

For a green development

MONGOLIAN ECONOMY



Stock Exchange to
“Renew Its Soil”

Uncertainty Surrounds
Tavan Tolgoi

Mongolian Economy and Business Magazine

2011. August. № 006

www.mongolianeconomy.mn



Who Is Responsible for Social Responsibility?



MONGOLIAN ECONOMY

Founder, Editor:

D.Bekhbayar
9999 4248

Founder, Deputy Editor:

I.Otgonjargal
8800 6228

English Editor:

Terrence Edwards

Journalists:

D.Munkhchimeg
Kh.Khulan
E.Zorigt

Translator:

E.Ulzilkham

Designer:

B.Urangerel

Marketing Manager:

D.Barianjav
8880 0825
B.Enkhtsetseg
9901 5476

Address:

Tod Tower-604
Ankara Street-23
4th Khoroo
Chingeltei District
Ulaanbaatar, Mongolia

Tel/Fax: 976 - 7011 5476

Central Post Office, P.O.B 2762, 15160
Ulaanbaatar, Mongolia

URL: www.mongolianeconomy.mn

E-mail: info@mongolianeconomy.mn

Printed at

Ulaanbaatar Print Co., LTD
www.ubprint.mn

Selling points:

Internom bookstore
Mir bookstore
Nomin supermarkets
Zig zag autoservice
Flower center
Sky supermarket

Letter from the Editor:



Our colleagues at the “Mongolian Economy” magazine are urging readers (who recently celebrated Naadam festivities) to direct their energies towards the development of businesses.

In previous editions of “Mongolian Economy” we specifically touched upon sectoral issues such as “Green Development”, “Investment Mongolia”, and “Tourism”; therefore, the sixth edition strives to gather support for the success of the businesses in the private sector.

Anyone can see that the private sector may certainly head towards growth due to rapid economic development, and the strong inflow of money from the mining sector. However, if our dear businessmen have not yet realized that the country’s development and a favorable economic climate is just as important as social responsibility—protecting our world, respecting our people, and sharing profits with the rest of the nation—then this edition of “Mongolian Economy” will refresh their knowledge and awareness on the subject.

In addition, due to the rapid growth of investment towards the minerals sector, the threat of “Dutch disease,” and “hot money” have started to knock on our door. Mongolian businessmen must adjust to face an even greater need to conduct businesses responsibly and ethically. It has been quite some time since Mongolians were first acquainted with the concept of corporate social responsibility; however, the concept still struggles to adapt to Mongolian soil. Therefore, this issue strives to spotlight this important issue.

In the article, “Let’s Speak Responsibly on the Subject of Social Responsibility”, a proper understanding of corporate social responsibility is reached. Examples of German practices are discussed in an interview with Dr. Stefan Hanselmann, Director for GIZ “Integrated Mineral Resource Initiative.

The time has come for the Mongolian capital market to open its doors to investment banks for their good ideas and development projects. This would create more opportunities for Mongolian businesses and reduce dependence on commercial banks to realize business initiatives.

Just before Naadam, Mongolians witnessed for themselves how disadvantageous it is to have too much state involvement in the private sector. It creates havoc for the natural flow of the market, as it so happened in the case of the fuel shortage. In “Laissez Faire”, the virtues of free trade and how important it is to keep government involvement in the private sector to a minimum. In addition, is an Mongolian translation to “The Luxury Frontier” by Maureen Orth printed in the Wall Street Journal. It is an honest and provoking exposé, written while traveling through Mongolia.

Also, following the announcement that 2011 is the “Year of Employment Support”, “Mongolian Economy” introduces a new column “Life”, encouraging citizens to work and live well. We are proud to produce new columns and articles featuring advice from doctors and experts educating about health, and how to relieve oneself from stress and fatigue.

The heads of both Mongolians and foreigners are spinning because of the constant flow of new information and resolution regarding Tavan Tolgoi, which continues to be a hot topic in Mongolian economy and politics. Lets hope, we can make sense of these issues with careful analysis and bring cease some of that dizziness.

Deputy Editor I.Otgonjargal

Contents



...The aim is to get the message across that CSR is an immediate and important factor of economic competitiveness... 4

Corporate Social Responsibility

- 4 Who Is Responsible for Social Responsibility?
- 6 All Companies (Big and Small) Have a Place at the Top
- 7 Dr.S.Hanselmann: Corporate Social Responsibility Standards Are Important For Economic Strength
- 10 Stock Exchange to "Renew Its Soil"
- 12 How Would You Define CSR?



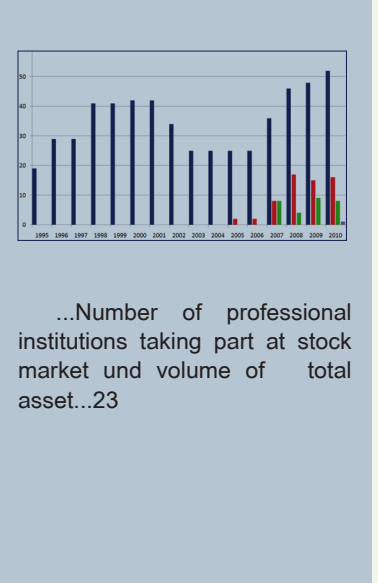
B.Khashbaatar used 3D computer graphics software at "Hwa Shin Jon Mill" of South Korea and designed concept models for products following the company's guidelines...35



...Mr.Jean-Baptiste Colbert asked a group of businessmen what kind of support they required they simply replied, "Laissez-nous faire" or "Leave us be... 16

Economy

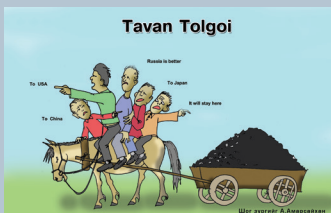
- 16 Laissez Faire
- 18 Mr.S.Munkhsukh: Private Domestic Airline Can Operate Safe, Consistent and Profitable Air Transportation Services
- 20 Two Institutions, One System
- 22 Do Not Let the Brokers Out
- 24 Business Council of Mongolia News Wire



...Number of professional institutions taking part at stock market und volume of total asset...23

Mining

- 27 Uncertainty Surrounds Tavan Tolgoi
- 29 Filling Oil Drums with Empty Promises



...Government officials are happy to end discussions at the payment of USD 1 billion for Western Tsankhi, and USD 250 million for the down payment of Eastern Tsankhi...27

Business

- 32 CEO of XacBank: Our Banks Apply Risk Management Methods, Based on Real-Life Cases
- 34 The Amazing Capabilities of Mongolians Abroad
- 36 The March Towards Employment!



...T. Dunjaa is 70 years old. Although her children are now grown up and can lead their own lives, she did not want to live without work, depending solely on her pension. ...36



6 All Companies (Big and Small) Have a Place at the Top

7 Dr.S.Hanselmann: Corporate Social Responsibility Standards Are Important For Economic Strength

10 Stock Exchange to "Renew Its Soil"

12 How Would You Define CSR?

Main Issue

Who Is Responsible for Social Responsibility?

"Corporate social responsibility" (CSR) has a lot of meanings. Although this idea is greatly related to the private sector contributions to the majority of Mongolia's GDP, companies' management are still unaware of what exactly is meant by the term CSR. However, it isn't that Mongolian businessmen are not doing anything in this respect. Large companies, especially, are striving to realize their corporate social responsibility, and there are many occasions when they commit to acts of charity: feeding orphaned children and the elderly; funding art performances and book publications; offering scholarships to students, or planting trees. Up until now, they have been promoting their activities implementing CSR. Consequently, they like to promote such activities via print media and television broadcasting. In other words, they prioritize to develop CSR in the form of public relations. In addition, there are many poor people, artists, or those asking company directors for donations to aid them to obtain cures for their relatives stricken with grave illnesses and requiring

treatment abroad.

Khan Bank's Foundation Manager Ts. Oyuntsetseg said, "On average there are five people, who approach our bank on a daily basis requesting all types of donations and aid. I think that these people also approach other companies on a daily basis."

Such appeals create difficulties for both sides. One on side, for company directors, who mistakenly perceive such donations as a form of CSR, it is difficult to reject such proposals. If they decide not to reject such requests, then what would happen if they were to into the requests of every five people who come in daily? Therefore, it has been said that CSR causes headaches for company directors in Mongolia. This kind of implementation of CSR through donations and charity furthermore provokes and ignites people's desire to request for more donations from business entities. To cite from one example, last June the Mongolian National Chamber of Commerce and Industry (MNCCI) organized a "Corporate Social Responsibility" forum.

During this Forum MNCCI Chairman

and CEO S. Demberel said, "Some people turn the concept of CSR into a tool for scolding company directors. If their requests for donations and charity are rejected they scold them saying, 'Why does your company fail to implement corporate social responsibility.' However, this concept for modern corporate understanding is not a tool for scolding someone, nor it is a donation or charity in any form. Whether it is a company, business entity, or individual, they need to be aware that they constitute part of a society. We should get rid off the complacent attitude that caters to only one's self and disregards society to have nothing to do with us. Therefore, MNCCI advances 'PPP': meaning think about the 'people'; take care of the 'planet'; and think about the 'profits.' Social responsibility includes all issues, such as poverty, orphaned children, and uneducated women. Therefore, we need to promote correct understanding of this concept and implement it accordingly. Up until today we did not have, at the very least, any promotional leaflets with pictures to advance this cause. In order to have a common understanding on CSR we need to have a clear understanding of what CSR means, and what it does not mean."

Ten years have passed since Mongolian businesses started using the concept of CSR. It is a significant drawback that in all this time past CSR has only been understood within the confines of donations and as a marketing tool. However, it is ▶▶

► good to point out that from now onwards, companies of all sizes are striving to cultivate a common understanding of CSR.

The concept of CSR, which was developed in the 1970s and 80s around the world, has become even more fashionable today; therefore, it is not too late for Mongolia to develop a common understanding of CSR and implement it accordingly. Due to the fact that this concept that has become an important social and economic driving force in developed countries, it has arrived early in Mongolia. While Mongolia was experiencing a transition from a planned to market economy, it could have experienced difficulties adapting these seeds to its soil. Now, as Mongolia has already put an end to the economic transition period and is on the verge of rapid economic development, attracting substantial investments into the mining sector, it has become necessary to talk responsibly on the subject of CSR. After all CSR is the main driving force for social development.

Last June, MNCCI organized its fourth “Corporate Social Responsibility” forum. During introductions, as representatives from each company shared their experiences with CSR, it became apparent that large companies in Mongolia are making substantial progress in this area. For example, one company has become not only one of the leading companies in Mongolia implementing CSR, but has attained international recognition for its practices. This company is one of the top 20 employers in Mongolia—Khas bank. Many organizations and business entities should follow the example of this company.

Khas Bank’s Executive Deputy Director L. Tur-Od explained, “Corporate social responsibility emphasizes that every business entity and company constitutes one of the socio-economic subjects; it is one of the inseparable parts of social development. This relates to the individual as well. Therefore, it is required from each entity to contribute towards social development. In simple terms, it means that we should not strive towards profits only. Social contribution does not mean that out of MNT 1,000 one tugrug should be given to society. CSR means that all the activities of business entities should be directed towards the society at large. In other words, CSR should be the main constituent part of business activities.”

This bank in cooperation with the Ministry of Education, Culture and Science is implementing the “Temuulel” (Aspiration) Programme along with schools trying to improve their financial education for the general public, and to help them generate savings. As the saying goes that, “a person is cultivated from early ages.” With the aid this program provides, children

are acquiring financial education, learning to deal with money, and seeing the importance of saving and spending money wisely. Currently, more than 100 schools are participating in this program.

Khas Bank’s official pointed out that as there is no life without loans it is significant that Mongolian children acquire skills early on to protect themselves from the burden of bank loans. In addition, Khas Bank has been a member of the Global Reporting Initiative for the last four years, reporting according to international standards.

“It is not so important for us to unite under a single initiative and principles, and sign signatures,” said Tur-Od. “A greater challenge for us is to implement it.” When asked what is he doing to promote a correct understanding of CSR, as a domestic leader for this movement as well as a well versed individual on this topic compared to others, Tur-Od replied, “We have a strategy first to implement CSR internally and achieve concrete results. Then we want to share our experiences with others. Therefore, for the purposes of disseminating the information, and to urge other Mongolian companies to join in the international movements and initiatives, we are organizing joint trainings and seminars, and sharing our experiences during such events.”

Previously there was only 30 or 40 companies had joined the UN Global Compact, but has now increased by 300 or 400 additional members.

The Mobicom Corporation has done a lot of work in the area of CSR in the past, including the supply of equipments to schools and hospitals, but it has not achieved a lot of concrete results. Therefore, in 2009 it began to implement the “Mobi Aspiration” program, which received a lot of praise from the public as a true example of CSR. The company’s management is also eagerly pursuing an appropriate solution to the implementation of CSR, a head-ache for most companies.

Mobicom Corporation Executive Director D. Bolor said, “We have put a goal of realistically and fruitfully investing, not into many sectors, but one specific sector. The results of a nationwide survey involving 280,000 people revealed that the public believes that the future of Mongolia will depend upon educated Mongolians; therefore, the Mobicom Corporation will be implementing a large project in the sector of education”.

The program Bolor spoke about is an “E-Training” project to help teach students how to work using information technology resources, to raise their productivity and to improve the relationship between the teacher, student and parents. This

projects aims to include 40,000 students and more than 2,000 teachers from 19 schools located in the Bayanzurkh district of Ulaanbaatar.

Another organization leading others in the implementation of CSR is Khan bank, which conducts one of the widest range of activities in Mongolia. Company directors that have spent a substantial amount of time without a common understanding of CSR (a cause for headaches, no doubt) need to understand that CSR has to be developed as an integral part of their business model. Then, when drafting their policies and strategies they are responsible for formulate CSR policies as well. In other words, they need to put CSR into their long-term action plans.

Khan bank’s Foundation Manager Ts. Oyuntsetseg said, “A given company needs to conduct responsible, environmentally friendly activities, and its governance needs to be transparent. It should train and develop its staff, and devote its profits towards the social development. In short, this is what is meant by CSR. Sadly, due to the fact that there is a misconception among companies that CSR is only about donations and marketing strategy it will require a substantial amount of time to reach the next level in CSR development.”

“However, it is plausible that in recent years there are many companies conducting fruitful activities in the area of CSR. In respect to Khan bank, we have policy, regulation and strategy for implementing CSR. Everything is very clear and understandable. Therefore, it is easy to resolve the issue of people, who approach us for donations. Two to three years ago we had separated the issue of donations (from CRS), determined a policy not to give out donations and drafted our strategy accordingly. In addition, we will not provide any individual funding and will say ‘no’ to one time events. We conduct a specific strategy towards contributing to the sustainable development, and implementing concrete activities that are aimed towards bringing sustainable changes”.

There had been relatively little training for CSR in Mongolia in the past. Yet, in recent years as part of large and small conferences on the subject, there have been many short and long-term trainings offered in Mongolia and abroad. For example, last May MNCCI invited trainers from the UN and organized a basic level training on CSR involving 25 company managers. In addition, Khas Bank’s Executive Deputy Director Tur-Od, and Khan bank’s Foundation Manager Oyuntsetseg participated in a Master’s level training in Thailand.

Oyuntsetseg said, “At large foreign universities the subject of CSR is specific ►►

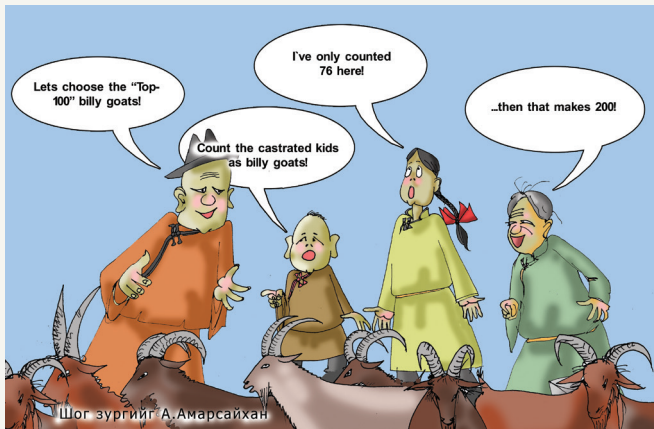
ably reflected in the syllabus. In Mongolia the University of Finance and Economy has one course on this subject. However, this is an elective course; therefore, it does not encompass all students. Also I think there are 2 or 3 Master's theses completed on the subject of CSR. Other than that, there are very

few source materials on the subject. For instance, I enrich the knowledge I received from abroad by searching the internet". Understanding CSR and what it means should not be a task just for companies alone, but one for every citizen as well. Each of us has a responsibility as an indi-

vidual to participate in the improvement of society. CSR has been discussed for quite sometime, and has been brought closer to the heart of Mongolia. Its seeds have been planted in its soil. Mongolia, carry out those responsibilities inborn to each of us and help develop our nation! ■

Top-100

All Companies (Big and Small) Have a Place at the Top-100



At the Company Social Responsibility Conference organized by the Mongolian National Chamber of Commerce and Industry (MNCCI) last May, D. Bolor, an Executive Director at Mobicom Company, noted:

"Instead of demanding social responsibility from just top companies, small companies need to be brought out too. In regard to this, I would like to say that our company is ready to refuse this award for Top-100 this year. Encouragement is needed to accomplish anything. I do not mean that our company refuses this reputable award because we implement social responsibility poorly. It seems that Mongolians have reached the wrong conclusion that only large companies should implement social responsibility. Yet, there are many small companies that implement social responsibility well and have four to five people working in a warm environment. It is necessary to bring them up. Don't misunderstand this as big versus thin when talking about a company's social responsibility. It should not be compulsory for only large companies. Although an organization may be small, if its employees behavior well, economizing their water consumption, using electricity properly, paying attention to employees' social issues and training, and conducting eco-friendly operations, it means that they implement their own social responsibility. It is rare that a company such as this can be brought to light for the initiatives they implement for social responsibility. Therefore, it is important to consider them for the selection of the MNCCI's Top-100."

Mobicom's Executive Director's proposal was received well by his audience at the conference. At the end of the conference, the MNCCI presented the "Magnificent Existence of So-

cial Responsibility" award to representatives from companies recognized for their corporate social responsibility programs. In response, MNCCI Chairman S. Demberel joked that Bolor should come present an award with him, despite his distaste for accepting awards.

The Top-100 companies are selected annually during a New Year party for entrepreneurs organized by the MNCCI. The MNCCI sets six pieces criteria for the award selection. One of which is a company's ability to implement social responsibility. However, it can not be the most important piece of criteria. One might suggest that enacting corporate responsibility is the same as paying taxes. However, as a rule, leaders must speak about corporate social responsibility if presented with a Top-100 award.

O.Zolbayar, a participant in the conference representing Erdenet Mining Corporation, also criticized these conditions. He said, that although Erdenet Mining Corporation is placed first in the Top-100 each year, a change in the criterion must be made. He explained that it should be stated exactly what activities companies enacted to implement social responsibility. After all, what is an award worth and what does it mean if no one knows exactly why it has been bestowed.

The MNCCI supports the activities of Mongolian entrepreneurs. At an annual New Year's party hosted by MNCCI, a committee evaluates the operations conducted that year by organizations. It selects the top-100 among about 40 thousand active Mongolian companies. This is not an easy task. It is also a heavy task because it has such a direct effect on a company's reputation.

More than one person proposed to change the selection process during this year's conference and influential figures at MNCCI agreed. Because there is a desire to have agreed upon understanding of social responsibility and a real beginning for genuine actions is taking place, representatives of some Mongolian companies had their own criticisms.

Although, there might be a general interest from the public for changes made in criteria each year, they are usually far too tedious and banal to report. Without a change in criteria, the event has become rather predictable as well. One could guess next year's list and ranking based on previous years.

The concept and definition of criteria, such as corporate social responsibility and governance, were unclear in Mongolia until now. Until now, these criteria seem to have been presented only nominally. Therefore the issue of social responsibility regarding Mongolia's top companies could not have reached this level of success before. However, there is an expectation that next year there will be interesting changes made to the list of the Top-100. All companies must compete, no matter how big or small and be recognized for their work social responsibility. ■

Opinion

Dr.S.Hanselmann: Corporate Social Responsibility Standards Are Important For Economic Strength

Kh.Khulan

Dr.Stefan Hanselmann got his Ph.D. in Economics from Constance University, Germany in 1988 after spending two years as a Research Fellow at Georgetown University, Penang, Malaysia. He started his career with Schering AG, a German pharmaceutical company, in a staff position under the Board of Directors, working on strategic planning and corporate development. From 1991 to 1993 he worked as a project manager at Schering's Asian/ Pacific HQs in Tokyo, Japan. In 1993 he joined the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) as Deputy Project Director of a trade and investment project in New Delhi, specializing in engineering industries such as automotive, castings and forgings, electronics/ IT, and plastic processing. In 1996 Dr. Hanselmann moved to Riga, Latvia, and worked there until 1999 as Head of an investment promotion project. In late 1999 he became Managing Director of a German manufacturing company producing agricultural machinery and electrical components for the automotive industry. July 2008 he moved to Mongolia and since December 2009 he has been the Project Director for GIZ "Investment Policy Advisory Service" (IPAS, since August 1st 2011 expanded into the program "Integrated Mineral Resource Initiative").

-We are starting our interview with a short review of the history of economic development in Mongolia and Germany. In your opinion, at which level is the economic development within those two countries?

-Obviously, economic development in Germany looks back at a much longer history. Industrialization in Europe started in the middle of the 19th century, more than 150 years ago. Germany is at a very advanced stage in the life cycle of industrialization. Sociologists talk about post-materialistic societies where money is not the main driving force anymore. The focus is rather on environmental and non-materialistic issues, such as quality of life and economic and ecological sustainability. Mongolia on the other hand was a nation of nomads. In future mining will be the predominant factor for economic development over decades to come. The two countries are at totally different stages of economic development and will most likely follow very different paths of industrialization. I think Mongolia's industrialization and economic development will be mostly driven by the extraction of natural resources, the development of the mining sector. Although the oldest mining university in the world is in Freiberg, Saxony, founded in the first half of the 18th century, in Germany mining never played the dominant role that it will have in Mongolia. Early on, mining in Germany served as a base for the development of downstream industries, mainly machinery, chemicals and automotive. Anyway,



whatever mining we have left in Germany will be officially phased out by 2018.

-What are the differences with regard to sectors and industries in Germany and Mongolia?

-The types of businesses are very different. Traditionally, Germany is very strong with all types of machinery, in designing and engineering machines and the manufacturing of equipment. The automotive industry has produced companies like Volkswagen, Audi, Daimler (Mr. Daimler and Mr. Benz being the creators of the modern automobile) and Porsche. It also has a very strong pharmaceutical and chemical industry, with companies such as Bayer, BASF or Merck, to name just a few. In the electrical and electronic industry, everybody has heard of Siemens, Braun, Infineon or Singulus. Recently, it is highly innovative companies providing energy efficient green technologies that lead German economic development. For Mongolia, of course mining, the extraction of mineral resources is in the first place. This will lead to upstream industries, mining-related industries, suppliers of mining equipment, mining-related services, exploration companies, and all sorts of service providers to the mines. It remains to be seen whether Mongolia will succeed in developing the downstream industries, processing industries that will use natural resources like coking coal, iron ore or copper. What I see as a possible and realistic area for development is the processing of agricultural products such as meat and dairy products. Those industries will require less capital investment and offer more employment for every Tugrik invested. ▶▶

► **-Could you please clarify the term “downstream industries”?**

-Downstream industries are the industries that process mineral resources. If you look at the value chain, there are upstream industries, those that come before the actual mining. They cater to and support the mining industry. Of course, then you have the mining industry itself, the companies that extract the minerals. And then we have industries that follow after this. They process the natural resources and produce something from those raw materials, products like copper cables, steel, chemical products or gasoline from oil.

-What kind of obstacles do German companies face when conducting business in Mongolia?

-Germany is the second largest exporter in the world. Only China exports more than Germany. Considering this, the hundred million Euros in bilateral trade with Mongolia is by far not representative of the wide range of goods and services Germany has to offer. There are several factors involved. As we said earlier, Germany has no globally operating mining companies. This leaves the Mongolian mining sector pretty much to investors and suppliers from countries such as Australia, Canada, or China. They do have significant mining industries. They know how to operate in that sector, how to raise money for new projects. That kind of sector specific knowledge is by and large not available in Germany or what does exist is very much focused on the oil and gas industry, since Germany is strongly involved with Russia in this particular industry. The second factor is that German companies traditionally conducted their business from a German desk by exporting their goods. Products were made in Germany and then shipped around the world. That concept worked extremely well for the past 100 years, but the global set-up is changing. Last but not least, there is a mentality problem. German companies require a high degree of reliability and predictability of so called “framework conditions” relevant for doing business in a particular country or market. Germans are interested in long term business development which requires reliable structures and procedures. If those framework conditions are not there or perceived intransparent and unreliable, German companies tend to be rather hesitant to enter and invest in a new market. GIZ acknowledges this problem by assisting through a number of projects which aim at improving different aspects of the investment framework. To mention two examples: Our legal project assists the Ministry of Justice reforming the legal codex and better the congruency of individual laws. Our energy project works with the Mongolian Energy Authority on setting up the legal framework in area of energy generation. By improving the framework conditions we hope to improve the business environment which will eventually lead to more investment, hopefully also from Germany.

-Are there advantages to conducting business in Mongolia?

-I think there are a lot of interesting possibilities. I do see changes happening. Especially in the last twelve to eighteen months the pace of change has increased tremendously. We see a growing interest in purchases of German equipment by Mongolian owned mining projects. Several German companies have already opened offices or are in the process of doing so. Also, the German - Mongolian Entrepreneurs Association registers increasing interest from German as well as Mongolian companies. This is clearly a positive development. I think German companies are gradually realizing that Mongolia is a very interesting and attractive country. As there will be

more liquidity in the market, new business opportunities will evolve beyond mega projects like Oyu Tolgoi or Tavan Tolgoi. German companies have come to understand that Mongolia is settling down, becoming a reliable partner and sovereign player.

-Could you tell us about significant phases of the German investment history? What kind of pattern or policy does German investment follow?

-I guess the period after the Second World War can be separated into three main chapters. With the German “Wirtschaftswunder” in the 1960s, Germany established its fame as a world leading export nation. German companies did not invest abroad, they produced at home and then shipped it to the furthest corners of the globe. They created the brand “Made in Germany”, which stood, and I believe still stands, for excellent quality, reliability, sophisticated engineering and perfection to the detail. They achieved this with employees trained under the German dual vocational training system and through the introduction of highly efficient production methods. But despite the advances in productivity the brand “Made in Germany” eventually also stood for “very expensive”. This is when a second phase started in the late 1980s. Large flagship companies like Siemens, Volkswagen, Audi or BASF started the internationalization of their operations. One driving force was China in its early days of economic reform. Because of China's economic development policies, companies were forced to invest in mainland China rather than exporting goods to China. In some way it was a forced internationalization, but as it turned out a blessing in disguise (today, VW is market leader in China with a market share of 20%). It forced many of the suppliers to go along and invest as well, companies like Bosch, Grammer, Hella or Draxlmaier following VW and Audi to China or India. Eventually, they used those capacities to supply their main factories back home as well, therefore improving their overall cost structure. This trend was supported in the 1990s with the collapse of the former Soviet Union and the shaping of what since then became the BRIC countries (Brazil, Russia, India, China). The second driving force was the opening of Eastern Europe which gave this development an additional push. It provided German companies with an excellent opportunity to take advantage of significantly lower labor and production costs. Not far away in China, but just across the border in Poland, Slovakia or the Czech Republic. It was the era of outsourcing, of developing production sites outside of Germany supplying the main factories in Germany with parts and components, which were then assembled in Germany and exported. This approach helped tremendously in terms of cost reduction. Germany was suddenly much more competitive. And this development was not limited to big flagship companies, but benefited the German “Mittelstand”, the small and medium sized enterprises for whom China or India was too far away to be a realistic alternative. Germany's economic strength and the secret of its economy is based on those small and medium sized companies, which still represent the vast majority of all German companies (although small and medium size could mean up to several hundred employees and 200 or 300 million Euro turnover). They are usually family owned and often owner-managed. They were founded by the grandfather or father in the 1950s or 1960s. They are the backbone of the German economy. This second phase, which represents much of the 1990s and the first half of the past decade, is now being replaced by a new, third phase. The small and medium sized companies, which have never ►►

► been truly international beyond using Poland, Czech Republic or Slovakia as an extended workbench, are now becoming global as well. One sign is the continuously decreasing share of intra-European trade: 15 years ago 75% of all German exports were to other European countries. Today, this stands at 60% and the share is decreasing further. The growth region is clearly Asia, and that forces those companies to fundamentally change their business strategy. Aixtron for example, a specialized German high-tech company manufacturing equipment for LED production, sells 94% of its equipment in Asia. This is a new development within the past 5-7 years and I am sure we will see much more of this in the years to come.

-The private sector in Mongolia doesn't have a clear understanding about the concepts of corporate governance and corporate social responsibility (CSR). However, more attention was paid to these issues in the last few years. What role can corporate governance and corporate social responsibility play in the development of the country?

-I think CSR is very important. Mongolia has now an excellent opportunity to integrate corporate governance and CSR standards right from the beginning of its new economic development. The Oyutolgoi company said it will spend 800 million USD in the local market in 2011 alone. That provides plenty of opportunity for the Mongolian private sector to grow and to develop. But it needs to be done along the lines of global best practice. Companies should understand that the principles of "Manchester capitalism" won't pay off in the long run. The human costs and the exploitation of environmental resources have to be taken into consideration. Companies constantly use resources, they interact with the environment in various ways. There are plenty of examples in the mining industry of what happens if there are no standards. People leaving behind old mines, the earth dug up, water resources polluted with chemicals, the landscape devastated. Such examples show that it is very important to implement CSR standards and educate Mongolian companies in this area. As they will grow, their obligations towards society and environment grow. It is never too early to start, and never too early to implement those standards. The good news is that Mongolian companies seem to be genuinely interested in the topic. But there is a lack of information, education, explanation. Companies often consider it only as an extra cost, money that needs to be spent. But any company that wants to grow and develop a sustainable business model has to address those issues. My recommendation to any company is to start thinking about it today. Don't wait until your customers, the public or the government comes and investigates your CSR record. Yes, initially it may cost money. But the return on this investment is valuable knowledge of how to develop a sustainable business.

-What is the aim of the international CSR conference organized by GIZ?

-GIZ is organizing the CSR conference on 6-7th September 2011 under the auspice of H.E. President Ts. Elbegdorj and in cooperation with the Mongolian Corporate Governance Development Center, the Economic Policy and Competitiveness Research Center and the German Centrum for Corporate Citizenship Deutschland. The aim is to get the message across that CSR is an immediate and important factor of economic competitiveness. Whether it is the competitiveness of individual companies or of Mongolia as a country. CSR is a very important ingredient for success at every level of the value chain. It should not be seen as an additional cost and nuisance. It is an integral part of the formula that makes com-

panies successful. We invited several German companies and institutions that have worked in this area for many years. We will show with hands-on examples from companies such as Adidas or BASF how the process of developing and implementing CSR standards and policies works.

-Does your program provide consultation in the field of corporate governance and corporate social responsibility?

-Yes, we do provide consulting on CSR. GIZ works with the before mentioned partners here in Mongolia but also in Germany and the US. We work with them constructively and on a regular basis to transfer know how to Mongolian companies. If companies are interested in getting more ideas, we can provide them with the necessary information.

-Would you please tell us about your GIZ program?

-The Gesellschaft fuer Internationale Zusammenarbeit (GIZ) has been active in Mongolia for close to 20 years. Currently, GIZ operates seven projects or programs respectively. Our program is called Integrated Mineral Resource Initiative (IMRI). IMRI is one of the three focal programs (the other two being bio diversity and energy efficiency) and will run until the end of 2014. We assist our Mongolian counterparts in three main areas: good economic governance (which includes aspects such as CSR and economic transparency), secondly private and financial sector development and thirdly the development of a quality infrastructure related to the mining sector. The underlying concept is to provide an integrated approach to balanced growth based on the mining industry. Obviously, in order to achieve that a number of factors and elements need to be in place at the same time to allow for a systemic rather than pin-pointed development. We cover issues such as the reform of the Mongolian stock exchange and the State Property Committee. We currently have three of our employees specifically delegated to the SPC to assist with setting up the new IPO department. Development of quality infrastructure refers to different aspects such as norms and standards. It refers also to the more physical aspects such as measuring, calibration and testing. And it includes capacity development of institutions such as the Mongolian Agency for Standards and Metrology (MASM). In terms of corporate focus we will be looking closely at upstream industries, mining supply and service industries.

-You are the Chairman of the German-Mongolian Entrepreneurs Association (Deutsch-Mongolischer Unternehmerverband, DMUV). What is the objective of this organization?

-DMUV wants to provide an information platform for German companies and business people. We currently have about 40 active and associate members. Honorary President is H.E. L. Bold, the Minister of Defence of Mongolia and Special Coordinator for Mongolian-German Relations. DMUV sees itself as a match-maker and information broker, assisting German companies in their market entry, providing contacts and first hand information about business opportunities and industrial activities. We help organize visits of German business delegations coming to Mongolia and advise German institutions on current developments in the country. Also, we provide information for Mongolian companies that would like to do business with Germany or intend to buy equipment from German suppliers. In this role we see ourselves complimentary to organizations such as the Mongolian Chamber of Commerce and Industry or the Business Council of Mongolia.

-Would it be possible for the Mongolian companies to ►►

► **cooperate with the German Mittelstand, the small and medium sized companies from Germany?**

-I think it would be a very beneficial match for Mongolia and Mongolian companies, because those German companies are not large, globally dominant companies. In terms of technology and expertise they are oftentimes so called Hidden Champions, enterprises hardly known outside their industry, but extremely innovative and technologically leading in their respective sectors. Their size would be a better match for the relatively small Mongolian market. But it would be necessary that Mongolia works on its framework conditions. As we said before, they are usually family businesses and their management capacities are limited. For those companies it is very important that the framework conditions are stable and reliable. If a country can provide that, those companies would be extremely valuable partners. They provide an enormous wealth of information and know-how. They are usually very customer-oriented, much more flexible in dealing with requests and requirements from the local partners. They are also much better when it comes to employment creation. I think it would be extremely interesting to develop a strategy to specifically attract those companies to Mongolia.

-Do you believe that the mining sector can lead the Mongolian economy to sustainable growth?

-The mining sector is already creating significant growth. The projections for the coming years are indeed impressive. But will it lead to a balanced, sustainable growth? That is the six million dollar question. It will very much depend on developing the right strategies and policies to manage that growth. The question is how do you manage it? How do you handle that kind of growth so that everybody benefits from it? I think the government is working very hard to come up with a suitable approach, but it is still too early for an assessment. The tidal wave of income is only to come in 2013 and after. There are also a number of variables which are hard to factor in. How will Mongolia deal with immigrant labour? If Mongolia really wants to realize all of the projects it has on the drawing board, it will be a major importer of people and capital for the next two decades. How will Mongolia manage that process politically and socially? There is a risk of political blackmailing from Russia. Only recently we experienced the sudden shortage of

diesel fuel. Will it get better because Russia got a share of the Tavaan Tolgoi project? I don't know. At this point in time I see Mongolia still standing at the crossroads.

-The volume of Foreign Direct Investment (FDI) in Mongolia is rapidly growing. What do you think about it?

-FDI is certainly a good thing if it comes from the right sources, shows the right diversity and is managed wisely. Mongolia needs foreign capital and expertise if it wants to develop the country. So far, the bulk of FDI is very much focused on one area and stems pretty much from one project. If investment in one project is so huge that it doubles GDP, the statistical significance is somewhat limited. As the saying goes, one swallow (bird) does not make the summer. So, one major project does not make a boom. A broad economic and social development means balanced growth, feeding from a multitude of sources, addressing the needs of a multitude of stakeholders. Clearly, to address the enormous tasks ahead further inflow of FDI will be essential.

-In your opinion, what impact has the historic relationship of Mongolia and Germany with regard to the Mongolian economy?

-I think hardly any other country has such a close, long and friendly relationship as Germany has had and still has with Mongolia. The first contact with Mongolia goes back to the 13th century, which was admittedly less friendly at first. But the first Mongolian students sent abroad in the 1920s went to Germany. Contacts got even stronger during Soviet times, when many Mongolians studied in the former East Germany. Unfortunately, for some reasons the 1990s didn't see a further expansion of this indeed very special relationship. Despite that, I do believe that German-Mongolian relations have an extraordinary quality. No other country in Asia has about 1.5- 2% of its population speaking German. More than one thousand Mongolians live and study in Germany. I think that provides an excellent base to open up a new chapter in Mongolian-German relations. What makes Germany an interesting partner for Mongolia is that we have no immediate interest in mining. Secondly, German companies are interested in long term business development rather than one-time-stands. I am optimistic that we will see a strong push in Mongolian-German relations in the near future. ■

Corporate Governance

Stock Exchange to "Renew Its Soil"

D. Munkhchimeg

Just as Hunnu Coal recently issued a statement via email about a change in its shareholders package, Petro Matad released news of its ongoing exploration process. Companies that raise funds through foreign stock markets should report regularly (specifically, several times a month) about their operations to their shareholders

in exactly this way.

"Companies can attract investment by fulfilling their lawful obligations", explained J. Unenbat, Director of the Center for Corporate Governance Development. "Corporate governance creates this condition and protects shareholders interests. The investors are fed with information and so this is

a vital blood vessel of governance".

Yet, Mongolian shareholding companies don't issue their financial statements, arrange their shareholders meeting, nor distribute their dividends. There are many arrogant companies whose addresses are never made clear and operations remain uncertain in the Mongolian Stock Exchange ►►

Table A

Year	2004	2005	2006	2007	2008	2009	2010	2011.06.30
Total Joint Stock Companies	395	392	387	384	376	358	336	334
By capital:								
State-owned	67	66	59	56	55	53	51	52
Private-owned	328	326	328	328	321	305	285	282
Registered securities	2,014,738,601	2,161,306,945	2,270,794,712	2,491,116,030	3,025,214,094	3,097,025,384	2,685,572,454	2,732,430,869
State-owned	1,752,809,647	1,876,501,779	1,866,939,156	1,855,073,030	1,854,695,370	1,854,619,939	1,854,363,339	1,854,589,339
Private-owned	261,928,954	284,805,166	403,855,556	636,043,697	1,170,518,724	1,242,405,445	831,209,115	877,841,530
Newly registered companies	4	3	3	5	6	1	0	1
Delisted companies	11	6	8	8	14	19	22	3
Conducted shareholder's meeting	117	136	138	153	159	166	159	135
Delivered financial statements	174	158	145	114	115	105	151	101
Distributed dividends	12	17	23	30	38	27	16	27
Announced tenders	19	26	8	8	2	2	2	2

Source: MSE

▶ (MSE). Participants of the Mongolian Economic Forum noted that a condition should be created to improve corporate governance by making a list of all the companies at the MSE, checking off all the offenders, and clean house.

New management at the MSE revealed that 86 percent—288 of the 336 shareholding companies listed last year—had not fully met the securities registration criteria in the last two years.

The Financial Regulatory Commission (FRC), MSE, and Mongolian Securities Clearing House and Central Depository know whether shareholding companies are state or privately-owned, but they don't know about their shareholders' broker interests and lack of compliance with state laws and regulations. Although many studies have been conducted regarding this, until today there have been no significant measures taken against the companies who behave improperly.

"Since the market did not develop on the right course from the very beginning, the management of companies ignore information transparency", said MSE Acting-Director of the Registration Department M. Enkh TUYA.

The stock market was founded in Mongolia after the registration of 520 factories and economic entities without any additional criteria required from them by the State Property Privatization Policy of 1991. Since then,

however, only about 20 percent of companies have been added to the list of registered companies and issued securities in the MSE's 20 years of operations. To create the desire and will to raise funds from the stock market, specialists at the FRC and MSE have started to work hard at eliminating the bad conditions that have progressed over the years. It is estimated by MSE officials that 145 of the 334 shareholding companies currently listed will be purged from the list. The remaining 189 ones will be classified into either the A or B ranking. It is also likely the MSE will say good bye to another 52 companies for other outstanding reasons (see table A).

The MSE is required to work hard training its management staff for regulating shareholding companies until it has fulfilled its lawful obligations. Thus, the MSE renewed its agreement

with securities issuers. Additionally, companies are obligated to report on the spending of collected funds from the public bi-annually and comply with procedures stated in a list of corporate governance regulations agreed upon by the FRC in recent years. There is also a new clause stating that if companies refuse to report before their deadline arrives, there will be a MNT 50,000 fine charged to them.

According to Enkh TUYA, accountability has increased with certain additional regulations, encouraging companies to report their financial information. As of the first-half of this year, 135 companies announced a meeting with their shareholders and 101 entities submitted their financial statements (see table B). As there is still some time until the year's end, it is likely more companies will release their financial statements. ▶

Table B

Total listed companies	334	100%
Listed companies	189	56.4%
A board	32	
B board	157	
<i>From the number above: Operation of 52 joint stock companies was stopped, 73 companies were requested to conclude new contracts with the MSE.</i>		
Delisted companies	145	43.3%
Operation stopped by FRC	122	
100 per cent state-owned	23	

Source: MSE

► “Before, Mongolians did not recognize the significance of the stock market”, said M. Enkhtuya, “but now everyone talks about developing the stock market and the need to improve corporate governance. It seems that this will also [effect] the companies into submitting their information”.

However, there is still not enough information released regarding management staff, the board of directors, audit councils, and shareholders holding share packages of more than 5 percent as shown clearly on the MSE’s website.

Although corporate governance regulations were agreed upon at a FRC meeting at the end of 2007, it would not be wrong to suppose that there are not any shareholding companies preferring fairness, responsibility and transparency—the three milestones achieved here—to the recently disbanded free-for-all.

Petro Matad (The Mongolian oil company Petrovis holds 19.93 percent of its shares while one of its director J. Oyungerel holds 3.58 percent), for example, claims it trades at the London Stock Exchange (LSE) and has prepared an article, consisting of 56 pages, which is available for download on the Internet. In addition, the company prepares its financial statements in accordance with international standards and presents them to the public after a review by audits. Many companies, such as Aspire Mining, Hunnu Coal, Kharanga Resources, and Petro Matad, have Mongolian shareholders and management, raised funds from abroad, and manage to implement corporate governance. Energy Resources LLC managed to meet the Hong Kong Stock Exchange’s heavy requirements and collect the hefty sum it calls for. Thus, corporate governance is not a concept completely unfamiliar to Mongolian executives. There are more than a few domestic companies that have recognized the advantages of implementing corporate governance that can serve as a model to others.

After an inquiry about how much effort is given to making the information released by companies at the MSE easily understood by investors, G. Saruul explained that companies have not yet appreciated the need for this.

Question of “Mongolian Economy”

How Would You Define CSR?



Dr. Michael Bürsch /Member of the Board, Center for Corporate Citizenship Germany, Former member of German Parliament 1997-2009/:

-There are great challenges ahead of us: fighting poverty, promoting human rights, improving education and healthcare, fighting climate change and other pressing ecological necessities, abolishing corruption, to name a few. Meeting the economic, ecological and social challenges of today and tomorrow requires a joint effort - bringing all the innovative and responsible power of governments, companies, science and civil society organisations to the table. There is a definite need for a New Social Contract between states, companies and civil society. ►

“Mongolians have not paid attention to corporate governance in the last 20 years”, said Saruul. “Now there are several months needed to create a legal environment”.

Yet, Saruul also emphasized that construction material vendor Silikat, successful in issuing additional securities, managed to appeal to others because its information is transparent and implemented governance. Just as many entities and individuals are interested investing in this company, the number of companies interested in issuing additional shares is increasing.

In addition, companies running their operations in Mongolia, such as Ivanhoe Mines, South Gobi Resources, and Prophecy Coal, expressed interest in issuing shares at the MSE. D. Achit-Erdene, President of MICC investment bank, explained that foreign investors were careful on this matter because the legal environment of the Mongolian stock market is different from international standards. He also emphasized that there would be many advantages. Foreign companies could act as a model to Mongolian-owned companies for their governance and transparency, if companies of good reputation at international markets registered at the MSE. He recognized that it was needed for the stock market

“to renew its soil”. It seems as though parliament is going to pass revisions for the Company and Securities Law during its autumn session.

Meanwhile, the MSE will work towards its goals to elevate its registration standards to that of international levels and install the Millennium IT program used in modern international markets. Experts at the MSE say that the MSE will finish its reformation by the first quarter of the coming year.

The USA, a leader in corporate governance, leads others with precedents regarding punishments and the sum of fines. Officials promised that they will create high accountability for companies that ignore governance after a proper legal environment has been created in Mongolia.

Saruul stressed, “Entering the stock market is not to be done simply by obtaining money, it needs all the high commitment and responsibility to bear”.

The stock market and its investors want fair, responsible and transparent companies. There is now a warning for companies listed at the MSE, but continue to ignore the criteria required by the privatization policy and are willing to behave in-line with the status quo: the time to bid farewell to unlawful companies is coming close. ■

► In this context, the role of companies has shifted from formerly just taking care of business with paying taxes and giving donations for social causes every once in while as a philanthropic add-on to nowadays seriously accepting co-responsibility for societal needs. The Corporate Social Responsibility or Corporate Citizenship activities of companies have nothing to do with altruism, because it is in their self-interest to feel responsible for the development of society as central part of their business strategy and act accordingly. As the World Economic Forum once declared: "You cannot make business in societies that fail". CSR aspires to redesign the rights and responsibilities of companies as co-members of society and corporate citizens. It calls for action in the respect of adequate labor standards and inclusion at the work place, in the fight against climate change and environmental harm, in taking a position of no tolerance with corruption, in performing in a transparent and accountable behaviour in relation with shareholders and stakeholders, and in contributing to society through strategic community investments as well as with the development of products and services designed to improve the well-being of society.

G.Batsukh, Chairman of the Board of Directors of Oyu Tolgoi LLC:

-Oyu Tolgoi LLC understands the CSR well and conducts various measures. I will list some of our operations. We have a specific Department responsible for "regional relationship". Regional Relationship is responsible for development at the regional level. There is an institution called South Gobi Development Council, established according to investment contracts and made with government. It has representatives from the government, Parliament, and public organisations. The Council has been formulating its policy documents to develop the South Gobi, especially the with mining activities, due to the council's five-year plan. Moreover the company concluded a five-year-contract with the Administration Office of South Gobi. The contract has comprehensive issues on the building of socially and culturally significant buildings, environmental protection, soil erosion, the improvement of the regional herders' livelihood, developing small and medium regional enterprises, etcetera. To elaborate on that last example, the Regional Business Support Center was established last May in Dalanzadgad Soum, Umnu Gobi Aimag. Within this network, one small company from Dalanzadgad has taken orders to sew uniforms for the miners, amounting to a figure between MNT 50 and 60 million. Besides this, we are working on increasing the camel population in Khan Bodg Soum in the same province. This village has the most camels of Mongolia's rarest breed. We developed a program to teach breeders how to process mil products. Camel milk and curds are supplied to 15,000 of Oyu Tolgoi's workers.



J.Peter Morrow /Advisor at Khan Bank/:

-I think company's competency is significantly improving. It must improve as more Mongolian companies seek to raise capital outside the country, either the bank loans or from the issuing of securities in Hong Kong or Mongolia or elsewhere. All of this requires more transparency, better corporate governance, and audited financial statements. Actually they showed on the slide (presentation during the Business Council's meeting) that there are only 4 large companies listed on the Mongolian stock exchange with audited financials. But last year there was one. So that is four times more. And I expect next year to see quite a lot more. It has not always been the best in terms of governance and transparency, but it is improving rapidly and it will continue to do so.



Same thing about social responsibility. I think that more and more companies are understanding that they have to give back to the communities that they work in. The Khaan bank established a foundation some years ago. We support a variety of community-based functions for kids and education and culture. I think many more companies are beginning to do that. There is going to be a lot more money. Because the companies are making more money and they are making more profits on stock exchanges. You will see continuing investment in corporate social responsibility and community activities.

D.Enkhchimeg, CEO of Petrovis LLC:

-CSR is very important. Every company should spend capital on social welfare for society. It is our duty towards society. It is noticeable how much companies pay attention to CSR issues and have considered it in a broad scope in the last few years. Our company founded the "Together Against Poverty" fund, providing an annual stipend for students. Our last project is the implementation of "Organic Mongolia", aimed at improving food sanitation and exploring the possibilities for healthy food production in own country. The small contributions from our side when we give to society will return its own profits back to the corporations and contribute to the development and blossoming of Mongolia. ►



► **L.Khurelbaatar, President of Monos:**

-CSR is all activities performed for social welfare. We believe that our activities include social responsibilities because they are directed towards social welfare and human health. The major operation of the “Monos” group involve the production and import of medical equipment and medicines. We also carry out several activities for the improvement of health education of citizens. We have been organizing a public marathon for ten years. People who take care of their health and understand the role of the marathon wait for this event every year. Even professional sportsmen and older people take part in it. Every Spring we organize “Vitamin Tour” nationwide.



We have been planting sea-buckthorn to combat desertification since 2000 and, as a result, now have a sea-buckthorn plantation. There are many other activities in the field of CSR. I have mentioned only some.

Bradley Googins /PhD Associate Professor Organizational Studies, Boston College Carroll School of Management/:

-Corporate Social Responsibility (CSR) has its roots in corporate ethics, stressing the importance of moral corporate conduct. However, globalization has greatly altered the social contract, and consequently transformed traditional roles and boundaries between public, private and civil sectors, giving way to a new set of roles and responsibilities. Social, environmental and political changes, ranging from climate change to obesity are confronting business with new expectations, new roles and new responsibilities. In the past few years the spotlight has swept over Merck Pharmaceutical (affordability and access of drugs), Chiquita (labor conditions on plantations) BP (environmental sustainability), Coca Cola (obesity) and Nestle (water). What is unique about all of these examples is a shift in expectations that corporations are now responsible and are expected to participate and contribute to the resolution of these social and environmental problems.



These new operating conditions for business have served to bring CSR into the core of the business. Today CSR becomes a critical component of a company’s competitive advantage strategy. From a risk perspective companies’ engagement and reputation with key stakeholders are no longer linked to a philanthropic strategy, but are tied to key business strategies. Dow Chemical defines its CSR as meeting and exceeding the expectations of their stakeholders. But as much as risk avoidance may underlie CSR, leading companies are also discovering a world of opportunity. As Peter Drucker, the management guru stated: “Behind every global and social issue is a business opportunity

in disguise.” General Electric conceived of Ecomagination as a strategy that would address the key environmental issues facing the planet, but also recognized huge business opportunity. “Green is green”, their CEO explained.

Today CSR reflects the changing role of business in society. To be successful in business, social and environmental issues have to be addressed by companies not as an interested bystander, but as a key strategy in insuring business success. The powerful forces of transparency, social media and the internet have set up a new context for conducting business, and have brought the key stakeholders of customers, communities employees and investors into the daily activities of the firm. Leading companies have met these challenges by actively engaging these stakeholders, using CSR to create value for their business as well as society.

S.Tumengerel /Director at “Uguuj chiher boov” LLC“/:

-It seems that we are beginning to understand what corporate social responsibility really is. First of all, taxes need to be distributed fairly. Additionally, things need to be turned around, fixing that which doesn’t work. Corporate social responsibility doesn’t mean handing out donations to every open palm. Consideration should be paid to the development humanitarian ethics.



Uguuj chiher boov pays its dues responsibly while support movements such as Smog-free Ulaanbaatar, a program promoting clean air. At Kindergarten Number 10, we supply children to breakfast biscuits year-round and invite school pupils on interesting tours to demonstrate how products are made. Our workers take part in professional trainings and seminars led by local and foreign trainers. We go beyond traditional ideas regarding social development, educational reform, and good will. Here at Uguujchiherboov, we declared the popular Day of Gratitude, recognizing people for all of their achievements.

O.Zolbayar, Sociologist, Human Resource Department of Erdenet Mining Corporation LLC/:

-It is an issue of culture for every organization and company to implement CRS for conducting its activities in society, fulfilling its goals, and earning profits. CSR issues are now discussed globally. CSR means implementing the activities in balance with social, natural, and economic responsibilities. It is a contribution to sustainable development and the society of a country. Products and services with CSR will not only decrease certain costs, but will also enhance the competitiveness of a state. Our company, Erdenet Mining LLC, has taken for the 10th time, first place for the award of “Top 100”, selected by the Mongolian National Chamber of Commerce and Industry. CSR issues are involved in the main goal, strategic objective, labor safety, and human resource policy at Erdenet Mining. ■



Under the Auspice of
H.E. Tsakhia Elbegdorj, President of Mongolia

International Conference

Competitiveness and Corporate Social Responsibility

Does responsible entrepreneurship contribute to sustainable economic development?

6 - 7 September, 2011, Ikh Tenger, Ulaanbaatar, Mongolia

Organizers:



Media partner:



Contact and registration:

Integrated Mineral Resource Initiative
Chingeltei district, United Nations Street 38th building, 3rd floor
210236 Ulaanbaatar, Mongolia
T +976 7011 7704
F +976 7011 7705
E imri@giz.de

International Conference and Exhibition

Retail Logistics and Supply Chain Management in Mongolia Opportunities and Potentials

27 September, 2011, Chinggis Khaan Hotel, Ulaanbaatar, Mongolia

Organizers:



Media partner:



Contact and registration:

Integrated Mineral Resource Initiative
Chingeltei district, United Nations Street 38th building, 3rd floor
210236 Ulaanbaatar, Mongolia
T +976 7011 7704
F +976 7011 7705
E imri@giz.de



State and Business

Laissez Faire

When the price of petroleum sharply rose at beginning of spring 2008 government officials offered tax a relief to importers and even provided them with subsidies to no avail. Let us be reminded that when the price of petroleum skyrocketed the Government stockpiled 28,000 tons of petroleum. However, the price of crude oil was falling on the international market, and there was a consensus that the price of petroleum would become cheaper very soon. It has become clear that government officials gambled with taxpayers' money and lost.

Now let us take an example from meat as a commodity, one of the primary food products in Mongolia. Arguments never end pointing to the fact that reserve meat is lean and with bones, insufficient nutrition, and its price too high. In 2008, there was even a case when some companies responsible for preparing reserve meat cheated government organizations by supplying chevon instead of mutton, and camel meat instead of a beef.

Moreover, in another case inspectors and some officials of the city of Ulaanbaatar's Governor's Office were "stealing" from the reserve meat fund consisting of taxpayers' money. Actually, it is doubtful that the substantial allocation from the Government budget to stock annual reserve meat yields significant results. The same situation can be observed with the

price of flour. The announcement of the "Campaign to bring the virgin lands under cultivation III" and the support for agriculturists resulted in an increase in the domestic supply of wheat. However, to cite just one example of mismanagement, the Ministry of for Food, Agriculture, and Light Industry bought wheat for the price of 350,000 MNT per ton in 2009, and after stocking it, sold it to the producers for 250,000 MNT per ton in 2010. In return the Government barred the producers from raising the price of flour, but the order was widely ignored. Then in 2009, government officials in order to prevent a decrease in the income of herders issued an order to terminate the export levy on cashmere produce. The expectation was that it would increase the herders' income, but this did not happen. On the contrary, when the Chinese learned about this they stripped away all of the Mongolian cashmere. Consequently, the national industries were left without raw materials and some even had resorted to buying expensive combed cashmere from the People's Republic of China. There is not enough space available here for more examples such as this. In any case, all of the efforts by the Government to support its people have failed. Government efforts are certain to yield nothing, but the squandering away of taxpayers' money.

The most terrible thing out of all this is the fact that when ▶▶

▶ government hands intervene on the free market they diminish the desire for companies to compete with one another. In addition, it is no secret that such government regulation brings businessmen and politicians together to create a safe haven for their corruption and a broken bureaucracy. It would not be erroneous to state that private companies, instead of thinking about competing with each other, decrease their expenditures by introducing new technologies and supply the consumers with quality products, are working their hardest to participate in such shameful activities of the government and seize as much profits as possible from the state budget. Does this not kill a free market economy?

Adam Smith in his book "The Wealth of Nations" emphasized that the three main cornerstones of a self-regulating system are freedom, self-interest and competition. This is often termed as the "invisible hand". Private sector representatives compete with each other to increase profits and, in the end, all of the market participants become winners. Smith explained, "The real and effectual discipline which is exercised over a workman is not that of his customers. It is the fear of losing their employment which restrains his frauds and corrects his negligence." It is certain that everyone has self-interests. On the other hand, business entities know very well how to maintain their prices at acceptable rates and to improve the quality of their products to prevent the loss of customers. Renowned American economist Professor James M. Buchanan once considered that politicians, similar to business entrepreneurs, are also driven by their self-interests. If this was not the case why would they strive to attain government office? However, there is no mechanism like the "invisible hand" built into politics for self-regulation as it is for the free market. Adam Smith knew this too well in the 18th century and, therefore, strongly opposed excessive government power. He wrote that politicians were two-faced and given to squandering public money.

Economist D. Jargalsaikhan pointed out in his article that the government's views that it has a role as a benefactor will create obstacles in the long-term for companies in any given sector to develop their competitive capacities, and consequently, creates impediments for the economy to improve. Experts warn that the government has never been a good manager and the deeper it becomes involved in the economy, the more it misbehaves. Politicians have set their control over all of the large state-owned corporations such as the "Erdenet Mining Corporation," MIAT Mongolian Airlines, Mongolian-Russian Joint Venture "Ulaanbaatar Railway," Darkhan Metallurgical Plant, the third and fourth electric power stations, and consequently, news on the growth of murky business regularities hits our ears.

Apart from this, what is the state of our social security sector that is completely under the Government control? Is there any person in Mongolia, who is happy with their pension or taxes they pay? In addition, there is news that all types of social security funds are going bankrupt. Also there is, probably, no person who does know how it is to be serviced at state hospital. In short, the understanding is no entity under state management develops or flourishes, and that the state supports no one. On the contrary, it causes havoc rather than helps in these situations. General Director of the Economic Policy and Competitiveness Research Center Mr. Ch. Otgochuluu states, "The fact that there is too much intervention from the Government in the economy can be seen from the fact that more than 50 percent of GDP is constituted by the state budget. However, in the so-called socialist country of China this indicator stands at around 20 percent. This means that our Government

is itself creating impediments to the economy and competes to assume the role of the private sector." He further points out, "There is a need to eliminate the mentality that the government should be above all else and regulate everything. The Government cannot manage its burden anymore and contributes to the increase in the corruption and bureaucracy."

Despite the fact that Mongolia is approaching its 20th year since its transition into a market economy it has not to reform its approach. Citizens are too busy to notice that the Government is going the wrong way. Isn't it time to match wits on ways to attract investment for the establishment of a crude oil refinery instead of putting pressure on oil importers for the purposes of maintaining the price of petroleum? Isn't it a time to pay attention to the creation of a favorable legal climate for supplying meat straight to the consumers rather than going through the hands of speculators, and stop gambling with taxpayers' money to regulate the price of meat? Experts state the need to create a healthy market economy in Mongolia. For this they warn that the government should not put its hands into the economy.

There is a story from the end of the 17th century, when the Minister of Finances of France Mr. Jean-Baptiste Colbert asked a group of businessmen what kind of support they required they simply replied, "Laissez-nous faire" or "Leave us be." This is often cited as the origin of the "Laissez faire" policy—a policy of government non-intervention into economic affairs. Only when there is free trade, small levies, and as little bureaucracy as possible can a healthy market economy flourish. Governmental activities should be limited to creating justice, protecting private ownership, and protecting the state from violence. Adam Smith wrote, "Eliminating restrictions on imports, labor and prices meant that universal prosperity could be maximized through lower prices, higher wages, and better products." ■





Air Transportation

Mr.S.Munkhsukh: Private Domestic Airline Can Operate Safe, Consistent and Profitable Air Transportation Services

S.Munkhsukh is the general director at Ezines Airways. The director discussed his experiences run a private company and the challenges specific to the civil aviation industry.

-Let us start our interview on the future development of the world civil aviation?

-Today with the impact of globalization and population growth the world civil aviation industry is experiencing rapid development. On the other hand, competition among airlines is growing with increased intensity. This is beneficial to passengers as poor performing companies will be knocked out of the market, and those providing high standard air transportation services will remain to serve the market. Moreover, there will be rapid technological and engineering improvements flying equipment leading to increased efficiencies and lower costs. Two decades ago in any country air travel was a luxury mostly for the wealthy, while today it has become much more accessible to travelers around the world than ever before.

-Then what is the level of Mongolian civil aviation in comparison with the world development?

-Although the industry faces major obstacles presented by a limited market it is nonetheless developing as much as possible. The world average air passenger per capita is 0.5. This is for all developed, developing and underdeveloped countries and indicates that one out of two individuals travels by air domestically. For Mongolia this number stands at 0.1. Thus, in order for our country to reach the world average the number of air passengers needs to increase five times.

For our country it could be said that the civil aviation sector was at its peak in 1990. During this period there were 79 aircraft in service and 800 thousand passengers travelled by air within the country. However, in 2010 seven planes were operated on domestic routes serving 150 thousand passengers.

The gross domestic product growth and air transportation development are closely interconnected. Internationally, there is a statistic data, that one percent increase in the GDP results in two percent increase in aviation sector. In the coming 5 years Mongolia's GDP is expected to triple. Thus based on this an assumption can be put forward that air transportation will increase sixfold in our country. As per capita income increases there's an upsurge in demand for products and services and consequently rise in the supply.

For a sparsely populated country with underdeveloped infrastructure there is an opportunity for growth of the air transportation sector. Therefore, it is certain that domestic air transportation will rapidly grow and develop in the coming years.

In terms of international flights our country is connected to the Republic of Korea, People's Republic of China, Federal Republic of Germany, the Russian Federation, and Japan. In the future, I am certain there will be a rapid sectoral development through opening of new international flight routes.

-What is the state of competition on the Mongolian civil aviation sector?

-It can be said there is a healthy competition domestically. However, if MIAT enters the domestic market for a short period of time during the summer season then the same cannot be held true. For example, 2 years ago MIAT operated domestic flights in the summer thereby making competition on the domestic market unfair. Two small aviation companies in the domestic aviation sector run operations year round ensuring consistent service with only the summer months allowing profitable operations. However, if just at this time the large planes of MIAT enter the do- ➤

▶ domestic market then there is an unhealthy environment for competition.

During winter season almost all of the domestic routes are loss making. In order to maintain our passenger flow we sustainable operations and bear the losses. If MIAT enters the domestic market then it will be fairer for the Government to provide us with more international flight opportunities.

-“Eznis” company has been adding new color and vigor to the Mongolian civil aviation. Now can you tell us about what goals and responsibilities have been laid out in the future plan of action?

- At the time when our company was established the public's confidence towards private airlines was quite low. There was a predominant belief that private companies would not conduct sustainable operations as their only objective is maximizing profits. However, we were able to prove that a private airline company can operate sustainably, profitably and safely. This is one of the achievements we're most proud of.

Our utmost priority is to provide the highest attainable safety inflight operations. Also we strive to offer convenient and comfortable travel along with good customer service to our passengers. Our airline offers multiple fare levels varying in terms of flexibility of flight adjustments, ticket refunds and free baggage allowance. This allows for reduced fares for children and elderly as well as cheaper prices to early bird passengers to encourage advance purchase. However, for passengers booking their tickets close to departure date the air fare will be comparatively higher.

Our company currently serves the most number of points, which amounts to 14 routes domestically. Despite the fact these flights are not profitable year round, as previously mentioned, we to maintain our flights as we view this as an investment into the future critical in building and growing passenger traffic. If we stop the flights then these markets will not develop further. However, if we consistently stick to our flight schedule despite the losses then the understanding that Eznis conducts regular operations and will not disappear will be embedded in the public's mind. Consequently, the market will further grow and expand.

Above everything else safe and reliable flight operations is our top priority and to ensure it at times we limit our revenue. Our flights are subject to payload restrictions in other words we carry less number of passengers per flight than the seat capacity of the aircraft. Some of our passengers say that even though Eznissays the flight is full there are still seats available on board. I would like to note that this is done as a safety measure to restrict the weight of the plane. In addition, we pay attention special to constantly improving our in-flight catering.

Furthermore, our airline's scope of foreign cooperations is also expanding. For example, we have established long-term agreements with All Nippon Airways of Japan and Lufthansa Technik Switzerland, and cooperate with them accordingly. For instance, ANA has seconded to Eznis its operations director with many years of experience who is now as a Chief Operating Officer. Currently, we are preparing our human resources, technology as well as the pilots.

-Which international flights “Eznis” offers today?

-We operate international scheduled flights to Hailar, Inner Mongolian Autonomous Region of the People's Republic of China, and Ulan-Ude, Buryat Republic of the Russian Federation.

-Which flight routes are most in demand domestically?

-During the summer season there's high demand to Khuvsgul and South Gobi provinces. Eznis operates 2-3 flights daily to Murun and Dalanzadgad during the peak season.

-What is the level of knowledge and capacity of human resources of the Mongolian civil aviation?

-It is improving but there's ample room for further development. Until 1990's the sector's high caliber specialized personnel were educated and trained with the Government policy. From 1990's until today it can be stated that preparation of high caliber specialized personnel such as engineers and pilots has overlooked. However, in recent years this matter has been pulled back into focus.

Our company gives high importance to training and development of our personnel. We strive to transfer knowledge and learn from the international organizations we cooperate with. For example, secondment of ANA staff to Eznis and having our Mongolian employees work at ANA for gaining experience. Moreover, Lufthansa Technik has appointed engineers to provide technical services as well as train our Mongolian engineers at Eznis. This is one way to create human resource capital. Our motto is “Let's think noting the old ways but according to world standards”.

-How do you assess the reasonability of the current price rate of flights offered by “Eznis” company?

-In comparison to civil aviation sector of developed countries our air fares are relatively high. In countries with large flying populations airlines are able to generate economies of scale by operating large planes with lower per seat cost. However, it is the exact opposite case in our country. The number of passengers is limited, and flights are operated to long distances on smaller aircraft imported from abroad. Moreover, the cost of jet fuel is one of the highest in the world. All these factors lead to higher the costs of operating a flight. However, in comparison to airlines in other countries with smaller planes our fares are more or less on the same level.

-What measures are you taking in respect to park renovation?

-Currently, we operate services with five aircraft. We have signed the purchase contract for our sixth plane scheduled to arrive in September of this year. Two of our six planes are four jet engine Avro RJ85 aircraft with capacity of 93 seats, and flying range of 4,000 km. The other four are Saab 340B aircraft with seat capacity of 34 passengers and turboprop engines. We plan to acquire our fifth Saab aircraft within the next year.

Our new Avro RJ aircraft is currently serving flights to Khovd, Uvsaimags as well as TavanTolgoi. Passengers are quite satisfied with the service on the new aircraft, namely the following three advantages. Firstly, the aircraft is fast and saves travel time. With the smaller aircraft flight to western aimags takes more than three hours, while with the RJ flies a little over an hour. Secondly, the plane has a spacious cabin ensuring comfortable air travel. Thirdly, passengers have expressed their satisfaction with the quality of the in-flight meal and service.

International flights designations play an important role in our company's future plans to expand operations regionally. Therefore, we are able to bring in large planes with support from the Government.

-Could you tell us about the short-term and future ▶

► objectives of the “Eznis Airways” company?

-The short-term objectives are to be well prepared in terms of technical equipment, human and material resources. We are in the process of building a technical services center. Our team is being formed. Furthermore, Eznis is working to send five young individuals with engineering and technical professional backgrounds to study at the Lufthansa Technical Training, in Germany. We are making substantial investment into our employees.

In the not so distant future we believe with opening of new domestic and international destinations and increasing of frequency and number of flights air transportation will become more accessible, convenient, and offer flexibility of choice. The day will come when an individual living in Bulgansoum of Khovdaimag will be able to travel from his current residence to France seamlessly with minimal number of connections. Likewise, those coming to Mongolia will be able to travel hassle free with comfort and convenience from around the world to any point of our vast country.

In the future we strive to establish a name for ourselves on an international level and ensure top notch world standard operations. Also, making air fares more

accessible will be one of our immediate top priorities. The operational structure as well as the volume of passengers are fundamental factors effecting costs. Moreover, the Government support in the form of investments will be much needed. There is an international statistical data that every dollar invested into the aviation sector generates eight dollars in the economy. Also, every employment created in the civil aviation sector in turn generates six new jobs. This clearly illustrates the importance of the aviation sector in the economy.

-Would like to ask you to introduce yourself to our readers?

-I have been working as the CEO of Eznis for the past year. In 2009 I returned with my family to Mongolia after having worked and studied in the US for twelve years. I have majored in finance and investment. In my free time whenever it's possible I like to travel to the countryside.

As the Eznis CEO I'm most proud of two things. Firstly, I'm very grateful and proud that I have been trusted and presented with this great responsibility. Secondly, I'm very proud of the colleagues and associates I'm surrounded by who are extremely dedicated and give their best efforts to get the work done. ■

Real Estate

Two Institutions, One System

Mongolian Land Information Management & Property Rights Registry

BlomInfo A/S MCA-M Project
Ulaanbaatar, Mongolia

1. Background

The Mongolian land management institution (ALACGaC) is independent from its counterpart, the Mongolian institution in charge for recording property rights on real estate in this country (GASR). While ALACGaC's primary mandate is to process the privatization of land plots, GASR's mandate is to record and maintain ownership and other rights related to land and other immovable property.

The reasons behind this state of affairs and the historical events that led to it in Mongolia are beyond the scope of this paper. However, this split type structure is not common among members of the international community with modern land management systems. With advanced customer orientation approach, with modern technology such as computerization and large scale databases, and with electronic communication it is more of a common practice to combine or to closely correlate the duties performed by these two institutions under one umbrella. Likewise it is common to implement business processes such as one-stop-shop or implement the use of internet technology to assist ordinary citizens and businesses engaging in land related transactions.

With the increase of private land related transactions and the increase of economic activity related to this kind of property, both ALACGaC and GASR, with the support of the international community, embarked on an effort to increase coop-

eration between the two institutions. While these efforts date back several years and involve a number of imitative, the most recent one involves an attempt to formulate rules of exchange of information between the two agencies. This effort will be reflected in regulations designed to result in more user friendly services related to land management.

The purpose of this note is to provide a synopsis of the advantages of information sharing between these two public institutions in so far as new privatized land and immovable property in Mongolia is concerned. The goal here is to increase public awareness regarding the benefits this may bestow to Mongolian citizens and businesses as well as other non Mongolian entities such as international investors.

2. Privatization of land – Current system - two main phases

Mongolia initiated a remarkable process of land privatization in 2003. The naissance of a national system where citizens were given the right to own land resulted in increasingly large transactions volume. In general, the current recording procedure involves two steps. While the first one involves the recording of the information regarding privatization at ALACGaC, the subsequent phase involves recording the ownership right on the newly privatized land at GASR. The following paragraphs provide a brief overview of the two phase procedure in an attempt to set the ground for a discussion on the need for reform.

2.1 ALACGaC – the First Phase of Registration

The process of privatization of land begins at the municipal level (aimag or UB districts). A request to privatize a piece of ►►

▶ land is submitted to the local governor. An approval of such application, will grant a Mongolian citizen the right to own land. This right to own land is evidenced by a document issued by the governor and is registerable at ALACGaC.

The right to own land is distinguishable from an ownership right itself. While the former comes into existence upon issuing of the local governor approval to the application of the citizen, the latter does not exist until GASR issues a certificate of ownership based on an application submitted by a new owner. However, in order for GASR to process applications for registration of ownership right, one must first complete the process of registering the right to own the privatized land with ALACGaC.

The process of registration at ALACGaC begins with an application for recording of the right to own land as granted by the governor. The application is then processed for registration at ALACGaC over a period of three months before the right to own the land is registerable at GASR as a certified ownership right.

2.2 GASR – The Second Phase of Registration

The process of recording a new property right is possible upon submission of proof of the earlier registration at ALACGaC together with other cadastre information. This includes cadastre maps and other documents that evidence the completion of that first phase registration at ALACGaC.

Currently, the burden of transferring this information to GASR falls on the person applying for registration with GASR. Such person would collect the documents from ALACGaC and submit them together with the application form to GASR. When collecting the information at ALACGaC, copies of all documents are made in order to ensure the originals remain in the archives of ALACGaC.

Following payment of registration fee at a designated bank institution, the applicant has to physically arrive to the GASR office and submit the documents to the GASR registrar. The procedure at GASR is relatively fast and if there is no issue with documentation a new certificate of ownership will be issued to the applicant within a week to two week time. However, if there is a problem with the documentation, the applicant may have to return to ALACGaC to obtain the correct information and submit it to GASR again.

2.3 Issues with Current Procedure

As can be seen above, the lack of communication and sharing of information between ALACGaC and GASR results in additional steps citizens are required to complete before registration can be completed at GASR. There are three negative consequences to this current situation:

2.3.1 Additional Transaction Time and Cost

The first problem involves the additional time and cost associated with completion of the current requirements for registrations. While most of the burden falls on Mongolian citizens, both ALACGaC and GASR are also required to perform additional tasks. Mongolian citizens must appear at least twice and usually three times in the premises of both institutions to complete the transaction. In locations where the offices are remote, the burden on citizens is particularly high and the cost increase. ALACGaC is required to reproduce maps and documents evidencing the new right to own land while GASR need to archive these copies. All this add time and expense to each registration transaction.

2.3.2 Potential Risk of Errors and Manipulations

It is well known that human intervention in transactions that can otherwise be automated increase the risk for errors and manipulations. Paper documents that are transferred manually may worn out, be amended manually or even reproduced with misleading information by a person who may have interest in changing official information.

Further, the need to record information from the hard copies to the current GASR system (REAL) requires a registrar to intervene manually. This phase may also result in errors in data entry with potential legal liability on the part of GASR in case such errors cause damage.

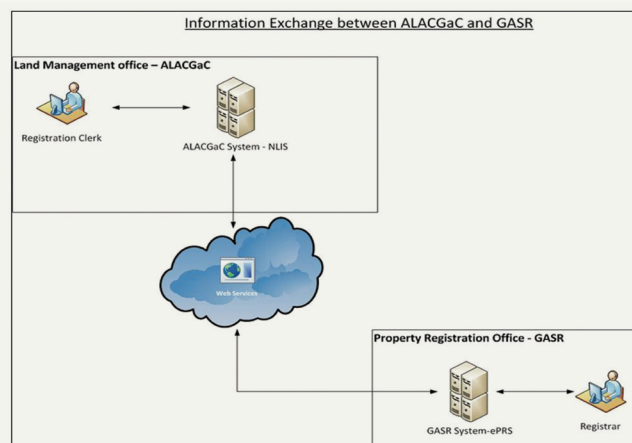
2.3.3 Redundancy and Inefficiency

Third, both ALACGaC and GASR allocate significant amount of their skillful staff to process information transferred from ALACGaC to GASR. The need to reproduce original documentation at ALACGaC and record and save them in the GASR database electronically required additional effort on the part of registrars. Furthermore, with the increase of privatized land and privatization transactions it is expected that more human recourses and facilities will be necessary to reproduce and record information travelling from ALACGaC to GASR. This increasing concern risk becoming an obstacle in these institutions' desire to become more efficient and more customers oriented.

3. Future Reformed Procedure

Having recognized the difficulties Mongolian citizen face under the current procedure, both ALACGaC and GASR have engaged in a joint effort to improve their customer service related to registrations of privatized land. The outcome of this is expected to be a set of new regulations that will allow both institutions to exchange information electronically. Under the proposed reform, citizens will no longer need to transfer hard copy information themselves between the two institutions. If implemented, this procedure is expected to increase the quality of recorded registrations, reduce transaction time and cost and improve the operation of both institutions in general.

The proposed reform will take a two phase approach. Since both institutions are in the midst of reform to their internal information technology (IT) system, the use of electronic transfer of information from ALACGaC to GASR is likely to be the ultimate objective. However, since the IT reform is not likely to happen in the very near future while on the other hand the need to relieve citizens from the ongoing burden is pressing, a preliminary reform where ALACGaC and not the citizens ▶



▶ transfer information in hard copy to GASR is planned.

3.1 First Phase Benefits

The benefits of the first phase of reform will befall primarily on the citizens of Mongolia. Both ALACGaC and GASR will have to undertake additional responsibilities of transferring and receiving information within time limits while citizens will be responsible no more for obtaining copies from ALACGaC and physically transferring them to GASR. However, both institutions will enjoy benefits during this phase as well. The information will be transferred in a more organized and reliable way. Mistakes are likely to be reduced and missing information is likely to be less of a problem. Finally, the elimination of the use of middlemen – the citizens, will reduce the risks of manipulations.

3.2 Second Phase Benefits

As mentioned above, in the future the transfer of information between ALACGaC and GASR will be done electronically. The benefits then will befall primarily with these two institutions. The availability of information such as cadastre maps, government certificates and other documents electronically will allow sharing information in real time with no need to duplicate records. Information will be available to both institutions instantly whether by transfer of data or by sharing databases. Mistakes as a result of non electronic transfers will be eliminated and records will be identical in both institutions. Finally, because of the availability of atomization, registrars in the two institutions will be freed from performing task related to transfer of information.

Mongolian citizens will also benefit from the second phase

of the reform. First, transactions cost and time will be reduced dramatically. Second, any risk of mistakes or errors on their part will be eliminated and future access to records will be simpler, cheaper and faster.

Based on figure taken from an MCA project report

4. Conclusion

The new initiative of ALACGaC and GASR to improve their customer service for registration of privatized land in Mongolia is a welcome step. The reform which will involve a two phase development of information sharing between the two institutions will improve significantly the future outlook of land management and property rights recording in Mongolia.

The first phase will improve to some extent the process of recording ownership of privatized land by employing new business processing of transferring of hard copy documentation between the two institutions. This will elevate the burden from Mongolian citizens and improve cooperation between ALACGaC and GASR. The second phase will improve further the process by deploying electronic means to perform the transfer of information bringing both ALACGaC and GASR closer to practice more common in other jurisdictions.

With a future electronic system in place and the increase collaboration between ALACGaC and GASR, it is expected that Mongolian citizen will enjoy better services and less burden in recording their newly acquired land rights. It is also expected that government institutions will follow suit and increase cooperation among themselves. Finally, it is likely that the Mongolian economy will benefit as well with an established strong and reliable records of property rights. ■

Stock Market

Do Not Let the Brokers Out

D. Munkhchimeg

Many people expect the London Stock Exchange (LSE) to drastically improve the Mongolian capital market. However, as “Mongolian Economy” magazine has pointed out in previous editions, there are many issues that would be best resolved internally rather than having Mongolia depend on the influence of foreign workers. It is apparent that the time has come to resolve lingering issues. Outrageous companies fill the Mongolian Stock Exchange (MSE); never preparing nor delivering annual reports to their shareholders, holding shareholders’ meeting, nor paying their dividends. There are often even doubts regarding the sustainability of their operations.

This time, however, we cannot keep silent on the issue of brokers that constitute a bridge between the joint stock companies and investors. At the time of a so-called transition period, when 2,796,000 Mongolians have become new shareholders to the Tavan Tolgoi mining profits, brokerage companies have increased at the rate mushrooms grow after rain. However, one cannot express in words how appallingly dirty this sector has become. There was even a case during the a New Year’s Eve celebration when one broker broke the glasses of the director of the Financial Regulation Commission (FRC).

In Selenge province, despite the fact that there is only one brokerage firm that has obtained the special license needed for conducting operations, it has become a regular sight to find

three or four companies flocking together, urging people to open their accounts. They do this knowing these people do not know they hold their accounts at the Mongolian Securities Clearance House and Central Depository (SCHCD) and can restore their accounts for just MNT 300. There were even cases when people were scammed into paying an additional MNT 5,000 to open a new account. For how long can such terribly dishonest actions continue? Why have our own brokerage firms allowed themselves to have earned such poor reputations?

Today at the MSE chamber building, located west of Sukhbaatar Square, representatives from 49 different brokerage and dealer companies are housed. The MSE announced that here, which has an area no more than a four-bedroom apartment, 64 broker chairs and tables can be accommodated. On the other hand, there are 83 companies that have obtained special licenses to conduct broker and dealer operations from the FRC. At the end of last year, this number stood at 52. In 2006, there were only 25 such companies. One might have expected that the increase in the number of existing brokerage firms would force companies to compete with each other, resulting in less expensive fees and the improvement of their services. However, this has not been the case. Even though the brokerage firms here charges the highest commissions in the world, they do nothing but open accounts, and buy and sell shares. If some- ▶▶

▶ one opened an account for MNT 5,000 and bought shares, then he or she would be required to pay between one and 4.5 percent for each transaction. That person would also be required to pay the same commissions again and again after buying shares, or selling them back.

On the other hand, everyone knows that just as the prices go up, it should eventually go down. Stockholder should be responsible for their own decisions. Actually, in other countries brokerage and dealer firms offer consultation services as well as providing their clients with required information. However, less than five fingers would be enough to count the number firms (out of 49 companies registered with the MSE) offering such services.

Risk analyst D. Ganbayar says, “Brokerage and dealer firms have a duty to supply investors with information. However, our experts are unable to conduct the basic investment analysis and make conclusions. Investors have also failed to request such information merely existing on the basis of trust”.

It is true that because Mongolian joint-stock companies do not issue reports in a timely basis, there is a lack of sufficient information available. However, there is at least a need to appropriately analyze the reports issued by companies. No one, would probably dispute the fact that the majority of brokerage and dealer firms have acted rather sluggishly.

MSE Head of Secretariat G. Saruul acknowledged that the transaction fee charged by brokerage firms in Mongolia is 100 times greater than any fees charged by the LSE. However, not everything is that simple. Break this figure down and it means 0.5 percent of the commission is taken by the MSE itself, 0.1 percent is obtained by the FRC, 0.24 percent is

received by the SCHCD, while only the remainder becomes the profit of the brokerage and dealer firms.

“Who finds the investors?” asked the Mongolian Dealers’ Association’s Head of the Management Council T. Tsoytbayar. “Of course, the answer is the brokerage and dealer companies. On the other hand, all the aforementioned organizations that sit still take away 0.84 percent of profits. It is true that there is a need to decrease the rate of commissions. We can decrease our commissions. However, all depends on the aforementioned governmental organizations. We have advanced this proposal since 2006 with no avail”.

President of the Mongolian Financial Market Association U. Ganzorig has written that the establishment of the market adhering to professional ethics would equal to 50 percent of building capital market infrastructure. He explains, “[In] many cases when the brokers without permission sold the shares of their clients, it did not only constitute a case of a significant violation of ethics, but also a violation of the law. Because of this, the reputation of the market fell before the eyes of the investors”.

Deputy Director of the Securities Department at the FRC S. Tulgaa stated that in reality there are two main types of complaints they receive, which are either related to the trading of shares by the brokers without the permission of the shareholders, or the violation of the small shareholders’ rights by the management of the joint stock companies. When 520 state owned companies in 1991 were registered at the MSE and the citizens were given blue and pink vouchers for free, many people for many years were unaware that they owned accounts at the SCHCD. There were a lot of occasions

when brokers illegally sold or traded the shares of such people during the period between 1995 and 2006. Even though the FRC managed to halt such illegal acts under its own scope of authority, it failed to fully root out this disease. For instance, even now several brokerage firms stopped their operations and had their cases sent to the police for investigation. In addition, experts warn that there are even today unethical acts taking place; such as manipulating the prices of shares, profiting through insider trading, and diffusing false information.

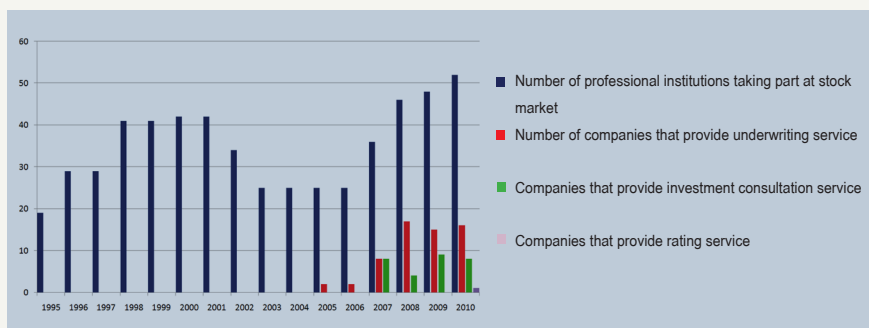
Ganzorig pointed out, “In all countries with developed capital markets, such illegal acts are reflected in their criminal codes; which rule out harsh penalties in the cases of violations. Any professional brokerage and dealer company that acted unethically is [forevermore] stripped of its right to work in the capital market”.

Then again, what is the current situation in Mongolia? Last year the FRC received 321 complaints from citizens; however, the guilty parties only paid fines worth in total MNT 710,000. According to the current laws, any broker caught committing a crime is fined a mere sum between MNT 20,000 and 40,000. If a business entity is found to have violated any laws, the maximum penalty amounts for a fine is MNT 250,000. Actually, it would not be erroneous to conclude that the current legal climate creates the conditions for the mushrooming of brokerage firms, and nurtures the violations of their professional ethics.

The Securities Law of Mongolia states that the shareholding capital of brokerage and dealer companies should be no less than MNT 50 million. In short, the existence of the capital amounting to MNT 51 million is enough to establish a brokerage firm according to the law. Therefore, the FRC has no other choice than to accept the applications and issue special licenses to the organizations that completed their required documentations. It barely managed to stop the registration of brokerage and dealer companies from 60 June until the end of the year, reasoning, “there is not enough room at the MSE building”. With the introduction of the “Millennium IT” software, brokers will have no need to compete for chairs and tables at the MSE chamber building as they can operate via the Internet. Consequently, the registration of applicants for special licenses will start then. In a matter of six months, around 30 brokerage firms have obtained their special licenses.

Tsoytbayar pointed out the drawbacks of the law adopted in 2003: “It is possible to establish joint stock companies for a mere MNT 10 million, and establish bro- ▶

Number of professional institutions taking part at stock market and volume of total asset



Total asset of broker and dealer companies /billion MNT/	2007	2008	2009	2010
	7.3	13.7	13.1	19.9

► kerage and dealer companies with MNT 51 million. There are no requirements, no standards or policies. What kind of responsibility can be behind MNT 51 million? What can be done if one such brokerage and dealer firms opens many accounts, conducts a couple of trades, and then disappears? Such companies reflect poorly on the reputation of others. Actually, there are brokerage and dealer companies that cooperate with large foreign investment banks, and conduct operations according to international standards.”

Ganzorig explained, “If one compares the professional operations of the brokerage and dealer companies on the capital market with coins, then “heads” represents professional ethics, while “tails” represents professional knowledge”.

It is in the statutes of not only the MSE but also the Mongolian Dealers’ Association, all sides agree that there are few people who read them let alone follow them. One such example when one could observe the poor knowledge of brokers recently occurred when examination for the right to participate in securities trading took place. Of the 120 people who took the test, only 75 percent passed the exams. Imagine, more than 30 brokers failed the exam even though the examination questions were printed in the form of a booklet and test takers were given a whole month to prepare. This August, those who failed to answer these simple questions correctly, will be given an opportunity to retake their examinations. Then, of course, if they fail again, they will be told “bye, bye” in the truest sense of the words.

Interestingly, the MSE’s new management noticed last spring that many brokers’ right to participate in trading had expired. Despite this they continued to function, disregarding the matter.

Saruul commented, “For many years nobody noticed this. We are giving out signs that such conduct is unacceptable. The title of broker has been assimilated with words of deceit and cheating. We are conducting exams in order to improve and clear this job title. Brokers should be knowledgeable, ethical and exemplary”.

Next, she showed the booklet containing examination ques-

tions. When she flipped the pages of this book, she demonstrated that there are very few questions related to professional ethics. Afterwards, she explained that in New York more than 40 to 50 percent of such examination questions are related to professional ethics, which are considered to be the most difficult. Saruul continued, “Our recently conducted attestation of the examination is the first step in that direction”.

As the saying goes, mountain trees come in all kinds: tall or short. It is wrong to assume that brokers are all bad people. On the other hand, of course, a lot of work needs to be done. This includes conducting such examinations in order to withdraw people who tarnish the reputation of others.

Tsogtbayar stated that the Mongolian Dealers’ Association prioritize to make their members follow the standards issued by the International Organization of Securities Commissions (IOSCO). Even though they adopted a Code of Conduct that is consistent with IOSCO requirements on June 2008 they established its ethics committee to oversee its implementation only last February. However, since there is a lack of a third party experts at the ethics committee, it is doubtful whether it would actually monitor the compliance of brokers with its rules and regulations.

“Actually, there should be neutral members,” explained Tsogtbayar. “However, we do not have money to pay them salaries. Therefore, we have no other choice than to select someone from brokerage and dealer companies”.

Tsogtbayar has previously worked at the FRC, and today works leading an association made of 47 of the 49 companies housed at the MSE. He pays attention to the importance of drafting the code of conduct for brokerage and dealer companies, and reducing transaction commissions. However, currently, while the legal climate itself nurtures unethical acts, no good regulation can amend the situation. In any case, selecting and cleaning up the brokerage and dealer companies, as well as improving professional knowledge and ethics of brokers are not matters that can be completed in one or two days. We can only expect and hope for the changes to be made starting from the amendments to be made to the Securities Law of Mongolia. ■



Business council of Mongolia News Wire

MONGOLIA ENERGY SAYS CONCESSIONS UNAFFECTED BY MINING BAN LAW

Mongolia Energy Corporation has clarified the report made by independent auditors in its annual results announcement regarding certain licenses which may be affected by a mining prohibition law (MPL) in Mongolia. The company currently has 21 mining and exploration licenses under its concessions in Mongolia, of which 4 mining licenses and 1 exploration license may be affected by the MPL. The Mineral Resources Authority of Mongolia has said the boundary lines of restricted

areas as defined by the MPL have not been determined nor announced to the public and Mongolia Energy Corporation has been informed that it could continue to operate normally under the Minerals Law of Mongolia. The company’s mining and exploration activities under concessions are being conducted as usual and have not been affected by the MPL since the passing of the MPL on July 16, 2009.

Source: ETNet

CENTRAL BANK UNHAPPY WITH GROWTH RATE OF BUYING GOLD ►

► The Central Bank bought 1.1 tons of gold in the first five months of 2011, 50 percent more than in the corresponding period last year. However, since 2010 was the year when it bought the lowest amount of gold, the Central Bank is not satisfied with this year's growth. The present figures are 39% less than in 2009, 2.3 times less than in 2008, and 21 percent so than in 2007.

One reason for the Central Bank failing to buy gold according to expectation is that some commercial, particularly Savings Bank have been buying gold in substantial quantity for exporting it. Contrary to popular belief, they act perfectly within the law in this.

Source: The UB Post

MSE GEARS UP FOR INVESTOR EDUCATION EFFORT

Forced to sell his animals and flee his dried-up lands, former herder Sainbuyangiin Tsagaan-Ovgon is now hoping mining profits will let him return to his native Gobi. The 72-year old, who admits he knows nothing about stocks, will soon receive 536 shares in the Mongolian company that owns the world's largest coking coal deposit.

The potential windfall is part of an experiment to allow Mongolians to share directly in wealth generated by mining at Tavan Tolgoi, the hotly contested coal project. "These shares will be a big help to herders like myself," said Tsagaan-Ovgon, who sported a traditional silk robe and white fedora as he mingled with the crowd on Ulaanbaatar's Sukhbaatar Square. "We can plant fruit, vegetables and trees. In the city people can use their shares to start small businesses, they can package jam or make sweaters and then build their own brand names."

Erdenes Tavan Tolgoi's international IPO could raise up to USD5 billion, a vast sum for one of the poorest countries in Asia. Ten percent of shares are reserved for Mongolian citizens, and another 10 percent is to be split among Mongolian companies. Some lawmakers support giving those shares to citizens as well. The value of each Mongolian's shares could be around USD300, Mongolian officials have estimated, a substantial amount in a country where the average GDP per capita stands at USD1,573.

To cope with the coming wave of citizens-turned-traders, Mongolia's tiny stock exchange is gearing up for a massive investor education effort, so that the opportunity represented by the shares is not frittered away by an impoverished population unfamiliar with capital markets.

Source: Reuters

UB RAILWAY TO BE RESTRICTED TO TRANSPORTATION

The Government has told Ulaanbaatar Railway Chairman T. Ochirkhuu that henceforth the company will concentrate on transportation of freight and passengers. Responsibility for several other services that it now provides, such as schools, the hospital and restaurants, for example, is to be transferred to other authorities and they will be run independent of the Railway. The Government plans to institute several changes in the administrative structure of the company. A number of positions are likely to be given new responsibilities.

Source: Unuudur

10.5% MORE TOURISTS THIS YEAR

According to data released by the National Center for Tourism and the General Border Protection Office, the number of foreigners arriving in Mongolia this year up to the end of June stood at 230,000, a year-on-year increase of 10.5%. Tourism revenue totaled USD88 million.

Source: Ardiin Erkh

MONGOLIA WORKS TO AVOID THE CURSE OF RESOURCE WEALTH

No one missed the symbolism when earlier this month the Mongolian Government announced which companies are getting the rights to develop the western block of the world's largest known coal reserve, Tavan Tolgoi, in the Gobi Desert. The Chinese company Shenhua Energy won the right to develop 40 per cent of the block, a Russian consortium got 36 per cent and America's Peabody Energy won 24 per cent. Those proportions represent a reasonably accurate picture of how the government in Ulaanbaatar manages its relationships by both courting and holding at arm's length its two overpowering neighbors, Russia and China, with the help of a long-range economic and military alliance with the United States.

But 21 years after Mongolia escaped from the collapsing Soviet Union and achieved renewed independence the state-owned Tavan Tolgoi deposit, believed to contain 6.5 billion metric tons of metallurgical coal, has even greater significance. Early next year Erdenes MGL, the state company in charge of developing the remainder of Tavan Tolgoi, will float 29 per cent of the company in international exchanges. The public offering is expected to raise more than USD10 billion.

Already, however, 10 per cent of those shares have been distributed to every one of Mongolia's 2.7 million citizens. As the government of Prime Minister S. Batbold wrestles with the challenges of developing one of the world's last known great deposits of mineral wealth, he must also confront the monumental social and cultural pressures involved. It is a matter of how a culture and an economy based on the produce and virtues of the life of semi-nomadic herders on Mongolia's vast plains of open steppe can adapt to take advantage of its mineral deposits, estimated at current values to be worth at least USD1 trillion.

Source: The Vancouver Sun

THE GREAT MONGOL HOARD

From his window in the sail shaped Blue Sky Tower, Dale Choi watches an army of workers paving roads and pouring concrete around Sukhbaatar Square. The glass towers are a sign of fast money flooding into the country on the back of Mongolia's booming mining sector, but it is an old, Stalin era building on the corner of the square that captures Choi's attention.

This is the Mongolian Stock Exchange, a small but growing bourse with huge potential for retail investors willing to make a bet on Mongolia. Last year the MSE Top 20 index gained 136 per cent, defining Mongolia as among the world's best performing stock market. In the first two months of this year, the MSE Top 20 soared 120 percent. It has since seen a big pull-back, but the Top 20 is still up about 38 percent for the year.

"This is the heart of capitalism and we want it to beat ►

strongly,” says Choi, a University of California Los Angeles-educated economist working at one of Mongolia’s nascent investment banks. “Change is happening here every day. It’s the frontier, and we’re at it.”

Choi, a stout 25-year-old Mongolian with a scruffy goatee and moustache, is the chief investment strategist for Frontier Securities. He is one of many “repat” Mongolians, returning home after several years abroad, to take advantage of opportunities in Ulaanbaatar, which he jokingly calls “Ulan Qatar”. He suggests that I invest in MSE listed stocks, and I ask if the MSE is a fluke, a one-year wonder.

“Most of the stocks are like penny stocks, and the exchange is like a penny exchange,” he says. “But for a little guy on the street, it’s real money. The money goes to real companies, they hire real people, and they buy real equipment. It’s a functioning market economy.” On a good day, daily trading volumes reach USD75,000 and the entire exchange has a market capitalization of just USD1.6 billion. There are more than 330 companies listed, but the Top 20 index contains about 90 per cent of the market cap for the exchange.

Read more...

MINING SUCCESS BOOSTS SEX TRADE IN MONGOLIA

Pimps man the park across from the historic Ulaanbaatar Hotel, popular with foreigners. They are keeping an eye on their employees -- about 20 women working in Mongolia’s quickly expanding sex trade. “MNT40,000 for one hour,” says one young woman asked about the going rate -- the equivalent of about USD30.

Prostitution is illegal in Mongolia, but the sex industry is booming, due in part to the explosion of the country’s mining sector, which has spawned a huge mobile workforce of men far away from home. The United Nations Children’s Fund (UNICEF) says there are almost 19,000 sex workers in the impoverished landlocked country with a population of just 2.7 million -- or one for every 140 people. “Poverty and unemployment force women into the industry -- the government should be seriously concerned about it,” Nyam Ultzii, who runs one of the few non-government organizations in Mongolia helping sex workers, said.

While the park in front of the Ulaanbaatar Hotel is a notorious public spot to trawl for sex, the trade is gradually shifting out of sight to karaoke bars, hotels, saunas and massage parlors -- putting the women at higher risk. “Because it’s gone underground, we seek women in the most vulnerable places and offer services like access to medical professionals for health check-ups, or clean places to shower and wash their clothes,” Ultzii said.

The flourishing sex trade is having major health consequences -- inadequate medical services, limited prevention campaigns and the cultural stigma linked with prostitution have led to a rise in sexually transmitted infections (STI). A 2010 assessment done by personnel at Oyu Tolgoi identified STIs as one of five major health risks in the south Gobi desert.

Read more...

Source: AFP

MONGOLIA PREPARES FOR FLOOD OF MONEY AS MINERALS ‘SUPERCHARGE’ ECONOMY

Hurrying into her cramped office deep within Mongolia’s huge Soviet-era Government House, Parliament member Sanjaasuren Oyun, 46, is flushed with excitement, a smile

creasing her usually serious face. She hands papers to her young female assistant and exchanges some quick words in the low guttural murmur of Mongolian. Dressed in a pinstriped suit, with a pearl necklace, hair cropped to a business-like shoulder length, and an iPad tucked under her arm, she turns to a waiting reporter.

“Sorry to make you wait,” she said, switching smoothly to English, which she picked up as a student at Cambridge. “It’s an important debate we are having today. We are considering a freeze on new exploration licenses.” Outside, it’s a still-chilly, late-May afternoon in Ulaanbaatar, no sign of green along its potholed dirt roads. But the capital city of about 1 million people is already being transformed by forces greater than the change of seasons.

A freeze on licenses to explore for minerals is no small matter in Mongolia, a country undergoing a resources boom, as miners such as London-based Rio Tinto Group and China’s Shenhua Group compete for the right to extract coal, copper, gold, molybdenum and uranium.

It’s a resource play that’s expected to bring a flood of money into the impoverished country over the next decade, centered around huge mining projects such as the Shivee Ovoo and Tavan Tolgoi coal reserves, valued at about USD300 billion and USD400 billion, respectively, and the copper and gold mine Oyu Tolgoi, worth some USD300 billion, according to Quam Asset Management Ltd. in Hong Kong, which runs a Mongolia-focused investment fund.

Ms. Oyun is at the center of the country’s efforts to pick its way between wealth and wise use. She is a geologist who once worked for the biggest investor in Mongolia’s mining industry, Rio Tinto, yet she has made a career pushing for the rights of ordinary Mongolians and fighting corruption. She is also part of the nation’s young democratic history. On the wall in her office is a picture of her brother Zorig, a member of Parliament who seemed on his way to becoming prime minister when he was killed in 1998. His murder is still unsolved.

Read more...

Source: Bloomberg BusinessWeek

MONGOLIA LUKEWARM ABOUT NUCLEAR FUEL REPOSITORY PLAN

Mongolia has reservations about a plan to build a facility there to store or dispose of spent nuclear fuel from other countries, Japanese Foreign Minister Takeaki Matsumoto said on Wednesday. He told the Japanese parliament that when he had met with his Mongolian counterpart G. Zandanshatar last week, the Mongolian minister said his country would find it difficult under domestic law to take in nuclear waste from overseas. Mr. Zandanshatar brought up the issue when the two were discussing cooperation on civilian nuclear power generation, including the development of uranium in Mongolia, on the fringes of a regional security meeting in Bali.

Japan, the United States and Mongolia have informally discussed a plan to establish a nuclear fuel repository in Mongolia, but the talks have not yielded any conclusions, Mr. Matsumoto said. Toshiba Corp. has lobbied a senior U.S. government official to realize an international nuclear fuel supply scheme that includes the construction of a nuclear waste repository in Mongolia, according to a copy of a letter by the company’s president obtained by Kyodo News.

Source: Mainichi Japan ■

Tavan Tolgoi



Ongoing

Uncertainty Surrounds Tavan Tolgoi

D. Munkhchimeg

The Government convened a special session just before Naadam to create strategic investment for operations at Western Tsankhi at the Tavan Tolgoi mining site. Specifications were needed partly because none of the six companies and consortiums were successful in the first round of international tender bids and declared a winner. However, Shenhua Energy of China, Peabody Energy of the United States entered a second round of bids with addition of a new challenger, the a newly added Russian-Mongolian joint consortium. This entity did not participate in any of the initial bidding. Such a sudden decision not only left the governments of Japan and the Republic of Korea in shock, but also upset analysts at the National Security Council because of whiffs of scandal.

The president's advisor for mineral resources policy P. Tsagaan explained, "We could either speak softly because application materials did not sufficiently comply with requirements, or harshly because there was an irresponsible submission of materials. [The former allows us to] advance our interests after requesting for additional information and analysis."

National Security Council analyst B. Altan-Ochir stated, "If we go along with this agreement we will lose our Western Tsankhi."

Consequently, when the scandal surrounding Western Tsankhi had not yet been settled Erdenes Tavan Tolgoi LLC concluded an agreement with Chalco, a Chinese company worth USD 250 million, and started to transport Eastern Tsankhi's coal to the south. New information and resolutions regarding a deposit estimated by the World Bank to be the world's second largest reserves for coal intended for coking coal and energy may cause concern not only for Mongolians, but also foreigners.

Western Tsankhi

After heads of state and government came back from their official visits to the Russian Federation, the People's Republic of China, and the United States made a resolution catering to the interests of these great powers in Tavan Tolgoi. Specifically, Shenhua Energy, Peabody Energy, and the Russian-Mongolian joint consortium were chosen as strategic investors to conduct operations in West-

29 Filling Oil Drums with Empty Promises

ern Tsankhi; with Shenhua Energy owning 40 percent, Peabody Energy owning 24 percent, and the remaining 36 percent divided within the Russian-Mongolian joint consortium (each nation of which owns 18 percent). Mongolia will receive USD 1 billion from the sale as an initial payment.

There are several issues of interest here, such as why Peabody Energy and Shenhua Energy joined forces in the second round of the international tender bid and afterwards went their separate ways. Also, where did their third partner, Japanese firm Mitsui, disappear to? Why was the consortium of Japanese and Korean companies, an entity deeply connected to Russian Railways, booted? It is not only Mongolians left in the dark regarding these questions. International media agencies such as AFP and Reuters were competing to report that the Japanese and South Korean governments sent official letters requesting explanations from relevant Mongolian ministries and agencies. They complained that Mongolia conducted its tender bids in incomprehensible and unjust ways. Funniest, is how Mongolian leaders became objects of ridicule when they could not straight away provide an appropriate explanation.

However, according to interviews given by the Chairman of the State Property Committee D. Sugar, Japanese and Korean companies were not barred from bidding, but there was a misunderstanding created when the organisers sent invitations to the companies playing a leading role exclusively to the consortium. »

Sugar explained, “To clear the misunderstanding that Korean and Japanese investors were totally excluded is important in terms of political and economic relations”. He further explained, “Any Mongolian company can participate in the Mongolian-Russian consortium. Mongolian companies could even establish a fourth consortium and take part, or they could exercise their right to participate in cooperation with others”.

Of the six companies chosen for the second round of bidding, none were domestically owned. However, now an unknown Russian-Mongolian joint consortium has supposedly been added to the roster. If the Mongolian government was going to behave so strangely, why did they begin under the ruse of a fair competition? It is uncertain as to why the Australian company Strata Coal, which tops the world in energy coal exports, the Brazilian company Vale, which ranks first in the production of iron ore, and the steel production Luxemburg “shark” Arcelor Mittal were rejected. Most important is the government needs to explain to its people under which principles the proportion 40:24:36 was made.

Economist D. Jargalsaikhan commented, “Why did a predominantly state-owned Chinese company alone receive 40 percent, the power to appoint the executive director for projects, and other rights? On the other hand, how does the fact that Russia received merely 18 percent of shares fall in line with our foreign policy to maintain balanced relations with our two neighboring countries as well as conducting a third neighbor policy?”

Eastern Tsankhi

At Eastern Tsankhi, where the Erdenes Tavan Tolgoi LLC promised to conduct its mining operations while overseeing its coal sales, three companies (Mesco Steel from India, BBM Operta from Germany, and Macmahon from Australia) competed for exploration rights. However, why did not Mongolia announce the results of the tender bid, and furthermore, begin extracting coal and transporting it to China? It is not that Mongolians are incapable of conducting such operations—they can do so very well. The question is why not was this objective declared from the very beginning? Is the international tender bid a fool’s game? Prior to this, the Mongolian

Stock Exchange (MSE) selected its management team, but also canceled the tender bid, creating scandal. It seems that the government’s strategy is to disgrace itself in front of the world by constantly changing its decisions.

The main thing, however, is that many people would probably be unhappy to learn that Mongolians, themselves, will not be selling the coal extracted at Eastern Tsankhi. Also Erdenes Tavan Tolgoi, on its own wishes, concluded an agreement of USD 250 million with the Chinese firm Chalco (the daughter company of Cinalco) to oversee this vital issue. Then, in an attempt to prevent offense to the Republic of Korea and Japan they have established a memorandum on the sale to them of 30 percent of coal extracted there.

Not long after the establishment of the aforementioned agreement, the first chain of 40 heavy loaded trucks carrying Eastern Tsankhi’s four thousand tons of coal headed towards Gashuunsukhait border port. In addition, at the top of the first truck there was a golden soyombo, Mongolia’s national crest. The surprise was the elation government officials, including Minister of Mineral Resources and Energy D. Zorigt. Was this really such good news?

Why did Erdenes Tavan Tolgoi, which planned to conduct its selling operations alone, give up this task to the Chinese?

Sugar explained, “Since we are getting advance payment from someone, we need to give additional responsibilities, don’t we?”

Mongolian will give 100 percent of its coal to Chalco until Mongolia has fully repaid the USD 250 million Chalco paid in advance. The Chinese will transport between 20 and 30 percent of the coal it bought to Japan and South Korea. For this year, it is understandable that Mongolia sold one ton of coal for USD 70, less than the market price rate.

“Approximately five or six years the government of Mongolia will have a possibility to sell its reserves at its own will”, said Sugar.

According to Erdenes MGL Executive Director L. Enebish, this year 1.3 tons of coal will be exported from Eastern Tsankhi, reaching 15 million by 2015. Will we still be selling this coal at such a cheap price to the China then?

Why did Mongolia give its southern neighbor not only the largest share of Western Tsankhi, but also the right to sell the coal from what remains at Eastern Tsankhi? It is true that the Republic of China leads the world not only in the consumption of coal, but also in its production. Is not this all the more reason to reduce its influence over Mongolia? What consequences will the majority owner of Tavan Tolgoi’s resources face when assuming a leading position at this mining deposit? Doesn’t this mean that China will both negotiate the price of Mongolian coal with itself and sell it within its borders? If that is the case, Mongolians better forget the world market price for some time.

Money is everything

It is time for every Mongolian to demand an explanation for all of these uncertainties surrounding Tavan Tolgoi from the government. Today, 2,796,000 citizens hold ownership over Erdenes Tavan Tolgoi shares and thus have a right to know what policies are being undertaken here.

The government announced in an official statement, “Due to the fact Mongolia was able to firmly advance its position, investors will directly give [the Mongolian government] USD 500 million without return and, in addition to that, advance USD 500 million”.

It is hard to understand this position. Yet, it is hard to deny the fact that a certain group’s struggle to fulfill its election promises of cash handouts is superseding all other priorities. Actually, it would be silly to expect negotiations to benefit only Mongolians. All parties involved in the exploitation of Tavan Tolgoi have their own interests in profiteering. It is suspicious, however, that for these interests, companies are throwing billions of US dollars the hopes of making the whole of Western Tsankhi their own.

Sugar explained, “Eastern and Western Tsankhi are 100 percent under state control. We are only talking about what percentage will be owned by a company that will exploit Western Tsankhi.”

Yet, did not Mongolians undergo a great deal to gain 34 percent of Oyu Tolgoi Co., Ltd shares, the company currently operating at the Oyu Tolgoi mining deposit?

In addition to the lack of adequate information regarding counter condi- ▶▶

tions, a railway to transport coal, transit costs, and a resolution to develop ports for trade, there is still uncertainty as to what technologies will be used.

The public has heard nothing else, except for uncertain statements. Take for example, the official statement, "Parties have agreed upon the railway transportation to be directed to the south and east. In addition to an agreement on the construction of a 600 megawatt power station, a resolution was made to build value-added factories, such as plants for the extraction of liquid fuel from coal, and the production of coke".

It is uncertain how much capital will be invested into the project, let alone the technical and economic specifications needed. Also, the government informed the media that in addition to taxes and fees, it has agreed to receive additional payments amounting to five percent of profits, minus transportation costs, to be payable to Erdenes Tavan Tolgoi. What is the es-

timated cost of transportation expenditures? Although there were negotiations with the Russian Federation for providing transportation concessions, who knows where their interest will turn to based on its mere 18 percent share earnings.

Government officials are happy to end discussions at the payment of USD 1 billion for Western Tsankhi, and USD 250 million for the down payment of Eastern Tsankhi. From this one can conclude that all of these agreements and negotiations are based on nothing more than money. China's USD 3.2 trillion foreign currency reserve influences US policy decisions. Is China setting their influence at Tavan Tolgoi in a similar way?

Even President Ts. Elbedorj cautioned, "Don't allow the government too be driven to much by the sum of a down payment when selecting an investor. Receiving prepayment is only one issue. Furthermore, there are other big issues related to infrastructure

and counter conditions".

A member of Erdenes Tavan Tolgoi's board of directors, J. Batzandan, stated that the government is trying to earn MNT 330 billion worth of funds from the recently established Russian-Mongolian consortium and the Human Development Fund to fulfill its political promises. World Bank experts also warned about the dangers of sitting behind the negotiation table focusing on prepayments.

Mongolians have a saying, "money is white but eyes are red"(money is everything). There is reason to fear that Tavan Tolgoi, positioned at an axis of economic, business, and geopolitical interests, will be given away for just USD 1.25 billion. One can only hope that 536 shares of Erdenes Tavan Tolgoi LLC will not be blank sheets of white paper, but will instead be a guarantee to raise to the livelihood of every Mongolian man and woman. Will the government live up to these hopes? ■

Oil Market

Filling Oil Drums with Empty Promises



Ever since Mongolia's first President, P. Ochirbat, dampened the upper flap of his deal with crude oil springing from the Tamsag Basin, Mongolians began to espouse hope of processing at least a small amount of

that "liquid gold" coming from Mongolian land. Last year, when the oil field's proven reserve ranked Mongolia 39th of 97 countries with the world's largest oil reserves, this hope was transformed into a goal. Intensive exploration is un-

derway with positive results. However, will the Mongolian dream of using petroleum labeled "Made in Mongolia" ever be realized?

The reasons for longing for an oil refinery

When the Russian Federation restricted its petroleum exports on 1 May of this year, Mongolia was put on a hot seat. Mongolia has always relied on fuel and petroleum imports from abroad and currently depends upon 90 percent of its supply from its northern neighbor, Russia. Petrol filling stations distributed petroleum exclusively with diesel fuel cards and vouchers. Worse still, there was a shortage of AI-92 petroleum in the countryside. It would be a different story if Mongolia had experienced these hardships from fuel shortage due to a lack of reserves of that "liquid gold".

Exactly one year ago the Prime Minister of Mongolia S. Batbold acquainted himself with the operations of the Donshen Company, which conducts explorations and extractions at fields at ▶

Zuunbayan and Tsagaan Els based on a product sharing agreement with the Mongolian government. This Chinese investment company's management has the opportunity to conduct mining operations for the next 20 to 30 years. It proudly announced that 40 million of the 177 million barrels of crude oil reserves are supposedly economically recoverable reserves. Meanwhile, the Ministry of Mineral Resources and Energy determined that the reserve at the Toson Uul deposit's at Tamsag Basin amount to 119.02 million tons. It's estimated economically recoverable reserves amounting to 13.67 million tons.

D. Amarsaikah, the head of Mongolia's Oil Authority said an additional 200 million tons of proven oils reserves are expected to be discovered.

"Then, the amount of crude oil to be explored at the Tamsag basin will stand at 23 million tons", said Amarsaikhan.

Also, if the Petro Matad company receives approval from the Minerals Expert Council, it will officially become an oil explorer. In short, Mongolia may have enough amounts of "liquid gold" to supply its own demand.

In 2010 Mongolia exported 78,000 barrels of crude oil, amounting to USD 154.9 million. In recent years, Mongolia's oil excavation has been constantly increasing; therefore, isn't it surpris-

ing that, although it doesn't produce a single drop of petroleum, one of Mongolia's main exports is crude oil? The Chinese company Petrochina Dachin Tamsag plans to excavate 93.3 million barrels of crude oil between 2010 and 2019. Should Mongolia continue to export oil in its unprocessed form to China and then import the processed product from Russia at a higher price? Last year Mongolia imported 864 thousand tons of petroleum products, amounting to USD 678 million.

According to a 2010 foreign trade review issued by the Mongol Bank, petroleum products constitute 20.7 percent of Mongolia's total imports. Thus, the price fluctuations of fuel and petroleum prices can have a significant impact on our economy. An increase in the number of cars, intensification of industry, revival of construction projects, and the launch of large scale mining projects could result in a significant increase in the demand for crude oil. Last year, Mongolia imported and consumed 864 thousand tons of petroleum products, while experts estimate that this number will reach 1.7 million tons by 2015.

Looking Towards Tomorrow

Due to Russia's display of greed, it came as good news when rumors

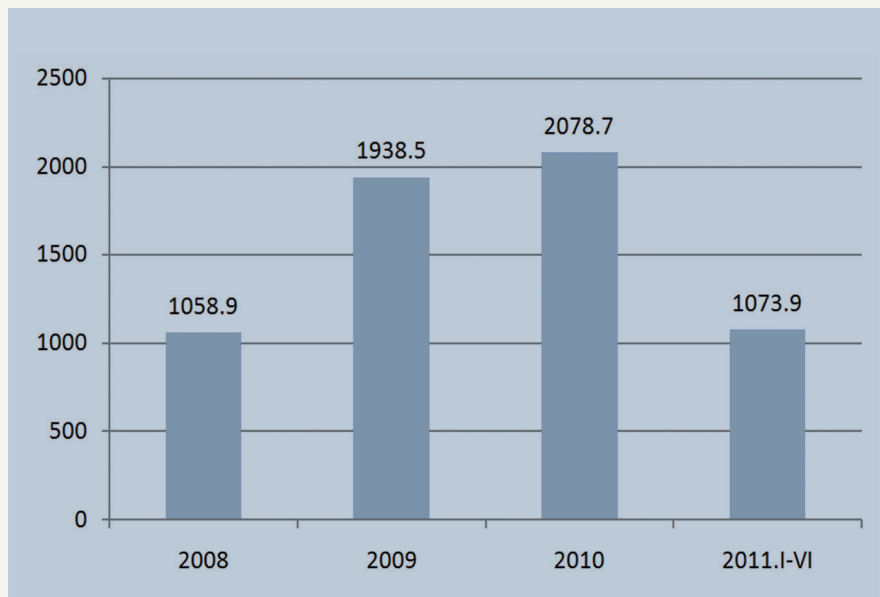
started to circulate about the construction of oil refineries. The government is planning to establish a parastatal company, Dornod Crude Oil. On the other hand, there have been renewed talks on the construction of a refinery with the capacity for two million tons in Darkhan-Uul Aimag. In addition, Parliament members P. Altangerel, D. Arvin, Ya. Batsuur, and N. Ganbyamba initiated a resolution entitled "Intensification of Work for the Construction of an Oil Refinery" and received approval during cabinet meeting afterwards. Such examples show possibilities of Mongolia's dream for oil refinement to be realized. However, it should not be forgotten that government officials have many times in the past, in an effort to calm society's discontent in respect to fuel and petroleum by any means possible, have resorted empty promises.

In the summer of 2008, when the price of petroleum was skyrocketing, this issue was raised once again in Mongolia. Germans attracted public attention by introducing a project for the extraction of liquid oil from coal. Academic and Director of Iingolsekiyu T. Namjim and Vice President of the Japanese firm Tiyo Engineering Corporation I. Kazuhisa said in an interview that they would open an oil refinery for operation by 2012. They really sought the attention of the public, promising to use a domestic brand of petroleum that same year. Yet, when the world market's price of petroleum fell, all of these notions simply disappeared like a dream or mirage.

When the financial and economic crisis faded away and the price of crude oil rose last October, Parliament Speaker D. Demberel met with the representatives from Toya Engineering and Marubeni, as if he suddenly just remembered the Darkhan-Uul project proposed by Namjim. At exactly this time Prime Minister S. Batbold told the foreign press that by 2014 an oil refinery will be constructed in Sainshand. Nearly a year has passed since then with no substantial progress on the matter until again Mongolia faces another fuel crisis. It is suspicious, all this attention paid by Parliament and government to the issue of an oil refinery, yet again, perhaps in an attempt to fool journalists and calm society.

Again a question, which has almost ▶▶

Crude oil export (thousand barrels)



Source: MMRE

▶ became a nuisance, must be raised: when will an oil refinery be put into operation? Actually, the government programme for 2012 includes a plan for the construction of an oil refinery. Yet, it seems clear that this is no longer possible. According to Deputy Chairman of the National Development and Innovation Committee L. Zorig, next year there will be several small scale oil refineries with capacities ranging from 100,000 to 300,000 tons will be established and tested. On the other hand, head of the Oil Authority of Mongolia D. Amarsaikhan explained that only a year and half after the foundation of a small refinery has been established can it extract the final product. However, today not even the foundation has been established. So they say, “İngolian tomorrow never ends”.

Seventeen projects

There is an even more important question when an oil refinery will be put into operation. Just what kind of refinery should it be and where will it be built? The government, during its cabinet meeting on 6 July, approved the construction of the oil refinery Dornod Crude Oil, a parastatal company in Choibalsan, Dornod Aimag and assigned to Minister of Mineral Resources and Energy D. Zorigt and Director of the State Property Committee D. Sugar the task of conducting the appropriate procedures for selecting a business entity that will partake in the ownership of this company. According to Sugar, Dornod Crude Oil will supply fuel to three provinces in the eastern zone. However the Khet Company has secured its land in Bulgan Soum, Dornod Aimag for the purposes of building an oil refinery with the capacity to refine 120,000 tons of crude oil. In addition, they have made their technical and economic specifications and are aiming to supply the same three aimags in the eastern zone with fuel.

B. Khuder-Yan, vice president of Khet, said, “We will put this refinery into operation within 24 months. It requires more than USD 50 million of investment. If we obtain the license, then we can do everything”.

However, it seems that the Minister of Mineral Resources and Energy will not give it the license it needs. During the forum “Is there an oppor-

tunity to refine crude oil in Mongolia?” organised by the newspaper Udriin last June, Parliament member P. Altangerel stated his opinion, if Khet is issued a license, then there is no need for a parastatal company. However, Zorigt explained since this sector is of strategic importance to the government, it has no other choice than to take up the responsibility itself.

If Khet obtains the license and funding to build an oil refinery, then where will it acquire its raw materials? According to the product sharing agreement, it will have to buy Mongolia’s shares of untapped crude oil from the Tamsag Basin. For this, Khet will have to establish an agreement with the government and the Khet vice president will have to appeal to government officials more still.

On the other hand, Zorigt has no other choice than to be wary of the private sector. The ministry has received 17 different projects proposals for the construction of an oil refinery since 2000. At one point, an already chaotic situation grew worse when a number of licenses were issued to many companies without any restrictions. In 2004, the Chinese company Uranshaglaa conducted operations without standard equipment in Zuunbayan. Its operations ended in 2005. Also the license for refining crude oil of companies such as Tugeh, Àdesem, Àzaa Tuvkhun, and MIC were canceled because they did not have any real plans for construction. In addition, the Russian company Vostokneftgaz obtained a special license in June 2006 to build an oil refinery near Rashaant Urtuu with the capacity to process 2 million tons of crude oil annually, but nothing ever materialized. The Chinese company İnpetro-Uanshida received a license in 2007 to build an oil refinery with the capacity to process one million tons of crude oil annually in the Bagakhangai district, but again to no avail. Moreover, experts determined that there were cases when firms used licenses for oil refinery operations as a guarantee to obtain loans or sold to others.

In addition, the South Korean company ENFMOC submitted a proposal to the Mongolian government to build an oil refinery with the capacity of processing two million tons of crude oil annually at Choir using their own funds. It proposed to allow 34 percent owner-

ship to the Mongolian government. Of all these proposals, experts assessed that Namjin’s proposal to build an oil refinery in Darkhan-Uul is the most likely to be realised.

Last June, representatives from the Japanese Bank of International Cooperation (JBIC) headed by its vice president came to Mongolia and met with the finance minister, speaker of parliament, State Property Committee’s director, and National Security Council’s secretary, shook hands with them, and said, “The project in Darkhan-Uul aimag will be a symbol of the relations between our two countries. On your behalf, please quickly build the parastatal company. We are ready to finance”.

However, one question remains: why has Mongolsekiyu, which obtained the special license way back in July 2007, not begun its own project yet? Although the Japanese will finance this project worth USD 600 million they require a loan guarantee from the government. However, the Ministry of Finance already stated, “Under the current legal climate there is no possibility to issue guarantee for such a large sum of money”. Even if the Government issues a loan guarantee and an oil refinery is built in Darkhan-Uul another big issue exists concerning the source of raw materials for operations. According to Namjin’s explanation, Mongolia will purchase crude oil from the Russian Federation and Kazakhstan, and then refine it for demand in Mongolia.

This raises even more questions. What will happen to the several small scale oil refineries proposed for construction? Does this resolution fit Mongolia’s small market? Furthermore, there is talk of even more ambiguous, difficult projects, such as a plan to buy crude oil from Kuwait and another to process crude oil in Tianjin followed by transport back to Mongolia.

A forecast was made for 2015 that Mongolia will extract more than one million tons of crude oil per year. However, currently government seems to lack a common policy for an oil industry. Our ministers and other high ranking officials should lift their fingers rather than flap their lips when it comes to the construction of an oil refinery. It is time to resolve the issues of when, where, and which year an oil refinery will begin operations, and then start implementing that plan. ■



Banking

CEO of XacBank: Our Banks Apply Risk Management Methods, Based on Real-Life Cases

D.Bat-Ochir is the Executive Director of XacBank. Both Foreigners and Mongolians alike have reached the conclusion that Mongolia has arrived at the start of rapid development. Bat-Ochir shared his views on issues concerning banking, finance and stock market-catalysts to a country's development.

-Is Mongolian banking and financial sector ready to receive the inflow of money that is coming from the mining development?

The issues of mining development have been intensively discussed, especially, in the last three years. It has been 20 years since Mongolia entered the market economy. If we can compare it to a man, it means he is aged only 20 years. A young man of 20 has not much going for him. As of today, only a professional financial intermediary is performed by commercial banks at best. When the mining development peaks, the household incomes will increase. If certain portion of this

income is not spent on consumption and another put aside for future investment through financial intermediaries, the money flow may have a negative impact on the economy. In this regard, issue of responsibility is the main concern.

Returning to the question, banks are not yet ready to deal with development as well as we had anticipated. In the wake of money flow, banks' requirements, responsibilities and the current environment are not ready yet. However, I don't consider these as major difficulties that cannot be resolved. The Mongolian banking industry has seen 2 or 3 banks go bankrupt since 1998. Today's customers know what we need to pay attention to and what is less important. Investors have also started to realise that banking is not about cheating customers; therefore it's not an easy business to run. Of course it is impossible for the economy to stand up on its own two feet as long as banks are only administering small business loans. We discuss medium sized loans as well as double digits GDP growth, but what we need to realise is even the existing 100 large businesses in Mongolia will not be able to drive real economic growth. Therefore, additional 200 or 300 medium enterprises would have to be created in order to absorb the mega-investments coming into the Mongolian market. The service sectors supplying mining development must grow and we are currently working with a strategy to direct our services towards them.

-As a banker, how do you see the future of Mongolia's development? Why doesn't Mongolia develop despite its potential for development?

-The main reason for slow development, I think, is we are too stuck in our old ways of doing things. A generation spans around 12 years. Therefore, we shouldn't make decisions based on old experiences during this generation, but instead we should make rational decisions based on what the future holds for us. Only in that way can we take bold steps towards development. Of course, there will be mistakes. However, the consequences of mistakes made with bad plans and a mistake made with good intentions are totally different. I think that Mon- ▶▶

▶ golia's development will reach where it should be in the next 12 years.

Mongolia has a small population. In the past, a small population used to be considered a disadvantage, but now it is seen as an advantage because today most wealth comes from knowledge. Nowadays, technology reduces the need for us to operate with a massive work force. The world is shifting from a labor-based economy to a knowledge-based economy. Mongolia must pay attention to educating its people and train them as the world-class employees. I personally think that for young Mongolians, the world stage must be their employment market.

-It is confirmed now that the Mongolia Stock Exchange (MSE) will undergo change for development. Some people believe the development of commercial banks and stock markets should remain separate, while others counter they should be developed together. Which is correct in your eyes? Which argument is a professional one?

Both should be involved in the development of stock exchange market. But their duties are required to be separate. Commercial banks do financial intermediary in a conservative way. On the other hand, stock exchange has a different sensitivity to sensitivity and it is a market that intermediates cash flow ready for bearing higher risks.

-Do you believe one management head is okay, but they should have separate operations?

Yes. Investment banking could be part of a parent company, but commercial banks should not offer high-risk investments.

-What is the possibility of establishing financial institutions such as investment banks and other institutions that provide business consultation in Mongolia? What conditions are needed?

There is a high demand for an investment bank in Mongolia. As I've mentioned before, nowadays there are many young entrepreneurs with excellent business ideas. When they come to banks, there's funding for their ideas is limited. Although I would personally support good ideas, this is not the direction, in which banks operate. If one asks who finances business

ideas, then I would say there is a definite need to have another avenue for investment finances. With that said, there is an increasing demand for an investment bank.

Although there is a strong need for professional management consulting services, there is not any single person or a company that professes to have all of these skills and the local knowledge at present. Mongolians require consulting services from an experienced person who can consult on various stages of business developments. These experiences must be based on real life observations, not just from university textbooks. Foreign consulting professionals often lack local knowledge; therefore a lot of them leave without being able to contribute much here. It's not really their fault. In Mongolia the business environment is completely different to theirs.

-You said banking operations need to achieve a new level. What are XacBank's plans for the future?

We have set a goal to expand our operations to a large extent in the future. What we need in order to expand is to build up our capacity with a specific focus on risk management. On other hand, there is another issue to consider well: Should we aim to increase the number of our branches and deliver our services to the entire population scattered throughout the country or should we deliver our banking services exploiting mobile phones and the Internet, to which they are already connected. At our bank, we aim to follow the second route. There is no other way for banking and financial services to be delivered based on information technology. In this regard, we are working intensively. It is risky step to try to deliver financial services managing 400 branches. As Mongolia develops, people will eventually start to prefer knowledge based incomes. If Mongolians acquire the skill set that enables us to work anywhere in the world, then their employment value will significantly increase. Yet, if each Mongolian become well educated, I think, there will not be anyone employed at the level of a teller (laughs).

You said you refuse to open more branches, preferring to provide banking and financial services using information technology. However, today

Mongolian herders use at least two cell phones, although they can't do anything, except receive phone calls, respond with a call in return, and send and receive SMS text messages. In other words, most Mongolians are not able to use their cell phones for banking services.

Yes, there are indeed some difficulties. There is a basic issue of trust concerning whether it is reliable to receive and send money using mobile phones. At first, it would be a strange experience for everyone, not just herders, to receive a simple text message on their mobile phones, after they've committed to a transaction with their hard earned money (laughs). Customers will eventually warm up to these types of services, as the majority of us start to use it regularly. It's like that with many new consumer technologies.

The expansion of mobile banking networks and the need to improve the financial literacy needs to go hand in hand. The entire sector has to participate in educating customers, including the Central Bank. Development has to keep going and we must continue doing the things we do best and for that we don't have to wait for customers to reach an acceptable level of financial knowledge.

-Competitiveness is important for development. What level has competition in the Mongolian banking sector reached today?

-I consider competition in Mongolia's banking sector to be developing rapidly. The banking industry is not as clear-cut as things such as mining and selling coal. We make our earnings providing services to customers. On one hand, attracting savings is huge work. Then there are constant risks involved in deciding whether a customer is reliable enough to receive a loan. By offering high interest, we attract savings, but loan applicants wanting low interest rates. So we have to work between the variance of these two.

Although we operate in a fairly difficult environment, Mongolia's commercial banks have operated for 10 or 20 years and have learnt well to adapt to the environment. Thus, banks are the first to exploit information technology. Even the Central Bank and Regulatory Authorities has started to present banks with requirements that can even affect our very survival. So, ex-▶

▶ternal factors are driving us to be better competitors. Secondly the banks have learnt ways to manage risks effectively through experiences they've been through in the last two decades.

-Some say commercial banks have too much bureaucracy. What is your thought on that?

-For a business organization, bureaucracy is comparatively low. Speaking of the banking sector, which I know very well, there is almost no bureaucracy because we handle the savings of hundreds of customers who have accumulated those savings for many years. It would be irresponsible if we gave out loans to whoever comes through our doors. Loans are granted based on mutual trust. On the other hand, a business owner wants to have his or her loan application decided favorably and quickly. With regard to bribery and corruption, it existed at the end of 90s. The banks used to charge fees when customers withdrew money from their accounts. Now it is totally different. Competition brings things to their rightful place. If a bank demands a bribe from me, then I can go out and easily obtain the loan I wanted from another bank (If I have a good credit history, that is). There is even too much competition. Banks say "please come to us and we will lower our interest rate at certain percent if you have a good credit history". If a majority of banks lead the way in doing things right, then the rest would have to accept that environment.

-In foreign countries, banks can consider more projects using property as collateral. Is it difficult to introduce this to Mongolia?

-This is fully possible. The practice has to be introduced. There is no other way. If a banker doesn't learn to do this, it will be difficult to run a commercial bank. Instead, it will be better for them to run a real estate company or a pawnshop. A commercial bank makes revenue from a business that has the ability to live and last long. If a bank thinks it can make up their loss by selling their customers' asset in cases of bankruptcy, then that bank's business will not survive for very long. In that respect, we endeavor to be flexible in our banking methods. Moreover, since its establishment, the Mongolia's banking sector has been through many difficult times and experiences

for development. The banks have learnt hard from the risks it received from lenders, employees, and even from its own management.

-Some believe there is no possibility for a Mongolian bank to grow with only its own capital. In your opinion, what are the possibilities for growth?

Equity is capital that belongs to an individual. Whether there is an individual who has the equity available to grant a substantial amount of loans to ten large companies supplying the mining industry in Mongolia or not, is the matter under question. Most banks build their equity from customers' savings from their disposable incomes. Therefore, it will require a substantial amount of time to raise large sums of equity funds domestically to allow banks to grow. Aside from domestic and foreign investments, there is the option for us to raise our equity through an IPO. By raising IPOs in domestic and foreign stock exchange market, the banks would be able to build sufficient equity funds to finance large projects for longer periods.

-Is XacBank planning to file for an IPO?

-If we grow as a business as we have planned, then we would certainly consider filing for an IPO. At present, the bank's assets are well above MNT 600 billion, which means we're close to achieving MNT 1 trillion in assets. If

we intend to increase this amount by four or five fold, then we would have to raise funds through an IPO. Trading shares offers us a great prospect for proper growth. I have never heard of any world sized limited company (laughs). So depending on our future success and if a more favorable environment arrives, then we would have to enter that route for sure.

-Corporate governance is only a word in Mongolia at present. How does your bank implement it?

In our minds, governance is understood as one thing that is at every decision. Any decision must not be made too dependent on any one person. Such conditions must be built up for a business organization. In other words, executive directors should not deal with everything and make every decision on their own. It is important to create an environment in which any decision made with scrutiny from many angles. The board of directors at XacBank is highly committed to its responsibility to maintaining governance in this way. In Mongolia, companies tend to establish a symbolic board committee to fulfill business law. However, in reality, the board is the employer for an executive director. Therefore, it should not be treated in the manner that an executive director is at the top while all others are just symbolic leaders. ■

Technology

The Amazing Capabilities of Mongolians Abroad

D.Zorigt

In countries around the world, talented Mongolians hold the key to development. In this month's edition is the story of a young man recently returned from South Korea to Mongolia serving as a paradigm to this emerging trend of Mongolians working and developing abroad. B. Khashbaatar used 3D computer graphics software at "Hwa Shin Jon Mill" of South Korea and designed concept models for products following the company's guidelines. 3D computer graphic software is used in the ar-

chitecture industry to create models of proposed buildings, roads, bridges, and so on. Currently, this software is commonly being employed in developed countries throughout the world, including the USA, Germany, Switzerland, Japan and South Korea. This software is used to develop initial models free of errors of all types of products made of iron, plastic, and alloy; including pens, juice bottles, mobile phone shells, the computers you use, and the cars you drive. ▶▶

► After that initial design is complete, all the client has to do is produce the product following its design at one of their factories. There are currently two large factories operating in South Korea using 3D computer graphics software. Both receive orders from world renowned companies such as Sony, Samsung, Toyota, and Apple. However, would you believe that two of the main staff members operating this software at one of these factories are both from Mongolia? One of them is Khashbaatar. I could not withhold my pride when I learned of this news. According to him, there are currently four Mongolians who operate this software. One of them works along with Khashbaatar in South Korea, while the remaining two work in the US.

During the 2008 Summer Olympics at the People's Republic of China, some of Khashbaatar's former-apprentices from South Korea were invited to help the event's staff prepare for operating 3D computer graphics software. Students who graduated from large technical universities in Korea acquire certain skills after working at an internship at a given company for one or two years. There are many examples of when such students become the apprentices to these two Mongolian workers. Since many foreign countries compete fiercely on the international market they teach very little to their international competitors. South Korea's move to send students to to teach workers of

the People's Republic of China how to operate software is an example of an exception to this rule.

Our southern neighbor, China, is at the beginning stages of acquiring skills for operating 3D computer graphics software. That is probably why some of their products do not satisfy the standards of quality. To cite a simple example, occasionally one can run his finger along the bottom of a juice bottle. The uneven edges are sometimes sharp enough to cut a finger. Other times a product's surface can be very rough and uneven. It's possible this is related to poor skills when operating 3D computer graphics software. High ranking client-companies do not accept such mistakes.

However, this software has not yet been fully utilized in Mongolia either, thus we have no other choice but to silently accept cheap, poor quality products from China. If a merchant places an order for higher quality goods, then the cost will be comparatively higher. This demonstrates how paramount it is to Mongolia to establishment small and medium factories instead. At the very least, it would not require Mongolian merchants to order everything from garbage bins to pens, juice bottles, and so on from abroad. Additionally, it would be a cost-effective change to the economy. The members of Parliament during election periods order all of their promotional items carrying their names (including pens and watches)

from either China or Korea. If a factory to produce these kinds of products was established in Mongolia, life could be more prosperous here. In fact, the developed countries of the world pay specific attention to the development of this sector in developing nations and provide strong support to their economies. There is no doubt that our government officials take notice of the fact that countries around the world are developing because of income generated not from their natural wealth but from their intellectual prowess.

Khashbaatar initially came to South Korea for the purposes of attending the Youth Congress organized by the "International Camping Association." He was the first representative ever from Mongolia. He did not hide the fact that he was staying there illegally at the time. In his first year working in South Korea, he began by delivering pizzas. After many years working a variety of jobs (including a stint as a dish washer) he finally found his job operating high-tech software. Initially, this low-experience Mongolian guy living in the country illegally was taken as an auxiliary worker, but was later promoted to his current top position. Since everyone makes mistakes, it's impossible to work without an occasional error. Khashbaatar once worked on a large order, but made the mistake of breaking the factory's main equipment. He knew that he could fall into heavy debt because of his mistake and even thought of running away to escape this consequence. However, the situation turned out in his favor and the factory management only gave him a warning. Management told him that since he was one of their better staff members they would forgive him this time, but admonished him not to make such a mistake again. They asked him to more closely follow occupational safety standards. From that day onward, Khashbaatar did not make a single other mistake in his next seven years of work.

This story is a testament to Khashbaatar's work ethic and commitment to good performance. While working in South Korea he received a salary worth 2,000,000 MNT in addition to meals, transportation and accommodations provided by the organization. Years later, despite his good income in South Korea, Khashbaatar came back to Mongolia driven by his desire to apply what he learned there in his homeland. ■



The March Towards Employment!

The sun rises from the east, shining on Earth with its golden sunbeams, and so comes a new morning. Each morning is different for humankind. Things of yesterday and today will not be the same as tomorrow. The sun rises up and settles down; so is life. People live inside of this harmonious symphony, keeping their own rhythms. One part of themselves hurries them to work every morning, while the another thinks worries about find a suitable job. Perhaps, they've waited months or even years without any results. A life with work is meaningful.

"Mongolian Economy" begins a new column entitled "Life". It features people who cannot idle by without success, complaining they cannot find a job for themselves. They struggle and crawl out of the ranks of the unemployed.

Unemployment is a challenging issue for every country and Mongolia is no exception. Within Mongolia, there are a total of 1,860,000 men and women in the labour force. According to a report from the National Statistics Committee, a total of 113,000 people remain unemployed.

The Government of Mongolia declared 2011 to be the "Year of Labour Support". Of course, the public wishes to see more results now than in previous similar campaigns. This year is more important than the "Year of Health Support", because the issue of employment is crucial to the livelihood of many families. Some people think the "Year of Labour Support" should be announced next year. Critics reason that a year dedicated to this issue prior to elections will have meager results. The Ministry of Labour and Social Welfare of Mongolia plans to renew and elaborate upon existing labour laws. The minimum wage is increased by 30 percent in April 2011 to MNT 140,400 per month. An officer of the Ministry of Labour and Social Welfare highlights the training of 3,300 young people in 18 different fields of work such as construction, mining, agriculture, and mineral processing. Eighty percent of the first 951 graduates found work in their profession.

S.Erdenechimeg, Tailor:

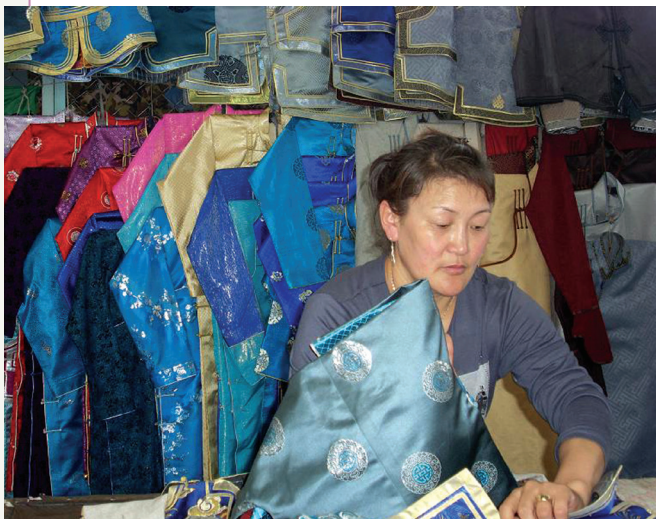
Among a variety of colourful silk deels stood S. Erdenechimeg. She is at her workplace, stand number 39 at Narantuul Market. She came to Mongolia's capital with her family after three years of unemployment in the countryside hoping for better schools for her children. Born in Khairhan Soum in Arkhangai province, she graduated from the Polytechnic School of Dark-

han in 1987 and worked at the Diesel fuel station in her Soum until she lost her job due to cuts in the 1990s. She is a hard-working person, so she did not spend a long time unemployed at the big city.

Her deel production and sales work started at the now closed Denjiin 1000 Market. Soon, her deel business flourished, and she now works at home with another six tailors. Her daughter and son help with the sewing and sales. The price for one deel is between MNT 40,000 and 150,000, depending on the material. Various silk and cashmere deels, waist coats, jackets, as well as children's deels hung in the workshop.

"It is fully possible to earn salaries that are paid abroad in own country", said Erdenechimeg. "The condition for this is good work. Young girls especially can learn to sew traditional garments and we can train them. In that case, we can pay by the amount of work done. This is beneficial to both sides. It is much better to live and work in one's home country than going abroad doing hard work. We live happy by our fair labor. Nothing is impossible".

Her efforts to train a new work force sounds pleasant as number of tailors able to make traditional garments decreases. »





► T. Dunjaa /trainer at “Ulemj chanar” carpet production center/:

T. Dunjaa is 70 years old. Although her children are now grown up and can lead their own lives, she did not want to live without work, depending solely on her pension. She works as a trainer at the “Ulemj Chanar” carpet center in cooperation with the “Small Medium Support Center Songino Khairhan”. This organization aims to transfer her skills onto the new generation.

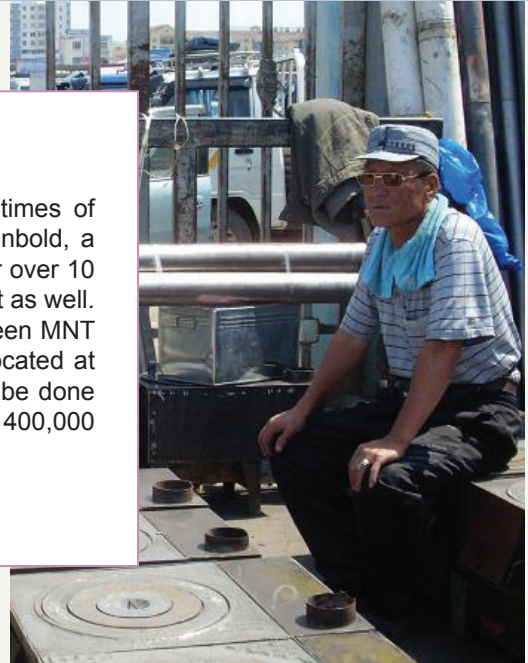
“I have been working two job for over 20 years. It was not easy having two jobs. However, I never became sick because of the work. On the contrary, I am healthy in my 70s. It is the best fate to be a human being, thus we shall live our life full of confidence. Fight for it. There is always a gift behind challenges” said T. Dunjaa.

In her youth, her husband became bedridden, beginning the trials of her life. It was not possible to live on the salary of just one job, explained Dunjaa. It was not enough to pay for her husband’s medical treatments and raise four sons. She worked as a director at the Technical Vocational School of Light Industry during the socialist times, but began weaving carpets to supplement her income. She weaved carpets from the early morning hours between 5 and 7 a.m. and continued to work until 1 a.m. the next day. She was responsible for bringing her four children into kindergarten, and visited her husband daily. Within a year, she lost 15 kilograms.

“Human beings can bear suffering”, said Dunjaa. ►

► G.Ganbold, Private entrepreneur:

“Being unemployed is the basis for alcoholism. But during times of work, one doesn’t have time even to think about it” said G. Ganbold, a radio operator at a wool washing factory. He has worked there for over 10 years, but for the last 15 he has been working at Narantuul Market as well. He sells ovens and stoves he made himself there at prices between MNT 35,000 and 90,000. G. Ganbold makes his products at home, located at the Tavan Buudal station in Chingeltei District. One product can be done by two or three people. His business earns him MNT 300,000 or 400,000 each month.



Z.Tsendjav, Director of Noyon nuruu Orgil LLC:

Z.Tsendjav, a man now in his 50s, moved to Ulaanbaatar 20 years ago after losing his cattle to drought and heavy snowfall. His family experienced plenty of challenges from 2000 to 2008. As the head of a family of six, he did not sit and do nothing, but sometimes there was not any food for two or three days.

“In order to make fire for heating, we used to take the planks from our own wooden fence”, said Tsendjav. “Me and my wife spent a long time finding a job with a sufficient salary, but we didn’t find anything. Life in those days was really hard”.

The business idea that changed their lives completely came from his son Munkhbaatar. His son worked for a furniture company with Chinese investment at the time and his salary was low. One day he spoke with his father about running a furniture business. For the head of a family who found gathering enough food each day a heavy challenge, this idea seemed to him a dream. Yet, it was a dream that came true. Assisted by the “Small Medium Enterprises’ Support Center” he received a loan amounting to MNT 18 million. Commercial banks provided the family with the possibility of taking another loan: up to MNT 100 million. The family’s furniture business was a success and they were able to hire more than ten employees.

Today, this family is full of new business ideas. However they cannot take another loan as high as MNT 100 million because they lack collateral.

“If we could receive a trust loan of a bigger amount:”, said Tsendjav, “then we could have a chance to develop our business. We hope that the state can support creative people”.

Tsendjav’s kitchen furniture business is considered as one of Mongolia’s best domestic factories, but during difficult times, sometimes they are forced to sell traditional idols to a pawnshop for some extra income. ■



For a green development



Mongolian economy and
business magazine



www.mongolianeconomy.mn