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MONGOLIAN ECONOMY



Mongolian Tourism Must
Develop

On the Edge of Existence

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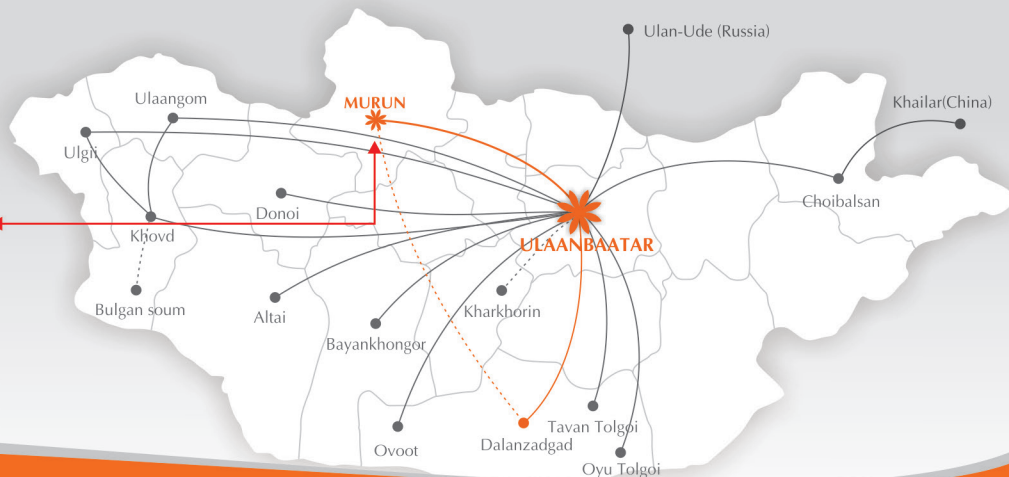
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LETTER FROM THE EDITOR



Currently the most popular topic is the election for Parliament. As the time nears, interesting issues continue to arise. Political parties are overloaded with pressure to establish their election headquarters.

Although citizens are highly concerned about elections, they have other things to worry about. The thought of having no monthly allowances

from the Human Development Fund any longer is unimaginable to those living below the average living standard. The government decided to grant MNT 1 million to elders and disabled people, but it is hard for them to queue in the hot, dry summer. Many are worried that the new government might stop distributing allowances all together.

The phones at newsrooms ring constantly, especially during times like this with the upcoming elections. For example, right after parties nominated their candidates, people began calling to inquire on *Mongolian Economy's* advertisement prices. But we have chosen not to take advantage of this situation. We strive to develop apolitical, independent journalism. Thus, we officially announce our policy for this year not to accept election advertisements at all. It is our dream to establish clean journalism that is free from the pollution of political influence.

Instead of filling up our valuable pages with election advertisements, we chose to write about the development of tourism juxtaposed against the mining industry; in addition to the negative effects of distributing MNT 1 million and how life will appear when the MNT 21,000 allowances come to an end.

Deputy Editor I. Otgonjargal

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STOCK MARKET

On May 15 2012, five Government bonds were traded in the secondary market on the Mongolian Stock Exchange (MSE) at a market value of MNT 105,000 each. It was the first time that Mongolian government bonds with International Securities Identification Number (ISIN) were traded in the secondary market in accordance with internationally accepted principles. With the commencement of secondary market trading of such securities, it becomes possible to calculate the benchmark index for short and long term loans based on their value and yield curve.

BANKING

The Moody's credit rating agency downgraded the rating of four Mongolian banks; Khan Bank, Golomt Bank, Trade and Development Bank of Mongolia, and XacBank. The banks previously graded B1 ("risky") have been downgraded to Ba3, ("high risk").

MINING

A leading manufacturer of iron in India as well as the rest of the world, SAIL, has proposed to construct a steel factory. The company suggested an agreement under the principle of a mutually beneficial business proposal. SAIL would own the coking coal deposit in Mongolia and export it to India. For its part, India

would be responsible for the construction of the factory in Mongolia. Iron ore specialists from SAIL will come to Mongolia next month. Preliminary economic research of iron ore processing for steel production and the construction of a steel factory will be made after an inspection at Tavan Tolgoi and iron ore deposits at the Selenge and Darkhan regions are made.

INFRASTRUCTURE

Work to connect the Denjiin 1,000 ger district to the capital's central heating system has begun. This is one step towards the construction of housing for people living in ger districts. The developer has started the initial work of connecting the seventh, ninth, and apartment blocks to the central heating to resolve existing infrastructure issues. In addition, the 39th public school, the 124th kindergarten, the new sport complex, private apartments, and apartment complexes planned for construction will be connected to the central heating according to the urban planning scheme set for Denjiin 1,000. This work, financed with MNT 3.1 billion by the Clean Air Foundation of the Ministry of Nature, Environment and Tourism, will be finished in September of this year.

A new bridge is under construction to help relieve traffic, reducing it by 20 percent, through a

non-repayable Japanese development project.

The main road of bridge crossing over the railway and Narnii Zam road is set to open before the Naadam festival. The construction of 895 meters of bridge is now 80 percent complete. The bridge is designed to meet the stress of normal traffic and reduce pressure on the two currently under use. The bridge will be fully commissioned in November.

GOVERNMENT

There are intensified efforts to finance work for improvements to the Ulaanbaatar road network. Shinjaan Lu Tung and HKB International Holdings will do work on 13.7 kilometers of road from the Yarmag bridge to the Nisekh check point, and the cross road between the Songolon and Yarmag checkpoints. Prime Minister S. Batbold said the road running from the international airport to the city centre from Khoshigt Valley currently under construction would meet international standards. The 13.7-kilometer road will run both directions, consist of six lanes, and will be 28 to 46 meters wide. The project is due for completion in October of this year. Along the road, there will be drain pipes, lightning, green construction, and sidewalk at 13 points.

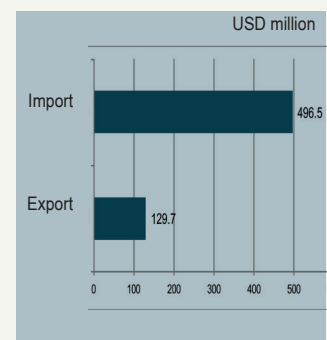
ECONOMY

The total foreign debt of Mongolia increased by 11 percent by USD 10.9 billion dollars in the first

quarter of this year. While 26 percent of that debt, or USD 2.8 billion, belongs to government, the remaining 74 percent, or USD 8.1 billion is from the private sector. The chief driver of the increase in public debt is the release of bonds by the Development Bank of Mongolia. Private sector's debt is directly related to big mining projects financed by foreign investment.

FOREIGN TRADE

As of April, Mongolian foreign trade circulation reached USD 373.1 million, a 23 percent increase from the same period last year. Exports rose by USD 129.7 million with imports rising by USD 496.5 million. However, the annual



growth rate has declined by 54 percent. Compared to last April, the annual import rate decreased threefold, while the annual export rate fell 5.3 times. Around 49 percent of total trade circulation, worth USD 1.6 billion, was trade with China, and 18.9 percent, worth USD 660 million, was trade with Russia.

TECHNOLOGY

An online trading

system was introduced by the Ministry of Finance in cooperation with the Keiko international organization and financed by the Korean government. The Koneps online trading system is specially designed for the Mongolian market. The system performs all tenders online beginning from the very first step. It also allows participants to get required information online. Over 30 percent of all state and private owned capital purchasing activities and services are planned to be conducted online by next year. The plan is to have such purchasing activity to be conducted entirely online by 2014.

Many foreign

developed countries require around three documents and up to four signatures for foreign trade compared with at least eight documents and over 20 signatures in Mongolia. In order to reduce these complications, government has approved of its Cyber Window master project. For the first stage, German international organisation GIZ and Asian Integration Programme will provide USD 6.3 million in financing.

CHINA

China will allow direct trading of the yuan and

the Japanese yen, in a move aimed at promoting trade between Asia's two biggest economies. This means the two countries will not be using the U.S. dollar as an intermediary. China, which sometimes has a tense relationship with Japan, is the country's biggest trading partner. China's central bank said the China Foreign Exchange Trade system would launch this trade next month. "This is part of China's broader strategy to reduce dependence on the dollar," said Dariusz Kowalczyk from Credit Agricole CIB in Hong Kong. He added that the yen was chosen because of the large amount of

trade between the two countries and that "this could lead to an expansion of trading with other currencies". The People's Bank of China said the move would help lower currency conversion costs and help facilitate bilateral trade and investment. Japanese Finance Minister Jun Azumi told reporters that trading under a new regime will start in Tokyo and Shanghai on June 1, according to Reuters. "Conducting transactions without using the third country's currency would reduce transaction costs and lower risks involved in settlements at financial institutions," said Azumi. ■





A BREEZE THROUGH THE TOURISM INDUSTRY

BY I. OTGONJARGAL

Mongolia had sensational news last spring: rare archeological findings were discovered at Ulaan Kherem of Bayannur Soum. A 35-meter long wall with colour pictures was found, with the Cultural Heritage Center and Ministry of Culture and Science advocating for its preservation. Our researchers have hypothesised that the finding is the tomb of an aristocrat who lived during the era of the Turegs.

The finding is not the first, nor the last one, found within the vast territory of Mongolia. Mongolians know that this sort of discovery has been made before and will be again. Past discoveries have been unique, which prove the rich cultural heritage of Mongolia, in addition to the 80 known minerals under its soil. It can be understood as a message that Mongolia can be rich for its tourism industry as well. It can only be developed, however, if attention is paid to business outside of the mining industry.

One year ago, *Mongolian Economy* dedicated an issue to tourism from a new perspective. This issue too is devoted to the development of tourism. It brings joy to imagine directors and executives with a magazine entitled "Mongolia: Much More than Minerals," on their tables. In this issue are reports on news and information about tourism from a diverse collection of perspectives.

Much has happened in the last couple of years within the tourism sector. If state policy supports this clean, smokeless industry, then it has as much opportunity as mining. Readers will find evidence of this in the reports throughout this issue. For instance, "A Ray of Light" shows how much success air travel in Mongolia has experienced in a year.

As head of the Mongolian Tourism Association N. Erdenebat says, the number of seats offered from air travel has grown by a thousand, there is greater frequency of flights, and air travel is cheaper. Director of New Juulchin Tours Sh. Nergui says that Mongolians have learnt how to travel.

Ts. Orgodol, the head of tourism at the Ministry of Nature, Environment and Tourism, opines that Mongolians have to direct the present development of tourism as one that models the nation as one that helped shape world history. He said large investment is required if we want to develop this sector the way the one for mining is. He also mentions that the valuable, historic discoveries made should be used to drive the economy. Orgodol was confident that a development policy dividing Mongolian tourism into six regions by their principal focuses would bring good results.

Not everything is good news, however. It is unfortunate that the

mining sector is absorbing Mongolia's most talented workers. Skillful guides and translators, as well as managers are employed by mining companies and given high salaries. But it is not the mining sector's fault. Schools are leaving students ill-prepared for the workforce and with poor language skills. Tourism is quite small in winter as well, leaving experienced guides to find work elsewhere after summer.

With elections at the nation's heels, Mongolian Economy calls for development of a clean industry, so that when the country's natural minerals are finished, its economy will not. Mongolians will have their beautiful nature left intact, and able to live enjoying true wealth. ■



WORDS FROM THE OFFICIALS

MONGOLIAN TOURISM MUST DEVELOP

The Mongolian tourism sector experiences about 5 to 10 percent growth annually. As a matter of fact, we could chase after numbers and attract one million tourists by making good advertisements. However, Mongolia lacks the capacity to accommodate so many tourists at the moment.

BY I. OTGONJARGAL

Ecotourism is considered a smokeless industry. Its development in Mongolia is as important as the quickly growing mining sector. Mongolia's tourist season is short, running from May until October. Ts. Orgodol, the head of tourism at the Ministry of Nature,

Environment and Tourism shares his thoughts on how Mongolia can capitalise on this industry.

What actions from government are most important to the development of the tourism sector?

Investment is needed to create a productive tourism sector. Since Mongolia spans a huge territory, it is hard to reach and operate in every corner of the country. In order to develop the tourism sector, the government must run an investment policy. »



▸ The sector is 100 percent on the shoulders of the private sector. Among private tourism companies, there isn't a single company that has enough assets to build a resort complex. They invest in tourist camps and hotels as much as they can. Creating a tourism attraction that meets international standards will require great investments.

Wild nature and nomadic culture is no longer a strong attraction for tourists. They could just as easily experience all this right outside Ulaanbaatar. What other development solutions are there?

Mongolians are people who created a part of world history. There are only a few countries, such as Mongolia, India, China and ancient Greece and Rome, that helped write the history of the world. However, today we are not able to tell those great historical stories and display them through exhibits. Thus, the development of tourism should focus on the historical aspects. It is important to recreate this ancient history.

There were talks about making Kharkhorin, where the ancient Mongolian capital Kharkhorum once existed, a tourist attraction. Has there been any progress to this goal?

The primary analysis to this project is now being conducted. There is no one that can tell us how 13th century Kharkhorum looked. So we have to read historical texts and do research to create a resort that looks anything similar. As for progress to completion, everyone seems to have something to say, but nothing has been decided yet. People working on this project have creative ideas about how the resort should look. One of those ideas will be chosen. In general, building designs will reflect an imagined picture of that time. Erdene Zuu Monastery traces back to the 16th century and now needs renovation.

Recently lots of rare

findings have been discovered in Mongolia. How would renovations to historical sites and rare discoveries attract more tourists?

Kharkhorin is rich in historical findings. Scientists find and bury them again. Orkhon Valley was inhabited by many ethnic groups, not only Mongolians. Thus many historical discoveries are found. Again, we must attract tourists relying on those findings. If we establish the Kharkhorum attraction, we could turn those valuable findings and exhibits into economic revenue. In addition to the statue of King Tureg, we recently found another discovery from Bayannuur in Bulgan Aimag. The Orkhon waterfall and Naiman Nuur lakes also hold possibilities.

Government policy divides Mongolia's tourism industry into six regions: the western region, the Huvsgul region, the central region (including Kharkhorin), the eastern region (including Khentii Aimag), Dornod, Sukhbaatar, the Gobi region, and the region around Ulaanbaatar. Mongolia's Gobi is incredible. It's not only gold and coal that can be excavated there.

Huvsgul can be seen as a sea beach. Foreign countries have developed tourism based on their beaches. That is why we need to do exactly that. In the Gobi any kind of development is possible. However, the best way to develop tourism in this region is to focus on dinosaur bones, palaeontology museums, and research centres. The western part is mainly inhabited by different ethnic groups that each has its own culture. The eastern region is famous for being the birth place of Chinggis Khaan.

When will the first steps be taken to develop the industry along these regional guidelines?

First of all, it will require lots of investment. Paved roads and airports need construction. Those places need to have running water, hotels that operate 24 hours a

day, Internet and communication connections, restaurants and cafes, and even art exhibits, theatres and conference halls must be established. The conference on climate change continued for about half a month. We could organise activities like this there.

Can you give an estimate to how much investment is needed?

An estimated half billion U.S. dollars must be invested into the Kharkhorum complex. It is not a shocking sum, since Mongolia will reap great profits from mining.

Is tourism development by regions included in the government's tourism policy?

Well, it is included as one of the projects that must be implemented. The programme includes issues to the development of all six regions, such as construction and financing.

Then what is the plan for finding investment?

We could attract domestic and foreign investors with the concession law. But first we must plan the project. Having something to show would ease the task.

The Millennium Development Objectives of the National Development Policy projects that Mongolia would see one million tourists in a single year by 2015. However, last year 457,500 tourists came to Mongolia. Why has this goal, which was set 10 years ago, not yet been reached?

The Mongolian tourism sector experiences about 5 to 10 percent growth annually. As a matter of fact, we could chase after numbers and attract one million tourists by making good advertisements. However, Mongolia lacks the capacity to accommodate so many tourists at the moment. For example, during the National holiday of Naadam all the hotels in Ulaanbaatar are completely booked. Infrastructure problems like the number of flights [coming into Mongolia] are the main reasons why we are not in a rush to



Photo by E.Zorigt

► have tourists pouring into Mongolia.

Last year's total revenue dropped by 0.3 percent compared to the previous year. However, you say that there is annual growth of up to 10 percent. Why is there this conflicting information?

Actually, there is no decrease at all. An increase in the number of people means an increase in income. In 2004, estimates from the Ministry of Finance stated that around 10 percent of GDP [gross domestic product] was derived from the tourism sector. Now income from the mining sector is growing rapidly. For that reason, profits from the tourism sector automatically

decrease, which would probably continue to drop when big mines begin their operations. [These figures are] relative to GDP, of course.

So naturally the importance of mining grows too. That is a great example of how the mining industry is stifling this clean industry. It is also causing human resources shortages for the tourism industry. How can this problem be solved?

This is the main problem that is causing headaches for many of us. Tourism has lost all its best guides, interpreters, managers and accountants to the mining sector. However, there's nothing we can

do about it. The problem can be solved when the tourism industry is able to afford salaries comparable to what the mining sector gives to its employees.

Tourism developed into one of the country's leading industries. However, there have been no declarations made in the interest of its development or offering it support. What is your opinion?

Government policy aimed to make it one of the leading sectors in the country. Considering the fact that tourism is an environmentally friendly industry, it must be developed with care. Many say tourism is an invisible export. The industry operates without receiving a single penny from the state. If there are projects, programmes and soft loans to be had, the government should offer support, as it does with small-medium enterprises.

There are reports that say in 2022 tourism would create 328 million jobs worldwide, and one out of every 10 jobs would be created within tourism. It is hard to imagine revenue from Mongolian tourism will grow like this in the future if it has not even reached the goal it set almost 10 years ago.

It is not 2015 yet.

You are right. But think again. It has been almost 10 years, since setting that goal. Isn't it a bit late to hope for any change in just two or three years?

Well, we've got to try our best.

Instead of just talking we must start taking action. The government, in particular, should do its best.

As I said, the government must create a favourable environment for the private sector to operate. That is why the Ministry of Nature, Environment and Tourism must coordinate laws and regulations and not tell the private sector what to do. The ones with better management and operations have the better futures. ■

TECHNOLOGY

WARRIORS FOR BEAUTY

In recent years tourist ger camps have multiplied like rabbits in Mongolia, and it has both good and bad ones. The following are some of Mongolia's most successful ger camps, which have adopted advanced technology, not only for the comfort of the tourists but also for a balanced ecological environment.

BY B. TSETSE

Elegance in the Middle of Nowhere (Three Camel Lodge)

The time I first came across this camp was during the most temperate month of summer I have ever experienced while traveling through Gobi terrain. I was traveling with two foul-tempered ladies and a driver who did not know the road very well. On that day we nearly crashed our car



after driving lost for a long time in the middle of nowhere. As dusk fell on the steppe and we approached a sand-coloured castle, it felt as if all the fears running through my mind about the day's failures had disappeared with the strong wind and setting sun.

Three Camel Lodge is a unique and amusing tourist lodge located in the South Gobi desert. The main building of the lodge, which is reminiscent of an old Buddhist temples, was built from natural stone and wood, without a single nail holding it together (as the Buddhists temples were built). Despite the circle of small stones, there is no fence or gate, which gives the camp the sense that it was a natural structure born from the Gobi. The lodge required almost two years of hard work for construction, and has welcomed visitors since 2002. It can lodge between 50 and 60 people at one time.

National Geographic named Three Camel Lodge as one of the Top eco-lodges in the world in 2009. The Three Camel staff has made green technologies an integral part of its everyday service in this vast land with plenty of sun and wind. The camp has over 50 solar panels and two wind turbines supplying all its energy needs. In years past they heated the water for their showers and sinks by

burning coal and using solar panels. Starting this year, however, they have phased out their coal use completely.

Since 2003 the lodge has planted over 6,000 trees as well as other plants strong enough to thrive in the desert throughout the camp. The effort has increased the population of indigenous Gobi plants and migratory birds that visit Bulgatai Soum where Three Camel Lodge is located.

On my first visit to Three Camel Lodge, I grew quite confused when searching for a light switch. After so long having been accustomed to finding light switches in gers against one of the of two ger poles or somewhere across from the entrance, I never guessed the switch would be placed inside the upper part of the entrance. This is actually the best solution for foreign and domestic travelers, who always struggle, stumbling and falling over furniture, when trying to find a light switch in the dark. Here, all that is necessary is to simply stretch out an arm and turn the switch on before entering.

Nomadic Expeditions, the leading tour company that runs the lodge, focuses on the American market. They used this thinking in their accommodations as well. For instance, this camp has larger beds in its gers than most (2.20 meters) to match the



▶ length of the average American. For safety, a fire extinguisher can be found in each ger, as they can be prone to fires.

The lodge staff installed a generator that pumps water from about 130 meters down underground that is used by the lodge as well as the locals and their animals. However, they said the water pumped is not the best. Water, which is taken for granted in mountainous and forested areas, is the most precious treasure in the

Gobi Desert. One step taken by the staff at Three Camel to improve water efficiency and increase awareness of water scarcity is recycling “grey” water for purposes other than drinking, such as to run toilets and showers, and irrigate plants.

Currently, Three Camel Lodge is installing new pipes to separate its “black” and grey waters beginning next year. In addition, to enhance their service, they decided to remodel their standard gers to make them luxury gers

with bathrooms. Also there are new gers under construction that are family-orientated and have separate rooms for kids and parents, separated by the bathroom. These accommodations will be both economic and convenient because they make use of fuel efficient stoves that stay warm longer and utilize solar panels for energy.

Hopefully, more great ideas like the above-mentioned will be thought up and implemented at Three Camel Lodge each tourist season.

A Dream World (Dreamland resort)

Deep green, white and blue: This is Dreamland. This tourist resort is like a fantastic dream world hidden by its own beauty among the trees growing on the river banks. When entering the iron gate, guarded by aggressive-looking lions, and crossing the bridge, its impressiveness makes one feel as if they are entering a fairy-tale palace. From the parking area, there is still quite a distance to walk before entering the main complex of the camp. It is still impossible to get a feel for the resort from here, but one’s curiosity

inevitably grows. A few steps more bring the traveler to another bigger bridge. There is a small river that flows underneath the bridge, fed by heavy summer rains. During the short walk across the bridge excitement takes hold before finding what waits behind those trees. There is a stylish wooden building with white-and-red coloured flags flying against the blue sky as well as white gers (both big and small), pretty flowers and knee-high green grass, and the fresh smell and sound of a nearby river.

The resort lies on the bank of the Orkhon River at Kharkhorin Soum, Uvurkhangai Aimag, where the ancient capital of the Mongolian

Empire was once situated in the 13th century, since July 2005. It is hard to imagine that this beautiful camp was once a prison before the developers of Dreamland arrived. The buildings at the resort are all made from natural stone and wood, and are quite different from anything anywhere else in Mongolia. They offer modern, fully-equipped rooms with bathrooms in their two-story hotel in addition to the 13th-century-style gers.

Even in summertime, it is common for tourists to complain about getting up in the middle of the night and putting on extra layers for warmth due to the cold temperatures at dawn. But this is not a problem at Dreamland ▶



► thanks to temperature controls in the gers. When it is hot, there is no need to open the door to let in cool air.

It is also an interesting feeling—perhaps unexpected—to be able to chat with your friends over the Internet and watch cable television 360 kilometers away from the capital. Dreamland operates in both summer and winter, and has the capacity to hold 120 people at one time with 35 gers and a 10-room hotel building. The resort is located within the protected zone of the Orkhon river valley and its staff is well aware of the importance of keeping the environment there clean and safe. Dreamland plants trees every year and it utilizes a five-cycle water purification system. The trees at Dreamland are continuously growing.



I love Gobi (Ongiin Nuuts)

We finally reached our destination after a long drive on a bumpy dirt road in the burning sun. The monastery is nearly the size of a city. Ongiin Nuuts has temples with unique architecture that is different for each structure, and was built 300 years ago. Not a single lama or temple escaped the political persecution of the early 20th century. Though it was restored in 1994, until today the monastery ruins tell the historical tragedy with its gloomy appearance. When making a turn around the hill, the big magnificent building with its concrete walls and three-point roof, as is the style for every temple, emerges as if the Ongi

monastery has just been revived.

Immediately next to some partly grown grass, beside the beautiful Ongi River and Ongi monastery, there is a tourist camp in Dundgobi province, Secret of Ongi, run by the Ongiin Nuuts tour company. The camp is among a blend of Gobi desert and mountains, which makes for very busy scenery. At the entrance, the four wheel drives of vehicles are inspected, standing like horses lined up for the start of a race. Drivers are usually thankful for services such as the car wash, oil change and wheel repair provided by the camp. Selected as the best tourist camp in Mongolia in 2010, Ongiin Nuuts tried to absorb the architecture of an ancient Buddhist Monastery to

act as a reflection to the sacred Ongi monastery located around the hill.

The famous journalist J, Gangaa wrote in his article “Hunnu Ger of Ongiin Nuuts”: “If there were well-equipped tourist ger camps like “Ongiin Nuuts” everywhere in Mongolia, we would see tourism grow and bring the same profits as the mining sector does”.

One feature of this camp is its 45 gers made to replicate those of the Hunnu people. Though they look different from the traditional eight-poled structure, the two columns in the middle make the gers more spacious. The lights that line the stone path to gers collect solar power during the day and light up the night. People say this place allows people to sleep so well ►►



▶ and awoken so refreshed the next day because of the unique positive energy surrounding the area.

Recently Ongiin Nuuts planted 100 trees of four varieties inside the fenced-area to fend off desertification, but they cannot be

watered with cold water. So, the staff came up with the idea of installing a water heating system that only uses solar energy. The camp also has the ambitious goal of transforming this desert into forest. 2012 looks to be a very constructive year for the

Ongiin Nuuts staff. Another large project they are trying to complete this year is construction of a multi-coloured fountain. One last thing that cannot be left unmentioned is the words scrawling the concrete walls enclosing the camp: "I love Gobi". ▶





► The Pearl of Asia (Ashihai)

As we approached, the odour from the humidity of the green grass grows stronger, and the singing of water fowl grows louder. When we entered, it felt like the roads were becoming more dirty and bumpy than before, as if it was trying to slow down our arrival to the beauty we would find. Everyone in the car let out long breaths and grew in awe of the sights. Every time I head to the "Asian Pear", Khuvsgul Lake, my heart becomes eager to get there and I never want to think about the day we must leave. This time, there was still that same feeling in my heart.

The Ashihai tourist camp run by Ashihai Travel at Khuvsgul Aimag is located at what is considered the most beautiful point of the lake, more so than the locations of any other ger camps that surround it. When people hear that unforgettable name, Ashihai, it is common for them to mistake it for a Japanese name. But the ger camp gets its name from the first leader of the Khotgoid ethnic group of this region. The camp has inspiring wooden buildings and is adorned with carvings.

Among the ger camps at Khuvsgul Lake attracting thousands of tourists,

Ashihai is quite new. This year is its fifth in operation. Receiving electricity and hot water, which can be a pain in the neck for most tourist camps, are not a problem for Ashihai because it is the first and one of only two ger camps connected to the central power system via the nearest town of Khatgal Soum.

The camp received technical renovation in 2010 with the installation of a floor heating system. At most camps travelers can have staff come into their ger and build fires, but this can be rather disturbing to one's sleep. But with Ashihai's floor heating, no one need leave their door unlocked. With a maximum setting of 50 degrees Celsius, travelers are sure to stay warm in these nomadic homes where warmth can easily be lost. Even though the floor heating system devours electricity and costs three times more than coal fires, it is more eco-friendly because it does not emit smoke from raw, unprocessed coal.

Despite Ashihai's already existing dense forest, it is admirable of it to plant 5,000 trees in 2011. Two years ago this camp was selected as the "Eco Camp" by the management of the Khuvsgul protected area. It shows us that beauty still needs care. ■



MAGIC MANAGEMENT

2011 WAS YEAR OF GROWTH OF MONGOLIAN TOURS

Mongolians currently travel mostly to Hainan and the Che-ju islands. Last year was a year of growth for Mongolians touring in their country. People have learnt to travel.

BY KH. KHULAN

The tourism sector of Mongolia relies 100 percent on the private sector. Mongolian Economy features Sh. Nergui, Director of the private company New Juulchin in this issue of "Magic Management". New Juulchin Group focuses on tourism and international freight service.

Mongolia's tourism sector has its successes, failures, and challenges. Tell us about the achievements of this industry last year.

In 2011 we received tourists from over 30 countries. We have also organized various tours for Mongolians. The number of tourists who arrived in Mongolia has slightly increased. However, the number of Mongolians who travel abroad increased drastically. The reason is we offer direct flights through our cooperation with MIAT. One thing I would like to note is the fact that the tourism companies joined together to conduct tours. Juulchin, Genco Tour, and Airmarket have cooperated on 12 flights.

What is the benefit of such cooperation?

Cooperation among companies has brought big benefits. First there were four companies promoting the event, which was highly efficient as the

cost for promotion per company was reduced. Secondly, the company's risk is reduced. For instance, if one company takes a charter flight alone, they send 200 people, leaving a high volume of risk. If 10 percent of the flight is unoccupied, then that company will incur losses. The many years of talk about cooperation among Mongolian tour companies has become true.

Mongolians have begun to travel widely throughout Asia. Is travel a strong part of Mongolian culture?

Mongolians currently travel mostly to Hainan and the Che-ju islands. Last year was a year of growth for Mongolians touring in their country. People have learnt to travel. Whereas customers used to book trips in the near term, now people reserve tours sometimes even three to four months prior. That is a big culture.

Traveling brings several advantages. First, it broadens the mind. Second, one will be acquainted with the history and culture of another country. Third, during the trip one finds many partners. New business ideas can come up too. Finally, they energise people. For Mongolians a holiday at the ocean gives a lot of strength. After a trip they may be gushing with many innovative ideas.

Since 2006 there has been the goal to bring the number of tourists

in a year in Mongolia to one million by 2015 for a single year. How likely is this to happen?

It has been said that Mongolia would receive one million tourists within the last 10 years. This situation is changing drastically now. Airline service poses the major challenge for travel to Mongolia. Only competition can help reach this goal. We talked about receiving one million tourists when Mongolia had only two airplanes. But now there is greater possibility of bringing one million tourists by 2015.

Competition among airlines has been created. Capacity will be improved along with it. The quality of the service also plays a role. Internationally ranked hotels are being founded in Mongolia. All this could lead to achieving that goal. Of course, promotion is necessary for Mongolia. Government is giving its support. Our current understanding of a promotional campaign for tourism is the participation in international trade fairs. With a new lead in promotion, we can reach this goal.

How is the mining boom relevant to tourism? What should this industry pay attention to in the mining industry.

There is good news and bad coming from the development of the mining sector. The positives from mining are increased investment ▶



► and business tourism. Internationally renowned hotels can be built because of this greater investment, which is good. Yet there are also negative trends to consider. Mongolia may begin to forget its nomadic culture. There are many businessmen who plan to build three-to five-star hotels. If we forget our nomadic culture and replace camps with luxury hotels, then what distinguishes Mongolia from other countries? We have to keep a balance, otherwise one day Mongolian culture and tradition could be forgotten.

The mining industry has started many of its operations. But in addition to mining, Mongolia has another big wealth: our nomadic culture and customs. We have to protect and value this mining. Our door is Mongolia.

During these times of global

warming and environmental protection issues, the model of nomadic Mongolian culture and customs will grow more valuable. Our model has environmentally friendly technology.

Mongolia's nomadic culture should also be the main attraction for tourists. We forget it and oversimplify by exhibiting our history or visiting herders. The issue of the resurrection of tradition, and creating products from that comes up. Sustainable eco-tourism based on the community is the current issue. We have to cooperate in this field. China, for instance, has been strongly developing this sector over the last ten years. The state supported the customs of its different nationalities by resurrecting their customs and turning them into attractions.

What is your critique of the

tourism industry?

The tourist camps don't fulfill the environmental protection standards. Our partner companies from abroad started commenting on cultural issues. They said ten years ago Mongolia did have nomads—now they are vanishing. The herder was a person with calm soul, long-term vision, and was free of greed. But the modern nomad is wearing European clothing, smells of alcohol, and is thinking of only money.

While discussing the development of eco-tourism, I would like to mention one thing: The Mongolian ger is becoming popular abroad. Luxurious eco-camps abroad use designs from the Mongolian gers. They even have five-star ger camps. We cannot ignore the technique of our ancestors that have been practised for hundreds of years. We have to talk about this from now on.

You said that tourist camps do not meet environmental protection standards. Which measures does your company take in order to develop eco-friendly tourism?

We have been promoting the idea of eco-tourism over the last two years. The concept will be implemented as a result of cooperation between the community, regions, business, and government and non-government organisations. Today, tourists know not to leaving behind their rubbish.

Our company set up the Guru eco-camp "in Terelj. We call it an eco-complex and it has a ger design. There are a total of 12 gers. The first ger exhibits the Kazakh traditions; the second one has dairy productions, etcetera. Handicraft products are made from organic materials. Milk and other dairy products are purchased from the herders. The children practice and learn through experience. This model project can continue through to the future. This year we are discussing with organizations about resolving water management issues and energy reduction in Terelj. The project that's begun will continue for the next five years. ■

TRANSPORT

A RAY OF LIGHT

Tourism is at the mercy of existing infrastructure for transportation, but few options are available to tourists.

BY B. BAYRAA

With warm breezes, the very first raindrops and water birds comes the tourist season. Melting snow and shoots of grass are signs that the sector has awakened. The wide-open door of Mongolian tourism is already welcoming guests from abroad. However, is the the country's transportation system capable of offering glimpses of the country's vast lands and cultural heritage? If yes, it's time for a trip.

"There was a target to accept one million tourists by 2015. But it is rather uncertain whether we could house that many guests when the infrastructure is still very weak", said N. Molor, deputy director of the National Tourism Centre. He added, "Currently we lack sufficient rail and air transportation. Transportation is exceeding its actual capacity. But we have witnessed great efforts in recent years".

Mongolia's transportation services might seem quite difficult for some tourists who are accustomed to comfortable trips. Those in the tourism sector have delivered poor services that frighten tourists.

Well, a new ray of light has begun to shine on this sector. Market competitiveness, magical management and development know-how is creating a brand new image for it. Laying the foundation to the Khushigiin Khundii International Airport, which is planned for commissioning in 2016, has put a smile on the faces of Mongolians as well as foreigners looking to travel in Mongolia. Having an airport that meets the

international service requirements and standards means huge opportunities.

Developers have planned for a 3,600-by-45 metre runway at the new airport, with two lanes for landing and takeoff each. It would also have a passenger service terminal that could serve 1100 voyagers. The airport will have six gates in total, and by 2019 the airport will have served 1.6 million passengers annually and transported 11,900 tonnes of cargo.

Little Rest for Air Transport

People choose to travel by air because it is considered to be the most convenient form of transportation. Travelers are not rich people who waste money on their free will. They are customers who have saved their money so they can have a little excitement in their lives. Thus, they wish to enjoy cheap services. One of the reasons why Mongolian tourism is not developing is the fact that its air transportation is way too expensive, said Molor. To develop tourism parallel to mining, authorities should focus on reducing air transportation prices.

There has been great progress made in Mongolia's airline services as of late. MIAT Mongolian Airlines is the only service offering international flights. Thus, thousands of tourists and travellers wait their turn to catch a MIAT flight. But today travellers en route to Mongolia can get on a plane whenever they want.

Private and public air transportation ▶

Airline companies operating in Mongolia:

- MIAT
- Aeromon
- Golia
- Изинис эйрвэйз ХХК
- Blue Sky Aviation
- Tengeriin Ulaach
- Geosan
- Thomas Air
- Ajet Aviation
- MAK
- Chinggis Airways
- Mongolian Airlines Group

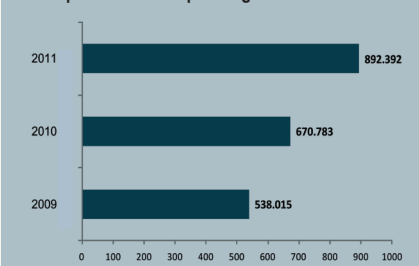
Foreign Airlines operating in Mongolia:

- Aeroflot (Russia)
- Air China (China)
- Korean Air (Korea)
- Tianjin Airlines (China)

Start of operations in 2012:

- Air Astana (Kazakhstan)
- Turkish Airline (Turkey)

Transportation of the passengers:





► companies imported about 13 aeroplanes last year, six of them of the AN-858, Aerobus 319, Boeing 767 varieties. The Boeing 767 has 18 business class and 245 regular seats, while the Aero bus 319 has 108 regular and 12 business class seats. MIAT is taking innovative action and planning to buy a brand new Boeing 767-300 for next year and a Boeing 737-800 in 2015. These planes will make international flights. This is sure to improve the sufficiency of air travel in and out of Mongolia.

“We are preparing to offer flights to Europe and America’s east and west coasts. We are striving to make flights to all continents. If airline companies offer more options, their flights will become more sufficient and competitive. As a result, price tags will decrease”, said S. Batmunkh, the General Director of National Aviation Authority.

An increase in the number of planes and airline companies means improvement in air transportation services. In 2011 international passenger circulation rose 33 percent and domestic circulation increased 26 percent. Statistics from the first quarter of this year show that international circulation increased by 50 percent and domestic passengers by over 30 percent.

Kinks in the Rail Lines

Most tourists in Mongolia travel by train. Ulaanbaatar Railways will transport about 19.2 tonnes of shipment and around 4 million passengers this year. The number of passengers has increased by over 200,000 compared to last year.

“We charged trains with the transport passengers to Moscow, Irkutsk, Irian and Khukh Khot”, The head of Ulaanbaatar Railway’s Passenger Department, S. Bat-Ochir, said. During summer, we have scheduled trains to Moscow twice a week, to Irkutsk every day, to Beijing three times, to Khukh Khot twice and to Eriian four times a week”.

Last year, 6.322 tourists took part in a new initiative to develop tourism based on railways foreign and domestic tours, in addition to 15 tourist trains touring various destinations.

“Because railway transport prices always have losses, Ulaanbaatar Railways must face those losses too. For that reason, the government should offer annual subsidies of MNT 21 billion”, said Bat-Ochir. He added “Passenger trains have become outdated. Nowadays, tourists wish to travel in trains with air conditioning, television, Internet, and showers and bath tubs. In Mongolia, only trains travelling from Ulaanbaatar to Beijing meet those requirements. Thus, service quality must be improved”.

It is possible to improve the quality of service and add new trains if the government grants subsidiaries to make up for those annual losses.

“A project financed by China worth USD 300 million was implemented with the aim to improve and innovate working composition and build a loading facility in Zamiin-Uud. The project includes the purchase of eight locomotives, and 245 shipment trains in addition to equipment for a loading facility”, said Ts. Dashdorj, the Minister of Road, Transportation, Construction and Urban development. “Currently only the Mongolian-Russian

joint company Ulaabaatar Railways is responsible for this work. The company’s total loading capacity is 23 million tonnes. At present, that capacity is at its peak. Also, its transit capacity needs to be improved”.

Come, Come

Mongolia would like to welcome its tourists, but domestic and tourist transportation issues still have points for concern. Although in recent years Mongolia has been profiting well from its mining revenues, national road and transportation infrastructure remain weak. The Road Transportation Authority noted that the legal environment of the service sector must be improved in order to create better secure and quality travelling conditions. The authority requires tourist companies to have professional drivers and their own transportation vehicles. But its questionable if companies comply with these regulations.

During the peak of tourist season, many companies hire private drivers. Vehicles manufactured more than 10 years ago are not allowed to transport tourists. However, the reality seems to be to the contrary. There are about 500 public transportation vehicles from 40 organisations that have agreed to serve tourists. Although they are considered a riskier option, tourists have no other choice. To see Mongolia and its culture, travelers have to face this harsh reality.

Mongolia is a peaceful country. But its steppe roads are turbulent. It is uncertain whether tourist companies are offering safe vehicles with confident drivers. Unfortunately, such cases are all too common for many tourist companies. Satisfaction is turning cold because of impenitent drivers.

The real questions to tourism are these: Will Mongolia welcome its guest with its nomadic roads? How should the railway transportation sector improve while at its peak capacity?

Transportation is still pathetic, and the only ray of light is air transportation. It needs investments. Airline services are operating according to market regulations and improving their governance. For that reason they have much to be boastful of. ■

OPINION

THE PRESENT AND FUTURE OF TOURISM SECTOR



N. Erdenebat, Head of the Mongolian Tourism Association

The Mongolian tourism sector recorded 10 percent growth from 2000 to 2011. If Mongolia can double this growth, then it would receive 1.5 million visitors from abroad, and 1 million tourists, fulfilling the objectives of the National Development Policy, and Government Action Plan. The National Development Policy aims not only to bring the number of tourists visiting to Mongolia to one million, but also to match the number of tourists with the population by 2020. Here is an attempt to summarise the challenges hindering the realisation of this big goal, and what we have to do to make it a reality.

The Mongolian Tourism Association has cooperated with the Ministry of Foreign Affairs and Ministry of Nature, Environment, and Tourism, in addition to the government of Mongolia to help allow Japanese tourists to visit Mongolia with a no-fee, 30-day visa. Also we have partnered with MIAT Mongolian Airlines and organised Fam and Press tours with aid from Japanese tour operators, and the media. The campaign promotes Mongolia as a travel destination, and has had some results. Mongolia welcomed 11,359 Japanese tourists in 2009. That number grew by 20 percent to 13,450 tourists in 2010. Mongolia participated as a cultural partner in the world's leading travel trade show, ITB-2011 in Berlin. The state spent MNT 500 million on advertising travel to Mongolia for the first

time in the history of its tourism, which has increased the number of European tourists coming to Mongolia. If we can promote Mongolia as a rich country with unexplored wealth and a unique culture in Central Asia—on the same level as mining—then the above goal will be fulfilled. Then we can reach the level of countries such as Canada, Australia, Chile, Malaysia, and Arabic countries, which all invested their mining profits into their tourism industries.

The liberalisation of the airlines has led to price reductions, and enhanced services, says a survey on airline liberalisation by the Economic Policy and Competitiveness Research center from 2010 and 2011. The domestic airline companies MIAT, Eznis Airways, Aeromongolia, and Mongolian Airlines all have fleets with a variety of aircraft models (see Table below). Within just a year, 1,000 seats from the combined pool of airlines have been added, flights have become more, and prices have been reduced. It gives huge possibilities to the tourism industry.

| Aviacompaines | Types | Seat numbers | Planes |
|--------------------|---------------|--------------|--------|
| MIAT | BOEING767-300 | 262 | 2 |
| EzNis Airways | Avro RJ85 | 93 | 2 |
| | Saab 340B | 34 | 2 |
| Aeromongolia | FOKKER-50 | 50 | 1 |
| Mongolian Airlines | FOKKER-50 | 50 | 2 |
| | AIRBUS-A-319 | 120 | 2 |

During the Tourism in the 21st Century national forum held on March 23, we proposed increasing promotional costs from the state by up to MNT 5 bil-

lion. Promotion of worldwide standards and the potential of the airlines would increase the number of tourists coming to Mongolia. Then the profits of the hotels, tourist camps, and tour operators would increase too. It would also improve the reputation of Mongolia's tourism industry, drawing more investment from international and national investors. Hotels rated with one to three stars would open, and the current tourist camps would transform into large tourism complexes.

Present investment volume

| | | |
|--------------|-------------|---------------------------|
| Hotel | 1-3 stars | MNT 1-5 billion |
| Tourist Camp | 1-2 flowers | MNT 100 million-1 billion |

Planned investment volume

| | | |
|--------------|-------------|-------------------|
| Hotel | 1-3 stars | MNT 5-100 billion |
| Tourist Camp | 1-2 flowers | 1.100 billion |

All Aimag centers will be connected with the Capital via highways, which will offer big possibilities to tourism. We have to pay mind that this work is done immediately. Promotion of Mongolia abroad and speedy development of the airlines are the basis for the development of the Mongolian tourism sector. Attracting investors with this base structure would result in the development of meat, wool, cashmere, seabuckthorn as clusters, linking them with tourism. The nomadic culture, with its organic products, can be combined with contemporary culture, creating a new Mongolian brand for the global stage.

In order to fulfill these goals, law makers, government, the media, and manufacturers have to cooperate with the tourism sector with a united and coherent vision of the future. ■

CORPORATE GOVERNANCE

ON THE EDGE OF EXISTENCE

Companies have two more obligations to hold to: Its regulations must be adjusted so they meet the requirements of the new law; and they must be registered at the National Registration Authority by July 1.

BY B. UUGANBAYAR

Revisions to the Law on Corporate Governance have company leaders panicking. It has created certain anticipations for all involved. Officials and members of the business community familiar with the law have only good things to say about the amendments. They say it would benefit the economy, and incur financial development and inter communication. Now it is time to look at its implementation. Some might be surprised at how a law could be introduced so easily. Well, this is the advantage of this particular law.

Shareholding companies are obligated to organise shareholders meeting before May 1 and notify the State Property Commission and the Financial Regulatory Commission. However, this part of the law has been neglected by companies. For example, over 130 companies have not submitted information about their activities and location. But the revised law is a strong tool to use against careless directors who do not release their dividends, financial reports or call shareholders meeting.

The revision aims to protect the rights of shareholders and hold board members to their responsibilities. Shareholders meetings allow shareholders to know what activities the company is involved in and what their money is being spent on, as well whether shareholders will receive

dividends. Thus, companies must arrange their shareholders' meeting before June 1 and send a report on it to the stock exchange, Financial Regulatory Commission and State Property Commission.

Revisions

The topics of discussion and results of the meeting, which were previously unclear, are clearly outlined by this legislation. It states that companies have to choose their board members, and plan and budget a year in advance. Companies also have to go through an approval process for their plan as laid out by the amendments. In addition, the annual report has to be discussed by board members. Releasing audit reports and dividends to shareholders must be released as well. If not, it is something that should be addressed by this legislation as well.

A board of directors is responsible for a company's further development and maintaining transparency. However, until now board members functioned only as irresponsible managers. The old law required boards of nine members. To fill those empty seats, directors appointed relatives, spouses, and children who did not understand their role as a director. It was unlikely that any company overseen by such a body could ever be successful. The amendments have

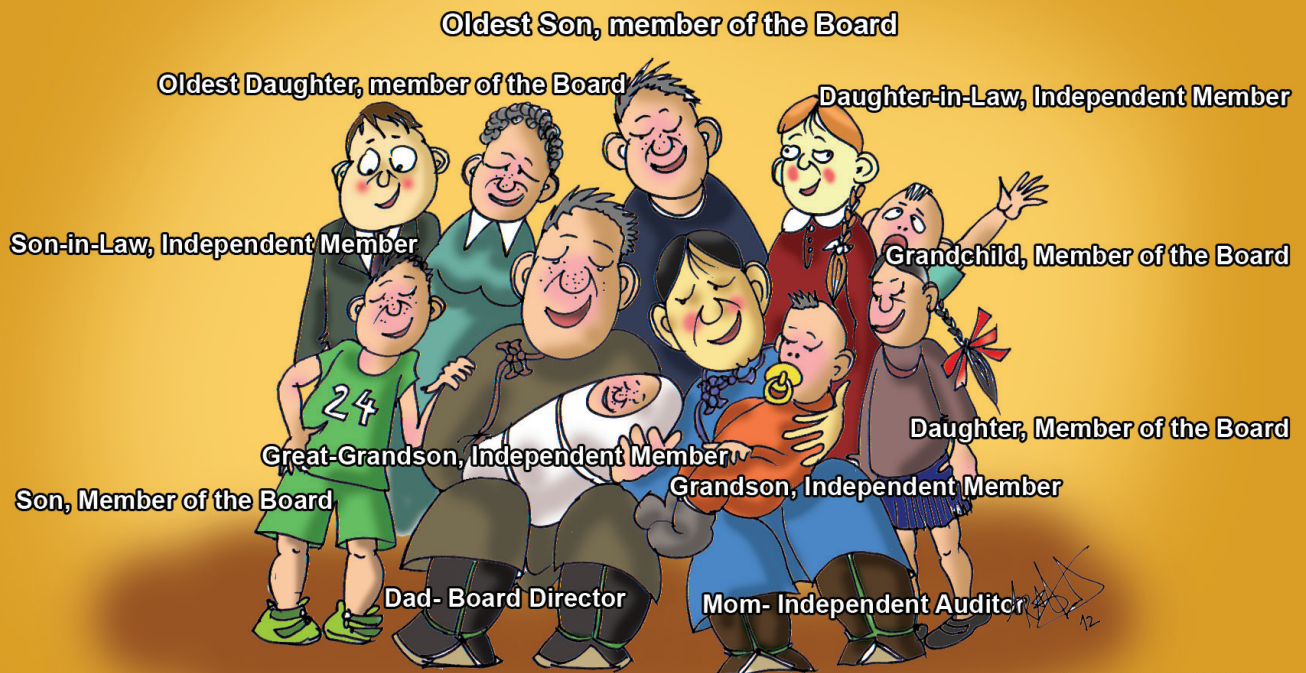
since made the function of the board more clear.

One-third of a board must be independent. A board is responsible for contracting out and analysing independent studies. Directors now also must answer to three mechanisms for monitoring that they cannot escape. Furthermore, it is not up to directors to decide who should be appointed to any position, but rather it is up to a subcommittee.

Companies have two more obligations to hold to: Its regulations must be adjusted so they meet the requirements of the new law; and they must be registered at the National Registration Authority by July 1. It would be difficult to accomplish all this while neglecting responsibilities. It has been over five months since the law was ratified, giving firms plenty of time to correct their mistakes. However, neglect can bring trouble. If a board fails to meet its obligations, members could face a fine of up to 20 times the lowest month's wage.

As of May 20, the Financial Regulatory Commission received reports from 140 companies of a total 200 registered companies. According to the law, the future doesn't look very bright for the remaining 60 companies. Officials have said that some of these 60 companies have announced their shareholders' meeting for mid May. The law requires that they be punished ▶

Board of Directors



Cartoon by A. Amarsaikhan

for the delay. However, the Financial Regulatory Commission has forgiven them and given them a chance to become more familiar with the new legislation instead. But a law is the law. Stubborn directors should not be tapped on the wrist simply because it is new.

Last year research from the National Statistical Office revealed that around 330 companies of a total 65,000 enterprisers have shareholding status. Twenty of those 330 companies are state-owned, and it is common for them to skip their investors' meeting.

Another problem is that most shareholding companies have become a family business. As D. Ganbayar, director of the National Committee of Company Governance, said, they make decisions in their own favour and ignore the interests of the shareholders. Meanwhile, minority shareholders do not have protections for their rights. In effect, they blindly allow the majority to act as it will.

State-owned shareholding companies are constantly criticised when it comes to tenders. Ganbayar said that the criticism is because companies have weak governance and an ineffective system for monitoring.

The Captivating Sower

Enforcing the Law on Corporate Governance means improving the governance system. There could be directors who don't even understand what company governance even means. But there are companies that understand this term well, especially within the banking and financial sectors. Firms operating within this sectors have been governing with great effect, said J. Unenbat, the head of the National Committee of Corporate Governance, during the Mongolian Corporate Governance V forum held on May 9.

"Companies can gather wealth only by following the law", he said. "Corporate governance allows for this environment to exist and protect the rights of shareholders".

"Used wisely, corporate governance is a magnet for money", said M. Bold, chief executive officer of Tenger Solutions.

Newcom Group's chief executive, B. Byambasaikhan echoed that thought: "Good company governance means high responsibility and greater competitiveness".

Remicon is one good example

of a company that uses strong governance. It has released shares worth MNT 2 million on both domestic and international markets while generating profits of MNT 14 billion in just three years.

"90 percent of all sectors operating within Mongolia's economy haven't yet entered the financial market", said the director of managing board of Mongolian Stock Exchange, B. Bold said. "Thus, companies have many possibilities for increasing their capital. However, the Mongolian private sector is rather new, so it needs to improve its corporate governance".

It is no secret that foreign companies and corporations have laid their eyes on Mongolia's rapidly growing economy. As the chief executive officer of the Mongolian Banks Committee, L. Tur-Od, advised, Mongolian companies have to improve their governance in order to compete with their foreign competitors. By doing so they can also increase their capital and economic output. It is high time that Mongolian companies stop acting selfishly and start investing in Mongolia by improving their corporate governance. ■

OYU TOLGOI

TICKET TO DEVELOPMENT



Many are still suspicious of the foreign developers of Oyu Tolgoi and question whether they have brought any benefit. Oyu Tolgoi's chief executive explains how the project has propelled Mongolia towards development.

BY B. BAYARTOGTOKH

Last year Mongolia's gross domestic product rose by 17.6 percent, running ahead of other developing countries in growth in just one year. Its stiff economic growth became a part of history. The Mongolian government that once sought out loans is now close to earning the status of a creditor. Even economic growth seems a common thing for Mongolians.

"Having a small economy, a capable financial sector and limited domestic savings, Mongolia needs to provide sustainable economic development by increasing its foreign investment and export resources", once said economist B. Natsagdorj.

His proposed method became reality with the Oyu Tolgoi project. When the coalition government had control of Parliament, the Oyu Tolgoi investment agreement was signed and sent on the path to the marketplace. Now it has begun to share its gains with Mongolians. The success does not end there. Have you noticed any changes since the ratification of project's investment agreement? Take a closer look at this success.

1. The Oyu Tolgoi investment agreement is beneficial to Mongolians, said Cameron McRae, chief executive officer of the Oyu Tolgoi mining firm. The stripping process is nearing its end at the open-pit mines in Khanbogd, Umnugobi Aimag, and the grinding mill is ready for commissioning. Ore will be extracted from the open mine beginning in August. Construction to an ore processing plant is 85 percent complete.

The factory was originally planned to be built within 33 months, but it will be completed in just 27 months. This time-saving action brings profits from the project closer to Mongolians. "To complete a huge construction work in just 27 months is a world record", said Cameron McRae.

2. In all social and economic sectors, the Oyu Tolgoi project is creating results. One example is the education sector. The mining company invested MNT 168 billion into an educational project to build three vocational training centres and renovate four more in seven chosen areas. In addition, in cooperation with Mongolia's ministries 1,200 tutors will be trained. Scholarships to 200 students at national universities and 30 student scholarships at international universities will be granted.

3. Ore exploitation will start in August. By 2012 the enrichment factory will be commissioned and operating at full capacity by the end of 2012. At the beginning of next year, concentrated gold and copper will be delivered to customers. This is the guideline to how the open pit mine will operate.

The mine has the capacity to extract 100 thousand tonnes. The ore will be extracted from the underground mine by the end of 2016. An estimated 20,000 tonnes a day of ore will be produced in its first year of commissioning. In later years, the underground mine is expected to produce up to 95 tonnes of ore a day, or up to three times more ores than the open pit mine. ▶



► 4. The Oyu Tolgoi project began in April 2010. At that time USD 1 billion was invested and investment has grown to USD 6 billion. For expansion, construction of processing and enriching factory beginning next year will require an additional USD 4 billion, said Cameron McRae. He also noted that Oyu Tolgoi would become the third biggest gold and copper mine in the world after its completion. Currently, an estimated 10 thousand Mongolian employers are working on its construction.

5. Although Oyu Tolgoi has not yet started production, by the end of the year it will have paid USD 700 million in taxes to the Mongolian government. By 2017, that investment will have reached USD 10 billion. Following investment growth, the sum from taxes will also increase.

Oyu Tolgoi has paid MNT 250.9 billion already in taxes and fees. If the Oyu Tolgoi project had not been implemented, Mongolia's economic growth would have only reached 7 percent from 2013 to 2020. However, with the project's realisation the economy is expected to expand by an average 12.7 percent.

6. The Mongolian government possess 34 percent of the company, but it will receive 55 percent of its total profit. In 2013, the project will deliver USD 1 billion in taxes. This sum is expected to double in three years. The Mongolian government would receive USD 15 billion in taxes after five years.

At present, Oyu Tolgoi is paying royalties, added-value taxes and custom fees. In addition, it would be responsible for 50 percent of Mongolian exports.

Furthermore, the government will be allotted 71 percent of cash flow, according to the cash flow method introduced by the International Monetary Fund (This excludes the incomes from initial profits, with consideration to minimum profits).

7. The International Copper Association predicted that market copper demand would increase by 40 percent, or 27 million tonnes, by 2020. The International Energy Association said that China would build up to 5 million new buildings and construction projects in the next five years. It is an advantageous market opportunity for Mongolians.

"It's important that the Oyu Tolgoi project is close to big markets such as China and India", said McRae.

8. Oyu Tolgoi has purchased MNT 1.7 trillion worth of products and services from local suppliers. Currently, over 1,000 local companies operate as suppliers to Oyu Tolgoi. Every day, MNT 10.4 billion is spent on project construction.

The Vice President of the Barilga Corporation, Sh. Erdenebat said "It is an honour to be one of Oyu Tolgoi's suppliers. Our business has expanded".

Furthermore, the company released credits worth MNT 1.5 billion through Khan and Golomt Banks to support small business enterprisers in Umnugobi Aimag. It is high time to appraise all these economic successes. It is unacceptable to blacken all the accomplishments and profits we had until now. Each and every growth effort is a ticket development. ■

SMALL MEDIUM ENTERPRISES

INNOVATIONS IN AGRICULTURE

Big projects and government are regarded as two of the private sector's biggest clients. Tavan Tolgoi, Oyu Tolgoi, the railway, and the Homes for 100,000 Families projects are great examples. These big projects will allow small-medium enterprises to develop.

BY B. UUGANBAYAR

Agriculture is one sector Mongolia depends on for its economy. Recently, there have been changes and innovations made within the food, agriculture and light industries. The government has given its supportive through acts such as soft loans. The Co-operatives-Small-Medium Enterprises-2012 exhibition aimed to introduce new technology and local products from those

enterprisiers. Vice Minister of Food, Agriculture and Light Industry P. Bayanmunkh and head of the Small-Medium Enterprises Authority Ts. Nyam-Osor spoke on progress made to the realisation of the Credit Guarantee Fund, new legislation on value-added tax (VAT) and the securities market, as well as a campaign to organise market cooperation within rural areas.

Opportunities to supply domestic food demand are increasing**What is the main aim of the Co-operatives and Small-medium Enterprisiers-2012 exhibition?**

The Corporations and Small-Medium Enterprises-2012 and Made in Mongolia exhibitions have been organised annually since 2009. Over 400 enterprises were unable to participate in this year's Made in Mongolia exhibition. For that reason the Co-operatives and Small-Medium Enterprises-2012 exhibition has met with much anticipation.

The exhibition's main purposes lie in the fact that it allows small-medium entrepreneurs to introduce their products to the market and establish cooperation by learning from one another. In addition to new technology and equipment, the authority offers training and development programmes. The exhibition includes representatives from all 21 provinces and the capital city. Thus, consumers can meet with who is practising what and where and then make their purchases.

The next aim is for the banks to delivers useful information on opportunities for taking out loans. Related organisations provide training programmes as well. Considering all this, it becomes very clear that it is important for city and rural manufacturers, NGO's [non-government organisations] and consumers to gather together at one place. ▶▶



Ts. Nyam-Osor, head of the Small-Medium Enterprises Authority

▶ As for this year, many businesses are expected to participate. In addition to domestic enterprises, the World Vision and Sustainable Living organisations, and the producers of Made in Mongolia-II have confirmed that they would attend. Depending on the capacity of the venue, around 250 businesses people will participate at the exhibition. The Small-Medium Enterprises Authority mainly focuses on giving its support to enterprises that manufacture for rural brands by introducing leading technologies to their operations. We focus great attention on products that could replace imports.

The Credit Guarantee Law was ratified to solve issues regarding collateral for loans and establish the Credit Guarantee Fund. How will the assets of the fund be collected? When will businessmen be able to benefit from its results?

The law was ratified last spring. However, I personally think that it would take quite a long time for it to take affect. It contained few comments from representatives of small-medium enterprises. Having such a law is a good thing, but time, management, organisation and financial resources will be required.

The law hasn't yet been enforced because regulations for enforcement must be made by the Ministry of Finance as well as the Financial Regulatory Commission. Unfortunately, no regulations have been made so far. The next important issue is to establish an enforcement agency. Currently it is still uncertain what structure it would have and how it would operate to reach citizens. I've heard credit banks are an option. Then again, this option could cause complications for people.

We actually offered to establish the fund using the current structure of small-medium enterprises. However, there was no support for it. Predictions over the establishment of a fund with both domestic and foreign investment don't look too bright. The assets of the fund are not included there either. Although the government said it would guarantee 60 percent of the loan, the exact amount of credit is still unclear. In my opinion small-medium enterprises with less than

MNT 100 million should be guaranteed. That would be effective. I suppose that the law will be enforced by the end of the year or next year.

The law on small-medium enterprises must be revised. What changes would you recommend? How will herders and small-medium enterprisers be supported?

Revisions to three laws on value-added tax and small-medium enterprises have been introduced to Parliament. Additional changes to the Small-medium enterprises law is a priority.

Four main topics will receive revision: government recognising herders as entrepreneurs, theories on who small-medium entrepreneurs, and regulations to loans and finance, as well as leasing issues according to government ordinances. The classification of small-medium enterprises does not include entities within the mining, banking, gambling, and alcohol and tobacco industries. For that reason, much discussion has arisen within the sectors involved. That is why intercommunication among various sectors will be establish for the granting of loans. The big problem that will likely follow is the consolidation of power among the leaders of provinces, towns, districts, funds and ministers. However, they will have differing authorities and responsibilities.

Some say loans will be distributed through provinces, towns and districts. But these claims present a gloomy picture. Thus, the heads of small-medium businesses will be defined as an organisation with a maximum of MNT 1 billion worth of revenue and holds up to 50 employees for a small enterprise, while a medium enterprise would have maximum revenue of MNT 5 billion and up to 99 employees. Anything more than this should be up-scaled.

Are there any governmental regulations to support the market and trade?

The sector was unknown three years ago. At that time small-medium enterprises were establishes within two hours. Now in provinces like Darkhan and Erdenet, introduction to the market require at least five days. This is a visible indication of development for those who

have accomplished something.

For example, we used to import bricks. Now bricks are being manufactured in all provinces and almost every community. In 2008, we used to import 80 percent of our eggs. Currently 80 million eggs are produced domestically and only 20 percent are imported. Aluminium block sealant, which used to be an imported product, is produced in all the provinces. We used to imported construction wood from China and Russia. But now we are able to produce them all in our country. The time when rural areas bought their drinking water and bread from Ulaanbaatar is now far behind us. Sausages and cucumbers are not imported products any more. Recently, a vegetable oil factory opened in Darkhan. So the possibilities for supplying our domestic demand are increasing step by step.

How can we impart the mindset to support domestically made products to citizens?

To protect the domestic market, Resolution 103 lists around 37 products the government is to buy only from national producers. However, that ordinance is not well enforced. Thus, the revision of the small-medium enterprises law requires an additional article to be included in the Law on Purchasing Products and Services by Government. The law demands that all ministers, authorities and state organisations financed by government to purchase products and services from the domestic market. Thus, if the small-medium enterprises law is ratified, then the above mentioned ordinance will be enforced.

In addition, a clustering system that relies on investments from the mining sector will also be introduced. For example, Japan's Toyota made it possible to develop around 23,000 domestic small-medium enterprises produce small automobile parts, such as mirrors and glass. Big projects and government are regarded as two of the private sector's biggest clients. Tavan Tolgoi, Oyu Tolgoi, the railway, and the Homes for 100,000 Families projects are great examples. These big projects will allow small-medium enterprises to develop. ▶▶

► The government should support all of this, of course. I would like to invoke costumers to use domestic organic product instead of consuming canned or chemically preserved products. The whole world prefers healthy, organic food. Mongolians have started following this trend. They should support national products and prefer them.

National system to prepare raw materials will be established within three years

What results will Incorporating Rural Areas campaign bring to the national economy? What improvement will it bring to the lives of herders and citizens?

Mongolia has around 155,000 herding households. These households are producing 17,000 to 18,000 tonnes of wool, over 200,000 tonnes of meat, 5,000 tonnes of cashmere and about 10 million pieces of leather hides. In economic terms, it means MNT 1.6 trillion is derived from herding.

The traditional development model to the agriculture sector is the co-operative. The government has been utilising supportive programmes to herders and co-operatives since 2008. The Mongol Cattle project, legislation on raw materials, and the government's 30th Resolution to support national production allow herders within the co-operative to benefit from their leveraged position.

The establishment of co-operatives must eliminate higher prices. The campaign will continue for three years. During this period we aim to establish a nationwide system for the preparation of raw materials on to par with methods from the marketplace.

What are the main complications?

Citizens must be actively involved in co-operative activities and monitor them. Their involvement and efforts are very important. Co-operative officials may defraud misappropriated subsidiaries from the government. Thus, civil monitoring and skilled staff is needed. For that reason, beginning next year co-operative studies will be added to the curriculum of The Mongolian National



P. Bayanmunkh, Vice Minister of Food, Agriculture and Light Industry

University of Agriculture.

Mongolian co-operatives have been developing with focus on its leadership rather than focussing on its membership. This is about to change to the reverse. Thus, the mindset must be changed and so everyone understands the privileges of a co-operative. As for herders, a co-operative would enhance the value of their products as well as their participation in the society. It is also crucial that we obtain the necessary financial aid and manufactured goods, and work closely together.

The Law on the Raw Materials Market has been ratified. How will it be implemented?

The law will be implemented on June 1. However, market operations can't start right away. Preparation is ongoing. Our ministry will establish a project unit and collaborate with the Ministry of Finance and the Financial Regulatory Commission.

Other laws and 15 regulations related to the raw materials market law will be revised. Technical and economic analysis has been made. A regulatory council will soon be established. Many countries have established such international and national markets. In Mongolia, there is the need to sell and buy raw materials from animals, but it lacks a unified system. Thus, we

have inadequate living standards for herders, a lack of raw materials for use by national factories and preparation costs are relatively high. If we don't act immediately, we risk becoming a base for foreign markets.

How can the government, herders and suppliers work together in the establishment of the market?

The market is a bridge to connect herders and manufacturers. Herders will trade materials as listed by the relevant ministry on the market through their regional co-operative. Manufacturers and clients get their orders from the market. The market will have regulatory software and a cyber network for use. Through these programmes herders will be able to participate on the market.

The agriculture market will deliver effective results for herders, manufacturers and the national economy. A stable scheme will be developed. Having such a setup would provide opportunities and equality to market participants. Also it would enable improvements in material quality, transportation and transparency in the market. It will also benefit brokerage and dealer companies, insurance firms, and the communications-technology industry. Individuals from these sectors have offered to share their experiences and collaborate as brokers and dealers. ■

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