centers too small (garbage collection, meat and dairy supply)*
- *Choibalsan-based suppliers (approx. 25 full-time jobs)*
- *Dominated by foreign and Ulaanbaatar-based suppliers*

Example: Petrochina (Site XIX) Contractor Category

	Chinese	Ulaanbaatar	Dornod	Total
Transportation oil for export	4			4
Local transportation		4	2	6
Electrical contractor	1			1
Construction contractor	1			1
Water pump	1			1
Alternative oil extraction	3	2		5
Reclamation		1	1	2
Labour brokers		1	1	2
Water system		1		1
Drilling	11			11
Total	21	9	4	34

Source: Maarten Ingen-Housz (2017), Personal communication

Challenges in data on jobs in the extractive sector of Dornod province

- No integrated data source
 - *Seasonal variation of activity*
 - *Extensive use of contractor companies*
- Incomplete data at GASI and Aimag Department of Labour and Social Welfare
- Companies offer different workforce numbers
- Local: soum, aimag, Mongolian? Impact on numbers
 - *Tracking of Mongolian hiring, but not Soum-level hiring*
 - *Lack of local hiring (Chinese owners and market, Chinese machinery and equipment)*

Dornod Extractive Industries Workforce Opportunities

- Opportunities in Choibalsan

- *Automotive repair*
- *Small-scale clothing manufacturing*
- *(Residential) construction*
- *Work clothing*
- *Flour*
- *Vegetables*

- Challenges

- *Company HQ located in Ulaanbaatar (decisions and skilled labour)*
- *Access to capital*
- *Locational advantage for Matad and Khalkhgol Soums*

Proposed Next Steps for MERIT in Dornod

- Support in developing new policy in petroleum sector
- Support in negotiating local cooperation agreements
 - *Process*
 - *Testing/Piloting*
 - *Establish oversight mechanisms*
- Business development / Supply chain
 - *Community awareness on mining*
 - *Study/ exchange visit to Canada*