



State Great Hural Secretariat



Oil, gas and mining for development

Natural Resource Governance Institute

# Building Capacity for Strengthened Transparency and Accountability with Regard to Minerals and Oil in Mongolia

Project Document

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# **Building Capacity for Strengthened Transparency and Accountability with Regard to Minerals and Oil in Mongolia**

- Project Document -

## **One. Background**

The Secretariat of the Parliament of Mongolia, the State Great Hural (SGH), and the Natural Resource Governance Institute (NRGI, formerly known as Revenue Watch Institute), signed a Memorandum of Understanding (MoU) on May 28, 2014 in which the parties agreed to implement this project. This document provides an overview of the detailed plans for implementation of the project 'Building Capacity for Strengthened Transparency and Accountability with Regard to Minerals and Oil in Mongolia' (hereinafter referred to as the project).

The main target group for the project is parliamentarians and parliamentary staff of the SGH in Mongolia.

## **Two. Project Objectives**

Overall objectives of the project are as follows:

- 1) Providing Members of Parliament with **knowledge, access to expertise and skills** to influence the governance of extractives
- 2) Providing Parliament Secretariat staff members with **knowledge, access to expertise and research skills** on extractives through technical training. Specific knowledge to be gained includes:
  - The specificities of the mining and oil industries, the challenges they generate for policy-makers and the opportunities for development they provide for Mongolia.
  - Management tools and practices that can improve the use of revenues from extraction. Particular attention will be given to the state policy on minerals, the minerals law and the fiscal stability law in terms of content and implementation.
  - Challenges, opportunities and best practices for effective law making and parliamentary and public oversight with regard to revenue management, licensing, EITI, fiscal regimes and contracts.

## **Three. Project Activities**

Under the project, the following activities will be implemented, which are described in more detail in the sections below:

- 1) Study tour and introductory workshop for members of parliament (MP) – in Canada
- 2) Basic training for parliamentary staff – in Ulaanbaatar
- 3) Expert led workshop for parliamentarians – in Ulaanbaatar
- 4) Advanced training for parliamentary staff – in Ulaanbaatar

The general workplan is presented in Annex 6.

### **3.1. Study Tour**

The first planned activity includes is a study tour for MPs and parliamentary staff to a country with significant mining and natural resource governance experience. The program will include study visits with different stakeholders and workshop sessions that will introduce participants to transparent and accountable management of the mining sector, in particular the sound management of revenues. After careful deliberation with different experts and within NRGi, we propose to organize the study tour to British Columbia and Alberta, Canada for the period of September 8-12, 2014. Both provinces are rich in minerals or oil sands and host a wealth of mining actors including companies that operate in Mongolia. The budget for this activity permits the participation of 6 MPs and 2 parliamentary staff in the study tour.

Mongolian MPs will have exchanges with Canadian legislators in order to understand the large role they play in overseeing the mining sector, whether through review of concession agreements (contracts), legislation or oversight of government agencies.

#### Activities:

During the study tour the following activities will be completed:

- Exchange experiences with state and federal legislators
- Study natural resource revenue management systems, including sovereign wealth fund governance
- Learn more about extractive governance, the development of inclusive regulatory framework and anti-corruption issues
- Discuss the experiences with mining companies registered in British Columbia that operate in Mongolia with Canadian regulators and legislators

#### Workshop

The introductory workshop which will be organized during the study tour has the following objectives:

- Introduce the participants to the NRGi, its theory of change and approach
- Introduce the decision chain for natural resource management and the challenges faced by Mongolia in the extractive sector, specifically as they relate to the maximization of fiscal and non-fiscal mining benefits to local communities and national revenue management
- Introduce participants to the Canadian natural resource governance context and compare with other countries
- Discuss the role of parliamentarians in law making and oversight of extractives policies
- Identify areas of concern for parliamentarians to be covered for the follow up expert led workshop in Ulaanbaatar

The workshop content closely follows the methodology of the decision chain approach to improving governance of extractives as used by NRGi. (The approach in Annex 1). The workshop, agenda of which will be adapted to the needs of the participants, will be led by NRGi experts, who work at the forefront of extractives governance issues. (The workshop and study tour program in Annex 2).

### Study visits

During the study tour, the following meetings will be organized:

- Meetings with provincial legislators from British Columbia and Alberta and federal legislators based in those provinces

Meetings will focus on the history of legislative reforms with regard to the natural resource sector in Canada. Examples will be given of successful political dialogue and consensus-building on mining issues in particular revenue distribution and sharing. Additionally, legislators will explore issues for cooperation between the Mongolian parliament and its Canadian counterparts. Issues likely to be covered during the discussions include national and subnational government policies regarding licensing, taxation, infrastructure, and environmental protection standards of Canada. Additional topics include the conduct of Canadian mining companies operating globally, and applicable laws regulating their activities.

Meetings could include:

- Provincial / federal legislators (including members of the standing committee on the Alberta Heritage Savings Trust Fund)
- Department of Treasury Board and Finance of Alberta
- Alberta Energy
- Alberta Investment Management Corporation (Alberta's sovereign wealth fund managers)
- Alberta or BC's Auditor-General's office
- BC Ministry of Finance
- BC Ministry of Energy and Mines
- BC Securities Commission
- BC First Nations Energy and Mining Council
- Pembina Institute
- Mining Association of British Columbia or Alberta Chamber of Mines
- Mining governance experts from the University of Calgary, University of British Columbia and University of Alberta

The final list of meetings and host organizations will be confirmed in August 2014. SGH's suggestions for other meetings will be included in the final program.

### **3.2. Basic training for parliamentary staff**

The next activity planned under this project MoU is the basic level training for parliamentary staff and researchers, and selected civil society organizations, which specialize on monitoring mining policy. The purpose of the training is to introduce participants with key policy issues across the decision making chain in the mining sector, including from the setting of the domestic legislation to issuing and monitoring licenses and contracts, and managing revenues effectively. The basic training

will very much follow the decision chain approach employed by NRGi and described in the Annex. The training will last three days in September 2014, and be led by the NRGi experts. Each of the sessions will closely mimic the issues covered under the introductory workshop for the parliamentarians. (The proposed training agenda in Annex 3).

### **3.3. Expert led workshop for parliamentarians**

As a follow up to the introductory training and study tour for parliamentarians, we will organize an expert led workshop for the SGH members. This workshop will focus on a few issues identified during the introductory workshop, and will be led by NRGi's internal or external experts on a given subject. At this moment we expect that the workshop will cover policies with regard to mining fiscal regimes and contracts, and provide an overview of fiscal provisions in Mongolia and how they compare with international practice. This would include a focus on mining and considerations on state participation in the industry. As an alternative, the workshop may also cover mining revenue management issues, including benchmarking revenue management policies and monitoring progress and sovereign wealth fund governance. We expect the workshop to last one and half days, and will be organized in Ulaanbaatar in the first quarter of 2015, during the parliamentary recess. One or two peers (parliamentarians) from other countries can be invited to the event.

### **3.4. Advanced training for parliamentary staff**

Back to back with the parliamentary workshop, we will organize in Ulaanbaatar an advanced training for parliamentary staff, researchers and some civil society organizations, as a follow up to the basic training that we plan in September 2014. The training is likely to cover mining revenue management issues, including benchmarking revenue management policies and monitoring progress against benchmarks, and investing for sustainable development issues, including creating a favorable environment to ramp up public investments and diversify the economy. The three day training will be organized in Ulaanbaatar in February 2015.

The themes to be covered during the training will be finalized during the initial basic training to be held in September 2014. The preliminary agenda that will be covered during the training is presented in Annex 4.

## **Five. Project Implementation**

5.1. The two parties will agree the content, agenda, budget, and participants of study tour, seminars, meetings and training to be implemented under the project.

5.2. The program, agenda, the number and names of participants for all activities under the project shall be approved one month in advance of the planned date for that activity. This will be the prerequisite for ensuring the funding and completing the preparatory work for the activities.

5.3. SGH Secretariat is responsible for finalizing the list of MPs and SGH Secretariat employees who will participate in the activities under the project.

5.4. NRGi is responsible for implanting planned activities, providing experts to lead training and workshops, preparing the agenda for training, and providing translation services.

5.5. NRGi's country coordinator in Mongolia is responsible for organization of activities under the project and NRGi is responsible for providing funding for implementation of the activities.

5.6. SGH Secretariat will appoint an official who will be responsible for the project implementation and SGH Secretariat will provide support to NRGi in implementing the project.

5.7. The two parties will regularly monitor the implementation progress and results of the process and make amendments to the project document and the implementation process if necessary.

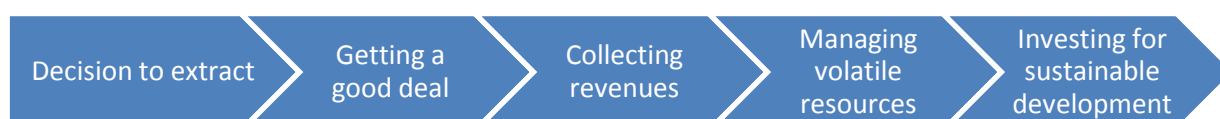
5.8. SGH Secretariat and NRGi will organize communication of information related to the project implementation to the public both jointly and individually.

## Six. Annexes

### Annex 1. Introductory Workshop and Training: General Methodology

The NRGi's approach to advising countries to overcome challenges of the extractive industries is to address different policy issues in a comprehensive and systematic manner, applying a so-called 'decision chain' concept. The concept has been developed into several comparable applications, one of them being the Decision Chain for Natural Resource Management as used by the NRGi. The decision chain for developing natural resources is broken down into the following parts:

Figure 1. NRGi's Decision Chain for Natural Resource Management



The Natural Resource Charter, one of the products of the NRGi, offers analyses of challenges and policy recommendations under each of these components. In addition, the Charter covers overarching issues related to each of the above components and the role of different actors in shaping the extractives policy. The NRGi is offering to introduce the Natural Resource Charter and cover different parts of this decision chain approach during the implementation of the project with the State Great Hural of Mongolia. Specifically, we plan to use this approach during the introductory workshop for the parliamentarians and the basic training for the parliamentary staff, and also parts of this approach during the other activities.

The decision chain can be broken down into the followings themes:

1. The NRGi decision chain
2. Overarching policy challenges for extractives management
3. Decision to extract: minerals policy and licensing
4. Getting a good deal: extractive contracts overview
5. Collecting revenues: tax policies and EITI
6. Managing volatile resources: revenue management issues
7. Investing for sustainable development

Each of the topics described will be delivered in one session, and each session will last around 1.5-2 hours of a workshop or training. Each of the themes that will be covered during the introductory workshop or the basic training is explained in more detail below. While we are confident that these issues largely reflect the SGH's needs and priorities, the ultimate choice of themes that need to be covered during the introductory workshop and the training and the level of depth each theme needs to be covered can be adjusted to better reflect the SGH's priorities. Some issues of a greater concern to the SGH could be tackled during other events such as a parliamentary workshop to be organized separately from the introductory workshop, advanced training for the parliamentary staff, or be reflected in the program of the study tour. Two training for parliamentary staff will provide an opportunity for the members of the parliament to include their issues of concern in the agenda of these events so that they are covered in much greater detail for the staff who assist the work of the parliamentarians.



## 1. The NRGI and the decision chain approach -

This session introduces the NRGI, its theory of change, methodology and the decision chain approach that the NRGI employs. In particular, the session will lay out policy areas where the NRGI has a comparative advantage, recent trends in the extractives governance and the particular role parliamentarians can play with regard to law making and oversight of the extractives. Specifically, the role of the parliament in every stage of the policy process, including consultations with public during the agenda setting, engaging in parliamentary legislative processes during sessions, post-legislative scrutiny of the legislative process, and engaging with the budget processes and linking extractives revenue management with budget policies will be scrutinized during this session. The decision (or value) chain approach, from the very beginning of the process when countries decide to extract, and ending with the policies designed to transform minerals wealth into sustainable development outcomes, will be covered in detail as part of this session.

## 2. Overarching policy challenges for extractives management

Under this session, the following key aspects of extractive industries management will be covered:

- Political, social and economic challenges of extractive industries, and their impacts on policies and possible solutions
- Global structures, trends and developments in the governance of extractive industries
- National strategy, legal framework, and competent institutions to secure the greatest benefit to citizens
- Ensuring accountability of decision makers to informed citizens

## 3. Decision to extract: minerals policy and licensing

The session will be cover in detail:

- Property rights
- Methods for allocation of rights
- Geological information and reduction of exploration risks
- Social and environmental impact, and cost-benefit analysis of extraction
- Licensing and ownership transparency

## 4. Getting a good deal: extractive contracts overview

This session will cover the following issues:

- Fiscal regimes
- National oil and mining companies and state participation in the industry
- Local content
- Contract negotiation, renegotiation, and approval
- Contract transparency and implementation
- Community rights, social and environmental standards

## 5. Collecting revenues: tax policies and EITI

In this session, the following issues will be addressed:

- Tax administration and implementation of tax avoidance rules
- Revenue mapping
- Extractive Industries Transparency Initiative
  - The 2013 EITI Standard
  - Communicating EITI
  - Analyzing EITI reports and data
  - Subnational implementation of EITI

## 6. Managing volatile resources: revenue management issues

The following issues will be covered under this session:

- Revenue forecasting and budgeting for extractive revenues
- Addressing specific issues such as volatility and depletion
- Natural resource funds
- Revenue distribution
- Subnational revenue management

## 7. Investing for sustainable development

In this session, the following topics will be covered:

- Procurement of public works
- Monitoring of public expenditures
- Investing for economic diversification

## Annex 2. Tentative agenda for Study Tour

	Morning		Afternoon	
<b>September 7, Sunday</b>			Arrival in Vancouver, Canada	Introductory 1-hour session to discuss agenda
<b>September 8, Monday</b>	Welcome by NRG	Introductory workshop Session 1-2	Introductory workshop session 3-5	Introductory workshop session 3-5 continued
<b>September 9, Tuesday</b>	Meeting with Pembina Institute and BC First Nations Energy and Mining Council	Meeting with BC and federal legislators	Meeting with BC Securities Commission or British Columbia Mining Association	Travel to Victoria by ferry or harbor plane – Debrief on the ferry
<b>September 10, Wednesday</b>	Meeting with BC Ministry of Finance	Meeting with BC Ministry of Energy and Mines	Visit to mine site (e.g., Nanaimo coal mines)	
<b>September 11, Thursday</b>	Transfer from Victoria to Edmonton		Meeting with University of Calgary and University of Alberta experts	Meeting with Alberta Energy or Alberta Securities Commission
<b>September 12, Friday</b>	Meeting with Alberta and federal legislators	Meeting with Department of Treasury Board and Finance	Meeting with Alberta Investment Management Corporation (SWF)	Free time
<b>September 13, Saturday</b>	Free time	Free time	Flight from Edmonton to Ulaanbaatar via Vancouver	

PS: Review and recap meetings will be organized during dinner.

### Annex 3. The proposed agenda for the basic training for parliamentary staff

	September 22, Monday	September 23, Tuesday	September 24, Wednesday
<b>Morning Session 1</b>	Introduction to NRG and Decision Chain	Getting a good deal: extractive contracts overview	Managing volatile resources: revenue management issues
<b>Morning Session 2</b>	Overarching policy challenges for extractives management and role of the parliament	Getting a good deal: extractive contracts analysis	Managing volatile resources: revenue management issues
<b>Afternoon Session 1</b>	Decision to extract: minerals policy and licensing	Collecting revenues: tax policies	Investing for sustainable development
<b>Afternoon Session 2</b>	Decision to extract: minerals policy and licensing	Collecting revenues: EITI	Investing for sustainable development

### Annex 4. Preliminary agenda for advanced training for parliamentary staff

February 16, 2015, Monday	February 17, 2015, Tuesday	February 18, 2015, Wednesday
Getting a good deal: extractive contracts analysis	Managing volatile resources: revenue management issues	Investing for sustainable development