EXTRACTIVE INDUSTRIES REVENUE MANAGEMENT SYSTEM IN MONGOLIA

UNDP-UNEP PEI Mongolia/ UNDP study

1 June 2016, Bangladesh, Dhaka

POVERTY-ENVIRONMENT INITIATIVE IN MONGOLIA

PEI in Mongolia:

1) Mainstreaming: poverty-environment perspective in policy, planning, budgeting

2) Focusing: poverty-environment issues in the mining sector

Ministry of Finance as the main counterpart, Ministry of Environment GDT and the National Statistical Office represented on the project board
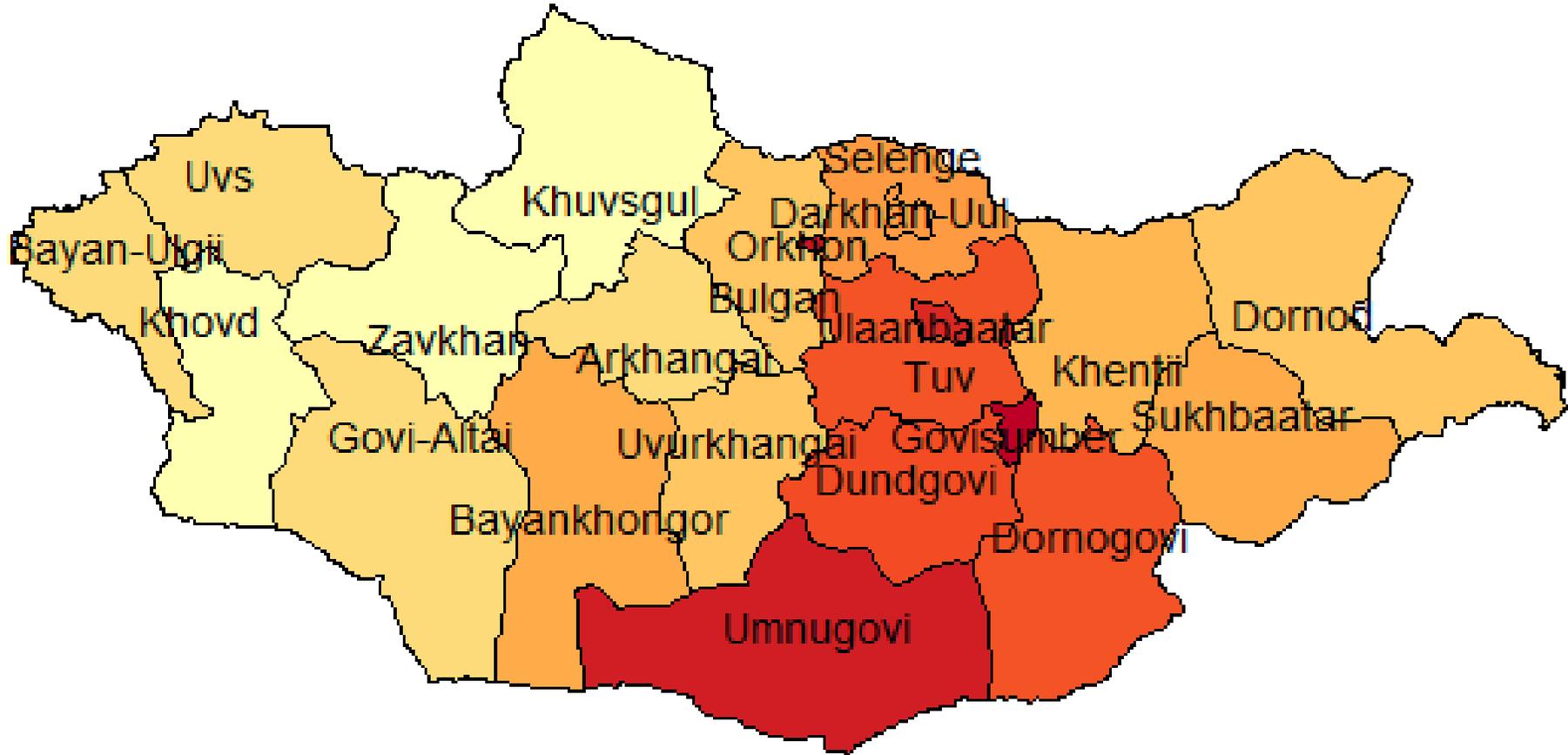
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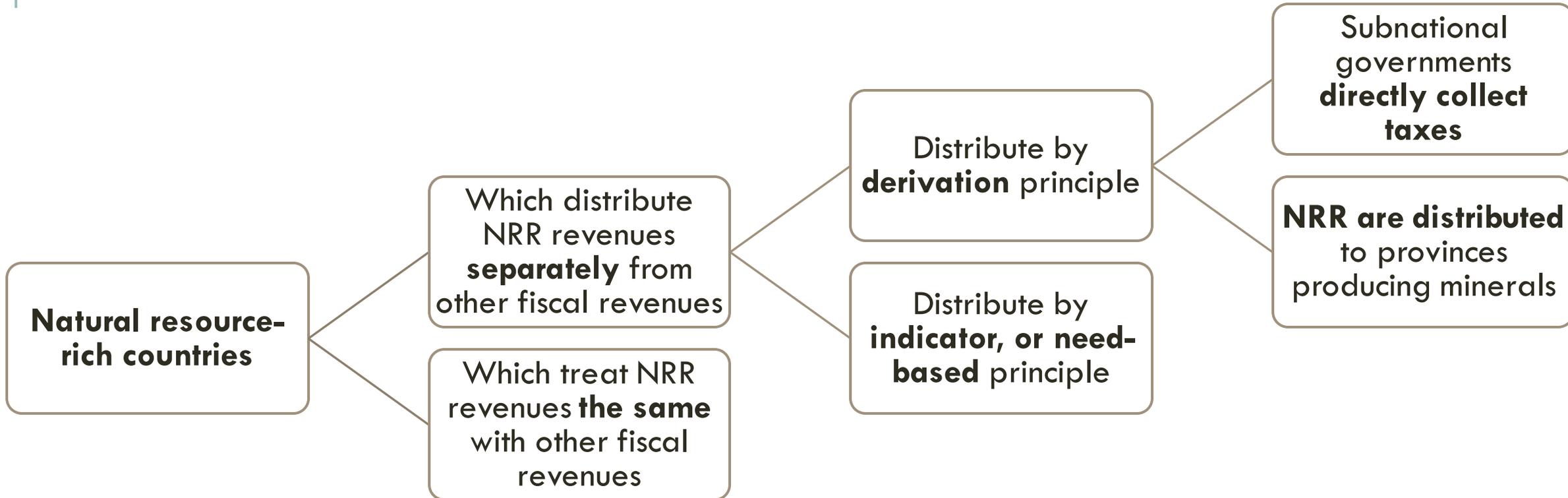Fiscal rev   and
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INTERNATIONAL CONTEXT

- Increasingly, NR-rich countries treat NRR revenues separately

Natural resource-rich countries

Which distribute NRR revenues **separately** from other fiscal revenues

Which treat NRR revenues **the same** with other fiscal revenues

Distribute by **derivation** principle

Distribute by **indicator, or need-based** principle

Subnational governments **directly collect taxes**

NRR are distributed to provinces producing minerals

- Objectives: address local claims, conflicts, promote local development, compensate for damage and depletion

WHICH NR REVENUES DO SUBNATIONAL GOVERNMENTS COLLECT DIRECTLY?

1. What is the general fiscal tax assignment system? (Federal v. unitary)

2. Is the tax suitable for assignment to subnational government?

Tax type	National government	Provincial government	Local government
Profit tax	Y	P	N
Royalty	Y	Y	Y/P
VAT	Y	P	N
Export, import duty	Y	N	N
Land use fees	Y	Y	Y
Licensing fees	Y	Y	Y
Natural resource use fees	Y	Y	Y
Payroll taxes	Y	P	N

Source: adapted from Otto (2001); Y – well suited; P – probably; N – not suited

MONGOLIA'S CONTEXT

Extractive industries (mining) play a major role in the economy: 90% of exports, 17% of GDP, 26% of fiscal revenues, ≈4% of formal employment

Gold, copper, coal are the major resources

Fiscal revenues collected from 1573 mining companies; 236 companies account for 98.8% of mining fiscal revenues

Royalties, share of petroleum production revenue, corporate income tax, social and health insurance fees, VAT, customs tax and fees, water usage fees and air pollution fees constituted 88.3% (MNT 1,421 billion =) of total government receipts from EI.

Figure 6.1 EI revenue contribution to the Unified budget of Mongolia (billion MNT)
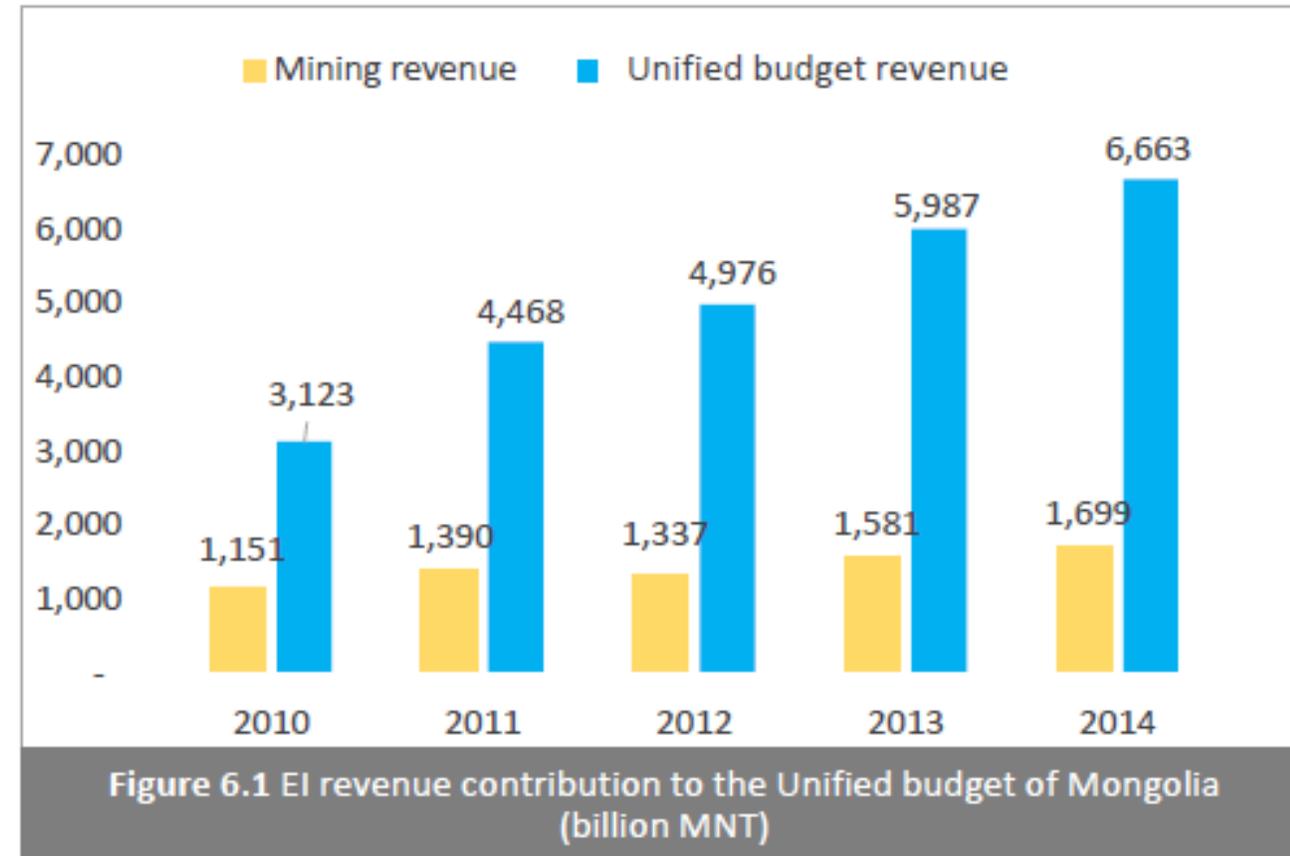
Source: EI revenue data from EITI reports, state budget data from MoF.

ENVIRONMENTAL AND SOCIAL IMPACTS OF MINING

Pastureland degradation, desertification > affects livelihoods of rural herders
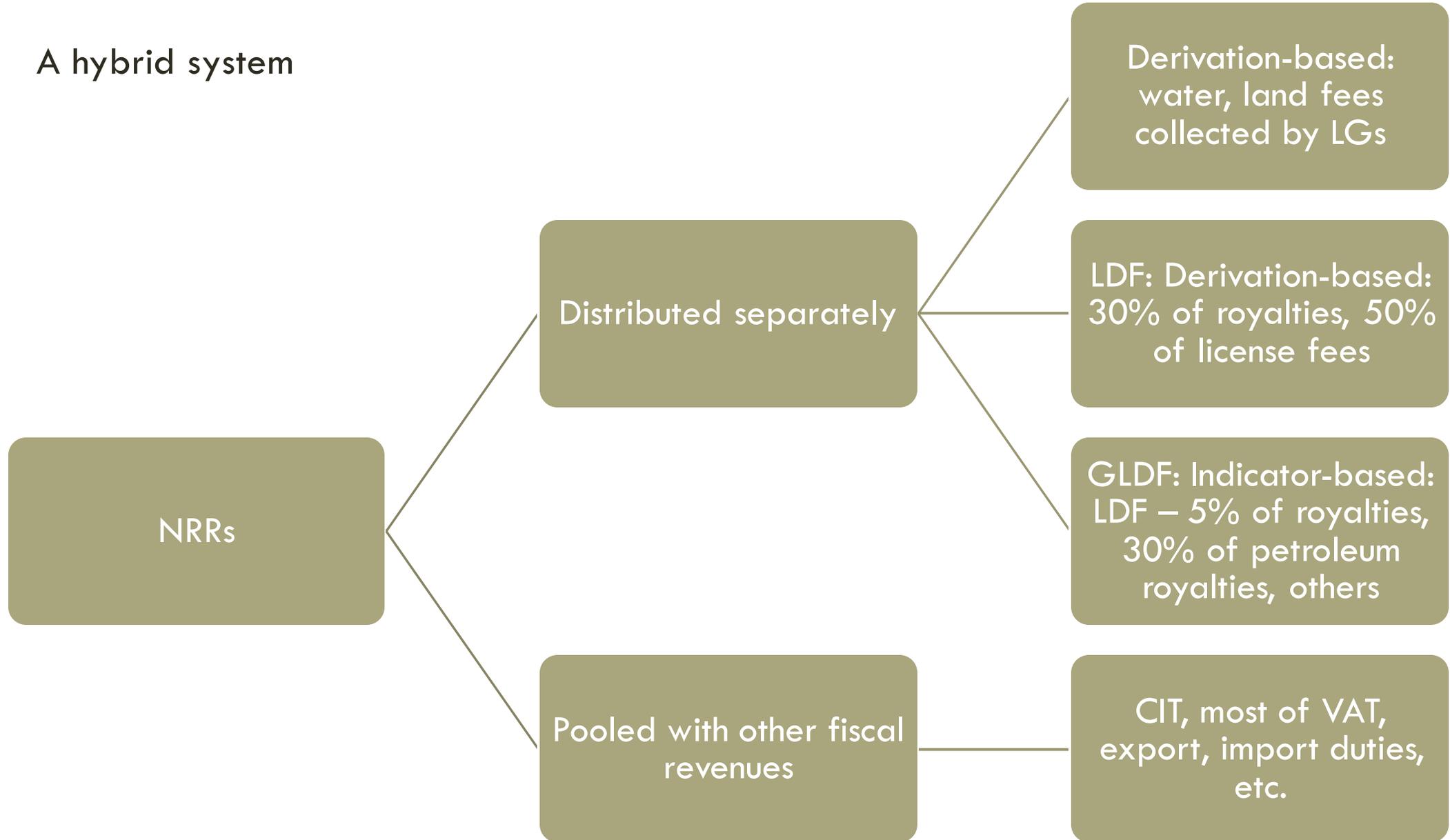
Water pollution and depletion, dust storms > indirect displacement of herders

Internal migration

MONGOLIA'S NR REVENUE DISTRIBUTION

A hybrid system

NRRs

Distributed separately

Derivation-based: water, land fees collected by LGs

LDF: Derivation-based: 30% of royalties, 50% of license fees

GLDF: Indicator-based: LDF – 5% of royalties, 30% of petroleum royalties, others

Pooled with other fiscal revenues

CIT, most of VAT, export, import duties, etc.

(G)LDF ALLOCATION SYSTEM REQUIRES IMPROVEMENT

Overly complicated formula
with over 65 indicators

Address fragmentation

Figure 6.8 LDF amounts allocated to aimags and capital city
between 2013-2015 (MNT billion)

OTHER NR REVENUES

Natural resource use fees: water, land

- Small proportion of local government revenues
- Recommendation: earmark toward environmental rehabilitation and restoration; revisit skewed distribution toward 2 aimags

Environmental rehabilitation deposits

- Many companies leave behind without doing environmental rehabilitation – token amounts, inadequate process for relinquishing deposits
- Recommendation: enable local governments to spend unused deposits toward rehabilitation of abandoned and artisanal mines; revisit rehabilitation deposit amount (currently 50%; and low)

Mining companies' social contributions

- Significant unreported revenues (one soum – LG - received almost 1 bn MNT over 3 years, as compared with 650 mln MNT through LDF)
- Recommendation: regularize and record direct, non-tax contributions by mining companies to local governments, regulate the use of these funds for sustainable development

GOING FORWARD

In 2016-17, PEI project to implement subnational piloting of SDG localization, mainstreaming in planning and budgeting. Dovetails with national process of "mongolization" of SDGs. Build on this study to:

Advocate for key study recommendations at the national level:

- Revising LDF allocation criteria, possibly tying to SDGs (dependent on the political process)

Implement key study recommendations at the subnational level:

- Making explicit the sources of funds; linking the use of NR revenues toward poverty-environmental SDGs and targets (addressing land degradation, water access);
- Improve effectiveness in the use of NR revenues for poverty-environmental expenditures (toward rural areas);
- Documenting, producing guidelines for other aimags (relevant for 18/21 aimags).