

BUDGET LAW

(Revised edition)

CHAPTER ONE

General provision

Article 1. Purpose of the Law

1.1. The purpose of this Law is to establish principles, systems, composition and classification of the budget, to implement special fiscal requirements, to define authorities, roles and responsibilities of bodies that participate in the budget process, and to regulate relations that rise in connection with budget preparation, budget approval, spending, accounting, reporting and auditing.

Article 2. Legislation

2.1. The legislation applicable to the budget system of Mongolia shall consist of the Constitution of Mongolia^[1], the Fiscal Stability Law^[2], this Law, and any other legislative acts enacted in accordance with this Law.

Article 3. Scope of the Law

3.1. This Law applies to budget entities and their officials, government and local special funds, fully and partly state and locally owned bodies that provide works and services related to the functions of the state on a contractual basis, which are obliged to collect revenues to the budget in accordance with legislation.

3.2. Provisions and clauses on program planning and performance agreements, and their execution and reporting stipulated in this Law, shall not apply to the budget of authorities engaged in executive functions, in accordance with legislation, involving state security.

3.3. Provisions related with transparency of this Law shall not apply to the budgets of entities dealing with state secrets, in accordance with legislation, and to the executive functions of authorities specified in provision 3.2 of this Law.

3.4. Budget relations shall be regulated only by this Law, which shall also govern establishment of the level of financing sources for local government and sector activities and their distribution.

Article 4. Definitions of terms used in this Law

4.1. Terms used in this Law shall be understood to mean the following:

4.1.1. **“special fiscal requirements”** is defined in Article 6 of the Fiscal Stability Law;

4.1.2. **“medium-term”** is defined in Provision 4.1.9 of the Fiscal Stability Law;

4.1.3. **“medium-term fiscal framework statement”** is defined in Provision 4.1.10 of the Fiscal Stability Law;

4.1.4. **“budget proposal”** means a draft budget submitted by the Government to the State Great Khural and a draft budget submitted by each Governor at all levels to the respective Citizens' Representative Khural, prepared on the basis of the Medium-term Fiscal Framework Statement, in accordance with the requirements specified in the legislation for each budget level and using the budget classification.

4.1.5. **“budget”** means the financial resources required to implement government functions, including the mix of assets, revenues, expenditures, liabilities, financial commitments and obligations where funds are collected, allocated and spent within the authority of the state, related financial activities, activities to be implemented, inputs required for them and expected outcomes..

4.1.6. **“state budget”** means a budget approved by the State Great Khural and generated, allocated and expended by general budget governors subordinated to the Government and the state budget;

4.1.7. **“baseline budget”** means a budget which is adjusted to macroeconomic assumptions and where expenditures and revenues are projected assuming no legal or policy change in the year when the budget is executed.

4.1.8. **“annual budget ceiling”** means the maximum amount of expenditures and minimum amount of revenues, established in conformity with special fiscal requirements and the Medium-term Fiscal Framework Statement, that guide general budget governors when preparing their budget proposals for the particular fiscal year;

4.1.9. **“budget revenue”** means revenues that are collected in accordance with legislation that support state and local budgets and revenues generated from budget entities’ own operations;

4.1.10. **“budget expenditure”** means funds allocated from the approved budget for financing activities, programs, projects and measures implemented by budget governors;

4.1.11. **“budget balance”** means the difference between total budget expenditure and total budget revenue of a particular fiscal year;

4.1.12. **“budget surplus”** means revenues that exceed expenditures;

4.1.13. **“budget deficit”** means expenditures that exceed revenues;

4.1.14. **“receipts”** means all types of cash inflow transactions from external parties excluding internal transactions of a particular body;

4.1.15. **“outlays”** means all types of cash outflow transactions excluding internal transactions of a particular body;

4.1.16. **“program”** means a set of closely related activities combined for the purposes of budget allocation and aimed at implementing government functions for which performance is reportable and assessable;

4.1.17. **“activity”** means works and services produced as a part of a program which is specified by criteria such as quantity, quality and timing ;

4.1.18. **“input”** means tangible and intangible resources required for implementing works and services;

4.1.19. **“aggregate economic classification”** means grouping of detailed items in the economic classification;

4.1.20. **“detailed economic classification”** means the lowest level items in the economic classification;

4.1.21. **“financial support”** means funds to be allocated to finance budget deficits;

4.1.22. **“revenue transfer”** means funds to be allocated from the revenue of upper level budget to the local budget to support the local budget;

4.1.23. **“special purpose transfers”** means funds to be allocated from the state budget to aimag and capital city budgets, in accordance with the specifically determined purposes, conditions and requirements, to finance functions specified in 61.1 of this Law.;

4.1.24. **“investment”** means capital expenditures to be financed from the budget and to be transferred into the ownership of a legal body who is associated with the budget of the respective level;

4.1.25. **“tax expenditures”** mean tax discounts and exemptions to taxpayers in the particular year in accordance with tax laws;

4.1.26. **“supplementary budget”** means amendments to the decision of the authority who approved the budget for the particular year;

4.1.27. **“local budget ”** means a budget approved by aimag, capital city, soum and district Citizens’ Representative Khurals and money collected, allocated and expended by general budget governors subordinated to the budget of the respective level;

4.1.28. **“General Local Development Fund”** means funds reallocated from the state budget to local budgets in order to support local development and to ensure equity of regions;

4.1.29. **“base revenue of local budget”** means the sum of non-tax revenues and revenues estimated at the minimum rate and the amount of taxes to be collected for the budget of the respective level;

4.1.30. **“base expenditure of local budget”** means the sum of recurrent and capital expenditures related with functions stated in 58.1.1, 58.2.1, 58.3.1 and 58.4.1 of this Law and recurrent expenditures related with functions stated in 58.1.4, 58.1.14, 58.2.4, 58.2.13, 58.3.2, 58.3.5, 58.4.2 and 58.4.6 of this Law;

4.1.31. **“basic local budget deficit”** means the portion of base expenditure of local budget that exceeds the base revenue of local budget;

4.1.32. **“Social Insurance Funds’ budget**, means the budget with revenues collected and expended in accordance with the Law on Social Insurance^[3] and approved by the State Great Khural in the particular year;

4.1.33. **“Human Development Fund budget”** means the budget with revenues collected and expended in accordance with the Law on Human Development Fund^[4] and approved by the State Great Khural in the particular year;

4.1.34. **“budgetary entity”** means state or locally owned, not-for-profit legal body who provides work and services to execute the functions of the state in accordance with the approved budget and registered by the State Central Administrative Body Responsible for Finance and Budget Matters, as stipulated in provision 7.1.3 of the Law on State Registration of Legal Bodies^[5].

4.1.35. **“budget governor”** means general, central and direct budget governors;

4.1.36. **“general budget governor”** means an official who is authorized to plan budgets for the area within his authority and allocate, oversee, manage and report on the execution of the approved budgets in accordance with legislation;

4.1.37. **“central budget governor”** means an official who is authorized to plan budget for functions assigned by the general budget governor, re-allocate it to a direct budget governor, oversee and manage budget resources and report on budget execution in accordance with legislation;

4.1.38. **“direct budget governor”** means an official who is authorized to plan budget resources for functions assigned by a general budget governor or central budget governor, and manage the budget resources and report on its execution in accordance with legislation;

4.1.39. **“contractor of work and services that belong to state functions”** means a body who undertakes work and services that belong to state functions on a contractual basis and takes sole responsibility for the quality, quantity and outcome of the work and services;

4.1.40. **“treasury activities”** means executing the government’s budget, managing cash and liabilities, processing payments and reporting budget execution;

4.1.41. **“treasury single account”** means the general budget account with Government’s general coordination and cash accounts of all budget governors who belong to the Unified Budget of Mongolia which are located in the Mongol Bank;

4.1.42. **“general budget account”** means an account to consolidate and record cash transactions of the respective level’s budget.

4.1.43. **“spending authorization”** means the maximum amount of a budgetary entity’s budget to spend on monthly and quarterly basis within its approved budget;

4.1.44. **“Government debt management”** means activities for developing and implementing strategies for determining the government’s medium and short-term financial costs and risk levels;

4.1.45. **“debt”** means payment obligation to be repaid through debt instruments by the particular body to other bodies;

4.1.46. **“debt instrument”** means all types of loans, securities and any agreements that incur debts;

4.1.47. **“Public Debt ”** is defined in Provision 4.1.8 of the Fiscal Stability Law;

4.1.48. “**Contingent liability**” means risks expressed in money terms that may occur in connection with policy actions to be undertaken by the government with the purpose of keeping government guarantees, ensuring national security and political, social, economic, financial and fiscal stability;

4.1.49. “**internal audit**” means independent activities of internal budget control aimed at effective and efficient usage of budget resources and managing risks.

4.1.50. “**revolving fund**” means a special budget account that finances activities, specified in law, implemented over more than one fiscal year. Revenues earned from these activities or repayment of funds are retained by the fund to finance the continuation of the activities.

CHAPTER TWO

Budget principles and its adoption

Article 5. Budget Principles

5.1. The following principles shall be followed in the budget planning, approval, implementation and reporting processes:

5.1.1. Ensure fiscal stability;

5.1.2. Ensure comprehensiveness and accuracy of the budget;

5.1.3. Ensure efficient financial and budget management;

5.1.4. Ensure fiscal transparency; and

5.1.5. Ensure accountability;

Article 6. Applying budget principles

6.1. Authorized bodies and budget governors shall be responsible for following the budget principles in budget planning, approval, implementation and reporting processes.

6.2. The principle of ensuring fiscal stability stated in provision 5.1.1 of this Law shall be followed as outlined below:

6.2.1. Follow the special fiscal requirements specified in the Fiscal Stability Law.

6.2.2. Plan, approve and execute annual budget expenditures in such a way that they are covered fully by budget revenues and other financing sources.

6.2.3. If fiscal deficits increase due to a decrease in budget revenues or an increase in budget expenditures caused by unforeseen circumstances, balance the budget by amending the particular year’s budget by decreasing budget expenditures or increasing revenue sources.

6.2.4. Any decisions made by the President of Mongolia, the State Great Khural of Mongolia, self governing body of the local government, the Government or Governor shall be based on the assessment of its impact on the budget.

6.2.5. If policy decisions with the consequence of reducing revenues and increasing expenditures are made in the middle of the fiscal year, these decisions shall become effective starting from the following year.

6.3. The principle of ensuring comprehensiveness and accuracy of the budget stated in provision 5.1.2 of this Law shall be followed as outlined below:

6.3.1. Plan and report transactions related with budget revenues, expenditures, assets and liabilities on a gross basis.

6.3.2. Accurately record and report any financial transactions in a timely and accessible manner in accordance with international and national accounting standards, and presenting them in the national currency.

6.3.3. In the budget present Government guarantees secured by budget revenues, loans and contracts, agreements and actions related with all types of financial obligations.

6.3.4. Any revenues, loans, donations, and grants made newly available during the budget year and expenditures financed by them shall be part of budgets.

6.4. The principle of ensuring effective fiscal management stated in provision 5.1.3 of this Law shall be followed as outlined below:

6.4.1. Plan and expend budgets in an efficient and economical way.

6.4.2. Budget financing of programs or activities that do not belong to state functions is prohibited.

6.4.3. Consider the possibility of using citizens, entities or non-government organizations in delivery of programs or activities if these programs or activities can be carried out by them.

6.4.4. Unless otherwise specified in law, selection of a body to delivery any goods, work or services shall be conducted through an open and competitive procedure.

6.4.5. A budget governor shall not use budget revenue as collateral or guarantee.

6.4.6. Unless otherwise specified in law, purposefully assigning budget revenues to anybody or any activities is prohibited.

6.4.7. Any activities, programs, and measures to be undertaken by the state, tax imposition or its discount, guarantees, loans, liabilities, financial activities, or contingent liabilities as well as their outcomes shall not create inequality for current and future generations.

6.4.8. Efficiently manage finance and budget, and avoid incurring receivables and liabilities.

6.5. The principle of ensuring fiscal transparency stated in provision 5.1.4 of this Law shall be followed as outlined below:

6.5.1. Budget discussions and the budget approval process shall be open to the public and information on the budget plan, execution and reporting shall be publicly available in a timely and accessible manner and in understandable way..

6.5.2. Ensure community participation in budget planning, revenue collection, allocation and reporting processes.

6.5.3. Provide the public with possibilities to oversee the budget process and verify that the budget is executed and spent as approved in the plan.

6.5.4. Provide the public with possibilities to oversee any works or services delivered by the state and procurement of goods and services within these works and services.

6.5.5. Consider public opinion in making decisions on establishing priorities, the sequence of implementation and the means for implementing programs, projects and activities.

6.5.6. Each authority shall inform the public on how comments and opinions of citizens and non-governmental organizations are reflected in his/her decisions and how his/her actions ensure public participation in budget activities.

6.6. The principle of ensuring accountability stated in provision 5.1.5 of this Law shall be followed as outlined below:

6.6.1. A budget governor shall be accountable on budget matters to the institution or the official who appoints him/her or to an upper level budget governor.

6.6.2. A budget governor shall resolve budget issues through the respective upper level budget governor.

6.6.3. Budget governors may delegate to lower level budget governors some of his/her authorities. However, such delegation shall not limit the accountability of the budget governor for exercise of those powers.

6.6.4. If a budget governor, under his/her area of responsibility granted by this Law, makes amendments and adjustment to the particular year's budget during the fiscal year, he/she shall report its execution in comparison with the initially approved objectives and outcomes.

6.6.5. If responsibilities other than the ones assigned by this law are assigned to the local budget by other laws, the transfer of these responsibilities must be accompanied by financing to carry out the responsibilities.

6.6.6. Functions to be financed from the respective level's budget as defined in this law shall be financed only from their part of the respective level's budget.

Article 7. Fiscal year

7.1. A fiscal year starts on January 1 and ends on December 31.

7.2. A fiscal year is divided into months, quarters, half year and full year.

7.3. Budgets are approved and reported on an annual basis and approved budgets are allotted and implemented on a monthly and quarterly basis.

7.4. A budget execution report shall be prepared on a monthly basis and financial and budget execution reports shall be prepared on a quarterly, half yearly and yearly basis.

7.5. Preparatory work for implementing the approved budget can be started from the date when the budget is approved by the respective authority.

7.6. With the start of the fiscal year each budget governor's authorization to spend in the approved budget of the corresponding fiscal year shall become effective.

7.7. Apart from the cases specified in Article 43 of this Law, with the end of the fiscal year each budget governor's authorization to spend that fiscal year's budget will lapse. The unused balance of the budget governor's budget shall be mobilized into general budget account of the respective level's budget.

7.8. If the business cycle of a particular sector is different from the fiscal year due to specificity of its activities, budget planning shall be regulated with a procedure approved by the Cabinet Member in Charge of Finance and Budget Matters.

Article 8. Budget calendar

8.1. The Medium-term Fiscal Frameworks Statement shall be prepared and approved in accordance with the following calendar:

8.1.1. The State Central Administrative Body Responsible for Finance and Budget Matters shall submit the draft Medium-term Fiscal Framework Statement to the Government no later than the 15th of April of each year.

8.1.2. The Government shall discuss and submit the Medium-term Fiscal Framework Statement to the State Great Khural no later than the 1st of May of each year.

8.1.3. The State Great Khural shall discuss and approve the Medium-term Fiscal Framework Statement no later than the 1st of June of each year.

8.1.4. The State Great Khural shall publish the Medium-term Fiscal Framework Statement within 7 working days after its approval.

8.2. The State General Guidelines for Socio Economic Development shall be prepared and approved in accordance with the following calendar:

8.2.1. The Administrative body Responsible for Development Policy and Planning Matters shall prepare and submit to the Government a proposal on the State General Guidelines for Socio Economic Development no later than the 1st of April of each year.

8.2.2. The Government shall review the proposal on the State General Guidelines for Socio Economic Development against the Medium Term Fiscal Framework Statement and submit it to the State Great Khural by the 1st of May;

8.2.3. The State Great Khural shall approve the State General Guidelines for Socio Economic Development in its spring session.

8.3. General budget governors annual budget ceilings, based on the Medium-term Fiscal Framework Statement, shall be prepared and approved in accordance with the following calendar:

8.3.1. General budget governors shall submit his/her proposal for a budget ceiling based on the Medium-term Fiscal Framework Statement to the State Central Administrative Body Responsible for Finance and Budget Matters by the 10th of June of each year.

8.3.2. The State Central Administrative Body Responsible for Finance and Budget Matters shall consolidate and prepare draft budget ceilings of general budget governors and submit it to the Government by the 20th of June of each year.

8.3.3. The Government shall discuss and approve draft annual budget ceilings of general budget governors by the 1st of July of each year.

8.3.4. The State Central Administrative Body Responsible for Finance and Budget Matters shall deliver to general budget governors annual budget ceilings approved by the Government along with the budget circular by the 5th of July of each year.

8.4. The State budget, Social Insurance Fund budget and Human Development Fund budget shall be prepared and approved in accordance with the following calendar:

8.4.1. Direct budget governors who report to the central budget governor shall submit his/her annual budget proposal to the respective central budget governor by the 25th of July of each year.

8.4.2. Central budget governors and those direct budget governors who do not report to him/her shall submit his/her annual budget proposals to the respective general budget governor by the 1st of August of each year.

8.4.3. General budget governors shall submit his/her budget proposal to the State Central Administrative Body Responsible for Finance and Budget Matters by the 15th of August of each year.

8.4.4. The State Central Administrative Body Responsible for Finance and Budget Matters shall consolidate and prepare annual budget proposals defined in provision 8.4.3 of this Law and submit it to the Government by the 15th of September of each year.

8.4.5. The Government shall submit the annual budget proposal to the State Great Khural by the 1st of October of each year.

8.4.6. The Government shall publish the annual budget proposal within three working days after its submission to the State Great Khural.

8.4.7. The State central audit body shall present its opinion on the annual budget proposal to the State Great Khural by the 15th of October of each year.

8.4.8. The State Great Khural shall discuss and approve the annual budget proposal by the 15th of November of each year.

8.5. Aimag and the capital city annual budgets shall be prepared and approved in accordance with the following calendar:

8.5.1. Aimag and capital city governors shall submit the budget proposals of the respective level to the respective Citizens' Representative Khural by the 25th of November of each year.

8.5.2. Aimag and the capital city Citizens Representative Khurals shall discuss and approve the respective annual budget proposal by the 5th of December of each year.

8.5.3. Soum and district governors shall submit budget proposals to the respective Citizens' Representative Khural by the 10th of December of each year.

8.5.4. Soum and district Citizens Representative Khurals shall discuss and approve the respective annual budget proposal by the 20th of December of each year.

8.5.5. Aimag and capital city Governors shall submit approved annual budgets of the respective level to the State Central Administrative Body Responsible for Finance and Budget Matters by the 31st of December.

8.6. Monthly and quarterly budget allotment schedules for the state budget, Social Insurance Fund budget and Human Development Fund budget shall be prepared and approved in accordance with the following calendar:

8.6.1. Central budget governors and direct budget governors who do not report to a central budget governor shall submit their budget allotment schedule proposals to their respective general budget governor by the 15th of December of each year.

8.6.2. General budget governors shall submit his/her budget allotment schedule to the State Central Administrative Body Responsible for Finance and Budget Matters by the 25th of December.

8.6.3. Cabinet Member in Charge of Finance and Budget Matters shall approve the budget allotment schedule for the state budget, Social Insurance Fund budget and Human Development Fund budget by January 1 of each year.

8.7. Monthly and quarterly budget allotment schedules for aimag and capital city annual budgets shall be prepared and approved in accordance with the following calendar:

8.7.1. Aimag and capital city governors shall approve the respective level's budget allotment schedule by the 25th of December of each year.

8.7.2. Aimag and capital city governors shall submit his/her budget allotment schedule to the State Central Administrative Body Responsible for Finance and Budget Matters by the 31st of December.

8.8. Monthly budget execution reports for the state budget, Social Insurance Fund budget, Human Development Fund budget and aimag and capital city budgets shall be prepared and approved in accordance with the following calendar:

8.8.1. Direct budget governors shall submit monthly budget execution reports to the respective central budget governor by the 2nd day of each month.

8.8.2. Central budget governors shall submit special fund's monthly budget execution reports to the respective general budget governor by the 4th day of each month.

8.8.3. General budget governors shall submit monthly budget execution reports to the State Central Administrative Body Responsible for Finance and Budget Matters by the 6th day of each month.

8.8.4. The State Central Administrative Body Responsible for Finance and Budget Matters shall approve the Unified Budget's monthly execution report by the 8th of each month

8.8.5. The State Central Administrative Body Responsible for Finance and Budget Matters shall publish the Unified Budget's monthly execution report by the 15th of each month.

8.9. Quarterly, semi-annual and annual budget execution reports for the state budget, Social Insurance Fund budget, Human Development Fund budget and local budgets, and consolidated financial statements of general budget governors shall be prepared in accordance with the following calendar:

8.9.1. Direct budget governors shall prepare and submit quarterly budget execution reports and financial statements by the 15th of the first month of the next quarter to the respective upper level budget governors, submit annual budget execution reports and financial statements by the 25th of January of the following year to state audit bodies and audited financial statements to the respective upper level budget governors by the 25th of February.

8.9.2. Central budget governors shall prepare and submit semi-annual budget execution reports and consolidated financial statements to the general budget governor no later than the 25th of July and annual budget execution reports and financial statements to the state audit body no later than the 5th of March, and submit audited reports to the general budget governor no later than the 25th of March of every year.

8.9.3. Soum and district treasuries shall prepare and submit semi-annual budget execution reports and consolidated financial statements to the general budget governor by the 25th of July of every year, annual budget execution reports and consolidated financial statements to the state audit body by the 5th of March of the following year, and submit audited reports by the 25th of March of every year to the respective upper level general budget governor and publish audited reports.

8.9.4. Aimag and capital city general budget governor shall submit budget execution reports and financial statements by the 1st of April to the state audit body and audited statements by the 20th of April to the State Central Administrative Body Responsible for Finance and Budget Matters and publish audited reports.

8.9.5. General budget governors shall submit semi-annual budget execution reports and consolidated financial statements by the 15th of August of every year, annual budget execution reports and consolidated financial statements by the 5th of April of the following year, and submit audited annual statements by the 25th of April of the following year to the State Central Administrative Body Responsible for Finance and Budget Matters.

8.9.6. The State Central Administrative Body Responsible for Finance and Budget Matters shall prepare a consolidated semi-annual budget execution report and financial statement by the 25th of August of every year.

8.9.7. The State Central Administrative Body Responsible for Finance and Budget Matters shall prepare and submit a consolidated annual budget execution report and financial statement by the 15th of April of the following year to the central audit body and the central audit body conducts the audit of the annual reports and issue its audit opinion by the 5th of May.

8.9.8. Fully and partly state and locally owned legal bodies shall submit their annual financial statements to state audit bodies by the 15th of February and submit their audited statements to the respective general budget governors and the State Property Committee by the 15th of March.

8.10. The Unified Budget execution report and Government's consolidated financial statement shall be prepared in accordance with the following calendar:

8.10.1. The State Central Administrative Body Responsible for Finance and Budget Matters shall submit the unified budget execution report and Government's consolidated financial statement to the state central audit body by the 10th of May of every year.

8.10.2. The state central audit body shall conduct audits of Unified Budget execution report and Government's consolidated financial statement within one month and submit its audit opinion to the Government and the State Great Khural.

8.10.3. The Government shall submit the Unified Budget execution report and consolidated financial statement along with the audit opinion to the State Great Khural within seven working days of the issuance of the audit opinion specified in 8.10.2 of this Law.

8.10.4. The State Great Khural shall discuss the Unified Budget execution report in its spring session and approve the state budget execution.

8.10.5. The State Central Administrative Body Responsible for Finance and Budget Matters shall publish the budget execution report and the audited consolidated financial statement.

CHAPTER THREE

Authorities and Responsibilities of state institutions and officials on budget

Article 9. Authorities of State Great Khural

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9.1. The State Great Khural has the following authorities and responsibilities:

9.1.1. Approve the Medium-term Fiscal Framework Statement as stated in provision 9.1.1 of the Fiscal Stability Law;

9.1.2. Approve the State General Guidelines for Socio-economic Development, state budget, Social Insurance Fund Budget, Human Development Fund Budget and their amendments prepared in conformity with the Medium-term Fiscal Framework Statement;

9.1.3. Discuss the Unified Budget execution and approve the state budget execution;

9.1.4. Oversee the spending and result of the budget funds; and

9.1.5. Authorize the Government to issue securities.

Article 10. Authorities of Government

10.1. The Government has the following authorities :

10.1.1. Submit the draft Medium-term Fiscal Framework Statement to the State Great Khural;

10.1.2. Approve budget expenditure ceilings by each general budget governor within the constraints of the Fiscal Framework Statement approved by the State Great Khural;

10.1.3. Submit the State General Guidelines for Socio-Economic Development, annual budget proposal and supplementary budget proposal in compliance with the Government Action Program and the Medium-term Fiscal Framework Statement to the State Great Khural;

10.1.4. Approve every General budget governor's procurement plan for goods, works and services;

10.1.5. Approve the public investment program.

10.1.6. Review budget proposals to verify that they meet the requirements specified in Article 27 of this law;

10.1.7. Oversee budget execution;

10.1.8. Report on the execution of the Unified Budget to the State Great Khural;

10.1.9. Issue Government securities as authorized by the State Great Khural;

10.1.10. Establish, restructure and dissolve budget entities except the ones established by decisions of the State Great Khural's as stipulated in law.

10.1.11. Manage budget resources efficiently and ensure fulfillment of quality requirements for works and services to be delivered by budget entities;

10.1.12. Manage government loans and borrowing, and develop and implement its debt management strategy;

10.1.13. Approve procedures for preparing, implementing, financing and overseeing of projects implemented with public funds ;

10.1.14. Reallocate funds within the budget of the general budget governors in line with their progress without adding new projects in the list of investment projects approved by the State Great Khural.

10.2. The Non-Permanent National Budget, Financial and Economic Council with 9 members comprised of NGOs, professional associations and sector scholars, who represent tax payers, shall be established under the Prime Minister with the purpose of improving fiscal and economic policy planning, ensuring its reporting and transparency, and exercising public oversight.

10.3. The National Council specified in provision 10.2 of this Law shall discuss a budget proposal and the State General Guidelines on Socio Economic Development and present their comments and conclusions to the Government.

10.4. The charter of the council stated in provision 10.2 of this Law shall be approved by the Government.

Article 11. Authorities of the Cabinet Member in Charge of Finance and Budget

11.1. The Cabinet member in charge of Finance and Budget has the following authorities:

11.1.1. Prepare the Medium-term Fiscal Framework Statement, budget proposal, supplementary budget proposal and annual budget ceiling discussed at Cabinet meetings;

11.1.2. Approve and issue procedures and instructions on financial and budget management matters under his/her authority;

11.1.3. Set budget expenditure norms and normatives, and determine the structure of budgetary entities and standard limits for staffing budgetary entities;

11.1.4. Prepare proposals on improvement of budget and financial management, planning and coordination and submit them to the respective authorities for their approval;

11.1.5. Approve the detailed classification of the budget;

11.1.6. On behalf of the government, incur debts, issue debt guarantees and issue permission to incur debts as stipulated in provision 62.6.2 of this Law as authorized by the government according to relevant laws and regulations;

11.1.7. Provide comments on draft laws that regulate budget and tax relations regarding their consistency with budget and financial policy documents;

11.1.8. Administer loans and grants;

11.1.9. Manage debt and develop and implement debt management strategy

11.1.10. Manage treasury functions;

11.1.11. Conduct and manage budget and financial internal audit and inspection;

11.1.12. Provide budget execution with integrated management;

11.1.13. Approve, enforce and make changes to budget allotment schedules defined in 8.6.3 of this Law;

11.1.14. Define terms and conditions for government securities stated in Article 10.1.9;

11.1.15. Issue financing for programs to be financed from the state budget according to the approved budget to general budget governors, budgetary entities and other bodies;

11.1.16. Define capital charges for the usage of state property;

11.1.17. Approve a procedure for developing local budget proposals;

11.1.18. Establish a general procedure on purpose and spending of governors' reserve funds;

11.1.19. Obtain information required for exercising authorities defined in this law from budgetary entities and other bodies.

Article 12. Authorities of the State Central Administrative Body Responsible for Finance and Budget Matters

12.1. The State Central Administrative Body Responsible for Finance and Budget Matters has the following authorities:

12.1.1. Prepare the Medium-term Fiscal Framework Statement and the economic and fiscal projections reflected in the Medium-term Fiscal Framework Statement;

12.1.2. Prepare proposals for the state budget, Social Insurance Fund budget and Human Development Fund budget and their amendment;

12.1.3. Prepare annual budget ceilings for each general budget governor within the indicators specified in the Medium-term Fiscal Framework Statement approved by the State Great Khural;

12.1.4. Prepare a budget circular to formulate an annual budget proposal, in accordance with the budget preparation calendar, and circulate it to general budget governors;

12.1.5. Prepare the government's proposal for a supplementary budget;

12.1.6. Monitor budget execution of general budget governors;

- 12.1.7. Prepare a report on the execution of the Unified Budget;
- 12.1.8. Prepare the Government's consolidated financial statement in accordance with international accounting standards;
- 12.1.9. Develop accounting standards of Mongolia in accordance with international accounting standards and ensure its implementation;
- 12.1.10. Develop a proposal on changing the terms and conditions of Government securities and loans, and loan repayments;
- 12.1.11. Authorize state budgetary entity to open bank accounts;
- 12.1.12. Prepare projections on state outstanding debt and midterm debt service on a half yearly basis and release such projections to the media.
- 12.1.13. Implement state central treasury functions, and manage budget funds and reserve funds;
- 12.1.14. Provide various offices responsible for economic, budget and financial matters with professional and methodological guidance;
- 12.1.15. Monitor the implementation of activities of budgetary entity under the authority of general budget governors and the activities of local budgetary entities financed with state budget funds;
- 12.1.16. Execute budgetary internal audit and inspection functions;
- 12.1.17. In line with budget revenue collection, decrease authorisation to spend and authorisation to finance within the cash management framework;
- 12.1.18. Prepare a proposal on establishment and operation of an independent center with responsibility to undertake economic, financial and budget policy analysis and research and submit to the authorized body for approval;
- 12.1.19. Manage integrated information systems on budget planning, budget execution, accounting, and reporting;
- 12.1.20. Obtain necessary information from budgetary entities and other bodies in order to exercise authorities defined in this Law.

Article 13. Authorities of the State Administrative Body Responsible for Development Policy and Planning Matters

13.1. The State Administrative Body responsible for Development Policy and Planning Matters has the following authorities:

13.1.1. develop and submit to the Government the State General Guidelines Proposal for Socio-Economic Development; and

13.1.2. develop the public investment program.

Article 14. General budget governors and their authorities

14.1. The following officials shall act as general budget governors:

14.1.1. Head of the Office of the President of Mongolia in relation to the budget of the President of Mongolia;

14.1.2. Speaker of the State Great Khural in relation to the budgets of the State Great Khural;

14.1.3. Heads of organisations who reports directly to the State Great Khural in relation to the respective organisation's budgets;

- 14.1.4. Prime Minister in relation to the budget of organisations within his/her Portfolio specified by Law;
- 14.1.5. First Deputy Prime Minister in relation to the budget of organisations within his/her Portfolio specified by Law;
- 14.1.6. Deputy Prime Minister in relation to the budget of organisations within his/her Portfolio specified by Law;
- 14.1.7. Head of the Cabinet Secretariat in relation to the budget of the Prime Minister, the budget of the Offices of the First Deputy Prime Minister and Deputy Prime Minister, the budget of the Cabinet Secretariat, and the budget of other organisations within his/her Portfolio specified by Law;
- 14.1.8. Cabinet Member in relation to the budget of the respective State Central Administrative Body and the budget of other organisations within his/her Portfolio specified by Law;
- 14.1.9. Head of the Constitutional Court in relation to the budget of the Constitutional Court;
- 14.1.10. General Judge of the Supreme Court in relation to the budget of the Supreme Court;
- 14.1.11. Chairman of the Judiciary Council in relation to the budgets of the Secretariat of the Judiciary Council, Aimag, Capital City, Soum, inter-Soum, District and specialised courts;
- 14.1.12. General Prosecutor in relation to the budgets of the Prosecutor's office at all levels;
- 14.1.13. General Secretary of the National Security Council in relation to the budget of the National Security Council;
- 14.1.14. Head of the Anti-corruption agency in relation to the budget of the Anti-corruption agency;
- 14.1.15. Head of the Presidium of Aimag, Capital City, Soum and District Khurals in relation to the budget of the respective level Khural
- 14.1.16. Heads of organisations who report directly to the Khural in relation to the budget of that organisation;
- 14.1.17. Governors of the capital city, aimag, soum and district in relation to the budget of the respective level of administration except the ones specified in 14.1.15 and 14.1.16 of this Law.
- 14.2. General budget governors have the following authorities:
 - 14.2.1. Formulation of the budget proposal within the annual budget ceiling;
 - 14.2.2. Estimate realistically the financing for programs implemented under his/her area of responsibility;
 - 14.2.3. Ensure efficient management and execution of the budget under his/her area of responsibility;
 - 14.2.4. Under his/her area of responsibility prepare investment project proposals within the annual budget ceiling in line with all types of financial sources for the budget year and the medium-term;
 - 14.2.5. Maintain normal operation of budgetary entities and agencies under his/her area of responsibility;
 - 14.2.6. Prepare and submit program performance and budget execution reports to the Cabinet Meeting;
 - 14.2.7. Consolidate and submit semi-annual and annual financial statements including financial statements of agencies and other budgetary entities, government special funds, and projects implemented with the support of foreign loans and grants under his/her area of responsibility to the State Central Administrative Body in Charge of Finance and Budget Matters;
 - 14.2.8. Oversee implementation of investment projects and activities during budget execution and report quarterly to the State Central Administrative Body in Charge of Finance and Budget;
 - 14.2.9. Upon completion of investment projects report on investment spending to the State Central Administrative Body in Charge of Finance and Budget;
 - 14.2.10. Carry out internal audit under his/her area of responsibility;

14.3. Ensure appropriate and efficient use of budget expenditures and revenues, and performance execution, and be fully responsible for his/her budget execution before the State Central Administrative Body in Charge of Budget and Finance, respective level of Khural, the Government and the State Great Khural.

14.4. General budget governors may delegate to central budget governors or direct budget governors some of their authorities related with budget allocation and execution. The exercise of such delegation shall not limit the accountability of general budget governor for the exercise of those powers.

14.5. General budget governors shall have a financial unit, accountant and officers in charge of budget matters associated with his/her authority.

Article 15. Central budget governors and their authorities

15.1. General budget governors can have central budget governor under his/her supervision who shall have authority to supervise direct budget governors;

15.2. Aimag and capital city governors shall act as central budget governors who received special purpose transfers by agreements as specified in provision 39.1 of this Law.

15.3. The Government shall determine state central budget governors and direct budget governors who shall be under supervision of the central budget governors.

15.4. Central budget governors shall have the following authorities in relation to budgets pertaining to him/her:

15.4.1. Exercise authorities of General budget governors as articulated by provisions 14.2.2, 14.2.3, 14.2.5, and 14.2.8 of this Law and authorities of direct budget governors as articulated by Article 16.5 of this Law

15.4.2. Consolidate reports specified in Provision 14.2.8 of this Law and submit it to the respective general budget governor.

Article 16. Direct budget governors and their authorities

1.

16.1. Budgetary entities shall be managed by direct budget governors who shall provide these budgetary entities with efficient operational management and be responsible for their performance.

16.2. The respective general budget governor shall appoint the direct budget governors for organisations that report directly to the State Great Khural.

16.3. The respective general budget governor shall appoint the direct budget governor for organisations that report directly to the aimag and capital city Citizens' Representative Khural.

16.4. The following officials shall act as direct budget governors:

16.4.1. Deputy Head of the Office of the President in relation to the budget of the President and the Office of the President;

16.4.2. General Secretary of the Secretariat of the State Great Khural in relation to the budget of the State Great Khural;

16.4.3. First Deputy Head of the Cabinet Secretariat in relation to the budget of the Prime Minister and budgets of offices of the First Deputy Prime Minister, Deputy Prime Minister and the Cabinet Secretariat;

16.4.4. State Secretary of the State Central Administrative Body in relation to the budget of the respective body;

16.4.5. Head of an agency in relation to the budget of the agency;

16.4.6. Head of the Office of the Constitutional Court in relation to the budget of the Constitutional Court;

16.4.7. Head of the Office of the National Security Council in relation to the budget of the Council;

16.4.8. Head of the Office of the High Court in relation to the budget of this Court;

- 16.4.9. Secretary of the Judiciary Council in relation to the budget of the Secretariat of the Judiciary Council;
- 16.4.10. Head of the Anti-corruption Authority in relation to the budget of this authority;
- 16.4.11. Head of the Office of aimag, capital city, soum, inter-soum, district and specialized courts in relation to the budget of respective level court;
- 16.4.12. Head of the Secretariat of the General Prosecutor in relation to the budget of General Prosecutor's office;
- 16.4.13. Head of the Offices of the aimag and capital city Prosecutor in relation to the budget of respective level of Prosecutor's office;
- 16.4.14. Secretary of the Presidium of aimag, capital city, soum and district Khurals in relation to the budget of respective level Khural;
- 16.4.15. Head of the Office of the aimag, capital city, soum and district Governors in relation to the budget of the Office of respective level Governor;
- 16.4.16. Head of the Project Unit which is implemented with the financial support of a concessional loan and grant through Government in relation to the budget of this project;
- 16.4.17. Manager of the Government Special Fund in relation to the budget of this fund; and
- 16.4.18. Head (principal and director) of other budgetary entity in relation to the budget of this budgetary entity.
- 16.5. Direct budget governors have the following authorities on budget management:
- 16.5.1. Provide budgetary entity with day-to-day management;
- 16.5.2. Manage budget resources and control over their realisation within the performance agreement established with the general budget governor on implementation of programs and execution of the approved budget;
- 16.5.3. Determine staffing and employees' salaries of the budgetary entity within the approved salary fund and staffing limit;
- 16.5.4. Improve the performance effectiveness of the budgetary entity;
- 16.5.5. Spend the approved budget according its purpose;
- 16.5.6. Undertake internal audit activities;
- 16.5.7. Prepare accurate and correct financial statements, budget execution reports and performance reports within the specified timeframe; and
- 16.5.8. Provide the State Central Administrative Body Responsible for Finance and Budget Matters with required information in a timely manner;

Article 17. Budgetary entity

- 17.1. A project unit operated with loans or grants rendered by international organizations and donor countries to Mongolia through Government shall be a budgetary entity.
- 17.2. As stated in the Law on State Registration of Legal Bodies, the State Central Administrative Body Responsible for Finance and Budget Matters shall register budget entities.
- 17.3. A unit, which carries out one-time, non-permanent activities of a budget governor, shall belong to the budget governor who will directly supervise it and it shall be subject to the budget process.

Article 18. Special funds

- 18.1. Activities directed at implementing some state functions can be carried out through special funds.
- 18.2. Special funds shall be in the form of Government special funds and local special funds.

18.3. The establishment of Government special funds, principles for fund's activities, its functions, revenue and spending processes shall be regulated by legislation.

18.4. The establishment of local special funds, principles for fund's activities, its functions, revenue and spending processes shall be regulated by this Law.

18.5. Government special funds shall be part of the state budget and local special funds shall be part of the local budget.

18.6. The remobilization of the revolving fund's balances specified in 4.1.50 of this Law to the budget shall be regulated by law of the particular fiscal year.

18.7. Relations arise in connection with the establishment of revolving funds and its revenue, purpose, spending and reporting of the revolving funds shall be regulated by law.

Article 19. Appointment and dismissal of the budget chief accountant

19.1. Organizations at all levels of the budget process shall employ a budget chief accountant for the respective level.

19.2. General budget governors specified in Provisions 14.1.3, 14.1.7, 14.1.8, 14.1.11, 14.1.12 and 14.1.16 of this Law shall have budget chief accountants.

19.3. General budget governors except the ones specified in Provision 19.1 and 19.2 of this Law, central budget governors and direct budget governors shall have senior budget accountants and budget accountants.

19.4. General budget governors specified in 14.1.3, 14.1.7, 14.1.8, 14.1.11, and 14.1.12 of this Law shall appoint and dismiss the respective budget chief accountant upon agreement with the State Secretary of the State Central Administrative Body Responsible for Budget and Finance.

19.5. Soum and district general budget governors shall appoint and dismiss the respective budget chief accountant upon agreement with the aimag and capital city general budget governors, and aimag and capital city general budget governors shall appoint and dismiss the respective budget chief accountant upon agreement with the State Secretary of the State Central Administrative Body Responsible for Budget and Finance.

19.6. Central budget governors and direct budget governors shall appoint and dismiss respective senior budget accountant as described below:

19.6.1. As for budget accountants of central budget governors and direct budget governors under the State Budget, Social Insurance Fund budget and Human Development Fund budget upon agreement with the State Secretary of the State Central Administrative Body Responsible for Budget and Finance;

19.6.2. As for senior budget accountants of budget entities transferred to the local government through agreement stated in Article 39 of this Law which reports to central budget governors upon agreement with the head of the aimag's and capital city's treasury division.

19.6.3. Central budget governor and direct budget governors, who deal with aimag and capital city budgets, will appoint their budget accountants in consultation with aimag and capital city treasury division heads. Direct budget governors who deal with soum budgets will appoint their budget accountants, in consultation with aimag and capital city treasury division heads; and

19.6.4. As for budget accountants of direct budget governor who deal with district budgets upon agreement with the head of the district financial and treasury division.

19.7. The State Central Administrative Body Responsible for Finance and Budget Matters shall determine requirements, criteria and procedure for chief accountants of budgetary entities and fully and partly state owned entities.

Article 20. Integrated Financial Information System

1.

20.1. Preparation of all levels' budgets, budget execution, accounting and reporting shall be implemented through integrated budget information network.

20.2. Data in the integrated financial information system shall be supported by respective decisions, legal acts and accounting documents.

20.3. Respective entities and officials shall have obligation to enter accurate data into the budget information system, and file, record and protect the original documents entered into the system.

CHAPTER FOUR

Budget structure

Article 21 . Budget level

21.1. The Unified Budget of Mongolia is comprised of the state budget, local budgets, the budget of the Social Insurance Fund and the budget of the Human Development Fund.

21.2. The local budget is comprised of aimag, capital city, soum and district budgets.

21.3. The state budget shall be an upper level budget for aimag and capital city budget and aimag and capital city budget shall be an upper level budget for soum and district's budget.

21.4. Revenues to be imposed and functions to be implemented for each level of the budget shall be determined by law.

Article 22. Budget classification

22.1. Budget is planned, implemented, recorded and reported in accordance with the set classification.

22.2. Budgets shall be classified with the following categories:

22.2.1. By budget level;

22.2.2. By budget governors;

22.2.3. By economic classification;

22.2.4. By programs;

22.2.5. By activities; and

22.2.6. By financing sources.

22.3. The classification specified in 22.2 of this Law shall be the primary budget classification.

22.4. The State Central Administrative Body Responsible for Finance and Budget Matters can determine other classifications and the coding level of the budget classification if needed.

22.5. It is not allowed to change the amount of revenues or expenditures by recording deliberately incorrect information in the budget classification.

22.6. Budget classifications shall be applied in the following ways for every step of budget planning, approval, implementation and reporting:

22.6.1. Establish indicators of the Medium-term Fiscal Framework Statement for each level of budget;

22.6.2. Define budget expenditure ceilings by budget level, by general budget governors for respective budget level, and by aggregate level of expenditures;

22.6.3. Prepare budget planning, recording and reporting by each category of budget classification with detailed classification.

22.6.4. Authorized body approves budgets by each level, by general budget governors for each level, by each program and its expected outcomes, investment project and project and activity implemented through concession agreements, special funds, revenues, and financing sources.

22.6.5. General budget governor, approves his/her approved budget by each central budget governor and by each direct budget governor where the budget is not directly supervised by the central budget governor in accordance with the classification specified in provisions 22.2.3-22.2.6 of this Law together with the outcomes.

22.6.6. Central budget governor, approves his/her budget by each direct budget governor in accordance with the classification specified in provisions 22.2.3-22.2.6 of this Law together with its outcomes.

22.6.7. Direct budget governor, records and reports approved budget in accordance with the classification specified in provisions 22.2.3-22.2.6 of this Law.

22.6.8. Budget execution process shall be controlled by the classifications specified in provision 22.2 of this Law and control level can be set for aggregate level of expenditures within the detailed economic classification.

22.7. By each type of the classifications identified in provision 22.2. of this Law, the State Central Administrative Body Responsible for Finance and Budget Matters shall determine detailed classification for each category of the budget classification and issue procedures for using this classification in budget planning, reporting and execution.

22.8. The State Central Administrative Body Responsible for Finance and Budget Matters shall determine methodology for converting budget classification in conformity with International standards on Government Financial Statistics.

22.9. The Government shall define and enforce the procedure for exercising virement between line items of budgets set by classifications as defined in Provision 22.6.8 of this law by each category of budget governor and common rule for setting aggregate expenditure level for controlling.

Article 23. Budget revenue

23.1. Budget revenue is comprised of tax and non tax revenues and other revenues.

23.2. Tax revenues are comprised of taxes, fees and commissions as articulated by the General Tax Law.

23.3. Non tax revenues are comprised of dividends from fully and partly state and locally owned enterprises for the share of state and local property, sales revenue and charges for the use of state and local property, proceeds from privatisation, sale and renting of state and local property, fines, revenue from non-core activities of budgetary entity, loans and grants obtained from foreign countries and/or international organisations and other types of revenues generated into the budget in accordance with respective laws.

23.4. State budget tax revenues are comprised of the following types of revenues:

23.4.1. Company income tax;

23.4.2. value added tax;

23.4.3. excise tax;

23.4.4. customs duties;

23.4.5. fuel and diesel tax ;

23.4.6. mineral resource exploitation tax;

23.4.7. Mining and exploration license fees;

23.4.8. Air pollution tax; and

23.4.9. State stamp tax specified in 11.2 of the Law on State stamp tax.

23.5. State budget non tax revenues are comprised of the following types of revenues:

23.5.1. dividends from fully and partly state owned enterprises for the share of state property except the one specified in provision 3.2.1 of the Law on Human Development Fund;

23.5.2. charges for the usage of state property and revenue from the sale of state property; and

23.5.3. other types of revenues to be generated into the state budget in accordance with the respective laws.

23.6. Aimag and capital city budget tax revenues are comprised of the following type of revenues:

23.6.1. capital city tax;

23.6.2. land fee;

23.6.3. immovable property tax;

23.6.4. vehicle and self movable carriage tax;

23.6.5. charges for service and industrial water users;

23.6.6. taxes on income specified in provision 8.1.1 of the Law on Personal Income Tax;

23.6.7. taxes on inheritance and gifts; and

23.6.8. state stamp tax other than that specified in provision 23.4.9 of this law.

23.7. Aimag and capital city budget non-tax revenues are comprised of the following type of revenues:

23.7.1. dividends from fully and partly locally owned legal bodies for the share owned by local government;

23.7.2. charges for the usage of local property and revenue from the sale of local property, revenue from interest and fines; and

23.7.3. other types of revenues to be generated into aimag and capital city budgets in accordance with respective laws.

23.8. Soum and district budget tax revenues are comprised of the following type of revenues:

23.8.1. Personal income taxes other than articulated by provision 8.1.1 of the Law on Personal Income Tax;

23.8.2. gun fee;

23.8.3. state stamp tax other than that specified in 23.4.9 of this Law;

23.8.4. hunting fee;

23.8.5. license fee for exploitation of natural resources other than mineral resources;

23.8.6. fee on natural plants;

23.8.7. timber fee;

23.8.8. fee on use of widespread mineral resources;

23.8.9. fee on the household usage of water and spring water;

23.8.10. income tax of self-employed person whose income is not predictable for a certain time period; and

23.8.11. dog fee.

23.9. Soum and district budget's non tax revenues are comprised of the following types of revenues:

23.9.1. dividends from fully and partly locally owned enterprises for the share owned by local government;

23.9.2. charges for the usage of local property and sales revenue, revenue from interest and fines; and

23.9.3. other types of revenues to be generated into soum and district's budget in accordance with the respective laws.

23.10. Proceeds from donations, grants and assistance specified in Article 25 of this law shall be budget revenues.

23.11. Revenues occurred in relation to owning, using and spending land and natural resources in the form specified in law shall be part of the budget revenue.

Article 24. Budget expenditure

24.1. Budget expenditures shall consist of capital and recurrent expenditures.

24.2. Expenditures related with the creation and purchase of state and local property and establishment of a legal body, financed in the form other than state and locally owned enterprises' own sources, shares, and paid-up capital and all types of financial instruments associated with it, shall be part of budget expenditures of the respective level.

24.3. Budget expenditures shall be planned by each category and sector, presented in the budget execution and reported in detailed way.

24.4. If procurement of goods and services with budget fund is not organized in accordance with the respective legislation it is prohibited to make financing from the budget.

24.5. Activities, works, and services to be implemented by General budget governor and agencies and budgetary entity within the area of responsibility of the General budget governor shall be included in respective programs of the General budget governors.

Article 25. Grant revenue and expenditures to be financed from this revenue

25.1. Grant revenues shall be in the following forms:

25.1.1. development grants to be obtained in accordance with international agreements;

25.1.2. grants and donations obtained from non-state and locally owned bodies;

25.2. Budgetary entities that provide only the following social services can obtain grants and donations in accordance with the procedure specified in this law:

25.2.1. health services;

25.2.2. all level education services; and

25.2.3. cultural services.

25.3. The value of grants and donations obtained by general budget governors shall not exceed 50 percent of the approved budget of the particular budgetary entity.

25.4. Budgetary entities through their general budget governor can obtain grants and donations in the form of cash and movable property from non-state and locally owned entities in the following circumstances:

25.4.1. to continue implementation of programs and activities the lack financing sources; and

25.4.2. to implement training programs aimed at strengthening organisational human resource capacities;

25.5. It is prohibited for budgetary entities to obtain grants and donations considering the following cases as conflict of interest:

25.5.1. a body who rendered grants and donations use public services of that budgetary entity or sells its goods or provides its works and services for that budgetary entity's needs; and

25.5.2. for the purpose of resolving social issues of personnel other than that specified in provision 25.4.2 of this law.

25.6. The same requirements that apply when carrying out activities financed from the budget shall also apply when carrying out the same activities financed from grants.

25.7. Grants and donations shall be recorded and reported in accordance with the respective procedure.

25.8. General budget governors shall submit a copy of the agreement for grants and donations to the either State Central Administrative Body Responsible for Budget Matters or aimag, the capital city, soum and district's treasury office within one month.

25.9. Unless otherwise stated in law, non-state and locally owned legal bodies shall render grants and donations from their after tax profit.

25.10. It is prohibited for state and locally owned legal bodies to render grants and donations.

25.11. Relations that arise in connection with obtaining, expending, managing, recording and reporting development grants shall be regulated by law in accordance with international agreements to which Mongolia is a signatory.

25.12. Unless otherwise defined in international agreements to which Mongolia is a signatory, grant funds shall be placed in the Treasury Single Account.

Article 26. Financial records and standards

26.1. Budgetary entity shall maintain accounts on a full accrual basis in accordance with international and national accounting standards.

26.2. Budget records shall be recorded and reported with modified accrual basis.

26.3. The State Central Administrative Body Responsible for Finance and Budget Matters shall develop and enforce national accounting standards to be applied in public sector and budget records.

CHAPTER FIVE

Budget preparation, submission and approval

Article 27 Requirements for preparation of budget proposal

27.1. In addition to the special fiscal requirements specified in the Fiscal Stability Law, the following requirements shall be met when preparing a budget proposal:

27.1.1. Comply with budget principles;

27.1.2. Be based on macro-economic conditions, analyses and estimations;

27.1.3. Aim at improving accessibility and quality of public services and maximizing public benefits resulting from budgetary financing;

27.1.4. Be based on its annual budget ceiling;

27.1.5. Prepare the budget proposal by programs and by each general budget governor;

27.1.6. Include all public entities' budgets to be financed from the budget in the relevant General budget governor's budget proposal.

27.1.7. Plan, record and report revenues and expenditures on the basis of all transactions except internal transactions.

27.2. Annual budget ceilings to be delivered to general budget governors shall meet the following requirements:

27.2.1. set budget ceilings by recurrent and capital expenditures; and

27.2.2. present new and continuing projects and activities to be included in the investment program by financing sources.

27.3. The State Central Administrative Body Responsible for Finance and Budget Matters shall distribute to general budget governors a budget circular that outlines detailed instruction on preparation of budget proposals of general budget governors who belong to the state budget.

27.4. The following shall be included in the budget circular:

27.4.1. estimation of the Medium-term Fiscal Framework Statement and explanation on the decisions made;

27.4.2. Government approved budget ceiling;

27.4.3. policy guidance on the State General Guideline for Socio- Economic Development and the Government Action Plan.

27.4.4. general and special requirements for preparation of investment projects;

27.4.5. general conditions for making request on financing of budget proposals;

27.4.6. special forms and their instruction for preparation of budget proposals; and

27.4.7. deadline for submitting budget proposals.

27.5. An instruction for preparation of local budget proposal shall be reflected in the budget circular and shall be delivered to aimag and capital city governors.

Article 28. Public Investment Program Planning

28.1. Those infrastructure and development investment projects aimed at ensuring economic growth for the long term with a value of more than 30 billion togrogs which are to be implemented for the period of more than one year shall be included in the Public Investment Program.

28.2. General budget governor shall submit his/her proposal on projects and measures to be included in the public investment program to the State Administrative Body Responsible for Development Policy and Planning Matters.

28.3. The State Administrative Body Responsible for Development Policy and Planning Matters together with the State Central Administrative Body Responsible for Finance and Budget Matters shall establish priorities and implementation orders for investment projects taking into consideration the following:

28.3.1. national long- and medium-term development policies;

28.3.2. economic benefits and investment return;

28.3.3. social significance;

28.3.4. Government action program and priority areas;

28.3.5. standards for public services delivered by the government;

28.3.6. sector development policies;

28.3.7. regional development policies;

28.3.8. local development needs;

28.3.9. Medium-term Fiscal Framework Statement; and

28.3.10. assessment of contingent liabilities and other financial risk.

28.4. Taking into consideration the items stated in 28.3.1-28.3.8 of this Law, the State Administrative Body Responsible for Development Policy and Planning Matters shall undertake pre-feasibility studies of projects and measures with a value of more than 30 billion togrogs that will be included in the public investment program.

28.5. The State Central Administrative Body Responsible for Finance and Budget Matters shall review and verify projects to be included in the public investment program against requirements stated in 28.3.9-28.3.10 of this Law.

28.6. The State Administrative Body Responsible for Development Policy and Planning Matters shall carry out design, budget and feasibility studies of projects which are proven to be beneficial by the pre-feasibility studies in terms of economic benefits and social significance stated in 28.3.2 and 28.3.3 of this Law.

28.7. Studies and estimation stated in 28.4 and 28.6 of this Law shall not be applicable to the following projects and measures:

28.7.1. projects and measures related with the activities of the national security and defense; and

28.7.2. projects and measures aimed at eliminating or recovery from the consequences of natural disaster.

28.8. The Government shall approve once in 4 years and review annually the public investment program within the framework of the state policy documents approved by the State Great Khural.

28.9. The State Administrative Body Responsible for Development Policy and Planning Matters shall submit to the Government a draft update of the investment program to be undertaken in the particular year by May 15 of every year.

28.10. The public investment program includes projects financed by budget, loans, and grants as well as those to be implemented by concession agreement and Development Bank funded projects.

28.11. Methodology for estimating the result of the projects considering economic benefits and social significance of investment shall be approved jointly by the Cabinet Member in charge of Finance and Budget Matters and Chief of the State Administrative Body Responsible for Development Policy and Planning Matters.

Article 29. Public investment budgeting

29.1 Within the public investment program, the Administrative Body Responsible for Development Policy and Planning Matters shall prepare a proposal on continuing and new investment projects and general budget governors shall prepare a proposal on investment projects with a total value of less than 30 billion togrogs other than that stated in 28.1 of this Law in accordance with the budget circular and submit it to the State Central Administrative Body Responsible for Finance and Budget Matters within the timeframe defined in 8.4.3 of this Law.

29.2 Estimates related with the operational costs of a capital asset to be established through investment project such as recurrent expenditure, staffing and financing resources, and an assessment of its impact on the budget, shall be attached to the project proposal.

29.3 The State Central Administrative Body Responsible for Finance and Budget Matters and respective level governors shall present investment projects in the annual budget proposal in the following ways:

29.3.1 in compliance with the Medium-term Fiscal Framework Statement and annual budget ceiling;

29.3.2 present projects in the public investment program by their total cost, starting and ending dates and expenditures planned for the fiscal year;

29.3.3 present recurrent maintenance of short term assets to be completed within each year, capital asset renovation, equipment and other capital projects by programs and general budget governors;

29.3.4 present the full cost of each project regardless of its financing sources; and

29.3.5 The particular fiscal year's allotment of the total budgeted cost for new buildings and construction, investment projects and measures shall not be less than the amount evenly divided for periods of implementation.

29.4 Those investment projects for which feasibility studies have been undertaken and design and budget are approved shall be presented in the investment budget.

29.5 Requirements identified in 28.3 of this Law shall also be applicable to investment projects and measures with total budgeted cost of less than 30 billion togrogs.

29.6 The State central administrative body responsible for the particular matters shall undertake feasibility studies for investment projects and measures with total budgeted cost less than 30 billion togrogs and the State Central Administrative Body Responsible for Finance and Budget Matters shall reflect them in the budget if the investment projects are proven to be beneficial as specified in 28.6 of this Law.

29.7 If the price index of material used in a project increases by twice the tariff used when estimating the budget for the approved project, it can be considered in the particular year's supplementary budget.

29.8 The condition specified in 29.7 of this Law emerged due to faulty actions of contractors shall not be a justification for changing the budgeted costs.

Article 30. Public-Private Partnership

30.1 The following types of public-private partnership can be formed.

30.1.1 public services may be executed by the private sector; and

30.1.2 through concession contracts;

30.2 In the following circumstances public-private partnerships shall be used:

30.2.1 Introduce technology, equipment and efficient management tools of the private sector to public sector;

30.2.2 Implement projects or activities that require mandatory government support but which cannot be implemented solely by private sector; and

30.2.3 Implement projects and activities with proven benefits as shown in feasibility studies.

30.3 Public-private partnerships are prohibited for the purpose of avoiding contribution to the budget deficit or for postponing budgetary payment.

30.4 Projects and activities implemented through concession contracts shall be part of the budget.

30.5 Relations on concessional contracts shall be regulated by respective laws.

Article 31. General budget governor's annual budget proposal

31.1 General budget governors annual budget proposals shall meet the following requirements:

31.1.1 Funding should be determined by the scope of programs and activities pertaining to core functions;

31.1.2 Objectives, targets and outcomes of program should be estimated;

31.1.3 Annual budget ceiling shall be complied with;

31.1.4 Within each area of responsibility, investment projects and activities and resources required to implement them shall be reflected in the respective program;

31.1.5 Within each area of responsibility, pensions, allowances and other types of financial supports to be financed from the budget shall be reflected in the respective program; and

31.1.6 Procurement plan proposals shall be attached.

31.2 If general budget governors submit proposals that exceed the ceiling stated in provision 31.1.3 of this law, the proposals shall be made with respective justification and explanation separately from the budget proposal.

31.3 The State Central Administrative Body Responsible for Finance and Budget Matters shall return the budget proposal of a the general budget governor if it does not meet the requirements identified in 31.1 of this Law.

31.4 The following estimates shall be attached to the budget proposal of the General budget governor:

31.4.1. Estimates of revenue to be collected to finance expenditures;

31.4.2. Estimates of revenue from a budgetary entity's own operations;

31.4.3. Estimates of new programs and activities;

31.4.4. Proposal and estimates on halting or reducing financing for programs and activities that have become socially and economically unbeneficial, together with financial implications of this proposal.

31.4.5. Budget execution review report and preliminary estimation of the expected actual budget execution of the current fiscal year;

31.4.6. Expenditure allocation estimates presenting inputs, budget, financing sources, and expected outcomes by programs and by economic classification; and

31.4.7. justification and estimates of projects and measures implemented through concession contracts and information specified in provision 10.3 of the Law on Concession.

31.5 The Government and Governor's Council shall discuss budget proposals by each general budget governor.

Article 32. Submission of Budget proposals to the State Great Khural

32.1. The Government shall submit proposals for the Unified Budget, Social Insurance Fund budget and Human Development Fund Budget with the presentation specified by Provision 32.2 of this law to the State Great Khural in accordance with the timeframe specified in Provision 8.4 of this Law.

32.2 The presentation of the budget proposal shall include the following information:

32.2.1 Assessment of macroeconomic current condition and projections and trends;

32.2.2 The Government's policies and priorities for the budget year directed at ensuring macroeconomic and fiscal stability and their implementation issues;

32.2.3 Estimates of targeted indicators for budget balances;

32.2.4 Assessment of key fiscal risks that may affect budget execution;

32.2.5 Estimation of tax expenditures by each type of tax, the previous two year's execution and projections for the following two fiscal years;

32.2.6 List of investment projects and activities by types and funding sources;

32.2.7 List of projects and activities for which funding sources are to be frozen or reduced and their impacts on the budget, and its explanation;

32.2.8 List of projects and activities to be funded by foreign loans and assistance, each identified by type, physical structure, and total cost;

32.2.9 Estimation of Special Fund revenues and expenditures;

32.2.10 Dividends from fully and partly state and locally owned legal bodies for the share owned by central government;

Article 33 The State Great Khural Approval of the Budget

33.1 The State Great Khural shall enact proposals on the State budget, Social Insurance Fund budget and Human Development Fund budget in compliance with the requirements of the Fiscal Stability Law in accordance with the calendar specified by article 8.4 of this law.

33.2 The following items shall be included and approved in the budget:

33.2.1 Revenues to be collected by each general budget governor into its annual budget and own revenues of its subordinate budget entities for the particular fiscal year;

33.2.2 Maximum level of aggregate budget expenditures and maximum level of recurrent and capital expenditures for each general budget governor for the fiscal year, within which should be shown the amount of special purpose transfers for the particular fiscal year;

33.2.3 Sources for financing budget deficits, maximum levels for new debt to be incurred and guarantees to be issued by the Government and limitations on cash flows;

33.2.4 Revenue transfers and financial support to be allocated to budgets at other levels;

33.2.5 Programs to be implemented by each general budget governor and qualitative and quantitative indicators of expected outcomes of the programs as presented in the annex;

33.2.6 List of investment projects as set in the annex (name, location, capacity, timeframe for implementation, budgeted cost, financing sources and total amount of financing for the particular fiscal year).

33.2.7 List of projects and activities to be implemented through concession contracts and requirements and terms and conditions set for them as presented in the annex.

Article 34 Supplementary budget

34.1 For the following circumstances the Government shall formulate and submit a supplementary budget for the particular fiscal year to the State Great Khural:

34.1.1 In the case of occurrence of events that causes suspension of the special fiscal requirements as defined in the Fiscal Stability Law;

34.1.2 Due to unforeseen circumstances, budget revenue has decreased, expenditure has increased and the Unified Budget deficit has increased by 3% or more of GDP.

34.1.3 If a justification as specified in Provision 29.7 of this law becomes apparent, budgeted costs of programs, projects and activities shall be amended.

34.1.4. Adjustment of budgets between general budget governors;

34.2 For the following circumstances the Governor shall formulate and submit a supplementary budget for the particular fiscal year to the respective level of Citizens' Representative Khural:

34.2.1. Due to amendments to the upper level budget;

34.2.2. In the circumstances of the event where budget revenue has decreased, expenditure has increased and the local budget is in deficit due to unforeseen conditions;

34.2.3. Justification as defined in Provision 29.7 of this Law becomes apparent, making it necessary to amend the budgeted costs of approved programs, projects and activities.

34.3. Until the period of completion of amendments to the budget of the particular fiscal year, financing or implementation of the following programs, projects and activities can be stopped temporarily:

34.3.1. for those programs, project and activities for which financing in the supplementary budget proposal is expected to be reduced or eliminated; or

34.3.2. contracts of programs, projects and activities that have not been established.

CHAPTER SIX

Budget implementation and execution

Article 35. The Treasury Single Account

35.1 Financial assets are managed through the Treasury Single Account, established in the Bank of Mongolia;

35.2 Budget revenues and own revenues collected by any budgetary entity are deposited into the Single Treasury Account without delay;

35.3 All disbursements are processed through the Single Treasury Account unless a separate bank account has been authorized by the State Central Administrative Body Responsible for Finance and Budget Matters;

35.4 No bank is permitted to establish a bank account for any budgetary entity without the prior written approval from the State Central Administrative Body Responsible for Finance and Budget Matters.

35.5. Respective level's treasury office and state audit body shall inspect and close accounts opened outside the Single Treasury Account without the authorization specified in provision 35.3 of this Law and mobilize the assets into the Single Treasury Account.

35.6. The State Central Administrative Body Responsible for Finance and Budget Matters and the Bank of Mongolia jointly shall approve a procedure on opening and closing of accounts at banks outside the Single Treasury Account.

Article 36. Treasury System

36.1 The Treasury System is comprised of the Central State Treasury, the treasury of Aimags and the Capital City, the treasury of Soums, and Districts and the treasury unit under General Budget Governors and budget accountants (hereinafter called as the "Treasury");

36.2 The Central State Treasury shall be in the structure of the State Central Administrative Body Responsible for Finance and Budget Matters and the treasury of Aimags, Capital City, Soums, and Districts shall be in the structure of the particular level's Governor's office.

36.3 A single unit can be established to provide accounting services to multiple budgetary entities, at the soum and district level, that are similar in function and budgetary amounts.

36.4. The respective governor shall make a decision on the establishment of an accounting service unit defined in 36.3 of this Law as authorized by the State Central Administrative Body Responsible for Finance and Budget Matters.

36.5. If a unit defined in 36.3 of this Law is established, it is prohibited for a budgetary entity to create a position responsible for undertaking functions that overlap with the treasury unit.

36.6. The Central Treasury shall undertake internal control functions for activities of the Treasury of aimag and the capital city and state central administrative bodies and the Treasury of aimags and the capital city shall undertake internal control functions for activities of soum and district's treasury office respectively.

Article 37. Common Functions of the Treasury

37.1. The Treasury shall undertake the following common functions:

37.1.1 Organize and oversee budget implementation;

37.1.2 Process daily transactions of budget revenues and expenditures;

37.1.3 Undertake budget control by grouping expenditures;

37.1.4 Establish order for budget expenditure payment;

37.1.5 Process and control budget transactions through an electronic system;

37.1.6 Record commitments by comparing the budget with contract records on procurement of goods, works and services and payment orders;

37.1.7. Record budget revenues, expenditures, assets and liabilities in the respective accounts in accordance with the Accounting Law; and

37.1.8. Based on monthly and quarterly budget allotment schedule, issue authorization to finance and spend to budget entities' accounts.

37.2. The Government shall approve the procedure on treasury functions.

Article 38. Central Treasury Functions

38.1. The State Central Administrative Body Responsible for Finance and Budget Matters shall operate the following functions of the Central State Treasury:

38.1.1 Management of the Treasury Single Account;

38.1.2 Development and implementation of a procedure and instruction to regulate payment and receipt transactions;

38.1.3 Development and implementation of training programs for Treasury System staff;

38.1.4 Development and implementation of a procedure on treasury activities;

38.1.5 Integrated cash management;

38.1.6. Borrow in financial markets to regularly finance expenditures of the state budget and Human Development Fund Budget;

38.1.7. If either the state budget or the Human Development Fund does not have sufficient funds to pay its obligations on a timely basis, funds available in the Treasury Single Account not associated with the respective fund can be used to pay obligations so long as the funds are repaid before the end of the fiscal year.

38.1.8. Make decisions on investing idle cash balances through the Mongol Bank in short term instruments;

38.1.9. Provision of financial services to budget governors;

38.1.10. Management of financial assets and liabilities;

38.1.11. Preparation of a consolidated report of the Unified Budget execution; and

38.1.12. Provision of disbursement services to budget governors.

Article 39. Agreement for implementation of some of Government's functions by local government

39.1. General Budget Governors defined in 14.1.6 and 14.1.8 of this Law shall establish an agreement with aimag and capital city governors, for implementation of delegated functions specified in 58.1 of this Law within 14 working days of the passage of the state budget;

39.2. Aimag and capital city governors shall establish with soum and district governors an agreement specified in 39.1 of this Law at the soum and district levels within 14 working days of the passage of the aimag and capital city budget;

39.3. The following conditions must be included in 39.1 and 39.2 of this Law:

39.3.1. purpose of expenditures;

39.3.2. quantitative and qualitative indicators used to determine required financing for meeting service standards; and

39.3.3. reporting requirements for financial and performance information.

39.4. The following requirements are established for aimag, capital city, soum and district governors to implement delegated functions specified in 61.1 of this Law:

39.4.1. not transferring special purpose subsidies for base expenditure of local budget and financing of other sectors.

39.4.2. not occurring debts and receivables;

39.4.3 not reducing standards, quantity and quality targets and accessibility of services;

39.5. Respective general budget governor shall assess the fulfillment of agreements specified in 39.1 and 39.2 of this Law on a semi-annual and annual basis and carry out internal audits of agreements.

Article 40. Performance agreement

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40.1. Direct budget governors and central budget governors shall conclude performance agreements with respective upper level budget governors prior to the start of the fiscal year.

40.2. Performance agreements specified in provision 40.1 of this Law shall reflect each budgetary entity's programs and activities for the particular fiscal year, their budget, expected outcomes and assessment criteria.

40.3. Performance agreements shall be assessed by the upper level budget governor on a semi-annual and annual basis.

40.4. Based on fulfillment and implementation progress of the performance agreement, the evaluator of the performance agreement shall take the following actions:

40.4.1. Prepare a directive to improve budget outcomes and intensify budget implementation, and oversee its fulfillment; and

40.4.2. Within his/her area of authority as specified by law, sanction or reward the party implementing the performance agreement.

Article 41. Management of Budget Execution

41.1. Control over the detailed calendar for implementation of the approved budget, detailed budget allotment schedule, and budget spending and revenue collection shall be undertaken in accordance with the approved monthly and quarterly budget allotment schedule.

41.2. All level budget governors shall be responsible for carrying out the following actions when implementing the budget:

41.2.1. Collect fully revenues in accordance with state and local budgets and budgetary entity' revenues from their own operations according to law;

41.2.2. Budget expenditure shall be released only as authorized in the approved budget;

41.2.3. Undertake and report budget execution as stipulated in law;

41.2.4. Observe monthly and quarterly budget allotment schedules;

41.2.5. Finance budgetary entity' expenses within the authority stated in Article 37.1.8 of this Law;

41.2.6. Finance goods, works and services to be procured with state and local funds based on procurement agreements and payment schedule; and

41.2.7. Oversee program implementation and ensure fulfillment of their outcomes;

41.3. An authorized body defined in Article 11 and provisions 65.1. and 66.1 of this Law shall approve and ensure the enforcement of monthly and quarterly budget allotment schedule based on proposals of general budget governors.

41.4. In the event of failure to approve the budget at the start of the fiscal year, until the approval of the budget, a temporary procedure shall be established by an authorized body defined in provision 41.6 of this Law and budget expenditures shall be financed in the following ways:

41.4.1. Salary of employees of budgetary entity at the minimum wage level;

41.4.2. Pensions and allowances of social welfare and social insurance at their minimum level;

41.4.3. Government reserve fund and Governor's reserves at the level of the previous year;

41.4.4. Recurrent expenditures of core functions of defense, health, education, border protection, domestic army, organizations for national security, emergency, court, and prosecution, police, taxation, customs, professional inspection and other state administrative organizations at the level of the previous year;

41.4.5. Recurrent expenditures of core functions of organizations other than specified in Provision 41.4.4 of this Law at 50 percent of these organizations' recurrent budgets of the previous year; and

41.4.6. Follow terms and amounts of payments stated in the loan agreements for payment of principal and interest of Government debt.

41.5. Short term loans can be allocated from upper level budgets for financing the shortage of financing for lower level budgets as specified in Provision 41.4 of this Law.

41.6. The State Central Administrative Body Responsible for Finance and Budget Matters or aimag and capital city governors shall approve and ensure enforcement of the temporary procedure and monthly and quarterly budget allotment schedule for implementing the procedure.

41.7. The Government shall approve a procedure that sets requirements and conditions for ensuring transparency of approved budgets of budgetary entities, own revenues, expenditure savings and their spending and ensuring openness for public and staff of the budgetary entity.

Article 42 Adjustment to the Budget of Budget Governor

42.1 Budget adjustments between general budget governors can be done only through the supplementary budget of the particular year.

42.2 Budget governors can make adjustment in the budget in the following ways:

42.2.1. General budget governors:

42.2.1.a. between programs of his/her portfolio;

42.2.1. b. between budgets of central budget governors under his supervision and responsibility;

42.2.1.c. between budgets of central budget governors and direct budget governors;

42.2.1.d. between budgets of direct budget governors under his supervision and responsibility;

42.2.2. central budget governors, between budgets of direct budget governors under his supervision and responsibility;

42.2.3. direct budget governors, only between his/her recurrent expenditures.

42.3. Adjustment in the budget of direct budget governors shall be resolved as described below:

42.3.1. Budget governor shall present his/her proposal on adjustment for the budget to the respective central budget governor, if he/she does not report to central budget governor then to general budget governor;

42.3.2. Central budget governor shall present the proposal to the respective general budget governor;

42.3.3. if an adjustment proposal pertains to the state budget, the Human Development Fund budget and the Social Insurance Fund budget, the general budget governor shall present the proposal to the State Administrative Body Responsible for Budget and Finance Matters and if it pertains to the local budget, present the proposal to aimag, capital city, soum or district governors.

42.3.4. An organization or an official specified in provision 42.3.3 of this Law shall resolve adjustments by making changes in monthly and quarterly allotment schedules upon the review and approval of the general budget governor's proposal specified in provision 42.2 of this Law.

42.4. Permission shall be obtained from the upper level budget governor for making budget adjustments specified in 42.2 of this Law.

42.5. Central budget governors specified in Provision 15.2 of this Law can resolve adjustments to budgets for his/her subordinate direct budget governors by making changes in his/her approved budget's monthly and quarterly allotment schedule.

42.6. The Cabinet Member in Charge of Finance and Budget Matters shall approve limits, terms and conditions and procedures for making adjustments to budgets.

42.7. Budget adjustments shall not be made between capital and recurrent expenditures and it is prohibited to finance new programs and activities that are not already included in the budget.

Article 43 Budget adjustments for activities to be implemented through more than one fiscal year

43.1. The following unused budget sources of the particular fiscal year can be carried over for the following fiscal year:

43.1.1. Government bonds, principal and interest payment of loans;

43.1.2. Budget for investment projects and activities if its implementation cycle differs from a fiscal year due to specifics of the projects and activities;

43.1.3. Budgets for projects and activities to be funded with concessional loans through Government bilateral and international agreements ratified by the State Great Khural;

43.1.4. Budget incentives other than that specified in 44.6 of this law; and

43.1.5. Donation, assistance and support obtained from non state and locally owned bodies.

43.2. The total amount of the budgets other than articulated in provision 43.1.3 of this Law which authorization to spend is carried over to the next fiscal year shall not exceed 3 percent of the general budget governor's budget of the particular year and the amount that exceeds it shall be mobilized into the general account of the respective level's budget.

43.3. At the end of a fiscal year, the mobilization of the revolving fund's balance specified in the Law on Government Special Funds into the budget shall be resolved as stipulated in provision 18.6 of this Law and the balance shall be spent in accordance with the approved budget of the following year.

43.4. Budget governors are authorized to carry over the budget specified in Provision 43.1.2 of this law until March 31 of the subsequent fiscal year.

43.5. Budget governors shall not carry over budgets other than that specified in Provisions 43.1.3 and 43.1.5 of this law through two fiscal years.

43.6. Carry over for authorization to spend for the following year, shall not be a justification for reducing outcome targets of programs, projects, and activities to be implemented with the approved budget.

Article 44 Non-core activities

44.1. Budgetary entity may engage in non-core activities under the following circumstances to earn revenue:

44.1.1. General budget governor gives prior written approval;

44.1.2. Non-budgetary resources to compensate the possible loss associated with such activities are clearly specified;

44.1.3. Such activities are properly reflected in financial statements and performance agreements;

44.1.4. Such activities do not divert public assets from their main use, and do not divert personnel of the budgetary entity from their core activities.

44.1.5. Such activities do not conflict with core-functions of budgetary entity.

44.2 Cost for non-core activities includes all forms of direct and indirect costs, payables and financial obligations.

44.3. The use of core activities' expenditures for non-core activities in direct or indirect ways is prohibited.

44.4. If a permission to engage in non-core activities was given in the middle of the fiscal year, it shall be implemented as additions to the budget and in other cases it shall be reflected in the budget of the particular year.

44.5. Profits earned from non-core activities shall be spent for the following purposes:

44.5.1. to reduce budget financing for a particular budgetary entity's core functions;

44.5.2 to make investment for supporting operations of that particular budgetary entity or branch;

44.5.3 to use for resolving social issues of employees of that particular budgetary entity; and

44.6. Balance shall be mobilized into the respective level's general budget account at the end of a fiscal year.

44.7. Relations with regard to implementation of issues specified in 44.5.2, and 44.5.3 of this Law with profits earned from non-core activities shall be regulated by Article 46 of this law.

Article 45 Budget savings

45.1 The following unused budget balance of budget governors shall be considered as budget expenditure savings:

45.1.1 The balance occurred due to decrease in unit cost or price during the procurement process for goods and services financed from the recurrent budget;

45.1.2 The balance occurred as a result of reducing unit cost without decreasing quality but by improving operational cost efficiency of budgetary entity; and

45.1.3. The balance occurred as a result of reducing unit cost without reducing quality of projects, measures and activities where the approved budget was estimated using norms and normatives of units.

45.2 The following unused balance of budget governor's budgets shall not be considered as savings and such balances shall be mobilized into the general budget account of the respective level's budget.

45.2.1 Number of units actually delivered is less than the initial estimation used in the approved budget where the budget was estimated using unit cost norms and normatives.

45.2.2 The balance occurred due to a decrease in the number of units delivered or budgeted projects and activities were not implemented.

45.2.3 The balance occurred due to decrease in unit cost, price and quantity during the investment procurement process.

45.2.4 The balance occurred due to operation of the state administrative body with a fewer number of staff than the approved staffing level.

Article 46. Budget incentives

46.1 Budget governors can retain profits from non-core activities, budget expenditure savings or performance agreement incentives as budget incentives.

46.2 Based on the expected actual of the fiscal year, funds required for providing performance incentives stated in Article 46.1 of this Law shall be reflected and approved in the next year's budget of the general budget governor in charge of budget matters of the respective level and shall be provided subsequent to his/her decisions.

46.3. Decisions on how to spend incentives specified in 46.1 of this law shall be made based on discussion of this issue by the staff meeting of the budgetary entity. Copies of the minutes of the meeting and the decision shall be delivered to the treasury of the respective level and based on that the incentives shall be issued.

46.4. Incentives shall be used for measures defined in provision 44.5 of this Law and common measures such as remunerating staff taken into account staff performance and resolving social issues of staff.

46.5 A procedure on the size of, and criteria for, incentives to be allocated from the savings of budgetary entity, and their spending, reporting, accounting and monitoring shall be approved by the Cabinet Member in Charge of Finance and Budget Matters.

46.6 Budget incentives shall be defined and issued within one month after submission of the budget execution report to the State Great Khural or Citizens' Representative Khural.

Article 47 Additions to Budget

47.1 Budget governors can spend the following types of additions to the budget for relevant projects and activities:

47.1.1 Donations and aid given by a non-state and locally owned body.

47.1.2 Bilateral government agreements ratified by the State Great Khural or concessional loans obtained from international organizations during a fiscal year;

47.1.3 Resources allocated to a particular budget governor based on relevant legal parties' decisions from the Government reserve fund, Governor's reserves or similar unclassified reserve fund;

47.1.4 Resources allocated from the budget of an upper level budget governor to a lower level budget governor;

47.1.5. Additional revenue collected within the framework of core functions of budgetary entity; and

47.1.6 Budget incentives.

47.2 Additions to the budget and their related activities shall be part of financial statements and budget execution reports as the budget.

47.3. Revenues stated in Provision 47.1.2, 47.1.5 and 47.1.6 of this Law shall be spent only within the approved budget.

CHAPTER SEVEN

Property and Government Debt management

Article 48 Property

48.1 Relations that rise in connection with management, coordination, spending, records and reporting of state and local property and assets shall be regulated in separate laws.

Article 49 Incurring Government Debts

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49.1 The government may incur debts for the following purposes:

49.1.1 To finance government projects and programs;

49.1.2 To increase the Mongol Bank's foreign currency net reserve for the purpose of supporting the balance of payments;

49.1.3 To finance budget deficits;

49.1.4 To refinance debts in order to reduce interest and expenses;

49.1.5 To finance the shortage of the state budget's seasonal revenue.

49.2. It is prohibited to extend the term of debt when refinancing as specified in 49.1.4 of this law.

49.3. Borrowed funds shall be spent only for financing approved programs and activities.

Article 50. Government issuing loans

50.1 For the following purposes loan can be issued from the state budget if financial sources are approved by the particular year's Budget Law.

50.1.1 to finance seasonal revenue shortage of aimag and capital city budget;

50.1.2 For the purposes as specified by law from the Special government fund; and

50.1.3 on-lending of loans obtained from international organizations or foreign countries for its intended purpose.

50.2. Sources generated through loans shall be spent only for financing programs and activities approved in the budget.

Article 51. Government guarantee

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51.1. The Government can issue debt guarantees on the grounds specified in law.

51.2. Guarantees specified in Provision 51.1 of this law can be issued if the sources are approved by a particular year's Budget law.

51.3. Government guarantees shall be part of the budget.

51.4. Within the framework of the particular fiscal year's approved budget, debt guarantees to be issued by the Government will be discussed and approved by the State Great Khural as submitted by the government.

Article 52. Contingent Liability

52.1 Information on the Government's contingent liabilities shall be disclosed to the State Great Khural and the public.

52.2 Records of contingent liabilities shall be reflected in the annual and supplementary budget proposals, and semi-annual and annual budget execution reports.

52.3 The State Central Audit Office shall monitor and issue an opinion on contingent liabilities, debt guarantees and related records.

52.4 Disclosure of estimations on contingent liabilities, loan guarantees, and possible risks shall not mean they are accepted or that the liabilities have been incurred.

Article 53 Government debt management

53.1. The State Central Administrative Body Responsible for Finance and Budget Matters shall manage the government debt in the following manner:

53.1.1. Develop and implement a debt management strategy based on the Government financial needs and risk assessment;

53.1.2. Determine and manage the Government debt management objectives, and amount, composition and risks of debt for short- and medium-term;

53.1.3. Get the maximum amount of Government's new debt and guarantees approved in the Budget Law of the fiscal year and follow it;

53.1.4. Set the maximum amount of loan to be obtained by state-owned legal bodies and legal bodies in which the state owns 51% or more of the ownership shares;

53.1.5. Set the maximum amount of loans for aimag and capital city governors to obtain from the State Budget;

53.1.6. Establish a database on Government debt and debt guarantees;

53.1.7. Ensure transparency in Government debt information;

53.1.8. Ensure equal rights of lenders.

53.2. Asset and liability management, Government's borrowing, issuing loans, on-lending, and issuing debt guarantees, and requirements, terms and conditions and limitations set for them and contingent liability management process shall be regulated by law.

CHAPTER EIGHT

Budget Reporting

Article 54. Financial statements and budget execution reports

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54.1. Government's consolidated financial statement shall include financial statements of the state and local budgets, consolidated financial statements of general budget governors and financial statements of fully and partly state-owned enterprises.

54.2. General budget governors shall cover in his/her consolidated financial statement financial statements of budgetary entity and agencies of his/her portfolio, financial statements of projects and programs implemented by concessional loans and grants obtained through government, and financial statements of fully and partly state owned and locally owned enterprises.

54.3. The general budget governor shall prepare his/her budget execution report and consolidated financial statement in accordance with International Accounting Standards.

54.4. The consolidated financial statement shall have the following components:

54.4.1. An income statement;

54.4.2. A balance sheet;

54.4.3. A statement of cash flows;

54.4.4. A statement of changes in net assets; and

54.4.5. Explanatory notes.

54.5. The budget execution report shall include the following:

54.5.1. Actual revenues and expenditures of the fiscal year (by total amount, programs, budget governors, and by each investment project);

54.5.2. Tax expenditures by each sector and legal body along with a legal justification;

54.5.3. Actual amount spent for goods, work and services procured in the fiscal year;

54.5.4. Expenditures for programs and activities, attained results and their introduction (fulfillment of program performance, fulfillment of policy objectives, assessment of impacts, implementation of investment projects and explanation if implementation was disrupted); and

54.5.5. Additions to the budget and related explanation.

54.6. If adjustment to the budget was made as stated in Article 42 of this law, program performance shall be reported with comparison with the initially projected targets.

Article 55. Pre-election economic and fiscal outlook report

1.

55.1. The State Central Administrative Body Responsible for Finance and Budget Matters shall submit to the State Great Khural a pre-election economic and fiscal outlook report not less than one month before the announcement of the date for an election of the President of Mongolia and the State Great Khural.

55.2. The Cabinet Member in Charge of Finance and Budget Matters shall present information specified in Provision 55.1 of this Law to the general session of the State Great khural.

55.3. The State Central Administrative Body Responsible for Finance and Budget Matters shall prepare a pre-election economic and fiscal outlook report and publicly release this report after the information stated in Provision 55.1 of this Law is reviewed by the State Great Khural.

55.4. A pre-election economic and fiscal outlook report shall contain the following information:

55.4.1. An assessment of whether or not the Government's economic, financial and fiscal policies implemented by the Government during the terms of the President of Mongolia and the State Great Khural meet the special fiscal requirements established in Article 6 of the Fiscal Stability Law;

55.4.2.The macroeconomic and fiscal assumptions for the next four years;

55.4.3.A statement of the amount, purpose and terms and conditions of Government debt and contingent liabilities, and a tabulation of debt in arrears with principal and interest amount;

55.4.4.An assessment of the amounts and its adequacy for ensuring fiscal stability, and projected changes over the next two years of resources accumulated in the Stability Fund of the Government;

55.4.5.Contingent liabilities;

55.4.6.Government commitments reflected in the Government action program and estimated costs to be borne from the budget and other sources;

55.4.7.Government debt and guarantees reflected in Government agreements.

55.4.8.Effect of all decisions and actions of the Government made during the election year on the financial and fiscal outlook of the forthcoming years;

55.4.9.An explanation on whether medium-term economic, financial and fiscal assumptions are consistent with the Medium-Term Fiscal Framework Statement approved by the state Great Khural or the Budget, and the special fiscal requirements established by the Fiscal Stability Law.

55.5. The information outlined in Provisions 55.4.5-55.4.8 of this law that may have effects on the fiscal outlook shall be expressed in numbers.

CHAPTER NINE

Local budget relations

Article 56. Fiscal relations between budget levels

56.1. Transfers from upper level budgets to lower level budgets shall be made in the following forms:

56.1.1.financial support rendered from upper level budgets to lower level budgets for financing the basic budget deficit of the lower level budget;

56.1.2.revenue transfers from upper level budgets to lower level budgets for implementation of its investments, programs, projects and activities; and

56.1.3.Special purpose transfers allocated from the state budget to implement some Government functions delegated to local government.

56.2. Portion of the basic budget surplus of lower level budgets equal to base expenditures shall be retained and the residual shall be mobilized to upper level budget.

56.3. The State Central Administrative Body Responsible for Finance and Budget Matters has authority to withhold temporarily financial support, revenue transfers, and special purpose transfers to the aimag and the capital city budgets, and aimags and the capital city governors have the same authority with respect to the soum and districts' budgets, until the period of rectification of the following breaches are revealed:

56.3.1. The budget legislation is breached;

56.3.2. The Citizens' Representative Khural approved the particular year's budget by increasing it without justification;

56.3.3. Purpose, conditions and requirements set for special purpose transfers are breached;

56.3.4. The total budget is executed with a deficit due to lack of compliance with standards for services financed from the local budget;

56.3.5. The stability of the local budget is disrupted; and

56.3.6. The local budget is not approved within the timeframe as specified in this Law.

56.4. The Government shall define a methodology for estimating base expenditures of each local budget, standards of services to be financed from local budgets and normatives for inputs and budgets of these services.

56.5. The purpose of the special purpose transfers and conditions and requirements for their spending as defined in Provision 56.1.3 of this Law shall be established by agreement specified in provisions 39.1 and 39.2 of this Law and the Government shall oversee its implementation.

56.6. The Government and aimag and the capital city governors shall implement a stabilization program in the local government for the purpose of eliminating breaches stated in Provision 56.3 of this Law, ensuring enforcement of legislation and stability of the local budget, and strengthening capacity of bodies involved in the budget process.

Article 57. Local budget

57.1. Functions to be undertaken with local budgets and types of revenue to be allocated to local budgets shall be defined by this law.

57.2. Local budgets shall be planned, approved and implemented without deficit.

57.3. Expenditures to be financed from the previous year's local budget balance shall be implemented by reflecting and approving them in the budget, and expenditure shall not exceed the financing sources.

57.4. Short term loans can be allocated from aimag and capital city budgets to finance the shortage of seasonal revenue of soum and district budget revenue.

57.5. It is prohibited for the local budget to incur debts, or to issue guarantees apart from the cases specified in provisions 41.5, 50.1.1, 57.4 and 62.2 of this Law.

Article 58. Functions to be implemented by local budgets

1.

58.1. The capital city shall implement with its budget the following functions:

58.1.1. Capital city management;

58.1.2. Urban planning, construction and establishing new infrastructure;

58.1.3. Capital maintenance of construction and buildings owned by the capital city, establishing new property and making investments;

58.1.4. Social care and welfare services;

58.1.5. Implementing programs and measures to support employment and alleviate poverty;

58.1.6. Development of small and medium-sized enterprises;

58.1.7. Pasture management;

58.1.8. Establishing water supply, sewerage and drainage systems;

58.1.9. Housing and public utility services;

58.1.10. Flood protection;

58.1.11. Public transport services;

58.1.12. Fight of infectious livestock and animal diseases, pest eradication and control;

58.1.13. Disaster prevention;

58.1.14. Environmental protection and rehabilitation;

58.1.15. Establishing large scale roads, bridges and their lighting, traffic lights and other respective construction;

58.1.16. Utility services for public areas, landscaping, public hygiene, street lighting, cleaning, and waste removal;

58.1.17. Within the territory of the capital city operation and maintenance services of high voltage and electricity lines and substations and other activities to ensure normal functioning; and

58.1.18. Other functions specified in law.

58.2. Aimags shall implement with their budgets the following functions:

58.2.1. Aimag management;

58.2.2. Urban planning, construction and establishing new infrastructure;

58.2.3. Capital maintenance of locally owned construction and buildings, establishing new property and making investments;

58.2.4. Social care and welfare services;

58.2.5. Implementing programs and measures to support employment and alleviate poverty;

58.2.6. Development of small and medium-sized enterprises;

58.2.7. Replace livestock;

58.2.8. Pasture management within the territory of the aimag;

58.2.9. Establishing livestock fodder reserve;

58.2.10. Water supply, sewerage and drainage systems, housing and public utility services, and flood protection;

58.2.11. Public transport services;

58.2.12. Fighting infectious livestock and animal diseases, pest eradication and control, and disaster prevention and elimination;

58.2.13. Environmental protection and rehabilitation;

58.2.14. Establishing within the territory of the aimag and inter-soum road, bridge and their lighting, traffic lights and other respective construction;

58.2.15. Utility services for public area, landscaping, public hygiene, street lighting, cleaning, and waste removal;

58.2.16. Within the territory of the aimag operation and maintenance services of high voltage and electricity lines and substations and other activities to ensure normal functioning; and

58.2.17. Other functions as defined in law.

58.3. Districts shall independently implement the following functions with its budget:

58.3.1. District management;

58.3.2. Social care and welfare services provided subsequent to the decision of district governors;

58.3.3. Within the territory of districts, utility services for public areas, public hygiene, street lighting, cleaning and waste removal;

58.3.4. Promotion of intensified raising of livestock;

58.3.5. Protection of nature and the environment within the district territory;

58.3.6. Recurrent maintenance of lighting of public areas within the district territory;

58.3.7. District landscaping, and development and maintenance of sidewalks, recreational areas and children's playgrounds;

58.3.8. Other functions as defined in law.

58.4. Soms shall independently implement the following functions with its budget:

58.4.1. Soum management;

58.4.2. Social care and welfare services provided subsequent to the decision of soum governors;

58.4.3. Within the territory of somus, utility services for public areas, public hygiene, street lighting, cleaning and waste removal;

58.4.4. Replace livestock;

58.4.5. Pasture management within the territory of the soum;

58.4.6. Protection of nature and the environment within the soum territory;

58.4.7. Recurrent maintenance of lighting of public areas within the soum territory;

58.4.8. Soum landscaping, and development and maintenance of sidewalks, recreational areas and children's playgrounds;

58.4.9. Other functions as defined in law.

58.5. Functions specified in 58.1-58.4 of this Law shall be financed from the following sources:

58.5.1. Tax and non-tax revenues of aimags, capital city, somus and districts;

58.5.2. Revenue transfers allocated from the state budget;

58.5.3. Financial support allocated from the state budget;

Article 59. General Local Development und

59.1. The General Local Development Fund shall receive money from the following sources:

59.1.1. 25 percent of VAT of goods and services except imported goods and services;

59.1.2. 5 percent of the mineral resource exploitation tax revenue;

59.1.3. Grants and donations rendered by domestic non-governmental organizations and official foreign aid to support local development; and

59.1.4. Funds to be mobilized as defined in Provision 56.2 of this Law.

59.2. Aimags and the capital city shall reallocate not less than 60 percent of transfers allocated from the General Local Development Fund to soum and district Development Funds taking into consideration indicators defined in Provision 59.3 of this Law.

59.3. The following indicators shall be considered in defining transfers from the General Local Development Fund to the local budget in the fiscal year:

59.3.1. Development index of local government;

59.3.2. Population;

59.3.3. Population density, remoteness and size of territory; and

59.3.4. Tax initiatives of local government.

59.4. When allocating the mineral resource exploitation tax from the General Local Development Fund, per person amounts in the particular local area where mining is carried out shall be increased by up to 10 percent compared to the amount allocated on a per person basis to other local areas.

59.5. The Government shall determine a methodology for estimating transfers to be allocated from the General Local Development Fund and Local Development Fund.

Article 60. Local development fund

60.1. A particular level's general budget governor shall have a Local Development Fund aimed at supporting local development.

60.2. Local development fund shall be generated from the following sources:

60.2.1. Transfers to be allocated from the General Local Development Fund;

60.2.2. Funds stated in Provision 59.2 of this Law; and

60.2.3. Basic local budget surplus specified in provision 56.2 of this Law;

60.2.4. Additional sources generated through increasing tax rates and saving expenditures; and

60.2.5. Domestic and foreign grants and donations to support local development.

60.3. It is prohibited to spend Local Development Fund sources for the following purposes:

60.3.1. Programs and activities other than those authorized by law to be financed from the local budget;

60.3.2. Expenditures of political parties and NGOs;

60.3.3. Holidays, festivals, anniversary celebration, and religious events other than national festivals;

60.3.4. Activities that are not in the common interest of the public;

60.3.5. Issue loans, issue guarantees with financial consequences, and commit to cover loss or damages; and

60.3.6. Expenditures and measures that do not reflect local community opinions and are not reflected and approved in the local budget.

60.4. Functions associated with aimag, the capital city, soum and district management shall not be part of the legal functions set by provision 60.3.1 of this Law.

Article 61. Some government functions delegated to local government

61.1. Aimag and the capital city Governors shall implement the following functions on behalf of the Government :

61.1.1. pre-school education services;

61.1.2 general education services;

61.1.3. cultural services;

61.1.4. primary health care services;

61.1.5 land relations and cadastre services

61.1.6. child development and protection services; and

61.1.7. public fitness activities.

61.2. Delegated functions specified in 61.1 of this Law shall be financed by special purpose transfers allocated from the state budget on the basis of agreement specified in Article 39 of this Law.

61.3. Aimag or capital city governors shall prepare and submit a proposal on distribution of the budget for each expenditure responsibility defined in provision 61.1 of this Law along with the local budget proposal to the Citizens' Representative Khural of the respective level within the timeframe specified in law.

61.4. Aimag, capital city, soum and district Citizens' Representative Khural shall approve the distribution of the budget for each expenditure responsibility based on the agreement specified in Article 39 of this Law and the proposal submitted by each governor without decreasing the total amount transferred by the agreement specified in Article 39 of this Law.

61.5. Special purpose transfers shall be transferred to aimag and capital city treasury in accordance with monthly and quarterly allotment schedule defined in this Law.

Article 62. Incurrence of debt for local government needs

62.1. Aimag and capital city may incur debt from the state budget for the purpose specified in 41.5 and 50.1.1 of this Law with the condition that it will be repaid within that year.

62.2. The capital city governor can finance investment projects required for implementing functions specified in 58.1 of this Law by incurring debts with the term of up to four years;

62.3. The amount of debt specified in 62.2 of this Law shall not exceed the previous year's base revenue and the total amount of debt service shall not exceed 15 percent of the base revenue of the previous year.

62.4. It is prohibited to use the following assets and revenues as collateral when incurring debts in the capital city budget for the purposes defined in provision 62.2 of this Law:

62.4.1. capital city property which is required to fulfill its responsibilities specified in 61.1 of this Law; and

62.4.2 all budget revenues of the capital city.

62.5. Special purpose transfers allocated from the state budget shall be considered a revenue for the purpose of provision 62.4.2 of this Law.

62.6. The Capital city governor shall adhere to the following requirements when borrowing funds for the purposes specified in 62.2 of this Law:

62.6.1. inform the public of the purpose of debt and, if it is required, organize open public hearing;

62.6.2. obtain permission to incurring debts from the State Central Administrative Body Responsible for Finance and Budget Matters;

62.6.3. the Citizens' Representative Khural shall discuss and approve investment projects to be financed through incurring debts.

62.7. A copy of the agreement shall be submitted to the State Central Administrative Body Responsible for Finance and Budget Matters within 10 days of signing the debt agreement and any other agreements on incurring debts by the Capital City Governor.

Article 63. Ensuring community participation in the local budget process

63.1. Governors of baghs and khoros shall conduct an open survey and questionnaire on investments, programs, projects and activities to be implemented by the Local Development Fund in their bagh and knoroo, and the sequence and means for implementing them .

63.2. The result of the questionnaire stated in provision 63.1 of this Law and ideas initiated at the khoroo and bagh Citizens' Khurals shall be discussed by the khoroo and bagh Citizens' Khurals and projects and activities shall be prioritized and selected.

63.3. As stated in provision 63.2 of this Law, the soum and district Governor's office shall prioritize proposals presented by the khoroo and bagh's Citizens' Khurals in conformity with the local development policy and priorities and reflect them in the budget proposal and submit it to the soum and district Citizens' Representatives' Khural.

63.4. Soum and district Citizens' Representatives' Khural shall discuss and approve the proposal stated in provision 63.3 of this Law.

Article 64. Authorities and Responsibilities of Citizens' Representatives' Khurals

1.

64.1. Khurals of aimags, capital city, soums and districts shall have the following authorities and responsibilities in relation to local budget management and financing:

64.1.1. Debate, approve and oversee the implementation of the Governor's action program;

64.1.2. Debate and approve the budget and its supplementary budget for the fiscal year, oversee their implementation and inform the public;

64.1.3. Discuss and approve the budget execution; and

64.1.4. Conduct hearings on the Governor's presentation on the budget execution report and financial statements.

Article 65. Authorities and Responsibilities of Aimag and Capital City Governors

1.

65.1. Aimag and capital city Governors shall have the following authorities and responsibilities in relation to local budget management and financing:

65.1.1. Formulate a budget proposal and supplementary budget proposal for discussion and approval, and administer the budget and report on the execution of the budget to the Citizens' Representative Khural of the respective level;

65.1.2. Consolidate, prepare and submit to the respective general budget governor a budget proposal, budget execution report, monthly and quarterly statements, financial statements of budgetary entity in the local area, and programs and activities to be financed from the special purpose transfers.

65.1.3. Establish agreements on implementation of some Government functions delegated to local government with respective general budget governors;

65.1.4. In conformity with respective law, establish an agreement on the purchase of goods, work and services to be implemented by the local budget resources;

65.1.5. Submit the local budget approved by the Citizens' Representatives' Khural to the State Central Administrative Body Responsible for Finance and Budget Matters within the timeframe specified in provision 8.5.5 of this Law.

65.1.6. Fully finance budgeted expenditures of state budgetary entity for their planned purposes without disruption and in a timely manner according to the agreement stated in Provision 39.1 of this Law.

65.1.7. Approve and enforce annual budget's monthly and quarterly schedule of aimag and the capital city; and

65.1.8. Approve the number of staff members of budgetary entity of the respective level by each budget governor.

Article 66. Authorities and Responsibilities of Soum and District Governors

1.

66.1. Soum and district Governors shall have the following authorities and responsibilities in relation to local government budget and finance:

66.1.1. formulate a budget proposal and its supplementary budget proposal for discussion and approval, and administer and report on the execution of the budget to the Citizens' Representative Khural of the respective level;;

66.1.2. Consolidate, prepare and submit to the respective aimag and capital city governor a budget proposal, budget execution report, monthly and quarterly statements, financial statements of budgetary entity in the local area, and programs and activities to be financed from the special purpose transfers.

66.1.3. Establish an agreement with aimag and capital city governors on implementation of some Government functions delegated to local government.

66.1.4. Submit the local budget approved by the Citizens' Representatives' Khural to the aimag and capital city governor within seven working days.

66.1.5. Fully finance budgeted expenditures of state budgetary entity for their planned purposes, without disruption and in a timely manner according to Provision 39.2 of this Law.

66.1.6. Approve and enforce the annual budget's monthly and quarterly allotment schedule for each soum and district; and

66.1.7. Approve the number of staff members of budgetary entity of the respective level by each budget governor.

Article 67. Formulation and submission of the local budget

1.

67.1. Aimag, capital city, soum and district governors shall develop and submit to the respective Citizens' Representative Khural the local budget proposal along with the presentation specified in provision 67.2 of this Law.

67.2. The following shall be attached to the presentation of the local budget proposal in addition to those articulated in provisions 32.2.1-32.2.12 and 32.2.19 and 32.2.20 of this Law;

67.2.1. Medium-term plan presenting policy objectives of the local budget;

67.2.2. Budget estimates and presentation of the budget proposal prepared in accordance with the budget classification specified in Article 22 of this Law;

67.2.3. A proposal on planned financial support and revenue transfers to be allocated from aimags and the capital city budgets to soum and district budgets; and

67.2.4. The amount of money to be collected and transferred to the upper level budget approved in the upper level budget.

67.3. In the course of preparing aimag, capital city, soum and district budget proposals, draft budget proposals shall be presented to the public and comments and requests of citizens of the aimag, capital city, soum and district shall be presented to the respective Citizens' Representatives' Khurals.

Article 68. Approval of the local budgets

1.

68.1. The local budgets shall be approved by reflecting the items defined in Provisions 33.2.1-33.2.7 of this Law.

68.2. During discussion of the budget by Citizens' Representative Khurals, additional requests on investment projects and activities shall be reflected in the budget upon receipt of an assessment by the body who submitted the budget proposal whether the additional requests meet requirements defined in Article 29 of this law.

68.3. Budgets approved by the Citizens' Representative Khurals shall be presented to the public in accessible and transparent ways.

CHAPTER TEN

Audit and Inspection

Article 69. Internal audit

69.1. Each general budget governor shall establish an internal audit unit and employ an internal auditor aimed at controlling enforcement of legislation, conducting financial inspection of budgetary assets and liabilities, revenues and expenditures, programs and activities and investment, and making assessments, evaluations and recommendations and proposing risk management measures.

69.2. The State Central Administrative Body Responsible for Finance and Budget Matters shall provide general budget governors' internal audit units with standards of activities and methodological guidance.

69.3. Financial activities of budgetary entities, state and locally-owned legal bodies and legal bodies majority owned by state and local government under the responsibility of general budget governors shall be subject to internal audit.

69.4. The Internal Auditor shall hold a state financial inspector's license.

69.5. The Government shall approve the charter of the internal audit unit.

CHAPTER ELEVEN

Sanctions regime

Article 70. Sanctions for violations of the legislation

1.

70.1. If provisions 6.2-6.4, 6.6, 25.10, 42.7, 57.5, 60.3, 62.3 and 62.4 of this law are violated, it shall serve as the basis for dismissal of the governor of the respective level as provided in Article 32 of the Law on Administrative and Territorial Units and Their Governance.

70.2. Unless otherwise stated in law if general budget governors specified in provisions 14.1.1, 14.1.3-14.1.8, 14.1.14 of this law violate provisions stated in 6.2-6.4, 6.6, 25.10, 42.1 and 42.7 of this law, it shall serve as the basis for an authorized official to dismiss the concerned official from his/her position.

70.3. If the provisions outlined in Article 6 and 24.4 of this Law are violated, a disciplinary sanction of dismissal from the position and not rejoining the public service for a 10 year period shall be imposed on the guilty official by the concerned authorized official.

70.4. A lawyer or state financial inspector shall impose the following sanctions on a person for violation of provisions of the budget legislation, if it does not call for criminal sanctions:

70.4.1. A fine equal to 5-10 times the minimum wage shall be imposed if estimates, proposals, budgets proposals and reports specified in 8.3-8.10 of this Law are not submitted within the specified timeframe;

70.4.2. A fine equal to 5-10 times the minimum wage shall be imposed if an official did not exercise the powers outlined in Provisions 14.2.7, 14.2.8 and 16.5.7 of this Law in lawful manner.

70.4.3. A fine equal to 2-3 times the minimum wage shall be imposed on an official who violated provision 20.3 of this Law.

70.4.4. A fine equal to 5-10 times the minimum wage shall be imposed on an official who violated provision 22.5 of this Law.

70.4.5. A fine equal to 5-10 times the minimum wage shall be imposed on an official who violated provisions 25.2-25.8, 25.12, 28.6 and 29.6 of this Law.

70.4.6. A fine equal to 10-15 times the minimum wage shall be imposed on an official who violated provisions 30.3, 39.4, 41.2 and 42.2, Article 43, and provisions 49.3, 50.1, 50.2, 51.2, 65.1.6 and 66.1.5 of this Law.

70.4.7. A fine equal to 5-8 times the minimum wage shall be imposed on an authorized official of a budgetary entity who opened a bank account for a budgetary entity by violating the provision outlined in 35.3 of this law and a guilty person who opened a bank account for a budgetary entity by violating the provision outlined in 35.4 of this Law.

70.4.8. If a position is created to implement functions that overlap with the functions of the unit by violating the provision specified in 36.5 of this Law, a guilty official shall be punished with a fine equal to 2-3 times the minimum wage.

70.4.9. A fine equal to 3-5 times the minimum wage shall be imposed on an official if provisions on expending incentives of budgetary entity outlined in 46.3 and 46.4 of this Law are violated.

70.4.10. A fine equal to 3-5 times the minimum wage shall be imposed on a guilty body if the pre-election economic and fiscal outlook report defined in Article 55 of this Law is not prepared and presented within the specified timeframe.

70.4.11. A fine equal to 4-6 times the minimum wage shall be imposed if obligations on public release of information specified in law are not fulfilled.

70.5. Irrespective of the type of violation or applicable sanction, any person or institution that violates this Law shall be liable for reimbursing the damages caused to the State.

70.6. Sanctions specified in Provisions 70.4.2, 70.4.4 and 70.4.10 of this Law shall be imposed by lawyers and sanction specified in Provisions 70.4.1, 70.4.3, 70.4.5-70.4.9 and 70.4.11 of this Law shall be imposed by state financial inspectors.

Article 71. Entry into force

1.

71.1. Provisions other than 71.2 and 71.3 of this Law shall enter into force on the 1st of January of 2013.

71.2. Articles and provisions of this Law related with preparation, submission, approval of, and informing the public on, the budget, the State General Guidelines for Socio Economic Development and the Medium-term Fiscal Framework Statement, enforcement of the budget calendar and preparation of a pre-election economic and fiscal outlook report and presenting it to the State Great Khural and informing the public shall enter into force on the 1st of February of 2012.

71.3. Provision 71.2 of this Law shall not be applicable to the preparation, submission and approval of supplementary budget proposals of 2012.

71.4. Provisions 43.1.2 and 43.4 of this Law shall enter into force on the 30th of December of 2011.

SPEAKER OF THE

STATE GREAT KHURAL

D.DEMBEREL

[1] The Constitution of Mongolia – published in Issue 1 of “The State News” of 1992.

[2] The Fiscal Stability Law – published in Issue 30 of “The State News” of 2010.

[3] The Law on Social Insurance – published in Issue 8 of “The State News” of 1994.

[4] The Law on Human Development Fund – published in Issue 45 of “The State News” of 2009.

[5] The Law on State Registration of Legal Bodies – published in Issue 22 of “The State News” of 2003.