

Pension system reform



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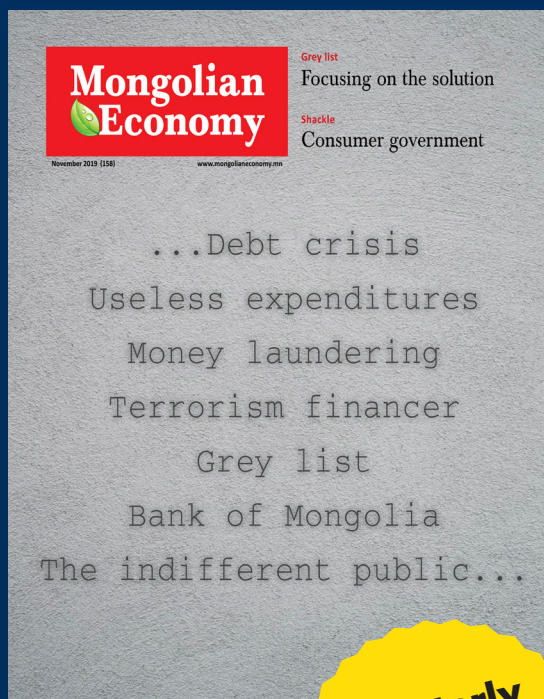
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Editor-in-Chief's letter

Happy New Year to the readers and subscribers of the Mongolian Economy magazine. Guided by the trust of you all, it has already been eight years since the publication of the first issue. I would like to thank you again for being with us for eight years. 2020 is a time in which we are entering our 9th year of publication and this year, we are aiming to improve our content and designs further. We have signed contracts with The Economist to translate and publish 2-3 of their contents into Mongolian per every issue. We are happy to announce that our contents are being enriched by world famous magazine's global scale articles.

The vision for the magazine has been determined as "Thinking on the global scale, rooting international journalism into Mongolia". In this regard, we started publishing The Economist's "The World in" annual issues under their special licensing starting 2016 for the first time in Mongolia. Prior to the New Year, "The World in 2020" was published, further strengthening our ties with The Economist. In addition to their content being published in our monthly issues, 2-3 articles are to be placed weekly on the www.mongolianeconomy.mn.

The theme of this issue is the pension system reform. Upon retiring, the elderly need to have smiles on their faces as opposed to fearing retirement. This is the system that needs to be constructed and regarding this, we have gathered the opinions of the private sector, the authorities, political party stances, alongside relevant figures. Our other contents include the gas pipes that are passing through Mongolia and its effects on the economy, the 2020 economic speculation of the state, and an interesting article from "The World in 2020".

In 2020 we will deliver international and domestic economic, business, and political articles, interviews, and research issues to you all.

D.Bekhbayar



*At the The Economist plaza.
London. 2013*



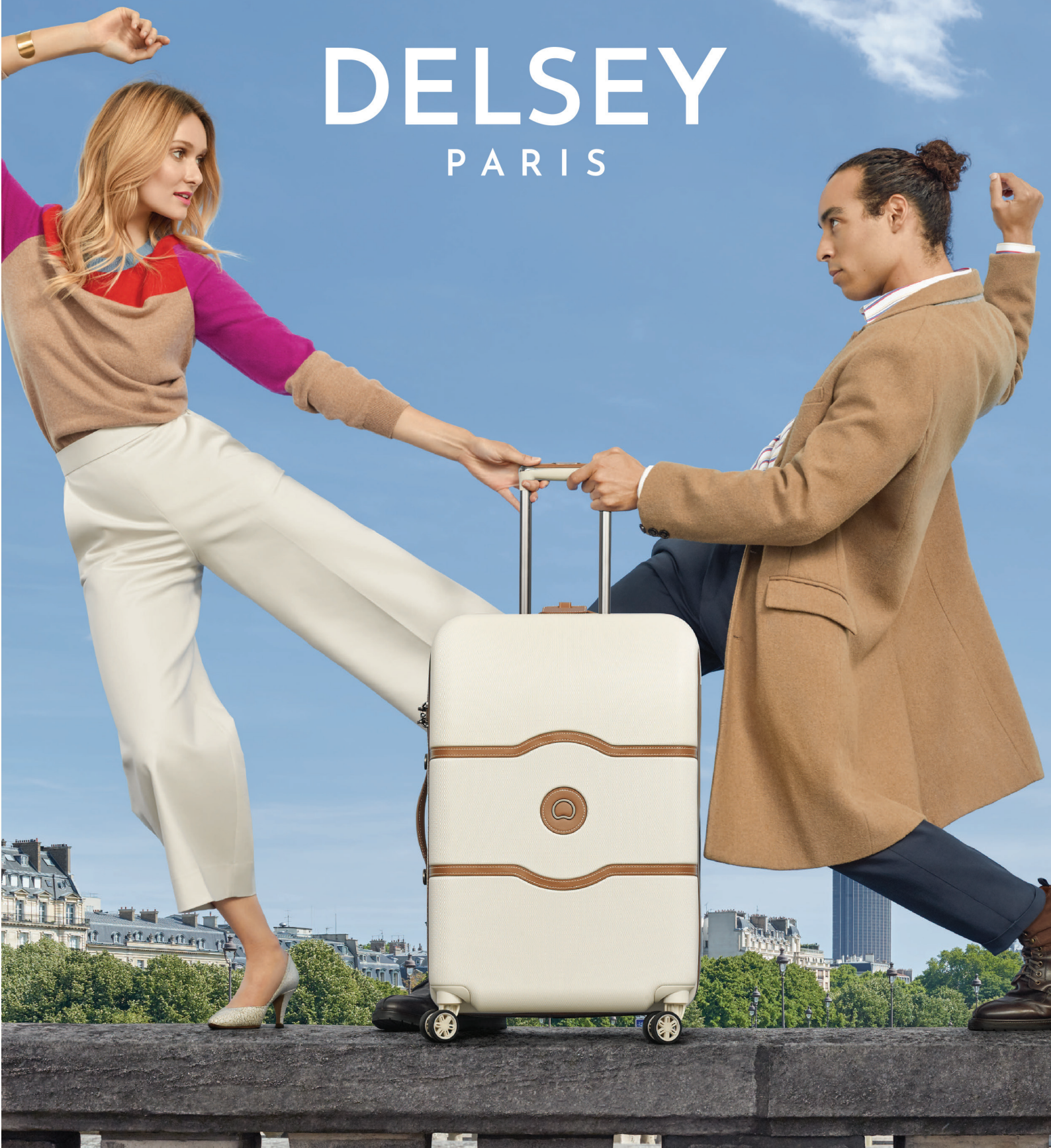
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Pension Reform

The Mongolian Scam or Social Order Reform

Most of the countries that we get examples from, and learn about their experience have their elderly living happily without anything lacking. In such a society, the pension system consists of three pillars. The majority consist of the base pension that the state has set and is given to the elderly not depending on how much they contributed to social security. The second one is the pillar that is set based on the private sector. Under the trilateral agreement between the employer, employee and the private pension fund, a certain percentage of the salary is accrued monthly to the pension fund's registered account. This is done through compulsory social insurance, which allows a citizen to control their accumulation on a regular basis. In other words, in addition to the retirement benefits, a citizen can accumulate a certain percentage of their income in the pension fund. In the case of the second and third pillars, the savings of the citizens are increased by the fact that the pension funds invest in profitable shares through the financial and stock markets, buying them high yielding bonds and depositing them. A certain percentage of their revenue is given to the people in return. In a nutshell, raising funds for citizens is the primary function of the fund. Thus, with the three pillars of the pension, one may have a fund with a whole complex of banking systems.

In Mongolia, the operation of the retirement fund is based on the harmonious system initiated by the German Chancellor Otto von Bismarck 130 years ago in cooperation with the People's Commissariat of Trade Unions, the People's Democratic Party, Ministry of Labor and Social Protection, and the Social Insurance General Office. This means that the amount paid by those who are currently employed is distributed to the elderly, and the policy orients a rather social care approach as opposed to other market needs. As a result,

One out of every 20 MNT paid by the citizens' taxes offset the loss of the retirement fund



following the collapse of the socialist system, the post-communist countries began to gradually transfer their retirement system to the three-pillar structure that is a market-based scheme. Seeing as it is a major social change, the transition has not been such a burden in other states. There have been such cases where some states sought to make the reform more bluntly and others have struggled to fund their state's retirement fund, which resulted in delays in the reforms. Lessons were learned and financial professionals who are pushing such a reform emphasize the need to slow down by first transferring 0.5 to 1 percent of contributions to private retirement funds. Unless the pension authorities now require an overhaul of it, Mongolia will not rule out the retirement loan even ►

- after this decade. Due to the fact that this has not been demanded by the public with such pursuit, every Mongolian person falls victim to their standards of living drastically decreasing upon retirement.

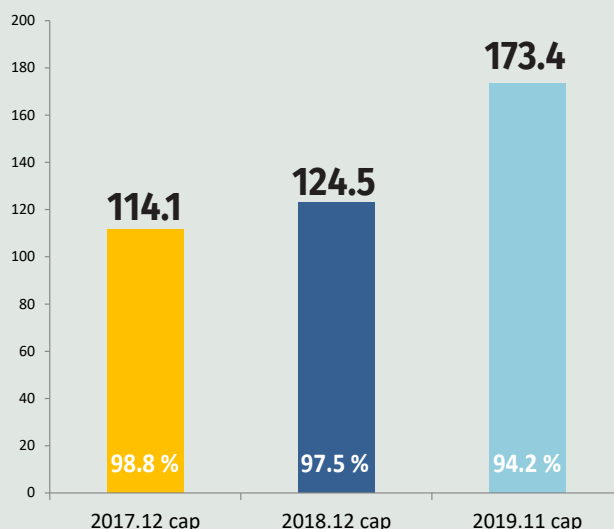
The Mongolian scam

The capacity to manage and use the Social Insurance Fund is lacking from the central government body. An evident example of this is how they have failed to get the 105 billion MNT bankruptcy deposit from the Capital Bank that is now bankrupt. The Social Security law can increase the fund's assets by purchasing government bonds and Central Bank securities through placing them in a commercial bank. However only 58-59 billion MNT is deposited from the Social Insurance Fund to the commercial bank. Monetary assets equal to two years of accumulation was deposited into Capital Bank and swallowed whole. Moreover interest income continues to be a patch to reduce fund deficits. It is the responsibility of the government to manage and monitor the market system without taking a single penny out of public funds. The failure to fulfil this obligation was due to the fact that the politicians being two wreckless with the retirement fund, resulting in a deficit. The fund's loss is a burden to the budget thus the elderly are dissatisfied with their retirement benefits and contributions paid to employers. To put an end to this once and for all, they need to make the retirement fund more controllable, fair, containing professional management and one where their savings multiply.

The need to modernize the retirement system has arisen a long time ago, but was never carried out. According to the Basic State Guidance on Pension Reforms until 2021 passed in 1999, Mongolia should have fully transitioned to a three-pillar pension system. However, the policy was revoked in 2015 and was instead adopted by the state to pursue a pension reform policy. This delayed the original reform until 2030. Throughout all their terms, the sectoral ministers have made the excuse that they are developing the Private Pension Fund Law, and will submit it to the Parliament soon.

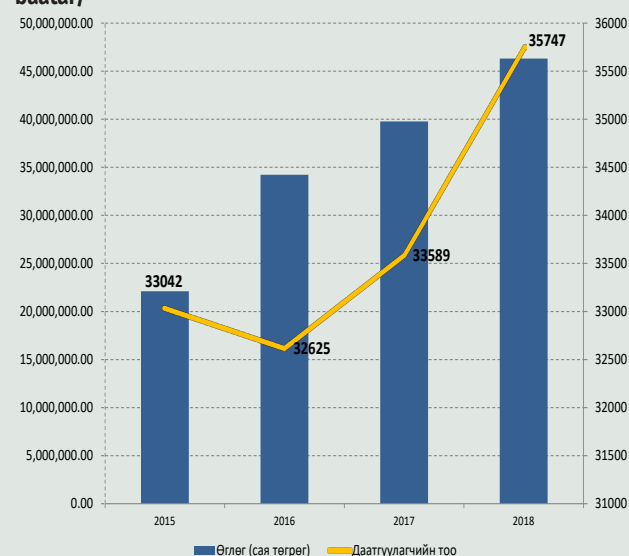
However, the Social Security's Fund audit report on the fiscal performance of 2018 provided the recommendation to the Ministry of Labor and Social Security. "It is necessary to completely modernize the ineffective system of social insurance and ►

Social insurance Fund debt /billion MNT/



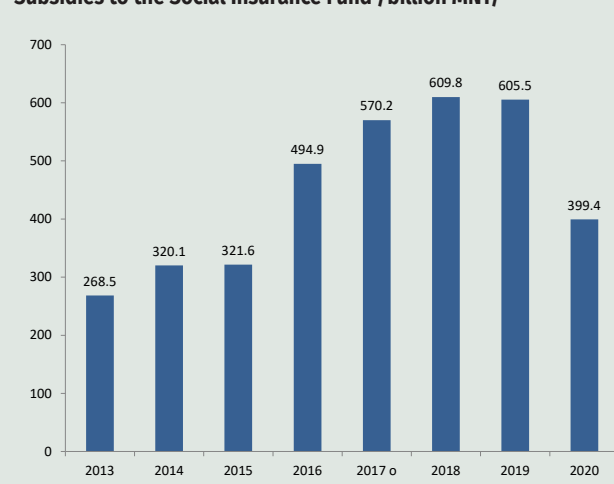
Source:
Social
Insurance
General
Office

Corporate Duty Payments to Social Insurance /Ulaan-baatar/



Source:
National
Audit Office

Subsidies to the Social Insurance Fund /billion MNT/



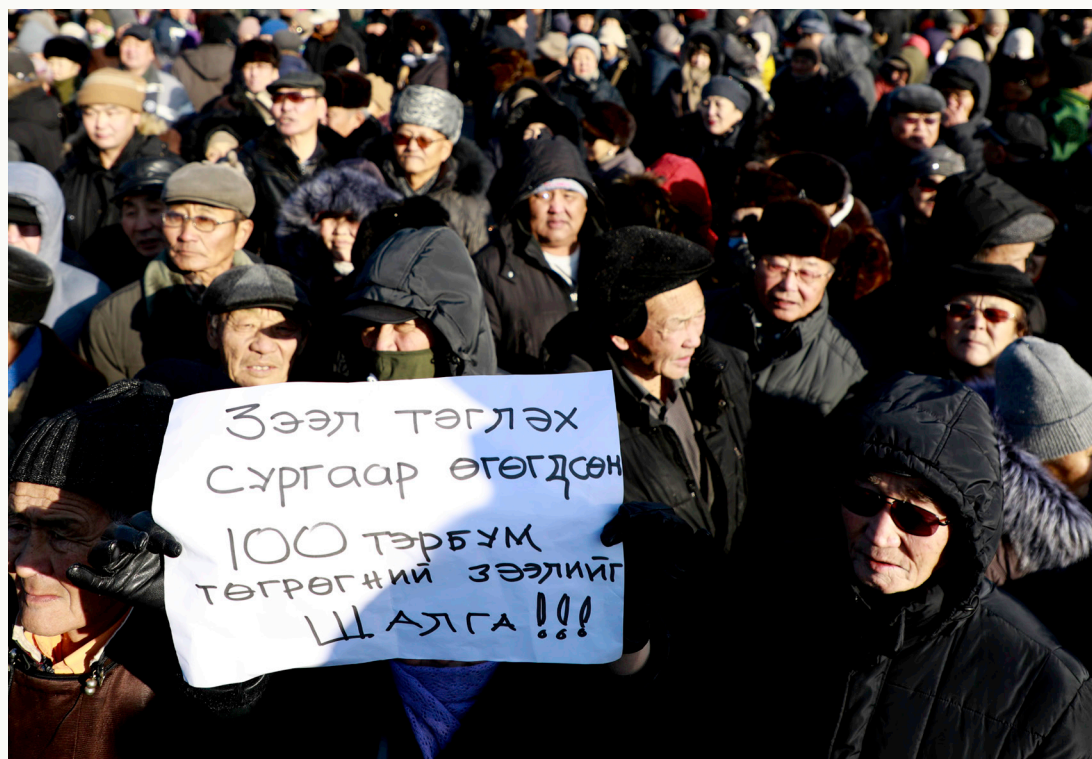
Source:
Social
Insurance
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- create a new system in which that is in line with the principles of market economy". Authorities continue to make putting out the fire decisions as the elderly are having their monthly incomes decreased three times following retirement, and their living standards are dramatically worsened. Talks to liquidate this perilous system is discussed throughout the society.

money is secure, they earn as they accumulate, their retirement benefits are clear, and their savings are inherited.

We aren't the only ones facing this issue

It is clear that there is a demographic and macroeconomic challenge to the pension system due to increasing life expectancy, reduced birth and youth employment, growing debt of developing countries, and declining productivity worldwide. It is the same case as Mongolia. Currently, one in 20 people in our country is over the age of 65 and by 2050, this figure is to increase to one in five. If pliers still exist, then by 2100, the retirement savings will be 75. In a sense, the loss of a retirement fund is inevitable. "Our country has the advantage of launching its retirement reforms much later than those that have transitioned



Unfortunately those who were most afraid of this tide were the relevant authorities who manage the social insurance and pension fund assets.

The capacity to manage and use the Social Insurance Fund is lacking from the central government body

Post-communist states such as Mongolia have attempted to modernize their pension system in the 200s, but have begun to turn back. The rationale for it was that the pension fund deficit had been politically altered and that the increasing elderly population is depleting the heads of

developed nations. This is however a mere attempt to counter the inevitable tides. Of course it is right to approach this carefully as it affects society greatly. A system where pensions are adequate, one where their

to market relations like Mongolia," said B.Ulziibayar, Chairman of the Board of the Mongolian Securities Traders Association. Perhaps a parallel launch with the post-communist countries does not exclude a revision. Even statisticians say that the time when mining revenue has burdened the economy and the Future Heritage Law was a good time to start a retirement reform. Is it necessary to wait for the retirement fund loss to tinker more with your taxpayer.

Enough funds are being accumulated from mining. Once the pension system has three pillars, it is to have a positive effect on many sectors of the economy throughout the stock market. Now, it is time to move forward so that everyone can enjoy their labor benefits and enjoy their retirement years. ■

Opinion

Perspectives of the experts on the pension system reform

N.UCHRAL: The private pension fund proposal will be presented before the spring session

*(PM, Head of the Working Group
on Drafting Pension Reforms)*



The state policy on pensions for 2015-2030 explicitly states that it is time to renew one of the five social insurance funds. This policy needs to improve the legal environment. Citizens are dissatisfied with not being able to receive retirement benefits if they pay social security benefits every month. There are no complaints on any of the three subjects of the relationship. Each year, pension funds receive about 600 billion MNT from the budget. Employees and employers together pay 17% of retirement insurance. But older people find retirement a frustrating burden, even for employers. So, in the future, if the current retirement age reaches 35-40, the state budget will drop significantly. Currently, the budget subsidy is 600 billion MNT, which will be 1 trillion MNT in 10 years. The government is obliged to submit a revised social security package and will do so. The Working Group

believes that the Individual Pension Fund Act needs to be launched. The law provides for retirement benefits for citizens of current retirement age, not from state pension funds, but from two state and private pension funds. For example, up to 19 percent of current pensions are saved as savings at the National Pension Fund. Currently, several retirement funds, such as Ard Life and National Life, are operating in the market, but because they are illegal, 17 percent of retirement benefits are concentrated in state funds rather than private funds. Therefore, when legalizing pension savings, citizens need to know how to manage retirement savings and be inherited in the event of death. Citizens also choose their own funds. If you choose another fund, retirement savings should be regulated. Therefore, the management of private pension funds is very important. Its management must be linked to the stock market. The largest investors and buyers of state-owned and limited partnerships and government bonds are pension funds. Therefore, regulations on private pension funds must also include regulations. Five years after the enactment and enactment of the law, it begins to accumulate in retirement funds. However, the law sets the standard for private retirement funds. Also does not support the masses. All

this means they have the law and citizens switch to a two-fund pension scheme. Having the Individual Pension Fund Act has a positive long-term effect. However, in the early stages, a certain percentage of transfers from state pension funds to private pension funds will necessarily be burdensome. But ten years later, the time has come to decide whether to pay two trillion subsidies or implement timely pension reforms.

Anyway, this working group will assess the pension and state pension legal framework before the next spring meeting and submit to the Congressional Chair for the Private Pension Fund Act. Therefore, the Retirement Reform movement, economists and insurance companies want to work together.

CH.KHURELBAATAR: The pension reforms were to be made yesterday, not discussed today

(MP, Minister of Finance)



I hope that the ministry in charge will study international experience well

and enact laws. In Mongolia, there is no need to repeat the mistakes of other countries, so we need to build the concept and foundation of pension and social policy reforms. The Ministry of Finance has the principle of financial participation.

The pension reforms are not moving and financial experts are pushing the society. There are so many ideas to get from the way they speak and their progress. However, I have repeatedly reiterated my position that appropriate care should be sought because the interests of retirees and those holding more than financial interests are priorities.

Therefore, the Ministry of Labor and Social Protection is waiting for leadership. However, experience from other countries shows that this is not the best course.

There are a few things to consider about post-retirement reform. The pension fund cannot handle the loss. This is a risk that must be considered first. However, retirement funds are moving with significant losses and must be modernized. Second, social security contributions cannot be deposited with commercial banks. As long as savings are properly invested and accumulated over the long term, it is important to consider financial schemes that can contribute. Third, the benefits of pensioners must be met very well. Fourth, for ►

- entities that pay a certain percentage of GDP, such a scheme would otherwise hide, partially pay, create no debt, or create a payment mechanism from GDP. It is thought that there should be no consideration.

S.CHINZORIG: The new retirement law will be considered at the parliamentary session in spring

(MP, Minister of Labor and Social Protection)



In partnership with the World Bank, other international financial institutions, alongside domestic researchers are discussing the pension system reform. According to the decision of the National Tripartite Committee on Labor and Social Consent, the working group consists of scientists, researchers, employers, and trade unions. I would like to evaluate the current social security system and its legislation, study the experience of other countries and switch to a multi-layered pension system. The three layers are the basic pension that gives everyone the same amount regardless of the years of labor and the amount of social insurance

that they have paid, the amount of salary. So far, much research has been done and foreign advisors assisted as well. It is not clear as to how many years it will take for the pension reform to take place as the bill is in its early process of development. Regardless, it is to be proposed at the spring meeting

D.BAYARSAIKHAN: Private pension funds need to be supported by tax policies

(Chairman of the Financial Regulatory Commission)



Blue and pink tickets have been around for almost 30 years, but Mongolians know nothing about the stock market except 1072 stocks. More than 200 companies are listed on the Mongolian Stock Exchange and 300 are listed on the Financial Regulatory Commission. Despite knowing the main players and products of the stock market, this is hardly used. The main investors in the stock market are investment funds and personal pension funds. However, in practice, our social security system does

not prohibit individual pensions, but there are no specific legal restrictions. That's why we need to change the legal environment and create a private retirement fund.

The creation of such a fund creates the basic conditions for citizens to receive additional pensions, become long-term professional investors in the stock market and develop the stock market. At the same time, the insurance market is expanding. In our country, one long-term or life insurance company operates. Long-term insurance accounts for more than 50 percent of the premium structure in developed countries, but less than 1 percent in Japan. The potential to expand the insurance market is the development of private retirement funds.

On the other hand, the benefits of efficiently distributing and investing social insurance and pension funds are limited, but this is not immediately understood. Dozens of companies have gone public in the last two years. The main problems facing these companies are the lack of long-term investors after the opening of the secondary market and the decline in stock prices. This has a negative effect on subsequent companies entering the stock market. With institutional investors, the next company will be open and have stocks. The

stock market has grown 200 percent in connection with the IPOs of these 10 companies, more than six months ago. That said, with professional investors such as private retirement funds, this increase would not have doubled.

When developing personal retirement funds and reforming the retirement system, leadership and cross-functional understanding is important. Reforms are widespread and are bringing about major changes in society. It is also understood that the Ministry of Labor and Social Protection needs to be primarily involved. However, the Ministry of Finance is at the forefront as it is working on the development of three insurance laws. We work closely with the Financial Regulatory Commission in supervision and regulation. It seems clear that in the last months of 2019, renewal of the pension system and establishment of a personal fund will be unavoidable. The Asian Development Bank has been drafting pension funds for the past six months. After being appointed as FBI administrator, when I met the project team, I noticed that the involvement of relevant organizations was very poor. The project team has a good structure and good consultants. A team of actuaries, fund managers, lawyers, and other investment consultants will ►

► work for six months and submit the fourth draft of the bill. When the Mongolian context became the third version, there were many things that did not fit into it. It was disappointing to miss such an opportunity beyond criticism. Government and financial institution participants may overlook such opportunities if they realize that a retirement savings fund reform is inevitable. Reform of the pension system also requires support for private pensions through tax policy. As mentioned above, the FRC is a place of administration and regulation. Therefore, there is a need to develop procedures, guidelines, and methods to manage retirement fund operational requirements, management transparency, fund management and financial reporting, investment, risk management, solvency, and auditing. On the other hand, much work is being done to increase the citizens' financial literacy and promote retirement insurance benefits.

Under the decree 13 of the Speaker of the Parliament in 2020, the State has set up a working group with the obligation to review the implementation of policies on pension reform and draft proposals and decisions on further measures to implement them. The FRC will support the task force, develop proposals and

conclusions on reforming the pension system, support the equity and insurance markets, and actively participate in enhancing the task force's work.

J.BATJARGAL: The pension must be adequate enough to support one's living expenses

(Executive Director, Mongolian Insurance Association)



Countries are increasing retirement benefits, according to a report from the World Pension Fund Index issued by HR Consulting Firm Mercer. This trend is growing in Japan, Thailand and major economies. Japan has consistently increased minimum pensions. However, there are few pensions because they overlook the management of the retirement fund.

Therefore, the involvement of professionally managed retirement and investment funds in the pension scheme is very important. Internationally, retirement funds and retirement insurance funds regularly increase premiums through equity investments and bond purchases. Because of

the inconsistency between the number of pensions paid and the number of pensions received by citizens, retirement benefit funds need to get a stable return. Therefore, leading a professional team is essential. However, in our case, due to this lack of leadership, political participation in the pension system is too widespread. As you can see, those who have completed their political careers are appointed by the management of these foundations. However, there are questions about whether the fund's expenditures are fair and well managed, whether the funds can be invested properly in financial markets, or whether they will be repaid in return. You need to solve it. The world's most proven pension funds, such as the Netherlands, Denmark, and Australia, operate on three basic principles: sustainable, sound and consistent governance. Recent trends indicate that increased participation in private pension funds is the result of good governance. Apart from state pension funds, private pension funds are also well supported by policies, which are the main tax support. Thanks to tax support, the fund is returning to and attracting the people. In Japan, retirement insurance is concentrated on public funds through VAT and is regulated only by supplementing private pension funds. This means paying over

200,000 MNT to state pension funds and adding about 100,000 to private pension funds. Some citizens have the opportunity to make up for their pensions, but not all. In addition to state retirement benefits, you can also secure retirement benefits. It is flexible system that allows people to accumulate a certain amount in their name, inherit it when they die, and plan how long and how long it will take. However, there is no such opportunity in the state pension system. Managing large government-scale funds is not easy. However, you need to make certain policy decisions. Therefore, some of the retirement benefits must be concentrated on government pension funds, while the rest should be able to ensure commercial insurance through compulsory insurance schemes. The solution, on the other hand, reduces risk by distributing the pension fund assets. The baby boomers are a heavy burden on the retirement fund, and pensions are require sufficient growth of fund assets and good governance. Retirement funds in developing countries are subsidizing their budgets while talking about investing in equity markets and increasing income in other countries. Such expensive structures are the results of misunderstanding and mismanagement. To correct the mistake, you need to change the basic policy. ►

► **D.AMARBAYASGALAN:**
**Social insurance
 scheme is to
 be reformed in
 accordance with
 international
 standards**

*(Secretary General of the
 Mongolian People's Party)*



Social insurance is a significant part of social welfare. Many talks about the need for reform. In the past, the social insurance scheme strengthened with the Social Insurance Fund accounted for 7.2 percent of GDP and 21.8 percent of the state budget, and had more than a million insured people. However, it's crucial to carry out the reform as the subsidies from the state budget to the pension insurance fund reached 600 billion MNT in 2019 and it is likely to increase. The reason for this is that the main parameters of pension insurance such as calculation, retirement age, and contribution rate are irrational. Reforming the social insurance sector is one of the main goals of the Mongolian People's Party. Relevant working groups have been created in the Parliament, ministries, and agencies. Variations on reform policy

developed on the research and estimation are being discussed. The working group is studying the possibilities to link the cumulation in the social insurance fund with the housing policy, stock market and introduce a multi-pillar pension system. Reducing losses of the Pension Insurance Fund in the mid-term and long-term will relieve the burden on the budget and tax pressure for individuals and enterprises. Also, we should focus on ensuring the financial stability of social insurance funds and expanding social insurance coverage. It is also important to introduce good governance principles, making the social insurance agency system and governance transparent. There's an urgent need for the disclosure of income, expenses, accumulated balance and financial reports of the funds, providing public oversight and restoring people's confidence in insurance services. The relevant ministry was obliged to digitalize the social insurance services. Our Cabinet will fully automate the employer's contribution payment process, eliminating paper social insurance books and pension passbooks. In general, we will reform the social insurance scheme by international standards. Additional private pension system will be formed as well. Thus, a small number of private pension funds that meet the special criteria will be accredited and the Financial

Regulatory Commission should monitor their investment and other activities. Once the operation of private pension funds stabilizes, a certain amount of contributions in the public pension fund should be gradually passed on to the cumulative system.

**TS.TUVAAN: The
 party considers the
 individual account
 pension system
 correct**

*(Secretary General of the
 Democratic Party)*



Our social insurance system is in line with international standards. We have both social solidarity and individual account pension systems. In Mongolia, people get a social solidarity pension. It's obvious that the pension depends on many factors. Put differently, it is a complicated system. But compared with social solidarity, the individual account system has more advantages. Say the least, one's medical expenses can be covered by the money from the individual account so that there won't be any arguments. Thus, it is a more fair system. Although the Individual Pension Insurance Contribution Accounts Law

was approved, it hasn't been implemented due to a lack of funding. Even if we had the funding, the individual accounts will have 13 billion MNT for losses. That is why we follow the current system. The party developed a number of strategies to introduce the individual account system before. However, it has been lagging due to lack of financing. According to the international scheme, investors are involved in the pension system. The large pension funds worldwide raise money at the stock market. This kind of investment is reliable and goes to major projects. Pension increases as the money in the fund raises. The current system creates a gap in pension. Problems such as receiving a different amount of pension after retiring from the same job or the gap that occur because it was calculated at different times to arise. There are pension, salary and herder's loan. We must set a certain limit on pension loans since retirees take pension loans for their children's expense, vehicle or other things. In the end, the elderly are struggling to live on their low pension. Our party considers the individual account pension system correct. However, due to the fact that Mongolia reached its debt ceiling between 2012-2016, it was hard for the Democratic Party to attract financing to the individual account system. ►

► **B.TULGA: Pension should be separated from insurance**

(Secretary General of the Mongolian People's Revolutionary Party)



Our party drafted the fifth Constitution of Mongolia or the New supreme law as the Constitution of 1992 can no longer to regulate our lives. For the last three years, we have been meeting with the people to draft the new law. At the meetings, the most recurring problem the people were bringing up was that the salaries and pensions are not enough to live on or that the pension was set (calculated) low. We surveyed the situation and found out that our current pension system is fundamentally wrong. The pension is not enough to cover the expenses, people take a loan with high interest rate. In case of the debtor's death, the family pays remaining debt. In other words, a system that inherits not the savings but the debt was formed. To address this, we suggest the following solution.

First, we should separate pension from the concept of insurance and come to a common understanding.

There should not be any risk if you are paying contributions. A teacher with a salary of 800 thousand MNT accumulates 1.6 million MNT in the pension fund through the monthly contribution rate of 17 percent. If you store the money in the bank during 30 years of service, by the time you retire the cumulative sum will be 150 million MNT. And it is quite possible. A retiree with this amount of cumulation will receive 2 million MNT monthly. Unfortunately, the reason why this system hasn't been formed is that the authorities don't have interest in it. According to the Individual Pension Insurance Contribution Accounts Law of 1999, the three-pillar pension system should already be introduced. Regrettably, the authorities still assume that the money in the pension fund as budget component or steal it and store in the banks. They leverage from the interest while the retirees and tax payers pay the debt. Currently there are more than 230 thousand people with pension loan in Mongolia. The interest rate is 15 percent, which is precomputed interest. That is to say that the person with a two-year loan pays 40 percent interest rate instead of 15. In this sense, the current system allows the government be a loan shark. The commercial banks are not increasing

the interest rate. The loan source itself has a high rate. Even the Mongolian Bankers Association agrees that the system which encourages the loan sharks needs fundamental change. We meet with the professional organizations regularly. Representatives of both banking and business sectors say that the main problem is high interest rate government sources. The government has a full potential of attracting external low rate sources to the mortgage, pension loan and other funds. Mortgage and pension loan sources are the most secure and long-term funds in the world. Regrettably, these types of loans have the highest rate and the authorities or those who are close to them became shark loans. Pensioners, people with mortgage loan and tax payers are turned into victims of this system. After all, the amount of food is decreasing with the inflation rate. Therefore, we must establish pension funds and cumulation, creating a system that calculates the revenue from cumulative sum, which can be spent as the person wishes or be inherited to our families. If the reform is carried out, a person with 800 thousand MNT salary will receive 2 million MNT following the retirement. Our party has been including this model and solution to our program during previous elections. Thus, we will propose it

through our program this year and strive to realize it. Mongolia has all the chances to prosper compared to other countries. Since 2011, we have been saying that social democracy is the most convenient for Mongolia and making it our guidance (ideology). We kept warning that following the liberal democratic path makes the mass get the leftovers, while the minority feast on the profit. Our party wants the system that allows the masses benefit. To achieve this, we will make every effort to bring the pension, salary, banking and financial systems in line with social democracy despite the party wins majority of seats in the Parliament.

D.GANTULGA: Deficit during implementation of pension reforms can be offset by mining royalties

(Secretary General of the National Labour Party)



Pension reform is essential. If we don't carry out the reform now, the situation will get worse and the young people will not even be able to receive a pension as low as it ►

► is now. The National Labour Party aims to introduce the three-pillar pension system. Under the current system the employee and the employer together pay 17 percent to the Pension Insurance Fund. The rate of obligatory pension contribution will be lowered to five percent by gradually reducing it by 1-2 percent annually. By doing so, after 12 years, 12 percent of our contributions will pass on to the accumulative system. The private pension funds could be managed by a state company, while the government should also allow the private companies to manage such funds. In other words, funds that accumulate people's money and make profit from it by investing will be established. It's crucial to create a sound system that has an accurate regulation as the banking system and protects it in case of financial difficulties. If one considers the state and occupational pension not enough, there is a private pension thus forming a three-pillar system. That is what we strive for. People think that everything will work out once we pass the relevant law. But first we need to articulate the scheme of work very well. If the pension reform is carried out, the question will arise from what reserves should pension be granted to current retirees. According to our estimates, the reduction of contributions by one percent a year will cost the state budget approximately

100 billion MNT. There are several ways to solve this problem since we are committed to carry out the reform. In 2019, Mongolia accumulated 1.3 trillion MNT from mining royalties revenue, 792 billion of which were allocated in the Future Heritage Fund. If you compare the country with a family, it looks like the family is saving their money for the future of children in foreign banks while the grandparents are starving to death. Therefore, we think it's possible to cover the above mentioned losses from the fund.

To carry out the reform, we need to develop a scheme that includes the cost and resources to cover the budget deficit, and then make calculations and surveys with the help of experts from international organizations such as ADB and the World Bank.

B.ULZIIBAYAR: Let's just vote for the party aiming for pension reform

(Chairwoman of the Mongolian Association of Securities Dealers)



Individual retirement plans must be formal. However, in the current legal situation, the pension savings scheme

is optional. This means that 17 percent of salaries can be transferred to social insurance funds in the state of the deficit, and another to private pension funds. This is not possible in reality. That is why the individual pension fund needs to be formalized. Of course, changes to the system must be made slowly. Not one year, many years. Based on the data we have and the research we have, we first transfer 1-2 percent of our retirement benefits to individual retirement funds and open accounts for all citizens. The account holder can track how much of the pension fund's funds are invested in the deposited funds and how much it makes. It's like managing a bank account statement. It is useful for citizens to track how personal the retirement fund is and how much it will need to plan retirement after 30 years. In today's systems, people are often vulnerable to losing pensions. The woman I know in my mid-30s has a three-year retirement pension. Citizens holding pension loans are not amortized. Over the past 30 years, we have created such malicious systems. Let's look at politicians who have not yet created a legal framework for their retirement system. What do politicians deposit in that fund and do with huge amounts of money without

hidden profits or benefits? This is why pension reform is not interested in doing so far. Let's start reforming the retirement system in this situation. Now people are silent for themselves. Of course, politicians will not do this unless they move to social media.

Let's take a look at which parties have been included in the pension reform platform in this parliamentary election. Vote for the party trying to make such a reform. Let's see if we reflect the opinions of experts when developing a platform and if it supports people's needs. If you sell 20,000 MNT offers, you are still in the swamp. It is good to have a legal framework for retirement reform before elections. If not, look at the platform. The party's first victory in the 2020 election should be the reform of the retirement system. The people also need it. People get old. So don't ignore the problems Dorj and Dulmaa face today.

There is a risk of reforming the framework. Generally, every system is dangerous. Even state-owned and socially managed social insurance systems are experiencing bankruptcy and loss of banking funds for unstable banks. Most importantly, we need to know how to manage risk in the best way. Some countries are 100 percent directly involved in the private pension scheme. ►

► However, we believe that participation in the state pension scheme should be to some extent. It is the government's duty to provide social security to citizens. In countries that have transitioned directly to the private pension scheme, some funds have failed due to changes in the financial markets, crises, or misalignment. One of the advantages is that Mongolia will start this reform later. Learn from the experiences of other countries and what they have lost. Russia, for example, is improving pension systems.

In developed countries, private retirement funds are equal to banks. It has developed into an investment financial institution. Therefore, central banks, financial regulators and private management companies are the main players. Like a banking system, it not only has good features, it also needs good government oversight and regulation. Fund sales should not be limited to the domestic, but also to the degree of development of the national financial sector. If you manage your money internally, what products will increase your financial market equity? At least government bonds should be offered in the domestic market, not abroad. Bonds do not make any profit. The dollar exchange rate has more than doubled since

the issuance of Chinggis bonds. Given the currency's volatility, domestication was beneficial.

In addition to government bonds, large domestic companies must trade stocks and become public companies. We are already discussing as to when the banks will become open companies. As a result, market retirement funds require a lot of risk and long-term savings. Once such opportunities are made available, we are willing to implement them.

U.AMARBAT:
Without improving the efficiency and benefits of transparency, the pension system will no longer work

(Lawyer)



The Social Insurance Law did not fully regulate the relationship between controlling and managing the process of returning cash to the Social Security Fund. The Social Security General Authority was established to oversee and manage social insurance relations. There is also the Office of General Health

Insurance, which has the same function. On the other hand, two organizations, the National Council for Social Insurance and the National Council for Health Insurance, manage the fund's assets and have non-staff members. Once you have your savings, you need to manage your assets efficiently. However, compared to other countries, these organizations are not economically efficient. It simply collects social insurance money from one party and provides it to another.

Article 11 of the Social Insurance Law states that the free balance of the Social Insurance Fund may be "used for purchasing government bonds and securities issued by the Bank of Mongolia and depositing in a commercial bank". Accordingly, the funds are deposited with the commercial bank. But this is a futile way. In light of all of this, the current Social Security Law has a disadvantage: it does not have the proper regulation of money management, does not make the subject explicit, and does not have a good control mechanisms in place.

Personal pension supplementary insurance laws will also include personal retirement funds. We now have two choices. Either the state needs to transfer the burden to the private sector or improve

its existing retirement system. The current retirement system will no longer work unless the tasks of management, efficiency and transparency are clearly understood.

KH.ALTAI: Retirement reform will raise capital for 20 years

(MSE CEO)



Businesses need constant funding, but the only source we have is a bank. The longest-term asset in the bank is a 12-month deposit for individuals. People do not deposit money in banks even for two years because exchange rates are volatile and always fall. With the reform of pensions, capital will be created for 20 years. The key to success of any company or business is to have long-term capital. This is the main reason why businesses in our country are not growing well. Consequently, the creation of private retirement funds has many positive consequences and opens many opportunities. First of all, the future of those who work is guaranteed. In addition, our country's economy will be provided with long-term capital. ►

► As international practice has shown, pension funds are the main players and in the stock market and can benefit both citizens and companies. For example, a U.S. citizen holding Oyu Tolgoi stocks through a retirement funds benefit from its activities. On the contrary, a citizen of Mongolia can only benefit from taxes and funds from this company. In the same way, our Mongolian companies, which are investing in foreign stock exchanges, are giving a return on foreign pension funds, and the Mongols cannot benefit. With the pension reform, we can benefit from our mining wealth through the stock market. Further, the future of the citizens is guaranteed. In my opinion, the most rational way of reforming is to focus on a certain amount of the income tax, which is a personal retirement fund.

KH.AMGALANBAATAR: **The principle of solidarity is needed**

(President of the Confederation of Mongolian Trade Unions)



The social security system in Mongolia has been developed since 1940. The Social Security Scheme was

under the responsibility of the Confederation of Mongolian Trade Unions until 1990. Therefore, the CMTU is well aware of errors and gain in all of these areas. The errors and distortions of the current retirement system have been manifesting and signaling since 2013 and 2014. First, the Social Insurance Fund's assets were mixed with the state budget. The fund's assets were normalized as a means of offsetting budget deficits and expenses. This is the root of the problem. Political and pre-election populist promises also greatly influenced.

As economists say, I do not agree with the direct establishment of a natural resource fund and the radical change of the system, based on the principle of solidarity. The principle of solidarity is needed because the new economy does not have the conditions and capabilities to drag the basic social system. Apart from the current retirement insurance fund, it is imperative to pursue policies that have private retirement funds and that the source of the fund are complemented by wealth and other funds. In other words, the Pension Insurance Fund must be monetized. At least take back MNT 200 billion in Capital bank and take a realistic step. Second, there is the Pension Insurance Accounts Act. At the parliamentary level, it will be necessary to determine and

decide whether to continue implementing this law. Part of it was written and active, but it has stopped in the last few years.

Third, in addition to the current system, we need to develop personal insurance funds. Those who have potential and interest in such a fund should be free to choose, such as a non-reinsured, solidarity-based fund, not having to settle their retirement rates. In addition to the normalization of the existing system, it is also necessary to double the system of personal insurance and half savings. This will create three pillars. It is important for the mineral deposit authorities to concentrate on the state budget and monetize the Social Insurance Fund to reduce the loss of the Pension and Social Insurance Funds. In this way, the fund will have tangible assets.

O.AMARTUVSHIN: **Repayment needs to invest in secured loans**

(Chairman of MNCCI)



It's time to set up a personal retirement fund. It seems likely that we're probably

late. Proposed to include in the relevant bill on establishment of a private pension fund 50 percent of the premiums are paid by the organization. The management of the fund will be overseen by a professional team, and a proposal will be made for a selection of 5,000 members. With the establishment of such a fund, the repayment of about 400 billion MNT in one year can be done by investing in securing loans. The biggest payday mortgage, investment in SME development loans and equity in companies can make big headway in economic growth. Once the Investment Fund is set up, it will open up more opportunities to partner with similar international funds. In the future, the risks to the population can be significantly reduced by linking them up with a poorly developed insurance sector. We believe that there will be no risk if there is an NGO with the right to protect the private sector, a paying body, a good governing body of the unions and pensioners with good governance. As soon as the relevant law is passed and it starts working within itself, private pension funds will begin giving back their benefits in half a year.

► CH.GANKHUYAG: Social solidarity is a cycle of destruction

(CEO, Ard Financial Group)



We brought up how the current pension system is no longer working in 2004 and started researching and discussing. In 2002, XacBank introduced the long term Future Millionaire savings, and the “Nasnii Nunjig” savings in 2004. In doing so, they have created the first product of private pension. In 2007, they have created the private pension fund of XacBank in 2007 for their employees and began to manage the Mongolian Unified Pension Account company’s operation as well. The former establishment did not store the long term savings of their employees in banks, but rather invested them into the stock market. This company has now become Ard Life LLC and has invested 20 billion MNT for pension reforms. Only now, the citizens are realizing the significance of the pension reform, creating movements, and a Parliament working group was created. The Pension Reform will untie many knots. When I was working as the Deputy Minister of Finance, I aimed to update the pension system and develop the stock market. However, the

opportunity was not there. At the time, the mineral funds were the main area of concern. Today, people complain at how high interest rates are. It is that way because it is financed by an annual high interest savings. Comparing the stock exchange’s daily trade turnover to a bank’s make it look like a booth at Narantuul market. Therefore the lack of development in the stock exchange is due to the pension fund.

One of the things that I worked on for the past few years is the creation of the Government Pension Fund. Investments need to be made into such a Government Pension Fund. For instance for Tumen Shuvuut company to increase their current production of eggs, chicken, and poultry feed by taking out a loan from a bank with high interests would bankrupt the company. Thus the place where businesses raise such funds is the stock market. Announcing IPOs, collecting investment and increasing production has been observed throughout the past year. Mongol Huns, Tumen Shuvuut and Mongol Basalt companies have renovated their technologies, production capacity and expanded their number of employees through investments from the stock market. As a result, their income, and revenue increased, and they pay more tax to the state as well. The fruitfulness is revealed through such a cycle. On the contrary, compared to the pension fund,

the investment they built is relatively less.

The money accumulated in the pension fund is not an asset that goes to the pockets of politicians to be stored in a year long savings account through bureaucracy. It is rather the longest source of funding in our country. In other words, it is an asset that can finance projects

This step must be taken for us to be able to walk confidently in the future

for 20, 30, and 40 years. There is a saying in Mongolian that indirectly means rummage through your drawers instead of asking your neighbor. The state accumulates a trillion MNT through social insurance. This should be spent correctly. The act of political party leaders taking from it, financing their private businesses, giving it to their friends and lacing it in nearly bankrupt banks should stop. On the other hand, the fear of pension fund debts reaching a trillion MNT is near. The social insurance that we pay today goes directly to the elderly who receive pensions. This is the last cycle. If continued at such a rate, 20 years from now, those employed will no longer be enough to finance the pension fund and those receiving pensions will become beggars. At that time, a fund without any financing from the budget might be created just to feed the elderly. That is why I am saying we need to fix this now. I have worked towards this for the past 16 years.

Pension reform becoming a heated topic among the public is the results of the work we have put in. Head of the Cabinet Secretariat of the Government L.Oyun-Erdene, MPs N.Uchral and B.Javkhlan are politicians that think with a healthy mindset, and they will make the pension system reforms with the young people. In order for this to be possible, 100 state owned, corrupt political entities must be subordinated to the State Pension Fund. Then, the fund must be offset by dividends, stocks and privatization income for the pension fund assets to be increased. This step must be taken for us to be able to walk confidently in the future. This decision will not create any pressure or create holes in the state budget. It will only decrease the power of some politicians. The reform will only be made at this time with 63 parliament seats and the prime minister U.Khurelsukh who is bold. If not now, then it will never be made. Therefore, those in power must come to a mutual understanding, take our advice for the country. Otherwise, history will not forgive us. There is no country that developed with the example of UN, IMF and the World Bank. Africa that was fed with the support of donations for the past 40 and 50 years did not develop. China did not take the help of foreign economies. They developed by supporting their pension, resources, their stock markets and businesses domestically. ■

Clarification

Draft law establishes broad eligibility criteria for issuers of international and domestic securities

Hans Van Rijn, Principal Public Management Specialist of East Asia Department, ADB, gave briefing on the draft law on Supplementary Pension System developed within the framework of the Support for the Establishment of a Supplementary Pension System project

There are a number of private pension funds already in existence in Mongolia. The draft law and subsequent regulations to be issued by the FRC will establish a framework that ensures these funds operate subject to robust and prudent regulatory supervision, while establishing a solid institutional foundation for the anticipated growth of the Mongolian supplementary private pension industry over time.

While the legal framework will enhance the confidence of consumers that supplementary private pension funds provide secure means for additional saving (beyond those provided through social

insurance protections) for their old-age needs, the level of participation in private pension schemes will depend on many other external factors. In light of the strong social insurance protections already provided, the development of private pension schemes is likely to be gradual.

Private pensions will be able to design their own investment policies and strategies in order to best serve their clients' needs and interests, subject to requirements of the private pensions law and more detailed regulations issued and enforced by the FRC. The draft law establishes a prudent investment principle, whereby pension assets shall only be invested for the benefit of pensioners, aiming to maximize returns, subject to ensuring the security of assets, portfolio diversification and appropriate levels of liquidity.

The draft law establishes broad eligibility criteria for issuers of international and domestic securities; as well as prohibitions on in-

vestments in unlisted assets, derivatives instruments (except when used for risk-management purposes) and assets owned or issued by the Board members, investment management company or custodian of the private pension provider. The FRC is expected to provide greater detail to these limits and restriction through regulations. The Board of private pensions must approve an Investment Policy statement that includes maximum exposures to specific asset classes and to a single issuer or group of related issuers, as well as a Risk Management Policy.

The draft bill is consistent with the State Policy on Pension Reform (2015-2030), which was adopted by Mongolia in 2016 and provided framework for pension reform to address growing costs and demographic trends, while securing an adequate pension benefits. The introduction of supplementary pensions thus has two objectives: increase retirement income

and increase long-term household savings, which would promote economic growth through the private sector financing. The draft law would authorize the creation of two types of supplementary private pensions: individual and employer provided. Participants can contribute to their supplementary private pensions on the basis of employment or through individual savings.

The draft law establishes that supplementary private pensions can be provided by Specialized Pension Fund entities in the form of Limited Liability Companies and Long-Term Insurance companies, licensed by the FRC. Pension providers would be required to use licensed asset managers and custodians to meet best investment management practices. Employers would be permitted to create their own pension funds for their employees, or would be able to use those provided to individuals. ■

ARD life

B.Gantulga: Through pension reforms, companies can raise capital in Mongolia



One of the main pillars of the pension concept is the private pension fund. The Ard Financial Group founded Ard Life LLC in 2007 that introduced the first private pension fund in Mongolia. In November 2016, Ard Life LLC updated its retirement savings service and introduced the new combined health, and accident insurance. As the company's vision is to bring globally acclaimed pension systems into Mongolia, CEO of Ard Life LLC B.Gantulga spoke about the pension reform.

-Recently, a lot of people are agreeing that Mongolia needs to modernize its retirement system.

What, in your opinion, has influenced the current situation and what is the malfunction of the pension system?

-The Pension Insurance Fund of our country has suffered losses for the last seven years. In the last five years, they have lost an average of 500 billion MNT. The main reason for such a situation is the malfunction of the pension insurance system. Internationally, the pension operates as a fund or insurance but Mongolia has a mixed pension insurance fund. The money accumulated in the pension insurance fund is not subject to economic circulation and is not tied even with financial instruments.

As the monetary value decreases, the value of pensions that accrue on the account goes down. Due to this, those who paid pension before the transition to free-market society have their social security contributions lose its value. At that time, the pension system had to be modernized

as well. As international experience shows, pension insurance and accumulation funds are separate. Until the age of 60, the individual has accumulated in a personal retirement fund, after which the service is called a pension insurance product and the funds accumulated in it are provided. In our case, the word insurance is releasing the Social Security Fund from the obligation to increase and increase the amount of savings. In doing so, the fund is unmanaged and there is no way around it. In addition, the insurance cannot be passed on to the offspring by inheritance.

-What is the current state of the pension insurance fund? How should the existing system be modernized?

-The Social Insurance Fund consists of five insurance funds: pensions, benefits, health, unemployment and industrial accidents and occupational diseases. Insurance is linked to risk, which involves unpredictable risks, such as health problems and temporary disability. All four are working well, except for retirement benefits, ►

The insurance cannot be passed on to the offspring by inheritance

► which is risk-based insurance. However, retirement insurance products take 17 percent out of the maximum 24 percent, but still remains as the most inefficient one. Pensions themselves are not insurance products. This is because the law of our country states when to retire and how old a person will be when he will retire. An insurance product could be if a person does not know when to retire and suddenly makes such a decision. In the first place, we need to separate these two concepts, and consider the retirement insurance fund separately, and speak of retirement reform.

Our retirement system is a one-pillar system that transfers all of its 17 percent paid contributions to the state. The system can be considered bankrupt. This is because the fund has been operating at a loss for the

Whereas of now, two young people are paying for the pension of one elderly, in the future, one young person will be paying for one elderly

past seven years. Compared to private business, a company that has such a large loss would already be bankrupt. In other words, the system is broken from the bottom. Contribution rates and retirement age are also being added to cover the deficit at the bottom. This, in turn, has

a negative effect on the labor market. Even in old age, people will still have to work to receive retirement. That is, the forced solution is trying to solve the problem. This is not a wise way to solve the bulk bottom problem. Therefore, it is necessary to establish not one but three-pillar systems - state, corporate and personal insurance - and this must be legal by the state. In this regard, one column is on the reels, the other one will support it.

-The World Bank said that 30 countries had the same system as ours, but 18 had not achieved the result they expected. What are the causes of this and the risks involved in the transition?

-There are a lot of reasons for failure. For example, some countries have reformed in the 1990s, and they have lost due to a lack of modern financial knowledge. In our country, something like the history of savings cooperatives that happened in the early 2000s has happened to the pension fund of those countries. Companies with too much open competition went bankrupt and failed to return the promised high returns. Pension savings are different from ordinary retirement, and in the event of an organization's bankruptcy, there is no time for the recovery to receive benefits or the retired labor force to recoup its income. Therefore, retirement savings should be very well controlled. Another mistake is the direct transition from state to private funds. In this

case, the state's pension fund has returned to its old system due to a fall in revenue and excessive budgeting. The transition was difficult because of the steady economic growth in the country. In some countries, the shifts and accumulated money were tied to company shares, but in the 1990's, privatized companies were unprepared or had a high stock concentration. If you take stocks of more centralized companies, you lose the advantage they can get to many, and the returns are in the pockets of the majority of the company. So that should be reflected in our policy document. For example, the law must specify that more than 25% of the shares of an investing company must be freely traded on the market, and how much of the fund must be invested in the stock market, fixed income bonds, savings, or real estate.

- What is the root cause of the lack of a legal framework for the introduction of a private pension system and refusal to carry out reforms?

- Many things indicate it's time to upgrade. The IMF has suggested that this budgetary system should be improved. We have taken steps to increase our retirement benefits and retirement rates. From my point of view, I'm focusing on how not to increase current losses. The reason for the lack of reforms for so long is that it has been considered part of the budget. Politicians, of course, are not interested in getting rid of the money that comes to their control. The losses seem to be increasing with each passing year, and they are starting to understand.

- What are the benefits of a three pillar system?

- This can be explained with the example of Singapore, which has grown its economy tenfold by using the three pillars. The country ranks first in Asia in terms of GDP per capita. One of the mainstays of the country's current development, with its vast territories, natural resources, and the absence of millions of manpower, is the state and private pension accumulation scheme established in 1965. Singapore saves 20 percent of its income in the retirement savings fund, investing in stocks, and earning high returns.

In addition to increasing your retirement savings each year, you also receive additional revenue from your asset management services. This amount will increase the cash flow to the stock exchange. With the rise of the Singapore Stock Exchange, companies from around the world have come to and from Southeast Asia, Australia and India. So is Hong Kong. Accumulation funds are invested in the specific assets that companies are raising. While neither Singapore nor Hong Kong is rich in natural resources, it has benefited from mining companies in Vietnam, Australia and Mongolia. We can also make pension ►

► reforms an opportunity for companies to raise funds in Mongolia based on their retirement savings.

- What are some of the products offered by Ard Life, a private pension fund service?

- Ard Life LLC began operations in 2007 as a member of XacBank's future retirement savings account. At present, Ard Financial Group manages the retirement savings account for over 1300 employees across 20 companies. We offer three types of products. For example, a person with a salary of one million one hundred thousand and a half thousand would pay 187 thousand a month in the pension insurance fund. If we invest this money in our products with a 13 percent annual yield, they will increase to MNT 827 million over 30 years. The monthly interest on the accumulated money is 9 million MNT. This money will be inherited, even if the individual dies, and all or part of it will be available at a time. We also include health insurance in our products, and our clients receive access to a public or private hospital for a total of MNT 10-20 million.

- Despite the citizens' wish to refuse social security and create personal savings, they cannot because it is the main proof of income. What is the solution?

- Companies can provide equity guarantees for people with a steady income and going on savings. It is recognized internationally as well. For example, in Singapore, retirement funds provide a guarantee of home purchase and an advance. The matter is a bit too far ahead as the retirement reform is still being talked about. However, it must be said that after the upgrade it is completely possible.

- In the long run, depositing large sums in a private company tend to weaken people's confidence. What is your guarantee?

- Do not disagree with the lack of trust. The people are asking whether the most secure entity they can deposit and raise money with is a commercial bank. This raises the question is a commercial bank a private company? By properly operating and improving our governance system, we can become a reliable company for a long time. In our case, the retirement fund meets the requirements more than a bank would and has better surveillance as well.

- What is the first step you need to take to introduce a three pillar system?

- First, there should be a law governing the third pillar or private retirement fund and a legal framework must be established. Then organizations have a choice to create a second layer without having to submit all to the 8.5 percent of their paying countries. The country should also

compete with the private sector to offer more profitable offers. There is a third pillar where organizations choose which institution to place their employees' retirement savings. As mentioned earlier, weighing your risk is the most important thing. Within this framework, companies have to put in place governance requirements, such as equity guarantees and a public company. In addition, it is necessary to clarify in which environment and in what percentage the pension savings fund can invest.

-What are the risks and rewards of doing the reform?

- We have many supporters, but there are many risks. Direct competition and outreach of companies is wrong. Due to pensions being special accumulation, they must be separate. Therefore, we are working to take risks and solve them. Additionally, the private retirement fund is new to Mongolia, the Ard Life LLC has a higher potential of succeeding in this field due to 12 years of operation. It is important that we not only let people know, but also have that opportunity.

-What effect will the pension reform have on other sectors?

- One area where they can benefit is education. Anyone with a retirement age of 60, earning 827 million MNT will be able to enroll their children and grandchildren at a foreign university. With everyone having that much, and maybe even more, savings in teaching our children abroad, and our schools can improve as well. This will allow them to get quality education abroad for 10-20,000 USD instead for a school paying 50-60,000 USD abroad. To attract quality teachers, schools will increase their salaries and so will the education sector. Furthermore, with high salaries for physicians and educators, well-educated children will be interested in the profession and will be well-positioned.

The benefits of private pension funds are also great for politics. The benefits one receives will be regardless of any politician. People are too involved in politics because the pension we receive now depends on them. If politics-driven accumulation and life are stable, you don't have to be involved in politics as it is now. The selling of votes will also decrease. Instead of talking about policies and good policies, politicians will no longer make meaningful promises, such as pensions, welfare, free money distribution. Retirement reform, in many ways, can bring positive change. ■

Through the establishment of the private pension fund, many sectors such as education will no longer depend on the promises of the politicians

General Economic Plan

D.GAN-OCHIR: Step-by-step actions will be taken towards non-systemic banks



The Bank of Mongolia's Chief Economist D.Gan-Ochir spoke about the general economic plan of this annum.

-The 2020 elections are called one of the biggest economic risks. How does the Bank of Mongolia evaluate the effect of the election on the economy?

-External economists and the public have suggested that the parliament has approved the proposed budget, which is likely to lead to overheating in the economy due to rising budget expenditures and rising inflation and weakening the MNT.

But based on the best information we have, the previous standard is no exception. The 2019 budget, was approved with a loss of nearly two trillion MNT. At that time the BoM, international organizations and analysts were wary that in combination with economic growth that it would overheat, stimulate inflation and weaken the currency exchange rate due to excessive imports. The actual budget spending for 2019 did not reach its full potential, and the risk did not come from the budget, as you might imagine. GDP growth was 8.6 percent at the beginning of the year, up from 6.3 percent in the third quarter, with annual import growth at only 3-4 percent. In other words, the above risks were not born because the budget approved is large and the performance is low.

Therefore, it is expected that this year, the MNT and inflation will not come under heavy pressure if performance is not as planned as in 2019.

-What is the outlook for the banking sector next year?

-Two years ago loan growth slowed to over 20%. According to October 2019 statistics, the increase has declined to 10.6 percent. This slowdown will continue even next year. As a result of measures taken by the Bank of Mongolia as part of the macro-policy, household loans may not increase in the coming years. Most consumer lending peaks at the end of 2018, before consumer lending measures, with most lending terms being around 30 months.

On the other hand, non-performing loans by the mining sector and the accompanying sector loans slowed by the change in commodity prices, while non-performing loans were relatively high at 20-30%. The amount of the loan will not increase until the repayment of the non-performing loan under the Asset Management and Amendments 5-6.

-Coal exports are projected at 42 million tonnes next year. What is the difference between this year?

-There are geopolitical uncertainty and technological war all over the world. Three years ago, China's GDP growth was expected to surpass that of the United States by 2030, but Donald Trump's policy has delayed the forecast for 2030. And China's economic growth is slowing. Technology is the key driver of a global growth slowdown. In other words, who has been able to keep an impact on the technology industry will keep up the strong economic growth. The manifestation of U.S.-China competition leading the way in the war is a trade war, which has an impact on commodity prices, which are the main source of revenue for our exports. In the first six months of the year, the price of coking coal dropped to about 10 percent over the last 4-5 months, which was 93 USD per ton. Therefore, export revenue is slowing down from previous years. But the physical export potential of coal will likely be preserved in part. Despite a slowing economy, China is pursuing a growth ►

- stimulus with fiscal expansion. The key to this is the significant infrastructure projects under the Belt and Road Initiative. Our coal exports are still 34-36 million tonnes, as these projects support demand for steel and preserve coking coal consumption.

What are the risks to the balance of payments and how do you plan to manage them?

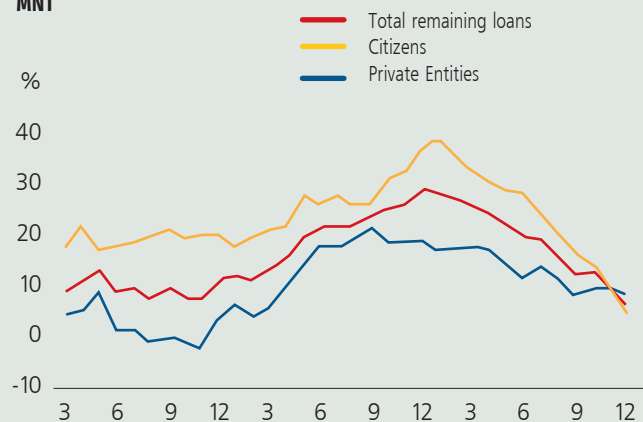
-The current account deficit is maintained at this level because of the balance of payments. The export revenue is expected to decline and imports are expected to continue due to economic activity. External debt repayments are at hand. Despite the overall decrease, a positive or negative balance will largely depend on donor funding. In particular, if the IMF's Extended Financing Program ends in May, the program launched with the World Bank will continue until December of this

year. There is also a joint program with JICA. Therefore, the success of the IMF program and its commitment to donors will have a significant impact. In other words, the balance of payments would not be so high if the sources came from these organizations. On the contrary, there is a risk that the balance of payments deficit will expand and currency reserves will not be accumulated.

-In 2019, one bank went bankrupt. There is information that this situation will happen even next year. Can you comment on it officially?

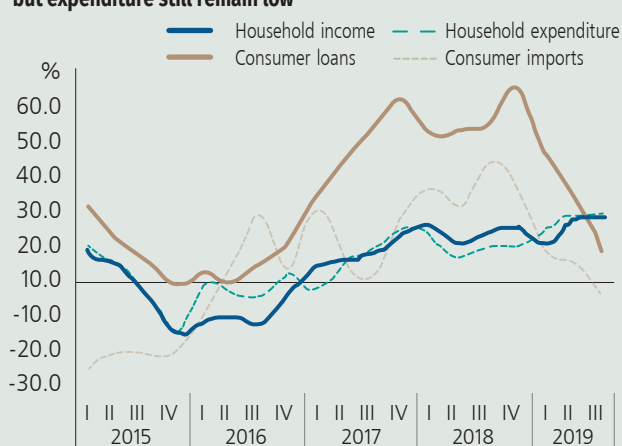
-The Bank of Mongolia's goal is to have a strong, sound and secure financial system or banking sector. It is not just a slogan, or a declaration. Immunity now to have a bank that can issue a loan that needs financial intermediation and economic growth when the next macroeconomic cycle comes. ■

The total loan balance increased by 5.0 percent to 17.9 trillion MNT



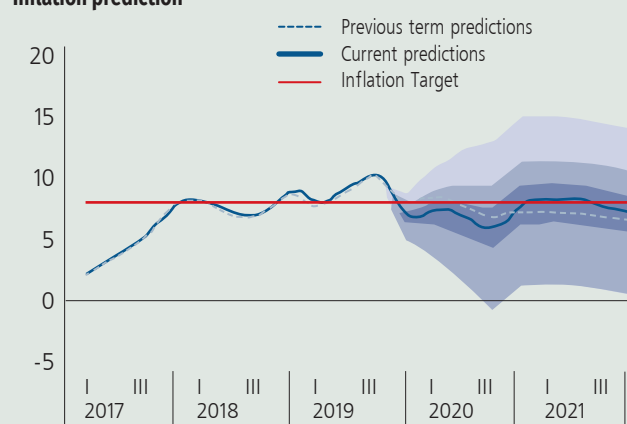
Source: Bank of Mongolia

Household income has increased through 11 consecutive terms, but expenditure still remain low



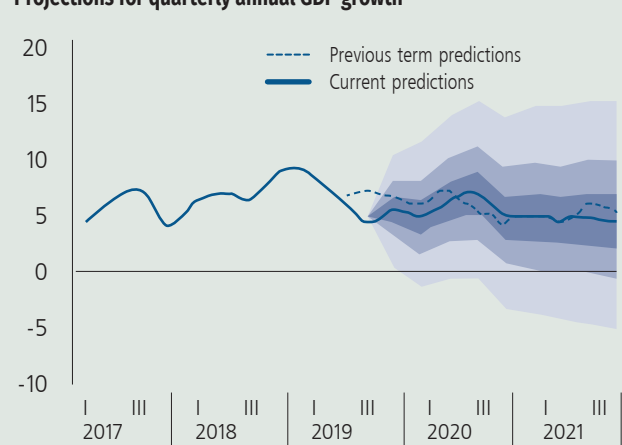
Source: Bank of Mongolia

Inflation prediction



Source: Bank of Mongolia

Projections for quarterly annual GDP growth



Source: Bank of Mongolia

Governance

First step to social prosperity

The best way for citizens to enjoy a comfortable and healthy life in their neighborhood is to actively participate in the development.

The citizen participation is a cornerstone of democracy

It has been 30 years since the adaptation of democracy in Mongolia. Since 1992 everyone freely choosing and residing in the place of their preference became possible in accord with the constitution of Mongolia. So, the population of Ulaanbaatar which was 548 thousand in 1989 became one million and 491 thousand after 30 years. Increasing almost one million. In other words, 26 percent of the population lived in the capital in 1989 whereas it is 46 percent now. Due to intensified urbanization and internal migration workload of some of Ulaanbaatar's sections increased and got hard to reach all of their citizens. For example, the 7th horse of Songinohairhan district is working with a double workload of the average section with its population of 20 thousand. According to the study of the International Organization of Migration in 2018 citizens living in urban and regional areas migrate to the city seeking to better their living conditions and access better education, public services and living environment. This increase in the city population created a lot of challenges for the government such as infrastructure and health service etc. With it, the challenge to improve their shared district together emerged for the citizens.

The citizen involvement is the cornerstone of democracy. Democracy can't exist without the involvement of the citizens themselves. The essential feature of democratic governance is its governance



26 percent of the population lived in the capital in 1989 where as it is 46 percent now

method which is to create citizen participation in government operations. The involvement is defined as citizens voicing their take and having a say in decisions (James L. Creighton (2005) The Public Participation Handbook: Making Better Decisions Through Citizen Involvement. John Wiley & Sons Inc). UN and other countries use the ladder of Citizen Participation outlined by Sherry Arnstein in 1969 as their standard. According to him, there are three degrees of nonparticipation, tokenism, and citizen power.

1. Degrees of nonparticipation or lack of participation. Power Holders use their authority in their policy making and decisions in the absence of citizens' participation. This is characterized by the denial of problems identified by the citizens and false information and other chicaneries.

2. Degrees of tokenism. False pretensions to solve the citizens' concerns by creating the illusion that their meetings with powerholders and public administrations are genuine participation on their part. But all these will empty rituals and final decisions won't reflect their interest.

3. Degrees of citizen power or active participation. Decision-makers will involve the citizens in the

► process of discussion, solution, and implementation and make their decision based on the opinion and advice by the citizens. Also, the implementation and success of the policies and mandates are monitored by citizens and public citizen organizations. The citizen participation is satisfied by creating and sustaining genuine relations and cooperation between the government and citizens and also by reflecting the concerns and initiatives of the citizens in their decisions and policy. In other words, the public has to participate in any operations and plans to the end.

Let's develop step by step: from the development of the section to country

Citizens should have knowledge of the problems of their section and be able to accurately inform it. Otherwise, someone will solve the problem with the most inaccurate and expensive solution. A good example is the garbage dump of the 6th section, Sukhbaatar district. The office of section and waste transportation government company has been working in the absence of citizens' involvement. As a result, citizens started to dispose of their wastes unorderedly while waiting for the monthly pickups and the dump spot became a mess. We can see the changes that occurred when citizens started to participate in the decision making of their horror in the picture below. They improved their living environment greatly by creating a schedule and letting everybody know the day of the pickup.

Order 244 by the Minister of Finance in 2012 has been the first step towards implementing citizens' suggestions in the development of the section. Later in 2013 procedures to involve citizens in the respective province, capital, sum, districts investment funding has been implemented. Consequently, the Local Development Fund has been created and made the citizen engagement possible in initiations and projects made by their respective regions and sections. The survey made by the Asian Foundation in 2016 showed the lack of understanding of the Local Development Fund in 82% of citizens of 33 section. The fund is funded by sources such as value-added tax, a fee for use of crude oil and mineral resource including the fee for survey and special license for mining. It is also distributed to the province, capital, sum, districts along with the fund. Total of MNT 895 bn has been distributed to this fund from 2013 to 2019. The Local Development Fund has been financing many projects

and measures such as infrastructure development, decoration of public space, improvement of lighting and also conservation of pasture, springs, fountains, and construction of drilled wells.

The essential feature of the democratic governance is its governance method which is to create citizen participation in the government operations

Many methods to employ citizen engagement has been experimented after passing of the new investment fund law in 2013 and yearly national household paper survey has left its legacy to continue for many years. But money and time can be saved through new technology. There are many good examples. The

Local Development Fund financed a survey among respective citizens in regard to improving their living environment in a short time through online and filed the citizen suggestions to the corresponding offices in 2018 and 2019. By shifting from personal door to ►



Difference between MNT 6 million dump site and MNT 2 million dump site created with the participation of the citizens.

► door survey to online survey everyone above 18 in the household can vote. Additionally, the extra cost of typing every data has been eliminated along with the risk of the chase by dogs and slipping. In 2018, 13 thousand citizens of 9 districts and 19 sections and also in 2019, 76 thousand citizens of 6 districts and 42 sections which are 43% of the public participated in an online survey through SmartUb phone application. 99.6% of the population of 15-60 age group or 2.1 million people is using a cellphone of which 1.7 million is smartphone according to the survey done by MMCG company. But only 43% of the public participating in the survey of identifying the most pressing issues of their section in 5 seconds by their smartphone isn't enough. Let's try to explain its reason with a Theory of the Calculus Voting by William Riker and Peter Ordeshook, 1968.

According to this theory the probability of the vote is actualized if the citizen's duty added by the multiplication of probability of the vote "mattering" and "benefit" of voting is greater than the costs of voting. The probability of the vote "mattering" (p)

and "benefit" of voting (B) or $p \cdot B$ is often minuscule. So the D (citizens duty) or citizens' own feelings and evolution of his or her vote are directly met with the costs of voting. Strong "I voted" feeling will increase the citizen's involvement in social development. Costs of voting include the time and financial costs of getting to the polling place etc. The online poll will reduce the cost and make the polling process much easier.

In a country of 129 million population like the USA the probability of the vote "mattering" per person is too close to zero. Whereas in Mongolia and in particular probability

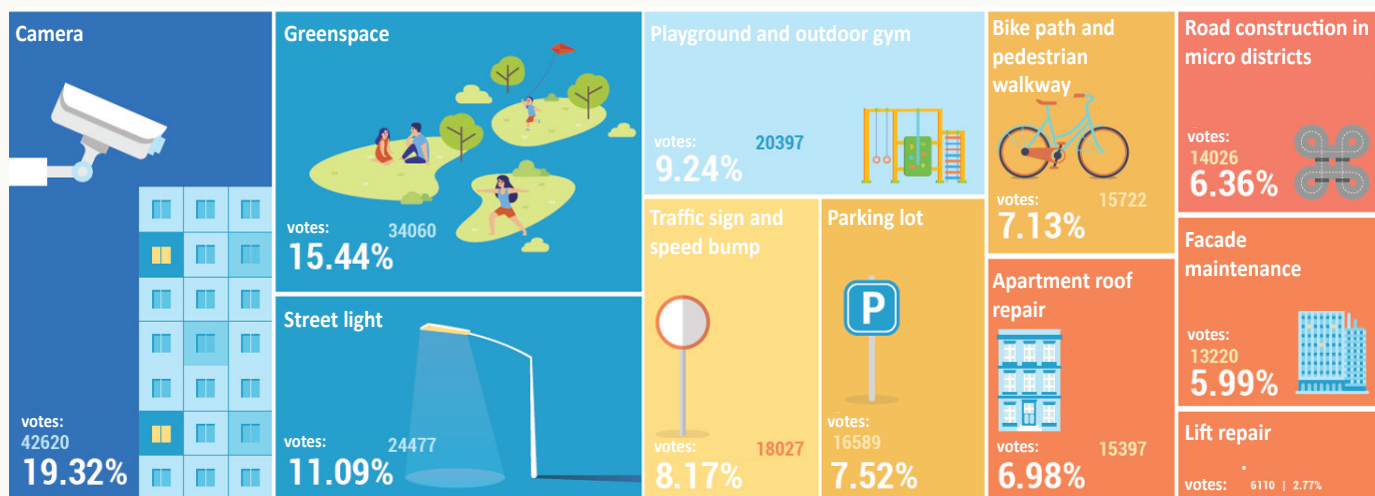
of the vote of one person mattering in the survey of the section is much higher. According to this theory, reducing the cost and informing the citizens of their responsibility by making them comprehend even the vote of one person is powerfully effective will enhance and improve the process of polling. However, the cost reduction and innovation of online polling aren't enough to increase the citizen's engagement. What will increase you and your friend's and family's engagement in polls? In final, as every road leads to Roman citizen participation is the first step towards any social development. ■

$$PB + D > C$$

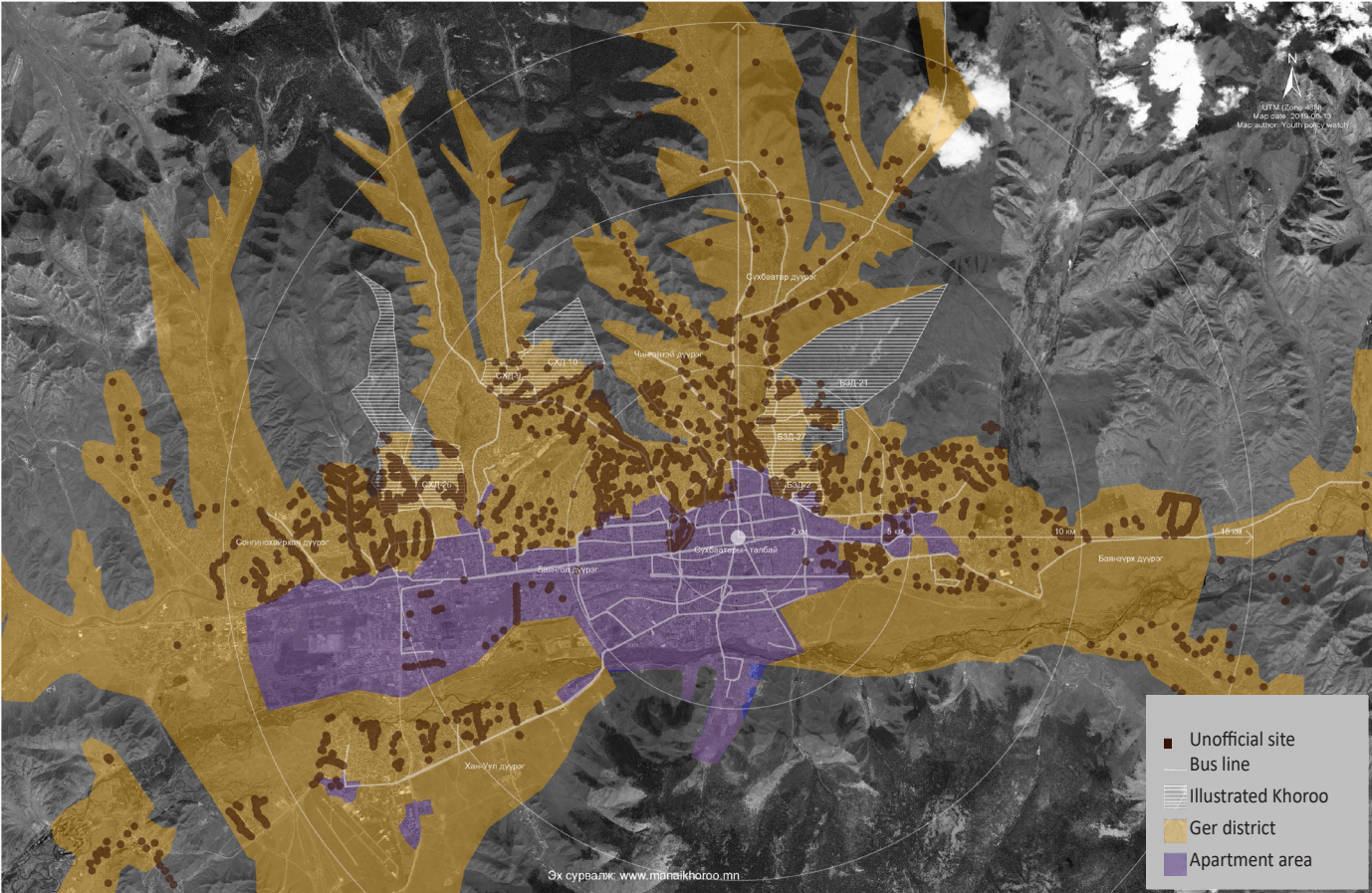
P = Probability that the user will impact the outcome of a civic decision
B = Benefit of a changed outcome to the user
D = Sense of civic duty the user gets from an action
C = Cost of civic action

In a country of 129 million population like USA, the probability of the vote "mattering" per person is too close to zero. Whereas in Mongolia, probability of the vote of one person mattering in the survey of the district is much higher.

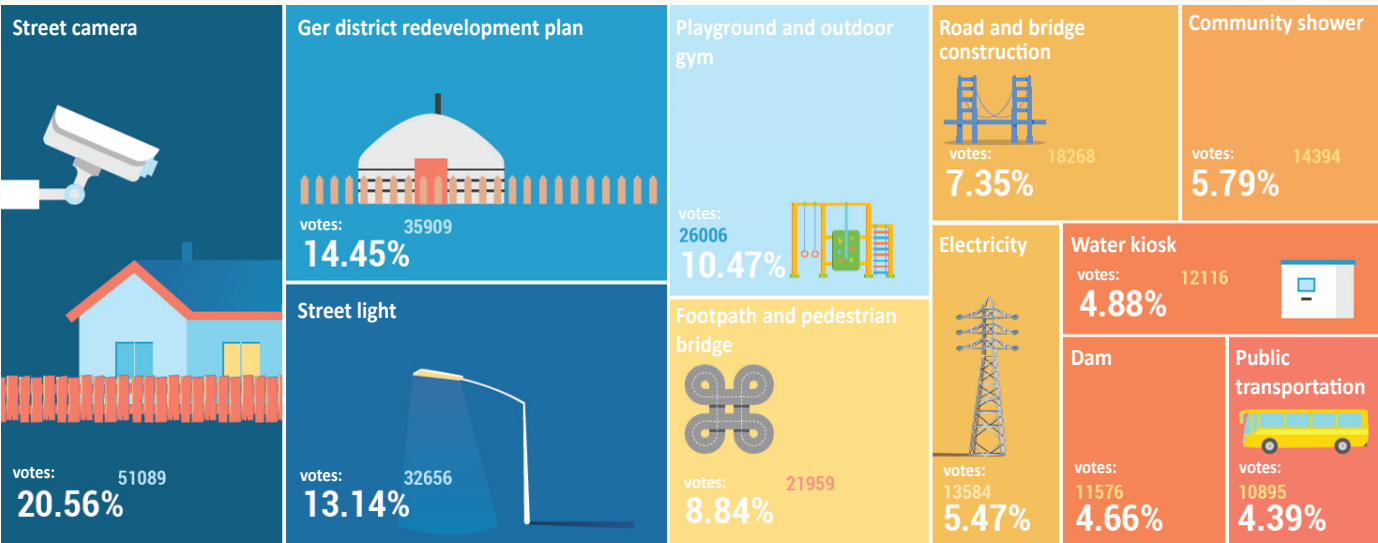
Vote of citizens living in an apartment on required investment by Local development fund



UNOFFICIAL DUMPING SITE



Ger district's citizens' vote on required investment by Local development fund



A researcher's perspective



D. BAYARKHUU

(International relations researcher and professor)

The five scenarios for Mongolia to enter the gas network

Following the visit of Prime Minister U.Khurelsukh to the Russian Federation, let's discuss about the important domestic topic of the gas pipeline. Mentioned below are rather the opinions of professional engineers and researchers, and not my personal perspective.

Studies show that Mongolia is abundant in methane reserves in comparison to the rest of the world. According to my physicist friend, Mongolia's gas reserves are 600 times more than China's. If used correctly, Mongolia can compete with not only Russia, but the rest of the world. If we extract methane

from Tavan Tolgoi, and export them to China, we can compete with Russia. It will be too late for Russia to let alone stop, but to even delay it. To not let Mongolia use the reserve, we must not ignore the political speculation that Russia is supplying natural gas through Mongolia to prevent us from exporting to our third neighbors. They say that Mongolia is abundant in the impressive raw material of

oil shale. It is very easy to produce gasoline. There are talks that say Russia delayed Mongolia from mining oil shale. However, we are not here to discuss the accuracy of this information, and I apologize for including such hazy information.

Let's get back to the topic. Where will Russia place the natural gas pipes that export to China? They are most likely already aware of the specific provinces that will be the most beneficial for them to place the pipes through, ones that could also consume the product. Like the saying, even a drop of water contributes to the sea, comprehend the information as a foundation and study further to your linking.

1. There is a general understanding of the gas pipes going to Russia and China through three main routes. Going east from Lake Kovykta via the Power

of Siberia pipeline to the northwest of Lake Baikal, and connecting another gas pipeline from Yakutia to the city of Blagoveschensk on the Amur River, from there to the northeast of China, and then to the central provinces of China.

2. The second route is the one that we like to possess. The Kovykta deposit is located in the Irkutsk region on the western shore of Lake Baikal. From there, it heads through Irkutsk, and Ulan-Ude to enter Mongolia. This route opens up the option for accessing China via Zamiin Ude, passing through Khiangte-Altanbulag pipeline and moving along the railway.

3. The third route is an alternative that I am proposing to make it more relevant for Mongolia. It is the talk of the pipeline passing from Russia through west Mongolia to Xinjiang. This piece will further elaborate on this.

Gazprom Barnaul, a large state owned company operates in the Altai territory. The project to export to China's Xinjiang is available there. This leads us to the question "Why is the project not operating despite 10 years passing since the proposal?". There is muslim extremism and terrorism being a threat in the region. Geopolitics and military strategists say that the project is likely at risk. China has not made any official statements regarding such a threat. If there is a risk for direct entry from Altai to Xinjiang, the two neighbors know that Mongolia is an alternative scenario as well. Russia and China are more concerned about the natural and geographical obstacles that cross the Altai Mountains, rather than the danger of Muslim extremism and terrorism. The attempt for the pipeline was experimented more than once. However, it is impossible to make the pipeline above the snowy mountain ranges.

In a scenario where we lack the technology to penetrate the Altai Mountains, it is possible to draw a pipe from Barnaul to Biysk and then bring it from ►

May Mongolia be the strong force that moves the large natural gas projects Altain Hyazgaar-Tuva- Bayan-Ulgii- Kho- vd- Govi-Altai-Gansu.

► Tuva to Tsagaan nuur valley of Bayan-Ulgii province at the discretion of the relevant parties. Though it is possible to build the pipelines along the railroads, it is questionable whether this will actually be carried out. Now, the railway from Biysk to Tuva is being laid. The gas from Russia can be channeled through the 400 km pipeline to Tsagaanuur and only 216 km through Mongolia to Xinjiang. No other province than Bayan-Ulgii will be included. The destination it is to reach in China is Karamay, Xinjiang. It is a small and oil refining town. With the gas coming in from Russia, the city will become a major energy hub.

The second way to reach the western provinces is to cross over to Khovd from Bayan-Ulgii to Xinjiang, and then from Khovd to Karamay. This will increase the length of the gas pipeline that goes through Mongolia, increasing jobs, infrastructure and energy in the western provinces. As for Xinjiang, it lays the foundation for a long development plan. The continent wide railway is in a sense, a new silk road and greatly saves the time it takes to transport goods from Asia to Europe. An important region in this is Xinjiang. Once there is a transport network, infrastructure will be built and the western provinces will be connected. This advances the potential for development in Mongolia further.

As for the third scenario, it is one that passes through the three western provinces and leads to China through Govi-Altai. Hopefully, the Mongolian decision makers take this into consideration seriously. May Mongolia be the strong force that moves the large natural gas projects Altain Hyazgaar- Tuva-Bayan-Ulgii- Khovd- Govi-Altai-Gansu.

One may wonder as to why the Gansu Province is mentioned at all. It is a province in northwestern China. The total population is 25 million and the capital city is Lanzhou. The only country it borders is Mongolia and the province is the largest center in China's petrochemical industry, and is one of the most important centers of the world's renewable (wind) sources. Govi-Altai Province borders 60 km with the Gansu Province. The Chinese high-speed train line passes 60 kms from Gansu. The world's longest high-speed railway built in the high grounds of China Lanzhou-Xinjiang special line Gansu-Hohnuur is operating, passing through Gansu-Hohnuur- Xinjiang Province crossing the total length of 1776 kms. Simultaneously, the railway from Inner Mongolia's Ezanee Province to Xinjiang Hamil was



commissioned. This facilitates the export of goods and merchandise from western Xinjiang-Gansu- Inner Mongolia. In comparison to the previous Lanzhou-Xinjiang and Bugat-Lanjou Railways, this route is 400 kms shorter. The eastern part of this grand network is the Tianjin port, whereas the western point is the mouth of the Alag Mountain, the second shortest route from Asia to Europe. The fact that China is studying a new route to connect landlocked Mongolia to the sea is of particular concern to our state.

It is believed that electricity can be distributed in many regions of China, both to the east and south through the Gansu corridor. Thus, why should Mongolia try to get involved in such a gas project to create regional development pillars and develop the three western provinces?

Listed above are three possible corridors. The fourth, or the most important route is the scenario passing from Naushki-Khiang to the south through Altanbulag to Zamiin Ude. This is what is currently being discussed by the authorities. Hopefully, the results will be positive. The same applies to the connection of the "Three Reds". The fifth may be the Chita-Erentsav-Choibalsan direction, branching further from Power of Siberia pipeline. If the two neighbors want, this can be easily constructed as well.

If the government grabs on to routes as such and makes the move, there is no such thing as not possible. They only need to take the initiative to make it happen. ■

Entrepreneurs Mongolia

Evolution of fertilizers will start from Mongolia

Prior to the New Years, a unique event took place in the Mongolian economy and business world. Specifically, Mongolia started to export the organic fertilizer made of sheep wool to Europe. Perhaps due to institutions being busy due to their preparations for the New Year, or them being more concerned with political scandals, only one news organization had reportage on this. Even more so than the discovery of a new field like Oyu Tolgoi as it is an event that contributes significantly to the state's agriculture and food production.

The wool fertilizer making Monpellets LLC has made the decreasing in price wool into gold and found a way for it to be circulated in the market. Up until 2022, the made in Mongolia wool is to be exported to Germany. Prior to the deal the German Humboldt University's institutions and laboratories examined the product and labeled it as "premium quality". Getting such a rating from an EU country is the dream of Mongolian businesses.

Director of Monpellets LLC B.Tsogbadrakh established the company in 2014 and got 30 percent of the funds necessary to build a factory from the Development Bank loan. In doing so the second, but the largest sheep wool organic fertilizer factory was constructed in 2018 in Mongolia.

B.Tsogbadrakh expertises in foreign trade. The sheep wool organic fertilizer is the fruit of his many years of labor. He has worked in the Noos Impex LLC before and even worked as a Mongolian trade representative to European countries. He is truly someone who has connected his life to the raw wool. This started off as him using wool as an insulator in construction.

Research for the wool fiber started in Germany in the early 1990s. The government of the country invested millions of euros and studied it for over 20 years. As a result, the first experimental factory was constructed in Lauchhammer city in 2013, and released



Monpellets General Director B.Tsogbadrakh

Mongolia started to export the sheep wool organic fertilizer that was created with innovative technology.

its products to the market. However, the project faced its second difficulty. Germany and Austria combined have around two million sheep combined meaning that the factory could not meet its market demands. At that time, the news of the wool fertilizer reached the ears of B.Tsogbadrakh and without losing time, he contacted the Germans. At the time Mongolia had 25 million heads of sheep and produced 40 million sheep per annum. Making the initiative to supply the raw materials, the know how of the sheep wool fertilizer made its first steps in Mongolia.

Still, it was impossible to bring the technology into Mongolia as it as and a version of it that is suitable for the country has to be constructed. Therefore, a complete factory machinery and equipment had to be ordered from Germany.

As a result many different types of studies, research and discussions took place. The Mongolian sheep wool was sent to be evaluated in Germany six times, finally getting the "premium quality" label. The German side was persuaded that it is beneficial to construct a Mongol sheep wool factory and thus, a deal was made in 2016 to have it supplied at least for the next five years. Mongolia, a country that does not export livestock products due to the threat of diseases got the door to export sheep wool fertilizer opened.

Later on, the 30 percent investment deal was signed with the Development Bank of Mongolia, partnerships were established with government organizations, and while navigating through the bureaucratic swamp, the first export was finally made in the end of 2019.

What is sheep wool organic fertilizer?

For any plant to grow, there is nitrogen, phosphorus, potassium and other microelements needed in the soil to provide them with enough nutrients. However, the constant usage of such fertilizers makes the soil acidic and over time the quality of the produce degrades. The ►

► chemicals used such as pesticides and for plant disease prevention leave a certain amount of its trace in the soil. Due to reasons as such, developing countries are increasing the requirements they have for soil quality.

As for Mongolia's case in 20115, over 60 percent of the 700,000 hectares of total land have been subject to soil erosion and about 2.1 to 3 percent of mummification that is supposed to be present is only 1 to 1.9 percent in 70 percent of the area. The most soil-friendly fertilizers are organic ones made from animal manure, plantain, bird droppings, etc. However, these fertilizers can be used in large amounts in agriculture.

On the contrary, wool fertilizers can contain up to 10 percent nitrogen, six percent potassium, and absorb water 3.5 times its weight due to its fluffiness. In other words, it plays the role of a micro-hydro accumulator that collects water during high humidity and irrigates the soil during drought. The soil is mulched with air when it shrinks and it supplies water. In doing so, the plants are not cut off of water for 10 months and over hydration is out of the equation as well.

Bayankhongor Province's Ulzii Technical and Vocational Education and Training (TVET) reported to the public that the produce grown with Monpellets LLC fertilizers are showing exceptional results. In this regard, this fertilizer fully meets the "Eco Farm" standards of the EU.

Monpellets factory buys around 2000 tons of wool from herders annually. During this process it is not necessary to sort the fiber in length and width. Even waste wool can become the raw material. This allows for the herders to put a price tag on their wool.

The nationalist fertilizer

"Our main goal is not to export abroad" said B.Tsogbadrakh. It sounded strange coming from a businessman who brought in innovative technology that does not exist in Asia into Mongolia after years of research. There is much potential to increase the capacity and profits as it has already started to be exported abroad.

Inside, he has a bigger dream than mere exports. "Business can be seen from many different perspectives, and can be described from a multitude of perspectives. If we only see this through the holes in a coin, the hole in that coin is small, and such a significant product may have not been created at all." he continued. Most businesses advertise their products as "The #1 in the world made in Mongolia" and try to extract as much money as possible from its consumers.



Those who make the attempt are rare too.

B.Tsogbadrakh chose the alternative path and is seeing the business more from a nationalist point of view. He is putting the stepping stones for government agendas such as "national security", "public health", "quality produce", and "childrens' future".

Every corner of the world is talking about sustainable development. The water consumption in humans have exceeded and 40 percent of the global population will be lacking clean water by 2030 according to the UN. In industrialization and agriculture, water is used by large amounts. For instance, it takes 1000 litres of water to grow a kilogram of potatoes, 1450 litres for a

kilogram of wheat, 4600 litres of water for a kilogram of chicken, and 42,500 liters for a kilogram of water. The production of bio sheep fiber fertilizers do not use water at all and has the potential to grow into the best fertilizer for humanity.

In addition to the product that Monpellets makes, their factory located 20kms from Nalaikh District is also an example of eco-friendliness as well. B.Tsogbadrakh refused to burn coal and dig a hole in the ground to sort out the heating and waste management of the employees. Despite the expenses, he brought in energy efficient, low pressure heating from Europe and installed it in the factory. The factory also has one of the only two water treatment plants in the country installed under their parking cement floor. Such solutions make the factory waste free.

As the demand for organic-fertilizers continue to grow around the world, Mongolia is opening the door to becoming a major player in the fertilizer market by utilizing the innovative technology of wool fertilizers with the abundant supply of wool. In doing so, Mongolia's agriculture gains the potential to become a large base in the global organic food sector.

Fertilizers made from 100 percent Mongolian sheep wool have a bright future ahead. In 2019, B.Tsogbadrakh was invited as a speaker at major organic farming events in Germany and China. There, he announced that Mongolia had started producing organic fertilizers for the first time in Asia. On January 17, he participated in the International Green Week Berlin 2020, an event that is happening for the 85th annual time that brings together more than 3000 journalists, 1800 organizations, and 100,000 products from 75 different countries in the world. Information and news regarding the event were published in 19,600 publications. There, the Mongolian sheep wool organic fertilizer was introduced to the world for the first time. ■