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# MONGOLIAN ECONOMY



Horn Bow From Dulaankhaan

Licensing Woes

Mongolia's Economy Finance and Business Magazine February , 2013. №02 (036)

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# MONGOLIAN ECONOMY

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MONGOLIA

Energy

**Mongolian** and Japanese government officials signed an agreement to lift Mongolia's energy sector to world standards. According to the partnership agreement, the two countries will implement projects designed to reduce carbon emissions to slowdown the process of global warming by adopting environmentally friendly technology. Currently, they are working on a technical survey to investigate ways to reduce carbon emissions.



Mongolia to protect the rare species. The project was designed to increase local residents' income from tourism and encourage them to protect the animals instead of hunting them illegally. According to the report, the eco-route is expected to open in 2013 and will pass through Mongolia's western region and neighboring areas of Russia

Tourism

The World Wildlife Fund will establish an eco-route for tourists through the natural habitat of the snow leopard and wild mountain sheep in

Foreign trade

Currently, mineral products make up 82 percent of total exports while 90 percent of total mineral exports is

comprised mainly of coal, refined copper, iron ore and oil. Copper and coal exports fell by 13 and 17 percent, respectively. Iron ore and petroleum product exports came to a downfall. Overall mining revenues from exports fell by USD 339 million last year

Agriculture

This year the government provided MNT 5 billion to establish a state-owned agriculture exchange company. Further, the government has decided additional financing would draw from private companies and international organisations.

Infrastructure

Government concluded its New Railway project funding, with plans to allocate USD

55 billion next month. The Development Bank is obliged to administer the funds by February's end. The funds administered will be accounted for in the government budget.

Banking sector

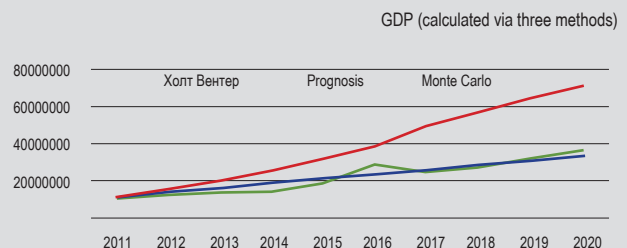
The Bank of Mongolia surveyed 14 commercial banks' executive directors on their thoughts about increasing interest rates for borrowing each year. Eleven executives, or 79 percent of the total survey participants, said interest rates were high. Interest rates are high because of high borrowing costs, limited opportunities for borrowing, and long-term economic instability, they said.



**Looking** at how the global financial market is divided, capital markets comprise 21 percent, the banking sector is 42 percent and bonds are 37 percent. Comparatively, 90 percent of Mongolia's financial market belongs to the banking sector.

Countries	GDP	Structure of Financial Market			
		Capital market shares	Open-end bond	Closed-end bond	Banking sector capital
Worldwide	87%	21%	16%	21%	42%
EU	67%	12%	12%	24%	52%
North America	121%	27%	17%	31%	24%
Canada	138%	29%	15%	13%	42%
USA	119%	27%	17%	33%	22%
Japan	75%	14%	40%	9%	38%

In the past 10 years, industries such as agriculture and mining accounted for 40 percent of Mongolia's gross domestic product (GDP). In developed nations these sectors average at about 2 percent or less.



## GLOBAL NEWS

## IMF

**The International Monetary Fund** has warned again of a weakening global economic recovery despite government efforts to stimulate growth. The global economy is likely to grow at a slower rate than previously forecast over the next two years, the organisation said in its latest report. It said it now expected the euro zone to remain in recession in 2013, having previously predicted growth.

## China



**A preliminary gauge** showed Chinese manufacturing activity accelerating in January, indicating positive momentum for the country's economy in the new year. The preliminary HSBC China Manufacturing Purchasing Managers Index, a gauge of nationwide manufacturing activity, rose to 51.9 in January, compared with a final reading of 51.5 in December, HSBC Holdings PLC said Thursday.

## Japan

**Japan** has posted a record high trade deficit for 2012, as exports to Europe and China continued their plunge. The trade gap rose to 6.9 trillion yen (USD 78 billion) for the full year, the ministry of finance said.

## United Kingdom

**The U.K.** economy shrank in the last three months of 2012, further fuelling fears that the economy could re-enter recession. The Office for National Statistics said the economy contracted 0.3 percent in the October-to-December quarter. The economy had grown by 0.9 percent in the previous quarter,



boosted by the London 2012 Olympic Games.

## India

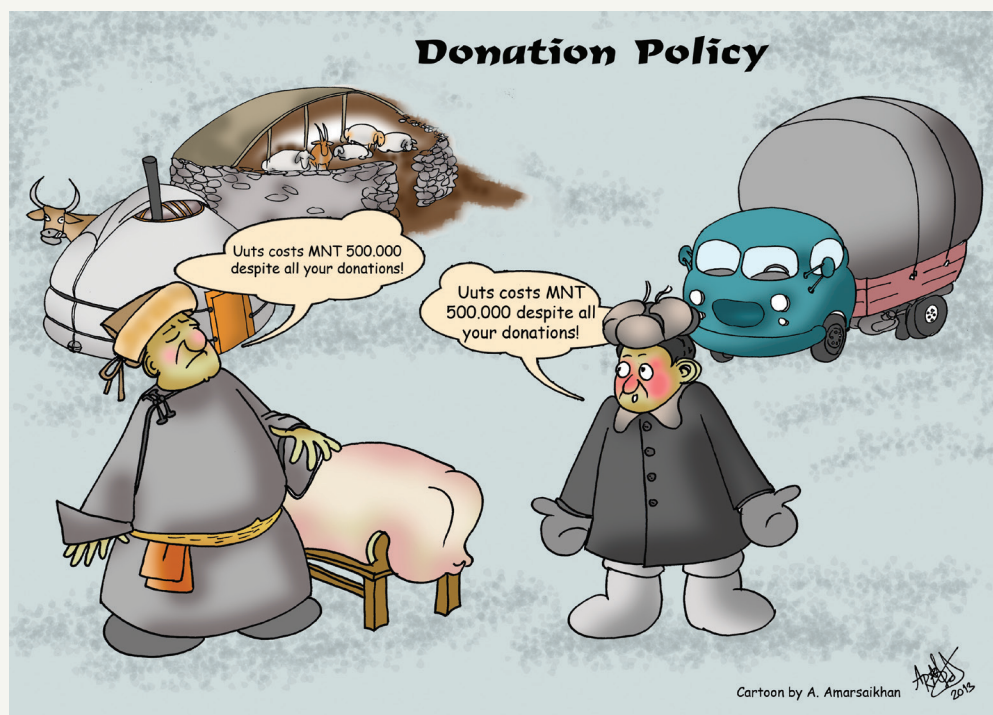
**The Indian economy** is headed for the decade's lowest growth of 5.7 to 5.9 percent this fiscal, with a likelihood of its picking up going forward on the back of a confidence-inducing budget and reforms initiatives. In its Mid-Year Economic Analysis, which was tabled in Indian parliament today, the government lowered the economic growth estimate for 2012 to 2013 to 5.7 to 5.9 percent, from 7.6 percent projected

in Economic Survey in March.

## Russia

**Russia** went 11 positions up on the international ranking of budget transparency by International Budget Partnership.

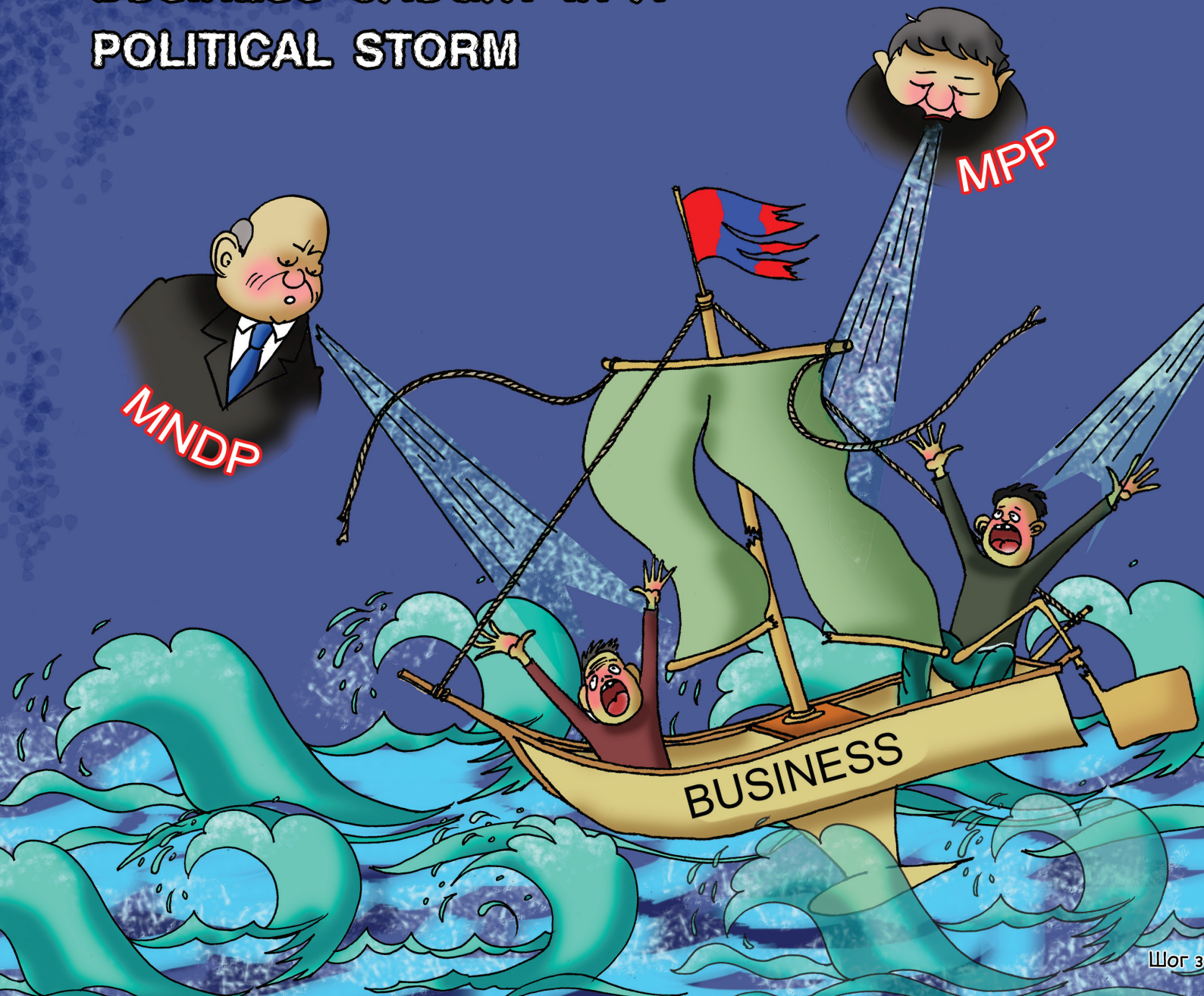
New Zealand took the first place on this list. It is followed by South Africa, the United Kingdom, Sweden, Norway and France. Russia's Open Budget Index makes up 74 points. In 2010, it was 60 points. The World Economic Forum has cautioned that Russia's economy is at a crossroads and significant changes are needed in order to stabilise and sustain growth and prevent social unrest. ■



OPINION

# HOW IS BUSINESS?

## BUSINESS CAUGHT IN A POLITICAL STORM



## I. OTGON

When someone ask "How's business", the entrepreneur says, "Well, the business framework is not so good".

"Most important to local and international entrepreneurs is a sustainable and transparent legal system. But in Mongolia, not a single law is issued with our input".

That person has every right to complain. Though 2011 was declared as the "Year of Business Reform", government has not passed any significant measures for business. Of course there have been state policies on tax, bureaucracy, and reducing corruption, but the private sector has not felt a very warm reception from government. Business people in Mongolia have come to realise that results have only come out from struggle from both sides.

They don't ask for money, but for open, transparent government, fair laws and regulations that leave room for profits, job opportunities, and the ability to improve the livelihoods of the people.

There are two different opinions about how the country is developing amidst this economic boom. The first is business in Mongolia is flourishing while the other posits it's being strangled. Over 60,000 private companies are responsible for 80 percent of the gross domestic product (GDP), and provide work for more than 800,000 people. Prestigious foreign companies from five continents operate within Mongolia's mining sector. Many Mongolians work for these companies, and receive training from them.

According to the World Bank's Doing Business 2013 report, Mongolia ranked 75th, jumping forwards 12 steps. Yet, entrepreneurs here are under the pressures of bribery, bureaucracy and high interest rates for loans. The banking sector in Mongolia has grown over the last 20 years, but critics point out its weak competitiveness. Citizens complain regularly about high interest for loans. The loan volume of commercial banks reached MNT 7. Trillion at the end of last year, increasing 24.1 percent compared with the last year.

Interest rates increased in April that

year and by the end of 2012 had grown by 18.2 percent. Moreover, 79 percent of executive managers at commercial banks agreed in a survey that loan interests were high. They also say that pricy financial resources were the reasons for the high loan interest. Banks should pay mind to their competitiveness; otherwise their businesses won't develop properly.

Entrepreneurs are confronted with high loan interest, limited loan volume and short-term repayment schedules. This has led the heads of big companies to apply for loans from abroad. But foreign loans cannot be obtained so easily either.

The crucial question investors are asking is how sustainable is the legal system here.

This issue sees the launch of a new column called Voices of Business. One of the first guests is B. Byambasaikhan, executive director of Newcom Group. When asked how the foreign investment law passed last May has affected his business, he replies "Our company was working on a project to attract financing from foreign banks. It was then that the law was born. Although the foreign investment law doesn't directly show its consequences on our business, it certainly hinders certain progress".

As another report shows, the Law on the Legal Status of Lawyers and Law on Tax Specialised Consultancy have left foreign companies at a standstill out of fear of violating the law. The law can be amended, but it causes confusion when the regulations are not presented clearly.

The efficiency of small and medium enterprises in Mongolia is weak compared with international groups, and business entrepreneurs have their headaches because of the difficulty in finding good staff. After 20 years of development, the generation of the business sector is here. It is close to a bright future.

Thus *Mongolian Economy* focuses on the driving forces of the economy and the business sector this issue. The staff and management here hope that *Mongolian Economy* can be the magazine of choice for Mongolia's entrepreneurs. ■



VOICES OF BUSINESS

# POLITICAL INSTABILITY MUST BE ERASED

By B. UURIINTUYA, B. BAYARTOGTOKH

*The Voices of Business section is intended to share the thoughts and opinions of Mongolia's premier business people. In this issue are D. Jargalsaikhan, president of MIH Group, B. Byambasaikhan, chief executive of Newcom Group and B. Bold, chief executive officer of Altan Dornod Mongol.*

**Representatives from the government say that the business environment has improved. According to the *Doing Business 2013* report from the World Bank on business opportunities in countries throughout the world, Mongolia has jumped forward 12 places compared to last year when it stood at 75th place. How accurate is that conclusion?**

**D. Jargalsaikhan:** Although there have been lots of such research, I would say it is a bit early to make a conclusion on what the government's policy has brought to Mongolia's business environment. It is a positive sign that Mongolia has moved forward. However, if compared to last year, Mongolia's business environment has not experienced any improvement. The situation cannot just be approached by some research conclusions.

It is not only up to the government to improve the business environment in Mongolia, but also business people should lend a hand as well. Cooperation between the two could bring visible results. Factors such as a greater number of jobs and improved



living standards would be indicators of a business-friendly environment.

**B. Byambasaikhan:** The economy of Mongolia is one of the fastest growing economies in the world. Thus, the business environment must show improvement because more jobs and better living standards are the basic factors to sustain economic growth. Certain contributions from the private sector to the economy ►



Photo by E. Zorigt

From left: D. Jargalsaikhan, B. Byambasaikhan, B. Bold

► and the size of GDP [gross domestic product] might be indicators of how well the sector is improving.

**B. Bold:** Looking back at what we have achieved in the past 20 years, a lot has changed in positive ways. For example, many apartment blocks,

motorways and bridges have been built. Though cars plug up roads with traffic, try to be optimistic.

The economy wasn't as rich as today's. Though it used to be nourished by the Erdenet enrichment factory, now it is indulged by investment from Oyu

Tolgoi. Mongolia's economy is financed by investment, imports, VAT [value-added tax] and customs tax.

Spending from Oyu Tolgoi has enabled great opportunities for suppliers and business managers. Foreign organisations and international ►

► corporations have started to establish their representative offices in Mongolia, too. Mongolia is in the process of integrating knowledge and know-how. As a result, I expect the investment environment to improve further and stabilise as well.

Political unrest should be banned from business. Creating a sustainable business environment would prove further success in the sector.

**Last May, the Strategic Entities Foreign Investment Law (SEFIL) was passed. Some people say that the law has worsened the business environment rather than improve it. How does it affect your business?**

**Jargalsaikhan:** Some of the policy makers have stated that the law has not limited foreign investment. I, personally, would say that the law itself is a restriction.

Companies running business in the so-called strategic entities have to fulfil

certain requirements. Basically, there is great evidence that proves that the law was a step backwards. A sudden drop in share prices of Mongolian companies on international stock markets could be one example of evidence of this. This also shows that investors are losing their faith in us.

In the end, small mining companies that mainly focus on exploration are starting to experience hard times finding the financing they needed for 2013. The law has shown many negative affects to this business.

In order to avoid sudden decisions that would scare away investors, government and business sector associates should cooperate. Laws should establish a bridge to link these two. As Mr Bold said, political instability is shaking away investment.

**Byambasaikhan:** From my own experience, I would say the law has had negative effects on investment.

Our company was working on a project to attract financing from foreign banks. It was then that the law was born. Although the foreign investment law doesn't directly show its consequences on our business, it certainly hinders certain progress.

**Bold:** There are two basic reasons for passing this law. First, society has lost its respect towards the business sector. People see businessmen as corrupt. Secondly, the thoughts of losing national treasures to foreigners has blinded society. Continuing to go on as so would lead us on the same path as Africa. Mongolia would become similar to the Congo because the wrong economic organisation issues such as those related to individual ownership or limiting foreign investment have been targeted.

Mongolians take Oyu Tolgoi and Tavan Tolgoi as their own properties. For that reason, citizens tend to act as if they ►



► live in Qatar or Kuwait, where people live off of government subsidiaries. This trend is very dangerous. Unfortunately, politicians take advantage of that and promise too bright a future.

**The government involves itself too much in the private sector. The number of state-owned companies is increasing. What are your opinions on that?**

**Bold:** The right to consume whatever properties that belong to society through temporary governance should be banned. The administrations of state-owned or public companies must be handed over to professional management teams. Instead of appointing a politician they need business leaders and professionals from that sector, and open competitions must be announced.

Mongolia has the potential to compete in international business. To do so, a skilled youth must be developed and be given the chance to develop itself. Currently, state-owned companies have become more of a way to wash money than assets belonging to the nation. So this must be erased. To do so, the selection of management should be public, or up to 20 percent of shares should be released on the stock market.

During times of political turbulence like now, property management should be separated. As for privatisation, a joint administration of the public and private sectors would be a solution.

**Byambasaikhan:** All we expect and ask from government is stability and sustainable policy. Based on that, the private sector would be able to develop projects, gain assets and implement them. The government won't create new jobs. The private sector will.

The only important duty the government should fulfil is clarifying Mongolia's legal and regulatory environments. Mongolia's economy is growing. This means there are plenty of opportunities.

**Jargalsaikhan:** When M. Enkhsaikhan governed, much progress had been made in terms of improving the management of state-owned companies. For example, the ministries developed their policies while their agencies implemented them and departments monitored them.

Finally, this structure has disappeared and the ministries have become the organisations they used to be, before 1996, meaning they themselves make policies, implement and monitor their own work.

The instability, which is a result of the private ambitions of politicians to appeal to citizens, is a problem not only for the private sector, but to others as well. Some important issues could be discussed with the public in an open forum. In addition, both public and private activities must be regulated by laws. Then, possible risks could be evaded.

**Mr. Bold, Altan Dornod Mongol has been handed over to Mongolian directors from a foreigner. Its debts and constant calls from the court have tarnished the company's reputation. However, since last year bright news has come from it more frequently. For example, the company was awarded by the Civil Council and the Ministry of Environment and Green Development as the best company employing rehabilitation. It has also paid MNT 24 billion in taxes. How were your efforts to achieve this supported by the government? Has most of the struggles with taxes and debt passed?**

**Bold:** The company had its struggles. It wasn't easy. Back then, the company could be compared to a patient who laid in coma. Fortunately, now that person is in a wheelchair. But, there is a long way to go until that person is fully recovered.

Although we still have issues to settle with the court, there is still hope. It is striving to become one of the best mining companies in Mongolia. Up to now, we have employed over 700 citizens. However, the situation is still tough.

There are three basic policies we stick to. Instead of just vowing to create responsible mining, we will implement three objectives: labour security, rehabilitation and distributing the benefits of natural resources to society. Social responsibility is something that will never end. Last year, our company rehabilitated 50 hectares. This will continue.

**FSCO, led by Mr. Jargalsaikhan, has been focusing on integrating mining consultancy, insurance, green**

**development and environmentally friendly business into its activities. How will the company's environmentally friendly production contribute to green development?**

**Jargalsaikhan:** In order to achieve its desired successes, companies must decide which directions they wish to pursue. As for us, after having long discussions we decided to introduce energy-efficient construction materials. In addition, we offer an insurance service called National Life. Producing energy-efficient construction materials looks quite promising in Mongolia. Unfortunately, there is no specific regulations or support from the government at the moment.

We have manufactured magnesite plank that would save energy and have researched it. Based on that, we think we have managed to find a technology to build energy-efficient houses.

In addition we are collaborating on a technology that would sustain inside temperatures at up to 22 degrees Celsius. Experimentation is expected to end this spring. If we succeed, there will be a huge leap towards government's policies that supply citizens with energy and housing.

**Newcom Group is an example of a company that supports green development to other organisations. How would you define the company's future strategy? What plans has Newcom made to share its experiences?**

**Byambasaikhan:** We are living in a world surrounded with great technology. It is changing rapidly as well. In order to operate efficiently, the first thing for a company to do is to save energy. Mongolia offers a great deal of possibilities to enable that.

Newcom Group is a pioneer in that area. We hope that by showing others that generating power from wind turbines is possible, we can create greater involvement in this sector.

To prove that Mongolia is a suitable candidate to introduce world-class technology, both nationals and internationals must cooperate. Business in Mongolia has reached its second stage. Competitiveness is becoming important. Thus, a skilled work force and improved technology would bring more profits. It is time that we show competitiveness and act responsibly. ■

MADE IN MONGOLIA

# HORN BOW FROM DULAANKHAAN



Bow maker S. Boldbaatar

BY KH. KHULAN

The practise of archery is one of Mongolia's oldest traditional customs and is perhaps worth more than all the coal, copper and gold under the ground.

Fluffy snow gleamed in the sunshine and fresh air full of frost welcomed visitors to Dulaankhaan. This village, which rests on the side of Dulaankhaan mountain and at the Yeruu river was founded 51 years ago.

There, residents know J. Sukhbaatar well for his bow craftsmanship, where he and his wife J. Davaa have lived together for 52 years. They discussed their years of experience crafting bows and arrows and archery over hot tea while offering bread from the region and sausage from Darkhan.

Eventually someone from Bayangol Soum in Baruun-Kharaa entered the home with his son. There was something wrong with his bow, and he wanted to find out what.

"The sinew has become loose", he said, after careful observation.

The guest was Kh. Gobi, who has practiced archery since 1957. He said Sukhbaatar and his family had made significant contributions to the development of Mongolian national archery.

The number of bow makers in Mongolia can be counted on two

hands, and two live in Dulaankhaan. Sukhbaatar holds the title of *ulsyn mergen* (state wiseman), a title for highly achieved archers, while his local peer Z. Baatar is a sports master. Both have taught bow crafting to their sons.

## Horn-fronted, Sinew-backed Bow

The Khuvchit Num workshop had a fire in the iron oven with the crackling and hiss of burning wood. In the middle of the room stood several wooden worktables where lied an incomplete bow, birch bark, the sinew of a large cow, feathers of the Eurasian Black Vulture, scissors and a bowl full of glue.

A traditional Mongolian bow is hand crafted, said Sukhbaatar. The main elements are ox or goat horn, sinew, birch bark and bamboo. The bows and arrows vary, as they are made from raw animal materials.

The main distinguishing characteristic of the Mongolian bow is the use of horns and the tough muscle fibers from cattle. The three core parts of the bow are the horn, bamboo and sinew. On the backside of the goat horn is bamboo. At the top of the bamboo is the sinew, giving it the name of the horn-fronted, sinew-backed bow.

Archers prefer to let the bow "stretch" before they practice their archery, determining the hardness and softness of the bow. Pulling on the bow back and forth helps the sinew last longer, archers say.

"The bow and arrow should be ►►

▶ relevant to a person's height, and his strength", Sukhbaatar said. "Only if a person can pull back on the bow then he can meet his target. So people should have bows and arrows that are suited to them".

Most of the raw materials needed for crafting the bow can be obtained in Mongolia, but the bamboo is imported from China. Making a bow requires a total of 12 to 13 types of materials. After the raw materials are collected, the construction process takes four to six months for completion. Lots of precise work such as gluing pieces to each other is necessary. The glue needs four to six months to dry, but sometimes can take as long as an entire year.

The longer the drying process continues the better it is for the firmness, said Boldbaatar. The whole process is done during colder seasons rather than summer because of the animal materials needed. The sinew is purchased during the slaughter season for about MNT 2,900 a kilogram. But it is becoming harder to come by as it is used these days largely for food export to Japan.

The goat horn, too, is becoming rare, so bow crafters cooperate with archers from provinces with wild goats. They provide the horn and receive a bow in exchange.

Construction of a single bow requires about one kilogramme of sinew, a pair of goat horns, and vulture feathers. The feathers on the arrow help the archer shoot from much farther than possible without. The arrow can be made of wood from aspen, birch or willow trees, but birch wood is common. The horn and sinew are glued together using animal parts.

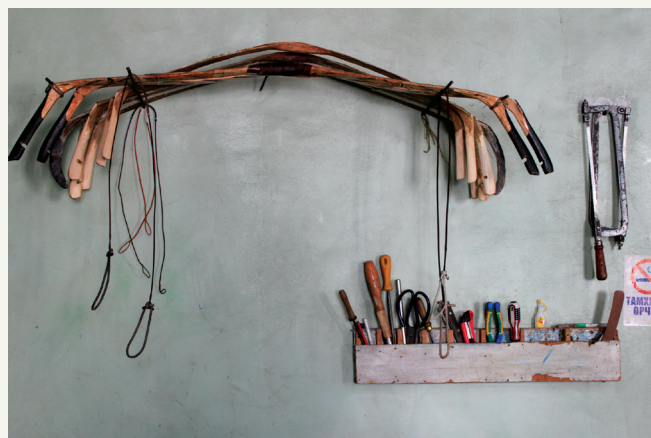
After all the materials are collected, the craft-making process can begin.

Boldbaatar said the bow making technique is usually passed down from the older generation to the younger. One or two people are needed to tear the sinew, and two people are required to cut off, heat and straighten the horn. The entire project has many stages and demands a lot of precise work. Boldbaatar said not every bow is acceptable. If the horn is worn out, damaged or sawn in the wrong way, it is useless.

Great skill is needed to tear apart the sinew lengthwise. Up to six people could be working in the workshop at one time. Sometimes preparing the raw materials is done at home.

Sukhbaatar said at least 70 percent of the work should be done by hand. However, at Khuvchit Num about 90 percent of the work is done that way.

A bow with four arrows costs MNT 400,000 while one with ornaments and a leather case for the arrows (khoromsog saadag) costs on average MNT 600,000. Khuvchit Num receives orders mostly from Mongolia's provinces, tourist groups and abroad. They craft up to 60 bows in a year. Orders for bows from Dulaankhaan



come from Russia, the United States, France and Germany.

## A History of Mongolia's Bow and Arrow

Archery is one of the three "manly games" practiced during Naadam celebrations. Its origins date back to Hunnu times when ancient people hunted, prepared their food, and made clothing from animal hides. It was during these times the bow and arrow was invented by ▶▶

► Mongolian craftsmen.

Women began practicing archery in the 1960s when sports became better organised in the country. According to Sukhbaatar, there are three main types of archery in Mongolia: Khalkh, Uriankhai and Buriat.

Khalkh archery is shot from a distance of 75 metres, while the other two are from 40 metres. The bows are always the same, but the arrows vary.

Sukhbaatar himself has a long relationship with the hunting tools and his craft. Sukhbaatar settled in Selenge from Khalkh Soum of Dornod Aimag. He started his first work as a machinist at the wood processing factory at Sukhbaatar Soum in Selenge. He has worked over 40 years in leading positions for the factory, in the local government, and in the Mongolian People's Revolutionary Party. He is the sixth generation of archers in his ancestry. He left his job as governor of Bugant Soum to teach bow and arrow craftsmanship to the next generation.

In total, his company has produced over 1,000 bows. They produce bows and arrows for children, adults and as souvenirs among other bow-related products.

The Horn Bow partnership was established December 5, 1995 in



*Archer J. Sukhbaatar with a bow of his father*

Dulaankhaan of Shaamar Soum. In 2002, the small organisation was expanded into the Khuvchit Num company, before Sukhbaatar handed over his work to his son Boldbaatar and retired. He works now as a consultant for his company and has been repeatedly elected as chief of the Archery Union of Selenge since 1964.

As a culmination of his achievements during his career, Sukhbaatar and his son Boldbaatar

had one of his finest bows inducted to the State Palace. His bow of 2.5 metres and arrows of 1.5 metres were slightly larger than traditional pieces with the usual lengths of 2.3 metres for the bow and one metre for the arrow. They introduced their crafts to the president in 2002, entering the State Palace with honours mimicking the customs of Chinggis Khaan's time, when the bow and arrow was worshipped and placed beside the state white banner. ■



*Bow workshop in Dulaankhaan*

## BUSINESS ADVICE

# ELEMENTS OF RISK AND THE CREATION OF VALUE

**NIGEL FINCH** (*Associate Professor and Director of Admissions at the University of Sydney Business School*)

One of the fundamental skills required by any business leader is the ability to make decisions. Tough calls on major decisions can turn out to be the defining moments of a successful career—or they can be milestones along the road to failure, depending on how those decisions have been reached.

That's why, behind every big decision, there needs to be a solid business case—one that identifies and assesses the key elements of the choices faced by the company.

In developing a solid business case, there are two very important concepts that underpin almost every major business decision a chief executive is likely to have to make: risk, and value creation. Without a solid grounding in these two areas, business leaders can find themselves on very uncertain ground, especially in a volatile economic climate.

Understanding risk is paramount in terms of decision-making. It's not always easy to see the potential downsides of a business decision, but even when the pitfalls are obvious, a solid understanding of the likelihood of a negative outcome can make the risks worth taking.

By learning how to identify and evaluate risk, without simply focusing on the dangers themselves, business leaders are able to make far more informed choices about how they can achieve their goals.

Value creation, on the other hand, allows leaders to focus on particular priorities in business. The creation of value, whether through acquisition or innovation, is very much the underpinning of all business success.

These two key points are the reason behind the financial management component that forms part the University of Sydney Business School MBA.

The speed with which the industry landscape is changing around the world means that today's business leaders need to be able to rapidly spot value-creating opportunities. They must have the knowledge and skills to evaluate the risks involved, and make the right call when the moment arrives.

That is why we are focusing on these two crucial elements in strategy development, and how they can be used to construct the kind of rock-solid business case that is the foundation of all successful decision-making.

A sign of a great business leader is the consistent delivery of high-quality results to the company, its customers and shareholders — and those success milestones are very difficult to achieve without the proper preparation, diligent research and a solid understanding of the principles of financial management.

*Nigel Finch is an associate professor in accounting and researches in the areas of creative accounting, security valuation, mining, asset impairment, and financial disclosures made under the application of fair value accounting principles. ■*



BY E. ZORIGT

*Mongolian Economy* presents its Family Budget column, with this issue reporting from the Fourth and Fifth Khoros of the Khan-Uul District and Dulaankhaan of Shaamar Soum, Selenge Aimag. The following are different families budgets of middle and lower incomes as well as their budgets for Tsagaan Sar, the Mongolian lunar new year festival.

## FAMILY BUDGET

# Spenny Habits



**Name:** Ts. Batbold

**Family members:** Four

**Average monthly household**

**income:** MNT 550,000  
*Uuts* (traditional sheep's rump for the holiday table set): MNT 250,000  
*Kheviin boov* (traditional pastries): MNT 42,000 (21 pieces)

**Gifts for guests** - MNT 0

**Candies:** MNT 30,000  
(MNT 5,000 per kilogram bag of various candies)

**Drinks:** MNT 0

**Salad:** MNT 40,000 (cucumber, vegetables, and sausage)

**Meal:** MNT 100,000 (MNT 80 thousand for a whole sheep)

**Vodka:** MNT 60,000 (MNT 6,000 per bottle)

**Other:** MNT 0

Tsevelmaa, a 60-year-old grandmother with tangled hair and unwashed clothes, sat wistfully on a sturdy bed. She has not been able to talk or walk since she had a blood stroke six years earlier. She lives with her oldest son Batbold, her daughter Lkhagvasuren and Lkhagvasuren's eight year-old daughter in the fifth Khoroo of Khan-Uul district. Lkhagvasuren lost her left hand in a railroad accident, making her unable to work.

Ts. Batbold is also unemployed because of his epilepsy. They receive MNT 103,000 each for their disability pensions every month. Furthermore, Tsevelmaa receives a retirement pension of MNT 240,000. They rent their yard for MNT 30,000 a month. Lkhagvasuren receives MNT 40,000 from the state for her two children.

The average monthly income of a farmer is around MNT 520,000, putting them in the category of minimum subsistence. The local administration provides them with 25 kilograms of flour, beef and children's nutritional supplements once every three months.

"We are doing fine with the help from others, but we can't manage to spend it properly", said Batbold. "My sister says she spends all her money buying toys for her daughter. I sometimes drink vodka. So my pension is wasted on it. We are living on our poor mom's pension".

When asked how many times he drinks in a week, he answered, "Three to four times a week, two bottles of vodka at one time. Sometimes more than that".

## Making the Best of a Tight Budget

**Name:** B. Batmandal

**Family members:** Four

**Average monthly household income:**

MNT 220,000

*Uuts:*

MNT 50,000

*Kheviin boov:*

MNT 30,000 ( 15 pieces)

**Gifts for guests:**

MNT 250,000

(MNT 3,000 to 5000 per gift)

**Candies:** MNT 42,000, (MNT 7,000 per kilogram bag of various candies)

**Drinks:** MNT 0

**Salad:** MNT 50,000 (cucumber, vegetables, sausage, and mayonnaise)

**Meal:** MNT 120,000

**Vodka:** MNT 50,000 (MNT 15,000 per bottle)

**Other:** MNT 0

B. Batmandal's family is counted to middle class with a monthly income of MNT 220,000. Their income is too low for him while living with his mother, wife and daughter.

"When people visit our place they say, 'There are many people who have lower-standard lives than yours. Stop hiding your family income'", said Batmandal's mother, N. Soyolchimeg.

"People can be creative and keep a clean household even though they have a low income. We will not live in dirty circumstances in order to keep our status of the poor".

Their home is neat and tidy. Batmandal and his wife Munkhzaya live in the fifth Khoroo of Khan-Uul District and are both students.

Batmandal earns money in the summer with geology work to pay for his and his wife's tuition fees. He receives MNT 103,000 from the state for his kidney disease.

They live on MNT 223,000 a month, while Soyolchimeg's three other kids live separately. They prepare coal and wood for their mother in winter.

"There are many families in this khoroo who earn MNT 600,000 to MNT 700,000 with a low standard of life", said Batmandal. "I think people judge the lives of other at first sight. This is wrong".



## “The Lazy One Never Wins”



Outside, the ground is covered with snow. Shaamar Soum's Dulaankhaan in Selenge Aimag looks like a ger district. Life there is very peaceful.

“It is hard to live here. People who live here mostly rely on pensions”, said J. Davaa.

According to the latest survey, there are 1,579 people of 479 households in Dulaankhaan. There are numerous families that can be considered as good models for the others. One of them is B. Enkhbold's family.

“Life is a flower which grows with the help of full effort”, said B. Enkhbold.

“People who live in rural areas like us especially need to be harder working. I collect every single curved nails on the street”.

They lease a tire service centre and store in Darkhan-Uul. The household owns a hotel and runs a small shop near to their home. Enkhbold is famous among his community for his hard work. He lives by the motto “the lazy one never wins”.

“I am a public official. I am always busy with my work”, said his wife.

“My husband handles everything. He provides three people with work. He also owns three to four houses. My two children study at a private school. All those are my husband's merits”.

Never happy while being idle, Enkhbold also makes bricks during summer.

“People think that our family is very rich, but it is not true”, he said. “The more you earn, the more you spend. One has to earn electricity fee, pay staff salary, and to give money to children. All of these has to be spent from the earned money”.

**Name:** B. Enkhbold

**Family members:** Five

**Average monthly household income:**  
MNT 700,000 to MNT 800,000

*Uuts:* MNT 500,000 (one for each of their parents)

*Kheviin boov:* MNT 18,000 (nine pieces)

**Gifts for guests:** MNT 0

**Candies:** MNT 40,000 (MNT 20,000 per bag of large candies)

**Drinks:** MNT 0

**Salads:** MNT 0

**Meal:** MNT 60,000

**Vodka:** MNT 50,000 (MNT 25,000 per bottle)

**Other:** MNT 100,000 for zolgoo (cash gifts for greetings)

## 15-year old Minister of Finance

70 year-old A. Chuluunbat lives in an old and tattered house with his three sons and an orphaned granddaughter. He was wrapped up in a blanket on a bed while his daughter was doing laundry by hand. Munkhzul studies in the eighth grade, but locals said it is her responsibility to balance the household budget.

"We are living on grandpa's pension of MNT 385,000", said Munkhzul. "My brothers have no jobs, so they don't contribute at all"

The three men aged 22 to 43 were not home. When asked where her brothers were, she shrugged her shoulders.

Munkhzul has many responsibilities such as looking after her grandfather, preparing lunch and doing homework. She became an orphan at a very young age and passes each day on an empty stomach. Though she likes eating mandarines, she doesn't remember the last time she ate one.

On the back of her school notebook is a budget for how much to spend for Tsagaan Sar.

**Name:** A. Chuluunbat

**Family members:** Five

**Average monthly household income:**  
MNT 385,000

*Uuts:* MNT 0

*Kheviin boov:* MNT 18,000 (nine pieces)

**Gifts for guests:** MNT 0

**Candies:** MNT 5,000  
(MNT 5,000 per bag of various candies)

**Drinks:** MNT 0

**Salads:** MNT 0

**Meal:** MNT 100,000

**Vodka:** MNT 0



## INFRASTRUCTURE

## 75mm

BY B. UURIINTUYA

There are 267 kilometres between Tavan Tolgoi and Gashuunsukhait. That's a long way without any roads or railroad.



About a century has passed since Mongolia was first introduced to the world of the railway network. Unfortunately, not much has changed since then due to political games. The question of whether to build narrow or broad gauges in Mongolia has become more of a political issue than economic or engineering.

Instead of praising one or the other in blind faith, it would prove far more beneficial if people would base their opinions on factual economic and geopolitical arguments.

### Reasons to Go broad

Exploring for and extracting natural resources is important to Mongolia, where its economy mainly hangs on the mining sector. However, finding a solution over how to deliver them to consumers is equally important.

Currently, Mongolia's mining industry is booming and defining the nation's future. During this time, infrastructural issues, especially railroad construction, plays a major role in its development. However, Mongolia's policy makers have spent a great deal of time arguing over which gauge the country should adopt.

The current railroad network, which features broad gauges, accounts for 90 percent of cargo transport. But specialists say the network lacks the capacity to support the ever-growing economy. Thus, building more railroads is crucial to the nation.

Government policy dictates that Mongolia's railways must be built with the "broad" 1,530-millimetre gauge. There is no other option than to play by the rules. The New Railroad project was introduced to satisfy this need and in 2011 its technical and economic analysis was presented to the State Great Khural.

The first portion of its financing, USD 55 million, would be granted by the Development Bank, it decided.

"The project itself has great economic potential", said B. Batzaya, former vice director of Mongolian Railway, the state-owned shareholding company, in an interview last year.

Thus, taking a look at the economic potentials of the project will be a must. First of all, the implementation of the project will establish the opportunity for more exports. An evaluation of the project estimated the benefits to be worth USD 660 million in 2011, or a 13.5 percent financial gain.

According to the plan about 60 percent of the USD 3 billion needed for financing would be attained from debt financing while the other 40 percent from equity financing. Repayment of the investment is calculated to span 9.4 years after transportation starts. This would mean, on average, the transport of 47 million tonnes of coking coal and 20 million tonnes of thermal coal per year.

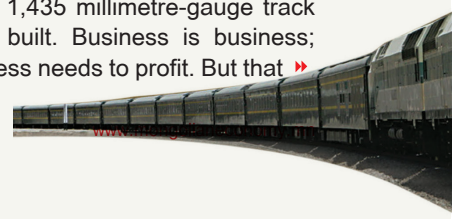
According to Batzaya, constructing railroads to the east of the country would enable the export of value-added products to foreign markets. Furthermore, it could mean the establishment of new ports for export to enter China.

Batzaya is a proponent of this approach, which is to be implemented in three stages. The first stage would require around USD 400 million. However, many are sceptical about what kind of disasters the project could bring to the environment. Those who defend the installation of broad-gauge railroads say building vacuum storehouses would prevent possible harm to the surrounding environment and human health.

On the other hand, some industry professionals warn that extended costs could launch skyrocketing coal prices. That leaves a few reasons for the case for narrow-gauge tracks.

### 267 km

The new year was marked with the news that 1,435 millimetre-gauge track would be built. Business is business; and business needs to profit. But that »



logic would dictate choosing the narrow gauge because it would create savings. The 2010 legislation that orders wide gauge notes, “The railways shall be built with the broad gauge. For commercial purposes, possible recommendations have to be presented to the State Great Khural”.

In the latest revision, M. Enkhsaikhan, former director of Mongolian Railway, proposed building narrow-gauge railway for the Tavan Tolgoi mine to the Gashuunsukhait port. “Besides having extensive costs, transporting coal by broad gauge is very harmful to the ecology and human health”, said Enkhsaikhan at a press conference. “For example, loading and unloading 20 million tonnes of coal leaves around 500,000 tonnes of dust in the air”.

In addition to the economic benefits, it would also provide relief to the overworked staff at the southern border. However, many are concerned about total dependence on Chinese coal. Plus, the Sainshand industrial complex would lack sufficient raw materials for its production.

On this matter, Parliamentarian Ts. Nyamdorj said, “It is pointless to say that Mongolia would lose its natural resources to China if railways are built with narrow gauges. It’s the same with national security. Customs and border troops are there for a reason. It is just brainwashing”.

Although rapid economic output is important, the future of the Sainshand industrial complex must be considered as well. Everyone has their own opinion of what it means to lean the pillars of Mongolia’s economy on others.

The government has approved the financing of the first stage of the project. The 75 millimetres of difference was indeed the highlight of this month. However, continuous arguing could put the breaks on Mongolia’s development. ■

ГАДНЫ ХҮНИЙ ХҮДЭЭР

# LICENSING WOES

BY TERENCE EDWARDS

Two new laws have made it harder for foreign and Mongolian professionals to make a living in Mongolia.

Mongolia’s parliament has quietly passed two key pieces of legislation that has international firms worried they may be left out in the Siberian cold.

The recently passed Law on the Legal Status of Lawyers and Law on Tax Specialised Consultancy place more stringent controls over the services legal and tax advisory professionals can provide in Mongolia. It is another round of controls over participation by foreign investors since Mongolia’s Strategic Entities Foreign Investment Law (SEFIL), passed late May 2012, which suffered from similar debilitations that have put a plug on investment dollars for Mongolia’s booming mining sector. The legislation, which requires government approval for foreign acquisition of a third or more of any companies within the communications, finance and banking, and minerals sectors, has left foreign companies at a standstill out of fear of violating the law—which could have the government barring a company from operating in the country.

In an email, MahoneyLiotta Partner Darin Hoffman wrote that the laws would exclude law and tax advisory firms from providing their services and “are symptomatic of the general shift towards increased regulation over foreign investment and foreign citizens living and working in Mongolia that began with the adoption of the Strategic Entities Foreign Investment Law”...

The legislation puts new limitations on auditing and lawyer firms that require practicing professionals to pass state

exams similar to the United States’ bar and CPA exams, said Budragchaa Bayar, a managing partner at domestic law firm Economic Legal Consultancy. As far as anyone can tell, the exams will only be administered in Mongolian language—a language spoken by just some five million in the world—and will add even more red tape to the country’s already Byzantine legal system.

The lawyer law is a “revamping of the legal profession” that “should be big news for worldwide legal professionals”, said Bayar, who was also involved in the drafting of the law.

He said the key difference of the law is all law firms will have to register themselves as limited liability partnerships rather than companies. While LLCs in Mongolia may acquire a single license to operate in Mongolia, LLPs do not, which means licensing will only be granted to individuals. Without licensing, legal professionals will not legally be allowed to call themselves lawyers.

Bayar said the law is effective January 1, 2014, but MahoneyLiotta said it was informed that date had been pushed up to April 15 this year.

The tax advisory law similarly asks tax advisors to pass a state-administered exam for licensing. The law also requires auditing firms such as Ernst & Young to establish a separate organisation for its tax advising services. Any firm that fails to meet these conditions will likely face penalties after June 1, 2013.

For their licensing, lawyers and tax ▶▶



► advisors in Mongolia will have to answer to the Mongolian Lawyers Association and the Tinz agency, respectively. However, there is some uncertainty with how the law will be enforced and how government services will be administered.

“We are not sure how long it will take for licensing”, said Mandal Uyanga, chief executive officer of Ernst & Young Mongolia Audit. She added, “This is really a new thing, so we need to communicate with Tinz”.

It's the lack of clarity in the law regulating lawyers that has law firm MahoneyLiotta, who in Mongolia represents Rio Tinto Group and the London Stock Exchange,

worried how the law will eventually be enforced by government.

According to Mongolia's central bank data on the balance of payments, foreign investment fell 45 percent from USD 321.5 million in June to USD 176.9 million in November, last year.

Hoffman said that work on almost all public offerings had been halted since the passage of SEFIL, largely due to the uncertainty felt by investors.

“Even though the SEFIL was adopted on 17 May 2012 the foreign investment regulator has still not created the approval process so no large equity offerings like this can be done until the approval process

is created (and an approval is obtained)”, Hoffman said.

Bayar, too, worried on the vagueness of the law and how licensing bodies would behave. He has experienced firsthand how Mongolian licensers can “run like a business”.

“In 2005, when I sat in the exam by the [to-be-dissolved licensing agency] Advocates Association, everyone was young. I was the only one with white hair”, he said. “When I got my certificate there was a ceremony to hand out the certificates. Finally I saw several people with gray hairs. I don't recall seeing them in the exam”. ■

## POLICY SURVEY

# MIDDLE CLASS: DO WE HAVE ONE IN MONGOLIA?

Survey results by B. Enkhtsetseg (PhD and Director of Population Teaching and Research Center at School of Economic Studies at National University of Mongolia) and her team

Economic development is the primary objective of the majority of the world's nations. This truth is accepted almost without controversy. To raise the income, well-being, and economic capabilities of peoples everywhere is easily the most crucial social task facing us today (Development Economics, Debraj Ray).



The government of Mongolia is implementing a series of policy reforms oriented to enhance economic growth and reduce poverty with more pro-poor orientation during the last decade. There has been observed a notable economic growth in the economy of Mongolia since 2003, however, the social development, namely the living standards of the population including poverty and inequality has not succeeded adequately. The percentage of the population that is poor in Mongolia has been around 35 percent in the last decade and Household Socio-Economic Survey (HSES) concluded that 29.8 percent of the total population of Mongolia is living in poverty in 2011. As measured by the Gini coefficient of 0.33, the gap between rich and poor widened. The richest 20 percent of the population consumes five times the amount consumed by the poorest 20

percent of the population. The overall findings suggest that poverty changes have been mainly driven by the growth component. Inequality has mostly contributed in an opposite direction. In general, had inequality not increased that significantly, the decline in poverty would have been more pronounced.

Increasing trend of inequality means there are different groups of households which one classify as “wealthy”, “better-off”, “average”, “middle-income”, “poor” and “very poor”. The preliminary answer to the question does Mongolia have a middle class in Mongolia is yes. However, in-depth investigation needs to be carried out on who they are, how they are different from others, how it changed over time, what are their economic, social and political roles, and so on. Furthermore, analysis of the middle class and its role in society have become an important issue and area of research in order to get a better ►

► implementation of the policies to reduce poverty and inequality.

There is no global dataset or fixed definition to determine what the middle class is. However, a number of household surveys have been given around the world, and from each of these surveys one could extract information on groups of households based on consumption or income level.

Growing trends of inequality mean there are different groups of households which one would classify as “wealthy”, “average”, “middle-income”, “poor” and “very poor”. Whatever method or definition we use there are groups that we call the middle class. Therefore, the research answer to the question whether or not Mongolia has a middle class is yes.

Middle-class individuals are much more likely to have salaried jobs and tend to have smaller family sizes. In terms of asset ownership, the middle class is typically associated with widespread ownership of major

household durable goods such as cars. In terms of residence, middle-class households tend to reside in bigger and more modern housing such as apartments. The vast majority of the middle class in urban areas is likely to have income from wage and public remittance. In rural areas the middle class is likely to derive its income from livestock business and public remittances.

The middle class could also be defined as a peaceful, contented life without worries about basic livelihood needs. Having a family and children, being wise, striving to live well, having specific goals and being hard working can also be the main determinants of the middle class.

When we asked survey participants to estimate how much money it takes for an average family (four members) to live a middle class lifestyle in their community, the median of all responses was MNT 10.300.000—close to the third quintile (MNT 7.5 million) and fourth quintile (MNT 9.2

million) of the population.

Examination of mean income shows that the per capita income grew by 67.4 percent between 2007 and 2011 at the national level. However, per capita income declined by 8 percent in real terms (after adjusting for inflation). Moreover upper-middle class households experienced a notable decrease (11.33 percent) while low-middle households experienced less decrease (1.9 percent).

Survey participants reported that the in general, livelihood had improved compared to five years ago. According to them, the share of better off households has increased whereas the share of poor households has declined. However, the middle class share has not changed. Moreover, increasing inequality is related to, on the one hand, the widening gap between the rich and poor, but, on the other hand, is due to the fact that the number of people who moved upwards from the average position to the higher or from the poor to average is relatively small.

#### Livelihood characteristics

Criteria	Rich	Well-off	Middle	Lower middle	Poor	Very poor
Income	No financial issues, whose life goes as one's willingness, multi-billion property, the leading rich people in Mongolia, have made a billion deposits and property.	Sufficient earnings, larger lender of a bank mainly for the business and have made a certain deposit	Both /husband & wife/ earn in total of MNT1-1.5mln, mostly employed at public sector and make certain deposit	One of family members is unemployed, make a living from salary to salary, indebted and hardly ever make a deposit	No income, live on social welfare, no intention for employment, lazy. Live on disabled group or child allowance	No single income and no one to take care of
Housing	Live in a big private house, posses several housing/ apartments and land	Possess big private housing, multitude apartments and cottages	Live in public apartments, possess own hashaa and a house in ger district and a land	Live either next to parents, parents-in-law or rental apartment and just started out private business	No own housing or apartment, lives in ger district with large/extended family	No housing survive on social welfare and extended family
Car	Drives the brand new cars, every family member has each	Over 2 cars in a household, Jeep	A car for certain needs with the rate up to 10-20million togrogs	Mostly rely on public transportation and if any car makes certain income with it	-	-
Number of livestock	Over 1000 livestock, hires private herder	Livestock up to 500-1000 including mostly big & small cattle	Livestock up to 300-500, mostly small cattle and fewer big cattle	Up to 300 livestock	Fewer heads of livestock	
Business	Certain business in larger economic sector	Certain private business	Runs private business and small & medium business	Runs some business, though only for daily survival	-	-
Job and position	People in higher ranking or management positions in civil service	Mostly run private business, certain higher ranking people in civil service	Employees of budgetary organizations, private or middle managers, of private and possess higher education	Mainly one of the family member is either employed as assistant worker at construction or service field	Either unemployed or earns less	Under the charity or religious missionary support, civil documents are unavailable, uneducated or illiterate people

Nothing seems more middle class than having a steady well-paying job. They run businesses and they

work for all sectors, especially for state organisations. It is interesting to speculate whether this has something

to do with the kind of jobs they have. A good job is a steady, well-paid job—a job that allows one the mental space needed ►

▶ to do all those things the middle class does well. Stable work, job security and well paid salary are priority issues for the middle class. In addition, there is a need for providing graduates with jobs as the middle class puts more attention to and spends a lot on their children's education; however there are limited job openings for young people.

The salary, pension and other allowances compose the majority of the earnings for the middle class and the increase in earnings in recent years have had certain positive impacts; though they enable the other sources of business revenue to be available (fourth quantile).

These years the prices of consumer goods has increased and have put substantial pressure on lives. Although the salary, pension and other allowances that compose the majority of the earnings of the middle class had increased, inflation has increased, too.

There are many pressing issues in regard to access to loans and loan conditions. High loan interest, short terms of repayment, and limits on amounts of collateral for loan repayment lead many middle-class individuals in a net of debt, especially for private business. As mentioned, the middle class is the largest group making use of the banking system through the attainment of different types of loans—such as pension loans, salary loans, and long-term housing loans—as they have regular incomes. Although middle-class people have regular income, they are the ones said to live from one paycheck to the next.

There are many private business people who belong to the middle class. According to them, it would be appropriate if the tax system was a bit more flexible so that it could allow them exemption in the initial stage before further taxes can be collected.

Middle-class people had a lot of opinions regarding governance and law implementation, especially about promises made during the election campaign. That includes share utilisation of natural resources. According to them, this money should not be distributed in cash but should be spent for efficient purposes such as investment.

Citizens also mentioned government bureaucracy, corruption, bribery, and discrimination present among government employees.

Suggestions also were made regarding improving public services. For example, because schools and kindergartens are not adequate, much cost is incurred by the middle class enrolling their children to private schools. Re-considering mortgage loan requirements and enabling the middle class to receive services with their insurance need to be considered.



# MONGOLIA ECONOMIC FORUM

## *MONGOLIA ECONOMIC FORUM*

### March 4-5, 2013

### Ulaanbaatar Mongolia



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## MINING

# A NEW LAW SHINES WHILE THE OLD ONE FADES

BY B. BAYARTOGTOKH

*Discussion of the new draft Minerals Law was held last month that included professional bodies, mining managers, civil society representatives and academics. At the event both visible irritation and appreciation was present during discussion.*

*“As we learn more about the earth, we understand that the period of responsible mining begins now. Responsible mining consists of three imperatives. First is social responsibility. Second, there must be no harm to nature or the environment. Third, it must be financially profitable for the host country”, said presidential advisor P. Tsagaan in the opening address.*

*The bill would change how special licenses for mining are granted. The working group that developed the proposed legislation found the way mining licenses had been issued was outdated.*

*“The Ministry of Mining will announce a site to the public. The license will be issued for only announced sites”, the president’s legal advisor, Ch. Unurbayar, said.*

*A member of the working group, D. Bat-Erdene, added “We developed the draft Minerals Law for the sake of our future. Licenses are given to too many companies. If the practice where only wealthy people can possess licenses continues, Mongolia’s minerals will come under foreign companies’ power and its management will be done outside of Mongolia”.*

*“The conflict between locals and companies has been worsening and it has further complicated continuing operations. We tried to manage these issues with this law”.*

*The following are the statements of members of the working group and mining experts who participated in the discussion. »*



D. Byambasuren



N. Dashzeveg



D. Munkhtuya



N. Alгаа



S. Avirmed



### ► The State Must Place Strict Controls While Giving Businesses Freedom

### The State Should Not Only Monitor, but also Participate

#### Dashiin Byambasuren, Former Prime Minister of Mongolia:

I have read the draft Minerals Law initiated by the Office of the President of Mongolia twice. The draft was completely different from previous laws.

The idea was right. I wish for the national wealth of Mongolia to be under state control only if state control moves forwards to protect our country's interests. However, while there are some benefits in this draft, there are also some things that we should look back at again.

First of all, the Constitution mandates that mineral resources are under state power. The state has to put its strict control on mining while giving businesses freedom. There was a logically conflicting issue concerning the strategic deposit in the draft. Secondly, shareholding has been discussed since 2007. The Mongolian government owns 34 percent of the Oyu Tolgoi project, but we want it to be 51. Members of the State Great Khural have argued for a 51 percent share. I don't think a foreign investor would give 51 percent of shares to the Mongolian government if it's afflicted with red tape and bribery. Foreigners would want to possess 100 percent. How about trying to solve the problem in an economic way?

Thirdly, there is the issue of government participation. It was provided in the draft that the government would conclude agreements. Only a professional organisation or professionally responsible state-owned body should conclude an agreement without government participation. I think it is optimal if the state would act as a monitoring body. Fourth, the issue of payment for resources was omitted from the draft. Fifth, this law should be for the people.

#### Dashdorj Munkhtuya, Leader of the Working Group for the Draft Minerals Law:

We began work on the new draft Minerals Law in 2010. We presented the draft to the public just before the new year. First of all, a law on minerals is a big law. Secondly, it raises so many legal matters. Thirdly, it also raises many issues of investment, environment, the public, various offices and interests at the same time. All suggestions are valid for the draft.

There is no perfect law. There isn't even a perfect draft. A law's initiators and its working group try their best to make a good draft. But we don't know if there are still any mistakes we didn't notice. Stakeholders can interpret this draft in many ways depending on their interests. The mining industry is not like producing bread. As it is a matter of business, it leads back to the owners. Also, it relates to the state and public. It's like how we cannot do anything in one's home without the owners' participation. The owners are the state and public. That is why there must be state participation.

It is believed that state participation is less in the mining sector than in other business. Internationally, there are no examples of any countries that took away state monitoring over mining. On the contrary, they are tightening their state monitoring controls and overseeing the processes of rehabilitation and mining. Vindicating the idea that we cannot monitor mining because of weak governance is not enough. The state shall participate. The state shall monitor.

The problem of possessing authority over mineral wealth as one pleases will be erased in the future. But state participation must not encourage bribery and increase red tape. A clear and transparent process for making decisions is important. However, it is proper to increase authority by placing stringent controls. ►►

## Strategic Deposits Must Exist

### ► There Were No Clear Explanations

#### **Namgar Alгаа, Executive Director of the Mongolian National Mining Association:**

It says the law legalises the payment for resources, but the general principles are defined by this law. As I understand, we charge a tax on income according to the general principles of the Tax Law. We charge a tax on income, but when they don't have income, we don't charge a tax. Basically, if we charge a tax on reserves held, how could an entity keep reserves or promote its business?

A tax will be charged on every single exploration project and even on the mineral reserves from that exploration. This is too hard for business. The law's clauses that support local participation and protection of the environment are alright. There are some clauses that have completely contradictory meanings in articles 13, 14 and 15 of the draft.

Firstly, it was provided that the site would be kept as a strategic resource. Before, there was an arrangement to keep the site as a strategic resource in the Minerals Law of 1997 and 2006. At that time the purpose was to dispose of license registration. But, in this draft the terms and purposes were not provided. Since there is no purpose, the site will be kept as a strategic resource, though the deposit was created through private capital. It also says that when the license deadline comes, a fee will be paid and tendered. The site would be also taken for the special needs of a province or locality. It also says that a fee would be issued. There is no clear explanation for these three clauses.

The discussion on the minerals bill has continued among the public. Your right to evaluate and add your points to the draft is recognised. Moreover, you can deliver your requests and suggestions to the working group for the draft Minerals Law, and the Office of the President of Mongolia. A final draft after conducting the open discussion in public will be submitted to the State Great Khural. Afterwards, the hottest topic in this coming spring session will be the revised draft Minerals Law.

#### **S. Avirmed, Researcher:**

A law on minerals is the biggest law following the Constitution. That's why it must produce a tough law. It is beneficial if they are imprinting public values and party positions in the drafting process. But we should discuss the mineral bill again and again.

A lot of incomprehensible things are in the draft. The more we work on the draft, the better the law will become. There are some advantages of policies that improve a social livelihood, rehabilitate the environment and increase local powers while protecting the interests of Mongolia and its minerals.

However, the understanding of a strategic deposit, which has been discussed over for many years, is not clear. The definition of *strategic* exists in every country of the world. Every country in the world has a governing board of minerals. But the definitions of duties were changed in the draft. This is wrong. But we agree with some good articles in the law, such as limiting the number of licenses, prohibiting their transference, and increasing accountability.

### A law must meet public interests

#### **N. Dashzeveg, Economist:**

A law on minerals must be clear, sustainable and comprehensible. On the other hand, it must be a good law which is legally capable of sustaining for 15 to 20 years. Also there is the necessity to define the law more precisely while reflecting an environmental standard on its draft. In particular, we need to categorize activities more specifically, like exploration, extraction, and production. The phrases and definitions in the draft are incomprehensible and ambiguous.

Let's refuse tenders as much as we possibly can. Tendering is an issue of discretion.

We need to work on the draft again. Some people are saying they don't need strategic deposits, but experts and researchers treat it a bit differently. A law on minerals must meet the people of Mongolia's interests. However, we cannot protect the interests of a private company, particularly a foreign company.

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