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### Appendix 1. Interviewees

Aspects of financial management and governance were discussed with the following people.

Celilio P. Lim III	Manager	Arthur Andersen
Larry Ruddell	Managing Director	Arthur Andersen
Barry Hitchcock	Resident Representative	Asian Development Bank, Mongolian Resident Mission
Shelly Warner	Program Manager	Mongolia-Australia Capacity Building Program (AusAID)
S. Selenge	Senior Economist	Bank of Mongolia
S. Demberel	Chairman and CEO	Chamber of Commerce and Industry
Bill Bikales	Project Advisor	Economic Policy Support Project
B. Bat-Amgalan	Senior Liaison	Erel Company
David Hepburn	Resident Representative	EU-TACIS
Khurelbaatar	Project Advisor	EU-TACIS: Academy of Management Strengthening Project
Richard Lucking	Project Advisor	EU-TACIS: Academy of Management Strengthening Project
Ts. Khulan	Office Manager	Harrods Minerals Mongolia Ltd
J. Uranbileg	Project Coordinator	Ministry of Finance and Economy
R. Batjargal	Head	Ministry of Finance and Economy, Accounting and Auditing Division
B. Bolormaa	Specialist	Ministry of Finance and Economy, Accounting Division

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L. Dashdorj	Head	Ministry of Finance and Economy, Fiscal Policy Division
Silan Nadarajah	Treasury Advisor	Ministry of Finance and Economy
Manmohan Ruprai	Team Leader	Ministry of Finance and Economy. ADB TA No. 3031-MON: Development of Procurement Legislation and Guidelines
L. Dondog	President	Mongolian Institute of Certified Public Accountants
B. Sainjargal	Chairman of Accounting Department	Mongolian National University
B. Sukhbaatar	Vice President	NIC Company
Ts. Gungaanyambu	Director	Nimm Audit Company
Ch. Davasuren	Auditor	Nimm Audit Company
L. Enkh-Amgalan	Chairman	Professional Accounting Council
A. Enkh-Amgalan	Project Director	Public Administration Reform Project
B. Namkhajantsan	Entity Coordinator	Public Administration Reform Project
Ch. Narantuya	Entity Coordinator	Public Administration Reform Project
O. Lhagvasuren	Public Accountant	Public Administration Reform Project
Tsenddaag	Accountant	SocoTamstag Mongolia Inc.
N. Khurlee	Senior Financial Inspector	State Audit Board
D. Tserendash	Head of Second Division	State Audit Board

FINANCIAL MANAGEMENT AND GOVERNANCE ISSUES IN MONGOLIA

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Bob Woolgar	Audit Advisor	Office of the Auditor-General of Victoria (AusAID)
Michael Rossbach	Project Coordinator	Support to the State Audit Board German Technical Cooperation
D. Terbishdagva	General Director	TBD Anduud Limited
D. Sukhjargalmaa	Assistant Resident Representative	UNDP
Johnathan Simon	Project Director	UNDP Enterprise Restructuring Project
David Levi	Senior Advisor	UNDP Enterprise Restructuring Project
U. Gankhuyag	Economic Officer	World Bank
B. Tsolmon	Operational Officer	World Bank
R. Lynn Ground	Resident Representative	World Bank

## **Appendix 2. RETA-5877 (Regional Study) Information**

### **Study Phases**

The study had four broad phases as follows:

Phase I – Mongolian Case Study on Accounting and Auditing Support and Structures

Phase II – Ulaanbaatar Workshop ( 9 June 2000 )

Phase III – Development of Reference Materials

Phase IV – Formulation of Action Plan

### **Phase I : Case Study On Accounting and Auditing**

This phase involved the examination of Mongolia's current accounting and auditing structure and systems. It also (i) analyzed Mongolia's political, institutional, and regulatory and legal framework on accounting and auditing practice and the level of enforcement of existing laws, rules, and regulations; (ii) identified gaps and weaknesses in accounting and auditing support available and deviations from international standards; and (iii) identified alternative options to remedy the identified weaknesses, with the objective of eventually doing away with these.

A structured questionnaire, that covered the following areas, was used to collect descriptive information:

- ( i ) Legal and regulatory framework (public and private sector)
- ( ii ) Accounting infrastructure (professional bodies and accounting standards)
- ( iii ) Institutional issues (public and private sector)
- ( iv ) Government and administrative arrangements
- ( v ) Financial reporting (public and private sector)
- ( vi ) Accounting and computerization (public and private sector)
- ( vii ) Accountancy education and training
- ( viii ) Budgeting (public sector)
- ( ix ) External audit (public and private sector)
- ( x ) Previous studies and initiatives on financial management and governance.

Barry Reid conducted the fieldwork for the study with the able assistance of G. Tserenkhand, from 13 May to 8 June 2000. Further research assistance was provided by D. Bayasgalan in September and October 2000. Financial management and governance arrangements were discussed with representatives from: the Ministry of Finance and

Economy, the State Audit Board, other government organizations, present and former cabinet ministers, professional accounting and auditing bodies, private sector businesses, tertiary institutions, bilateral donors, and multilateral financing institutions. A list of interviewees is attached as Appendix 1.

### **Phase II : Ulaanbaatar Workshop**

Issues arising from the study were discussed and debated at workshop held in Ulaanbaatar on 9 June 2000. Dr R. Batjargal, Head of the Accounting Division of MOFE, chaired the workshop. Francis B. Narayan, Lead Financial Specialist, ADB, participated in the Workshop as a resource person and provided overall guidance with respect to the objectives of the Study. Fifty-seven participants, representing the following organizations, attended the workshop:

- Arthur Andersen
- Bank of Mongolia
- EU-TACIS
- Financial Inspection Agency
- General Department of National Taxation
- Golomt Bank
- GTZ
- International Monetary Fund
- JICA
- Ministry of Finance and Economy
- MICPA
- Mongolian Professional Accounting Council
- Mongolian Stock Exchange
- NIM Audit Company
- Securities Commission
- State Audit Board
- State Property Committee
- State Service Council
- Trade & Development Bank
- UNDP
- USAID
- World Bank

### **Phase III : Development of Reference Materials**

In phase III, reference materials on IAAS were developed. In developing these materials, consideration was given to; (i) alternative transition systems and associated benchmarks as well as underlying institutional prerequisites, and (ii) production of these materials in local languages.

### **Phase IV : Formulation of Action Plan**

Phase IV assessed the roles that ADB and other funding agencies played in improving the current situation in the selected DMCs. The roles

included policy intervention, projects and program assistance, and mobilization of cofinancing resources to address the identified problems and weaknesses. This activity was undertaken in close consultation with the Government, regulatory authorities, representatives of the accounting and auditing professions, and other local interest groups and funding agencies. At this stage of the RETA, the commitment in principle of each selected country to implement the findings and recommendations of the study was agreed. The findings of the RETA were disseminated and debated at a conference in Manila on 16-18 October 2000 and the developed action plan was finalized for implementation.

### **Consultation**

Drafts of this report were provided to a variety of organizations and individuals for review. We would very much like to thank the following people for their helpful comments on report drafts: L. Dondog, President of MICPA; D. Bayasgalan, Ministry of Finance and Economy; R. Woolgar, Victorian Auditor-General's Office (Australia).

## **Appendix 3. Administrative and Institutional Arrangements**

### **Introduction**

This appendix reviews government and administrative arrangements in Mongolia. It begins by describing executive, legislative, and judicial arrangements then proceeds to discuss the structure of the state, organs of state authority, the banking sector, and listed companies.

### **Executive, Legislative and Judicial Arrangements**

Mongolia is a unitary state in accordance with the 1992 Constitution. The President is Head of State. The Executive Branch comprises the Prime Minister, the Cabinet, and the President. The Legislative Branch is a unicameral parliament (*Ikh Khural*) comprising 76 members elected by popular vote. The Judicial Branch is independent.

The President is elected for a four-year term, and the next presidential election will be held in summer 2001. The Prime Minister and the Cabinet are selected and approved by the legislature, in consultation with the President, for a four-year term. Parliament members are elected every four years; the last parliamentary election was held in July 2000.

The Supreme Court serves as the Appeals court for the People's and the Provincial courts, but has rarely overturned lower court verdicts. Judges are nominated by the General Council of Courts for approval by the Parliament.

### **Structure of the State**

The *Law on Administrative and Territorial Units and their Governance 1992*, together with the *Law on Government 1993*, and the Constitution, are the primary legislative sources for the structure of the state (Figure 3 refers).

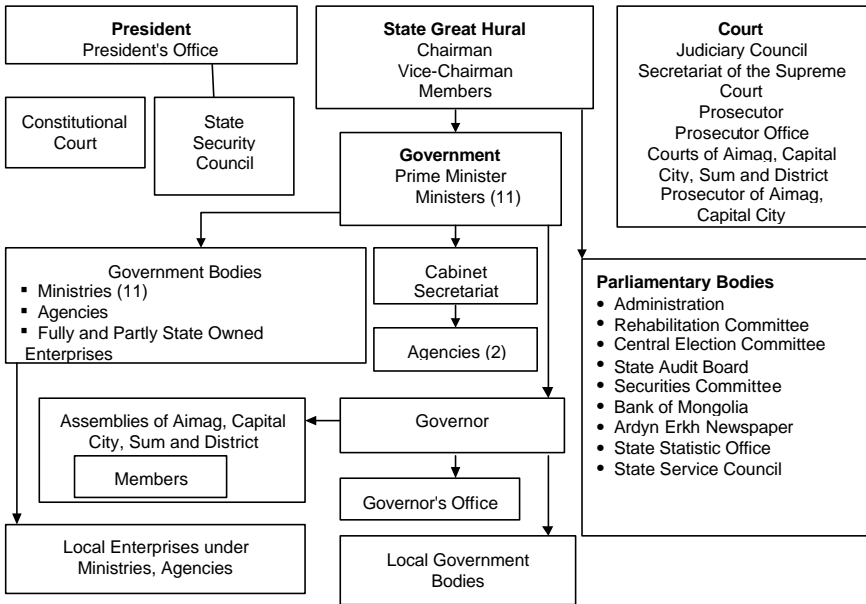
### **Organs of State Authority**

#### **The State Great Hural**

The State Great Hural is the highest organ of state power and the only body that has legislative power. The State Great Hural represents, and upholds, the interests of all the citizens and the state. The State Great Hural is the only competent body for adopting, supplementing, and

amending laws, and determining the basis of the state policy both domestic and foreign.

Figure 3. Structure of the State



The State Great Hural defines the state’s financial, credit, tax, and monetary policies, determines the guidelines for the country’s economic and social development, approves the Government’s program for action, the State Budget, and the report on its execution. As the supreme law-making authority in the country, the State Great Hural controls the public finances.

**The President and His Office**

The President, by Constitution, is the Head of the State and embodies the unity of the Mongolian people. The President is responsible to the State Great Hural. The prerogative rights of the President include vetoing against parts or whole of laws and other decisions made by the State Great Hural, instructing the Government on issues within the frame of his competence, representing the State with full power in foreign relations, reporting on and submitting proposals concerning vital issues of foreign and domestic policy, etc.

The President's Office creates the necessary conditions for implementing the full authority and decision making by the President. The duties include: providing information and advice, publicizing the President's activities, creating conditions for the cooperation between highest legislative, executive, and judicial bodies; drafting resolutions, decrees, vetoes, and other statements to be issued by the President, managing correspondence and documentation, preparing budget estimates, etc.

### The Judiciary

In accordance with the Constitution, only courts can exercise the judicial power. The judicial system includes three levels, the Supreme Court being at the highest, and *Aimag* and Capital City Courts, *Sum, inter-Sum* and District Courts, as well as specialized Courts at a lower level. The activities of Courts are financed from the state budget.

The Constitution states the independence of judges providing for the General Council of Courts to ensure such independence. The judges shall be subject only to law and free from interference from any citizen or civil officer. The General Council of Courts selects the judges, protects their rights, and ensures that the conditions of guaranteeing the independence of judges are in place, but does not interfere with decision making by the judges.

### The Parliamentary Secretariat

The Parliamentary Secretariat supports the activities of the State Great Hural and its Standing Committees. The duties include: providing methodological assistance, preparing, and organizing meetings of the State Great Hural, publishing laws and decisions, providing the members with information, communicating citizens, and organizations.

### Standing Committees

Standing Committees of the State Great Hural are groups of Members of the State Great Hural appointed by the State Great Hural to consider and report on specific issues. The State Structure Standing Committee and the Budget Standing Committee are the committees most directly involved in the public sector financial management system.

## The Government

The Government is a collective of portfolio ministers chaired by the Prime Minister. The Government, as the highest executive body, is directly accountable to the State Great Hural. It implements its Program of Action approved by the State Great Hural and reports on the progress of its achievement to the State Great Hural. The Government makes Government policy decisions, which are then implemented by Ministries and Agencies.

## Cabinet Ministers

There are 11 portfolio ministers each of whom is serviced by a Ministry.

## The Cabinet Secretariat

The Cabinet Secretariat renders legal and technical services in organizing the activities of the Government and assists in coordinating activities of central state administrative bodies (Ministries and Agencies) as well as in directing the local government.

## Ministries

There are eleven ministries:

- Ministry of Finance and Economy
- Ministry of Defense
- Ministry of Infrastructure Development
- Ministry of Education, Culture and Science
- Ministry of Health
- Ministry of Labor and Social Welfare
- Ministry of Nature and the Environment
- Ministry of External Affairs
- Ministry of Justice and Internal Affairs
- Ministry of Trade and Industry
- Ministry of Agriculture and Food

## Agencies

There are 47 Government agencies within the responsibility framework of the Prime Minister, Cabinet Secretariat and 11 Cabinet Ministers, comprising 15 coordinating and 32 implementing agencies.

Currently 51 agencies are established and functioning. Agencies implement government strategy within the Portfolio. Twenty-six agencies are financed from the central or local budget, 16 are self-financing agencies, and nine have mixed sources of financing.

Responsibility:	Coordinating	Implementing
Prime Minister	2	2
Cabinet Secretariat	..	2
Minister for Finance and Economy	3	..
Minister for Justice and Internal Affairs	2	6
Minister for Nature and the Environment	1	2
Minister for Defense	1	1
Minister for Education, Culture, and Science	1	..
Minister for Infrastructure Development	1	9
Minister for Agriculture and Food	1	2
Minister for External Relations	..	1
Minister for Health	1	..
Minister for Labor and Social Welfare	1	3
Minister for Trade and Industry	1	4
Total	15	32

### Local Government Bodies

It is estimated that there are 3,434 public entities, of which 256 are financed from the central budget. The remaining 3,178 are local government bodies. Most of the local government entities are schools, hospitals, cultural centers, kindergartens, veterinary clinics, and others that deliver basic services to the local population. Local government bodies are currently financed from the local budget.

Governors appoint managers of these bodies. However, most *Aimags*, except for Ulaanbaatar city and Orkhon (Erdenet), Darkhan, Tuv, and Selenge Aimags, receive subsidies from the central budget. Moreover, there is widespread criticism about the lack of mechanism and coordination to implement the Government policy at the local level.

### State Enterprises

The state enterprise sector represents a major part of the Mongolian economy. The Government of Mongolia has launched a far-reaching

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privatization program but the State still holds substantial shares in the biggest enterprises. As a whole, poor management, poor investment decisions, and political interference characterize the sector.

Table 11: Local Government Entities by *Aimag*

<i>Aimag</i>	No. of <i>Sums</i>	<i>Aimags</i> & Sum Governors Offices	Hospitals	Vet. Clinics	Schools	Kinder- gartens	Culture Centers	Other*	Total
Arkhangai	19	20	19	19	36	20	16	15	145
Bayan-Ulgii	15	14	12	11	25	9	4	41	116
Bayan- khongor	20	21	18	19	26	27	14	35	160
Bulgan	18	19	19	15	24	17	16	34	144
Gobialtai	20	21	19	19	29	21	18	50	177
Gobisumber	3	4	3	1	5	5	1	9	28
Darkhan	1	3	2	1	22	14	1	5	48
Dornigobi	14	16	14	13	18	14	12	30	117
Dornod	14	15	16	13	27	22	11	35	139
Dundgobi	16	17	18	16	20	21	16	24	132
Zavkhan	24	25	24	25	35	35	23	36	203
Orkhon	2	3	-	1	14	11	1	27	57
Uvurhangai	19	20	22	19	26	27	17	22	153
Umnugobi	15	17	15	14	17	17	15	35	130
Sukhbaatar	14	15	11	15	17	11	11	22	102
Selenge	17	20	18	13	31	27	12	38	159
Tuv	28	28	27	27	33	16	25	22	178
Uvs	20	21	20	20	27	23	18	39	168
Khovd	17	19	17	16	22	20	16	40	150
Khuvsgul	24	25	24	23	33	28	17	47	197
Khentii	19	20	24	19	25	25	18	34	165
Ulaanbaatar	8	9	32	9	126	148	9	233	566
<b>Total</b>	<b>347</b>	<b>372</b>	<b>374</b>	<b>328</b>	<b>638</b>	<b>558</b>	<b>291</b>	<b>873</b>	<b>3,434</b>

\* Others comprise:

Assemblies	21	Sport Centers	27
Meteorological Centers	69	Theaters	20

Energy Centers	67	Libraries	22
Doctor's Centers	23	Museums	27
Seismological Centers	15	Others	548
Educational Centers	34	Total	<u>873</u>

**5. Banking Sector<sup>54</sup>**

Mongolia currently has 12 licensed commercial banks with a network of over 500 branches, sub-branches, and cash counters. Eight of these are either fully or partially owned by the State. Foreign (minority) participation is limited to one bank. The banks have about 65,000 customers and employ approximately 4,000 people. The three largest banks – Trade & Development Bank (TDB), SB, and Golomt Bank – held 80 percent of all bank assets as of December 1999. Net lending in the banking system is T53.6 billion (\$53 million) backed by total assets of T182 billion (\$182 million). Capital adequacy is 20 percent.

Mongolia's ratio of M2 to GDP, a measure of the role that money plays in the economy, has declined over the past few years to only 18 percent, on par with Africa's poorest countries. Intermediation spreads are extremely high. The interest rate for short-term domestic currency loans is 47 percent per annum, and the average interest rate paid on domestic deposits is about 24 percent per annum. These high intermediation spreads are symptomatic of general distress in the banks reflecting the increased risks of default, high operating costs, and the high proportion of non-performing loans.

For the past 10 years, since the end of communism in Mongolia, the banking system has inflicted more costs than benefits upon the economy. Governments have collapsed over the issue of banking reform and the outcome has been a financial system dominated by rotten state banks and a welter of poorly supervised private ones. A recent political consensus has emerged that should enable the state to get out of banking, bring foreigners in, and improve supervision. In early 2000, the Bank of Mongolia forced the two worst performing State-owned banks -- the Investment and Technological Innovation Bank and the Reconstruction Bank - into liquidation. The latter possibly had the world's highest bad-loan ratio of over 95 percent.

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<sup>54</sup> Primary Sources:  
 Asian Development Bank. May 2000. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance Grant to Mongolia for the Second Financial Sector Program*. RRP 30101.  
 The Economist. 6 May 2000. *Betting on Mongolia*. P. 90.

ADB has identified the following issues of concern (in addition to high intermediation spreads):

- *Regulatory Supervision.* Political pressures together with lax lending, limited supervision capabilities, and weak legal enforcement for debt recovery have aggravated the problem of under-capitalization. The Government has incurred fiscal restructuring costs of approximately 5 percent of GDP over the past four years. The Central Bank has supplemented this direct support by allowing banks to maintain large interest spreads, and to retain profits.
- *Weak Governance and Internal Controls in the Banking System.* Banks are poorly managed and have limited commercial orientation. State-owned banks are operated by managers who were trained under the old system based on directed lending and subject to political interference. Newly privatized banks are owned by individuals who view ownership as a means to finance their business activities over any other priority. In addition to insider lending, lending to related parties continues.
- *Limited Incentives Framework to Support the Development of Strong Banks.* The development of a core, sound, banking system is constrained by lax bank entry conditions, weak regulatory oversight and the absence of a bank exit strategy. In September 1999, the minimum bank paid-in capital requirement was raised to T1 billion (\$1 million) from T400 million (\$400,000).
- *Limited Reach of Financial Services.* The banking sector provides a narrow range of financial instruments usually limited to demand, savings and time deposits on the liabilities side and government bonds and treasury and central bank bills on the assets side.

## **6. Listed Companies**

The government-owned Mongolian Stock Exchange (MSE) was established in 1991. A major impetus was provided by the privatization of SOEs during 1991–1994 with the allocation of SOE investment coupons to over 2 million citizens for trading at the MSE. About 1.2 million citizens became shareholders of 470 companies. The Securities Law of Mongolia was enacted in September 1994, following which the Mongolian Securities and Exchange Commission (MSEC) was established.

At present, there are 418 companies listed on the MSE, of which 324 are privatized enterprises. The market capitalization, as of February

2000, is \$37 million close to 4 percent of GDP, down from \$53 million in early 1998. Trading activity has declined sharply in the past year, as evidenced by the drop in daily trading from \$25,000 in September 1998 to about \$13,000 in January 2000. The poor state of the banking system is cited as one of the primary reasons for the drop in stock market activity.

## **Appendix 4. Regulatory and Legal Framework**

### **1. Introduction**

The Mongolian legal system is a blend of the Russian, Chinese, Turkish, and more recently western, systems of law. There is no constitutional provision for the judicial review of legislation. Mongolia's legal framework has been largely re-created in the past 10 years with 300-500 new laws being passed. The transition has not been without problems. Laws are sometimes contradictory, accessing legislation has been problematic, and laws are not necessarily obeyed. While there have been improvements in the first two areas, there has been a marked deterioration in adherence since 1998.

This appendix describes the laws and regulations that pertain to financial management and governance.

### **2. Legislative Process**

The legislative process starts with the drafting of a bill. The Justice Ministry usually reviews the Bill before it is submitted to the Parliamentary Secretariat, which provides it to Parliament. Once the Bill is tabled in Parliament, it is referred to the appropriate multi-party Parliamentary Standing Committee(s) for review and approval. Following approval by the Standing Committees, the Bill is sent back to Parliament. It is read and debated during three readings, with a vote taken at each stage. If approved on its third reading, the Bill is signed by the Speaker of the House and, in the absence of a Presidential veto, becomes law.

### **3. Public Sector Legislation**

Law on Administrative and Territorial Units 1992

This law regulates the governing system, competencies, and principles of the functioning, structure, establishment, reorganization, and dissolution of Mongolian administrative and territorial units.

Budget Law 1992

This law is administered by the Ministry of Finance and Economy and applies to state budgeting, the approval of the budget, the composition of budget revenues, allocation of budget funds, performance requirements, and reporting against budgets.

The *Budget Law 1992* requires that draft budgets be submitted to the Ministry of Finance and Economy by 20 August each year. The Ministry of Finance and Economy is required to submit the budget to the Government by 20 September and the Government is required to submit the budget to Parliament by 1 October. Budget governors are required to submit quarterly reports within 15 days of the end of the quarter and within 25 days of the year end. Quarterly reports on budget implementation should be submitted to Parliament.

The *Budget Law 1992* focuses on interactions between budget organizations. With the exception of broad categories of revenues and expenses, the budget law is silent on reporting bases, disclosure requirements, and reporting formats.

### Law on Government 1993

This law establishes the principles of activities, duties, and the structure and composition as well as the working organization of the Government and regulates matters pertaining to the relationship of the Government with other organizations.

### Central Bank Law 1993

This law applies to the Bank of Mongolia's powers, administration, organization, operations, and state monetary policy. The main objective of the Bank of Mongolia, under this law, is to ensure stability of the Togrog currency and, within this objective, to promote balanced and sustained development of the national economy, through maintaining the stability of money, financial markets, and the banking system.

The Law requires that the Bank of Mongolia submit a monetary policy statement to Parliament before 1 October of each year. It requires that the Bank of Mongolia establish procedures for issuing regulations, and issue regulations and instructions and undertake supervision and enforcement activities relating to the licensing of banks, the requirements of banks, the maintenance of adequate capital and liquid assets, improving the security of the banking system, and regulation of banking activities.

The Law gives the Bank of Mongolia substantial powers of supervision including, rights of entry and rights of examination. It establishes the independence of the Bank from the Government. The Central Bank Governor is appointed by Parliament for a six-year term.

The Bank of Mongolia is required to publish a monthly bulletin on monetary statistics and to inform the public about changes in monetary policy and the state of financial markets every quarter. The Bank of Mongolia is required to prepare an annual report, in accordance with Generally Accepted Accounting Practices, and to table that report in Parliament, once it has been audited.

### State Audit Law

This law applies to the audits of Ministries, Agencies, capital city and *Aimags, Sums*, authorized administrative bodies and local self-governing bodies.

The *State Audit Law* reflects a centralized accounting regime and provides the State Audit Board (SAB) with investigative powers. The State Audit Board is not given a specific mandate to conduct financial attest audits. The SAB can impose fines of T5,000–50,000 for infringements.

### Law on Government Service 1995

The purpose of this law is to establish and regulate the government service of Mongolia, the classification and principles of government service, government posts and their requirements, the legal status of government employees, and the conditions, procedures and guarantees for their performance.

The *Law on Government Service 1995* has incentives for staff development through rewarding people on performance and skills. It also sets job classifications at five levels with four grades each (Articles 7 & 20). The granting of ranks occurs formally through a centralized process that takes into account the length of service (Article 20). Government employees are eligible for housing subsidies, family-member education, medical services, training and retraining. Employees are rewarded for attaining higher levels of education.

### Public Procurement Law 2000

This law regulates matters relating to the preparation of tender documents, advertisement, opening of tenders, evaluation of tenders, award of contract with purposes of procurement of goods, works, and services by all Procuring Entities for State and Local needs, and levels, compositions of Tender Committee and control over its activities. ADB

TA No. 3031-MON supported the development and implementation of this law.

#### Proposed Legislation

A comprehensive law on public sector management and finance was developed with ADB support and submitted to Parliament in October 1997. In late 1999, the first reading of the law received 78 percent support. If enacted, this law will affect many of the above laws.

#### **4. Private Sector Legislation**

##### Auditing Law 1997

This law is administered by the Ministry of Finance and Economy and the Professional Accounting Council (an agency of the Ministry of Finance and Economy) and applies to the determination of auditing principles, the administration of the process for registering auditing companies, and the process for granting CPA qualifications.

The *Auditing Law 1997* requires that accountants pass three CPA examinations. The CPA title is granted at the first stage, but the qualification is valid only for two years by which time the accountant must have passed the second stage. Once the second stage examination is passed, the CPA title is valid for five years. If the accountant has not passed the third examination within five years, the title is withdrawn. Those who pass the final examination receive the title for life.

Article 7 of the *Auditing Law 1997* requires that banks, insurance companies, any other financial institutions, listed companies (and those planning to list), joint ventures, fully- and partially-owned state enterprises, and all companies with capital of at least T30 million (\$30,000) must submit to an annual independent audit.

##### Civil Law 1991

This law, which is administered by Justice Ministry and the Courts, governs commercial and contractual relations.

##### Banking Law 1996

This law is administered by the Bank of Mongolia and applies to the licensing of banks and banking activities, the revocation of licenses, the establishment of general principles of management, organization, and banking activities, and the regulation of relations concerning the

supervision, reorganization, receivership and liquidation of banks. The Law should be read together with the *Central Bank Law 1993* in that it specifies that banks must prepare financial statements.

### Accounting Law 1993

This law is administered by the Ministry of Finance and Economy and regulates the maintenance of accounting records and the preparation of balance sheets by business entities and organizations.

The *Accounting Law 1993* allows businesses to maintain their records in either single, or double-entry, form. It states that the Minister of Finance and Economy shall approve standard accounting forms and methods for business entities and organizations. Article 3.3 requires that accounting forms and methods be consistent with International Accounting Standards.

Financial statements are required to be prepared and certified quarterly by the 20th day following the end of the quarter and submitted to the General Department of National Taxation. Annual financial statements must be prepared, certified and submitted by 20 February.

The Minister for Finance and Economy is responsible for providing professional and methodological directions for accounting in Mongolia. The Law provides for the establishment of a unit for this purpose in the Ministry of Finance and Economy. A non-executive Professional Accounting Council was to be established under the Ministry of Finance and Economy. It is responsible for assisting with the development of accounting forms and methods, improving accounting and reporting systems, training and improving the qualifications of accountants.

Professional training institutions shall issue practicing certificates for accountants. A business entity or organization may undertake training for the accounting profession with the permission of the Ministry of Education and the Ministry of Finance and Economy.

### Securities Law 1994

This Law regulates relations in respect to the fairness of issuance of the securities for the purpose of accumulation of financial resources, buying and selling of securities, providing depository, clearing and settlement services, the protection of investors and oversight of the issuers, and other persons involved in the activities in the securities market.

### Foreign Investment Law

The intent of this law is to encourage foreign investment, to protect the rights and property of foreign investors in Mongolia, and to regulate matters relating to the operations of business entities that foreign investors invest in.

### Companies Law 1999

This law provides for the establishment of limited liability companies. The Law includes procedures for establishing companies and dissolving companies. It also provides for the dissolution of companies by the Court in the case of bankruptcy. Liquidators “shall be appointed by the body which resolves to dissolve a company and shall carry out the dissolution” (Article 15). At this point, the management authority transfers to the liquidators. The liquidators’ duties are prescribed and include the duty to discharge debts in accordance with priorities determined by the Law (Article 16).

### Insolvency Law 1997

The *Insolvency Law 1997* establishes procedures for dissolving companies and placing companies into receivership.

### Taxation Laws

The following taxation laws are in effect:

- General Taxation Law 1992
- Personal Income Tax Law 1992
- Enterprises Income Taxation Law 1993
- Transportation and Self-Moving Vehicles Taxation Law 1992
- Firearms Taxation Law 1993
- Excise Taxation Law 1993
- Personal (Indirect) Income Tax Law 1993
- Tax Imposition, Tax Payment Control, and Tax Collection Law 1996
- Value Added Tax Law 1998