

## Guest

N.Manduul: In order for Mongolia to succeed to the next level of development, it must confront reality

## Concept

State-tied credit rating

# WHERE DOES THE COMPASS OF THE DEVELOPMENT BANK POINT?





## Дэлхийг тойрох эхлэл - Инвескор санхүүгийн байгууллага

Инвескор Санхүүгийн Байгууллага нь 2016 онд байгуулагдсан цагаасаа эхлэн Монгол улсын банк бус санхүүгийн салбарт өөрчлөлт авчирсан шинэлэг бүтээгдэхүүн үйлчилгээг санал болгож, сайн засаглалыг хэрэгжүүлэн салбартаа тэргүүлэгч болсон билээ. Мөн Төв Азийн зах зээлд нэвтрэн Киргизстан улсад 4 салбар амжилттай нээсэн ба Казакстан, Узбекистан улсуудад үйл ажиллагаагаа эхлүүлэхээр ажиллаж байна.



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Tel/Fax: 976 - 7011 5476, 7011 5477

ISSN 2664-195X

**Magazine Subscription:**  
Mongol Post (Ph: 976-70078916)  
Tugeemel Post (Ph: 976-70118916)

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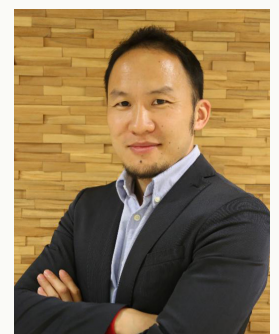
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## Development Bank of Mongolia

## At the crossroads of development

**The Bank maintained its credit rating at B stable and B3 stable**



Researchers E. Torres and R. Zeidan in their research paper "The Life-Cycle of National Development Banks: The Experience of Brazil's BNDES" stated, "The life-cycle of a development bank is important for the country's industrialization and development process. However, as the financial market develops, its importance diminishes, and the development bank functions as an indirect long-term financing mechanism until it is privatized or changes its status." However, after 12 years of operation, the Development Bank of

Mongolia (DBM) came close to bankruptcy due to reasons completely different from those mentioned above. Everyone knows the reason.

The Law on the DBM states that the development bank is a state-owned for-profit legal entity with the purpose and specific function of financing large-scale development projects and programs in Mongolia. When the Development Bank was first established, the authorities at that time emphasized that "a strong banking and financial sector, including the role of the Development Bank, is essential for the realization of



► large-scale developments.”

To briefly summarize the history of the past 12 years, DBM has successfully implemented its main functions by raising bonds from foreign and domestic markets several times, but the standards of financing, lending, decision-making, project ranking, allocation, and monitoring have been lost, resulting in large debts, and the DBM is caught in a debt cycle. The DBM could not go on with such poor management and organization for a long time, and it was clear that one day it would “explode”. That date was January 2022.

## Success

Executive Director N.Manduuul disclosed the information on non-performing loans of DBM on January 20, 2022, and the information on the loan portfolio on the 31st of the same month. The bank's loan portfolio of 1.8 trillion MNT would have been able to operate stably if urgent measures would have been taken by 2022. Otherwise, there was a danger that its operations would come to a halt, and in worst case scenario, it would not be able to repay the foreign bonds, and Mongolia would default. Finance Minister B. Javkhlan said that the government will fight against bad loans with all means, while the Vice-Minister of the Ministry of Justice and Internal Affairs B.Solongo said, "To arraign accountable borrowers who took loans from the Development Bank of Mongolia using their positional advantages, misused their loans, and do not repay their loans, we will work closely with law enforcement agencies." At that time, 900 billion of the total loan portfolio of 3.2 trillion was a loan given to state-owned enterprises in previous years. Out of this, about 500 billion MNT loans belonged to "Hutul" LLC and "QSC" LLC; the rest were loans granted to private enterprises.

Interestingly, 78.8 billion MNT loans were repaid in just 48 days after the information about the bad loans was revealed. As a result, loan repayment reached 503 billion MNT by July 2022 and 1.1 trillion MNT by the end of that year, and the DBM was saved from the risk of bankruptcy. There are certainly many factors that contributed to this improvement in loan repayments. First of all, it was the efforts of the bank's management and staff, and the bank's initiative and efforts to ensure the country's economic stability. The bank management emphasized that

"public and media pressure, government support, and the activities of law enforcement agencies were important." Repayment of loans is paid either by cash, securities, or real estate. In addition, to repay the loans, and transfer the non-performing loans to the normal category, the bank is studying and working on all possible options, such as reviving the available projects, and ensuring the repayment of bad loans rather than confiscating their collateral.

Another notable achievement of DBM is that it has established its international credit rating and maintained its credit rating at B stable and B3 stable. "Compared to countries with the same credit rating, the higher yield of our securities in the foreign capital market indicates that investors have more confidence," said Finance Minister B. Javkhlan at that time. In other words, DBM has saved the country's reputation internationally, and to that extent, the inflow of foreign currency remained ongoing.

## Influence

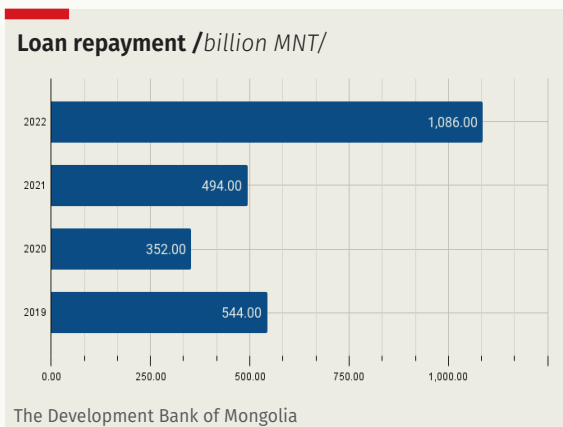
DBM has 1 trillion MNT in assets and it is financed by drawing 219 billion MNT from the domestic market and 2.0 trillion MNT from the foreign market through bonds and credit sources. In other words, DBM has been financing projects and programs that support the country's development, mostly with funds raised from the international market. Thus, the decline in the financial performance of DBM and the increase in non-performing loans are directly related to the reputation and credit rating of Mongolia internationally. We are responsible for fulfilling our obligations to foreign banking and financial institutions and investors. This is the basic principle and relationship of business.

In 2013, DBM arranged 30.0 billion yen of "Samurai" bonds with a 10-year maturity and an coupon rate of 1.52 percent, guaranteed by the government, to the international market. The principal payment of the bond is scheduled for December 25 of this year. As for DBM, it was able to fully repay the principal amount of the bond by the loan repayment, and last year, it was placed in a special account of the Bank of Mongolia. In this way, the DBM was able to fully fulfill its obligations to the investors. 30.0 billion yen of "Samurai" bonds equals over 700 billion MNT at today's exchange rate.

In addition, about 80.0 million of the 500 million

**Loan repayment reached 503 billion MNT by July 2022 and 1.1 trillion MNT by the end of the year**

**Internal and external risks should be blocked to fulfill its role as an engine for supporting economic development**



► US dollars of "Euro" bonds were purchased as loan repayments. In other words, more than 10 million US dollars were saved by buying them when the bond price was low. It was a well-timed move because the tugrik exchange rate was falling.

Paying high-value bond payments in this way not only reduces the burden on the economy but also on the reputation of DBM and Mongolia. If the loan was not paid, there would have been a risk of repayment from the state budget, or more precisely, from citizens' tax money. "If the Development Bank declares default, it would have had a huge negative effect on our economy. We managed to reduce the risk of foreign bonds that will be paid this year," said N.Manduil, Executive Director of DBM.

On the other hand, the improvement of the financial indicators of DBM and its recovery from the crisis will have a positive effect on the normal operation of the institution, which is of high economic importance and will continue to move forward steadily toward its goals.

## The Future

As mentioned above, this year the DBM must pay about 420 million out of the 500 million USD Euro bonds. Z. Batyrbek, the Director of the Risk Policy Department of the DBM, said in an interview that the bond payment will be gathered from loan repayments. In the future, the DBM should function in its classic model and block internal and external risks to fulfill its role as an engine for supporting economic development. Therefore, the management of the Development Bank emphasized that they have started to solve many issues of administration and management and to become transparent in the future. They have also prepared a proposal for changes to the Law on the DBM.

The main external risk is political influence. It is important to eliminate the situation where people close to the information get loans through acquaintances and influential people. It is no less important to hold borrowers accountable who have taken loans in violation of the law, misused their loans, and squandered taxpayers' money. There is a need for the government to clarify the mechanisms by which banks that provide loans on behalf of the state will be operated and monitored.

Many developing countries have had successes and failures in establishing Development Banks. However, we have learned from this scandal and have come to the crossroads of making the Mongolian Development Bank work in the true sense. The Public Hearing at Parliament also made it clear that the importance of the bank is what matters rather than its mistakes. Mongolian society has to come to realize this bitter truth about politics in order to move forward. When truth is realized, the future is bright. ■

Type	Loans	Amount
Cases decided by court	38	1.6 trillion MNT
Complaints are filed and under court review	17	1.0 trillion MNT
Final court decision was made	22	620.9 billion MNT
Cases transferred to the General Executive Agency of Court Decision	11	200.7 billion MNT
Cases to be settled by non-court process	5	245.1 billion MNT
Complaints filed to the Independent Authority Against Corruption	41 (criminal cases are filed and transferred to the prosecutor's office)	



## Timeline

# Main events

**2011.02.10**

Law on Development Bank of Mongolia (DBM) was adopted

**2011.05.12**

Development Bank of Mongolia officially began its operations

**2012.03.21**

The Bank issued USD 580.0 million debut Eurobond (at 5.75% with a maturity of 5 years) on the international markets

**2013.05**

The Bank became a member of the Association of Development Financing Institutions in Asia and the Pacific

**2013.12.25**

Yen-denominated 30 billion industrial Samurai bonds (at a 1.52% coupon) on the Japanese stock market was successfully issued

**2014.08.21**

Development Bank of Mongolia established a USD 162 million Loan facility agreement with China Development Bank

**2014.08.29**

USD 300 million Syndicated Loan Facility agreement with Credit Suisse Bank was signed

**2017.02.10**

The Revised Law on Development Bank of Mongolia was approved



**DEVELOPMENT  
BANK OF MONGOLIA**

**2017.03.21**

Maintained the Bank's reputation on international markets by successfully ensuring the repayment of the USD 580 million Eurobond

**2018.10.17**

USD 500 million senior notes was successfully issued for the first time without a Government guarantee on the international market

**2021.08.25**

The Government of Mongolia decided to expand the scope of operations of the DBM to implement the functions of the Export and Import Bank

**2022.01.20**

The Bank publicly disclosed its loan portfolio and asset quality

**2022.04.15**

Temporary inspection committee of the Parliament was established on issues of the DBM

**2022.12.05**

The Bank has successfully collected JPY 30 billion yen reserve to repay Samurai notes

**2023.01-03**

Open hearing of the General Inspection on the issues of the DBM was held

## Guest

# N.Manduul: In order for Mongolia to succeed to the next level of development, it must confront reality



**We focused on loan repayments, which enabled us to avoid bankruptcy.**

*Mongolia Economy interviewed Mr. Manduul N., CEO of the Development Bank.*

**-Your whistleblowing statement made on the 20th of January 2022, created the biggest scandal involving white-collar workers, thanks to which Parliament hosted the first analysis hearing for Development Bank cases and recovered public confidence that loans will be paid off. Did you expect that your whistleblowing will yield such a result as we are seeing today?**

-After taking office, I made an official request to the Mongol Bank to undertake an audit and

investigation of the Development Bank. The law stipulates that Mongol Bank carries out this process. We received the auditing/investigation report that took about two months to compile on the 13th of December 2021. The investigation showed that the situation has worsened. The report was presented to the Government. We warned that the Development Bank is at risk, two large bond repayments are due in 2023 and if the Bank goes bankrupt it would be a default for the bank as well as for the Government.

On the one hand, for the bank not to go bankrupt, the state will have to pay back the loans that have not been repaid. This is, however, not consistent with ►



► the principle of justice. On the other hand, I assumed that since the government was aware of the growing injustice and the public outrage, it decided to take it into its own hands and sort out the Development Bank. I was told to take all the necessary measures. Based on these reasons, on January 20, 2022, we made the information public.

**-The public is very much annoyed by the fact that the majority of Development Bank loans were not spent for their intended purpose, and many borrowers got loans using their advantage and connections, did not pay off loans, and committed money laundering. What is your position regarding that?**

-Firstly, businesses that got loans did not repay those, which was the biggest problem to deal with. More than half of loans granted by the Development Bank had become bad debts with no hope of repayment. A thorough examination of these bad debts revealed that almost half were not spent as per the loan agreements.

Another lesson was that loans were granted not just for major development projects as intended but for commercial projects like commercial banks would do. Loans were provided for projects that could be financed by commercial banks, such as the construction of housing apartments or small factories costing in the range of 2-3 billion tugrug.

**-A three-stage evidence analysis hearing took place in order to make these faults public and discuss them openly. What would you say about the importance and outcome of these hearings?**

-I pondered over that a lot before blowing the whistle that day. When it comes to an individual on such a matter, you will make many enemies, obviously. But the government backed me and on the other hand, my career and my name were clear from any fraud and embezzlement, so I could do my job without fear or favor.

However when you think about the consequences caused in society, first we had to consider what might happen in both the internal and external environment. Regarding internal or bank aspects, we through the year focused on loan repayments, which enabled us to avoid bankruptcy. But that was a by-product. The main result is what was discussed at the hearings. Particularly, after the hearings, the public became aware of the fact that over the last decade, a triple

network of businesses that obtained loans from the Development Bank, commercial banks, and the government emerged, which hampered the expansion of our economy. In order for Mongolia to succeed to the next level, it must confront reality head-on. Probably this was the biggest benefit of that.

The hearings have been really fruitful and good for further actions of the Bank. As expected, the people are critical of how it was organized because it is the first time such a hearing was held. But if you look at the bigger picture, it served as a prerequisite for society to get rid of long-lasting injustices and look forward.

**-What measures are you taking to get the loans from state-owned companies repaid, which account for a major share of the bad debts?**

-By the time I exposed the information, the outstanding loan balance was worth nearly 1 trillion MNT that belonged to state-run companies. When we dug deeper, almost 70 percent were bad debts or at the risk of becoming that. As of today, outstanding loans of state-run companies amount to about 750 billion tugrugs.

There are several projects that were successful as part of the loan repayment campaign. For instance, Erdenes Mongol LLC paid off 117 billion MNT and MIAT fully paid off its loan. Some of state-run companies were insolvent in cash. For example, it turned out that the state-run housing company "TOSK", that built housing districts and sold them at an affordable price in Buyant Ukhua #1 and #2/, was incapable of paying off its loan. As a result of negotiations last year, TOSK issued securities guaranteed by its capital for the bank's ownership. These securities are convertible on the secondary market. By doing so, it is open to selling the securities to a third party to collect the funds for the loan repayment.

**-Trials of big companies including "Erel", "Khutul", and "Beren" are still under negotiations. It may take 4-6 years to solve the bad debts of these companies. It surely will be a risk for the Development Bank.**

-Approximately, loans worth 800 billion MNT were allocated to these three companies and their loans are the major parts of the bad debts in the bank. We are spending much of our time and effort on every single one. For instance, the Erel company got a loan

***Our bank is taking various measures like offering these projects to foreign investors***

**The bank will function within the framework of the New Revival policy only**

► from our bank to build a prefabricated structures factory. A loan was granted and the factory was built, but there was no buyer. Though Erel claims that the state pledged to buy their products, there is no contract or specific proof of that. Why is the factory standing idle if it is such a good factory as they claim? Several times we proposed to them to start a check to see if it can function properly. Unfortunately, there has been no response from Erel, at all. On behalf of the Erel company, we are still in consultations with the city administration and construction ministry to find a solution. In the case of the Beren company, they started a steel mill in Erdenet, but cannot maintain enough production. When we demanded they continue with the production and repay the loan, they just say that they need an additional loan because they have no resources to continue the production. We cannot give any additional loans to the company that has already taken out such a large loan, because we do not know if the plant will ever be profitable.

Our bank is taking various measures like offering these projects to foreign investors through our own channels.

**-How many deals has the bank made in the past to ensure loan repayments? Apart from the loans that are in the court at the moment, what is the percentage of loans that have been solved through negotiations?**

-Last year we had some 1,000 meetings with borrowers, meaning three or four meetings daily. We also received nearly 300 official letters and requests and sent more than 300 letters and responses to various borrowers.

Since I started in my office, I brought actions against twenty borrowers. We don't just sit and await a judgement from court in hope, but we are making various deals in order to get the loans repaid. Out of 43 cases brought to civil court, 27 of them have been finalized.

Last year, cases of twenty-four other borrowers associated with our bank were finally resolved in court. But after the court verdict is passed, it is often stuck in some judicial decision execution body. After the security being assessed for sale comes at an auction, the borrower sues and indicates that he

disagrees with the assessment. Hence, the case can take 1-3 years at the court and then another 2-3 years for execution of the judicial decision.

Looking at the big picture, it is causing troubles not only for our bank but also for commercial banks. I think commercial banks count the risk of court procedures and increase interest rates upon issuing loans and I believe that this is one of the major reasons why the interest rate of loans is not going down in Mongolia. Therefore, if we don't resolve such disputes more effectively, it becomes a bottleneck and an obstacle in business relations.

**-Shortly after you took office, the Board of Directors was dissolved and a new one was appointed. In your opinion, what principles should the Development Bank's Board of Directors follow to be compatible with the bank's operations?**

-The Board of Directors of our bank comprises government representatives and independent members. According to the Law on the Development Bank, the main decisions are made by the board, and there are only a few issues that can be resolved at the executive management level. However, because the board members have limited opportunities to participate in the day-to-day activities of the bank, they may not be able to get full information about the subject matter or may not have adequate banking and financial knowledge, and that are factors that in turn create risks for the bank.

In my opinion, the people who in the future will be appointed to the board should be provided with proper working conditions and opportunities, and the boundaries of decisions made at the level of the board and executive management should be clarified. In this way, they can not only exercise their rights, but also fully take on their responsibilities.

There were cases where many people who previously worked at the bank were summoned to court. It should be noted that I am worried they might be defamed for affixing their signatures when they were not well informed about the subject matter.

The board is now totally replaced with new members. The newly-formed board is very supportive to us and coordinates well with the executive management in order to solve the issues.

**-Such a history is likely to repeat itself unless ►**



► **the Bank operates completely free from political influence, even if it changes its name and status. Therefore, there will be a need to secure independence from the legal aspect. What changes are necessary for the Law on the Development Bank for this purpose?**

-The Bank believes that the law should undergo some amendments and we have already delivered our proposals to amend the law, to the Finance Ministry in 2022. So far, no decision has been made in this regard. Since then, many events have occurred and time has passed. Thus, we are preparing to submit our proposal on the law amendment again to the board of directors and to the government. First, the law should clearly define how the Development Bank will be involved in the financing of large projects. It looks like in the process of the implementation of the existing law passed back in 2011, CEOs just got orders from ministers or some high officials. However, with new changes in the law introduced in 2017 to change this wrong practice, the Board was empowered to decide which projects can receive financing. The result was that the Development Bank was able to decide on projects that commercial banks may not want to take on.

In my opinion, development projects should be determined both by a parliament elected by the people and the government. However, the Development Bank must independently assess and decide whether the loans for any project can be paid back by the borrowers.

The second issue requiring change is inspections. Since its establishment, our bank has undergone fourteen inspections in total and received 400 conclusions and recommendations. A study showed that about forty percent of these recommendations were fulfilled. We have managed to increase their fulfillment up to sixty-four percent. In short, we have to make it clearer which mechanism the government should use in order to operate and control the bank that issues loans on behalf of the state.

**- There is a conversation about introducing EXIM bank functions into the Development Bank in the future. As a person managing this bank, what is your position regarding this?**

- Internationally, the functions of such banks are

basically similar to those mandates set forth in the Law on the Development Bank. At the beginning such banks finance big projects by issuing loans, and after the country's economy expands and reaches a new level of development, development banks provide guarantees rather than issuing loans. For example, 80-90 percent of Export Credit Agency (ECA) portfolios in developed countries are guarantees.

The main point is that if a company in one country decides to implement a project in another country, the bank guarantees that it will share the risk of the loan allocated for that project. This is one of the most common ways of supporting domestic enterprises. Currently, there is no such opportunity in our country.

**- As we know some projects failed and did not succeed. But, there are some others that were successfully implemented thanks to loans of the Development Bank. Which ones would you emphasize?**

- Not all projects and loans have failed, I can say. There are good examples too. Here we should mention big energy projects like the Amgalan thermal power plant and the capacity extension of power plants #3 and #4. Domestic cement plants have opened too.

In the future, our bank will function within the framework of the New Revival policy only. It will not be involved in any other projects. For example, the government emphasized that the Bank will no longer finance housing projects.

But the main point is there are no ready projects in place. In order to raise investment from abroad, we must present the project information to investors.

Last year, we did not focus only on loan repayment, but we also worked toward the future. The principal function of the Bank is to keep sources and channels of funds to raise from abroad open. In such a big flow of negative information, it is important to provide foreign investors with accurate information in order not to lose their confidence. We enjoy a good reputation to hold business-like talks with foreign investors as our bank managed to retain our credit rating in 2022. Furthermore, we have to talk about actual projects and real money. ■

***It is important to provide foreign investors with accurate information in order not to lose their confidence***

## Bond

# B.Javkhlan: A default was unavoidable for the Development Bank if we could not manage to repay the bond debts



*2022 and 2023 have probably been the most difficult and challenging periods for the Development Bank since its establishment in May 2011. The bank's main financial indicators and the debt repayment have been unveiled to be in the worst possible state, which both shocked and angered the public. Consequently, the decisions made and implemented in the past by the Bank regarding bond repayments also received strong public attention. We talked with Finance Minister Mr. Javkhlan. B regarding these topics.*

**-Please update our readers about the latest status of the external debt of Mongolia, particularly the amount of the government's foreign debt, bond repayment schedules, and the general government debt-to-GDP ratio.**

-As of the end of 2022, the government's external debt amounts to 9 billion USD, 63 percent of which is foreign debts and 30 percent is bond debts. It could be said that this ratio is going in the right direction and the bond debt share in the government's external debt, which was high before, is now reducing. Short maturity and high-interest rate of a bond create a strong burden on the budget and foreign currency reserves. Recently, the government has managed to defer payment of bonds that were due for repayment and reduce its interest rate thanks to projects Century #1 and #2 under its mid-term strategy.

Consequently, we managed to prevent and avoid a potential default that could happen in the upcoming three years because of external debt. In short, we rescheduled those payments in a timely manner.

Furthermore, we need to be laser-focused on the state of our external debts and make them more efficient. We cannot relax that the risk to bond repayments is now behind us because future schedules of external debt repayment will coincide with each other, which might cause significant stress on the balance of payments starting in 2024.

In other words, several long-term development loans that were entered into in the 1990s are about to mature in 2024. Even though we managed to reduce the debt ceiling and increase gross domestic production, we are committed to focusing more on financing business-oriented projects that would enable us to retire debts, be efficient with our balance of payments, beneficial for the economy, and that is in line with the New Revival Policy.

**-The Development Bank has managed to collect sufficient funds to pay off the Samurai bond from loan repayments. What measures is the Development Bank going to take in order to collect enough funds to cover the remaining bond payments?**

- In 2021, the Development Bank was almost on the brink of bankruptcy. You may recall that there was a real risk that not only the Development Bank could go bankrupt but also the government could default in 2023 if we had not repaid the government-guaranteed Samurai and Euro bonds. In 2022, it was crucial that non-performing loans incurred by the Bank were immediately repaid by the borrowers. The Cabinet paid particular attention to this issue, and thanks to that loans totaling thirty billion yen were collected.

The scandal around the Development Bank obviously gave a warning to international investors. Though we conveyed to investors that they can withdraw bonds prior to schedule, no single investor took that option.

We are grateful that bond owners continued showing trust in the Mongolian government. The Bank resolved its bankruptcy risk in Q3 of 2022.

**-But the repayment of the guarantee-free Euro ▶**

**We rescheduled those payments in a timely manner.**



► **bond amounting to 500 million USD created some burden on foreign currency reserves. How was that problem resolved?**

-We are paying particular attention this year to stabilizing the economy and increasing foreign currency reserves. While collecting the necessary tugrik funds to pay off the bond, we take into account potential pressure on foreign currency reserves since the bond should be repaid in foreign currency. As of today, we have secured 80 million USD out of 500 million USD. We still have time until September 2023. We will seek to get the external debt of the Development Bank paid by its own sources.

**- Recently, Mongolia successfully collected 650 million USD from the international market, making it possible to re-finance the repayment of Gerege and Khuraldai bonds. What is your comment about that?**

- Firstly, I should emphasize here that we managed to realize this bond very successfully. Let us focus on two points. The first point is related to the interest of a bond. The bond's interest rate was 8,65 percent while the U.S Federal Reserve's interest rate was 4,5. As you see, the difference is 4,15 percent.

The difference between previous bonds' interest rates was higher than 4,5 percent. For instance, the interest rates of the Gerege and Khuraldai bonds were in the range of 5,7-8,75 percent. At that time, the Federal Reserve's rate was 1 only percent. When all of the Asian capital was flowing to the United States and the Federal Reserve's rate was 4,5 percent, we successfully realized this bond with an interest rate of 8,65 percent, a clear demonstration of how strong foreign investors have trust in our government. It means the bond was issued with the most reasonable interest rate.

Secondly, the bond amounting to 650 million USD had attracted orders worth some 4 billion USD. This is a marvelous success. Let us go back now. The Federal Reserve's rate is expected to keep increasing, which means we would not be able to sell the bond at that rate if we had issued the bond today. For this reason, I believe that we were good at exploiting that opportunity to issue the bond with perfect timing.

**-Mongolia first issued a bond eleven years ago. Could it be concluded that the bonds issued since then have not been fruitful and that government policy was mainly directed to pay off debts by incurring new debts?**

-I do agree with you. Today things would have been different if the money raised from the first bonds were invested in projects that would bring benefits in a short term. We had no choice other than refinancing these bonds. For instance, the money from the Chinggis bond went to the Development Bank and turned into a bad debt and now there is no other way to refinance this bond.

**-In your opinion, what strategy and policy should we implement in spending external debt money?**

-In May of 2022, Parliament approved a paper so-called the 'Mid-term Debt Strategy of Mongolia'. According to that paper, it was decided not to issue a commercial or short-term bond with a high-interest rate until 2025. It only allows implementing the re-financing of bond repayment, an extension of maturity date, and a reduction of interest rate.

Apart from that, there will be more space for foreign debt as GDP improves. It would be right if we get a long-term loan using this space. This loan will be used to finance projects and programs approved under the New Revival Policy. ■

***We are grateful that bond owners continued showing trust in the Mongolian government.***

## GOVERNMENT BONDS

BOND	PLACEMENT AMOUNT	COUPON RATE	MATURITY	ISSUE DATE	MATURITY DATE	OUTSTANDING ISSUE SIZE
Chinggis 22	1 billion USD	5,125%	10 years	2012.12.5	2022.12.5	Paid
Chinggis 18	500 million USD	4,125%	5	2012.12.05	2018.1.5	Paid
Dim Sam	1 billion RMB	7.50%	3	2015.6.24	2018.6.24	Paid
Mazaalai	500 million USD	10,875%	5	2016.4.6	2021.4.6	Paid
Khuraldai	600 million USD	8.75%	7	2017.3.9	2024.3.9	390.7 million USD
Gerege	800 million USD	5,625%	5.5	2017.11.1	2023.5.1	367 million USD
Nomad	600 million USD	5,125%	6	2020.10.7	2026.4.7	600 million USD
Century 1-27	500 million USD	3.50%	6	2021.7.7	2027.7.7	500 million USD
Century 1-31	500 million USD	4.45%	10	2021.7.7	2031.7.7	500 million USD
Century 2	650 million USD	8.65%	5	2023.01.19	2028.01.19	650 million USD

## Concept

# State-tied credit rating



**Events taking place in the DBM are under the attention of international credit rating agencies**

The international financial and investment landscape is getting more globalized. Credit rating has become the most essential valuation of a country's or organization's performance and long-term existence at a time when countries and financial institutions are interacting more closely than ever before. The stronger the debtor's ability to attract investments from domestic and foreign bond markets, the higher the credit rating. That is why it is critical for anyone issuing bonds to have a high credit rating (individuals, companies, states, local governments, countries).

The three major international credit rating agencies have assigned the Development Bank of Mongolia (DBM) ratings of B and B3, meaning stable. Specifically, "S&P" and "Fitch" agencies opted to retain it at B/stable, while "Moody's" kept it at B3/stable.

The DBM was set at the same level as Mongolia's credit rating at the time because these agencies saw the DBM as a government-related organization that can receive government support within the framework of the DBM law and other government-guaranteed agreements and played an important role in financing large projects and programs of strategic importance to support sustainable economic development.

DBM received its first credit rating of "B+" (negative) from Standard & Poor's in 2015, the same level as the Mongolian government. At that time, the DBM was the only 100% state-owned policy bank with a significant

role that could get government backing, and this grade was given since it was expected that big infrastructure projects would be completed through the financing of the bank. S&P also stressed that a commercial bank cannot replace the DBM's involvement.

However, it was demoted to "B-"/stable/ in 2016. The reason was the budget's performance and the potential for economic growth. Credit has been cut to the same level since any banking and financial institution or enterprise's rating is controlled by the rating of the country's government.

Mongolia's credit rating was raised back to "B" (stable) in 2018 as a result of improved budget performance, stringent spending control, and a significant increase in economic growth. It remained B3 in 2022. (stable).

Moody's Agency classified the DBM's credit rating as "B2" (negative) in 2015, the same level as Mongolia's rating. However, when the government debt reached a high level in 2017-2018, Mongolia's credit rating and the DBM rating both fell to "Caa1" (stable). The country's rating was raised back to B3 in 2018 as a result of the government's debt management, budget deficit reduction, and implementation of required measures within the scope of the IMF's enlarged financing package. The aforementioned credit grade was retained in 2022.

The "Fitch" rating agency assigned the DBM a "B" (stable) rating in 2018 and maintained it in 2022-2023. The reason for this ranking is that the DBM was primarily concerned with asset quality. It was assumed that the government would assist if needed because the DBM is the single strategic bank that plays a significant role in funding huge development projects.

However, Fitch cautioned that the credit rating would be decreased if risks such as the government's backing for the bank deteriorated, the bank's policy commitments were reduced, and the government's stake in the bank was dramatically reduced. Fitch highlighted that it opted to keep the credit rating because it believes such risks are unlikely to occur anytime soon.

On March 27, 2023, the organization upheld its decision to keep the DBM's rating. This is great news. "Ensuring loan repayments will be the bank's main goal ▶

## Expats

# E.Gendenjamts: Want to optimize your on-line sales, then start with one product



*Mongolian Economy spoke with E. Gendenjamts, a manager of the Cross Border Trade and Hightech Department at Rakuten France, about Rakuten Group, Inc, its overseas businesses and steps to optimize online sales.*

**The most interesting and fastest-growing business in our group is Rakuten Mobile**

**-Could you briefly introduce yourself to our readers?**

-First of all, I would like to thank Mongolian Economy for the invitation. My name is Elbegsaikhan Gendenjamts, everyone calls me Gende. Currently, I'm working as a manager of the Cross Border Trade and Hightech Department at Rakuten France. I moved to France with my family, wife and 2 kids, 7 years ago, after working as an e-commerce consultant at Rakuten Group, Inc in Japan for 3 years. In terms of my educational background, I graduated from Kyoto university with a bachelor's degree in development economics and then I completed my master's degree at Hitotsubashi University.

**-What brought you to France?**

-When I was a student, my wife and I visited Europe with our first child and the country we liked ▶

▶ for 2023," according to the statement. Otherwise, the bank's ability to fund future development projects will be constrained."

Thus, the events taking place in the DBM are under the attention of international credit rating agencies. In this case, the DBM's external reputation and credit rating will be significantly impacted by the repayment of high-value, low-quality, and bad loans, attention to financial fundamentals, and institutional reforms. There is also a responsibility to strive to improve its credit rating, not to be complacent about just maintaining it.

However, the DBM cannot focus solely on improving the bank's international credit rating, and the instances above illustrate that the bank's rating is strongly dependent on Mongolia's credit rating. According to established financial market theory, more than ten variables such as GDP per capita, level of corruption, inflation, budget balance, unemployment rate, and long-term economic growth affect a country's credit rating. In addition to the DBM's efforts, the role of the government is critical to its credit rating. No matter how well the bank operates, it is difficult to establish a high credit rating if the country and/or government lack financial discipline. ■

## In brief

- Credit rating is an indication that shows a debtor's ability to repay interest and principal on loans made by international and domestic investors, as well as the debtor's total risk.
- The credit rating is divided into seven main investment categories, ranging from "Minimal Risk/Highest Credit Quality" to "Very High Levels of Credit Risk" and two default categories "Near Default" and "Default".
- The worldwide credit rating industry is highly concentrated, with these three agencies controlling 95 percent of the total market: Moody's, Standard & Poor's, and Fitch.
- Mongolia received its first credit rating in 1999.
- S&P assigned Mongolia the highest credit rating, "BB-," between 2007 and 2013. However, Moody's Agency rated Mongolia "Caa1" in 2016-2017, the lowest rating in Mongolia's history.



**To be successful in e-commerce, you have to increase your turnover from two types of users**

► the most was France. Since then we had always dreamed of coming and living here. In addition to that, at a personal level, I wanted to be involved in the global expansion of a multinational company. This is one of the reasons why I joined Rakuten and all my managers supported me to take up this challenge and contribute to our company's business abroad. Thus, when there was an opportunity to work from abroad for Rakuten Inc, I was first in the line. Also, my wife is a fashion designer who started her study in Tokyo and completed it in Paris. So we had a good reason to come to France.

**-Rakuten Inc is serving users worldwide through businesses based in 30 countries. Could you tell us about the main services provided by Rakuten Inc outside Japan?**

-As you may know, Rakuten is the biggest e-commerce giant in Japan. As a group company, we have over 80 different businesses in various sectors such as fintech, banking, marketing, content, sports, communication and so on. Among them, the affiliate marketing business represents a significant share outside of Japan. At this moment, the most interesting and fastest-growing business in our group is Rakuten Mobile. In Europe, we have e-commerce, Viber, Kobo, Rakuten TV, European Bank and our marketing businesses. Moreover, Rakuten France is the second biggest e-commerce platform in the Rakuten Group, after Japan.

**-In general, what could small-medium businesses do to optimize their online sales? For instance, what did you do in the past to optimize sales of your key accounts?**

-Basically, we are involved in all steps of our client's businesses starting from financing, product development, sourcing, digital marketing, delivery and after-sales service. In financing, we work with our partners on stock factoring, fulfillment financing, credits and daily payment services. Cash flow is very important for short-tail products. Owing to this initiative, some of our sellers managed to make the highest sales record in France.

In terms of product development, we help them position their products better in the market and advise them to develop new products that are trendy. The best example I have in mind is the "Botanist"

shampoo which you can find in every drugstore and department store in Japan. Our team released this product in Rakuten France to have a success story before their launch in Japan. We made a big promotion and a very good sales record in France and then later in the USA. Finally, when they released the product in Japan, it became a huge success. It became the most-sold shampoo in Japan at that time. The most important part was the promotion and investment. The sales ranking in France and the USA increased the conversion rate of its investment, telling the story that it's the best-sold product in France, the country of beauty, where people use all these luxury brands such as Dior, Chanel, Estee Lauder and others. A few other brands followed the same course of action but not all of them were successful.

To be successful in e-commerce, you have to increase your turnover from two types of users: new and existing users. Imagine that your business is a water tank. The water you pour into your tank is the new user. However, not all of them will stay forever as there will always be a leak. If your product selection and quality are not good for your services (ex: customer service, delivery service etc) are not good then users won't be satisfied and will be prone to leave.

In some cases, you may have the best product and services in the world but you cannot sell or do well unless you do marketing and advertising. You always need to attract and add new users. Its share will be very big at the beginning stage of your business.

If you are a small business owner, start with one product and position it well in the market.

Focus on making it a success story and getting a certain share of the market. Only then you should develop a new product line relevant to the previous one. The biggest mistake is trying to start with too many product lines. Your investment won't be efficient as you cannot improve many products at the same time.

The best part of e-commerce is that you have and know all the data including who are your clients, how many percent of them stay, how many are dropping out, what is the frequency of the purchase, what review they write, what they like and don't like about your product or services. Based on this information ►

► we're able to provide advice and an optimal plan for product strategy.

**-In your opinion, what are the three biggest barriers to cross-border trading?**

-In cross-border trade, the biggest barrier is logistics. No logistics no cake! But the logistics and its fee depend on the quantity. It is like the chicken or egg paradox. For example, the shipping quantity from China to Europe is very large, so the shipping fee becomes very cheap. It's even cheaper than the shipping fee inside France. The second challenge is payment. When you have different currencies you have to use forex services for international transactions. But nowadays there are many service providers and all of them work with us. The third one is the language barrier and communication. If you cannot communicate with your clients in their native language or translate descriptions of your products professionally, it will be hard to attract and retain buyers. In addition, you have to learn about the legislation and rules of the country.

But you don't have to be afraid of them, just need to try. Many sellers go through trial and error several times until they succeed.

**-You have been in charge of partnership management for a long time. What were the key challenges in managing partnerships?**

-We manage partners to provide finance, logistics, fulfillment, media and ERP services to us and our sellers. As e-commerce evolves fast, there is always a need for new services and new partners. I think partnership is a very efficient way to run a business when you cannot do everything by yourself. But, you have to choose the right partner for a long-term relationship and keep them happy at all times. Thus, the first challenge is selecting the right partner. You need to do a background check and examine their service functionality, quality and contract details. It takes time. The bigger the company the longer the process. Some contracts can take more than a year. As you cannot put all the eggs in the same basket, we always choose multiple partners for the same service to encourage competition and hedge the risk. At the same time, you cannot choose too many partners because we have to provide the quantity to keep them happy. So it's all about having a balance.

Signing a contract is one thing but making the partnership work and keeping it live is another challenge. We hold a lot of events and activities with our partners in France and in other countries. During the Covid-19, we've organized quite a lot of webinars and online events.

**-What trends will we see in the e-commerce world in the next five or 10 years? What's your thought on that?**

-It keeps evolving very fast. Things that existed two years ago do not exist anymore in e-commerce, so I cannot tell what they will exactly look like in five years. But I'm quite certain that it will become much more efficient than today. I think online and offline shopping will compensate for each other and will be even closer. A recent example is the 'click and collect' service where you buy online and pick it up in a physical store. Also, I believe that we will see more services like 'buy now pay later', drone delivery and car pick-up delivery. Maybe, in the future, when you're on your way home, someone will hand over your delivery on the street. For sure, AI will definitely play a big role in the upcoming years. AI will help e-commerce platforms offer you the most personalized and customized product selections.

**-How would you describe your work life in France in three words? Furthermore, what tips would you give to someone who is looking for a job in France?**

-Interesting, challenging and balanced. If you have done a good quality of work and have good accomplishments to show, you will always have opportunities regardless of where you came from or which school you went. All you need to do is try.

**-Before we conclude our interview, is there anything you want to say to readers of the Mongolian Economy magazine?**

-To anyone who is thinking of doing an e-commerce business, I want to say "It's never too late". Don't hesitate to try and improve. The most important thing is to take the first small step, then improve by one percent a day. It will become 37 times bigger than where you started in one year. Furthermore, I think luck doesn't come to everyone, it comes to the person who prepared for it. So, I always try to do self-development and try new things. ■

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***If you are a small business owner, start with one product and position it well in the market***

## Insurance

# J.Munkhsaikhan: Working with a reputation in the global reinsurance industry



**Our business has a solid reputation in the global reinsurance market**

*We spoke with J. Munkhsaikhan, the Chief Executive Officer of "Tenger Daatgal" LLC, about the state of today's insurance market and its new products and services. Founded in 2001, Tenger Daatgal has now more than 70,000 clients and ranks third in its sector in terms of profitability, solvency, and governance.*

**-Let's start the interview by asking about the changes related to the company's ownership. The company shareholder "Tenger Financial**

**Group" LLC was changed to "Mandal Financial Group". Could you please tell us more about this transition? What difference will this decision make for clients, insured, and shareholders?**

-The shareholders of "Tenger Daatgal" LLC have changed by the end of 2022. Following the amendment of the Banking Law of Mongolia, "Tenger Financial Group" LLC, the shareholder of XacBank, went through an organizational restructuring. The reason for such restructuring was the regulation of the new law, that restricts any direct shareholder of a bank to own more than 20% of the bank.

As "Tenger Daatgal" is regulated by the Financial Regulatory Commission (FRC), separately from the banking industry, the shares of the company were offered to potential shareholders. This is a typical business deal in the financial market. You can say the owner of the company was shifted from one financial group to another.

After this transition, our company has become a 100% locally invested company. This means that the company values added, dividends and profit generated will be able to be preserved within the mongolian economy. In addition, "Mandal Financial Group" owns other insurance companies such as "Mandal Insurance" and "Mandal Life." It is advantageous to bring these entities together under one roof to get discounted reinsurance pricing from the overseas market, combine overlapping functions, generate synergies, and minimize operational expenses, which is beneficial for our customers.

**-“Tenger Daatgal” LLC ended 2022 successfully with an increased net profit after tax, total assets, and equity. It also maintains its position as an industry leader in terms of solvency. What is the key to your success?**

-The company's main advantage is that it has been audited by international auditing firms, known as the Big Four, for more than 10 years. Ernst & Young (EY) has carried it out in the last 2 years. We are the only company, among 16 insurance companies, that is being audited by the International auditing ►



► firms in Mongolia. We've been highly productive in 2022. Our net profit has reached MNT 3.0 billion and total assets have climbed to MNT 33.0 billion. Sales volume has risen as well.

Over the past three years, we have adhered to a strategy to boost efficiency, cut expenses, focused on professionalism, and strengthened our financial position. To reach that we were able to reduce operating costs. To do so, we switched from physical direct sales channels to digital and brokerage channels. Nevertheless, sales did not drop in regions, where branches were closed. The sales were compensated by sales through the company mobile application called "Edaatgal APP", which was launched in 2020. Secondly, we reach our customers through bancassurance: we collaborate with all major commercial banks. By doing this, we have enhanced our capacity to distribute insurance services directly to clients at a lower cost while becoming more digital. The company financial statements for the years 2021 and 2022 show that the above-mentioned strategy has given its fruits.

One of the key metrics of an insurance company is the solvency ratio. In 2022, the company's solvency ratio reached 157.7 percent, whereas the requirement from the FRC for this ratio is 110 percent or above. It might be interpreted as Tenger Daatgal being sufficient to meet its future liabilities and that we are conservative in terms of risk.

Our insurance reserve fund is MNT 1.9 billion higher than it has been calculated by the actuarial team of Ernst & Young's (EY). I believe that our Insured, especially corporate clients, need to be well aware of this information.

Our business has a solid reputation in the global reinsurance market. For instance, one of the biggest reinsurance companies in the world, Berkshire Hathaway Specialty Insurance (BHSI), approached us and selected us as their local partner in 2021. The company emphasized that the company's best practice corporate governance, healthy solvency indicators, financial statements certified by one of the international BIG Four audit companies, and consistent high evaluation by the regulatory authority were the main reasons it was selected as the only official local partner in Mongolia.

**- Can you tell us about your customers?**

-In terms of premiums, before 2020, 60 percent of all our insured were corporate clients and 40

percent were retail customers. Now, it is vice versa, 40% of our clients are organizations and 60% are individuals.

Most of our corporate insured are foreign-invested companies. As an interesting example of this, when the COVID-19 started in March 2020, some of our local corporate clients were either canceling or narrowing their insurance coverage to cut expenses, whereas on the other hand foreign-invested entities were expanding their insurance coverage and insurance limits. This example demonstrated how differently Mongolians perceive insurance. While Mongolians view insurance as an expense to be saved, foreign-invested businesses seek to transfer their risks to third parties. They anticipated that during lockdowns, the city would be deserted, that offices and factories would be unattended and that uncontrollable dangers such as fire and water loss might occur.

**-Post-pandemic situation, geopolitical unease, and high-interest rates all negatively influence Mongolia's economy. What policy was your company in such a condition, and what new products and services do you offer to your clients?**

-During Covid-19, companies faced financial difficulties, so we offered them deferred payment of insurance premiums or installment payments. Post-Covid geopolitical challenges have already started to influence our operations. Because some companies' activities transit through Russia to some level or trade directly with Russia, there have been issues such as impact of sanctions or difficulty fulfilling payments to or from Russia and transferring money. We were warning and advising our customers of these issues ahead of time.

Furthermore, we launched property-based business interruption insurance to our customers last year. The product compensates a set percentage of lost income if the client's business or premises, for example, are damaged by fire. This is, in our opinion, a highly useful and important product for corporate clients.

The next product we are working on is cyber security insurance. It is expected to be launched and offered to the market by the end of this year.

In collaboration with XacBank, energy savings insurance was introduced in Mongolia for the first time last January. The project is being consulted by the international NGO BASE, which is a specialized

***Energy savings insurance was introduced in Mongolia for the first time***



► partner of the United Nations Environment Programm. This project was successfully implemented in many countries. Within this project, XacBank provides loans to businesses looking to replace or renew their energy resources at a low cost or with renewable energy, and Tenger Daatgal is involved as the insurance provider. Customers tend to be very skeptical about the savings that can be reached by investing in energy-saving technology. Therefore, the energy-saving insurance will pay a claim to the Insured if the energy savings would be less than 20%. We will begin offering this insurance product to businesses in upcoming September.

**-As an observer from the inside, what kind of risks do you think mostly incur and what are the causes?**

-The most important thing to avoid is being careless and negligent. This mindset should be eliminated.

In recent times, occupational safety and health requirements have become very strict. We can see good examples of occupational safety and health requirements at the camps of mining companies such as the Oyu Tolgoi and Energy Resources. They set high standards and require everyone to strictly follow the rules. In my opinion, this practice should be adopted and implemented by everyone, moreover, it should not be considered as an additional cost, but as an obligatory part of companies.

Risks always exist, but by ignoring or neglecting them increases the chance of incurring. This is the thing we should be careful about.

Companies now tend to get more health and personal accident insurance coverage for their employees. Because employers are becoming aware that the workforce is the company's most valuable capital. On top of that, the best risk management solution for risks that cannot be controlled and managed is to transfer them to a third party, in other words, to insure them.

There are about one million insurance policyholders in the insurance market, out of which 600,000 of them are insured with only compulsory driver's insurance. This shows that we have a weak level of insurance and self-protection. People do not ensure the apartments they live in, the vehicle they drive, or even their health or life.

To properly treat this problem, our company has launched a Family insurance bundle product. This bundled product consists of personal accident and health insurance for all family members as well as home and vehicle insurance. It will be available to the public in the second quarter of this year.

**-How do you foresee the future of this industry? What opportunities do exist beyond the challenges?**

-Mongolia's insurance market has a lot of room for expansion. There is an international trend when a country's GDP exceeds \$10,000, insurance coverage increases, and the insurance market develops. When someone's bare necessity is provided by income, safety, and security needs are not high on the list. As a result, the lack of insurance coverage in our country is related to the population's low income. There are laws and regulations that require mandatory insurance which doesn't apply in the real world. There is no control over those regulations.

On the other hand, Mongolia has a few compulsory insurances. For example, landlords don't require tenant liability insurance. We are not used to having insurance in such a simple relationship.

There are many laws that state insurance coverage to be in place, however, the implementation is poor, and its fulfillment is not controlled. To remedy this, the role of insurance companies, and their effort is also crucial. ■



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The  
Godfather

