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# MONGOLIAN ECONOMY



Taking One's Future Into  
One's Own Hands

Oyu Tolgoi is The Captive  
of Politicians

Mongolian Economy and Business Magazine

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## Can Ulaanbaatar Become The Financial Centre

**METALS INDUSTRY DEVELOPMENT-NEW ECONOMIC BOOM**



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## Letter from the Editor:

One of my good acquaintances, a salesman at Narantuul Market, said to me, "I want to understand the financial market well. Despite my 20 years of business talent and wit, my financial and economic education is lacking".

He, who ranks well among salesmen with his knowledge in capital, financial capacity and business wit, has been preoccupied with these thoughts lately. Although he managed to open his shop counter at large supermarkets such as Gurvan Gal, UB mart, and Metro Mall at the center of the capital, perhaps I was wrong to think my acquaintance knew quite a bit about knowledge on financial market.

He very eagerly inquired from me, "Have copper prices fell again? Did the government manage to collect enough capital from previous years of high copper prices".

He even asked about the types of documents needed to establish a brokerage and dealer company, and to which government agency to apply to. The other side of the story in Mongolian is a crossroad. Should Mongolia develop financial education, or not? Everyone needs to understand these concepts whether they like it or not. If one does not make an effort to understand this, then he or she would be like a monkey lost in the forest without any desire to taste the fruits of either development or economic growth.

Actually, my acquaintance should not be the one discontent with his life. He rides a black Land Rover 200 series car, and has a three-bedroom flat at the Bayanmongol apartment district. In addition, he leads a wealthy life with agricultural land and a summerhouse. He is married to a doctor, and his daughter studies in the USA.

However, as the saying goes, "Adorn oneself not with material things but with education" he realized that he lacks economic and financial education. He struggles to learn about the insurance sector and the capital market. He wants to walk in line with the development of the country and on par with the ever-increasing interdependent global development.

For this reason, this edition of Mongolian Economy aims to publish as much information as possible regarding finances. The general public and the society at large demand information and news on financial market. Executive Director of TenGer Financial Group M.Bold spoke with Mongolian Economy about banks and finances. The article "Taking One's Future into One's Own Hands" tells about how the money that we pay each month for social insurance is managed and what how it could be used to taste the fruits of capital. You too may ponder on this issue.

Also are the opinions of professional economists, financiers, and analysts on the new opportunities within the insurance sector; how to implement risk management for an organization; and how the Law on the Sustainability of the Budget is being streamlined because of the fast approaching elections.



Deputy Editor I.Otgonjargal



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Main Topic

## From Where the Spectators Sit

Mongolia is leading the world in its economic growth and stunned the world with its 17.3 percent growth in its growth domestic product (GDP). The amount of foreign direct investment (FDI) is increasing at the speed of light and news has spread that it has increased three times since the start of this year. Foreign investors already know about the opportunity to catch a star from the Mongolian Wolf Economy, but it is sad that Mongolians themselves are still unaware.

The foreign companies operating in the mining sector of Mongolia have issued shares on the markets of London, New York, Toronto and Hong Kong; and have started to accumulate capital so large that they cannot even be imagined in the minds of Mongolians. The total market value of Ivanhoe Mines company amounts to USD 15 billion, double the GDP of Mongolia. Currently the mineral prices have skyrocketed, and Mongolia, which houses tremendous amount of natural wealth under its soil, has gone into fashion, attracting the attention of foreign investors.

Excited foreign companies believe Mongolia to be a sea of tremendous

wealth. They have already started to earn good profits. In countries with developed markets and a variety of financial services available, it is relatively easy to accumulate capital after developing a new business idea and producing a well-made business plan. Although there are 80 types of mineral resources, 1,170 deposits and around 8,000 mineral discoveries in Mongolia; there still is not enough money available to Mongolia to exploit these reserves itself. Now the country is faced with a choice to make: shall we remain as pauper sitting on gold or develop our stock market?

According to international practice, investments into the financial market should be equally composed of commercial banks and a capital market. However, 95.6 percent of the financial sector in Mongolia is the banking sector alone, while the remaining 4.4 percent is made up of other sectors, such as the securities market and insurance. Executive Director of the TenGer Financial Group M.Bold shares the methods for changing such an anomalous system in his interview.

Every day new tall buildings are built in Ulaanbaatar. Most often these

glass towers house the offices of foreign mining companies. Their ability to operate in Mongolia is proof that these foreign firms are adept to using capital to fund their operations. However, it seems that Mongolians are satisfied with sitting on the seats reserved for spectators.

The number of Mongolians who take up jobs at foreign investment companies is multiplying with the growth of mining and construction. The income of Mongolians is increasing too. On the other hand, it is time to change the mindset that one's wealth can be measured by the kind of TV in the living room, the car one drives, and the phone one carries. The number of cars on the road sharply increased following the growth of imports instigated by the inflow of foreign currencies into Mongolia, showing the spending and consumption mentality of Mongolians. Read about this in "The Choice between a Stock Portfolio and an iPhone" It is time to consider raising capital rather than spending it immediately.

The total savings held by commercial banks in Mongolia increased 73 percent in July from the previous year reaching MNT 2.6 trillion, and foreign currency ▶

▶ savings exceeded MNT 867 billion. This is proof of accumulated capital, but it would not be wrong to say that this demonstrates how inactive and unambitious Mongolians are. Why can this money not be circulated on the capital market? Purchasing the stocks of Mongolian firms that ignore corporate governance and lack transparency entails a great deal of risk, but those risks are unavoidable to the purposes of generating a lot of profits. Mongolians should learn to manage their risks and acquire financial knowledge. Following the interest of investors to avoid risks the growth of the insurance sector would expand. This would create a chain reaction that would result in a fully developed financial sector.

Each Mongolian person has become the owner of Erdenes Tavan Tolgoi shares and is now an investor. However, experts warn that at a time when one out of three Mongolians can be categorized as extremely poor and the total population has poor knowledge in finances, people could sell their shares at the first opportunity. The risk of repeating the blue and pink vouchers fiasco is possible, and this time it is highly likely that foreigners will buy up all the shares and leave Mongolians with nothing. "Taking One's Future into One's Own Hands" tells about how harmful it is to be too reliant on foreign imports. To prevent this situation and provide a guarantee to each citizen's future, it is necessary put money from the Pension Fund into circulation.

The story about how President and CEO of Hearst Magazines International Duncan Edwards thought of his idea to publish a Mongolian version of Cosmopolitan is an interesting one. He simply saw a lot of opportunities here during his dinner with the President of Louis Vuitton and learned about opening a branch of Louis in Mongolia. Foreign business entrepreneurs are drooling over the possibility Mongolia will soon reach the point of rapid economic development. Although McDonalds has not yet opened a branch here, world famous luxury brands such as Louis Vuitton, Burberry, Zegna, and Emporio Armani have found a niche market. In order to see, exploit, and get their hands full of the tremendous amount of opportunities for business; Mongolians need to show their own talent and initiative.

The sharp increase in FDI in

Mongolia is not something terrible. To the contrary, foreign investment should follow the introduction of international standards and progressive technology. Under the management of the London Stock Exchange (MSE) the market in Ulaanbaatar will amend the 100 years it has lagged behind within a relatively

short period of time. However, only when Mongolians themselves display initiative and effort can the large sums of money, progressive technology and knowledge that flows into Mongolia saturate into its soil. It is time to stand up from the spectator seat and get onto the playing field. ■

Banker

## M.Bold: Mongolian Banks and Insurance Companies Need To Learn Quickly and With Dexterity

By D.Munkhchimeg

*Executive Director of TenGer Financial Group M.Bold earned his B.A. in Economics and is M.A. in International Relations Columbia University in the United States. Bold has worked more than 20 years in the banking sector. He also worked as consultant for the World Bank, the International Monetary Fund (IMF) in Washington D.C., and at the Central Bank of Afghanistan. From 1996 until 2000, Bold was Vice President of the Central Bank of Mongolia and currently acts as a driving force behind a large financial incorporation that includes XacBank, XacLeasing, TenGer Insurance, Horus Nomadic Solutions, XacSecurity, and TenGer League Investments. Bold discusses banking institutions, the financial sector, and the monetary policy of Mongolia.*



### **-What is the state of finances in Mongolia's financial sector?**

-Currently banks dominate our financial sector. Compared to 10 or 20 years ago, banking operations have markedly improved and become healthier. Although it has not reached the international level, it has come close. However, the development of the capital market and insurance sector is relatively weak at this state of infancy.

**-More than 95 percent of our financial sector is constituted by the banking sector alone. Why capital**

### **market and insurance services cannot be developed?**

-The most important aspect to the development of a capital market and other financial services is people's knowledge and skills. For instance, our educational system needs to prepare students to work in human resources for insurance companies. The expertise of the team that monitors and inspects those employees also needs to be brought to international standards.

Everything depends on the human ▶▶

factor. Apart from this, Mongolia lacks a legal climate for the development of a capital market. Joint-stock companies do induce trust among investors because they are unfamiliar with international accounting standards, transparency, and financial reports that follow the appropriate regulations. In addition to this, there is not a fast and efficient court system that could fairly resolve business disputes. Only when all of these issues are resolved in a comprehensive manner will capital market and insurance companies be able to thrive.

**-There is an expectation that the expansion of the mineral resource sector will benefit the financial market. What do you think about foreign mining companies operating in Mongolia, and obtaining their insurance, finance services, and other assistance from abroad?**

Because financial institutions cannot subsist without customers, the development of the mining sector will positively impact the financial sector to a certain extent. However, today domestic financial institutions are unable to provide capital to large mining projects implemented within Mongolia. Banks issue only small-scale loans. As for domestic insurance companies, they have not yet reached international standards. Therefore, mining projects obtain their banking and insurance services from abroad so they may operate in a speedy manner. Mongolian banks and insurance companies need to learn quickly and work with dexterity. Otherwise it is wrong for them to sit and complain.

**-Foreign investors are becoming greatly interested in Mongolia. Consequently, there is a fear of too much dependence on foreign countries. What is needed for the creation of domestic investors?**

-Today, Mongolians are poor. Because money is scarce for individuals, households and business entities, they lack resources for additional investments. Only a few mining companies experienced improvements to their financial standing with the opportunities that opened up for investment of new projects and industries. There is a need for a policy that stimulates growth in a number of national companies.

**-What are TenGer Financial Group's objectives for expansion?**



**Is there a long-term plan for the issuance of shares on the international market?**

-In the future, there is no other option than to enter international markets. Today Mongolians lack money, but we want to build roads, electric power stations, and purchase housing. Currently this money is taken from abroad. If we wanted to develop mining projects to profit for ourselves, there would not be enough capital. Therefore, there is no other choice than to accumulate capital from abroad. On the other hand, there is no need to fear this scenario. Americans have obtained loans from China worth USD 1.2 trillion, and USD 900 billion loans from Japan. Even the world's number one economy has obtained this sort of debt.

**-However, reports indicate that**

**the resources of the pension fund and insurance companies in Mongolia are sound. Furthermore those are needed to create institutions for domestic investment. If this could be done, then it would be possible to prevent too much reliance on foreign countries.**

-Turning the pension fund into a long-term investment source is an urgent and important task that needs completion. However, this is not at all a new issue. Other countries have experimented, implemented, and successfully run programs like this for decades. On the other hand, the fact that a program like this has not been implemented in Mongolia creates impediments to the development of the financial market. It is tragic that despite the lack of a long-term investment ▶▶

▶ source current opportunities and resources are not being exploited. Insurance companies lack resources and opportunities.

**-What is your assessment of the current monetary policy as someone who held was once Vice President of the Central Bank of Mongolia and now works in the private sector?**

-The Central Bank is given its rights of independence and freedom from political interference from legislation. It is important it utilizes these rights and creates monetary policies. On the other hand, it is not possible to conduct monetary policy alone. It is directly dependent on the policies of finance, taxation and resolutions from Parliament.

**-Recently, the Central Bank of Mongolia explained that it has tightened its monetary policy because of increasing budgetary expenditures. Do you mean that the decision of politicians to distribute cash handouts affect monetary policy? How will these impact the banking and financial sectors?**

-Once budgetary expenditures expand, there is no other choice than to tighten the monetary policy. If budgetary expenditures expand while the monetary policy remains weak, then inflation will shoot up. This is a concept written about in textbooks. Tightening the monetary policy means restricting the market. When interest rates increase, the banks start to buy bonds from the Central Bank and decrease the amount of loans issued to business entities. If so, then money that should go to production and services will go to the Central Bank instead. Therefore, instead of flattening its monetary policy, the Central Bank should adopt a different approach. In other words, it needs to enhance the requirements needed for consumer loans, while softening the requirements for loans destined for production and services. For example, if the number of loans issued for meat production decreases, then there will be an increase for the prices of meat, which would result in the growth of inflation.

On the other hand, the distribution of cash handouts needs to be directed towards vulnerable social groups and not to healthy people as is it occurs now, which will bring our country to the brink of a disaster. It makes people incapable of working.

**-What will be the state of**

**Mongolian financial sector after five years?**

-There was a prediction that after five years the financial sector in Mongolia would grow 10 times. I think this is a realistic prognosis. I think that there will be greater economic impact after this.

**-You have said that it is impossible to imagine financial institutions without customers. Then when will financial services be accessible to Mongolians? For example, high interest rates and heavy requirements stand in the way of obtaining loans today.**

-People actually do not know, but the fact is Mongolia leads the world in the issuance of loans per person. According to a 2006 study conducted by an organization affiliated with the World Bank, our country ranks second in the issuance of micro loans. Therefore, it seems access to loans is not that bad. It is not appropriate for every person to obtain a loan. Other countries do not swim in a pool of loans as well. The most urgent issue to Mongolians is the high interest attached to loans.

**-Everybody talks about the need to decrease interest to loans. In recent years it seems that despite marginal decreases, there have been no significant results. Why is interest for loans so high in Mongolia?**

-Firstly, the distribution of cash handouts results in the quick increase of the price commodities and services. This is because Mongolia itself is not a producer. It always imports its products from abroad. Therefore, if the amount of cash increases, then so will the prices of rare products. Then the exchange rate for the tugrug falls. If inflation stands at 15 percent, then MNT 100 will amount to MNT 85. Another way to think about it is bread that originally cost MNT 100 will then cost MNT 115. Then what will happen is interest increases. People who want to deposit money in banks will be required a minimum of 15 percent interest. Nobody would want to lose the value of their money. If the banks do not increase their interests then people start searching for other types of investments, such as cars, immovable assets, equipments, and so on.

Therefore, banks have no other choice than to promise high interests to accumulate capital. Certainty, interest rate will grow higher when it increases its expenditure and profits

in issuing loans. This is a situation reminiscent of the devil's circle. There is an understanding that banks issue high interest loans. However, banks do not issue high interest loans because they wish to do so. It is because their sources of capital come with high interest.

Secondly, Mongolians are poor. A total of 2,000 customers who hold savings accounts constitute 40 percent of all savings. However, 90 percent of all customers with savings accounts own the remaining 60 percent. From this one can surely see how poor the state of wealth for Mongolians is. If Mongolians live rich lives with good incomes, then there the real amount of money will increase. That would in turn decrease the rate of loan interest. Anything gains value when it becomes scarce. This is similar to the situation that arises when the price of bread and meat increase if they become scarce. In other words, since the total amount of money is scarce, money's value is high.

**-Experts believe high interest rates for savings attracts "hot money" to Mongolia. How risky is this to financial sector?**

-This is definitely a big risk. When the Central Bank increases its interest rates, the banks follow and increase their interests. Thus, the interest rates to savings also increase. Therefore, people will be interested in depositing their savings into foreign banks for an increased annual interest from 0 to 2 percent at home to 12 to 13 percent in Mongolia.

Of course, foreigners will deposit their money into banks in Mongolia to accrue high profits in the short-term. However, such money is very unstable. It is called "hot money" because there is a risk that this money may disappear at eve a small sign of social and economic instability.

In this way, the Central Bank's decision to raise interest rates with the intention of decreasing the supply of money could actually increase the country's tugrug supply. If "hot money" arrives, then it may be necessary to exchange dollars accounts into tugrugs on any day. What happens if this money amounts to not several millions but to several billions? Instead of creating tight monetary policy, it could actually result in the supply of tugrugs to the market.

**-Since we are talking about risks, ▶**

► **could you tell us your thoughts on risk management within the banking sector? Recently there has been wariness because of fears the world economy may fall into crisis again. How prepared are banks in Mongolia if this situation should occur?**

-The risk management of financial institutions has significantly improved in comparison to 10 to 20 years ago. Mongolia's banking sector has experienced 4 to 5 crises up-close. It seems as though banks have overcome all these crises and have been vaccinated against them pretty well. However, one should not overestimate oneself. Preparation is required. Banks know well what type of measures to adopt in cases of crisis.

**-In 2008 when the price of copper suddenly fell, Mongolia's foreign currency reserves were half-emptied; the exchange rate floated, and banks endured hardships. Is there any guarantee that such a situation will not once again be repeated again?**

-Until 1990 Mongolia was solely dependent upon the price of the copper. When the price of copper increased, the livelihoods of Mongolians improved and declined when the price of copper fell. However, today the situation is rather different. Apart from copper, we have started to extract coal, gold, crude oil, iron and spar. Therefore, it has become more resistant to blows from foreign markets.

On the other hand, this is not a time for relief. Mongolia will attain development only when it brings to the foreground other sectors using the profits generated from mining. Mineral resources will be depleted one day. When that time comes, Mongolians should be capable of growing their economy using their intellectual capacity. Mongolia has a small population; therefore, in order to compete with countries that have a population of several hundred million people, every Mongolian needs to have the ability to work with a good education. Therefore, the most important investment is an investment into intelligence and skills.

**-You said that Mongolia ranks second in the world in its access to micro loans. Due to the fact XacBank has for quite some time dealt with micro loans you probably know well about the state micro loans in Mongolia.**

## Foreign Trade and Currency

# Where Are You Going Mr. Dollar?

By D.Maral

Mongolia is being showered with dollars. In the first half of this year, foreign direct investment (FDI) nearly tripled from since years to USD 1.8 billion. Since the turn of the economic crisis, the amount of foreign currency entering Mongolia has increased hourly rather than daily. With a total calculated in the billions, Mongolians have never seen this much money come to Mongolia before. In reality, however, Mongolians cannot yet hold or count this money promised in statistics. Perhaps Mr. Dollar left as

soon as it crossed the Mongolian border and it is up to Mongolia's financial experts to see where it is heading to help understand why the U.S. dollar, which has weakened over the last two years, has started to bulk up, and chart its future course.

### In and Out

The U.S. dollar can best be tracked by following it through the doors that lead into Mongolia. The approval of the Oyu Tolgoi investment agree- ►

-XacBank started with micro loans. Now this sector compared to other countries has been developed relatively well in Mongolia. Currently all banks issue micro loans. In addition, 150 non-banking financial institutions and 300 savings and credit cooperatives all operate chiefly in the issuance of micro loans. However, in respect to XacBank, now 50 percent of its total loan portfolio is made up of small and medium production loans, while micro loans do not amount to even 20 percent. Apartment loans constitute 20 percent. However, based on our experience establishing an international incorporation of companies that offers micro financing services in 2009, we invested into the Mol Bulak Finance microcredit company of the Kyrgyz Republic. Also, recently TenGer Financial Group signed a Memorandum of Understanding for the establishment of a micro loan company at Urumqi, Xinjiang in the Uighur Autonomous Region of China. This is the first investment made into the financial sector of China coming from Mongolia.

**-There have been disputes raised in respect to micro loans in countries such as India and Pakistan. It seems that such high interest loans puts**

**pressure and create difficulties for the poor. However, what are the prospects for the micro loans sector in Mongolia?**

-It has been said that the trees of the mountain are either too long or short. There are currently more than 10 thousand micro loan institutions around the world. Out of these, there are only a small number of companies that have acted wrongly and put themselves as well as their customers under hardship. Also, a situation could arise when they have been greatly affected by political interference. For example, politicians of some countries have urged their people against repaying their loans and instead let the state pay for it. One example of this is Nicaragua. However, it is widely believed that micro loans bring rewards.

Let me repeat again regarding this issue that not everyone needs to obtain loans. Loans do not grow like grass. Loans actually constitute someone else's savings. These savings should not be given out to everyone. When the banks assumed the responsibility for keeping this money reliably, it needed to find someone capable of transforming loans into employment and then loan to them. ■



ment stimulated an increase in foreign investment, said experts. Executive Chairman and Chief Executive Officer of Ivanhoe Mines Robert Friedland has said he plans to invest USD 2.3 billion into the development of the Oyu Tolgoi project this year alone. The operations of both large and small mining deposits are further attracting Mr. Dollar to mineral-rich Mongolia. In short, Mongolia's mining sector has become one of the main attractions for foreign currencies.

However, when Mongolians sell their products in exchange for foreign currency, export earnings become another large dollar source. More than 80 percent of our exports go to the Chinese market. Mongolians sell mineral resources such as coal, copper concentrate, iron ore, and crude oil to the Chinese for U.S. dollars. In addition to the rapid expansion of copper production fueled by the high prices of raw materials abroad, Mongolian export earnings reached USD 2.9 billion for the first eight months of this year; a 61 percent increase from the previous year.

Although export earnings have jumped, Mongolian foreign trade losses have increased 7.6 times to USD 1.3 billion. Investment into large mineral projects come in the form of mining equipments and heavy machinery rather than cash. In other words, foreign direct investment enters Mongolia

and then leaves. There has also been rapid growth in the import of vehicles to transport materials and petroleum (see Chart). An increase in crude oil prices on the world market has kept fuel prices high in Mongolia as well. Therefore, the inflow of foreign currency entering through the two doors of investment and export earnings escape through the even larger door of imports. This problem is a result of increasing foreign trade losses.

"There is no need to be fearful", said Deputy Head of the Foreign Trade and Economic Cooperation Department of the Ministry of Foreign Affairs and Trade S. Javkhanbaatar. "There are very few countries apart from India and China that do not experience trade losses. Actually, Mongolians need to see how production has been increasing as a result of this rather than the losses. Importing equipment revitalizes the production industry, creates jobs, and positively affects the economy".

#### What Does the Thermometer Say?

Foreign currency can be compared with a thermometer, explained Head of Statistics and Research of the Balance of Payments Division of the Foreign Currency and Economics Department of the Central Bank of Mongolia S. Bold.

Foreign currency exchange rates

can help determine investors' trust in Mongolia, the macroeconomic climate, and the amount of foreign currency entering and leaving Mongolia. In the summer of 2008, the price of cooper (which nearly hit USD 9,000 per ton) fell to a figure three times lower due to the financial crisis within just a half-year's time. The total losses of the year add up to USD 3,000. This situation resulted in a sharp drop in export earnings and the appreciation of the U.S. dollar against the tugrug on the Naiman Sharga to reach MNT 1,700 for ever USD 1. The Central Bank of Mongolia announced its bids on foreign currencies to supply commercial banks with dollars and slow down the skyrocketing appreciation of the dollar, resulting in a rapid depletion of foreign currencies in its reserves.

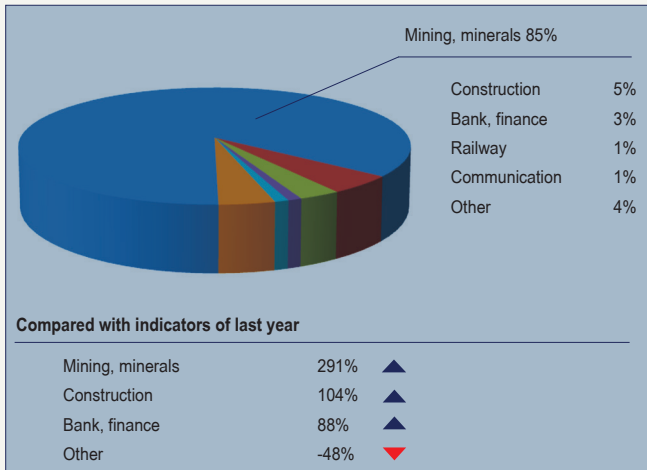
An increase in investments and export earnings in 2010 completely transformed the situation, however. A surge of foreign currencies flowed into Mongolia, strengthening the tugrug. This induced the Central Bank to take back its surplus dollars from the market to prevent a rapid fall in foreign currency values.

For this reason, foreign the reserve of foreign currency reserves, which once barely amounted US 500 million grew to an excess of USD 2.6 billion today.

Some may wonder why the Central Bank strives to tighten its leash on the growth of the U.S. dollar when it is strong and loosen when it weakens. If a foreign currency is strong, the price of import products remain high and hits Mongolia hard because the majority of consumer products and commodities are imported from abroad. However, when it is weak, the profits of national producers who export their products decrease. Therefore, it is important that exchange rates balance rather than grow too weak or strong.

Over the past two years, the U.S. dollars has weakened but has grown stronger within the last few months. This is likely due to the sharp increase in imports and the resultant growth of foreign trade losses. This fluctuation should not be too much cause for concern, however. The markets will continue to follow on its own current so the Central Bank should not have to interfere. ▶

Direct Investment in Mongolia /by branches/



Export Commodities /million USD/

Types	First Eight Months				Changes in amount / by %/
	2010		2011		
	Volume/ton, barrel/	Total amount	Volume/ton, barrel/	Total amount	
1 Hard coal	9 698 472	484,1	11 687 078	1 154,0	138,4% ↑
2 Copper concentrate	381 082	500,0	377 322	661,5	32,3% ↑
3 Iron ore and concentrate	1 930 621	137,2	3 748 544	275,1	100,5% ↑
4 Crude oil	1 337 648	98,2	1 493 350	150,0	52,7% ↑
5 Pure gold	3 867	132,9	2 708	125,5	-5,6% ↓
6 Washed cashmere	2 864	100,1	2 433	114,9	14,9% ↑
7 Zinc ore and concentrate	77 823	85,5	82 655	100,3	17,3% ↑
8 Fluorite and nepheline	254 484	40,7	265 442	62,0	52,3% ↑
9 Carded cashmere	476	31,1	325	33,8	8,9% ↑
10 Molybdenum ore and concentrate	3 275,7	35,4	2 617,0	31,3	-11,8% ↓
<b>Total export</b>	<b>1 793,6</b>		<b>2 889,0</b>		<b>61,1% ↑</b>

► Closing Doors

If the consumption of imported goods increases while foreign currencies weaken, Mongolia will suffer a terrible blow. The approach of elections makes the situation especially difficult if the government begins to distribute cash handouts to citizens. This would result in the further growth of import consumption. Before Oyu Tolgoi begins its production of gold and copper in 2013, Mongolia might experience a period of foreign trade loss.

“Industry and foreign trade are two sides of the same coin,” said Bold. “We should contemplate over what are our production outputs.”

There are just 10 types of mineral products and mineral resources constituting more than 90 percent of Mongolia’s exports (see chart). If the prices of coal and copper fell as they did in 2008, then export earnings would take a dive and could close the door to foreign currencies. This could effect a reduction in investment.

The resource sectors swallows 85 percent of FDI, but the legal climate in this sector may be create less appeal to investors. Politicians are discussing amendments to the Law on Mineral Resources and a possible recall on the Oyu Tolgoi investment agreement. Investors hate unstable situations.

This controversy demonstrates how foreign currencies depend so heavily on the minerals sector. If raw material prices fall, then the U.S. dollar will most certainly skyrocket. Experts have only one solution for this scenario: diversification. Mongolia needs to diversify the range of its export production. Only if Mongolia supports its agriculture, tourism, and its other sectors will it be able to create enough economic magnets to attract foreign currencies. As long as Mongolia continues to export raw minerals and crude oil rather than processed goods, it will not be able to absorb Mr.Dollar on Mongolian soil.

Foreign Trade Turnover /million USD/

	First eight months		%
	2010	2011	
Total turnover of foreign trade	3 758,8	7 080,1	88,4%
• Goods paid in foreign currency	3 575,0	6 207,2	73,6%
Export	1 793,6	2 889,0	61,1%
• Goods paid in foreign currency	1 778,5	2 884,9	62,2%
Import	1 965,2	4 191,1	113,3%
• Goods paid in foreign currency	1 796,5	3 322,3	84,9%
Foreign trade balance	-171,6	-1 302,1	7.6x
• Goods paid in foreign currency	-18,0	-437,5	24.3x

Performance of import goods /million USD/

Types	First eight months		Changes /by %/
	2010	2011	
1 Heavy mechanisms, equipments, spare parts	340,9	843,7	147,5% ↑
2 Crude oil products	398,0	726,9	82,6% ↑
3 Transport	219,2	683,5	211,8% ↑
4 Office and home furniture, commodity	68,0	120,5	77,2% ↑
6 Food products	104,9	119,8	14,2% ↑
6 Pharma, biology and chemical products, fertilizer	38,7	54,3	40,4% ↑
7 Metal goods	15,0	39,6	164,1% ↑
8 All types of cloth	1,1	1,3	19,1% ↑
9 Other main consumption goods	86,3	133,8	55,0% ↑
Other	693,1	1 467,8	111,8% ↑
<b>Total import</b>	<b>1 965,2</b>	<b>4 191,1</b>	<b>113,3% ↑</b>

Source: MCO

Currently there is a lack of heavy machinery and mechanisms let alone crude oil processing factories. Mr.Dollar cannot stay much longer in Mongolia for investment and export and is waving its hand in farewell to destinations for turning into form of equipment, fuel, and petroleum. ■



Ch. Otgochuluu's Column

## Can Ulaanbaatar Become The Financial Centre?

Can the Capital City become the financial centre at least of a region by following enormous mining business? Today New York and London Exchanges demonstrate their power in the world arena. They are followed by Paris and Frankfurt in the Europe and Tokyo, Hong Kong and Singapore in Asia.

Most of these centres are run their operation in English and legislatively they are based on Anglo-Saxon model. Their government regulations and support are good, and in addition, their central bank independence is protected, their monetary and currency policies have clear rules, transparent and clear. Their banks provide services of many types from private bank service for rich people to small investment advice to a pensioner. Of course, they are provided with good equipment such as e-technology and their employees' skills are good too. Behind these achievements and advantages, there is a government policy on increasing competitiveness of the particular city. For example, regulatory committees of cities such as Frankfurt and Hong Kong pay special attention to conduct training and developing new standards in addition to control and inspect banking and financial organizations.

But how is the situation in Mongolia? Market in our country is considered of bank-dominant form. Not considering the 1999-2000 resolute reform, the government did not take substantial policy of this sector. Several private banks a few numbers are growing with the power of market demand on their own by being said good and bad. Its proof is that the banking sector has become intensively enlarged in the recent years. For example, in 2000, there was balance of approximately 60 billion togrogs of only 1200 loan-holders. But at present, there are about 600 thousand loan-holders who obtained loan of 4.3 trillion togrogs from banking sector. However, it is unclear that this giddy growth is based on real skills and productivity. Mongolian market is being expanded. Like all boats are raised as water in a lake is increased banks become larger as a result of great demand.

Too high interest rate of loan in Mongolia impacts negatively on customers' satisfaction. The reason is general risk of loan is high and source expense or savings interest rate is high too. When there is dispute during general banking operation and loan repayment, banks can not be protected by laws and courts. It is can be considered that also it was because of unsuccessful actions of the government. Court verdict is issued slowly, its fulfillment is weak, is double registration is for one pledged property, managers of the registration organizations look always for bribes and etc. They increase loan risk and in return become as burden on the back of the business people as high rate of interest.

Another reason for high rate of loan interest is connected with high rate of savings interest. Exceeding budget expansion without control causes inflation to increase and because of the high rate of inflation, citizens search

automatically for high rate of savings interest to protect themselves. Monetary and currency policy makers are also guilty for the inflation increase.

Bank of Mongolia makes its policy in the too monopoly manner. The parliament approves it too general way only with a resolution. This is not differentiated from granting officially a right to the bank to act too on its own. It is unclear that whether the Bank of Mongolia's Governor, who is appointed by political way, meets a simple criterion of understanding correctly modern macro economy connection. The main capital of the Bank of Mongolia is its reputation and it must promote correctly its policy by the way of managing correctly business people expectation. It seems that MongolBank governor must be under one's nose like a conductor of orchestra. Unfortunately, but he becomes known to the public only by being said sometimes that as he involved in a crime.

### What should be done in the future?

At present, when politicians who breathe with votes make policy, it is doubtful that the capital city can become the strong financial centre. The only thing in which we have to believe is that the Banks Association must be strong. But its lawful right is limited and so it seems that it does not need to expect much at present.

In this time that Mongolian economy is growing and there is high interest rate variance or margin between loan and savings, the banks should use the time correctly by making much investment in their people, standards and ethics. Today, this sector is growing to the extent that a loan economist of a large bank must control of a package of several billions.

But what do customers have to do? They should be able to understand variance between interest income and expense, variance between comparison indicators between savings and loan by reading bank statements. Two medium-sized banks that were bankrupt several years ago could not manage interest rate and total size of savings and loan in fact. It was seen from simple analysis made on their statements that they had source exceeding and paid high interest to savings.

Therefore, if citizens will be educated financially well, they will learn to "punish" banks before they have bad operation. The banks that have educated customers with high demand will try to develop themselves.

I would like to have the question again that can Ulaanbaatar become a large banking centre that will be considered as large in the region? It can. It can when citizens become educated to demand the government and the government has mind to support not to pressure down the banks. ■

Institutional Investment

# Taking One's Future into One's Own Hands

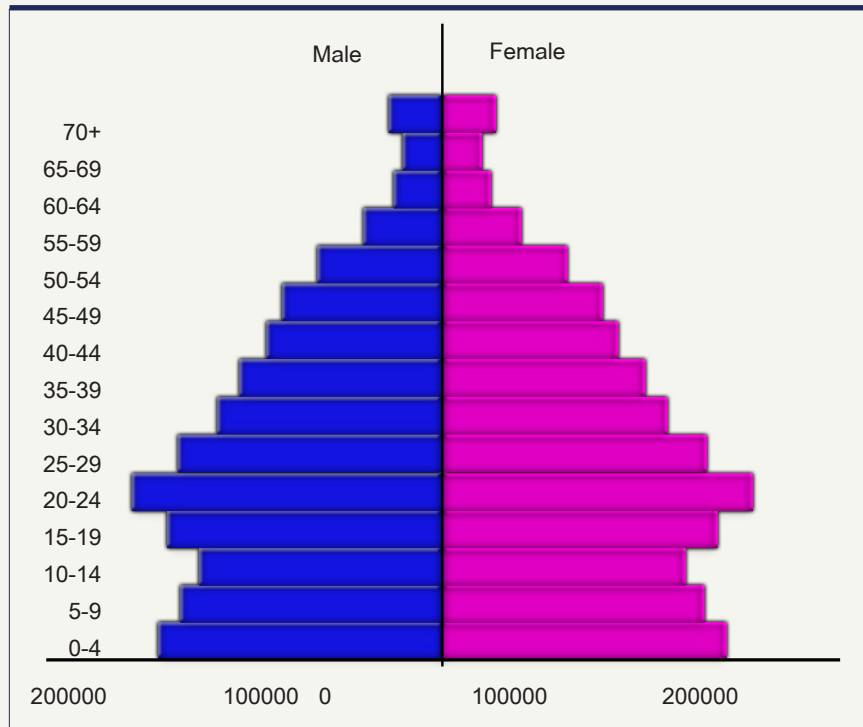
By D.Munkhchimeg

A smile has lit up the face of a friend and her eyes are sparkling.

She said: "Listen friend, our future pension is growing with a very high interest rate. I can now estimate that sum from an individual contribution account for pension insurance on a website".

Next, she opened a web-page (<http://www.ndaatgal.mn/ndans/>) to learn that the National Council on Social Insurance has approved the interest return from an individual contribution account for pension insurance and will come with 29.8 percent interest for 2009 and 28.3 percent for 2010.

Then we sat together and started estimating the sum of the social insurance payment we had already paid. Every employed Mongolian pays 20 percent of his or her income to social insurance premiums. One percent goes towards retirement benefit, four percent to health insurance, one percent to unemployment insurance, and the remaining 14 percent towards pension insurance. My friend, who has worked for the private sector for four years, initially received a monthly salary of MNT 350 thousand, and that salary has grown to exceed MNT 550 thousand. After a brief bit of calculations, she surmised that she had paid MNT 4.5 million towards her social insurance premiums and grew elated as if she has become rich. I asked my friend several questions. ▶



► **-In just four years' time, you have paid MNT 4.5 million. However, to be entitled to receive the pension when you have reached the age 55, you would need to work for another 30 years. Certainly, your salary will increase on a regular basis. Can you imagine how much money you will eventually pay towards your social insurance premium?**

-I do not know. It could actually reach several hundreds of millions of tugrugs.

**-What if after paying your social insurance premium for 34 years you died before reaching 55? Would not that be unfortunate? Imagine that the government allocated MNT 300 thousand to your family towards funeral costs and then turn its back.**

-Can't I be entitled to receive my pension before I reach 55 years of age?

**-According to our current law, if you are not able to receive one's pension from the Social Insurance Fund until after you have paid the social insurance premium continuously for no less than 20 years time. If the premium is paid for before the period of 10 to 20 years has been fulfilled, then you will receive a proportionate amount of retirement benefits. If one has paid for nine years but then stopped to stay home for any reason, then unfortunately you will never receive the pension.**

-Since I am paying so much money towards the premium, then at least my pension should be set at a high rate, right?

**-Only after you have paid your social insurance premium for 20 years, will you be entitled to receive a pension equal to 45 percent of your salary. If you paid for 30 years then it come to 60 percent, and 40 years comes to 75 percent. No one considers inflation or how well a pension can sufficiently provide adequate living standards in the future.**

-Then why do I need to check what remains in my individual account? It does not make sense since I will never receive this amount (She was growing increasingly more irritated).

**-Exactly. Therefore, the current**

**social insurance system needs reformation.**

### The Close of a Budgetary Loophole

Mongolia can be attributed as a "country of young people". As the graph (see chart) shows, the majority of the populations consists of people aged between 20 and 54 years old. Thus, people at ages for employment constitute the majority of Mongolia's population. People over 55 years old are comparatively less. The other side of a "country of young people" is that many are people dying after years of hard work raising their livestock before they are able to receive their pensions. Even if they do become able to receive their pensions, they do not receive their pensions for very long.

Under the current pension system, the government does not raise enough money for those who pay their premiums and instead give it out as pensions to the previous generation.

According to data from the National Statistical Committee; although there are 557.6 thousand people paying their social insurance premiums, there are only 56.2 thousand people who are entitled to their pensions. How could anyone understand that the Ministry of Finance has warned that the Pension and Benefits Fund (which distributes premiums paid by so many people yet is given to so few people) still experiences loss amidst proposals to increase the social insurance premiums? What will happen to the more than half a million people who are now paying their premiums to feeding the elderly? Will money be left in the Pension Fund to pay for the pensions for the next generation? Where is the Pension Fund money held?

In 2002 Mongolia adopted the Law on the Unified Budget. The future pensions of Mongolians were categorized as tax revenue in part to close budgetary loopholes. Three years ago, the Confederation of Mongolian Trade Unions discovered that the government had spent MNT 2.1 trillion of the Pension Fund on interest free loans. However, Article 11.2 of the Law of Mongolia on Social Insurance states, "it is prohibited to transfer money from one type of social insurance fund to

another, spend those funds, use them, or deposit them improperly". The Government has violated this provision and it seems that it will continue to do so unabated. Unless this situation is changed, there is a danger that closing the loopholes of the budget with money from the pension payments could result in empty accounts after one becomes entitled to receive one's pension.

### Raising a Pension Fund

The Pension Fund has USD 550 billion worth of capital and has been raising money for social insurance premium payers on stock markets abroad. Many other countries around the world such as Japan, Canada, Singapore, Malaysia, Australia, France, Sweden, and Chile use state money and private pension funds as a source for long-term investment. This allows the government to raise enough money for the pensions entitled to its citizens and ensure fair livelihoods. According to a study by Towers Watson, 300 large pension funds around the world held a total of USD 12.5 trillion in 2010.

Economist D.Jargalsaikhan has written that citizens of developed countries around the world receive notices informing them on how the money from their pension will be used and how their pensions regularly grow. Those people can live happily knowing that the money they have accumulated from their social insurance payments can be used if they become sick or disabled. However, it would be very interesting for Mongolians to learn how their money is being raised.

"In foreign countries insurance and pension funds are the biggest players on the capital market", said Head of Monetary Policy and Research of the Central Bank of Mongolia D.Boldbaatar.

In the 2011 main government guideline in respect money, it states "Measures are to be taken to establish a long-term financial source". The "long-term financial source" includes stock markets and pension funds. Only when these two are closely connected to each other can they become beneficial to one another. Specifically, financial managers invest to raise ►

▶ capital for pension funds. They do so by purchasing government bonds or shares. This allows capital for the fund to grow and increase total money for those who pay their social insurance premiums. This scheme also allows the market to develop. However, to keep up this balancing act, very skilled management is needed.

### Look into Your Own Chest First Before Asking Your Neighbours

Today, every Mongolian person owns 536 shares of Erdenes Tavan Tolgoi. However, at a time when one out of three Mongolians is deemed extremely poor, experts warn that there is a high likelihood people will sell their shares for cheap as soon as they can for their daily necessities. When the Erdenes Tavan Tolgoi shares are released to the market and its price is determined, trade will be possible. Once that happens, the number of foreign investors on our stock exchange is certain to increase significantly. Many experts led by Mongolian Stock Exchange (MSE) Chairman of the Board B.Bold cautioned that these shares could run abroad.

“Currently the majority of shares on the MSE are bought by foreign investors”, said U.Ganzorig, president of the Financial Market Association. “It is sad that even though Mongolians have the opportunity, they do not exploit it. In order to raise capital for the Pension Fund, it needs to be used on the stock market”.

Looking at all of the new accounts opened in 2010, it becomes apparent that the number of accounts owned by Mongolians has increased by 1.9 percent, while the accounts of foreign citizens have increased by 34 percent. According to the 2010 Securities Office report, this growth is an indication that the MSE has started to attract the attention of foreign organizations and citizens.

The reforms facilitated by the London Stock Exchange (LSE) for the MSE will likely attract even more foreigner investors. However, a sudden fall in the price of coal or copper worldwide or if Mongolia fell out of fashion for any reason, then foreigners will grab their cash and run home.

In this event, the MSE would decline once against to inactivity. To prevent this sort of scenario, experts suggest establishing institutional investors. For Mongolians with poor financial means, the Pension Fund is the only long-term investment option available to them.

“It is tragic that at the time when there is a lack of a source for long-term investment we are not using our opportunities and possibilities”, said Executive Director of the TenGer Financial M.Bold.

As Mongolians say: “Look into your own chest first before asking your neighbours”. Using some money from the Pension Fund on the capital market would aid the development of the MSE. It would also increase the amount of pension money for Mongolians in the future. The social insurance premium payers would be able to use their individual contribution accounts as collateral and obtain loans

from banks. If someone dies while receiving his or her pension, then their children would be able to inherit what remains from their accounts.

This is the practice of the majority of countries. However, no one can tell when it will be introduced to Mongolia, and when people would be able to receive their pensions from their own accounts. The government does not pay attention to raising money within the Pension Fund because it is too focused on spending it.

Mongolians today need to concentrate on transforming their savings not in the form of tax revenue for the unified budget but into a guarantee for a prosperous future. Mongolians need the right to use their funds while they are healthy and energetic during difficult times. However, when we receive our money back from our individual contribution accounts, it need not be diminished or emptied but amplified. ■



### Stock Market

## The Choice between a Stock Portfolio and an iPhone

**D**orj stepped out from his gray Sonata II, firmly closed the door, and walked towards the entrance into his apartment. His glanced back

at his pristine car clearly exposed his thoughts about changing his car very soon and his desire to pursue a new lease. He was apparently unaware of ▶

▶ the fact that he had just rung his own door bell, lost in his dream of selling his car. As soon as the door opened his eldest daughter embraced him and exclaimed, "Daddy, I want to buy an iPhone! I won't keep this old one anymore". Then she went to the kitchen room. Dorj believes good living demands a good car, fashionable flat, and expensive mobile phone.

Like many of his fellow Mongolians, Dorj pays a lot of attention to domestic goods. They set out to create a wealthy life for their wives and children. Even though his salary and his wife's combined cannot meet the payments towards food and clothing, he was able to put together enough money to move from the apartment he and his family lived in for past three years. His friends praise Dorj for his many talents and skills and strive to improve their own lives to live as richly as he does. You too might think this guy is a good young fellow, diligent and hard-working. However, would you believe that this sort of mentality focusing too much on consumption creates obstacles to the development of a financial sector?

#### **President of the Central Bank of Mongolia L.Purevdorj:**

*The more money earned by the Mongolians, the more they strive to spend it", said. "No one is interested in saving money and raising capital. In the first eight months of 2011, total imports reached USD 4,191,100, which shows imports increased 2.1 times compared to the previous year's data. The majority of these imports are made up of vehicles and home furniture, demonstrating how Mongolians pay a lot of attention towards domestic consumption. This sort of spending habit shoots up the rate of inflation, worsens the conditions for the accumulation of capital, and creates obstacles to the development of a capital market.*

It is no secret that Mongolians are ignorant to risks and think first about spending rather than saving the money they earned. This is probably the reason they do not like participate in the stock exchange. However, for-

eigners are paying a lot of attention to raising their own capital. Mongolians think more about trading in their Excel, regardless of how well it functions, for a Grand Mark II. On the contrast, foreigners only think about changing their vehicle when they stop working. In other words, they strive to find ways to profit with the money that we use to consume expensive, trendy goods. Their thoughts center on investment. While we live beyond our means, foreigners do not make extra demands. In other countries not everyone drives a stylish car or carries an expensive mobile phone.

Although many people live on a small savings, the majority fears risks and prefers to open a savings account rather than purchasing shares. However, experts suggest that superfluous demands create supply shortages or shocks; one of the main factors that leads to inflation. Inflation can cause one's savings to shrink. For instance, if today one keeps money at the bank with a 10 percent interest rate, it cannot grow. The Central Bank estimates that inflation stands at 10 percent, so the 10 percent interest rate is gobbled up by inflation. This is called dead money.

Nine loaves of breads might cost MNT 100, but 10 percent inflation rate would drive up the price to MNT 110. Even if MNT 1,000 was left at the bank with a 10 percent interest grew one's savings to MNT 1,100, a month later the purchasing power is the same as MNT 1,000 a month before.

It is important to take the proper dosage of any medicine to prevent it from becoming a poison. Therefore, if the money spent on unnecessary goods were used for investment, that money could help defend against inflation. Mongolians must shed themselves of their narrow thinking that "today's glands are better than tomorrow's fat".

In 1930's Europeans harbored the same fears towards investment. They believed that the stock market is a risky business that depends on luck and fortune, while a secure savings looked to be a more reliable way to build one's finances. However, today people around the world have rid themselves of these thoughts. Yet, our

country still harbors that old fashioned way of thinking and development to our market remains poor.

Domestic and foreign experts are joining forces to improve the Mongolian Stock Exchange (MSE). Last April the London Stock Exchange (LSE) signed an agreement to cooperate with the MSE. If Mongolia learns well from this experience, then it could be the largest investment to its market. Mongolia is still working to create an adequate legal climate for investments as well. Foreign experts have organised many forums on issues around corporate governance and corporate social responsibility. However, the most important thing is that Mongolia completely changes its thinking. This is the advice coming from the Central Bank of Mongolia. Currently there are few people who buy shares on the MSE. The August report from the MSE states that the total trade activity amounted to just 5.5 while the rest went to government bond trading.

Mongolia, which was little known to foreigners, now attracts the attention of the world. Many investors are determined to come and Mongolians are now required of a new way of thinking get on par with foreigners jumping on the market. Today large Mongolian companies such as Hunnu Coal, Petro Matad, Energy Resources, and Darkhan Selikat are able to expand their business after successfully raising capital on the foreign market. Foreigners are beginning to indicate that their trust is growing in Mongolian companies. However, now it is important for Mongolians to trust themselves and change their perceptions. Mongolians have a saying: "let us feed our own dogs rather than feed other people's dogs". If we can sell shares domestically and raise capital, then opportunities for raising capital and reaping profits will materialise.

"If the Mongolian companies start to trade shares on the MSE, then it would be a great support for the domestic shareholders, and could even create possibilities to fight against the unstable political decisions", said MSE Chairman B.Bold.

When will the dream of Mongolians participating in shareholders meeting as shareholders, like in films, be realized? ■

## Simple Question

## Have You Ever Bought Shares?



**B. Narantsogt /assistant of the Member of the Parliament Mr. J. Batsuur/**

-I am thinking about buying shares. Actually, I have an interest of pursuing this type of business in the future. It is certain



**Sh. Erdenebat /Ulaanbaatar Railway machinist/:**

-When I reached the age of doing a lot of explorations the state issued the blue and pink vouchers. It could signify my participation in share trading /laughed/. However, throughout the country it was not a success. At that time there were no information dissemination tools like today such as internet, mobile phones, and so on. There were not so many TV channels like today. We lived at the time with the lack of information. Due to this we did not understand the uses of the pink and blue vouchers and thought these were just empty papers. The Government also



**D. Khulan /Marketing manager of "Suu" JSC/:**

-I never participated in trading of shares. However, as a young person I was interested in this and studied it. It seems that in recent years people are greatly interested in shares and the capital market, and accordingly their knowledge

that the large mining projects of "Iyu Tolgoi" and "Tavan Tolgoi" that attract a lot of money and large investors would contribute towards the development of the capital market. It is true that the Mongolian Stock Exchange that has a history of 20 years of existence lacks experience, and is poorly developed. However, I believe that it will be able to flourish in short-term. At that time people's trust in the capital market would strengthen and there will be a lot of people, who would buy shares.

failed to explain the meaning behind such vouchers, and therefore, the citizens had a wrong understanding of shares. However, now the situation has changed and the shares are talked about a lot. There is also variety of information transmission channels. Today the shares of Tavan Tolgoi are distributed to each citizen. This is a good thing. Through the Tavan Tolgoi shares young people need to cultivate a new understanding of securities. If this is done then since our young people are good at learning new things they would quickly understand it. However, a lot of information needs to be supplied, and we need to see what the positive gateway is by studying the mistakes of other countries. Otherwise, if the shares of Tavan Tolgoi are left priceless as was the case with pink and blue vouchers then it would be very difficult to renew the understanding of shares.

of the subject improves. Therefore, I am planning to participate in share trading. Due the fact that the information in this area is scarce and there is a lack of accumulated capital I putting it off for now. On the other hand, even if the individual has money the poor development of share and capital market robs us of our trust. Generally, in the society there is a prevailing view that trading shares is actually a game testing the luck. This way, the closest people to me are not really concerned about share trading. This, probably, affects me as well.



**D. Uuganbayar /photographer/:**

-I am now at home looking after my child. I also do some small business to earn money. My wife works. I studied variety of ways to earn money while staying home. I understood that if one's brain functions well then the shares would allow me to earn money while staying home. Therefore, I am paying a lot of attention to buying shares and studying it. If one purchases the shares of the company that works successfully then it is possible to earn money by receiving dividends or by selling it twice or three times the original price.



**G. Zolboo /Student at the University of Agriculture/:**

-I participated at share trading. However, I did not trade shares by using my own name. I bought the shares through my sister, who works at the brokerage and dealer company. At that time I just bought the shares out of curiosity. No-one knew that I bought shares, but I really liked it. Currently, I have an account with few shares. I think that after graduating the university I will actively participate in securities trading. I believe that if I display bright mind and dexterity of a young person then I would achieve success. Also people are becoming more knowledgeable about shares and I am interested to pursue this type of a business. I dream of becoming a great investor in a ten years' time. ■

Letter from an Expert

## New Opportunities In The Insurance Sector

By B.Odmaa

**Freelance analysts opened the website “Purplebook.mn” with the aim to deliver the required information regularly on topic economy and finance. ME supports their activity, and will cooperate with these experts. Thus, we will include in our magazine features, written by those experts, in the rubric “Letter from an Expert”.**

The insurance sector in Mongolia once consisted of a single state owned company; it is now one of the country's largest sectors with many different players. The number of insurance companies in Mongolia has reached 17. According to the current quarter the income from the insurance premium fees amounts to MNT 8.9 billion and the net profits of the insurance companies has reached MNT 2 billion.

There is no doubt that the Mongolian insurance market has seen eyebrow raising growth at 77 percent. This may be explained by the fact that in comparison to other developed markets such as Europe and the USA, the Mongolian insurance market is relatively young and is still in its early stages of development. According to information from the Financial Regulatory Committee it is stated that in total 600,000 individuals have been insured in Mongolia. However, the fact that the number of taxpayers amounts to less than 500,000 citizens shows that the number of insured individuals has been greatly overlapped and the insurance companies are themselves incapable of correctly counting their customers.

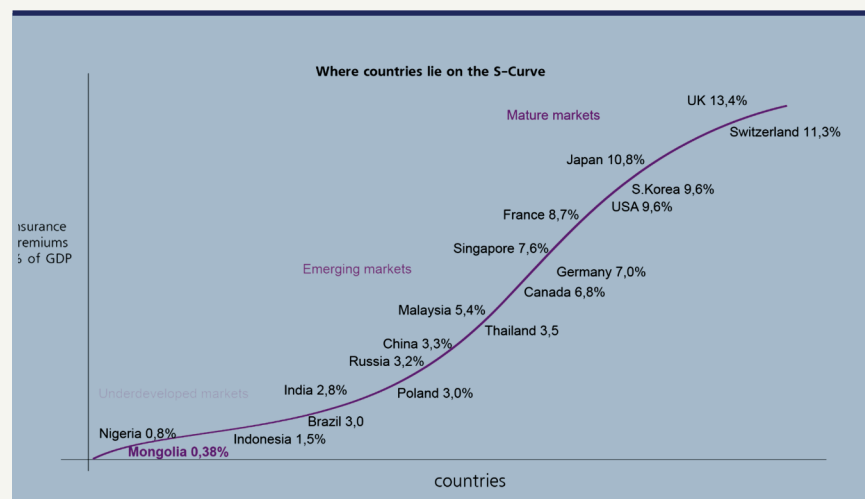
According to data from 2010, Insurance premiums only constitute about 0.38 percent of Mongolia's national GDP. This number is low in comparison to developed nations like the USA (9.6%), Japan (10.8%), and UK (13.4%). This indicates that the insurance market is both insufficient and widely inaccessible.

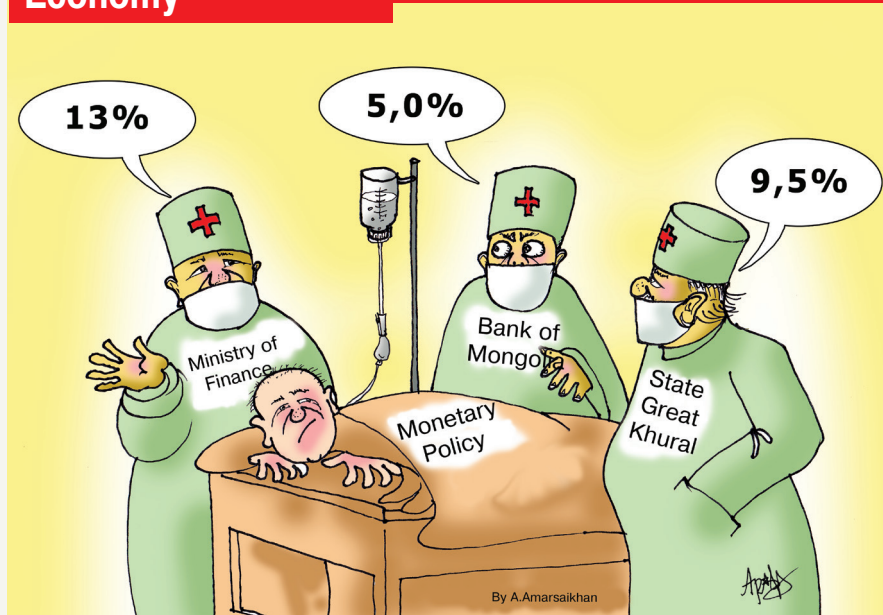
The following S-curve shows insurance premiums percentages of national GDP for a number of different countries around the world. You can observe from this graph that with the income of the insurance sector making up a mere 0.38% of GDP, Mongolia ranks quite low. According to this position on the S-curve, the Mongolian insurance sector is an Underdeveloped market. Countries around the world consider Mongolia to be an emerging market and foreign experts assess the Mongolian insurance sector to be very poorly developed. In order to develop this sector, insurance companies themselves need to expand their operations; there is also a need to establish a clear and comprehensive legal climate in the short-term.

Now let us determine the opportunities for growth and development in the insurance sector. Firstly, it is possible to increase the number of customers that use the current products and services available. On the other hand, it is possible to introduce new insurance products and expand the market capacity. For example, only 75 thousand drivers in total had obtained drivers' liability insurance in 2010, which constitutes only

10 percent of people in Mongolia with a drivers' license. If a law making drivers' liability insurance mandatory is adopted, drivers' liability can become an important cornerstone in the market's further development.

At a time when businesses and social relations are developing and the economic growth in Mongolia is intensifying, there is an increase in the demand for new types of insurance products. Here can be mentioned many types of insurance such as, liability, political risk, pension, etc. Even though the insurance market has tremendous opportunities, in order to realize them Mongolian insurance companies need to develop good financial capacity and earn the reputation of being reliable and trustworthy. The majority of large insurance companies in other countries are joint stock companies. In Mongolia there are currently no insurance companies registered at the Mongolian Stock Exchange. Therefore, in the future insurance companies need to be aware and pay close attention to the issues of uniting their forces, improving their administration and management, and increasing their financial capacity. ■





Budget

## The Government Budgetary and Monetary Policies are Lacking

By I. Itgonjargal

Generous father in his usual way decided to scatter around the money. The average salary of the public officials is going to be set at MNT 600 thousand. The salary of the teachers and the doctors would soar higher. The current salary rate would double. The commentary followed this decision stating that this issue was discussed by the tripartite national committee of labor and social welfare, where the parties reached a consensus. Initially, the Confederation of Mongolian Trade Unions raised the issue of salary raise. As soon as it was raised this initiative was supported with green light from the Government. Since there exists a reason for the head of the household to agree to everything that their children ask for everything including the raise to the salary, pension and other benefits receive a green light. It seems that the father, who “gives in to everything while in a good mood”, does not have to consider red warning signs from donor organizations such as the International Monetary Fund (IMF) and World Bank, the recommendations and advice of which he used to follow for many years.

The Minister of Finance made a

budget amendment and submitted to the Parliament a draft proposal for the increase of the budgetary expenditure by the amount equal to 5.0 percent of GDP. However, the IMF announced that there is no need to make budget amendment. This organization reasoned it with the falling rate of the purchasing power of tugrug due to increase in the amount of money in circulation following the speedy increase of the economy, and the rapid growth of the savings and loans in addition to flattening of the social welfare expenses. The World Bank is also anxious that the rate of inflation could skyrocket by more than 20 percent. On the other hand, the Minister of Finance states, “The Central Bank of Mongolia has a policy of increasing the policy rate. The Government will also pay attention to keeping the reserves of meat, petroleum and fuel at normal levels. This way, it is possible to keep inflation rate less than 10 percent”. From such recent announcements related to budgetary and monetary issues it is certain that the politicians are striving to keep their promises of distributing cash handouts due to rapidly approaching election no matter what. Simply, as

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the election year comes closer the politicians have already contemplated to spend several hundred billions of tugrug from the taxpayers’ money by declaring their love to herdsman. However, they strive to cover up the too much expansion of the budgetary expenditure that would be a burden to the development and economic growth of Mongolia rather than aid with such beautiful words as the Development Bank bonds and investment.

Economist D.Jargalsaikhan stated in short and simple terms that the current budgetary and monetary policies start to remind that of 2008. On the other hand, it is surprising to see that the Government displays no emotions and acts as if the heating up of the economy, inflation growth and the copper price rapid decrease are the usual things. D.Jargalsaikhan listed several reasons for why there should not be an increase in the budget expenditure. Firstly, he warned that the economy is already heating up. He stated the true words by saying, “Due to the fact that the Government is spending the money accumulated following the high rate of few mineral resources’ price on the foreign market not towards creating a value but to redistribute it in order to fulfill their election promises the value of the money is falling. If the Government succeeds in influencing the labour productivity of the private sector by constructing roads and developing infrastructure, and increasing access to hospitals and schools then the economic growth would have real fruits. If the revenue that exceeds the

▶ budget is not spent towards increasing the labor productivity and competitive capacity then, at least, it should be spent towards repaying the debt. For example, if the Government starts to repay the debt from the Pension Fund then it would positively affect the capital market development". However, all will depend on how the politicians have reflected upon such real truth told by the economists.

It is very rare to observe any expenditure in the list of several hundred billion tugrugs of expenditures reflected in the draft of the budget amendment that can be stated, "Great, this is actually a worthwhile investment". The list continues with laughable expenditures including domestic and foreign travel expenses of public servants, who receive special state protection, and the "compensation" for submitting cashmere and wool and the supply of the smokeless furnace. If we had a clever Government and the politicians, who cared for their people, then it would have been possible to tighten one's belt knowing too well how the economic crisis is once again approaching and creating a panic among the superpowers.

It is a pleasure to note how the economist of the Mongolian Open Society Forum N.Dorjdari has written for this edition of our magazine that making budget amendment defeats the main principles and goals of the Law on the Sustainability of the Budget. However, there are quite a few number of economists and experts who consider and expect that the this law that will start to be implemented from 2013 is the last hope to positively influence the budget and monetary policies. Actually, this law includes many important requirements to set limits to expenditure growth, budget deficit and state debt. It is very recent when the Minister of Finance Mr. S.Bayartsogt himself once said, "Generally, with the adoption of the Law on the Sustainability of the Budget the concept of budget amendment would disappear". However, how can we understand the situation when less than a year later the Minister is stepping on the very law he declared passionately and bid for its approval? If Mongolians could understand this situation by connecting it with election, then, probably, foreigners and international organizations are raising their eyebrows over this situation. The decision-makers, who consider the

fulfillment of their political goals as their short-term goal, are doing such embarrassing matters.

Interesting numbers of 2012 budget and monetary policies are not yet visible today. This is because they are merely being submitted to the Parliament for consideration.

It is interesting to learn what would be the next year's budget deficit if this year's budgetary expenditure is expanding this much. Some experts state that the Ministry of Finance estimated the next year's budget deficit to be 4.1 percent. It sounds good, doesn't it? It is wonderful if it can be kept at this rate. However, it is really difficult to believe in this. In order to make the budget deficit stand at such a small amount a number for comparison is needed. This number is the amount of GDP. Therefore, according to the budgetary estimate by the Ministry of Finance there will be 20 percent growth of GDP in 2012. By seeing this growth estimate ordinary citizens would not know anything, and just accept it as it is. However, it seems that for the experts the GDP growth of 20 percent is a laughable matter. In simple terms, by stating hard numbers it actually relates to the almost unrealizable dream. By reflecting the budget deficit of 2011 in the draft law of the Budget the Ministry of Finance announced good news that it will be kept at five percent. The officials at the Central Bank were also happy to hear such news and were "deceived" by making all of their estimates of the monetary policy based on the five percent budget deficit. However, this time since the Central Bank learnt its lesson it is highly unlikely that it would relax its monetary policy regardless of how attractive the estimate of 4.1 percent seemed to them. For sure all the parties see that there is a requirement to discuss the budgetary and monetary policies together to tie them up rather than submitting them separately to the Parliament for discussion. Currently, if the budgetary issue would be discussed almost at the first hand by the Parliament then the draft of the main direction of the Government monetary policy ranks in the list of discussion items in the twelfth place. Our state officials should be aware of the fact that it is far more productive if the budgetary and monetary policies

are discussed together rather than going after two divergently adopted items for the purposes of tying them up. Actually, the Central Bank strives to be open to the public. More than a year ago this authority was able to make such reforms in its public relations. The media representatives liked such reforms. They organize numerous trainings in order to raise the knowledge and awareness of the journalists writing on economic topics. There are people at the Central Bank, who think that being open to the citizens on many issues except if they relate to state secrets would positively affect decision-making and the national development. To the question of the journalists on could not the relevant organization discuss together on the subject of monetary policy and go towards the common goal, Head of the Public Relations Department of the Central Bank Mr. B.Lkhagvajav replied, "This is exactly what we want to happen for the benefit of the national development. We do not know why but the situation of the past 20 years has been such that we always strived to find mistakes from each other and negate the others. However, on behalf of the Central Bank of Mongolia we are advancing a proposal to find a solution together rather than looking for each other's mistakes. On our part we conducted roundtable discussions with the representatives of such organizations as the Ministry of Finance and the MNCCI or went to meet them in order to find gateway for finding a resolution to this issue, but we just end up arguing with each other. But now we do not want this situation to continue any longer". I recall that such initiative was advanced by the Central Bank two or three months ago.

Only in our country the situation of blaming one another for excess of the budget deficit and inflation growth or denying other's work continues for long, while in other countries the budgetary and monetary policies are discussed together, and the Minister of Finance and the President of the Central Bank work to achieve the common objective. However, today due to the lack of the common goal of the Government, Parliament and the Central Bank there is a need for the common mission that aims towards producing healthy budgetary and monetary policies, and developing sustainable economy. ■



## Reportage

## Young Global Leaders in Mongolia

By Kh.Khulan

Prince Jaime de Bourbon Parme of the Netherlands paid a visit to Mongolia. However, it was not an official visit but one where he came with 34 outstanding young leaders of the world to spend the two days in Mongolia with ancient history. The Prince is of middle height, wears simple clothing, and attracted people with his communication skills and a bit of interest in the horse-head fiddle, the Mongolian traditional instrument that enchants the world with its unique melody.

There are more than 700 outstanding young leaders, who share a commitment in shaping the future of the world. A group of 34 representatives from this group of young leaders of different backgrounds within their home countries have been recognized by their respective countries for their outstanding efforts and have paid a visit to Mongolia. This two-day journey was initiated by Vice Minister of Finance Ch.Ganhuyag. Each year young global leaders are selected at the World Economic Forum, also called the Davos Forum. Member of Parliament S.Oyun was the first young global leader selected from Mongolia in 2005, followed by D.Dagvadorj (Asashoryu Akinori) in 2006, and Minister of Mineral Resources and Energy D.Zorigt and Vice Minister of Finance Mr. Ch.Ganhuyag in 2009.

The young leaders' trip was an opportunity to learn about modern Mongolian society, in addition to its economy, traditions and future goals and objectives. The tour started with a visit to

secondary school No. 33 in Ulaanbaatar. At a meeting at the school called "Campaign to Honor the Dignity," schoolchildren shared their opinions on how to live with dignity, and what kind of personality traits and education are required to become leaders. The ways one carries dignity depends on the person. It is important to study diligently and grow into a well-mannered person with good thoughts and deeds. It is necessary to always remember the good advice given by our parents and teachers at each and every step of the way, and read often to become a kind and hard-working person. The young leaders offered the advice that a leader should be a highly efficient communicator as well as a well-educated person. One should be intelligent, hard-working, and persistent with their work and deeds. The talented young children entertained their foreign guests with the traditional Mongolian art of acrobatics, throat singing, dancing, and music featuring the horse-headed fiddle. The display moved the foreign representatives deeply.

After this they met students and young people to discuss the issues of leadership, society, and methods to allow participation for the decision-making process. During a panel discussion, students talked about the obstacles slowing the development of natural science and the lack of equipment and appropriate laboratory conditions for conducting scientific experiments.

Javier Garcia Martinez, director of the Nanotechnology Molecular Laboratory at

the University of Alicante in Spain:

"I am very impressed to see how much emphasis (Mongolia) is putting on education and science. I have to say that when there are so many young people, you can demand for more spending on education. This country needs a new generation of scientists. If you don't have enough education here, then go abroad as I did. Then come back to your country, and champion education and science. You have to add value to your natural resources, and that comes only from science and technology".

Many young people were interested to learn from the young global leaders what type of steps one should take to achieve goals, to which they replied, "You are the voice of young people who are the future generation of Mongolia. Only by knowing one's goals is it possible to create change. Therefore, it is important to find people who do the same thing and select the appropriate tactics for achieving those goals. Instead of focusing on success and results, concentrate on learning as much as one can, then wonderful things will happen".

These young leaders are the amazing experts that will shape the future of their countries, including senior partner of Booz&Company, Managing Director of Charas, co-founder of the Monaco-Asian Society, the founder of the A Capital Group, Senior Vice-President of Hilton Worldwide and many more. The young leaders spent only two days in Mongolia, but this event was enormously significant. In addition to a meeting with Prime Minister S.Batbold to discuss the development of Mongolia, the group also shared its opinions with journalists on the current state of the media, freedom of the press, the boundaries of journalism and PR, and the issues concerning professional journalism. Journalist Deborah Kan of Thomson Reuters has learnt that in Mongolia, despite its small population of 2.7 million, journalism focuses on quantity rather than quality.

"It is one thing to declare oneself as a country with the freedom of the press, but it is another thing to have a law that will support it", said Kan. "I think part of the problem is that there is not a lot of transparency. There is a very clear line where I work between what is appropriate and what is not. For instance, plagiarism is not appropriate. All of these things have very heavy punishments. If we cross the line, we know we will lose our jobs. If the lines are not drawn, it is a very hard problem to tackle".

The young world leaders agreed ▶▶

► that the most important factor for the development of professional journalism is increasing transparency from the owners of media outlets. They also discussed the need for laws and regulations that protect the interests of the journalists.

During the second day of the trip, the group of young global leaders, visited Terelj, a place known for its natural beauty. For this occasion Ganhuyag assumed the role of the guide and discussed the infrastructure of Mongolia, the economic and financial situation, and lifestyle and livelihoods of Mongolians. The foreign guests were interested in the standards of living at the ger districts, employment, poverty. They also travelled to the Tsonjin Boldog complex that houses a statue of Chinggis Khaan and the Aryabal meditation temple situated on a slope amongst the impressive rocks of Terelj.

Young world leaders had a great impression of the Mongolian traditions, culture, history, and the traditional nomadic lifestyle, and the natural scenery. MP Oyun, Ministers Ganhuyag, Zorigt, and the World Bank Country Director to Mongolia Coralie Gever sat on the panel at the Terelj hotel to discuss the opportunities for natural resources, growth, challenges, and sustainability. Young leaders asked about Mongolia's natural resource wealth.

"Mongolians are incredibly lucky people to have this beautiful nature and to have discovered so many reserves of mineral resources", said Parme, who also holds the position of special envoy of the Ministry of Foreign Affairs in the Netherlands. "However, there is a large danger that you might become too dependent on natural resources if you don't develop a strong economy. I wish you the knowledge and patience to develop a strong diversified economy".

The young leaders pointed out that the money coming from resources needs to be directed towards the development of other sectors such as education, health, and information technology. They also highlighted the importance of job creation instead of the distribution of cash handouts.

"Our independence and freedom are very important to the future generations of Mongolia", said Ganhuyag in response to a question about his impression of the event. "In addition to the establishment of diplomatic relations with as many countries as possible, there is a need to develop living friendships and partnerships with citizens and individuals. I think that a valuable investment has been made by inviting young people who lead their countries in their respective sectors. This is because



these people will direct their thoughts and initiatives towards the social and economic development of their respective sectors in their own countries. I am very

glad they have become good friends of Mongolia for the many years ahead of us. It is very important to retain these people's experience in our country". ■

## Job positions of the Young Global Leaders



**Nami Matsuko, Head of Corporate Citizenship Department, Nomura Holdings, INC.:**

Nami Matsuko is a specialist in investment banking. She works as the head of the Corporate Citizenship Department at the Nomura Holdings Group. Matsuko also supports the activities of the global fund for education assistance called "Beyond Tomorrow". This fund was founded after the earthquake and tsunami disaster last March in Japan.

"The fund will begin the leadership programme for young people struck by the earthquake in the eastern part of Japan from April 2012", said Matsuko "This scholarship programme aims to aid those young people to become future leaders".

Half a year has passed since the Tsunami in Japan, but 20,000 people are still missing.

Almost 30% of the population in the eastern region of Japan is above 60 years old. Even before the earthquake fewer and fewer people wanted to live there. A growing number of young people wanted to come to Tokyo to live and work there. The strength and efforts of young people are necessary to the revitalization process of the region struck by the earthquake. Therefore, the fund will offer activities for the improvement of young people's education and leadership in this region and help them settle in the eastern part of Japan.

Matsuko expressed her deep gratitude to all Mongolians for their support to Japanese people following the earthquake.



**Dong Kwan Kim, Managing Director of Hanwha Group:**

The Hanwha Group is one of the top ten conglomerates in Korea. This company was founded by Hanwha Managing Director Dong Kwan's grandfather. Currently his father is Chairman. Dong Kwan works on long-term strategy and new business opportunities. The company operates in the finance and

trade sectors. The Hanwha group focuses on the solar energy, green technology, and the sustainability. He was asked about the principles that young Mongolians should follow in order to succeed. He said, "Never be content with things. Also don't be afraid of taking risks".



**Katrin Ley, Head of Brand Strategy and Business Development of Reebok:**

Katrin Ley was born in Tuebingen, Germany. She grew up with a sport and fitness lifestyle from an early age. Since then sports have been an important part of her life. Ley used to work for Boston Consulting and BMW, but she spent a long time searching for a job that would suit her best. She found her dream job at Reebok, where she currently works. Ley spent the last five years at Reebok's central office in the United States. Recently she moved to the company's central office in Amsterdam. Her work responsibilities include a broad framework, athletic lessons in the United States and Europe, supplying shoes at an affordable price to

developing countries, and a variety of other activities to support sports in communities. The before-school programme (BOKS) provides fitness and physical activity for elementary school children in the United States and Europe. It helps children jump-start their brains to better equip them for a school day. A programme in Asia will be introduced as well. According to the survey, sports benefit not only one's physical health, but also improve the mind. Practicing fitness in groups is a great way to keep a routine and support each other. You will not have to argue with kids if you telling them playing sports will not only make them fit, but smart too. ■



Guest

## Graham Watts: “You have made a large reform to the Mongolian economic journalism”



Former editor and journalist Graham Watts visited Mongolia last September to organize a training session for journalists who specialize in economic news in Mongolia with the support of the World Bank. With more than twenty years of experience with Financial Times Magazine, Graham shared with us at Mongolian Economy his first impression of our publication. Graham said:

I came to Mongolia a year ago”, he said. “Since the last time I visited, the majority of things—including roads, the city, and the people have remained the same. However, I noticed that a large transformation, especially in the area of economic journalism, has been made. This change is Mongolian Economy. I was very happy to learn that your magazine was launched during the rapid economic development of Mongolia. But when I went to buy it at the nearest bookstore, it was already finished. When I read the latest edition of the magazine, I was eager to read all of the previous issues.

We were happy to hear that such a renowned person recognized around the world as a professional training of economic journalism, had chosen to visit the office of the newly established Mongolian Economy out of the many

publication following economic news. He further remarked, “It is extremely vital that you inform your readers in simple and understandable terms about difficult economic news. I am certain that your magazine will be able to execute this mission”.

He added that at a time when many foreign countries are starting to display interest in Mongolia, it is a big advantage that our magazine is published in the English language in addition to Mongolian. Furthermore, Watts said he liked the news printed in English very much and would be happy to collaborate with Mongolian Economy and share his experience. He exchanged opinions with our staff and gave his valuable advice on many issues, including the development of journalism, the direction of journalism for the future, positive and negative aspects of Mongolian journalism was a huge intellectual investment for us.

Watts, who has worked for more than 30 years as a journalist and editor, organized a four day trip and training session at Umnugobi Aimag, the epicenter of the Mongolia’s mining sector. More than 20 journalists and reporters who work for television, newspapers and websites participated in this train-

ing. Just as new developments are under demanded from economic journalism this training provided a wonderful foundation for journalists to acquire important skills and experience. Journalists were happy for the opportunity.

“Participating in the training with a renowned trainer like Mr. Watts in addition to the eyewitness experience of “Olon Tolgoi”, a place that carries a lot of great promises to the development of mining, economic growth, and world class mineral deposits, provided an opportunity to learn with experience”.

Watts also worked in cooperation with the Press Institute of Mongolia to place an electronic book on economic journalism on the website of the Institute. This electronic book includes practical advice on writing about of banking, finances, trade and commerce, government policy, agriculture, and mining. ■

## Opinion

# The Main Principles and Objectives of The Law on Fiscal Stability Non-Enforceable



N. Dorjdari, Manager of Open Society Forum NGO

In recent years the State Great Khural got used to amending government budgets in the course of the fiscal year, sometimes even two or three times, in response to the copper price fluctuations on the world markets. The predominance of such a system, where expenditure closely follows the change in revenues, would necessitate cutting of essential social and economic expenditures in times of crises, and conversely, influences the spike in the poorly assessed and wasteful spending when revenue increases.

In order to change this procyclical spending policy, Fiscal Stability Law was adopted. The basic idea of the law is that if actual revenues during the budget year exceed planned amounts, the difference would be saved in the stabilization fund, while if actual revenues are lower than the planned, the financing of budgetary expenditures from this Fund would be permitted, thus allowing to smoothen the Government expenditures over time and limit risks arising from sudden fluctuations. While arguing for the adoption of this law, the Minister of Finance S. Bayartsogt claimed at the parliament session the adoption of this law would have many positive outcomes among which is that budget amendments would no longer be needed. Specifically, he stated that “Generally, with the adoption of the Fiscal Stability Law, the concept of budget amendment would disappear. I would like to say that we would transition to the system, where the additional sources of income generated from the mineral resource price difference would be allocated to the Stabilization Fund which in turn can be used during a year with poor revenue”.

With the purpose of implementing the aforementioned principle stated by the Minister, the Fiscal Stability Law was adopted in June 2010. This apparently shows Mongolia’s willingness to follow more responsible fiscal policies. However, in just over one year’s time, in September 2011, the same Minister of Finance, together with his key staff, presented his arguments for the need to make budget amendment, as broadcast in all media outlets.

Obviously, many people would be wondering why such situation occurred. In reality, the law seemingly adopted many important requirements aimed at limiting the expenditure growth, the fiscal deficit and the government debt. Unfortunately, there are several issues that we would like to draw attention to which prove that this law is merely a poorly hidden deception. This issue should be addressed without delay at this opportune time when the two key political parties hold the power together.

1. Limiting expenditures. Fiscal Stability Law provided for the unified budget expenditure not to exceed the amount of non-mining sector growth, the requirement to enter force starting from 2013. However, by opening an opportunity to finance infrastructure and other projects, which were previously financed directly from the government budget, from the newly established Development Bank, this restriction can easily be bypassed. Due to the fact that the sources of financing of the Development Bank would be constituted from the state budget as well as from the bonds guaranteed by the Government (or the taxpayers’ money) it should be considered to be the budgetary expenditure, but in practice this guarantee would not count towards expenditure.

2. Limiting the public debt. The law sets a limit to the amount of the government debt to safeguard against excessive risk to the taxpayers’ money and lower burden for the future generations. The law provides “net present value of the government debt should not exceed 40 percent of GDP”. This provision will enter into force starting from 2014. However, the law allows for the state equity participation in mining enterprises be excluded from the debt value for the purpose of this ceiling if the equity is carried by the investor and to be repaid from the project proceeds. This opened the door for excessive increase in the amount of the debt and can potentially make this restriction meaningless. The law includes a concept that such a loan would not be considered a debt if it is to be repaid by the project proceeds. For example, in case of Oyu Tolgoi, Mongolian government received a 34 percent equity in Oyu Tolgoi LLC, carried by Ivanhoe Mines, and a separate agreement should be made on how this will be repaid. That agreement should ensure that the repayment is not guaranteed by the government and be linked only to the proceeds of the given project, but it is not known if this agreement was ever agreed or not, being not public. There are many strategic and non-strategic deposits such as Tavan Tolgoi, Asgat and so on. If the state participates in the development of all of them, and validates its equity participation from the loans received from the investors which are not non-recourse, then at times of downfall of the highly risky mining sector there could be a situation when the loans could not be actually repaid from the project proceeds. In other words, this is a clear loan that should be counted towards public debt, then it should be counted against the ceiling of 40 percent of GDP.

3. Setting conditions for spending funds from the Stabilization Fund. The law’s main principle, as described above, is to save the excess of the actual revenue above the the planned revenue into the Stabilization Fund, while in case actual revenues are below the planned, the shortage would be covered from this Fund. However, the Law on the Government Special Funds legislated conditions under which the proceeds from this Fund can be spent. Specifically, the law says that “the difference of the planned and actual revenue can be spent”. In other words, it means that it is possible to make expenditures from the Fund equal to the shortfall of actual revenues to the planned revenues, but also in case the actual revenues exceed the planned. This is the meaning of the word “Difference”. Thus, the spirit of the Fiscal Stability Law is breached and the Fund can no longer live up to its purpose.

In conclusion, the Fiscal Stability Law should have been one of the most important laws under the unique stage of development of Mongolia. It is a positive development that the law was adopted. Unfortunately, the conditions for fulfilling the main two rules or the requirements of the law in respect to the budget restraint are not strict; it is possible to easily bypass them. Moreover, even if the law is strictly implemented, it cannot limit expenditures at all because of the condition of the Government Special Funds Law.

The law has significant shortcomings. It needs to be amended as soon as possible. ■



## Windy Mongolia

By E.Zorigt

Imagine life without electricity or power. Life and work in cities especially would probably be completely different. However, the world is paying great attention to environmentally friendly energy sources. Solar, wind, hydro and geothermal energy sources have been developed world-wide. According to estimates by the International Renewable Energy Agency (IREA), by 2050 renewable energy will supply 50 percent of all the energy of the world. Today the cheapest sources of energy are considered to be geothermal energy followed by wind power. Therefore, the countries of the world, including the China, the United States, and Germany are not only using wind power extensively but are also devising policies to making it one of their main sources of energy.

According to data from June this year, wind power stations are now able to generate up to 215 gigawatts of energy, and technology is improving to increase that maximum. According to estimates by the IREA, by the end of this year wind power generators will reach up to 240.5

megawatts. This means that more than three percent of the total world energy supply will be originate from wind power. According to the data of the first-half of 2011, the capacity of wind turbine stations has increased by 9.3 since last year.

Mongolia, which is situated on the elevated plateau of Central Asia, has lots of potential for wind energy. In addition to its wealth underground, Mongolia has lots of resources that can be used in environmentally friendly ways. Of the total landmass of Mongolia, 10 percent (60 thousand square kilometers of land) is suitable for wind power production. About 20,000 megawatts can be generated for 13 provinces within Mongolia, while nine more have potential of more than 50,000 megawatts from wind energy.

Umnugobi Aimag, which has attracted the attention of the world for its mineral wealth, has the wind potential to generate more than 300,000 megawatts. However, we are unable to effectively use clean natural resources that are environmentally friendly. According to a study conducted by the National Center on Renewable Energy, 93 percent of the total energy produced »

in Mongolia comes from coal and 6.8 percent from liquid and gas fuel. Only 0.2 percent is extracted from renewable energy sources. Mongolians are continuing to adopt traditional approaches for generating electricity.

Mongolia has started to concentrate on creating a legal climate favorable for conducting environmentally friendly operations. Mongolia joined both the 1993 U.N. Framework Convention on Climate Change, and the 1999 Kyoto Protocol. In 2007 Parliament adopted the Law on Renewable Sources of Energy and the Improved Climate Change National Programme of 2011. However, the government needs to realize that nothing concrete has resulted from the implementation of that law. Today in Mongolia there are very few examples of the exploitation of wind power and its development. Experts point out that although quite a few numbers of small wind turbines have been installed, currently only a few of them still function.

However, the large-scale activities of the private sector have shifted towards the development of wind power. Newcom Group is working to put a 50 megawatt wind power station in Tuv Aimag into operation. Using the knowledge and skills of its Mongolian engineers, the power plant will be completed by the third quarter of 2012.

“We started large scale reconstruction operations for generating wind power in 2004 and have developed technical and economic specifications in cooperation with the Scottish company SgurrEnergy, which assures us of its compliance with international practice”, said Newcom Group’s subsidiary Clean Energy Executive Director B.Byambasaikhan. “It was determined that Salkhit Mountain in Tuv has the greatest potential for wind power to generate enough power to match the Central Energy System (CES)”.

When this plant begins operating at full capacity, it could become an environmentally friendly energy source ranking below the third and fourth thermal power stations. Each year it could produce about 168.5 million kilowatt hours of electricity, reduce 185.5 thousand tons of CO2 emissions, and save 1.6 millions tons of clean water and 150 thousand tons of coal.

“By putting the wind power station into operation it would become one of the first and largest reconstruction works to turn studies on wind power into concrete activity”, said Byambasaikhan.

Newcom has also studied 250 thousands hectares in the Gobi region for the potential for wind power for three years. Currently large-scale construction is already underway in this region, requiring tremendous amounts of energy. Consequently, at this first stage the firm is working to complete the technical and economic feasibility studies needed to build 300 megawatt wind power stations. The government only needs to create a favorable legal climate as the private sector is rapidly moving forward toward the development of Mongolia. ■

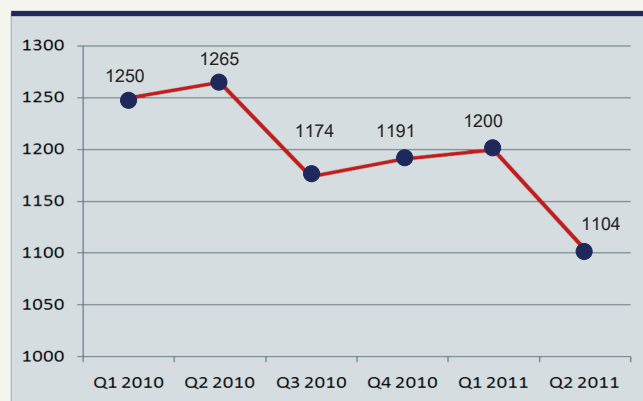
10 % of Mongolia's territory (160000 km<sup>2</sup>) has rich resources for wind energy



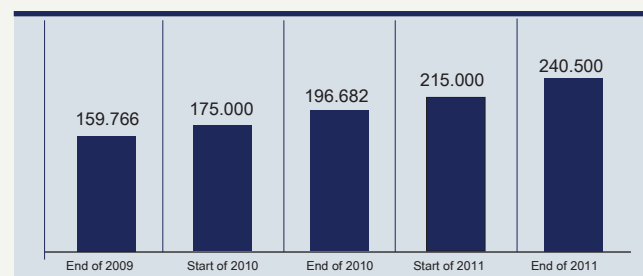
Total capacity

Countries	First six months in 2011	First half year in 2011	Total capacity in 2010	First half year in 2010	Total capacity in 2009
	MW	MW	MW	MW	MW
China	52.800	8.000	44.733	7.800	25.810
USA	42.432	2.252	40.180	1.200	35.159
Germany	27.981	766	27.215	660	25.777
Spain	21.150	480	20.676	400	19.149
India	14.550	1.480	13.065	1.200	11.807
Italy	6.200	460	5.797	450	4.850
France	6.060	400	5.660	500	4.574
UK	5.707	504	5.203	500	4.092
Canada	4.611	603	4.008	310	3.319
Portugal	3.960	260	3.702	230	3.357
Other countries	29.500	3.200	26.441	2.750	21.872
Total	215.000	18.405	196.682	16.000	159.766

Wind turbine price of one Kilowatt /USD/



Total capacity 2010-2011





Ongoing

## Oyu Tolgoi is The Captive Of Politicians

By D. Bekhbayar

Mongolian political madness has started. However, the main target of this madness has become the “Oyu Tolgoi” project. Once again this project that has been discussed for many years and approved after analyzing it from every angle is under fire. Again the issue is raised in respect to the project that has been stated to pave the road for the future rapid development of Mongolia. I inevitably pondered over the question of one person, who asked whether the Mongolian politics is so pitiful or whether the small politicians of a small country espouse such a nearsighted thought. One more question – do our politicians make decisions by firstly considering the interests of the country and the people? I just met a lot of people, who reply to it as surely they do not. They do their jobs poorly to be assessed like this by the general public.

For example, one can point to the Oyu Tolgoi project. The project that has been merely approved after seven years of arguing and making up today is in danger of being halted. Didn't the long process of consideration take place? Why are the representatives of the party and political forces, who used to say that

one good thing was done for the country and the people, now criticizing the project approved by them? Why is this issue being raised after two years of its approval or rather when the Parliament election has approached? When the issue is very clear do not borrow the name of the country and the people as well as do not make their heads spin. It can be just seen as the political move to turn the public opinion towards them during the upcoming election. Or why was it not possible to raise this issue just as strongly before and after this large project was approved?

The agreement includes a provision that 34 percent of the Oyu Tolgoi mining deposit will be owned by the Government of Mongolia, while the remaining percentage is owned by “Ivanhoe Mines Limited” and “Rio Tinto International Holdings Limited” companies. Then there are a lot of people, who think that the demand to increase the percentage to be owned by the Government to 50 percent is the political policy that espouses a far-sighted goal of remaining in one's sit in the upcoming election. Of course, each Mongolian person would welcome the proposal to raise

the percentage up to 50 percent. Every Mongolian, undoubtedly, espouses a thought of owning 50 percent or even 100 percent of the natural wealth left by their ancestors. However, it is certain that no-one would want to achieve results through the politicization of the issue like today prior to the election year. Patriotic type of talks are heard that state why should we worship Europeans, and why should we let them do our jobs. Even if it is reasonable on one hand, on the other hand, it is a food for thought. In other words, while we champion a wonderful dream of accumulating a lot of money by owning 50 percent of Iyu Tolgoi, and our country being developed with people's purses thickening, a far worse situation than owning 50 percent could happen. Let me share with you some thoughts and ideas.

**Firstly**, Iyu Tolgoi is the largest reconstruction and development work since 1990. Six billion US dollars of investment would be made to the place with total lack of infrastructure. The latest progressive technology will be introduced. This is a project that will contribute significantly to the development of Mongolia and will create ▶

▶ many thousands of jobs. Therefore, isn't it far more beneficial to make it conduct its operations without any obstacles?

**Secondly**, it will show how well the legal climate of investment has been established in Mongolia. In other words, a risk to the investment is being created. Unstable and incomprehensible political climate creates such a risk in Mongolia. The system when the law that is being approved one day would be nullified the next day creates anxiety not only among the investors but also among national businessmen. Companies that own 66 percent of Oyu Tolgoi project take a great risk and would have to raise six billion US dollars from the world financial market. Then the investors would give them the money by treating them as the owners of 66 percent and by trusting that they would be able to raise such profits. However, what would be the perception of foreign investors on Mongolia if after the approval of the agreement and the completion of 50 percent of the operations suddenly there are talks on changing the percentages and amending the agreement? Mongolians say that by giving a promise it needs to be honored. This is the same as the world business principle. There is no need to talk about development by going back and forth like this. It is certain that the investors' trust would be lost. Foreign investors request and demand from us only one thing. That is, of course, the sustainable legal climate. What will happen to many other mining projects that will be put into exploitation after Oyu Tolgoi if it is stopped? Some people say why there is a need to plead the Europeans. What was our situation before? Isn't it a bitter truth that we reached our current development by asking and pleading the foreigners? Experts shake their heads and point to the fact that if there is an amendment made to the Oyu Tolgoi agreement then issue surrounding the Tavan Tolgoi would be halted for some time and uncertainty would be created.

**Thirdly**, a huge expectation is being created in the society. It is stated that Oyu Tolgoi is like a milking cow with lots of milk. It is larger by several times from "Erdenet" factory. A lot of job will be created. Money will also flow. Cash will come in large numbers. We will get rich. Citizens' list of dreams is limitless with many thinking that since the election is approaching political parties will promise and will give a lot of cash handouts that can be used to purchase a car, and so on. The negative impact

## They about us

# Rio Faces Uncertainty at Mongolian Mine

This article was in  
"The Wall Street Journal".

By Matt Chambers /The Australian /  
September 26, 2011 12:00AM



Workers at the site of the Oyu Tolgoi mine from Ivanhoe Mines Mongolia, located about 80 kms north of the Chinese border, which is expected to produce 450,000 tonnes of copper and 330,000 ounces of gold annually over 35 years,

RIO Tinto says the development cost of the Oyu Tolgoi copper and gold project in Mongolia could come to \$US10 billion.

But the project and a landmark 2009 investment agreement face more uncertainty as the government prepares to send a formal letter to the mine's major shareholder, Vancouver-based Ivanhoe Mines, requesting a greater share of the project sooner.

Rio operates the mine and has a 48.5 per cent stake in Ivanhoe, which is run by Canadian mining entrepreneur Robert Friedland.

Speaking to media in Ulan Bator on Saturday, Rio copper chief Andrew Harding said the second, underground stage of the giant mine is expected to bring the project's capital cost to \$US10bn, including the \$US6bn first stage.

The second stage could boost production from an average of 450,000 tonnes of copper in its first decade to 800,000 tonnes. ▶▶

of the misguided policies by the political parties and the politicians is cultivating an inactive mentality among the people instead of nurturing an active attitude to participate in the large reconstruction works to create wealth. Politicians are playing with such expectations of the people. If just a few percentages are added to current 34 percent then it would be possible to say something to showcase during the election to turn the thoughts of the public to elect them. Such a political game is underway.

**Fourthly**, the negotiations on the Oyu Tolgoi investment agreement have been started since 2003. At first it was called the sustainability agreement. It is a project that has been discussed from top down as it discussed at the National Security Council as well as citizens' opinions were collected. S.Bayartsogt and D.Zorigt would not just decide all these issues by themselves. It is a project that was discussed during several Governments. People would, probably, agree to the fact that the procedures of its adoption were appropriate, and it was approved only after several years of discussion. Experts also agree that some mistakes were made as well as successes since this the first agreement

of its kind. However, there is no need to sharpen the situation to this point.

**Fifthly**, this is an agreement in line with the third neighbor policy. It is a huge opportunity that world mining giants and transnational companies such as "Rio Tinto" and "BHP Billiton" have come to Mongolia. We need to learn from them. If all these companies leave Mongolia then who would come in their place? Whether we want it or not our two neighbours would attempt to come to Mongolia with their hands widespread. Then how can we explain our talks on introducing the world's best experience and technology to Mongolia? If an amendment is made to the agreement then the issue arises as to what to do with the money they have invested.

In conclusion, to say the truth the Government of Mongolia up till now has been grappling with this one project for the past decade. On the other hand, a lot of projects are awaiting their time after Oyu Tolgoi. Should we lose more time by saying that we lack experience and could make another mistake with Tavan Tolgoi project? Politicians, please, pay attention to the fact that while we are making slow turtle movements the world is developing with the speed of light. ■

► Studies on the second phase were not completed and the cost estimate could change, he said.

Mine construction is half complete, but a push by the Mongolian government before elections next year has cast a shadow over returns from the project.

Mongolian Mining Minister Zorigt Dashdorj said yesterday that the government was writing to Ivanhoe, seeking to renegotiate the investment agreement.

He said the government wanted to bring forward the date at which the government, which had a 34 per cent stake in the project, moved to 50 per cent, which is scheduled to happen in the mine's 30th year.

Mr Zorigt would not say when he wanted it brought forward to.

The comments follow a petition from 20 members of parliament seeking a renegotiation.

The Australian reported last week that Rio was confident the push would not result in changes.

"We've seen the articles in the paper, but we haven't received any formal notification ahead of that," Rio's Oyu Tolgoi chief executive, Cameron McRae, said.

Rio has said political positioning ahead of the elections is behind the push.

Mr McRae repeated warnings that any revision of the mining code could damage future investments in the country.

"An unstable environment, where changes to agreements are forced, leads to investors being very apprehensive and uncertain. Therefore the stability of this investment agreement sends a very important signal to the world for Mongolia," he said.

Mr Harding said Rio was in the dark about why Ivanhoe Mines had taken exception to recent Rio comments about the development and did not know why Ivanhoe had issued a statement saying Rio executives had made "unauthorised and incomplete statements" about Oyu Tolgoi.

Ivanhoe's comments came after Mr Harding said if a deal to supply Oyu Tolgoi with 450MW of power from China was not sorted out between Mongolia and China, the 2013 commercial production target could be missed.

"Those comments were absolutely available publicly before," Mr Harding said. Ivanhoe could raise more than \$US4bn to complete the first phase of Oyu Tolgoi and start the second, he said.

Rio chief financial officer Guy Elliott also mentioned Ivanhoe at the Rio investor briefing, saying full takeovers of Ivanhoe or Rio's uranium subsidiary Energy Resources of Australia were possible, but would have to be weighed up against spending on new projects or other takeover opportunities.

Mr Harding said Rio had a "professional working relationship" with Ivanhoe. ■

## Oyu Tolgoi LLC Statement on Investment Agreement

Send October 6, 2011

1. The Government of Mongolia, Rio Tinto and Ivanhoe Mines today issued a joint statement that concludes discussions on the OyuTolgoi Investment Agreement. All parties confirm that the Investment Agreement was signed in full compliance with Mongolian law, including Resolution 57, passed by the State Great Khural in July 2009.

2. The Government of Mongolia and Oyu Tolgoi reaffirmed the Investment Agreement as a binding contract on all parties and recognized the significant benefits that the Agreement is producing for the people of Mongolia.

3. In light of global economic instability, all parties recognize that the timely completion of OyuTolgoi is essential to protect Mongolia's economy from recession. Confidence in Mongolia's investment climate is a pre-condition to encouraging economic growth.

4. Oyu Tolgoi Investors reaffirm their obligations to fulfill agreed upon investments in economic and community infrastructure. By funding the largest infrastructure program in Mongolia, OT will build a paved road to Gashuun Checkpoint, an international standard airport, water and power distribution systems, in addition to vocational training facilities in five cities throughout Mongolia.

5. Oyu Tolgoi will continue to work with South Gobi and Soum authorities to diversify the economy and grow Mongolian businesses. OT's Mongolian First program will continue procurement policies that benefit local suppliers and expand the capacity of Mongolian businesses.

6. Rio Tinto, as the manager of the project, specifically affirms the central importance of training and promoting Mongolians in OT and related enterprises. With the goal of 90% Mongolian participation, investments in training, scholarships to Mongolian and overseas institutions, internships and postings in Rio Tinto global businesses will prepare Mongolians for leadership quickly.

7. The Government of Mongolia, Ivanhoe Mines and Rio Tinto pledge continued cooperation to bring OyuTolgoi into production. All parties further pledge to work together to inform the Mongolian public on the progress of OyuTolgoi and the benefits it provides for the economy and people of Mongolia. ■

**There is a talk on amending the Oyu Tolgoi Investment Agreement. What are Your thoughts on this?**

**Mr. Ts. Tumentsogt /Resident Representative of the "General Electric International" company in Mongolia/:**

-Tremendous reconstruction work of Oyu Tolgoi is just at the initial stages of its development. Next year the construction of the copper concentrator plant will start. Our Parliament and the Government have all agreed and approved the Oyu Tolgoi Investment Agreement in 2009. However, it does not seem to be right to amend it now. This company has not even started to generate profits. On the other hand, it would have been possible to talk about amending the Oyu Tolgoi Investment Agreement after some time when the Oyu Tolgoi started to recover its expenses and started to operate at the scale of generating profits to Mongolia. However, it is inappropriate to talk about this after concluding an agreement of 30 years when less than two years have passed. Changing the rules of the games in the middle could negatively affect the future projects and operations. Moreover, such actions could entail negative results in losing the trust of foreign investors and decreasing their interest to Mongolia. Oyu Tolgoi is the largest reconstruction work since transitioning to democracy. Therefore, it is very important not to betray the trust of international investors.

**Mr. Edward T. Story /Chairman of the North America-Mongolia Business Council/:**

-Investors have received the news of amending the Oyu Tolgoi Investment Agreement with fear and anxiety. It also relates to me as well. A lot of money and capital have been invested on this project, which has been concluded only two years ago. Therefore, it is certain to generate fear and anxiety. It also creates uncertainty. If this uncertainty continues for long then the large foreign investors could run away. Therefore, Mongolia needs to make clear the conditions for concluding agreements. This is an important issue for both ►

parties. The most important thing about an investment is the stability and profitability. On the other hand, if this condition is not satisfied then there could be other challenges including the risks to current investors, and losing the trust of future large investors.

**Mr. Peter Morrow /Director of Khan Bank/**

-Mongolia has been talking about Oyu Tolgoi for seven, eight years. In the end the two parties have agreed to cooperate and concluded an agreement in 2009. Therefore, the agreement that has been established based on mutual consensus needs to be considered with respect. However, there are also situations for amending the agreement. Therefore, Mongolia can decide on this issue favorably within the domestic context. On the other hand, the most important thing is to satisfy the stability regardless of any types of amendment to the agreement.

**Mr. D.Damba /President of the Mongolian National Mining Association/:**

-Mongolians want to change what is already being provided in the law. The Law on Mineral Resources clearly states that the state shall own 34 percent of the mineral de-

posit the prospecting of which was conducted and determined by the private sector. On the other hand, the state shall own up to 50 percent of the mineral deposit the prospecting of which was conducted and determined from the state budget. Oyu Tolgoi is completely a project that was conducted from the private funds. Therefore, according to this legal provision it is clear that the state would own 34 percent. The agreement was concluded according to this legal provision. However, in order to make an amendment to the agreement that is talked about now it would require making an amendment to the law. Therefore, it is impossible to make such an amendment to the Oyu Tolgoi Investment Agreement now. On the other hand, Tavan Tolgoi is a totally different issue. Since the discovery and prospecting of this deposit has been conducted from the state budget expenditure it is certain that the state will own 50 percent of this deposit. Therefore, the Government should not break the laws itself.

**-Mr. David Peterson /Representative of Rio Tinto/**

-On our behalf, we want the agreement that has been concluded two years ago to

be fruitfully implemented. The most important thing for us is the sustainability of the agreement. Therefore, I believe that we will be successful in reaching a consensus with the Government of Mongolia in respect to the Oyu Tolgoi Investment Agreement.

**Mr. D.Jargalsaikhan /Economist/:**

-I do not understand what is going to be amended now after the agreement has been agreed upon and signed by the parties. This issue of the national scale and the one that was originally decided by these very people should not be played with. Prior to signing the agreement the civil society representatives have advanced their viewpoints on this issue on numerous occasions. At that time no-one paid any attention and listened to them. It is totally incomprehensible as to why the very people, who were in charge of signing the agreement, suddenly made a decision to amend the agreement. It is unacceptable to walk back and forth without seeing the fruits of once concluded agreement. It has a danger of not only failing the trust of foreign countries to Mongolia but it also could tarnish its reputation. ■

## Mergers and Acquisitions

# A Trip Down M&A Lane

By Terrence Edwards

At a time when economic analysts claim the sky is falling, miners are digging further underground. Projects and operations have come to a halt quick enough to induce whiplash. Yet, something is different about this year's economic crisis from past events. While most industries are feeling the pains of the fiscal insecurities their government have put them in, the mineral trade continues business as usual.

Mining companies are expanding when the rest of the world is too scared to make a move. This year the sum total of all mergers and acquisitions (M&A) are already approaching and will soon exceed last year's total. The first half of 2011 brought USD 71 billion worth of M&A activity in the mining sector. It seems companies are paying substantially more, 40 percent to be precise, than they did last year as well. Not invulnerable to the economic perils, activity has slowed down since this year's very busy first quarter. However although volume is down 32 percent, value only fell 19 percent.

Metals have always been a good way to get an indication for the type

of economy the world is experiencing. When the economy is doing poorly, construction slows and consumers buy typical commodity goods less frequently. Copper has been nicknamed Doctor Copper by economists because it is so closely tied to economic health. It is used in everything from car engines,

to houses, to a television remote control. However, when it becomes all too apparent that the world is amidst economic doom and gloom, copper has been faring well until recently. Demand for copper persists, so that would mean somewhere people are continuing to build and shop. On the other side of ▶▶



▶ the spectrum is precious metals, which investors will usually step over one another to rush to at even a hint of economic turmoil.

The road is no longer following the direction analysts might expect and instead is taking detours and shortcuts through new territory. Although the laws of nature still hold true (up is not down up and black is not white), the principles of economics have turned inside out.

### Buying a Piece

Every storm begins with a light shower. If Mongolia ever does become entrenched in a tempest of M&A activity, analysts will likely point to Khan Resources's attempt to sell itself off in early 2009 as the beginning. The Canadian-based Khan Resources owned a 58 stake in the Central Asia Uranium Company (CAUC) while the Mongolian government and the Russian state-owned company ARMZ Uranium Holdings evenly divided the remaining 42 percent between themselves. However, both parties wanted to take in a bigger interest in the Dornod project. According to reports, the Mongolian government next changed the law to stipulate at 51 percent stake.

Facing a possible hostile takeover from ARMZ, Khan Resources attempted to sell itself off to the Chinese state-owned firm China National Nuclear Corporation (CNNC). Khan Resources found it could draw an offer 50 percent higher than ARMZ from CNNC and was ready to move ahead until it faced opposition from Mongolia's Atomic Energy Agency. China decidedly dropped its friendly offer when it learned the deal would never go through, explained Jim Dwyer, executive director of the Business Council of Mongolia, an organization developed for the purpose of promoting investment into Mongolia in addition to fostering a fair business climate.

This incident occurred in 2009, a year before President Ts. Elbegdorj's ban on the issuances of licenses for exploration. Khan Resources is still locked in a legal battle with the Mongolian government over the issue and has taken it to an international court for a USD 200 million suit with arbitration court, according to local reports.

Since then, a modest string of ac-

quisitions for Mongolian assets has taken place including the recent USD 477 million acquisition of Hunnu Coal by Thailand's largest coal mining firm, Banpu.

Reports indicate that the firms South Gobi, Winsway Coking Cole, and Gobi Coal and Energy are the most likely targets for acquisition. Rio Tinto's creep towards a majority stake in Ivanhoe Mines makes the latter a possibility as well. Outside the minerals market, the shaky performance of Petro Matad stocks could have it look like a prize to an outsider looking for a new source of oil reserves. It will likely be large multi-national companies interested in expansion without a great deal of investment to do so to buy up those assets. Companies such as Arcelor-Mittal, Vale, Noble Group, KORES and Teck Resources have been named as suspects in such a scenario, said the investment bank Eurasia Capital.

However, all of these actions haven't taken place outside the Mongolian stage in markets elsewhere, such as Hong Kong, Toronto, and Sydney.

"The biggest deals so far have not been on the Mongolian Stock Exchange (MSE)," said Frontier Securities Chief Investment Strategist Dale Choi. "There is very little money in the stock exchange and unless it brings in more money all good assets will go overseas."

As it currently stands, the MSE is currently limited to very small activity because its resources cannot yet handle a great deal of trading activity. However, all that will change with the help of the London Stock Exchange (LSE) and its Millennium Exchange software, which will allow for electronic trading. Once the software is in place, the amount of transactions allowed will grow exponentially. Developed by The Sri Lankan firm Millennium IT, the software completes a trade in one-thousandth of a second. Afterwards, it is possible a slew of companies may decide to go public for a quick shot of capital for more ambitious endeavors and money making schemes.

However, the MSE will need more than a technology upgrade if it is to attract more investors. Information on Mongolian companies is hard to come by and until transparency is addressed, investors will not be willing to gamble on them, said Choi.

Despite these drawbacks, some firms are taking strong steps to take part in the MSE. Most notably is the Firebird Mongolia Fund, which bought control of Sharyn Gol placed number one on the MSE top 20 index. At the "Discover Mongolia" mining forum held in August, James Passin, a manager of Firebird, predicted "the mother of all bull markets" driven by elements such as growth in the tugrug, expanding media coverage, new foreign funds, and investor-friendly policies.

### Rock Beats Paper

During this latest economic disaster, the mining sector has been the most resilient world-wide. Although construction projects have stalled in North America and Europe, demand in emerging markets seems to be keeping the whole sector afloat. While demand for base metals to build houses, office buildings, monuments, and fountains chugs on, mining companies will continue to look for ways to expand.

Exploration and development is a costly process that requires billions of dollars of investment. Already Rio Tinto has invested USD 3 billion towards the development of the Oyu Tolgoi copper and gold project and the project is only 50 percent complete and is without energy. Oyu Tolgoi head of operations Cameron McRae has estimated that the entire project will cost USD 10 billion in total. Of course, Oyu Tolgoi is an extreme example for the costs of development because the deposit is so large and the returns will be vast. However, one can easily see the appeal of buying up a site where the geology has already been mapped out, the sites have been drilled, analysis has finished on earth samples; and the assortment of transportation, residential, and energy infrastructure has already been taken care of. Therein lies the appeal of acquisition. At times like now when capital is short and interest rates are high, development is not the best strategy. For a company looking to expand quickly, acquisitions are by far the easiest way to go. A large multinational with enough capital can easily buy up small operations rather than going to all the trouble with exploration and development.

Acquisition can also allow a company to hone in on its specialty. When ▶

► a firm is undergoing a long exploration process, one can only afford to be so choosy. However, when an investor can look at a map on a chessboard and develop a real strategy, a firm can begin to acquire the most favorable assets, while shedding those its less interested in.

“After advanced exploration and mining companies go public, we’ll start to see what can be considered targets for acquisitions which could eliminate the necessity for exploration”, said Dwyer. “A lot of companies are conglomerates with positions in several relatively small markets. Strategies may include leaving some markets, rolling up competitors in others, and entering new ones.”

Normally in times like these, base metals—especially copper—can act as a relatively accurate barometer for the world economy. However, during this current economic peril, when Europe is teetering on default and the United States is struggling to maintain employment and get a firm grasp on its fiscal situation, ore and processed metal consumption is only increasing and analysts say for the long term that is likely to continue.

Emerging markets are making up the greatest demand for base metals as they transition from agro-centric societies to urban metropolises. China and India seem to have the most voracious appetites and are turning the whole theory that base metals can be used as an indicator for the health of the global economy on its head. Instead, copper seems to be a greater indicator for growth in China than anything else. Currently China is consuming 42 percent of the world’s copper and not many believe demand will slow down in the near future, although many fear the worst if it ever does.

#### Uncertain Roads Ahead

Already, however, the story is taking a different direction. Copper prices have hit record lows this September. On the London Metals Exchange (LME) aluminum, zinc, and lead have all fell to 12-month lows with aluminum at USD 2,206 per ton, zinc USD 1,915, and lead USD 1,927. However, many believe it is just a temporary slump and that base metal prices will inevitably climb back up. Meanwhile, gold and silver are currently experiencing a comeback and climbed back into the positive. However,

investors are not yet ready to put much confidence back in precious metals just yet.

What has confounded so many analysts about China is not so much how it continues to finance construction projects, but where its supplies are coming from as construction has continued even when its demand is down. Although copper has fallen 20 percent this year and it recently hit a record low, it could and has fared much worse in the past.

Demands from the Mongolian government for a larger stake in the Oyu Tolgoi copper and gold project is another speed bump. A faction of 21 MPs wrote a letter to majority stake holder Ivanhoe Mines and the head of operations Rio Tinto to make its case to raise its stake ahead of schedule. The government would like to raise its stake from 34 percent to 50 percent before

the 30-year wait stipulated by the 2009 investment agreement has passed. Since then Ivanhoe has experienced a shake up in its stock prices and investors are beginning to question the wisdom of working with a country that will not honor its agreements.

Then again, economic analysts believe M&A activity in the resource sector will continue to grow, especially in Asia. Although this quarter was slower than this time last year, analysts believe the fourth quarter will be a surge of activity. Companies are looking for long-term reserves and falling stock prices make acquisitions an opportunity companies do not want to pass up as they did in 2008. There are certain to be more speed bumps and detours in the coming months on both the world and in Mongolia, but then again business is also a journey that never ends. ■



Discover Mongolia-2011

## Only With Three Cornerstones of The Hearth It Is Possible To Put Down The Pot and Prepare The Meal

By D.Munkhchimeg

For many decades foreign investors have set their eyes on the wealth underneath the sands of the Mongolian Gobi Desert. However,

due to corruption and instability in the legal climate it is more common for them to keep a distance. Certainly no business-minded person would ►

▶ display enough courage to open mining operations in Mongolia if required six, seven years of resilience. This is because mining is the riskiest game. However, the conclusion of the Oyu Tolgoi agreement in 2009 cultivated an understanding that business matters do move forward in Mongolia among investors. Thanks to this event, foreign direct investment (FDI) to Mongolia increased, and the large and small mining projects within the mineral sector intensified.

Oyu Tolgoi Executive Director Cameron McRae's presentation at the "Discover Mongolia 2011" forum was at the center of everyone's attention. By 2019 Oyu Tolgoi, one of the world's top five mining deposits, will extract 465 million tons of copper and will surpass the production of Erdenet Mining Corporation, he said. Once the mine reaches full capacity, the economy of Mongolia could double, and its gross domestic product (GDP) could grow by 10 percent. Oyu Tolgoi would contribute to 5 percent of that growth as well.

Yes, Mongolians truly are the owners of a rich land. However, Mongolia is not the only country in the world to invest in? It was not long ago when investors had no interest in either Oyu Tolgoi or Tavan Tolgoi. After all, BHP Billiton decided to stay out of the game. However, now the situation has changed and Mongolia has gone into fashion, proving "BHP Billiton made the wrong decision. Yet, if Mongolia makes just one wrong move, then it could be left with like the women with a broken basket in the Russian fairy tale of the Golden Fish.

Foreign media agencies such as Reuters and Bloomberg created a sensation out of this year's "Discover Mongolia" forum. They raced to report how given to change the government can be, like the weather in spring, and its plan to amend its Oyu Tolgoi investment agreement. The media continues to report on these events that demonstrate the instability of Mongolia.

"Mongolia showed the world that it is open to business by establishing an investment agreement in 2009", said McRae. "If the agreement is amended then it will be a sign to the world that Mongolians do not keep their

promises and do not provide security to investors".

### Two Steps Back

The second quarter's economic review of Mongolia issued by the World Bank indicated rapid development. The economy grew 17.3 percent, transportation 39.9 percent, and construction 38.4 percent. Foreign trade began to exceed Mongolia's GDP.

"However, all this is a dry number", President of MIH Group D. Jargalsaikhan. "A detailed study is showing the impact the mining sector on the rapid economic growth is necessary but non-existent. However, this is a guess. For example, more than 50 percent of the demand for apartments comes from the mining sector".

Then what is the state of the mineral sector driving rapid economic development?

During the first day of "Discover Mongolia 2011" the presentation by Behre Dolbear Group President Bernard J. Guarnera on the ways to reach development using the wealth attracted the attention of the audience. He constantly repeated the line "investors hate uncertain situations". This Group creates an index for each factor of influence (the legal climate, economic situation, human resource capacity, infrastructure development, and mining investment) for countries with active conduct mining operations and ranks them accordingly. As a result, it annually produces a report with the interesting title of "Where not to invest?" Last year Mongolia ranked eighth, while this year it fell two steps backwards, ranking at number ten. One clear example that Mongolia's mining sector moved backward is its halt on the issuance of exploration licenses and the amendments to be made on mining laws.

Guarnera emphasized once more that a healthy mining sector brings wealth and development to a country.

"A healthy mining sector is created by a sustainable taxation and regulation regime" he added.

### The three cornerstones

During his first presentation at the "Discover Mongolia-2011",

Jargalsaikhan said that the three cornerstones of the mining sector are government, citizens and investors. Growth in revenue to the government and its expanding budget show that the government also benefiting from mining operations. Government revenue will increase tremendously from taxes, payments, and dividends. In return, it is important to create a sustainable business climate. McRae said he estimates that just within this year the Oyu Tolgoi will pay USD 300 million in taxes.

For citizens it is time to think about how take as much as possible from the huge investment coming from the mining sector. Acquiring a higher salary positions and running a highly profitable business only depends on the initiative of Mongolians. It is not only the citizens' right, but also a responsibility to monitor how appropriately the government spends its revenue from the mining sector.

Investors have nothing but worthless sheets of paper if firms find nothing after spending millions of dollars on prospecting. If they find and extract, however, then everything depends upon the volatile prices of the minerals on the world market. In addition to all this risk, investors, who pay taxes to Mongolia and create jobs, have a right to demand a stable business climate. For their part, they must comply with Mongolian laws and regulations as long as they continue to extract resources from Mongolian soil.

The minerals sector constitutes 30 percent of Mongolia's GDP and more than 90 percent of export earnings. It is important to focus on how to develop well together. Therefore, the ninth "Discover Mongolia" mining forum was organized under the motto "Let Us Develop Mongolia Together". More than 1,500 of the participants of the forum have likely adopted and felt this motto at the forum.

If it takes only with three cornerstones of the hearth is it possible to put down the pot and prepare a meal, then only when the government, citizens and investors stop playing cat and mouse games will progress be made. It would be better if everyone started looking to one direction and understand each other. It would be mutually beneficial and result in greater steps towards the development of Mongolia. ■



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Corporate Social Responsibility

# Corporate Social Responsibility Will Add to “A Long Life”

*An international conference was held to discuss the competitive capacity of CSR and the role businesses play towards sustainable development. Under the auspice of H.E. Ts. Elbegdorj, President of Mongolia this conference was organized by the Integrated mineral resources initiative programme of the German Society for International Cooperation in collaboration with the relevant organizations and Mongolian Economy.*

Have you realized your social responsibility? What would you say to the following questions: What needs to be understood about CSR? What do companies need to do along those lines? What kind of support does it need from the government? How well has this concept been developed around the world?

The issue of CSR is developing quite well around the world but is only in its infancy in Mongolia. Some Mongolian companies do not understand CSR or do not want to understand it. Some companies that have a very small understanding have turned it into a marketing campaign for their support of the arts and cultural projects. In reality, the modern social

understanding CSR has a much different meaning.

Touching the golden leaves shining with the colors of autumn while walking to the protected zone of the Ikh Tenger complex seemed to add more color to the surroundings. The two days dedicated to discussing CSR were rather cold, as if nature was sending its own message about climate change. World experts from distant countries travelled to Mongolia to contribute towards the development of CSR here.

At the beginning of the conference, head of the Office of the President D. Battulga greeted the audience with opening remarks giving the audience something to ponder:

The most important thing today is realizing that Mongolian competitive capacity is in poor shape. Legal governance is weak, and the too much participation from government creates obstacles to development. The short-term interests of business entities are causing consumers to suffer and the environment is being impacted with irrecoverable damages. Therefore, in addition to developing the economy the government needs to adopt environmentally friendly policies. We do not want to clean

gold with the water that for future generations to drink. Today we need to be able to refuse projects that although may promise huge profits, are environmentally damaging. Therefore, first we need the introduction of environmentally friendly management. We need techniques and technologies that provide sustainable development for Mongolia and will raise CSR within companies. Competitive capacity is not a temporary thing. This is the foundation for the long-term existence of companies and the healthy growth of the environment.

Domestic companies believe CSR is about financing the arts, culture and sports events; or building temples and monuments at a director's places of birth. Citizens also raise the issue of CSR if companies do not give them the charity they asked for. Today we need to rid the land of such misconceptions. According to a study to determine the state of CSR implementation among Mongolian companies, 24.8 percent of firms replied that their implementation of CSR was good, 28 percent said that it was poor, 4.8 percent said it was very good, while 14.9 percent said that it was very poorly implemented. Also some said that there was a misconception that CSR is ▶▶

► implemented by large companies, and since some companies are small CSR is not for them. Mongolian National Chamber of Commerce and Industry Chairman S.Demberel:

Even small companies can do something. However, they need to make appropriate regulations based on good efforts to determine ways to implement CSR. We need to realize CSR voluntarily, rather than be compelled to enact it. It is very important for companies to draft new policies. Today the government, which cannot comply with its social responsibility, cannot demand that from the companies.

Generally, there is a lack of the common understanding about CSR around the world. Countries, regions, companies, and organizations have to find their own answers to the role, the rights and the responsibilities of business in society. However, the common elements regarding this concept include fair labor standards, the impact operations have on the environment, social investment, inter-sectoral cooperation, the fight against corruption and bribery, increased transparency, and the financial responsibility of shareholders. This demonstrates just how broad a scope CSR has. This is not work for companies alone.

Experts agree that it is very important that the government support companies through guidance and a fair legal framework for the development of CSR. The government must realize its own responsibility and take action. The main duties of the government are developing a national strategy for CSR, implementing it in collaboration, rewarding the companies who implement those policies well, helping organize meetings and discussions for shareholders, and creating accountability to government agencies. However, the responsibilities of businesses need to go beyond conducting businesses for themselves.

"Companies need to change their standpoint from merely following the laws and financing others", said Dr. Michael Buersch, member of the Board at the Center for Corporate Citizenship Germany. "It is time to actively pay attention to the issue of resolving environmental and social challenges. It is necessary to cultivate responsible and meaningful conduct in central

operations, supply useful products and services designed towards the development of social well-being, and make strategic investments that serves both community and business interests".

Peabody Energy is considered a leader in CSR around the world. Its main objective is to leave land "in the condition equal to or better" than before operations began there. This company's profits reach about USD 16 billion annually. In 2010 it spent more than USD 6.9 billion supporting local organizations and operations, as well as charities. The best corporate governance operations of the firm relate to the adherence to strict operational and ethical rules and regulations. It has a history of promoting fast and accurate financial information. President of Peabody Group in Mongolia and India Arshad Sayed:

For the first time in Mongolia, our company has directed its operations towards rehabilitation at areas for coal mining area. Mongolia has a unique opportunity to aid in the development of CSR standards and conform to world standards. Peabody and other similar companies have an opportunity to share its experiences developing corporate and social responsibility models according to world practices. It is important to develop leading standards in the areas of occupational

safety, training, technology, environment and the implementation of local and citizens monitoring mechanism. During the panel session participants advanced many important proposals. Many participants stated the importance of conducting trainings and seminars on CSR. It has also been said that CSR needs to be developed among children for the appropriate understanding of CSR.

The development of social responsibility will really begin with the people of Mongolia and their children. Conducting business has acquired increasingly more value around the world," said one of my acquaintances. Another said that Mongolian companies do not have access to enough money for CSR. Many issues will be confronted for the development of CSR. However, Mongolia must strive to see this concept from a different angle than that of money. CSR is important to organizations and companies because it is necessary if they want to operate profitably in the long-term. They need to show adherence to proper principles and respect to consumers, local residents, the environment, and local and national interests. The reputations of companies improve with CSR and with that reputation they can determine their own position in society. This entire process aids growth and development for the future of a company. ■

## What does corporate social responsibility mean to you?

**Bill Gorman, President of the Mongolian Stock Exchange:**

There is a general picture that the more foreign direct investment that goes into the mining sector the more chances there are for (Mongolia) to become poorer not richer. This situation can be seen in countries, which despite an abundance of wealth from natural mineral resources, have weak economic performances. According to a 2002 study by the World Bank, in the 1990's countries with over 50% mining exports saw their GDP per capital fall at a rate of

2.3% each year.

Only CSR will help Mongolia avoid such a resource curse. In order for companies to develop CSR, they need to draft and comply with business ethics and a code of conduct. Also, they need to pay attention to the issues of workers, occupational safety, health, good working conditions, and education. All of this will establish close relations with the local populations where mining operations are and prevent the actions of a company from inflicting negative impacts on the environment. By implementing these acts it will be possible to achieve success. ►

► **B.Mandalbayar, Executive Director of the Darkhan Thermal Power Station:**

Darkhan Thermal Power Station is the third largest power station in Mongolia. The thermal power station carries a lot of social responsibility. For 46 years we have executed operations to continuously supply our citizens with electricity and heating. Our staff has fully realized its responsibility to conduct its operations according to the law. It has been four years since we started implementing special program to increase the productivity of our company. As a part of these programs we have cooperated with the Japanese Efficiency Organization and improved our operations. For our company, CSR means sustainable and reliable operations. Therefore, we have chosen our mission to introduce a comprehensive quality management system and European standards.

**A.Oyunchimeg, President of Incomnet:**

I think of myself as a representative of a small company participating in this conference. However, our company has conducted continuous operations for 10 years with satellite communications. Just because it is a small company does not mean it does not need to deal with CSR. The first step of CSR is paying taxes. Our company pays all of its taxes. I think that our highest legislative authority also has a certain role in CSR. I have acquired a lot of good information and many ideas from the conference organized by the German organization. For our company we are making an effort to create standards for all of our operations. If all the processes of our operations are standardized, then the quality of operations will improve. If the services we provide to our customers are sustainable, operations will be sustainable too. Sustainability is the main factor here. All issues that relate to conducting and developing fair business operations, and improving our staff's social welfare are a part of CSR.

**B.Solongo, Marketing Unit's Director of MCS Group:**

CSR is not straight forward like one plus one equals two. It's a very broad concept. Our company has a lot of social responsibilities including tax payments, job creation, and participation in the resolution of large-scale social issues. MCS Group takes part in the Clean Air project of the Millennium Challenge Account aiming to reduce air pollution in Ulaanbaatar. The four parties include the government, donor organizations, the private sector, and customers. All four parties are working to solve the air pollution problem. Environmentally friendly

furnaces covered with enamel cannot be distributed for free. Citizens will have to purchase them at reasonable price. Citizens should also realize their own responsibilities and help their city become pollution-free. This is what social responsibility means.

**Ts.Munkhjin, Executive Director of the Services Center for the Development of Mongolian Youth:**

By participating in this conference I was able to cultivate a relatively different understanding of CSR. Previously we believed CSR was a need for companies to do something positive in the local communities or work to the benefit of people who consume our products. We thought that it could take the form of aid or long-term development programmes. Through my participation here I now understand that CSR is not one kind of event or the work of one division to generate more profits. I understand now that without CSR business become more difficult in modern society. I understand that a company needs to draft its plans and strategies at all levels of social responsibility. The whole company should not leave this responsibility on the shoulders of few people. According to the information from the foreign experts, CSR includes all the issues of corporate culture and all of the processes; starting from the first phase of production phase to the point when the product needs to be recycled.

**Mr. B.Gantulga, Deputy Director for Technical Issues of Baganuur JSC:**

It has been 33 years since the establishment of Baganuur JSC. During this period we have taken up certain responsibilities to the country and society. The concept of CSR has been strongly discussed lately. Our mining company first conducted its rehabilitation activities in 1998 before this concept even existed in Mongolia. We realize there is a need to conduct environmentally friendly operations, and our mission includes this.

We have prioritized to include issues such as occupational safety, hygiene, the environment and so in our mission statement. We have around 1,100 staff members and offer opportunities to allow them to participate in all of the trainings regarding this issue. We fully understand CSR. We need to pay attention to this issue and implement it. There is also the need to improve the legal environment here. Judging from the presentations, it is clear that foreigners have a lot of experience in CSR. It seems to be more productive if the government pays attention to the issue and develops CSR standard suitable to conditions in Mongolia. Then we could comply with it in the fullest sense. If we understood CSR in narrow terms before—handing out scholarships to students, supporting the arts and culture, sponsoring athletes in variety of competitions and championships—then now we have obtained a more global perspective of this concept. ■



## Logistics

# Development in the Logistics Sector

**A**t the international conference “Retail Logistics and Supply Chain Management”, over 120 business entrepreneurs received instruction from the logistics sector on the logistics management. The event was conducted by Programme Integrated Mineral Resource Initiative (IMRI) of the Deutsche Gesellschaft fuer Internationale Zusammenarbeit (GIZ) at Chinggis Khaan Hotel on 27 September 2011. This conference was jointly organized by the National Development and Innovation Committee, Mongolian Logistics Association, XacBank, German-Mongolian Entrepreneurs Association and the Business Council of Mongolia.

Although the term logistics has been used widely in recent years, it should not be understood solely as method for transport rather than supply and value-added chains. During the conference Mongolian business entities were informed on the current state of logistics in Mongolia, its future course for development, and most importantly the new opportunities and perspectives for logistics services. President of the Mongolian Logistics Association A.Munkhbold gave an in

depth analysis of logistics in regard to Mongolian society:

In simple terms, logistics means mutually dependent interconnection. The most efficient interconnections are called logistics. Actually, we Mongolians are a logistical people. We have become far-removed from our perspective of logistics, however. Chinggis Khaan was the best logistics manager. Even though Chinggis Khaan did not know everything, he gathered around himself the most knowledgeable people and by managing this knowledge achieved success. Observing Chinggis Khaan’s warring conquest reveals that they always followed the Silk Road. Therefore, he was able to create a huge trade logistics network. The reason logistics has acquired prominence today is because we Mongolians face a lot of obstacles when announcing a large project or programme without estimating what and when it can be done. Logistics can be divided into three parts: there is the purchase of a supply of raw materials; production; and sales. In other words, this particular product’s production chain will be planned systematically. It relates not just to talks between businessmen but to an appropriate, systematic plan. There are

many projects turning into fiascoes in Mongolia. By looking at the reasons for those failures, one can observe a lack of logistics. Therefore, logistics is a science for successful implementation of a project by appropriately regulating the flow of information, finances and materials.

Today the ways for resolving many challenges within our society regarding food security, the supply of pharmaceuticals, petroleum supplies, air pollution, traffic jams, public transportation, border disputes, mineral exports, railways, the environment, and much more should be under the management of logistics teams. Many developed countries of the world were able to successfully resolve social challenges by establishing logistical infrastructure. Munkhbold said that today Mongolia can be compared to a “shuffling train” ready to proceed from the start of rapid development. Private companies and non-governmental organizations within the logistics sector have voiced their opinions and showed an interest in cooperation to resolve the question of which road to take. Should we choose a train for development heading towards Germany, and Norway or Nauru?

Speaking about the conference General Director of Ulaanbaatar Trans J.Batbayar said:

The presenters have pointed out that currently logistics is not being introduced well nor developed in Mongolia. Freight forwarding companies and government agencies are discussing the types of measures to take in this area and how to conform to the modern times of rapid development. I think that it is a good thing that international organizations, especially the relevant German organizations, are paying great attention to this issue and are cooperating with the Mongolian Logistics Association to organize such a conference.

Germany is a country that has achieved great success in the development of infrastructure and in the logistics sector. Therefore, I have a feeling that when the time of rapid mineral resource development arrives, Germans will want to cooperate and jointly implement direction utilizing their opportunities and possibilities. Logistics should not be only connected to the issue of transport. However, that means that the product shall reach consumers at the lowest price ▶▶

► in effective and economically efficient ways. This will be in thanks to multi-stakeholder cooperation involving consumers, producers, transport companies, and etcetera. Only when this happens can products reach the final consumers under the most favorable conditions in terms of price and value. Secondly, we are talking about the development of infrastructure in Mongolia. We are discussing ways to select the appropriate means of transportation to carry mineral resources and mining products, and how swiftly it can be organized. Some companies are introducing their modern technology products. We need to study all of these. If the techniques

and technologies proposed by these companies are suitable to Mongolia, then of course we need to use them. I think that only in this way can we advance our operations to a new level

The most important long-term resolution for the future is to attract world class products, and service and supply operations; and eventually become one important connection in world's supply chain. Then Mongolia may take advantage of its natural wealth handed down to it by its ancestors who defended and protected it with their lives. By imparting their experiences, aid and support for logistics, and through joint cooperation within the private sector, leading German experts

could render specific aid to shape the future of logistics in Mongolia.

After the conference Stefan Hanselmann of GIZ and the President of the Mongolian Logistics Association A.Munkhbold signed a Memorandum of Understanding (MOU). The MOU signature ceremony took place at the Marshall Palace and German Ambassador to Mongolia Peter Schaller gave a speech. According to the agreement, German experts will join with their Mongolian counterparts to organize logistics trainings, seminars, implement joint projects and programmes, and support the establishment of a Logistics Academy. ■



## NewsWire Highlights:

*NewsWire is a weekly news feed sponsored by the Business Council of Mongolia. Each week, NewsWire delivers breaking and significant news from local and international news sources for a Mongolian and foreign audience alike. The following are news highlights from September.*

### GOVERNMENT CRACKS DOWN ON MINERS WHO IGNORE RESTORATION DUTIES

The government halted the mining operations of 40 different mining companies because of their failure to initiate a sufficient amount of land restoration activities. By law, the Mongolian government requires all mining companies to make real efforts for land restoration in return for permission for production and exploration.

Mining companies possess over 14,000 hectares of land in Mongolia; 5,000 of which has already been explored. Mongolian law requires those companies to make an effort to repair the damage done by their exploration activities. However, enforcement has been weak.

"We started mining rehabilitation in 2004," said B.Baatartsogt, head of the Geology and Mining Inspection Department at the General Agency for Specialized Inspection. Our idea about rehabilitation is also constantly changing. Mining companies have started trying different rehabilitation methods, depending on the characteristics of their operations and experience."

The government has distributed a book instructing mining companies how to close mines and repair the damage they have made.

"Closing a mine is not just filling up a hole and growing some trees on top," said Baatartsogt. "Rehabilitation programs should include infrastructure and worker's social problems, in addition to the development of future uses for the former mining site."

Altandornod Mongol and Mongol Gazar were singled out as two companies who did not make enough effort towards these requirements. Reports have observed disruptions to the land surface and landslides as enough evidence to warrant this necessity.

Source: *Undesnii Shuudan*

### MONGOLIA MAY LIST TT ON THREE STOCK MARKETS

Prime Minister S.âBatbold is committed to listing Erdenes Tavan Tolgoi on the London, Hong Kong and Ulaanbaatar exchanges, said head of Golomt Bank John Finigan at "Discover Mongolia". The site will need a large sum of funds to develop the enormous coal deposit.

"I had a conversation with the prime minister about this matter and there was a very strong commitment to achieve the goals of listing ETT on the current timetable (first quarter of 2012)," said Finigan.

Work has already begun on the IPO, said President of the Mongolian Stock Exchange (MSE) Bill Gorman. However, Gorman noted that approval by parliament is needed on a new Securities Law before further actions can be made.

The government hopes listing the stocks on all three markets will generate enough capital to develop the mine. It is estimated that Tavan Tolgoi contains 6.4 billion tons of coal. The majority of those reserves is coking coal, which can be used for steel production.

Source: *AFP* ►

## ▶ CHINA AND MONGOLIA VOW TO PROMOTE BI-LATERAL TIES

A meeting between Mongolian and Chinese leaders resulted in a vow to further promote bilateral ties between the two nations. First Deputy Prime Minister N.Altanhuyag travelled to Beijing to meet Chinese Vice Premier Li Ke-qiang to discuss cooperation in government and between the Chinese Communist Party and Mongolia's political parties.

"China and Mongolia share broad common interest," said Li. "A neighbourly relationship is in the fundamental interests of both countries and their citizens."

Li proposed four methods to improve the Chinese-Mongolian relationship. His advice included close contact and trust; and increased communication between China and Mongolia's legislative bodies and various organizations in the political spheres of both nations.

Li also called for closer exchanges and cooperation between the CPC and Mongolian political parties. The CPC will expand ties with Mongolian political parties through the exchange of experience in the management of state affairs and development of a political party. N.Altanhuyag responded with remarks about how all of this is necessary to build a solid foundation for expanding bilateral communication and cooperation.

*Source: Xinhuanet*

## PRESIDENT BANS NUCLEAR DEALS IN CABINET

President Ts.Elbegdorj officially banned the cabinet from dealing with nuclear waste issues this week. The decision came as a result of growing fear in the population and wide reports of foreign countries interested in paying Mongolia to store spent nuclear fuel.

The president's decree prohibits the cabinet from cooperating on Mongolia's behalf with any countries or international organizations on issues involving nuclear energy. This includes holding discussions and creating documents without permission from the National Security Council (NSC). The president's authority comes from the Constitution and laws concerning the president and the NSC.

The directives regarding the president's decree concern the prohibition of nuclear waste storage, the importation of waste, and transportation of waste on Mongolian soil. The decree was signed by Prime Minister S.Batbold.

*Source: Montsame*

## QUIT SPENDING, SAYS CENTRAL BANK TO PARLIAMENT

The Central bank advised Parliament to slowly reduce inflation over the next couple years.

Monetary policies need to slowly reduce inflation from 10 percent in 2012 to eight percent in 2013 and 2014, said the Central Bank. Keeping inflation at 10 percent has been difficult for the monetary agency because the government continues to spend money on top of huge foreign direct investment (FDI) and gross domestic product (GDP) growth.

It would also like to stabilize the Mongolian tugrug, suggesting it may intervene if the tugrug appreciates too high against the U.S. dollar and makes Mongolian exports uncompetitive.

*Source: Asia Pacific Securities*

## THE CONFIDENCE OF MY PEOPLE TRUMPS THAT OF FOREIGN BUSINESS, SAYS ELBEGDORJ

Mongolia's ban on mining activities within the vicinity of rivers, lakes, and forestry is necessary for the conservation of Mongolia's land and livelihood of herders, said President Ts.Elbegdorj. The Law on the Prohibition of Mineral Exploration in Water Basin Areas and Forest Areas (commonly referred to as the "long-name law") has been controversial because it resulted in the revocation of hundreds of exploration licenses.

"Half of the territory is covered by exploration licenses. I think that's enough," he said in a New York interview during his visit for the United Nations General Assembly. "We have to save our wealth (for) our next generation."

Mongolia's rich and mostly untapped coal, copper, gold, and uranium deposits have caught the attention of hundreds of foreign mining firms. However, political concerns have caused some companies to hesitate. Elbegdorj acknowledged that politics in Mongolia has broken the confidence of some investors, but said it would be worse to lose confidence from his people.

*Source: Dow Jones*

## MONGOLIA TO REVAMP ITS ELECTORAL PROCESS

The government will introduce reforms to its election process to be implemented in next year's upcoming election.

Officials from the Election General Committee (EGC) presented a list of issues concerning the structure and system to the Standing Committee on State Structure working group. In attendance at the meeting was the head of Election General Committee head N.Luvsanjav and official from the General Authority for State Registration.

Under the current law, many new ideas and practices for the election process currently being developed by Parliament will be introduced during next year's election. Mongolians living abroad will be able to take part in the election for the first time using the Internet. The EGC reported it is planning to import e-voting machine by January 2012 and to train IT specialist to work with the machines by the following April.

Officials from the GASR said they have finished voter registration for its new voting scheme. The government agency will deliver a "smart card" to 1.9 million Mongolian voters by 1 April 2012.

*Source Undesnii Shuudan* ■

## Business Break

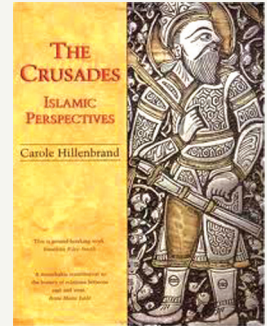
## What Are You Reading?

**H.R.H Prince Jaime de Bourbon Parme, Special envoy for Natural Resources of the Ministry of Foreign Affairs to the Netherlands:**

"I like reading historical novels. I am currently reading a very interesting book, *The Crusades: Islamic Perspectives* by Carole Hillenbrand". He recommended this book during his two-day visit with the Young Global Leaders in Mongolia.

Nine hundred years have passed since the Crusaders captured Jerusalem. The author considers this event from a cultural perspec-

ive. This book reflects how Muslims perceived the Crusades. The comprehensive work gives the Muslim point of view with rich historical sources. It also shows how the Crusades affected military, culture and psychology within the Islamic world. The historical conflict of the Middle Ages is presented by Professor of Islamic History Carole Hillenbrand through a view that has never been introduced before.



**S.Namjilmaa, Expert on urban planning of the National Development and Innovation Committee:**

I am reading a book by my teacher B. Davaajav. He wrote this book in three volumes. The first volume, "The secret of the Mongolian Mind" tells about the different mentalities between nomadic and sedentary societies. Mongolians actually have very precise unites of time. Also the book defines a human being through a philosophical interpretation. For instance: How to understand the saying Mind of a smith is divine? The second volume, "The Nomadic civilization of the Mongolians", describes the harmony and unity of cattle breeding, humanity, and nature. The third book titled, "The Secret of

Chinggis Khan's Establishment of State" describes the Mongolians' views on the state, implementation of state policy, and nature of the system. How was the state policy conducted not only during the wars, but also during natural disasters. The state was considered as knowledge. This third volume is my table book. I have already read these books, but now am reading them again from another corner.

This three-volume book was written by Doctor of Architectural Sciences B. Daajav in 2008.

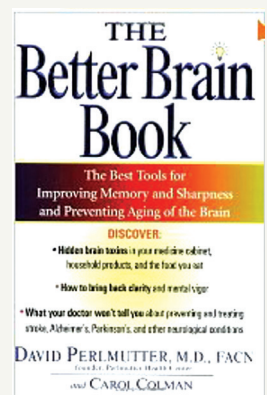


**A.Oyunchimeg, President of Incomnet:**

The last book that I read is "The Better Brain Book: The Best Tools for Improving Memory, Sharpness, and Preventing the Aging of the Brain" by American neurologist David Perlmutter. Early or late in life, most people forget things such as where they put their keys, things they need to buy from a shop, or the names of people they have met at dinner and business meetings. Sometimes one forgets what he or she was just talking about or wanted to say to someone. The ability to

remember things such as a telephone number like when one was younger seems to have disappeared. This phenomena isn't the result of aging. If one accepts all these as signs as symptoms of aging, then it can lead to serious sicknesses such as Parkinsons, Alzheimer, or blood stroke.

This book was firstly published by Riverhead Books in 2005, and contains detailed recommendations on how to keep your mind sharp and healthy with food and certain exercises for the brain. ■



## Education

# International Education - A Mongolian perspective

*Joe Lynch is a native of the Republic of Ireland. He immigrated to Australia ten years ago. His early qualification through the National University of Ireland include a Bachelor of Science and postgraduate qualifications in Education, Educational Management, Pastoral Care and Business and Management Studies. From 1986 to 2000 he worked in the Irish high school system. During that time, he was heavily involved with a range of European Union-funded student and teacher mobility programs aimed at fostering language development and joint educational initiatives between educational institutions in a range of different EU countries.*



As Northern Ireland struggled to leave its turbulent past behind it, the 1990s also saw his involvement with a number of peace initiative programs aimed at building bridges between young people of different religious traditions north and south of the border between the Republic of Ireland and Northern Ireland. He received a number of awards for his voluntary work in this area. Before leaving Ireland, he worked in journalism for two years.

After his arrival in Australia in 2001, Joe became involved in the international English language education industry working in management roles with a number of different Sydney-based private education providers. He completed a Master of Applied Linguistics (TESOL) (Teaching English to Speakers of Other Languages) from Macquarie University, Sydney in 2008. His work in Australia has largely focused around the setting up of ELICOS (English Language Intensive Courses to Overseas Students) programs for a range of private education providers in the Sydney area.

**-Let us start the interview by asking you to tell the readers a little about yourself and your background.**

-I have worked in education all my professional life. I hold a deep belief that education is the key to freedom for all people; it provides a means to improve one's quality of life and perhaps more importantly it broadens the mind and helps to keep one's mind open to new ideas and ways of thinking. I come from a traditional large Irish family, eight children

raised on a small farm near the east coast of Ireland. My siblings and I learned early in life from our parents that everything is possible; if you want something, you can achieve it; however, it requires hard work and often sacrifice.

Over the years, I have held a commitment to life-long education and have studied in a range of disciplines always with the desire to improve my skills and knowledge in my field of work. This brings me to my current field of work; international education, most recently in the Australian context, and my dealings with overseas students with provision of English language education. International education is big business in Australia. Regardless of the study discipline, my life motto still holds strong; 'With education comes freedom'. I have seen this on a daily basis with students young and old regardless of their nationality. Their thirst for knowledge and their desire to improve their lives and the lives of their families often comes with huge financial commitment and sacrifice. And now, I humbly bring my knowledge and skills to Mongolia.

**-You have recently taken up a new position with an education agency in Ulaanbaatar. Can you tell us a little about your employer and why you have chosen to work in Mongolia.**

-Firstly, my employer is New Voice Education Agency based at the Metro Business Centre, Sukhbaatar District. New Voice provides services to prospec-

tive Mongolian students and their families, who wish to study overseas at a range of foreign educational institutions and, upon completion of their studies, return to Mongolia and contribute their qualifications, knowledge and experience to the development of their native country.

Established in 2005, New Voice Agency continues to develop international relations and contacts through participation in annual international educational fairs and workshops and meetings with educational institutions in Australia, China, Germany, Hong Kong, Japan, the USA, Canada, the United Kingdom, Vietnam and Mongolia. New Voice represents its partner institutions by promoting their wide range of courses to prospective international Mongolian students. Mutual trust and co-operation is paramount in order to nurture these relationships. New Voice is currently in partnership with more than 150 language schools, colleges, institutes and universities in over 20 countries. Numerous students have gained entry clearance to their chosen study destination, and have returned to Mongolia after completion of their courses, or are continuing higher education programs at the chosen institutions. New Voice remains up-to-date on market trends both here at home in Mongolia and overseas to ensure that prospective international Mongolian students receive accurate and timely advice. This is achieved through both the participation in and organization of educational fairs locally and abroad.

Managing Directors, Marta Molomjams and Boldgerel Purev, has been at the forefront of international education since they established this company over six years ago. Marta is one of Mongolia's new breed of Mongolian business women who has foreseen and seized upon many business opportunities long before others in this emerging and expanding Mongolian economy. She holds a passion for education and sees the opportunities it can bring for her country and its people. It is Marta and Boldgerel's passion and drive that has made New Voice Agency the successful business that it is today. Both of them have a 'hands-on' management style; they are visible around the New Voice offices, remaining informed about what is happening with all aspects of the business and readily taking on the task of student advisors, talking with customers and advising them on their overseas »

▶ study options.

I visited Mongolia in March 2011 on a marketing trip to meet with New Voice. My first experiences of Ulaanbaatar were very different from what I had experienced before, yet the infrastructure and architecture was somewhat similar to what I had seen during trips to Moscow and St. Petersburg in the early 1990s. I found the Mongolian people I met on my first visit to be extremely friendly and eager to find out more about my home country Australia. Following discussions and the offer of a management position with Marta Molomjams during her visit to Australia in July 2011, I accept her offer of employment and arrived in Ulaanbaatar in early September to take up the position of Director at New Voice Education Agency.

So why Mongolia? I am lucky in that the nature of my skills-set makes it relatively easy to find employment both in Australia and overseas. However, I always like to try something different while also trying to move out of my 'comfort zone' and the lifestyle that I have become used to in a modern western society like Australia. Mongolia is different, very different! It is accepted that Mongolia is a country 'on the move'. To be part of this new bright future is an exciting prospect for me. I hope that my knowledge and experience can bring some new insights into current professional practices at New Voice while also increasing my professional knowledge of the international education system.

**-Let's now turn to international education and the Mongolian context. What benefits are there for Mongolian people in studying overseas?**

-The 5th Job Fair 2011 themed "Gate to Development – Employment" was held at the Chinggis Khaan Hotel on 13th - 14th September last. Over 30 well-known national and international companies, organizations, and joint ventures participated in the event offering about 5000 career opportunities. The advertisements for this event asked attendees the question, 'Have you studied abroad for higher education or a specific profession?'

Having attended the event, I had an opportunity to speak with a number of representatives from a range of national and multinational companies operating in Mongolia. The following messages were clear;

- Language proficiency was a must - English was the most important language followed by Chinese and Japanese;
- Employers have a preference for candidates that have a Western or Asian knowledge in their field of expertise;
- Reputation was particularly adveta-

geous for candidates in terms of the country and educational institution where they received their qualification and/ or training;

- Candidates who had studied overseas and a greater potential to carry out their roles more efficiently and effectively;
- Holders of overseas qualifications and experience had greater promotion opportunities and could expect a more favourable commencement salary.

Representatives I spoke with mentioned that, while Mongolian education standards may have been lower than those of the international destinations for Mongolian students studying overseas, Mongolian education standards have been improving over recent years. In addition, some mentioned the benefit for students who had completed their qualifications in Mongolia; these included a greater awareness of the local economic and political environment which was seen as a favorable attribute for employers seeking to fill positions. There was also the clear expression of the sentiment that Mongolian students lucky enough to study abroad should consider their civic responsibility and indeed duty to return home and share their expertise with their country of birth.

In summary, multinational companies who are driving the evolving economic boom and thus the Mongolian economy have a strong preference for Mongolian people who hold overseas qualifications, life skills, work experience and advanced language skills, particularly English. For most students who travel overseas for study purposes, the qualifications will be important either for future employment or career opportunities. For many students and their future employers back in Mongolia, the intangible benefits will be as important as, if not more important than, the actual qualifications achieved. Intangible outcomes include such things as experience in the culture of the study destination, contacts with local people and their way of life and the work-ethic and standards that are expected from a person as an employee in an alternative industrialized culture.

**-Can you outline for our readers how the international education system operates and how they would start the process of making an application to study overseas**

-For our purposes international education simply refers to the possibilities a student from one country has to travel to another country to undertake studies at any level of schooling or education. The student's choice could involve primary or secondary school, vocational (work-related) training, undergraduate or post-

graduate studies or indeed an education pathway from one level to another. An international student is one who travels to a country different from their own for the purpose of study. For many students, not all, choosing an overseas education may often have a language component; clearly undertaking a bachelor's degree in a native English speaking country like Australia means that the course delivery will be through the medium of English, thus the student requires an acceptable English language proficiency level before he/ she starts her studies.

International education has become a huge industry over the past five decades or so. The United Nations Educational, Scientific and Cultural Organization's (UNESCO) 2009 World Conference on Higher Education report, states that there were more than 2.5 million students studying outside their native country. The Organization also predicted that the number of international students would rise to about 7 million by year 2020. The preferred destinations by international students are the United States, United Kingdom, Germany, France and Australia. The number of international students more than doubled between 2000 and 2007, to over 2 million; the United States, the United Kingdom, Germany, France and Australia remaining the priority destination countries.

To describe the actual application process that a student undergoes to study overseas, I will consider the Australian context with which I am most familiar. Australia's international education industry has grown enormously in recent decades. The industry is now Australia's fourth largest exporter behind coal, tourism and iron ore. It is estimated that international education services generated in excess of AUD\$8 billion in the 2009/2010 financial year.

Perhaps the most critical issue for a prospective overseas student is the conditions that surround his/ her application for a student visa to enter their chosen country. Broadly speaking, most destination countries for overseas study have similar requirements for approval of a student visa. These requirements include acceptance in a full-time course of study, financial requirements, health requirements, English or other language proficiency, a successful academic record and character requirements.

Let's take an example of a student coming to the New Voice offices with an interest in studying an undergraduate degree in engineering. One of our student advisors will carry out an initial interview with the student. During this interview the ▶▶

▶ student counselor will assess the student's study goals, their academic history, personal and financial status and their country of preference. If the student has not decided on their study location, the adviser will suggest the pros and cons of popular study locations. For example, Australian student visa holders are entitled to work for 20 hours per week while other popular study destinations do not allow work permission.

The next step in the process involves consideration of the student's particular circumstances. In our example of a student wishing to take a degree in engineering, there are a couple of factors that need to be considered;

- A college or university will have a 'Direct Entry' guide. This is the minimum level of education the student must have achieved to allow them to enter directly into a degree course. Australian colleges and universities will recognize the high school qualification of some countries but not others. Even holders of Mongolian diplomas or bachelor degrees may not gain direct entry to some educational institutions. If their qualifications do not allow them direct entry, then Australian education institutions will have entry pathways, i.e. courses they need to complete before they can enroll in the degree course. For students who have completed Mongolian high school, these pathway programs are often called 'university foundation programs'. For older Mongolian students who may have done some study in their own country, their entry pathway may involve completing a diploma in their subject area before enrolling in their desired degree program.

- The medium of instruction in Australia will be through English. The student must have a minimum English language proficiency level before any education provider will allow them to commence their studies. In our example, to study an undergraduate degree, a student would need a minimum IELTS score of 6.0 or 6.5 before he/ she would be accepted to their degree course. It may be necessary to complete a year's English language study and to sit an IELTS examination before the student is accepted to the degree course. This is almost always the case with Mongolian students wishing to complete undergraduate studies in Australia or another English speaking study destination.

Depending on the student's circumstances, the two factors may require the student to rethink their study plan. The problem here is that there are difference classes of visa depending on the student's 'principal course of study'. If the

student needs to study English first, then they must apply for an ELICOS (English Language Intensive Course for Overseas Students) Subclass 570 visa. If the student has IELTS 5.0 before leaving Mongolia and they require IELTS 6.5 to start their degree, then they can apply for a Higher Education Visa (Subclass 573) which allows them to study English up to 30 weeks before they start their degree course. Mongolian students usually cannot change their visa class after arriving in Australia. If a student travels to Australia on an ELICOS subclass 570 visa, they must return home to apply for a new class of visa, for example, Higher Education Visa (Subclass 573), if they want to return to Australia to study an undergraduate degree. From our example of the Mongolian student wishing to take an undergraduate degree in construction engineering, it should be clear that it is better for him or her to have studied English in Mongolia, have achieved IELTS 5.0 and to then apply for a Higher Education Visa (Subclass 573) student visa.

#### **-What are they typical problems for prospective Mongolian students when making application for a student visa?**

-The Australian Department of Immigration & Citizenship (DIAC) assigns each country, across each education sector (high school, vocational, undergraduate, etc.), an Assessment Level which is based on the calculated immigration risk posed by students from that country studying in that education sector. To determine the Assessment Level of a particular country, the department examines that group's (past students from that country) compliance with their visa conditions and other indicators of their immigration risk in the previous year. Where these statistical indicators show that a group has a higher level of immigration risk, the department responds to this trend by raising the Assessment Level of that group. In effect, this requires applicants to submit a higher level of evidence with their visa application. When a group's indicators show that they tend to follow their visa conditions, these lower immigration risk groups have their Assessment Level lowered. This streamlines the visa process by reducing the amount of evidence that these applicants need to submit to support their claims for a student visa.

The maximum risk Assessment Level is 4 and countries with the lowest risk have an assessment level of 1. The current Mongolian assessment levels for student visas are as follows;

Visa class	Education sector	Assessment level
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571 ELICOS 3

572 Schools (younger students studying at Australian primary or high schools) 3

573 VET (Vocational Education & Training) 3

574 Higher Education (Undergraduate and postgraduate degrees) 3

575 Postgraduate Research 2

575 Non-award course (for example a foundations studies course) 3

What does this mean for a Mongolian student visa application? The student must demonstrate that they have a genuine intention to return to Mongolia following their studies in Australia. Of course, providing evidence of 'genuine intent' can be difficult. In deciding whether a Mongolian student satisfies this requirement the Department of Immigration & Citizenship will consider:

- personal circumstances that may encourage the applicant to leave Australia at the end of the studies
- the applicant's immigration history;
- personal circumstances in the applicant's home country that may encourage them to remain in Australia;
- the credibility of the applicant in terms of character and conduct;
- whether the purpose and proposed duration of the applicant's study period, and proposed activities in Australia are reasonable and consistent;
- information contained in statistical, intelligence and analysis reports on migration fraud and immigration compliance developed by the department about nationals from the applicant's home country, Mongolia.

#### **People from high risk countries may also be required to show evidence:**

- of employment or study for at least the previous 12 months, leave for the period of stay sought is approved by the employer and they will continue to be employed on their return home

OR

- if self-employed, that they have owned their own business for the previous 12 months

OR

- if retired/non-working they have other financial commitments and/or family/social ties that would provide sufficient reason for them to return to Mongolia at the end of their visit

In practical terms, the quality and nature of the paperwork a student submits with his/ her student visa application is critical if a student hopes to have a successful student visa application outcome. ▶▶

▶ All documents must be translated to English by a recognized translator and copies of originals must be notarized. The other critical issue when submitting evidence with a student visa application is demonstrating that the student has sufficient funds to finance their travel, living costs for the duration of their studies in Australia and to cover their tuition fees. Prospective student visa applicants must have access to AUD18,000 per year to meet the living costs requirements. Tuition fees vary greatly; a student wishing to study English for 52 weeks can expect to pay at least AUD10,000 while an undergraduate degree in architecture can cost in excess of AUD25,000.

The student must show funds for their studies to be held in deposit for at least 3 months prior to their visa application. Given Mongolia's tendency to be a 'cash economy', this can be difficult for many students and, demonstrating evidence of funds is a matter that needs to be planned well in advance of visa applications. Once again, the quality of paperwork submitted with the student visa application is critical to demonstrate evidence of funds.

There is no pleasant way to say it; international education is a very expensive business and is only available to some Mongolians. On the brighter side and again, using the Australian context, a number of scholarship programs are available to prospective Mongolian students. Two of the most popular Australian scholarships include;

- the Endeavour Awards: the Australian Government's merit-based scholarship program providing opportunities for citizens of the Asia Pacific, the Middle East, Europe and the Americas to undertake study, research and professional development in Australia

- Australian Development Scholarships (ADS): These awards are administered by AusAID, the Australian Government Overseas Aid Program, and aim to contribute to the long term development needs of Australia's partner countries and provide opportunities for people from developing countries to undertake full time undergraduate or postgraduate study at participating Australian universities and Technical and Further Education (TAFE) institutions.

Most overseas universities also have scholarship programs. There are, however, many conditions that a prospective Mongolian student must meet before considering applying.

**-What can a Mongolian student expect when he or she arrives in a new country to start their studies?**

-Now in my third week living in Ulaan-

baatar, Mongolia, my experience of a new country and culture can be summarized by saying, everything is different. A Mongolian student, particularly those who has not previously travelled to a Western country, will experience the same. Immediate contrasts include the standards of infrastructure including roads, public transport, houses and apartments which will be superior to that of Mongolia. For many students, adapting to food can be challenging. In saying this, multicultural societies like the UK, USA and Australia will have a wide choice of food readily available in supermarkets and a plethora of restaurants to suit every taste.

Another important issue is culture shock. Culture shock is the feeling of being out of place in an unfamiliar environment. The initial excitement of moving to a new country often subsides when different cultural expectations challenge the student to attend to daily responses and behaviors previously taken for granted. The potential stress of dealing with these persistent challenges can result in feelings of hostility and frustration with their host country as well as a loneliness and longing for home.

New Voice will provide students with an induction to their new country prior to travelling. This induction will include such important issues as how to open a bank account and managing money, norms of behavior when dealing with the general public that may be different from Mongolian society; etc. New Voice staff meet with students in their host country at some stage during each year thus providing a 'face from home' to discuss any difficulties student may have with their studies or with their lives in the host country.

**-What is the best country to choose for international education?**

-The top ranking countries for international education have been mentioned previously in this article. Some host countries have a strong reputation for particular academic disciplines and this may be attractive for some students. Other students may rank the opportunity to work part-time as being most important and, in this instance, Australia may be the most suitable choice as a student is granted automatic rights to work twenty hours per week upon granting of a student visa.

If the student's study choice involves language education, English for example, I would strongly recommend that the student chooses a host country where English is the native tongue. Language learning is more than grammar, reading, writing and speaking; it also has a strong cultural dimension that only can be truly experienced by immersion in a culture where that language is the mother tongue.

Many students are influenced in their choice of study destination by what they see on television. Of course, this is rarely the reality. Studying in the United States will not be similar to a Beverly Hills lifestyle as portrayed in many American soap operas. The reality is that adapting to a new study environment will be challenging even for the more 'westernised' Mongolian student. It is essential that the student carried out thorough research about the destination country, their choice of education provider and the norms and customs of the host country before spending their hard-earned money. New Voice Education Agency's role is to provide students with such guidance

**-How do you see your role at New Voice developing over the coming year?**

-There are many things I would like to achieve here. It is important that New Voice continues to expand its partnership base with an increased range of education providers so that we can provide a wider range of options to our clients. Building relationships and reputation is a crucial element to our business and, as I come to New Voice, a solid reputation has already been established.

As mentioned earlier, overseas study is expensive, often very expensive. For many students, even high academic achievers, the opportunity for overseas study will always be outside their grasp. The September 19th issue of the UB Post, front page article, 'Mineral riches drive Mongolia's dream transformation' stated that the profitability of restaurants in Ulan Bator increased by 800 per cent last year. That is 800 per cent! Both Mongolian and multinational companies are reaping the rewards from Mongolia's boom time. I believe that many of these companies can give something back to Mongolian citizens in the form of educational scholarships to study overseas. The easy option is to recruit expatriates; the more socially responsible option is to equip suitable Mongolians with the relevant qualifications and skills so that these human resources remain in Mongolia and are used to train and education others here on Mongolian home soil. I will be working hard to seek out scholarship opportunities with these companies and look forward to providing overseas opportunities to a wider cross section of the Mongolian population.

New Voice Education Agency is located on the 12th Floor of the Metro Centre building, Sukhbaatar Street, Ulaanbaatar. Office hours are 9 am – 6pm Monday to Friday and 10 am – 5pm on Saturdays. Phone: 11-318148 or contact Joe Lynch directly by email on [joe@newvoice.mn](mailto:joe@newvoice.mn) ■

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