

For a green development

MONGOLIAN ECONOMY

Yes, Our Goal Is to
Become Mongolia's Economist

Dulmaa Considers the
State Budget

Mongolian Economy and Business Magazine

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Letter from the Editor:



Last year our first issue was published just as the Mongolia Economic Forum began. We didn't plan it that way; it is just how things turned out. But many told us it was serendipity that our magazine was published during the forum. Some people even asked if the magazine was published for the forum itself. This question, however, was inevitable. Last year's participants in the forum were Mongolian Econo-

my's first readers and the first to acknowledge the birth of this magazine devoted to economic journalism for Mongolia. This month marks the first anniversary of our magazine. It is the great pleasure of the staff and management to dedicate this latest issue to the Mongolia Economic Forum 2012 for our readers, subscribers and representatives at the forum.

This forum is an event for correspondents to discuss possible solutions to issues for the development of the country. Another objective is to establish open communication between government, non-government organisations and delegates, and to debate how to integrate their ideas and suggestions into the country's policies. In addition to its reports on the problems facing Mongolia in the economic sector, Mongolian Economy delivers the opinions of specialist and citizens to politicians. As our publication and the event's organisers have the very same goals, we've cooperated together since the very beginning. Thus, this newest edition is dedicated to the forum, featuring the pre-session discussions that have led to up the event. For this issue our staff has tried to depict an accurate picture of life in Mongolia for representatives attending the forum while providing ideas for development and discussing the issues the country faces.

Also in this issue is an interview with Prime Minister S. Batbold discussing the economy and the development of the countries that lead the world. As the head of this economic forum, he puts great importance on listening to the ideas and opinions of the representatives at the forum.

Our first anniversary is something for our staff and management to celebrate and take pride in. We wish a happy anniversary to all our readers and subscribers. Thank you very much for all your ideas and opinions. Our success is because of your continued support and inspiration.

Editor D. Bekhbayar

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Economy



The governor of Ulaanbaatar and associated ministries have legalised a regulation regarding a 20-year housing credit ease with six percent interest for low and middle-income citizens. The government decided to release MNT 200 billion bonds from the Development Bank of Mongolia in order to account for the assets necessary to involve citizens with the housing credits. Also the government has allowed the Minister of Finance to give guarantees to the bonds. Until the development bank has its own resource for bonds, commercial banks will give credits to citizens from their own capital resources.

Ulaanbaatar has announced 2012 as “The Year to Support Citizen Involvement and Household Development”. Last year credits of MNT 30 billion for 396 projects allowed the support of small-medium enterprises in the city, resulting in 1,330 new jobs. In addition to support for vulnerable families, the project will aid citizens who try to increase their income by opening small-medium enterprises.

The government has decided to add 10,000 tonnes of meat to its official reserves. A team has been appointed to prepare meat from rural

areas. O. Uyanga, a food supply specialist at the Ulaanbaatar Services Office, said that there has been an order for contracts concerning the supply of meats between governors and people who work in the industry to create suitable trading conditions and direction for the programme.

Financial market

The Board of Directors of the Mongolian Stock Exchange (MSE) has renewed the “Trade Regulation of the Electronic Trade System” on 10 February 2012 by act 2. The new regulation concerns the different types of bond for trade, the conditions of trade, and for organizing trade.

Society

The General Authority of State Registration has completed its plans for



the printing of electronic identity cards, and they will be ready for distribution once they have been introduced to the government. The identification cards are planned for distribution by April for citizens above 16 years old. Citizens of the city and rural provinces are able to purchase their cards from their residency offices. Old identity card must be handed over to the State Registration Office for disposal.

Science

“The National Programme for Mongolian Study” was approved during a session of Parliament. The main goal of the programme is to develop a study both domestically and internationally to organise links between associated sectors and to enhance Mongolian involvement to prepare future explorers.

Mining

The State Commission accepted the second



section of the coal processing factory of Energy Resource at its Ukhaa Khudag mine in Umnugobi Aimag. This second module has the capacity to operate for 6,000 hours to enrich 850 tonnes of coal an hour, or 5 million tonnes a year, expanding the plant's capacity to 10 million tonnes. A third factory is planned for operations to begin later this year.

The exploration of the Tsaidam Nuur coal mine in Bayan sum, Tuv aimag has finished, and its mining process is set to be started. Tsaidam Nuur coal mine is located three kilometers away from the 35 kilowatts power line, connecting Bayan and Bayanjargalan soums, and clean water resource, which is beneficial location to develop infrastructure. The mine is considered to

be the biggest industrial field to explore semi-coke, briquette and carbon dilution. Therefore, relying upon the mine 600 megawatts power plant is planned to be built. Technical and economic calculations are being done.

Infrastructure

Traffic engineering work is set to begin April this year. These roads will connect the provincial capitals of Dornod, Sukhbaatar, Umnugobi, Uvs, Zavkhan and Khuvsvul Aimag to Ulaanbaatar. In this scope the government has authorised the activity lists of the executive consultant, who will be controlling the construction and building process. Sector ministers said the traffic engineering construction would need MNT 293 billion. If this, around MNT 88 billion will be financed by the Development Bank.

The tender to the Power Plant No. 5 project is to be implemented in two stages. At the first stage, construction will begin to a generator with the capacity of 450 megawatts will for 2015. As for the second stage, four of eleven companies were selected to participate in the project, but none of these companies have been named as of yet. The selected four companies will be announced by the the government, said B. Erdenebileg, the project coordinator.

Health

The Ministry of Health announced this

year as “The year of Quality Medical Service”. During its inauguration, N. Khurelbaatar, the Minister of Health, pronounced to make 2012 the year focused on medical service. The project includes nine main purposes with nine units for a total of 81 actions.



The national campaign will be organised to involve and invigorate children up to 18 years old towards preventive medical check-ups.

World News

Germany is to have a new president, after Christian Wulff resigned to deal with corruption allegations. The new president will be Joachim Gauck, a former East German pastor favoured by the opposition and the Free Democrats, but not until now by Chancellor Angela Merkel.

At least seven people were killed in Afghanistan as protesters and security forces clashed in several cities. The riots were in response to news that copies of the Koran had been placed in an incinerator and burned at Bagram air base. The Americans claimed it was a mistake and Leon Panetta, the defence secretary, and a senior general in the country apologised. Hamid Karzai, the Afghan president, urged people

to protest peacefully. But furious demonstrators continued marching on the streets.

Asian stocks rose, with the benchmark index poised to enter a bull market, as better-than-forecast industrial production data in Japan and South Korea boosted growth prospects. The euro climbed before the European Central Bank provides funds to support banks.

The MSCI Asia Pacific Index (MXAP) climbed 1.2 percent as of 11:36 a.m. in Tokyo. Standard & Poor's 500 Index futures added 0.1 percent. The Australian dollar increased against 13 of its 16 major peers and the euro strengthened. Oil gained 0.2 percent, snapping two days of losses. Australian bond risk fell to the lowest level in three weeks.

/Bloomberg/

China's local municipalities will press on with efforts to ease property curbs that have slowed

the land sales they rely on for revenue, even after two cities retreated in the face of opposition from the central government.

Wuhu and Foshan, smaller cities that get at least 30 percent of their revenue from selling sites, abandoned attempts to lift some restrictions that have hurt prices and sales. Premier Wen Jiabao has reiterated the government won't waver from its measures to keep housing affordable.

/Bloomberg/

Greece's Parliament ratified a 3.2 billion-euro (\$4.3 billion) package of spending cuts to the 2012 budget, taking Prime Minister Lucas Papademos one step closer to the country securing a rescue package to avert financial collapse.

A total of 202 lawmakers voted in favor of the law and 80 against, Acting Parliament Speaker Grigoris Niotis said in remarks carried live on state-run Vouli TV yesterday after a roll-call

vote.

/Bloomberg/

A one-day strike by India's unions closed businesses and slowed public transit Tuesday as workers protested rising prices and what they say are the government's anti-labor policies. Several markets were shuttered in West Bengal, a formerly communist-ruled state seen as a hotbed of union activity, residents said.

New Delhi (CNN)

The Japanese cabinet has passed a plan to double sales taxes in an attempt to control the soaring costs of public debt, reports BBC. The plan, which needs parliament's approval, will see taxes raised from the current 5% to 8% in April 2014, and then up to 10% by October 2015. Japan has revealed its social security costs will rise by 1 trillion yen (\$12.6 billion; £8 billion) a year as its population ages. It estimates 40% of the population will be of retirement age by 2060.





Feature Topic

A Searchlight for Development

By D. Bekhbayar

It has been three years since the Mongolian Economic Forum was first organised, and since then the forum has become a very important event for Mongolian society. The government is often criticised for acting indifferent towards the opinions of the private and the public and private sectors, while holding closed discussions about certain issues or making unacceptable decisions and ordinances. It has become apparent that these criticisms have declined since the organisation of this forum.

The main goal of the forum is to present the ideas and opinions of the private sector, the public sector, and experts from various sectors before policy makers. The forum's seeks to enrich the government's developmental policies with recommendations and innovative ideas, and create a mechanism that approves laws and regulations. The previous two sessions have shown this to be a constructive event, where over 1,500 opinions have been heard. This is a leap towards development. Of course, there are flaws. There are some sore points about the organisation of the event, matters that need discussion, and greater cooperation between government and citizens.

This event is organised by the eponymous organisation Mongolia Economic Forum. The event is organised in a nontraditional manner, following the

example of the Davos conference. The general director of the non government organisation, L. Tur-Od, noted that inviting internationally celebrated economists and allowing debate over their presentations would suit this forum best.

Any Results?

Over the last two years, the forum has been used to raised issues concerning state registration reforms, budget innovation; transparency, innovation of the stock market, mining operations, human development, governance, and infrastructure. Prime Minister S. Batbold has discussed some of the results of the forum, such as revisions being made to state registration and the passage of the Law on the Budget. The latter has allowed the disclosure of the budget to the public, introduced budget restrictions controlled by the people, stabilised the budget, and granted powers to budget regulators in rural areas. Experts say that the law has accelerated development in the country. The collaboration with the London Stock Exchange on stock-market innovation is ongoing. Ch. Khashchuluun, director of the National Development and Innovation Committee (NDIC), said during a press conference that activities reflecting the recommendations and ideas from the forum are being implemented in all relevant sectors.

What Issues Must Be Discussed?

This year's event focuses on three issues. First is economic development and accessible growth; second is social policy and stable growth; third is competitiveness, innovation and green solutions.

Because it has been widely discussed that last year's economic growth hasn't been effective, this year organisers have planned to hold discussions on improving the standards of living, shortcomings of growth, unchanged poverty statistics alongside economic growth, laziness among citizens caused by social assistance and the possibility this sentiment may continue, absent policies in the finance sector, health problems caused by air pollution, expected results from the development of innovation, the implementation of a green economic policy, the development of eco-friendly wind power systems to complement coal-fired power plants, the correct solutions to issues regarding resources, energy independence from neighbouring countries by building hydro-electric plants, and the list goes on.

Organising pre-sessions on these matters was a brand-new idea. To transform the open stage at the forum into a searchlight for development, your contribution is essential. ■

Prime Minister Says

Open, Transparent and Inclusive Governance Brings Development to a Nation

By B. Bayartogtokh

The Prime Minister S. Batbold can be considered as a fortunate leader, who was selected to lead the country's Government when Mongolia has found itself on the eve of a major economic take-off on one hand, and on the other, at a critical juncture of great responsibility and opportunity. A number of issues related to the national development, including the launch of Oyutolgoi and Tavantolgoi Mining Projects, the state budget, innovation strategy, operation of the Mongolian Development Bank, reforms of the stock markets among many others form his daily agenda. He is also one of the Founders and a Chairman of the Mongolia Economic Forum (MEF). In connection with the MEF which is scheduled to be held for the third consecutive year, we interviewed Prime Minister S. Batbold on the country's economic issues. We consider it as a historical opportunity that this interview with the Prime Minister concurs with the First Anniversary of our magazine.

The Mongolia Economic Forum is going to take place for the third time. What is special about this year's forum and what can we expect from it?

The distinctive feature of this year's Forum, in my view, lies in the fact that it will provide a platform of discussion among all stakeholders to identify the country's economic development priorities for the next four years based on our achievements and lessons learnt over the past years. It is also hoped that the Forum shall consider the long-term trends for Mongolia's economic development for the next 20 years. The Forum is expected to hold separate sub-forums which will specifically deal with the issues such as renewable energy, innovation, introduction of new technologies, diversification etc.

The issue of human development



and creation of the middle-class was the main focus of the last year's Forum. In your address during the Forum you took note of this issue and singled out specific measures that your Government was planning to implement in this regard. Any outcome so far?

Over the past few years my Government has initiated and implemented a series of policy steps which are aimed at prioritizing human development and nurturing middle-class. To start with, my Government took specific measures to improve business environment and support SMEs. In this regard, the Government has decided to increase significantly the financial support for SMEs, which is increased by five, six times compared to the past years. We have introduced a number of new financial instruments which would support the businesses. For instance, the adoption of the new Law on the Loan Guarantee has proved vital for new business entities. We have also set up the Soum Development Fund which would support local businesses at Soum and Bag levels. We believe

that these policy initiatives will prove beneficial for the further development of SME-s and formation of an affluent middle-class in Mongolia.

We have introduced a favourable taxation for the category of citizens who run SMEs as well as those households who own real estate to do their own business. We are determined to continue this policy as these efforts are giving their fruits in the form of new jobs and new wealth. As a result of our efforts to improve the business environment, the country has seen an overall development of the SMEs sector. According to the statistics, the unemployment rate has decreased from 11 down to 8 percent. A total of 72 thousand new jobs were created around the country last year alone. As 2012 is proclaimed a year of the Household Support, we have identified a series of activities, which my Government will implement throughout the year.

How is the issue of human development reflected in the national development strategy?

Human development has various forms. Firstly, the education, secondly, »

▶ the health sector, thirdly - economic profit. In my opinion, a big progress was achieved in the above mentioned three indicators through the Human development fund and the budget. Our country has officially become a middle-income country by the volume of its GDP for the first time. Moreover, re-distribution of the income is agreed on. Policies within this framework have been implemented. Important measures were taken in the the educational sector, such as adoption of the Cambridge education system, building of students' campus and schools. The forum will discuss the fundamental revision of the health system, financing and reforms of the insurance system.

The average life expectancy of a Mongolian has become 68, which previously was 64. It shows the certain headway in human development. Further, the reforms of the health system are meant to make Mongolia as a regional leader as to the health development. As a result of introduction high standards in the health system Mongolians will not have to go abroad for health treatment. In contrary but foreigners would come to Mongolia. The budget was revised and improved for building new hospitals and renovation of old ones in provinces. 30 secondary schools are covered by the programme to introduce the Cambridge system. As a result the international standards will be adopted nationwide. Universities and institutes are going to implement a new project titled "Online valley". Funding of the students' campus building has been secured, and the construction work for the students' campus in Baganuur has already started. Our efforts are directed at achieving meaningful results withing a short span of time in the education and science sectors.

Although big mining projects have started, unemployment rate in Mongolia is still high. How the government addresses the issue of creation of more jobs?

The state should intermediate with the labour market, based on the labour stock and registration. Many vocational training centers have been founded recently. Last year, 70 thousand people were provided with workplaces. Yet, there is criticism that unemployment and poverty persist. There are two comments on this issue. When the unemployment registration



started, hidden unemployment appeared. It means, most of them were not registered yet. It is a good thing that unemployed people started to register. Hidden unemployment became visible. Last year, we made efforts to help these people to acquire professional knowledge and skills. I am confident it will produce outcome soon. Secondly, there is a gap in statistic methodology of calculating the unemployment rate. According to the World bank's methodology, the unemployment rate in our country has relatively decreased and reached 10%. But the National Statistic Committee says 39%. So we have to cure this and make it clear.

The government will organize vocational trainings among the unemployed using the labour stock and new registration. I would like to appeal to our citizens and youth to be industrious. As we say "No sweet without sweat". For instance, at my meeting with the light industry representatives I was told that the company Gobi employed only seven people although they have announced vacancies for over 400 job positions. The reason was the absence of skilled people such as weaver and textile workers. Impression is that our people lack aspiration and motivation to work and learn special skills. Therefore, the government will support and assist our citizens to choose right jobs. Accordingly, their labour will be valued properly. Economic tools will be applied in this direction. We will make it systematically and enhance the foundation which was laid down last year.

The global economy is at a critical

point. We are anticipating a crisis similar to the crisis of 2008. The analysts think that if the debt situation of the European countries worsens, no country in the world would be immune from it.

International organizations remind policy makers not to repeat the mistakes made in 2008 and 2009. Lessons should be learnt. Mongolia might be affected. What do you think?

Establishment of the Stability Fund is a new system which was introduced aftermath the crisis of 2008. It is in progress of securing funds. Furthermore, there will be a fund for the investment in human development. There are many international experiences. For instance, every person in Singapore has individual fund which is used for the education, health and accommodation expenses.

The policy on reduction of the budget deficit and increase of the capital supply will be implemented under the Law of Budget Stability. Therefore cash-handout distribution will be finished by June 2012 and spent further for the great construction process, industrialization. The Development bank was established for this this purpose. Institutions concerned are working on to allocate the capital into this bank and secure funding.

There is anticipation that a global economic crisis might happen in coming years. Therefore our goal is to secure capital accumulation at the national level and for every citizen, so the health and insurance fees could be covered from this capital. In other ▶▶

words, the future of our citizens will be guaranteed. In coming four years the main goal is to support and expand the sectors with budget deficit. The economic security of our country must be ensured. Efforts and negotiations are directed at improvement of the infrastructure, gaining multiple access to the sea, big construction works are being initiated.

How is the issue of the domestic oil production is going on? When shall we become oil-independent?

Our goal was formulated to become oil-independent as soon as possible. Though this goal was clear no specific solution was proposed before. The government has worked out several solutions. Coal modification and establishment of domestic oil refineries are the main solutions. Accordingly, the policy is to raise the funding, establish domestic oil processing and supply.

Tavantolgoi project?

We started use of Tavantolgoi deposit. I was informed, that a first million tone of coal was excavated from the Zuun Tsankhi deposit of Tavantolgoi end of the last year. Relevant institutions and companies report that technical and logistical works and preparations have been fulfilled.

There is misunderstanding about the use of the Baruun Tsankhi deposit of Tavantolgoi. Some people understand that a part of Tavantolgoi will be given to foreign companies. That is not true. The government has never made such a statement. Tavantolgoi deposit ownership is 100% Mongolian.

At the Baruun Tsankhi coal extraction for a certain period is possible, taxes must be paid. We will define the volume of the coal to be extracted for 20-30 years. For instance, at the Baruun Tsankhi 15 million tonne of coal will be annually extracted. If to calculate by 20 years, then it will be 600 million tonne. Tavantolgoi has a reserve of 6-7 billion tonne of coal. So we are talking about mining leasing. There is no talk about granting the shares or ownership license. This is the principal difference from Oyutolgoi. It will be so in the future.

Companies from our partner countries have yet to agree on their positions. From one hand, I think it is not necessary to force to say immediately tomorrow. On the other hand, if this work is delayed, then the Tavantolgoi use shall not be put aside. Therefore the government, and the company Erdenes Tavantolgoi have been discussing about pulling off the soil at the Zuun Tsankhi, Baruun Tsankhi as well as on some other parts. Preparatory work related to the mining will be completed this spring. The government will make a fair distribution of the profit earned from this deposit to the people.

Rumour is that the government demands to make urgent ore extraction of Oyutolgoi. Is this true?

It is nonsense. I haven't heard about it. We pay special attention at the Oyutolgoi project. Sooner it starts it is important for national development. We are confronted with the pressure to meet the solution having shortage of

reliable source of energy. The project "Oyutolgoi" is putting pressure on the government of Mongolia saying that they cannot continue their work if the state doesn't provide support. It is our duty to require to do the work quickly, and it is their duty to demand necessary conditions. The work can be speeded up through mutual discussion. In my opinion, the big projects will produce tangible outcome this year.

How to regulate the agricultural sector along the developing mining development?

The economy of Mongolia should have many dimensions. For instance, when the copper price falls down, our budget faces challenges. Therefore we can't afford a mere mining-based economy. The mining would be the impetus for the development key. The agriculture is essential sector for the Mongolian economy. This a matter of national security. Mongolia has all potential to become a producer and exporter of agricultural products. Therefore, the state should support domestic production of good quality agricultural products. The government and the State great khural have issued very clear policy statements in this regard. The national programme titled Mongolian live stock is launched. The state has also defined its policy towards cattle breeders. The next project is "Tavan Erdene". Healthy livestock is the core of this programme. This has not been done last 20 years. The policy to make the cattle healthy will revitalize the agriculture, boost the economy and create framework for improvement of life of cattle breeders.

In your recent speech you said that we will transform the oligarchy dominated power into the people governance. How do you assess the current governance, and how to shift into the people's governance?

What I meant was that Mongolia eventually will become a developed and creative nation after a certain period. To do this, we should consider some important issues. Development history of other countries shows that development of any nation depends on its governance. An open, transparent and inclusive governance brings prosperity and development to a nation. The public governance should be open and transparent. The other form of governance is the good corporate governance. ■





Critical Issue

Concerns Over a Complicated Business

I. Otgonjargal

If there is a day of depression then there is also a day of relief. That is what oil importers have shown us. In the beginning of last January oil price skyrocketed up to MNT 260 to MNT 300. However, before the holidays the majority of fuel stations decreased their fuel price by MNT 50. On one hand, it is advantageous to Mongolians who have emptied their pockets for food, clothes and presents for Tsagaan Sar. But on the other hand, it is a way to expiate for oil importers, who have made infuriated the public by raising fuel prices. Although fuel prices are dropping, the prices for goods are still high because of the holiday. There are organisations and committees that protect the rights of consumers. However, there are no signs of any protest against price hikes.

Mongolia Trade Union, headed by S. Ganbaatar, have done a good job and should be thanked. They battled hard against those who increased fuel prices and have won. One of the pre-sessions to the Mongolia Economic Forum held a discussion about dependency on oil products had the Chairman's Assistant to the Petroleum Authority of Mongolia and the director of the company NIC speak. Representatives of the Mongolian Trade Union asked why price have not fallen when the rate for the U.S. dollar has,

and that it was negotiated to be dropped before 8 February.

The majority of participants were disappointed that the speakers did not mention anything about price decrease. But soon after the Shunkhlai company dropped its price. Today almost every fuel station offers fuel at a price reduced by MNT 50, which is a relief to many.

Can the government bring any changes?

Issues regarding putting the matters of fuel imports in the hands of the government have recently been raised. At the moment it is impossible to criticise or make any conclusions. However, the executive director of NIC said that his company has been working with government agencies, and that the thought of putting power of imports into the hands of government was uncomprehensible. Although importers buy oil at different prices, the government suspects them of conspiracy. Thus, a project has been under development to give the domestic trade market to these importers.

Importers are responsible for meeting demand. That is a fact. They have plenty of domestic difficulties, as well as

international. However, there have been quite a few cases of plots to manipulate fuel prices. Importers endure all kinds of pressure from the government to keep fuel prices stable. But sometimes they have the tendency to allow prices to skyrocket. The nearest example of this is the incident in early January.

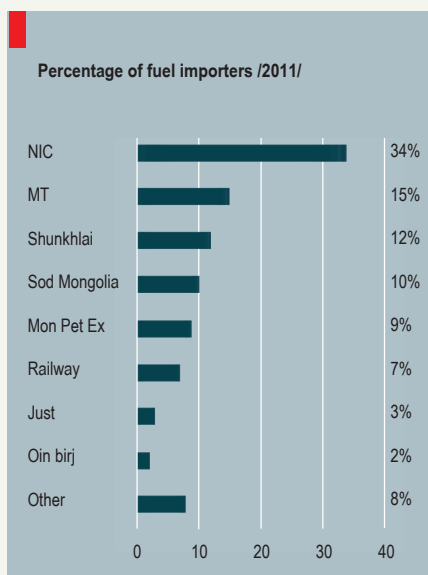
"85 percent of the oil trade price is linked with the border price", said Khaliunbat. "The other 15 percent accounts for rail and transport expenses, as well as salaries. We have only five percent profit. 15 percent profit is way ahead of us".

B. Erdenebat, a doctor, professor and lecturer at the School of Economics of the National University of Mongolia, said: "They increased the fuel price probably because they've been operating unprofitably".

Importers reduced fuel price after facing public anger. This can continue, but it is neither fish nor fowl for both sides. If these conditions continue, Mongolians might face days of hunger because 98,2 percent of fuel is imported from Russia, one percent from China and 0,6 percent from Korea. This means Mongolia is nearly 100 percent dependent on a single country. This situation is an indication that the entire country, including both consumers and importers, will eventually face difficulties.

At the sub session, NIC Executive Director M. Khaliunbat stressed that fuel business was getting harder to run because the Russian supplier Rus Petroleum decreased its fuel exports after experiencing fuel scarcity in Russia last year. In addition, Russia had banned fuel exports and has raised the tax price on petrol 92 since last May. This created chaos for everyone from taxi drivers to the President. Luckily, at that time the chosen investor for the Tavan Tolgoi mine was about to be announced, and it was an important time for railroad issues. Relief returned following the news that the Mongolia would be excused from the Russian ban on exports. Although the chaos was over, there was then, and still is now, no security that it will not ever occur.

The necessity for petroleum grows larger as mining, infrastructure and industry bloom. Last year over one million tonnes of fuel was imported; 61,4 percent more compared with 2009 and 26,1 percent more than 2010. The Petroleum Authority of Mongolia predicted that consumption might surpass 1,5 million tonnes. Last increased diesel consumption could ▶



► be seen in a 60 percent spike to all petroleum import consisting of diesel fuel, and can be directly attributed to the mining industry and developing infrastructure.

How to decrease the dependency?

Russia started to implement strict policies on petroleum exports last summer, which resulted in harsh times for Mongolian importers. Due to domestic scarcity, Russia has begun to use the “60-66-90” policy for taxes on fuel exports since October 2011. This is not, however, the end of Russia’s policy on oil exports.

Rus Petroleum has set a minimum quota and signed a contract that mandates a supply of 10,000 tonnes of petro 92 10,000, 40,000 tonnes of summer diesel fuel and 30,000 tonnes of winter diesel fuel monthly. Mongolia has no other choice than expect those harsh conditions.

We don’t have the right to say that conditions are hard, and we won’t buy it. At present, fuel is imported from various companies such as THK, Gazprom Petroleum, Gazprom Aero, China Oil, DW Oil and Ural Oil. Although fuel is imported from various sources, the number of problems the country faces are not shrinking.

“Because the Angarsk and Achinski plants of the company Rus Petroleum were geologically closer to Mongolia, the imported fuel reached Mongolia within three to four days. But today it takes 35 to 45 days”, explained Khaliunbat.

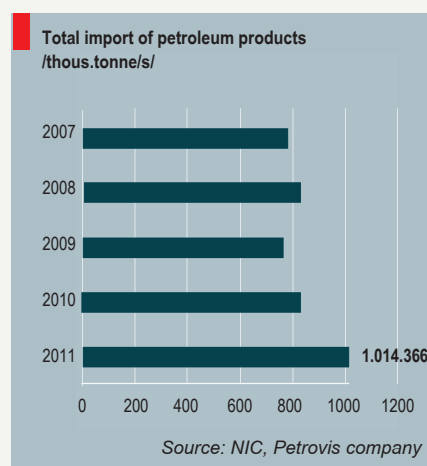
Apparently the matter of fuel supplements gets more complicated and alarming. In other words, it is high

time to search for an alternative. That’s why government, non-government organisations and public representatives were present at the discussion for oil dependence that was leading up to the Mongolia Economic Forum. Speakers mainly focused on Mongolia’s dependence on one country for petroleum production, finding a way to decrease that dependency and building oil refineries in Mongolia.

P. Sarangerel, the assistant to the director of the Petroleum Authority of Mongolia, mentioned there are currently 14 companies exploring for oil, 18 petroleum fields and five companies that have licenses to build refineries with the capacity to explore 300 to two million tonnes of oil. However, none of those five companies are 100 percent domestically financed. This could lead one to wonder what the chances are that those companies team up and build refineries. Although they might have an interest in cooperating, they do not have the financing and lack experience with technology and policies from the government.

Anyway, there are projects planned for the construction of small oil refineries in Darkhan, Zuunbayan, Erdenet, Dornod, Choir and Sainshand. The most likely refinery to be built is in Darkhan by Darkhan Petroleum.

Mongolsekyu, Petrovis, Just, Magnai Trade are the consortium to cooperate on the Darkhan Petroleum company. At the moment only discussions concerning government involvement have been held. The same discussions have been held by Dornod Petroleum. It would be a great effort if we did not lose time and started the building process. Besides having 80 kinds of natural resources such as gold, copper and coal, Mongolia has decent petroleum sources. It is up



to us whether to use or waste it. The proven petroleum resource in Mongolia amounts to 196 million tonnes of oil, of which 20.17 tonnes are permitted for consumption. The Petro China Dachin Tamsag joint venture has explored and exported 5.3 million tonnes of petroleum since 1993. All of this shows how important it is to build a domestic refinery in Mongolia.

Official reserves without reserves

The policy on petroleum products that takes effect until 2017 has just been made and includes issues on improving the legal conditions of petroleum production, establishing and developing national oil industry, and increasing exploring and exploiting process. Talks about building refineries have been lingering for a while now, but there has been a lack of action. However, there are other important matters, such as supplying domestic demands until a refinery is built.

“With the approaching election, Russia has hardened its retail price and taxes on fuel. They don’t want to export”, said the executive director of oil firm Petrovis, D. Enkhchimeg.

The Mongolian presidential election is aligned with the Russian election. People hope the fuel price won’t rise until the elections. Politicians will likely do their best to keep them low. However, many predict that after the election the price might rise again. Well, predictions about domestic prices can be made, but no one can guess what the future holds for our fuel supplier, Russia. Thus, it is now most important to increase the domestic fuel reserves said P. Sarangerel, the assistant to the director of the Petroleum Authority. One could say Mongolia has almost no national petroleum reserves. Because the government has no reserves, government must be using the reservoirs of the ten importing companies. It rents those reserves and stores certain amounts of fuel. But it is very little.

“It is important for the government to have its own reserves”, said Sarangerel, “Financial issues are handed to be relegated”.

As of 8 February 2012, A-92 has 26 days, A-80 has 20 days and diesel fuel has 10 days of reserves left. It is common for politicians to declare their love to the citizens during elections. But he who is of many years experiences knows that the outcomes are risky. ■

Budget

Dulmaa Considers the State Budget

By B. Uuganbayar

“A penny saved is a penny earned” does make sense, but you have to pay your taxes with your earnings. Unfortunately, Mongolians do not consider this important. They think that the state budget is not so important to citizen Dorj, and they do not care about how the state spends the budget.

Nevertheless, economist D. Jargalsaikhan has wisely advocated the wise belief that “taxes are what we pay for our culture and civilisation”. Companies, herders, doctors, police officers, and everyone else must pay their taxes to the state. It means that money provided by taxation makes safe conditions for the public, a healthy economy, health care support, and the safety of our freedom.

All Hands on Deck

The significance of every citizen's participation in state budget spending will be considered during the Mongolia Economic Forum to be held on 5 to 6 March. A discussion on how tax payers can monitor government spending took place on 20 January, with participation from officials and representatives of civil organisations. They said it is crucial for taxpayers to monitor and participate in budget expenditure decision making.

N. Dorjdulam, manager of the Open Society Forum, during the event said, “Some civil servants have bought flats for his or her father, mother and children by using state budget funds. Moreover, an expert at the Ministry of Nature, Environment and Tourism has studied abroad to get a Master degree four times. These are examples of our state budget spending”. Dorjdulam has lots to say on the matter as he has been researching and analysing

transparency issues concerning the budget for 10 years.

“The politicians don't represent the citizens but they try to spend the state budget for their own needs. They always tell what the state budget is invested in, but they don't say how efficiently or what the results of that investment were”. He added later, “We still have the wrong system to impose company taxes on the income of for-profit companies”.

D. Ochirsuren, chief executive officer of Onch Audit said that “if every citizen had the right to monitor the state budget, they could create a reliable future. On the other hand, both the State Audit, which monitors state budget expenditures, and the sub-committee on budget expenditures do not fulfill their duty”.

However representatives of

Parliament and the Ministry of Finance have other views on the budget. “They have been increasing budget transparency and improving legal conditions for the last two years”, said D. Zorigt, director of the Economic Standing Committee. According to him, positive efforts would emerge owing to the ratification of laws regarding the state budget, information transparency and the right to information, and budget stability.

But D. Tserendorj, coordinator of the civil organisation Citizens Who Monitor, spoke back, saying that those in power do not usually follow those laws put in place. He said officials squander the state budget; meanwhile there is no system in place for accountability.

“During a session of Parliament, members complained about a lack of funds, but they spend lots of money to ensure a comfortable workplace and home”, said Tserendorj. “For instance, there was the construction of the state and administration buildings at the Bayanzurkh District and the Ulaanbaatar administration building at Khangarid. Now there is construction of the state administration building for Sukhbaatar District and the government building at Khan-uul District”.

All of the examples Tserendorj ▶▶



discussed, however, are just from the past two or three years. Although state officials spend the budget on things that are not necessary for them, they avoid much spending for citizen needs.

Budget Adjustments for Elections

Many people say that although Mongolia is becoming wealthy, good governance is weakening. According to research on transparency concerning the state budget of Mongolia by the international organisation International Budget Partnership, transparency has improved from a rating of 36 percent transparency in 2006 to 60 percent in 2010. Good news, but research by the Open Society Forum has disputed those findings. They assert that the reality is the laws for transparency are not well executed. According to the Open Society Forum's own research, the budgets to rural communities are only 32.5 percent transparent. Additionally, policymakers have the bad habit of overspending after receiving large earnings. Also, when Parliament members make up their election funds proper accounting suffers, and members manipulate the budget.

N. Dorjdari, manager of the Open Society Forum, criticised elected and government officials, as well as officials in rural communities who discuss, negotiate, and compromise on the budget. Although a limit on debt making will take effect this year, no mind is paid to the debt in the private sector. This is risky because if these huge private companies go bankrupt, they would go to the state for a bailout.

These thoughts and words of experts that represent citizen Dulmaa should be considered for the budget-making process. This includes accountability for taxpayers' money, efficient budget spending, and improving the quality of life through well-targeted spending. J. Oyungerel, chief executive officer of the oil firm Petrovis, said that citizen participation in budget approval, enhancing the legal conditions, and paying attention to citizen involvement at each level should be considered.

Moreover, many specialists

said that information regarding the budget that is published on the web is too sophisticated for laymen. The information should be made more clear and be available through multiple

sources. Representatives concluded the discussion by agreeing that civil organisations should cooperate closely with citizens through initiatives and push for real results. ■



How Can Poverty Be Reduced?

Combating Poverty

By D. Zorigt

S. Davaasuren is one of the few economists who researches poverty in Mongolia. For this report the facts on poverty are presented through the conclusions and thoughts of this expert.

The economy has grown over 17 percent, yet poverty has increased by about 40 percent. Why has economic growth not reduced poverty?

The Hard Reality

"Life is hard. My mom lost the money she receives as compensation for her work disability four days ago. We ran out of flour the day before yesterday. Our home is cold because we haven't made a fire for many days", said the oldest daughter of G. Erdenemunkh Zuumod Sum, in Tuv Aimag. Her

dream is to become a physical trainer. Apples are her favourite fruit, but she cannot remember the last time she ate one. None of her family members have a steady job or stable salaries.

"We make a living by pooling our salaries together with the MNT 21,000 monthly allowances of five people, plus money that my wife receives as compensation for work disability", said Erdenemunkh. His wife Gukhyabazar is mentally sick.

For this family vegetables, sugar, and even salt is not purchased. "It is enough for us if we can stave off hunger and the cold. I would make blocks if I had the money", said the household head.

Even though I had warm clothes on, I shivered from the cold, sniffing, while a five year old with only a wool sweater ►►

stood still staring at the stranger in her house as if she was impervious to the cold.

S. Davaasuren: The graph (see Chart 1) shows how poverty has risen following the distribution of social assistance allowances. These handouts have the greatest impact on families such as the one described above. It could hinder their motivation to work, as they might get the idea that they could live on these welfare payments instead of earning a living. Looking at what Erdenemunkh has said, he might earn a living by making blocks. But he didn't try to make blocks. There is an a scale for attendance regarding the workforce. Since the payments began, the number of people actively searching for employment has dropped 7 percent. Assumptions are that social assistance has led to less interest in work and inactivity among the poor.

Chart 1

Poverty rate and expenses of social assistance allowance /MNT billion/



Source: from the presentation *Poverty: Will the growth decrease the poverty?*

ME: The MNT 21,000 allowances from the Human Development Fund will come to an end this June. Do you think people will change their attitudes regarding work?

Davaasuren: It would be like cutting their life support and might result in negative consequences. Their lack of education makes it difficult for them to get a job, which might result in even more poverty. People could lose their will and hope to live. The government must consider all of this.

Food on the Table

It was just a few days ago when D. Nyamsuren lost his son. "My son had liver disease. He couldn't get treatment because we had no money. He took care of us all on his own", Nyamsuren said. "He earned money with his horse cart. He was the one to lean on. He put food on the table for the seven of us; (the four children of his divorced sister, his family, and me)". He sobbed and after a few minutes silence, he added, "Our horse has been stolen".

Davaasuren: This family faces a vicious cycle, as one difficult problem leads to another. The son didn't have enough money for treatment and so lost his life. He was the one to put food on the table. And now that he's gone, the family might become even poorer. It's called "deep poverty" and 29 percent of the population has fallen into this category below the poverty line. Basic social services must be improved to reduce this figure. With enough funding to health care, the benefits of investment into education would grow. Investments in health and education generate higher future incomes. However, investments into these sectors are very low in our country.

The majority of impoverished people complain that life is hard because they do not have a job. What do you think about the shortage in the job market?

Davaasuren: Research from the National Development and Innovation Committee shows that the boom in the mining sector will create 5,000 positions in technical work and engineering, and 30,000 professional jobs. However, how many poor people have the required education? Although 2010 statistics reveal that unemployment has declined by 1.7 percent, poverty has stayed the same. Research regarding the 2010 Jini coefficient has shown that poverty stood at 0.33 compared with 0.31 in 2009. As the inequality between incomes grows, the gap between the rich and poor grows wider too. Researchers have advised that Mongolia focus on the quality of basic social services to combat poverty.

A way out

Participants at a discussion for reducing poverty at last year's Mongolia Economic Forum said economic

growth is the basis for this aim, but it isn't enough.

Davaasuren:

For greater wealth these issues must be solved:

More options regarding property rights and more opportunities for gaining assets are needed. The government's involvement in this area is very important. It should provide adequate working conditions.

Labour's affect on economic growth

It is important to refrain from distributing cash and spoon feeding the population. The government should focus on supporting health and education, and to provide greater employment.

Improving social order, values, and the will to live among society's poorest

Most poor people have a narrow view of life. They even have a different social order and values. So these must be considered carefully.

Implementing policies that address inequality in the city and in rural regions

This could have the greatest impact for the aim to reduce poverty. Research conducted by the National Statistics Committee shows that one of every two rural inhabitants was poor. The fair appropriation of incomes is lost in isolated regions.

Removing influences to break the cycle

If the key influences that perpetuate the cycle are not removed, people will grow poorer with each passing year, exacerbating the gap between the rich and poor. Stable development is necessary for the future. Thus, it is important to erase this gap. In order to solve these problems specific research must be conducted. Today in Mongolia only income-based research is conducted. But we must research on how poverty is affecting education, the mindset it creates in people, and the living conditions it allows for. If we don't know the effects of poverty, we can't determine the solutions. In short, we must know what poverty truly means. Economists have discussed how government policies could attend to inequalities in society, but so far it hasn't been addressed. ■

Financial Sector

Brainless Economy

By B. Enkhsetseg

The economic growth of Mongolia shot up from 6.4 percent in 2010 to 17.3 percent last year to open the eyes and pull at the ears of other nations. The prediction for growth this year, the year of the dragon, has everyone excited. The International Monetary Fund (IMF) has averaged the economic growth for Mongolia between 2012 and 2016 to about 14 percent. They also said everything depends on Oyu Tolgoi in 2013, when production is slated to begin. Mongolian economic growth will be increased by 22.9 percent in the year of the snake. Prime Minister S. Batbold promised us that this growth would reach a high of 26 percent this year.

“Bait the hook then catch the fish”, said the president of the Bankers Association, B. Bold at the second discussion for Economic Growth and the Financial Market pre-session for this year’s Mongolia Economic Forum. If the financial market is the “brain of

the economy”, as Financial Times Associate Editor Martin Wolf says, Mongolia is moving forward without a brain during this period of economic boom. Statements from experts that the financial sector’s development would smooth the path for economic growth would support this notion. But under normal circumstances this would not happen naturally.

Affording Economic Growth

“Welfare payments are managed by the financial market, not the state. In other words, the financial market must be used to collect money for welfare.”, said U. Ganzorig, president of the Financial Market Association. Government is handing MNT 1 million to citizens. It is only a one-time allowance not a share of wealth”.

“Notwithstanding, it is government’s duty to support and create a healthy system where a market can grow. A market develops naturally, but the



<http://www.mongolianeconomy.mn>

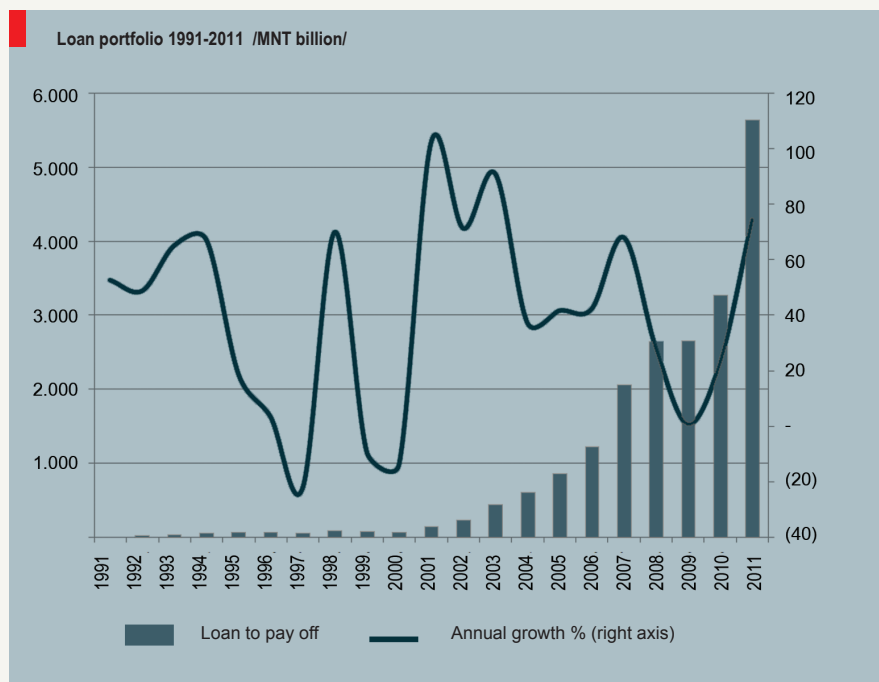
national financial institutions have a great role in the financial market for development”.

World Bank economist Sh. Altantsetseg said, “In highly developed countries, the banking sector comprises 70 percent maximum, while others take up the remaining 30 percent. There is not an extreme, one-sided structure like Mongolia has. Markets will diversify if the financial intermediary institutions are stabilised. Thus, a non-banking intermediary and capital market are necessary, alongside strengthening of the banking sector”.

“If we raise the question about if the system we have now can serve economic growth, the answer is no”, said the head of the Department of Development Policy and Strategic Planning of the National Development and Innovation Committee G. Batkhurel.

“According to the mid-term programme, we are trying to diversify this out-of-balance system that has high dependence on the banking sector and aims to institute correct proportions”.

On the other hand, Trade and Development Bank President Randolph S. Koppa explained: “I don’t think that banks want to keep this 95 percent of the financial sector. That is not the right thing. It is not a game of ▶



▶ keeping market shares. Other financial markets need to be increased”.

“The banking sector has been growing more rapidly than the [gross domestic product (GDP)]. The GDP growth last year was 17 percent while the banking sector grew 40 to 50 percent. It is still low compared to what it should be for a fast developing country. The banking sectors of loans to GDP have reached 50 to 55 percent. They should be 75 to 80 percent, whereas GDP should be 30 to 40 percent. So loans will have to grow and the banking sector will have to grow more rapidly”.

“We will need more capital to do that, but at the same time the stock market needs to do more. In three or four years time, that chart [see Chart 1], showing the banking sector will be bigger, the whole pie will be bigger but the banking sector part should be 60 to 70 percent no more”.

“Some surveys prove that the development of a financial sector doesn’t always drag up the economic development automatically”, said head of the Economic and Finance Department of the Ministry of Finance B. Batbayar. Particularly, there is the example from Iceland when their banking sector grew dramatically, which over heated its economy for a short time and suddenly pulled it down. In Mongolia, we need an individually risk-managed financial market that can absorb shocks to the economy”.

Participants of the Mongolia Economic Forum pre-session discussion “Economic Growth and the Financial Market” said the financial sector’s legal environment needs to be built up as well.

Turning Capital into Development

Statistics from a 2005 survey monitoring two of Mongolia’s banks indicate that Mongolia could lead the world in the number of people granted credit relative to the total population, said, president of the Mongolian bankers association, B. Bold. It found Mongolia was the second largest in the world. Last year total credit from all 14 banks of Mongolia came to MNT 5.5 billion. Growth to loans last year was 70 percent, and in the past has

even reached 100 percent in some years. This number will increase dramatically in the future, and bankers have suggested that loans would go up to approximately MNT 170 billion by 2030. According to a presentation from the National Development and Innovation Committee (NDIC), MNT4.9 billion in investment is expected to come from the domestic banking sector. But president of the organisation Bold said this sector could boost financing by three or four times, or MNT 20 billion, by that time.

However, the financial sector is not ready, this number would only come down to Earth if the infrastructure of the banking and financial sector improves. That infrastructure includes insurance, and the bank and capital market. Without doing this, Mongolia could never be able to keep up with the world market in our life time. There are many different kinds of services that have to be introduced into Mongolia. For instance, the option for loans is closed to people who only have moveable property because there is no property registration for that sort of asset. Participants in the discussion emphasised that it is necessary to develop a credit guaranteed fund, which would help provide collateral for loans, and a credit information database to make easier and quicker to access to loans

Moreover, banking and financial organisations are pressured to comply with international accounting

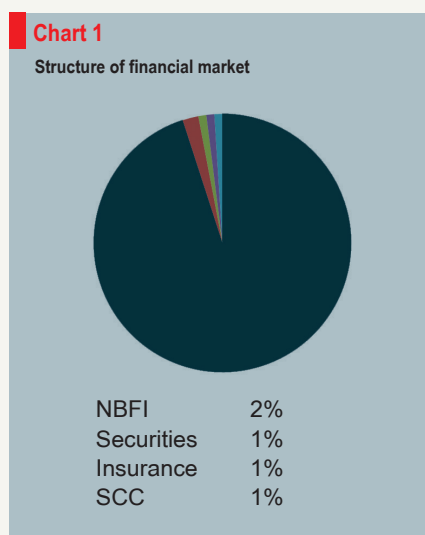
standards, or else Mongolia might end up with something outdated by many years and low capabilities. In addition, good corporate governance and transparency are needed Bold suggested the submission of a savings law. He added that policy makers must improve the legal environment. Today, governors are disrupting the economic sustainability with their own hands, he criticised.

He also added it is important that the private and public sectors reshape their concepts and integrate during the Mongolia Economic Forum this year. However, participants emphasized that the government’s overregulation sometimes tends to hinder economic growth. Mongolia must accept loans at a higher interest rate because it is seen as a risky borrower. Even high-interest loans are given out to companies and people from the banks, which indicates that Mongolia should focus on improving its national rating. One possibility to create long-term loans in Mongolia is to bring a saving’s insurance fund and pension allowance fund into market circulation. Participants of the discussion agreed that the public and private sectors both should prepare themselves to turn over capital for development.

The Mongolian Stock Exchange (MSE), whose reputation hit the floor, has started to develop following the example of the London Stock Exchange (LSE). Participants said that when some bond laws and regulations are renewed, people’s faith in the stock market will be reinvigorated.

“The weakest part of the financial sector is insurance”, said B. Batbayar, the head of the Economic and Finance Department of the Ministry of Finance. “More than a pension or any risk fund, we need to look at this sector as a cushion to reduce the possible risks from the banking sector and stock market”.

He explained that there are many insurance regulations missing. He also said this sector should be forcibly improved by government. Participants believed that a reinsurance company is necessary that is capable of carrying over the risks that the more than 10 insurance companies that already exist cannot insure. ■



How Does the Mongolia Economic Forum Affect Mongolia's Development?

D. Batjargal, Director of the Institute of Finance and Economics:

The biggest success we could have at the Mongolia Economic Forum would be finding one united idea. Government, the private sector, scientists and researchers gather in one place to discuss their ideas and opinions for further development and the future of the country. From these ideas the most suitable is chosen so that people could have one united understanding. Obtaining that understanding would signal the starting point for development. Generally one issue is chosen for discussion from various perspectives in order to reach the right decision. Davos is one great example of this. Representatives from various countries gather to debate issues such as the global economy, future trends, and economic development of each's own country. Everyone tries to find the right solution to every problem. Thus, the Mongolia Economic Forum allows the opportunity for everyone to join the debate.

O. Chuluunbat, Member of Parliament:

The Mongolia Economic Forum sets the stage for the competition of many new ideas. It has a huge impact on the development of Mongolia. Competition is a force for development and this forum drives that force. However, it is important to include more ideas, opinions and representatives. For example, it has to attract foreign investors, business and other parties. Sometimes the opinions of directors garner the most support. Not every director says or does the right thing. But if more intelligent minds can be brought together, Mongolian competitiveness will improve. If we can accomplish this, then the forces for development will grow stronger.

D. Davaasambuu, Advisor to the Parliament Chairman :

During this forum it is important to provide some education on economics, share opinions and bring out the best initiatives. The Mongolia Economic Forum is organised for all of these reasons. However, sometimes it seems to me that it does not fulfill this purpose. It just makes a wish list of development goals and programmes. There are quite a few cases of failure. Thus, steps to improve the

economic outcomes and to implement goals must be taken. Great proposals have been made, but to make them a reality we need discuss where the financing will come from.

G. Ragchaasuren, Economist:

I've never participated in the Mongolia Economic Forum before, but this year I am. A lot of people say that the forum is a place where new ideas and opinions come from and where cooperation is supported. So I personally expect lots of useful new ideas and advice for policy makers and to help the economy to be suggested.

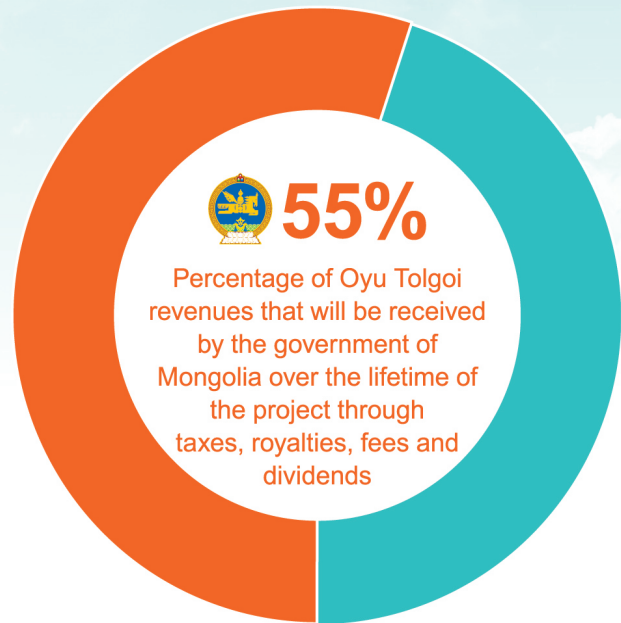
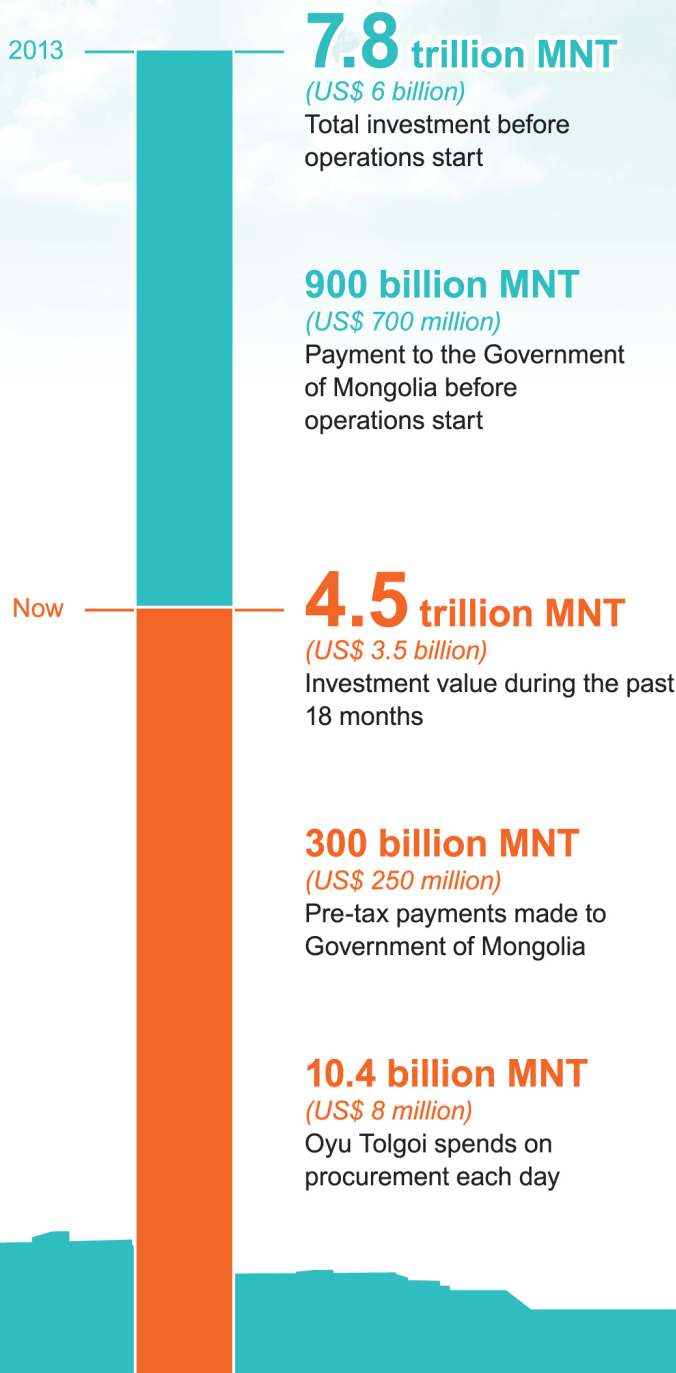
B. Byambasaikhan, Executive Director of Newcom Group:

The Mongolia Economic Forum is an open field for government, the private sector, representatives from civil society, scientists and researchers, and the leaders of society to exchange opinions and debate how Mongolia can develop. It is not the goal of the forum to solve all economic problems, but it is important to create new ideas, unified policies and profitable economic opportunities. At this year's forum I'm the deputy director and working as an organiser. The forum will hold open debates on various subjects, such as stable economic growth, a green economy, innovation, and economic growth and poverty. We will stress the importance of a green economy, how to develop renewable energy sources in Mongolia, and if Mongolia should pursue renewable energy for its economy. Also issues concerning water managements shall be raised, which is a current problem for us all. It is crucial to have these discussions. Sessions regarding many of the subjects up for debate have already been held and have initiated many ideas for discussion.

B. Lkhagvajav, Advisor to the Prime Minister:

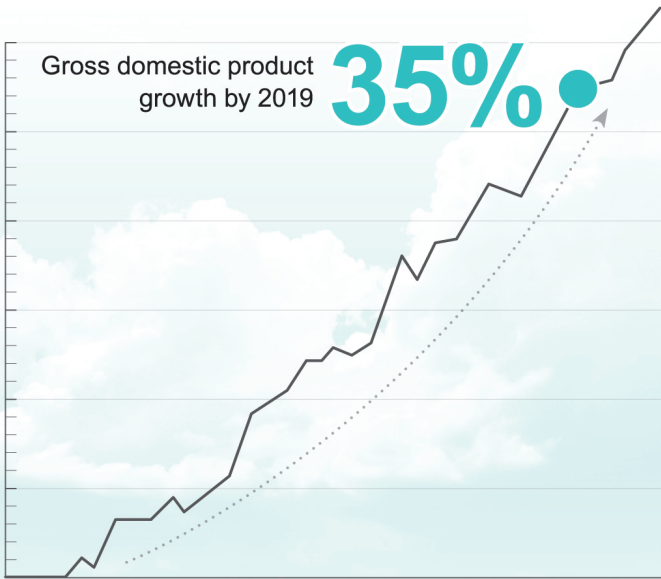
For many people it is a big opportunity to express their opinions on the economic process and future trends. Interacting with foreign people and exchanging experiences has many advantages. Thus, the most important thing is to find out what are right and wrong. ■

OYU TOLGOI PROJECT KEY FACTS



10,000 Mongolian employees

Oyu Tolgoi will start its commercial products by 2013.



Mongolian export will be doubled and Oyu Tolgoi will contribute half of it

Oyu Tolgoi is implementing the largest ever employment and training program in Mongolian history with an investment of MNT 110 billion (U\$85 million)

110 billion MNT
(U\$85 million)

Through this program, Oyu Tolgoi will build 2 new technical vocational schools and renovate 4 current training schools in 6 different cities throughout Mongolia. It will also train 1200 vocational teachers and 3300 Mongolians for mining.



1,200 Vocational trainers

3,300 Skilled Mongolians

The percentage of Mongolian engineers within 10 years of the start of operations



70%
Mongolian engineers

The number of Mongolian employees during operations



3,000
Mongolian employees

The percentage of Mongolian employees during operations



90%
Mongolian employees

Over 1000 Mongolian suppliers are contributing to the Oyu Tolgoi project and 200 of these are local companies



1000
National supplier companies

30 billion MNT

Oyu Tolgoi has spent over MNT 30 billion in South Gobi's social, economic development and cultural heritage programs.



We Built this City on Rock and Coal

By Terrence Edwards

It was nearly 70 years ago when Russian developers began planning out a Utopian city for the working class, to what would eventually become Ulaanbaatar as its residents know it today. Starting from what is now Zaisan, city planners drew up a scheme that headed north past modern-day Sukhbaatar Square through to the northern bend of where Baga Toiruu now runs. The city was divided into residential districts, housing politicians and high-level bureaucrats closest to the government offices, while doctors and health care workers resided east from there. Those buildings were further stratified as surgeons lived in nicer homes than nurses, and the nicest homes were saved for hospital directors.

This neatly organized, stratified city might have suited the ideals of communism well as an idyllic image of colleagues and professional peers living amongst each other. Although a city organised like this would hardly have been the first of its kind (many like it had been planned and constructed in Russia before) it was a city that Mongolians could be proud of, and could champion. It's no wonder that Mongolians called it their "red hero".

Decades have passed since then and the city now bears very little resemblance to that quaint communist dream. Instead stands a bustling, crowded urban metropolis that owes both its failures and achievements to the transition to capitalism.

An Ongoing Transition

The mining boom has transformed Ulaanbaatar so quickly that those even just a few years absent have a hard time recognising it. Perhaps the best example of Ulaanbaatar's current mix of failures, accomplishments, progress, and anachronisms is best seen in the Blue Sky Tower, a building that has come to be a symbol for Mongolia's capital. Best remembered for its unusual architecture, Blue Sky is a bit of a psychological analysis. While one might see a sail, another could see a khuushuur, and a third might even see something Freudian. A closer look at this building and its history shows how the property sector ►►

is still growing into its capitalist skin.

Christopher DeGruben, the founder and a managing partner of Make a Difference (M.A.D.) Investment Solutions, said financing difficulties were the major road block to the project. Credit still remains glaringly absent in the marketplace, forcing developers to spend a great deal of time searching for investors to buy all of the apartments before they can break ground. The typical progression is to draw up plans, take them to potential investors to sell homes, and then begin construction.

DeGruben has carved out a niche for himself as a savvy real estate player and historical enthusiast in Mongolia. He even laid out the origins of Ulaanbaatar as described earlier. He markets his recently published *The Mongolian Real Estate Report* (a tome of statistics for Ulaanbaatar and second tier cities, growth trends, and expert opinions from the Ulaanbaatar community) as an essential handbook and the only of its kind. The lack of transparency in the public sphere and policies such as the Law on State Secrets makes it difficult for even residents to get a firm grasp on the market. Marketing intelligence is also absent, DeGruben said, which makes it difficult to set a price for any given property. To write the book he had to employ his own guerrilla approach—taking to the field to measure buildings, and count the number of lit windows at night to determine occupancy.

Another obstacle for projects such as Blue Sky is the difficulty of building around the seasons, explained DeGruben. Construction can only operate during the short window of time when temperatures are warm enough for concrete to properly dry. Cement manufacturers recommend temperatures above -5 degrees Celsius to set or else one risks weakness and cracks. Blue Sky's some six-year development was long but not exceptional. Only now, seven years since he first arrived to Mongolia, have some building projects that began when DeGruben first arrived finished. He said a building project takes a minimum of three years but could take as many as five. Many of the quickly slapped together premium-priced buildings are currently falling apart, having reached the lifespan of

the poor materials used and shoddy craftsmanship, he said.

Many new residential and commercial buildings also suffer from a lack of practical conceptualization. DeGruben pointed out that although many of the residencies could provide comfortable homes, they all pale in comparison to some of the ultra luxurious homes that have sprouted up in emerging cities such as Shanghai, Phnom Penh, or Bangkok. Even basic needs such as indoor parking are absent.

"There are 12 apartments [at Blue Sky]", he said. "Those apartments don't come with garages, so how are you going to tell a guy who's going to buy an apartment for USD 2 million that he can't have a garage space to park his hummer, and that he is going to have to park outside at minus 40 at night".

New Faces

In addition to the transformation of the city's landscape is the change in its demographics. Companies like Asia Pacific Investment Partners (APIP) are now targeting a new affluent class of expatriate foreigners

and repatriate nationals. Aside from decades of foreign influence from Russians, this is the first generation of wide-scale settlement by foreigners and Mongolians returned from abroad. These buyers are very different from the city's traditional residents in buying habits and taste.

More than half of expatriates who come to Mongolia come alone, said U. Altantsetseg, a senior agent of the real estate agency Mongolian Properties, the property management arm of APIP. She said that the sudden transition to Mongolia can be difficult, so most choose to live in Mongolia and leave their families back home. However, more people are relocating their families to Mongolia as they take longer assignments, she said.

"There is a vision of Mongolia as a nice place to live", said O. Batzaya, Mongolian Properties' chief executive officer. "With the political situation here, it does not seem like a dangerous place to live. The living standards are somewhat lower than western developed countries, however".

Altantsetseg said most families find an apartment in the downtown area where there is less pollution, fewer bars, and where they can be

A Cambodian Tale

While Mongolia has many directions it could take, what is most disconcerting is the future of the ger districts and the 700,000 people living in those areas. The government hopes to relocate many families with its 100,000 Households programme, an initiative to provide 100,000 Mongolian families with subsidized-cost apartments.

The worst case scenario would look something like Phnom Penh in Cambodia where people are being driven from their homes to make way for new construction projects. Having decided that development and foreign investment is more valuable than the well being of its people, the city's poor who reside in lucrative locales are often intimidated with violence and police aggression to take sums far below the market value of their property, and without assistance

provided for relocation.

Human Rights Watch has reported that 85,000 people had been forcibly removed from their home in the last 10 years, while another 70,000 face eviction. The evicted families of Sambok Chap village in Phnom Penh were sent to a remote corner of the city where they lack basic services such as health care, clean water and schools.

However, the ger districts of Ulaanbaatar will not attract the attentions of developers until people can be convinced to live there. As it stands heavy traffic and distance from the city center, where most of the jobs, stores, and entertainment is, deteriorates their value. If Mongolia built highways, or even a metro system, that could eliminate these problems and minds would change quickly.

▶ closest to the leading private schools. Developers such as Mongolian Properties are pushing all-inclusive housing that includes recreation and grocery shopping. The firm's Oasis project is one such undertaking to be located near the State Circus on Seoul Street. The advantage here is developers can advertise complexes where tenants will have to go outside and face winter. With temperatures frequently hovering around -40 degrees Celsius at night during winter, this could make all the difference to a foreign worker pondering whether to make the big move to Mongolia.

However, with numbers between a mere 4,000 and 6,000 of permanent residents, and as an audience that extremely sensitive to changes in the economy, DeGruben said he does not place too much faith in this market. Similar to the expatriate audience, but perhaps more reliable, are the repatriate Mongolians returning to their homeland after years abroad—while some were even born out of the country. Many of these returned Mongolians face the same challenges as the expats, such as difficulty adjusting to the culture, ignorance of the local language, and dealing with the day-to-day stresses of living in an emerging economy. However, the difference is this demographic is more likely to buy property as an investment, said Batzaya. They often have relatives that can help them navigate the bureaucratic process as well.

The nationals are an entirely different audience however. The biggest difference among Mongolians is their less money on hand to spend. Traditionally Mongolians have lived together in their sometimes crowded apartments. Children live there sometimes late into adulthood before marriage. While these habits still exist, as more of the youth becomes more affluent they have started beginning their lives independently. However, as renting is somewhat looked down upon for social status, most people wait until they build a savings large enough to buy an apartment. Depending on the area, that can range between USD 60,000 to USD 100,000 or more.

Delving Into the Market

Investing in property is not easy in Mongolia and has its own risks. An investor interested in buying an apartment before its construction will never receive documentation until the apartment is fully constructed and realised. Investors are left at the mercy of the economy until the project is complete, which could take years, explained DeGruben. An investor may feel confident purchasing an apartment through a company recently arrived in Mongolia during a bull economy. But if commodities head south, the tugrug is in decline, and inflation exerts unbearable pressures, the company may declare bankruptcy and pack up. Unfortunately, that would leave an investor empty handed with no reclaim.

As for already existing buildings, projects such as the Oasis are subject to inspection and documents are available at the Professional Inspection Office, said Batzaya, but he admitted getting them could be difficult.

Without proper urban management, the city may have no choice but to grow haphazardly. Sprawl has spilled out in Zaisan to the Bogd Khan Uul National Park. It is perhaps the first of its kind in the world as it supposedly predates Yellow Stone Park in the United States. The World Bank has argued that the government has sold the land illegally and has pushed it to halt to all development projects in the area. With traffic already as heavy as it is today and neighboring suburban-type communities such as Nalaikh already available, one wonders how

necessary a suburb there really is. Ulaanbaatar is also experiencing a loss of its parks and green spaces. Bodi Group has purchased the Children's Park, planning to build a massive entertainment complex with a cinema and roller coaster.

"The whole Children's Park has disappeared", said DeGruben. "For me, this is backwards. A city needs to have a park."

Both Batzaya and DeGruben predicted growth in the market prices, with limited affect on rental prices. DeGruben pointed to a similar transition in Kazakhstan where prices grew for about ten years before they settled at an appropriate price. His feeling was that Mongolia would have growth in prices between USD 4,000 and 6,000 per square meter for apartments located in the city center in the next five years, followed by a price correction to somewhere around USD 2,500.

"It's mainly hyper inflation", said DeGruben. "It's because there's so much demand and a lack of supply... [Mongolia] is just catching up on prices and everything. It's massive, massive growth".

In twenty years time, second-tier cities at close proximity to tremendous mining projects such as Dalanzadgad and Khan Bogd may be the greater example of development compared with Ulaanbaatar. However, neither of those projects has a lifespan of over 50 years, and with central government based in Ulaanbaatar, the relevancy of development to the capital seems secure. ■



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Saab 340B



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Water Management and Energy

Water: Sustainable Development

By D. Bekhbayar

Water has become the least expensive basic need in Mongolia. But in other countries, it is the most expensive. The government, as well as citizens, know, feel and love the value of water. The Mongolian expression “don’t begrudge spring water” demonstrates this, but perhaps Mongolians have forgotten the value of water completely. There is a world standard from which a country’s development can be seen by the capacity of its clean water supply to its population. Water management reflects the basic element of stable development to a country. Does Mongolia have this kind of policy?

No, and no other country makes a joke of its drinking water like Mongolia does. We waste water showering and flushing toilets, and gold is washed with clean water as well. D. Battulga, director of the Administration Office of the President, once said in a conference on corporate responsibility that it was irresponsible to future generations to wash gold with the country’s reserves of fresh water. Is Mongolia a water rich country?

Only 2.5 percent of the world’s water supply is clean water. And only a tiny part of it is in Mongolia’s

possessions. Mongolia’s fresh water supply is 609.5 billion cubic meters. Because Mongolia does not border on any seas or oceans, all rivers and lakes must be considered a resource.

Water Price

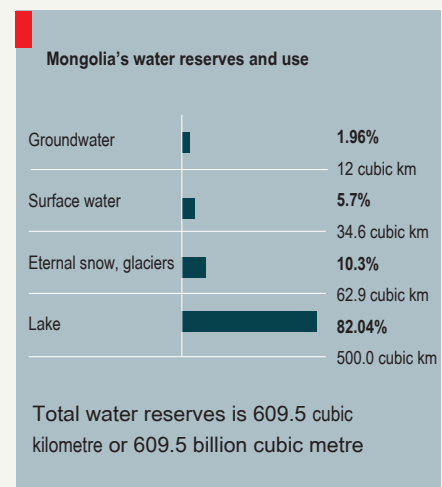
Mongolia practically gives its water away. The country is using it inefficiently because it is so cheap. People living in ger districts pay MNT 1 for a liter of water. Depending on if it has a water meter, people in apartments pay between MNT 250 and MNT 450, while companies pay MNT per cubic meter. Of course it is not much money for enterprises, especially for those in the mining industry. It is unacceptable that so much fresh water is used without returning just as much back with activities aimed at improving the environment.

“If water prices increase, then its value will increase”, said Deputy Director of the Water Authority, Z. Batbayar. Then again others are asking whether increased prices could be a solution. It is in the nature of Mongolians to care most about what is expensive, and less on what is free and cheap.

Water Scarcity in the Gobi

A lack of water in the provinces of the Gobi Desert is a major issue the country faces today. Without water how can anyone mine? Is there enough water for the mines in the Gobi? Concerned, President Ts. Elbegdorj had the National Security Office discuss the problem before the Tsagaan Sar holiday season. After all, water is certainly associated with a country’s national security. During President Elbegdorj’s visit to Umnugobi Aimag, residents told him they would not give away a single drop of water. It was the look in their faces that expressed how much they valued their water.

The biggest issue for mining at Tavan Tolgoi is water. The nearest water resource to Tavan Tolgoi that has been studied is the ground water at Balgasiin ▶





► Ulaan Nuur. Preliminary research from 1984 and 1987 concluded that it holds 4,017 liters. However, in 2007 and 2008 the firm Shandiin Bulag conducted additional research finding that its reserves had diminished by 465 liters. In response, the Water Authority has announced a tender for further research. For stable operations at Tavan Tolgoi, water from Balgasiin Ulaan Nuur must be used first. In the future a new water source would be necessary. The head of the National Security Council has ordered a search for other water sources in the Gobi and to direct water to the site from the Orkhon-Gobi and Kherklen-Gobi irrigation projects.

The Hydroelectric Option

Everyone has a different opinion concerning this issue. There are people who would approve of a hydroelectric plant and those who would not. But before the consequences of such a project can be discussed, it is better to find if Mongolia needs one in the first place.

Global trends towards renewable energy sources have become common, and hydroelectric plants are a part of that. Around 20 percent, or three billion kilowatts per hour, of the world's energy output is produced by hydroelectric plants. Mongolia's two neighboring countries, Russia and China, have established many of their own. As for Mongolia, development plans have already been devised. Currently there are 14 small and

Hydroelectric power stations, operating in Mongolia

Names	Capacity kWh	Solution	Investment types
1. Bogdiin Gol	2000	Water channel	State budget
2. Guulin	400	From irrigation system	State budget
3. Mankhan	150	Water channel	State budget, regional capital
4. Munkhkhairkhan	150	Water channel	State budget
5. Undurkhangai	200	Water channel	Assistance from Vietnam, state budget
6. Kharkhorin	600	From irrigation system's channel	Assistance from China
7. Uyench	960	Water channel	State budget
8. Chigjiin Gol	200	Water channel	Non-refundable assistance from Vietnam
9. Tosontsengel	375	From watercourse	Non-refundable assistance from Germany
10. Erdenebulgan	150	Water channel	Non-refundable assistance from the Government of Denmark
11. Zavkhan mandal	110	Port	Non-refundable assistance from Germany
12. Tsetsen-Uul	150	Port	Non-refundable assistance from Germany
13. Durgun	12000	Port	Loan, aid
14. Taishir	11000	Port	Loan, aid
Total capacity	38445		

large plants with a combined capacity of 38,445 kilowatts that have been discussed.

Research by the Hungarian Centre of Water Resource Use and the Mongolian Water and Science Project has revealed that hydroelectric plants create up to 56 billion kilowatts from water to produce 5,700 megawatts of energy. Mongolia could establish up to 250 hydroelectric generators

at any given territory, of which 150 could be low-capacity plants that produce 20 megawatts. Although energy engineers have tried hard to make their dream of building hydroelectric plants reality, politics have hindered those dreams. Building big hydroelectric plants would make Mongolia independent from Russia. Employers in the energy sector as well as engineers and experts in this field ►

► have applauded President Elbegdorj's approval of the project.

An open session about water issues was held at last year's Mongolian Economic Forum. The debate concluded that it was time to demonstrate the value and management of water, take water prices as the basis for economic development, impose taxes for water pollution, and develop hydro-energy plants at rivers that flow outside the border of Mongolia as well as rivers and lakes within Mongolia's borders for its national security.

Individual Responsibility

It is everyone's responsibility to protect the environment in Mongolia, just as much as it is the government's. With or without government involvement, if everyone handles water with a loving, caring mind, nature can go without degradation. It would be a great contribution and investment from the people if they could restore the tradition to protect nature, participate in activities that benefit the environment, and raise their children to be kind to the environment. The message at the "Green Solutions for Water Management" section of the Mongolian Economic Forum was that society needs to change its mindset and protect its water from pollution. This year one hope for the event is to develop specific guidelines for a plan to develop hydro energy and policies for water management. ■

Renewable Energy

Coal or Wind?

By B. Tsetsee

The only energy resource Mongolia utilises today is coal. There are over 200 mines, containing 12 billion tonnes of the power generating resource. Today we only have traditional coal-firing technology (conventional pulverized coal



combustion) in use, which is not only inefficient but also inflicts a lot of damage to the environment. Intensive mining operations are growing in the southern part of Mongolia. However, at this corner of the country are people grumbling about the quality of its product more than the quantity. The coal that goes over the border is crude and unprocessed. Essentially it is traveling far, far away to the ocean's shores at a cheap, no valued-added price.

The National Bureau of Statistics of China has conducted a survey that found that the average price of imported coal to china is USD 115 per tonne, while the average price for Mongolian exported coal is USD 100, USD 10 dollars cheaper than the world's average (at present Australian coal is sold at roughly USD 110 per tonne). According to a report from Sourcewatch.com, the Chinese have saved USD 6 billion from Mongolian cheap coal last year. Due to the proximity from energy-hungry China, coal imports tend to increase on a large scale. But coal prices have fallen 7 percent over the last two months and are expected to drop further, economists have warned in the report by Sourcewatch.com.

The country's coal policy aims to transform Mongolian from an exporter into an importer. Four years ago from now, Mongolia exported only 4 million tonnes of coal. Today that number has reached as much as 22 million.



By 2020 it is predicted that Mongolia will exploit 70 million tonnes of coal. For that reason it is more beneficial to export 60 to 70 percent of all mined coal so that the price meets the international benchmark. In order to do that, technology must be updated immediately and must also support nature-friendly operations. Practices for mining management should also be revamped to cut expenses as well.

Windy Mongolia

While the sun shines over our heads for over 250 days a year here in Mongolia, the wind blows across our cheeks constantly almost every day in the steppe. Just like the sky is enormously wealthy with its stars, Mongolia is amazingly flush with wind. The average wind speed here is four to nine metres per second. Most wind turbines can begin operating at a speed of at least four metres per second and a maximum of 15 meters per second. This seems to hint that Mongolia has enough resources to develop a wind power system. At the grassy and desert steppes are the strongest winds, with average wind speeds of four to six meters per ►

▶ second, compared with up to 2 meters per second at Khentii Aimag and 3 meters per second elsewhere.

Because the future of the world's power sources is uncertain, many countries are rapidly developing wind power production for themselves. The world's capacity for harnessing wind power increased by 41 gigawatts in 2011, according to figures from the Global Wind Energy Council (GWEC) released in February this year. The GWEC annual market statistics reveal that the total capacity worldwide had come close to 239 gigawatts at the end of last year, or 3 percent of the world's electricity. Today about 75 countries worldwide have commercial wind power equipment installed, with 22 having generating more than one gigawatt.

The market penetration of wind power is expected to reach 3.35 percent by 2013 and 8 percent by 2018. Some 48 countries in the world have approved of policies to regulate the use of wind turbines for energy production. Newcom Group has already begun to foot the bill for the pricey cost for construction and implementation has already been started in Mongolia. They are working on a 50-megawatt-wind-power plant at Salkhit that is expected to open by

September of this year.

"We can save 120,000 tonnes of coal and 1.2 million tonnes of water every year after the plant goes into operation", said B. Byambasaikhan, Newcom's executive director. "Moreover, it could reduce greenhouse gasses by 150 million tonnes".

Newcom is planning for another wind power plant with the capacity of 300 megawatts at Tsogt-tsetsii Soum in Umnugobi Aimag by 2015. Furthermore, it has plans for a third large project of Newcom for a 1,000 megawatt energy plant to begin operation in 2025. The Energy Regulatory Authority has found that coal-fired power plants provide 93 percent of power generated. Another 6.8 percent is supplied by liquid and gas fuel, while only 0.2 percent of energy needs is met by renewable energy. But when the Salkhit wind farm begins its operations, wind would provide five percent of the country's energy needs.

According to the National Renewable Energy Programme "in 2010, 3 to 5 percent of the whole country's power production will be supplied by renewable energy". Mongolia could expand beyond five percent as well, as participants of the "Coal or Wind" discussion argued

at one of the pre-sessions leading up to this year's Mongolia Economic Forum.

"For a country that has wealthy coal resources and cheap mining processes, it can rid itself of crude oil price shock as well as releasing itself from the 100 percent dominance imposed on itself for petroleum by the outer world if the coal liquefaction factory is built in Mongolia", concluded B. Battsetgel of the Technology and Chemistry Department at the National University of Mongolia at the end of her presentation.

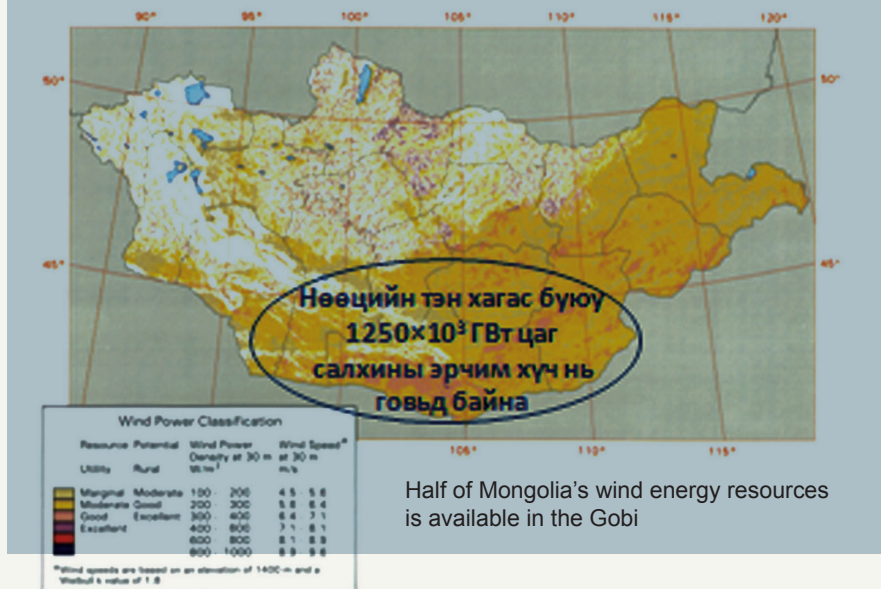
Other participants suggested ideas for integrated technologically because it is difficult for wind power plants to meet all energy needs alone. For a while at least, it is better to complement coal energy with wind. The best thing for Mongolia now is to direct its policy towards water-efficient, nature-friendly technologies for coal-fired energy production, while taking the necessary steps for renewable energy production. ■

Energy production of Mongolia

Hydropower station	0.3%
Diesel station	1.3%
Energy, imported from Russia	8.1%
Wind energy	0.2%
Solar energy	0.25%
Thermal power station	89.85%

Source: Energy Authority

10% of the Mongolia has rich resources of wind (160000km²)



Half of Mongolia's wind energy resources is available in the Gobi

Coal export of Mongolia /million ton/





Mongolian Brands

Let's Promote Mongolian Brands

By B. Enkhmart

Which of Mongolia's products can be made into a world brand? The 15 strategically important deposits from the mining sector, unprocessed coal, and mineral resources have become a brand name without any need for marketing. Wool and cashmere products, sea buckthorn, agricultural products, milk and dairy products, meat from Mongolian livestock, folk art, and throat singing and long songs are brands that do not exist in the world. There is no need to proclaim to any one that these are organic or beneficial to one's health. However none would be a final product, but rather a raw material.

The Mongolian Brands in the World 2012 forum was recently held to allow participants to give presentations and heated discussions on the policy for introducing Mongolian brands to the international market. Members discussed Mongolia's capacity to introduce brands for sea buckthorn, wool and cashmere products, in addition to Mongolia's tourism sector to the international market.

One product that cannot be delivered to foreigners as a final, value-added product is sea buckthorn. The

head of the National Association of Producers, D. Nasanjargal, discussed the issue in his presentation on promoting the expansion of production for sea buckthorn for export. He said that in the future this product will be more fashionable than coal and has a good opportunity to become the product of a Mongolian brand with strong demand from foreigners. Last year only 655.2 tonnes of sea buckthorn were harvested, with 5,000 tonnes of the unprocessed good sent for export and sold at a price between USD 4,500 to USD 5,000 per tonne. A programme for the crop plans for an additional 2,000 hectares of land dedicated to sea buckthorn crops for the harvest of an additional 35,000 tonnes by 2016. Both Hungary and New Zealand have a large demand for imported sea buckthorn and buy it from China, Russia, Great Britain, and Italy at prices between USD 4000 to USD 7000 a tonne.

The oil from sea buckthorn is even more valuable. Japan imports sea buckthorn from Mongolia for USD 5,000 a tonne and sells its oil at USD 120 per 100 milligrams. Mongolian sea buckthorn could be as valuable as

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gold to Mongolia on the international market. Japan has reportedly begun trials to produce beauty products with sea buckthorn. If so Japan would inevitably draw from Mongolia for the raw product. Thus, it is important that Mongolia does not export the 35,000 tons of unprocessed sea buckthorn as planned.

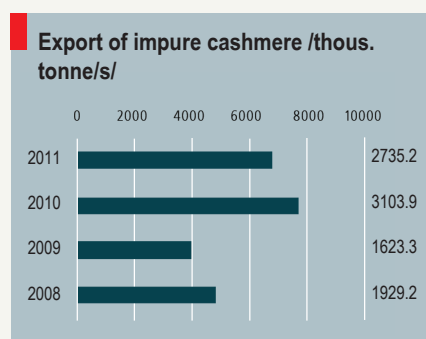
Professionals stressed the importance of factories equipped with advanced technology to at least establish a factory that extracts sea buckthorn oil in many of the presentations. They also argued for the need for state assistance in this endeavor. However, introducing the necessary equipment and technology to this sector and producing sea buckthorn oil would require at least seven years. Members of the discussion said that the main barriers to creating this value-added product is the required advanced technology and the know-how for the methods in this sector.

Additionally, General Director of New Juulchin Group Sh. Nergui proposed creating a brand for Mongolian tourism for the world in his presentation. There is significant interest from foreigners to visit natural scenic areas, and experience Mongolian culture and the ways of the nomad. Because tourism is expanding daily, the laws pertaining to this sector need revision to decide what policies from abroad should be taken and implemented to attract the attention of tourists. Issue such as water management, and expanding the

► grids for electricity and heat should be addressed as well. Additional tourist camps should also be established. Proponents argued that expanding tourism would not only help the tourism sector but also the rest of the economy and national development.

Mongolian wool and cashmere products are ranked second in the world for their quality. Mongolian-borne wool and cashmere comes in three varieties: combed, uncombed and impure. This industry runs much in the same way as that of sea buckthorn: Mongolia supplies the raw materials and foreigners make them into the final product for sale.

"Thus we need the latest equipment, assets and funds," said B. Battsetseg, a senior official from the Regulation Office for the Light Industry at the Ministry of Food, Agriculture, and Light industry, during a presentation on the subject. "Using wool, cashmere and molt, we need to make new brand name products and create felt factories for building



insulation".

"In this way we will not have to export the resources that we already have to foreign countries at cheap prices, and we will have the opportunity to produce wealth domestically. For this the state should give significant attention and cooperation".

Mongolians who desire to develop a world brand currently face the issue of determining the methods for delivery. It is time to promote and aid Mongolian brands for sea buckthorn, wool, cashmere and meat, as they are close to attaining worldwide reputations.



Corporate Social Responsibility

21st Century Monasteries

By Kh. Khulan

Professor Bradley K. Googins is the executive director emeritus of the Boston College Center for Corporate Citizenship and a Professor in Organisational Studies at Boston College's Carroll School of Management. Prior to this he was a professor for over 20 years at Boston University's Graduate School of Social Work and founded the Center for Work and Family which now resides at Boston College. His

research and writing has focused broadly on the role of business in society, ranging from issues of balancing one's life and work to corporate citizenship. He held a presentation on competitiveness and corporate social responsibility (CSR) at a conference presented by the German organisation GIZ's IMRI programme at Ikh Tenger complex in 2011. Mongolian Economy interviewed him after the conference.

Is it your first visit in Mongolia? What is your impression?

Yes, it is my first time in Mongolia. I have only been here for three days, but I am amazed about what I am learning and seeing—the vastness of

the country, but also the small number of people that live here. You have sudden economic growth because of the minerals in the ground. At a time when the rest of the world is struggling with decreased growth, you

are coming into a time with having increased growth. The challenges of how to create the society of tomorrow seem quite interesting to me.

You have probably read many books about Mongolia. How accurate was the information you obtained compared with the real situation?

I was more focused on the transition from your relationship with Russia, particularly from socialism to democracy. What is different for me from what I have read is the energy of the population. You're really trying to figure out what tomorrow is going to be and how to harness this wealth that is coming into the country.

It reminds me a lot, for example, what Norway has done with its oil. All of a sudden this small country with resources is trying to figure out how to allocate this wealth. The business community seems to be a very interesting one. The presentation I heard by [M. Bold of XacBank], was one of the strongest I have heard in any country. I always try to see where the leadership in a country is. Is it in the private sector, or is it in the government? But I cannot say how ►►

► well they cooperate because I haven't been long enough in Mongolia.

Mongolia attracts the world with its natural resources. What do you think of its relationship with sustainable development?

It is interesting to me to look at the natural resources. Around the world today is increasingly a discussion of whose are these? In the past we have had big companies come in from the outside take more than they gave back. The country itself doesn't get the full benefit of its resources.

It's nice for Mongolia that this is happening in 2011. In 1990 it would have been a different story, but in 2011 there is much greater awareness and activism throughout the globe from companies to come in and take the resources with negotiating a better bargain for the country. The country should protect its interests first and the company's second. For sustainable development you have to ensure what's left behind is the same (if not better) than before anyone came in.

If companies came in, took the minerals and left, where would Mongolia be in 30 years? It is an important time for the country to discuss what is most important to sustain the future. You have this wealth and how you use it will go a long way to determine whether this is really sustainable development or raping the land without contributing to larger society.

It's also important to learn all of what's gone on in other countries. What have they learned that Mongolia can learn from? We've seen quite a bit of this discussion in places like Chile, the Philippines and China with what's happening in the mining industry.

Most important is keeping the sustainability issue out front. It's more important where you wind up, not where you are today. That's going to take a very strong role from government and the people themselves to make sure they get the most value out of this.

You took part in the international conference on CSR in Ulaanbaatar. What could Mongolia do for further development of CSR?

The role of business has become paramount in our societies. That is what competitiveness is about. And so companies are sometimes what I call the monasteries of the 21st century. They have all the influence and sit



Photo by E. Zorigt

on the highest hill the way that the monasteries, the kings and queens used to. Now it's the corporations. So now I think the responsibility issue is not so much simply an ethical issue. More importantly, what's their role in trying to shape a society? What's their role in addressing some of the environmental issues?

Historically companies have said that's not our business, that's government's role. That's changed today because of technology and transparency; a new sense of

accountability is arriving. They are saying to companies, no you are responsible for some of the issues in society because you do have influence and power, and therefore the obligation to make sure that we have safe products, and that our environments are clean because you don't want government simply legislating all of this to begin with. So why don't you on your own try and find ways to try and makes business responsible. A responsible business is not one that is simply ethically responsible. It's one ►►

▶ that contributes to the overall good of society. It's not about how much profit they make. It's about how much prosperity they can help engender for all of us.

Companies are moving, like our society, from a narrow view of their role to a much broader set of goals of working with all sorts of stakeholders to create their wealth in society—wealth in terms of a sustainable society, not just narrow profit making. We're in a very disturbing time around the world. I see this in my own country that fewer people are earning more money. It's not a sustainable situation. It's not a desirable situation. Companies are now wrestling with this issue of how to transcend this narrow role of profit making to where they have to play a larger role in society.

In Mongolia CSR is understood as giving donations. How is it in America?

That's the old model. It's still very dominant even in the United States because companies think that it's their responsibility to give something back. I always ask what did you take away? Philanthropy is fairly easy: I can write a check, and maybe if times are not so good I don't do anything. Today it's not about how much money you're giving, it's how are you making your money. How are you developing your products and services? How are you treating the environment? To me corporate responsibility is the reflection of the values a company sets. For years companies would say here are our values, but there was no accountability for those values. Today with a click on the computer I can find out what's the gap between who they say they are and what they're doing. What do employees think about working there? What kind of products and services are they producing? And are they being recognised as contributing to environmental sustainability.

I used to say if a company decided not to use philanthropy as part of our responsibility they almost wouldn't know what to do. It's too simple. Today it's a much more challenging question of how do businesses engage with the challenges of society, and how does it contribute to society in meaningful ways. I think the hope and promise of this from business has huge potential to help shape societies in ways that nobody else can do. They have some

unique talents. Companies know a lot about innovation. All parts of society need to innovate. How can companies translate some of that innovation into society?

I think Mongolia is a perfect example. Someone could come in, extract all the minerals and leave some for the country. But you could do so much more. I think that's where a lot of thinking in corporate responsibility is today. How can companies affect public policy and how can they do that in a positive sense?

Could you share with us some

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of your experiences with CSR? How are companies with good CSR promoted?

For quite a few years I ran a center for corporate responsibility in the United States. Quite a few of the members were Fortune 500 companies. I got to know them every day and deal with them. After a few years I began to notice that companies were in different stages of corporate responsibility. So we developed a framework of corporate citizenship. That is five stages that we could identify where companies are in seven dimensions, leadership, strategy, etcetera. We would ask companies where do you see yourself? The first stage is very traditional ("I give money"); the second is transformative ("I want to transform society using the assets of the business"). Ninety percent of them would say we're at stage two. It was helpful in reminding me that the corporate responsibility movement,

meaning the newer meaning and its ways, are just beginning.

Companies are trying to learn mainly how to integrate this into the company itself. I've noticed that it's at a stage where the quality movement was 20 or 30 years ago. When companies first heard about quality, they said, "Oh! this sounds like a good idea. Let's be for quality". Well, that didn't do too much. Then they appointed somebody, a quality control officer. That was very limited. Then, they thought to set up an office. That was a little better, but it still didn't go too far. It was only when they began to realise that every single person had to understand and integrate quality into their lives that things improved. It took a lot of time to try and do that. I think the same is true for corporate responsibility.

If you went back 10 years, most [chief executive officers] would say they didn't see the importance of this. Then you had some say it was very important to them strategically. If it hasn't been integrated into the companies, it hasn't been aligned into the company. Most employees are not really sure what this is about and there's not a lot of integration. We're still at a stage where we have a few companies that have seen this as a huge business opportunity and are integrating it right into the heart of the company. There are still relatively very few of those.

Most companies understand today that they can't ignore this. They can't be bystanders anymore and that they have to get engaged. But they are still learning how to get engaged and the discipline of what it means to be a company that has integrated corporate responsibility so that it's an advantage to the company. That's why this theme of competitive advantage is so important. If a company doesn't use its corporate responsibility as a competitive advantage, it's really not much use to the company. When it comes to philanthropy, some people might say thank you but it won't improve the company and its business. Nor is it really helping society that much. Today CSR stands upon a set of building blocks that include value creation, integration of them into a business model, communication with stakeholders and innovation through business practices. ■



The Mongolian Economy Team

ME Feature

Yes, Our Goal Is to Become Mongolia's Economist

By D. Bekhbayar

Time flies. Exactly a year ago, we published our first edition, and we were so happy. We waited anticipating the reaction we would get from the readers. Our first subscriber was Ch. Gankhuyag, the vice-minister of finance. He wanted to have the magazine ready for the Mongolian Economic Forum, which took place the next morning. We were glad that our magazine had reached the readers. Soon after, we received supportive messages from many people encouraging us to accomplish much more. The main message was that the Mongolia lacked a magazine such as ours, and that we began publishing at just the right time.

We worked so hard and were so occupied with how the first edition would look like—the design, motto and logo it should have. As a result, we published our 50 pages in both Mongolian and English. Subscription requests began on the very first day of publishing. We marveled at how fast readers reacted. The office phone was ringing constantly. It was

a signal that indicated how badly economic information was needed in our society.

With the increasing global attention on Mongolia, it was a privilege for international readers to get factual economic news printed in English. Many people liked that our magazine was independent from any political views. We didn't even write about politics, which made us think that people desired journalism that was free from politicians or political parties. Today we stick to our main policy of independence and will always. We didn't want to be some kind of tool for someone nor did we want to follow someone else's footsteps. Our priority has been to deliver real economic news in a simple, comprehensive way to enhance the economic knowledge of the citizens. Since the beginning we have been working to accomplish that goal. It is important for citizens to have specific economic knowledge and information in the constant changing economic world. We have formed a team of economic journalists in order

to reach our goal successfully. To do so, many people have supported and helped us. Thank you all for the precious time you have devoted to help and advise us, thus making our magazine a success.

With only three people working at the start, we now employ 18 individuals in our offices. A hundred pages for a magazine were written by only three people, namely I. Otgonjargal, D. Munkhimeg and me (D. Bekhbayar). Most importantly, it was our duty to write excellent-quality articles, to introduce them to the public, and to publish. We worked very hard. We must express our gratitude to D. Munkhimeg, who united her heart and soul with us. As our work caught up with our intended pace, our family grew bigger. With our part-time employees, we are currently working with 20 people in total. It is an advantage to have young people with the right mindset and high education, as our employees have. They are also a part of our one-year history. These are the people who are able to achieve even bigger goals. The base of success is power. What we have achieved until now, the minor successes, is all because of our team.

Now the magazine has its own website (MongolianEconomy.mn), the Economy studio and our in-house environmental group Green Economic Growth. These are the reflections of our hard work. We do our best to ▶▶

► deliver news and information about economy and business. We will continue to try our best to deliver more quality work, and to broaden the topics and sharpen the content in our magazine. Furthermore, we will strive to make Mongolian Economy more well known and the most read magazine in the country.

Nowadays time is most important to society, so we have begun to publish our magazine every two weeks starting at the beginning of this year. The original intention for our magazine was published every two weeks, but instead we settled for

publishing monthly. We were unsure how our subscribers would react if we began to publish our magazine twice a month, but we have been delighted that our subscribers have continued with us. For that reason we work so hard to publish a quality magazine that does not disappoint their faith in us.

There are many who tell us our magazine resembles The Economist magazine. They ask if it was a Mongolian edition to the magazine. We're happy that people compare our magazine with such a big globally-recognised magazine. Yes indeed,

we do aim to become The Economist for Mongolia. There are a few things that we have imitated in terms of color and design. Why not? We strive to become The Economist with our own image and policy.

We want to wish a happy first anniversary to all our readers, subscribers and to all the people who gave us their great support. We have accomplished a part of our goal because of your continued love and best wishes. Thank you very much. To our readers and colleagues, I wish you all the best. ■

Readers' Column

Bring More Quality News

Bring more quality news

Ch. Gankhuyag, Vice Minister of Finance:

It has been a year since we have become readers of Mongolian Economy magazine. It is a pleasure to say that this magazine takes research on certain issues from different angles, draws conclusions and analysis, and provides citizens with economic news which is needed during today's economic transition. This magazine delivers necessary up-to-date news and can be seen as a medium for the private sector to enlarge its businesses. Mongolian Economy magazine has a fraternal bond with the Mongolia Economic Forum. We expect that the articles in each issue to play an important role in future economic growth and the economic lives of people.

Economic growth in households, provinces and throughout the country could improve if a single person strives for his or her best. In order to become one of the

world's richest countries, it is our duty and a challenge to develop ourselves personally as well as through education, to work effectively, to manage the budget, and to commit ourselves to the challenging responsibilities that come with development. I am grateful for Mongolian Economy for its contributions to help each citizen to fully understand their duty. I hope that the magazine provides us with improved and quality news, in addition to more fact-based content taken from experts. For example, reports on poverty often contain biased numbers and data. This is the wrong attitude. I ask that you bring more up-to-date information based on research. Good luck.

Information based on research and analysis is crucial

S. Oyun, Member of Parliament:

I read Mongolian Economy regularly. I think it delivers factual news based on concrete research

and analysis. We, as decision makers, sometimes talk as if we know everything, but there are times when we make the wrong decisions because we lack certain information. And this can drag down life for the populace, the economy and society. One simple example is the promises made during the last election to



Ch. Gankhuyag, Vice Minister of Finance



S. Oyun, Member of Parliament



S. Demberel, Chairman of Mongolian National Chamber of Commerce and Industry

▶ provide money that wasn't even there. Authorities need concrete information based on research and analysis to choose the right path and govern the country. This economic magazine is just the right solution to fulfill this gap.

Mining will be an important factor to our economy in the coming years, so information about its development and stock related news is a necessity. Because citizens will receive shares from Tavan Tolgoi, it is important to explain the advantages of holding shares. I believe the magazine will take the matter into consideration, help to improve the economic knowledge of the country, and deliver the needed information to authorities.



D. Zorigt, Parliament member and the Head of the Economic Standing Committee

Thank you for leading the way out

S. Demberel, Chairman of Mongolian National Chamber of Commerce and Industry:



S. Ganbaatar, President of the Confederation of Mongolian Trade Unions

The economy in Mongolia is at critical point of its beginning. Mongolian Economy plays an immense role by delivering the correct information and opinions to authorities and citizens about the path taken for the economy. Citizens should be informed accurately about how Mongolia's economic policy, green economy, and economic-based resources affect the population. It is a good that Mongolian Economy shows these matters from various angles and with true facts. I'm grateful that the magazine directs its focus on the economy and on stable, balanced gross domestic policy. On the other hand, people think the economy is difficult to understand and involves lots of numbers. It is the duty of this magazine to deliver research-based information about the government's involvement in markets, today's economic outlook, the main reasons for price increase and its consequences, and finding possible exits. In addition, thank you for providing factual news about whether the economic system is healthy or not, and, if not, discussing



Dr. Stefan Hanselmann, Director at GIZ Integrated Mineral Resource Initiative



Terrence Edwards, English Editor at Mongolian Economy

what steps should be taken in order to improve it.

I became a regular reader of your magazine and have subscribed

D. Zorigt, Parliament member and the Head of the Economic Standing Committee:

First of all, I would like to wish a happy 1st anniversary for the employers of the Mongolian Economy magazine and its readers. I, personally think that it is one of the few professional magazines that write about economy, business and exchange markets. I have read few editions of the magazine. What I most liked about the magazine is that the news and information are from trusted sources. So I have subscribed for a year. I hope that the magazine will continue to supply the public and politicians with recent news. There should be more work done in fields of creating jobs instead of only developing economy based on mining. For example, there are plenty of opportunities for rural residents to run small-medium enterprises. For that reason, it is important to give them the possibility to run such business and enhance their living standards. Also, I hope the magazine would be a "tool" to deliver people's opinions and orations to the authorities.

Economic science is the science of life

S. Ganbaatar, President of the Confederation of Mongolian Trade Unions:

Economic science is the science of life. It is an opportunity that Mongolian Economy magazine was published, as the economy of our country is critical. I think the advantage of the magazine lies in the fact that it delivers economic news in a simple, comprehensive way from various trusted sources. Also the magazine plays a linking role among people and their reading books. Everyone must study and research the economy. Doing so they will be able to ▶▶

control how their taxes are spent and to get public services. The magazine has the duty to provide news and information concerning government's decisions and deliver opinions and involvements of the citizens. This is the way to clarify economic conceptions and to prevent others to steal and defraud people by washing their brains. I hope the Mongolian Economy would lend a hand with the enlightening and direct a part of its policy to it. I have become a permanent reader of the magazine and I have subscribed for a year.

I particularly appreciate that the main stories are in English.

Dr. Stefan Hanselmann, Director at GIZ Integrated Mineral Resource Initiative:

Happy birthday, Mongolian Economy Magazine! I think you had

a fantastic first year with successful issues and great subjects. I believe you will be as successful in 2012 as you have been in the past year. I always enjoy reading the magazine. It gives the reader the broader picture, different angles and the background of relevant topics without restricting it to specific aspects. Looking at it from the outside as a foreigner, I believe it is a reliable source of information. It doesn't speak for any singular interest group or one particular part of the business community, but rather tries to outline different aspects of the same topic. I particularly appreciate that the main stories are in English. I am sure there will be plenty of exiting and relevant topics to keep the Mongolian Economy Magazine busy and I am hoping that the journalists of the magazine keep up their professional and investigative journalism. All the best for 2012 and beyond!

The development of free media and quality journalism are most dear to me

Terrence Edwards, English Editor at Mongolian Economy

After living two years in the countryside in a traditional ger and now in the capital, I feel I have seen all aspects of Mongolia's development. I've seen this in the faces of children sitting at their desks in attention, in aid workers reviewing project proposals, and in my adopted Mongolian parents as they watch news from their new flat screen television inside their modest home in a remote corner of Uvurkhantai Aimag. As a journalist, the development of free media and quality journalism are most dear to me, and for that reason my time with Mongolian Economy has been a pleasure and an honor. I look forward to seeing this magazine grow further and reach a wider audience. ■



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 Mongolian and foreign audiences alike. The following are news highlights from February:

Business

GOLDMAN SACHS BUYS 4.8 PERCENT IN TDB

Goldman Sachs Group Inc., the fifth-biggest U.S. Bank by assets, will buy 4.8 percent of Trade & Development Bank of Mongolia LLC (TDB) to help the lender develop as the economy expands.

"Mongolia is a booming and fast developing economy driven by growth in mining sector and commodities exports," B. Medree, chief executive officer of TDB, said without giving the value of

the deal. "Goldman Sachs' global expertise and financial strength will help us grow further and enhance our offering".

TDB has predicted that Mongolia must invest as much as USD 68 billion within four years in new mines, roads, and housing. TDB, formed in 1990, was the first lender in Mongolia to receive an investment from the Asian Development Bank (ADB) and International Finance Corp., which pumped in USD 11 million in 2004. The bank had USD 1.3 billion of assets by the end of September.

Source: Bloomberg

Economics

IMF OFFICIAL OUTLINES ECONOMIC RISKS

Steve Barnett, the assistant director of the International Monetary Fund's (IMF's) Office for Asia and the Pacific, has outlined four key short-term challenges and risks Mongolia will have to face as it continues toward development. Those are overheating, global risks, fiscal policy and exchange rate.

Overheating is simply

growth that comes too fast. He explained that growing too fast in the short run often results in high inflation, exchange rate volatility, wage pressures, and "Dutch disease". All of these effects could heighten fears of a "hardlanding", especially if there are "external shocks" to affect the economy. That in turn leads to the general threat of global risks. A slowdown in the global economy is dangerous for any country, but it is especially so for Mongolia as they could affect copper and coal prices, as happened in 2008. A return ►

► to a boom-bust policy would make Mongolia vulnerable to another crisis, and hopefully Parliament will not fall victim to the temptation to make promises that involve greater spending as elections near.

Fiscal policy is at the center of overheating and economic volatility. Government spending increased 60 percent last year and is set to rise a further 30 percent this year. This kind of growth is too great and will most likely result in inflation. Barnett recommended immediate scaling back of government spending to “a much more prudent rate of growth”. Finally, a flexible exchange rate should be maintained, and is perhaps most important to a healthy economy. While it is fine for the central bank to intervene to smooth excess volatility, it should not target any specific level for the exchange rate. He explained that this strategy is simply ineffective and will only deplete national reserves.

Source: Bank of Mongolia

MONGOLIA CHALLENGES AUSTRALIA'S REIGN OVER COKING COAL MARKET

Despite a decline in coking coal prices spurred by a market surplus, a variety of new projects and market expansions will continue to swell global supply for the foreseeable future. Australia and China are current heavy weights to the supply and demand game, but Mongolia may arrive as a third contender (for supply) once the Tavan Tolgoi coal projects ramp up to sell to China and beyond.

Fortunately for coking coal producers, China returned to the market last year. The pace of imports was somewhat slow in the first half but fairly strong in the second half. Yet an increasing portion of China's imports—as much as half—is now coming from producers in neighboring Mongolia. Although many

industry observers are assuming that most or all of Mongolia's coking coal production will find its way to China, Gerard McCloskey of McCloskey Group thinks differently.

“I have already seen one cargo [of Mongolian coking coal] go all the way up into Russia,” he said, adding that Japanese interests are also getting involved in the land-locked country. “I think we will see Mongolian coal reach the sea... I think it will go to more markets.”

China remains key to iron-ore demand, in part because demand in other markets is weak, especially in Europe. If all but one European steelmaker (Arcelor Mittal) closed down, there would still be 14 percent overcapacity in the regional market, McCloskey said.

Despite the looming oversupply picture, many new players are waiting in the wings. Projects are in various stages of development in regions as varied as Mongolia, Indonesia, Mozambique, Russia, and Canada. The volumes these projects are likely to produce are expected to be relatively modest, and much of it will not be a factor until the next decade, McCloskey said.

Australia is likely to continue to dominate the industry, however. McCloskey indicated that while major producers are not likely to launch new coking coal operations if they think it would disrupt the market, a number of projects are already in progress.

Source: ResourceInvestor.com

Politics

TRANSPARENCY LEADS TO CLEAR A VISION FOR DEVELOPMENT

Transparency on tax and royalty payments is key to helping developing countries harness their mineral wealth, a report released by the

World Economic Forum said on Monday. A lack of transparency within the government and financial sector has long been called a serious detriment to the development and foreign partnerships of Mongolia.

“Some of the world's poorest countries are rich in mineral resources. Using these resources effectively offers an unmatched opportunity for social and economic transformation,” said the study produced by the Geneva-based think tank and the Boston Consulting Group.

Recommendations include publishing data on mining-related tax and royalty payments, and creating local development councils. It said governments should make document agreements between themselves and companies accessible to the public.

“The case studies and recommendations will help countries such as ours develop our mineral resources in a fair and responsible manner for all stakeholders,” said Mongolian President Ts. Elbegdorj in the report. “Socially as well as environmentally responsible mining is not merely a challenge for the host countries, but it is the prerequisite for sustainable global development.”

The study, “A Framework for Advancing Responsible Mineral Development,” was produced following consultation with 400 experts from NGOs, governments and mining companies. It highlights 22 examples of projects and initiatives in countries such as Mongolia, Liberia, Ghana, and Chile.

Source: Expatica

INITIAL E-TT PAR SHARE VALUE ESTIMATED AT 60 CENTS

With Parliament having

passed its amendment to the 39th resolution, an initial estimate for the value of the Erdenes-Tavan Tolgoi LLC stock been stated to be about MNT 800, or USD 0.60.

Approved by the Economic Standing Committee, the amendment will allow Mongolians to accept their promised shares of E-TT for free or take MNT 1 million cash instead. The government will buy stocks from those who opt for cash instead, and afterwards will sell those shares to Mongolian companies at an equal value. Students are able to receive MNT 1 million in tuition aid, while seniors and disabled citizens can receive the same amount for living assistance.

The government said its research shows that there is a high probability that about 50 percent of all citizens will choose to sell their shares to the government. While some have wondered how the government could afford to pay citizens the money promised to them, in the scenario described the government would have enough for those citizens, said the taskforce commissioned to look into the matter.

Former MP S. Bayartsogt has said the money from shares sold to domestic firms would go into the budget in the form of privatization revenues. The government has set aside MNT 330 billion to meet the needs of senior citizens and disabled citizens.

MP D. Zorig, the former chairman of the Economic Standing Committee has estimated a value of some MNT 800 per share, but admitted that it was impossible to determine the true value at this point. He added that this value could increase to a figure between MNT 1,500 and MNT 3,000 once infrastructure and export management is improved.

Source: Frontier Securities



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