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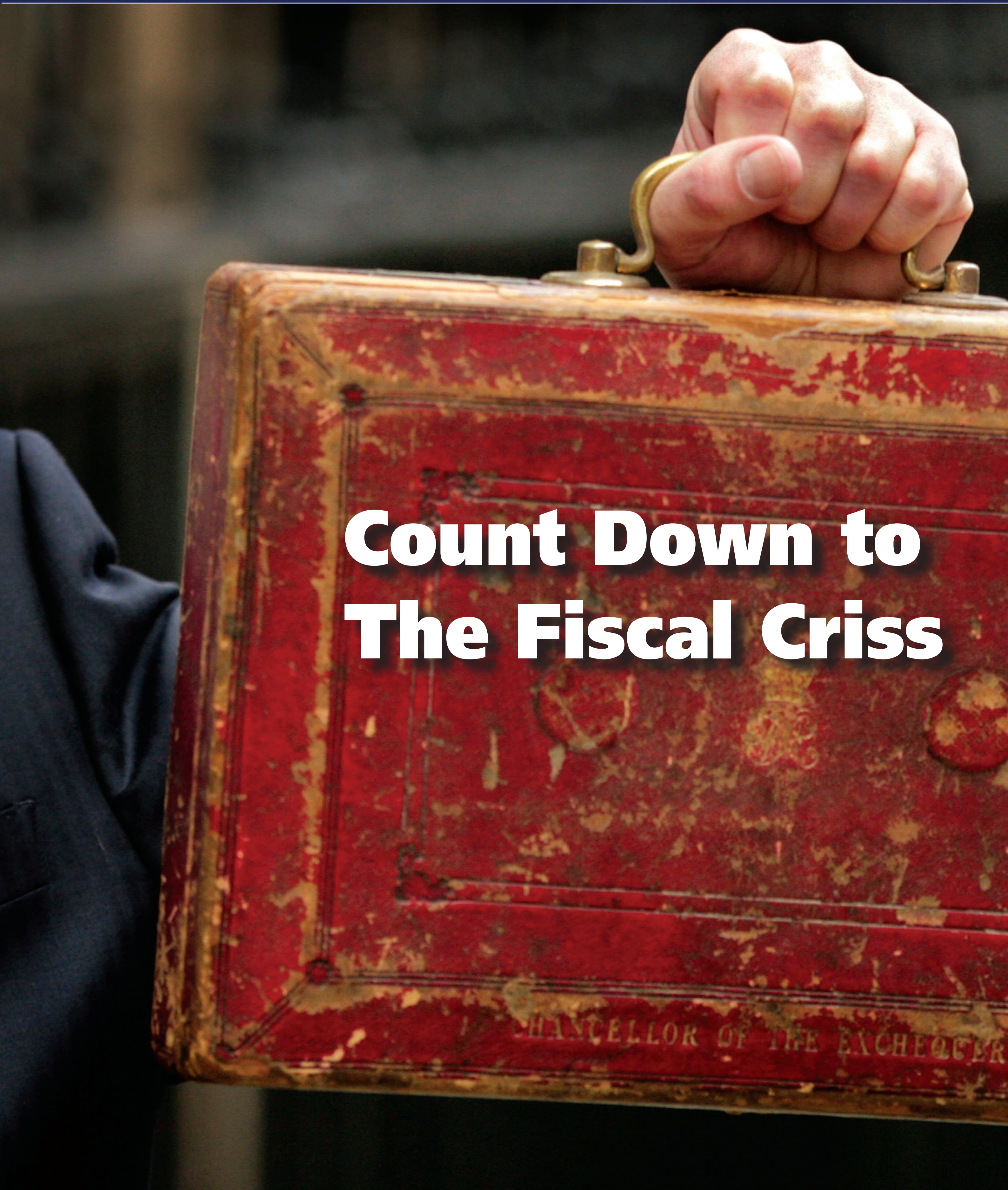

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ECONOMY

SPECIAL REPORT

MONGOLIA

The Bank of Mongolia has reduced interest rate at 11.5 percent by one percent in order to contribute to the country's economy and business turnover and to increase amount of loans and investments. Experts said that this reduction is the result of a high probability of reducing the pressure on inflation from the state budget, of lowering the inflation impact that originated from supply, and of that the annual inflation is to meet targeted level. In 2013, the interest rate has been reduced by 1.75 percent.

According to a study, Rio Tinto produces 15 million tonne copper every year, globally. Copper comprises 38.1 percent of Mongolia's total exports, of which 37.1 percent is copper concentration while one percent is improved copper or products made from copper. In Mongolia, 130,000 tonne copper is mined on annual basis and it comprises 0.9 percent of the world's copper markets. With the commencement of Oyu Tolgoi mining, this amount is expected to reach 500,000 tonne and Mongolia will represent four percent of the total copper markets.

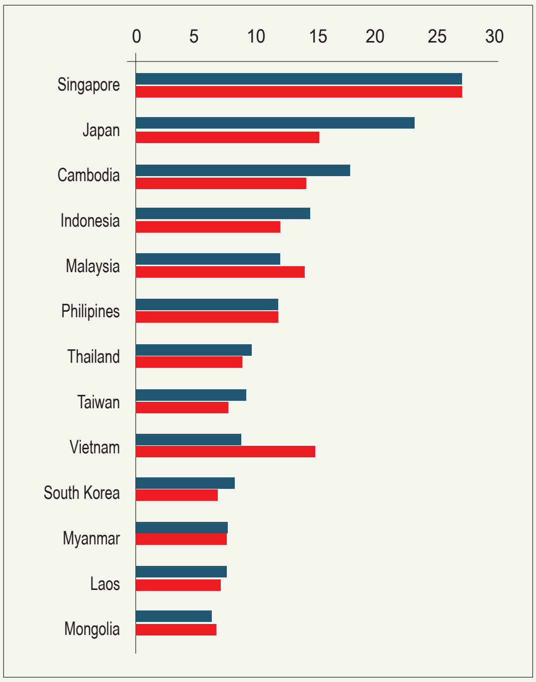
Agricultural Commodities Exchange of Mongolia has just launched. In the pilot-trade, some 18 brokerage and dealing companies participated and the only commodity that has been traded was cashmere. Offers have been received to buy 21,770 kg cashmere at the price of MNT 1.4 billion. And subscriptions of more than six tonne cashmere have been received at the price of MNT 435 million. Now it is prohibited to export any cashmere if it is not traded on the exchange.

In 2013, it is planned to use 393,500 ha areas for agricultural purpose, of which wheat it to plant in 313,700 ha areas, vegetables in 15,500 ha, fodder in 20,700 ha and oil plant in 25,000 ha, respectively. Also this summer, some 330,000 ha areas will be cultivated for future cropland in 2014.

The government is planning to retire some aging equipment and structures in Ulaanbaatar to make way for the Amgalan coal-fired power plant. A budget of MNT 987 million is set for the demolition of structures, with the land to be attain by government by May 1.

The first coal-burning stove for the Amgalan plant is expected for installation during the first phase of development in December. ■

Energy Regulators Regional Association of Hungary carried out a comparison study on some Asian countries' energy consumers.



BUDGET

A GOOD START MAY SEE A BAD END

BY. ENKHTSETSEG

Many criticised the State Great Khural after it passed the 2013 budget, calling it the "daydream budget" because it read more like a wish list than a budget to set the course for the country during a crucial year in its development. Much of the criticism hangs on the uncertainties within the economy that are likely to undo all the good intentions employed by the Fiscal Stability Law.

The state budget has never had clear projections. What is different about this year's fiscal plan is the entrance of the Fiscal Stability Law, putting up a ceiling of 2 percent of GDP on spending. Many have commented that this was a good start, but can it be as effective in real practice as it is on paper?

Total revenue from the 2013 budget is projected to reach MNT 7.2 billion, a 28.9

percent leap from last year. If all goes as was planned, Mongolia will enjoy economic growth of 18.5 percent, the highest growth of all time for Mongolia, with GDP reaching MNT 17.6 trillion. In the background, the central bank is hell-bent on bringing inflation below 8.1 percent. Meanwhile the budget is floating on a cloud of optimism with projections such as a 79 percent increase in total exports and 60 percent growth in mineral extraction.

Both local and international organisations found this year's budget too ambitious and based on an overly optimistic outlook. They predicted that it was highly likely that real revenue would fall far behind the projections in the budget. The World Bank's budget overview notes that growth to total revenue was projected to reach 40 percent compared with 2012, with the income from minerals to be almost 62 percent higher, making up 24 percent of all revenue. The budget also came with the expectation of renegotiated terms to the Oyu Tolgoi investment agreement and export growth for gold and coal.

The changes made to the royalties for Oyu Tolgoi to allow the government to pocket an extra MNT 445.8 billion is still a grey area. The Open Society Forum says in their 2013 budget assessment that there is the possibility of a shortfall in production from what the budget projected for Oyu Tolgoi. Also, it is not certain government can get the new terms for royalties and tax laid out by the budget for renegotiation.

Revenue from coal is expected to increase by MNT 55 billion from last year, mostly due to a planned ramp up in production from Erdenes Tavan Tolgoi. But today, according to the Mongolian Coal Association, the collapse of coal prices is causing nearly every Mongolian coal producer to halt operations.

This year's budget presents prices for major commodities below that of market price, called "structural prices", to mitigate risks as the new Fiscal Stability Law became effective. These

Table 1. Summary of the 2013 Approved Budget

Бүтээгдэхүүнүүд	2012 Amended		2013 approved		
	Billion MNT	% of GDP	Billion MNT	% of GDP	% change
A. TOTAL REVENUE AND GRANTS	5,631.7	34.9%	7,258.1	41.1%	28.9%
B. TOTAL STRUCTURAL REVENUE AND GRANTS	5,530.3	34.3%	7,088.3	40.2%	28.2%
Tax revenue	4,925.6	30.5%	6,461.5	36.6%	31.2%
Non tax revenue	602.9	3.7%	626.0	3.5%	3.8%
C. TOTAL EXPENDITURE AND NET LENDING	6,312.2	39.1%	7,444.6	42.2%	17.9%
CURRENT EXPENDITURE	4,606.3	28.6%	4,906.1	27.8%	6.5%
Wages and salaries	1,220.9	7.6%	1,406.2	8%	15.2%
Subsidies and transfers	2,363.1	14.6%	2,028.4	11.5%	(14.2%)
CAPITAL EXPENDITURE	1,719.7	10.7%	2,488.9	14.1%	44.7%
Domestic investment	1,409.0	8.7%	2,008.2	11.4%	42.5%
D. STRUCTURAL BALANCE : B-C	(781.9)	(4.8%)	(356.3)	(2%)	
E. OVERALL BALANCE: A-C	(680.5)	(4.2%)	(186.5)	(1.1%)	
F. STABILIZATION FUND: E-D	0101.4	0.6%	169.8	1%	

Source: MOF 2013 Budget, WB staff calculation

structural prices are 18 to 22 percent lower than the world coal market price outlook for 2013, giving it cushion for some fall in commodity prices, but any more than 22 percent will be trouble for the budget.

Mongolia Price vs. World price

Now the question is whether the prices of mineral products are likely to slide and impede the budget. This year the share of mining revenue in the budget is one-fourth of total revenue. But the descent of coal prices might hit coal exporting companies hard. As coal accounts for 35 to 40 percent of mining revenue, the loss would drag total revenues even further .

The budget provides a structural price of USD 131.50 per tonne of processed coal, USD 80.2 per tonne of raw coking coal and USD 65.5 per tonne of hard coal. The budget would yield MNT 446 billion for a total 28 million tonnes of exported coal. But in the first quarter, just three million tonnes was exported; not a strong start. This year Energy Resource was able to sell coking coal at the most for USD 99 per tonne last month. Companies say this price is now between USD 70 and USD 80 a tonne. In addition, coal from Tavan Tolgoi is stuck at the border unmoving as Erdenes Tavan Tolgoi tries to sort out its financial difficulties as well as its contractual dispute with Aluminum Corp. of China Ltd. (Chalco). Erdenes Tavan Tolgoi was selling its coal at USD 70 per tonne this year, as per its

Chart 1.coal export supply, average price

Resouce: Reuters from Risk Report 2013, Mandal General Insurance LLC offtake agreement with state-owned Chalco, but when the price fell even further China offered Mongolia USD 53 per tonne of coal.

"If the coal of Mongolia is sold below USD 70, we would have a big loss. So, we are waiting to renegotiate the price", said Prime Minister Norovyn Altankhuyag at a press conference last month.

T. Naran, director of the Mongolian Coal Association, said, "Coal exports seems as though they will not exceed more than 15 million to 16 million tonnes, even if the Mongolian side can get out of Chalco the most positive outcome. Thus, coal exports will only reach 50 to 60 percent from what was planned".

"China will cut coal imports this year as the cost of domestic supply declines. Net purchases from overseas will drop 47 percent to 150 million metric tonnes this year from 281 million in 2012", Sanford C. Bernstein & Co said in a report.

"We believe that Chinese coal imports are likely to fall in absolute terms in 2013 as lower-priced domestic supply pushes out imports", Michael Parker, a Hong Kong-based analyst at Bernstein, said in the report. "Over that entire time, we expect coal prices to trend downward. There is plenty of supply available both domestically and from the seaborne market if coal prices creep back up".

It is nonsense to expect Mongolia's coal to remain unaffected by the downward global market trend of coal prices. Mongolian coal may only be able to compete if global prices continue as they are now. Coal prices are at their highest, currently fluctuating between USD 90 and USD 98 at New Castle, Australia.

"There are two reasons the budget cannot meet its target: drops in both price and supply", said Naran. "It is one thing if only the coal supply was declining. But alongside that, the price is falling too".

Table 2. Major Commodity Price and Volume Projections of the 2013 Budget

	Volume	Structural Price	Market Price
Copper	945 thousand tons	USD 6328.9 /ton	USD 8,152 /ton
Processed coal	5.8 million tons	USD 131.5 /ton	USD 161.2 /ton
Coking coal (above 5500 kkal)	14.4 million tons	USD 80.2 /ton	USD 96.7 /ton
Hard coal (4000-5500 kkal)	5.7 million tons	USD 65.5 /ton	USD 83.17 /ton

Source: Ministry of Finance, 2013 Budget

Table 3. Composition of Mineral Tax Revenues: 2013 Budget

Commodities	Tax Source (billions of MNT)						Total
	CIT	Royalty	Progressive Royalty	Dividend	Customs Tax	Others	
Gold	15.95	75.1	20.6	-	-	9.9	121.5
Coal	72.9	188.9	74.6	16.30	52.2	61.27	466.1
Copper	6.3	6.0	7.4	7.23			
Others	26.6	76.9	48.9		10.58	7.22	170.3
Sub-total Mineral Revenue	174.1	461.2	298.5	82.30	63.7	177.3	1,252.7
Extra OT Revenue	224.5	-	221.3	-	-	-	445.8
Total Mineral Revenue	398.6	461.2	519.6	82.3	63.7	177.3	1,702.9

Note: Sub-total mineral revenue excludes the extra revenue from the OT mine expected by the government.
The Government excludes the VAT from mining sector from the mineral revenue calculation.
Source: Ministry of Finance

The projected coal revenue of MNT 466.1 billion is close to falling as low as MNT 160 billion.

"Oyu Tolgoi will definitely influence budget revenue if it's not resolved", said Batbayar Enkhtaivan, director of fiscal revenue at the Ministry of Finance. "Also coal revenue seems likely to have an impact. We need to remember that in the budget the shortfall last year was caused by an agreed upon price. At this time, the agreed upon price is impossible to work with".

Worst Case Scenario

The first quarter performance report for this fiscal year has not come out yet, so it is still too soon to say if the budget is falling short of expected revenue. However, unless there is a sudden change or reform, the original assessments made by analysts are not likely to be off by much.

"It is highly likely that there will be an interruption in revenue collection. Even government is admitting that this year's deficit will likely be high. It has become common in Mongolia for government to trim down its spending each year. They need to dip into the spending originally planned for investment because the initial fiscal outlook was based on too-optimistic projections", said Tuvshintugs Batdelger, director of the Economic Research Institute.

The double digit spending increase in this year's budget is mainly due to domestic investment. Domestic investment has increased much more than maintenance expenditure. For a country that is stepping into a new era of development, what can be more important than investment? But where else can we look to for budget cuts?

"It might take more than a year to make changes to the Oyu Tolgoi agreement by government", said, Enkhtaivan of the Ministry of Finance. "We will have two options if there is a shortfall in mining revenue in the budget, curbing either investment or maintenance expenditures. If we think about our future, trimming maintenance spending would be the right choice. If we look at tomorrow, the exit is the investment expenditure".

There is no backup plan for this year's budget if commodity prices fall further than projected either, notes the Open Society Forum report. It is also unclear what actual results will come from this domestic investment. Despite this, the majority of society is hoping for investment spending to grow.

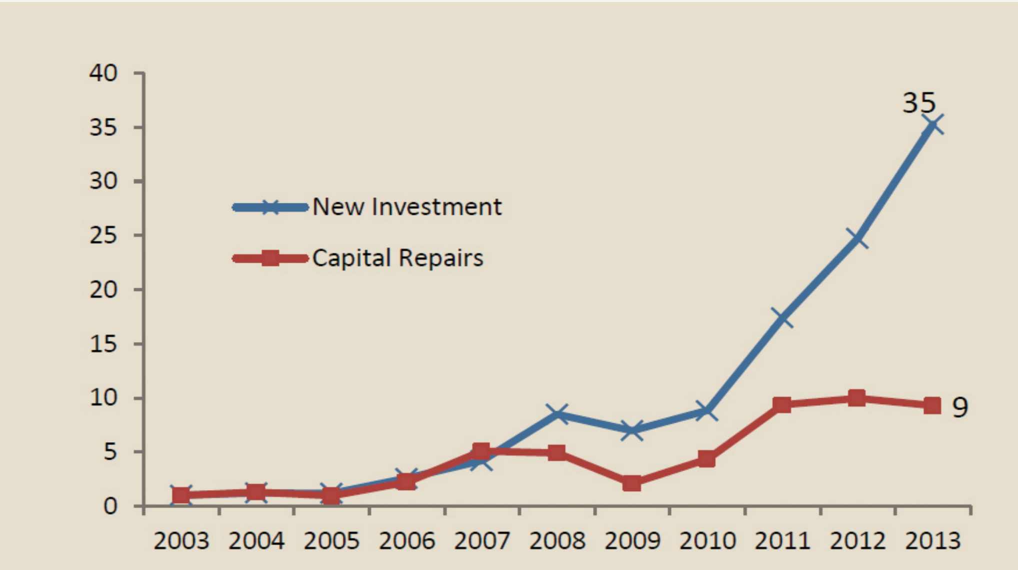
"We cannot curtail investment spending, which currently has high returns for the future", said, Ganzorigyn Ulziibayr, president of the Financial Market Association.

"Instead, maintenance expenditures must be trimmed. Even though the budget is heading towards deficit now, the budget will become profitable after a few years as long as there are good economic and financial projections for the long term".

The budget needs to be done with a realistic basis, say experts. Those who have reviewed the budget pointed at two unclear components: The extra revenue to come from Oyu Tolgoi renegotiations and the too-high projections for the price of coal. Although this year the budget deficit was capped at 2 percent, according to the World Bank the overall budget deficit is projected to reach over 6 percent, breaking the 2 percent ceiling established by the Fiscal Stability Law.

But it will depend on how the government downwardly adjusts spending. Although, the 2013 budget began with these fiscal restraints, now it is travelling to its end with just mere echoes of the Fiscal Stability Law. ■

Chart 2. Growth in New Investments and Capital Repairs (2003 level = 1)



Source: Ministry of Finance, World Bank staff calculation

MONGOLIAN ECONOMY MAGAZINE QUESTION

How Can Government Fill The Budget Gap?

J. Delgersaikhan, Adjunct Professor for Business Administration at the Institute of Finance and Economics

Policy review is needed

It is highly likely that a loophole in the state budget exists or revenue to the budget is insufficient. Mongolia planned an expanded budget from last year's. The revenue projected to come from the mining sector, including Oyu Tolgoi, was too high, along with high volume and the price for coal exports.

In contrast, the projected price is likely to fall, depending on the circumstances of the world economy and the Chinese economy. The prices of mineral resources are unlikely to increase in the near future. Thus, it leaves us to seek out other methods for recovering costs when revenue falls. Attention needs to be given to efficient budget spending. Also a mindset for efficiency needs to be developed.

The bond will have a negative impact on the budget's revenue and funds in the future. However bond spending is being made off budget. There is no accounting for the bond's interest in the budget for this year. But we need to continuously pay it. Additionally, there is a way to close the loopholes in the budgetary restrictions. It seems that the budget is likely to be amended in the near future. The only opportunity for us to observe the problems with the budget from a positive position is to review previous policies. If there is one, it should be made right.

Ts. Batsukh (PhD), Dean of Economics Faculty, Institute of Finance and Economics

Compact and accessible state structure is needed

The strategic investment and other investments made in line with the state directive to the economy need to be labelled as either financing from the state budget or financing from the Development Fund, as well as any other sources. Economic development and strategic investment made to industry or actions that create jobs and self-sustained business and factories need to be supported by state policy and financed through investment banks. This is the approach where the state helps find sources to finance investments for these activities with soft loans.

But this process should be conducted in accordance with the rules and regulations of an investment body or the Development Bank of Mongolia. The Chinggis bond needs to be allocated to the Development Bank to finance any projects chosen that can bring investment returns. This would be more efficient if regulated by a contract between the Ministry of Finance and the Development Bank of Mongolia that sets out the division of responsibilities.

The percentage of budget spending from GDP indicates that the state is not very involved in the country's economy. Thus, it would be appropriate to take decisive actions regarding the formation of a compact and accessible state structure to cut current expenses by weighing state obligations and the course it plans to take.

B. Munkhsoyol, Manager of Economic Policy at the Open Society Forum

The best path is to attract foreign investment

Since the Fiscal Stability Law took effect, government expenditure has been instructed not to exceeded 2 percent of GDP; meanwhile other criteria were instructed to be maintained within appropriate levels. But the present circumstances indicate that this clause and other clauses of the law are unenforceable.

During the discussion of the draft budget for 2013, it was warned that this budget was deemed fragile after careful study and assessment by the Open Society Forum. When calculating short-term budget revenue projections, the prices for the main raw materials were set by a “stabilised” price. This could be considered a new practice for calculating risks.

But this was a plan with optimistic projections. Thus, it was more likely to risk leaving the country with less revenue than planned. There is no long-term back up plan to respond to any possible shocks which might be caused by the prices of mining products. This will obviously lead to amending the budget.

Commencement of the Fiscal Stability Fund in Mongolia is important to the future in that it will change the way the budget deficit used to be recovered through loans. At the moment, there is not enough money to deal with this issue.

There are a number of special funds that either are subject or not subject to the state budget. These funds are spending huge amounts of money. Most funds are inefficient financially, as they are financed by subsidies. But they are not transparent and information is not available to access. Their investment plans lack any grounding in reality, detailed study, and efficiency. Not enough corrective actions have been taken.

If Mongolia’s budget expenditures mostly consisted of current expenses, the infrastructural work could not be done and there would not be a wider opportunity to talk about economic benefit and growth. Also there is a small opportunity to give proposals to recover some of the state budget gaps from the [USD 1.5 billion] bond.

We should not forget that this recovery will increase the pressure from foreign debt. In the near future, the best path will be to attract foreign investment, I think. Besides that, social welfare provided by the government must reach the groups it targets.

B. Tuvshintugs (PhD), Director and Associate Professor of Economics at the Economic Research Institute

Reality-based state budget planning is critical from the start

None of the projects to be funded by the Chinggis bond have become clear yet. In principle, I agree that given the Fiscal Stability Law that it would be the wrong approach to finance the projects outside the budget with the Development Bank of Mongolia. We would be able to protect ourselves against Dutch disease if we adhered to the law. Including infrastructural development in the state budget would allow us to prioritise the projects by their importance, improve supervision and make profitability more likely. Currently, the projects with off-budget financing are risky and worrisome.

The budget planned for is unlikely to be successful this year. The government has already warned that the budget deficit could be substantial this year. In Mongolia it is common to cut investment costs first in the event of a disruption to budget revenue. This is because of overly optimistic projections in the budget.

It gives us no choice but to cut our investment losses.

Reality-based state budget planning is critical from the start. This year the state budget was approved with the Fiscal Stability Law in effect, which mandates that the budget deficit stay below 2 percent [of GDP]. This is a clear sign of non-compliance with this principle. ■

OPINION

MONGOLIA'S LOOMING BUDGET CRISIS

Dr Nigel Finch is an Associate Professor at the University of Sydney Business School and a member of the Business Council of Mongolia.

Nobody said that forecasting a national budget is easy. As the economy waxes and wanes the earlier best guess estimates can look less achievable as next year's budget turns into this year's actual. Estimating government collections from taxation revenue becomes even trickier when the revenue base is anchored around highly volatile items that are difficult to predict, such as mining. No doubt a fact Australia's treasurer, Wayne Swan, would attest given the surprise shortfall in Australia's tax collections from its controversial Minerals Resource Rent Tax (MRRT). A tax that is highly dependent on commodity prices and exchange rates. The upshot of an ambitious tax recipe that relies on volatile and variable items is that it is difficult to predict, and, in Australia's case, this has resulted in an outcome where a USD 2 billion dollar MRRT shortfall erodes a forecast surplus into an actual deficit.

In the scheme of things, the bullish Australian Treasury forecast for receipts of AUD 2 billion for the MRRT are trivial when you consider that total collections for Australia are around AUD 360 billion. Anyway, should the forecast outcome be so inaccurate that the actual number that comes crashing across the finish line is a several billion-dollar deficit, the Australian economy should be able to cope with that nasty surprise given its solid reserves and strong credit rating.

But spare a thought for the treasurer in an fragile economy, one that is less stable and more highly geared to mining than Australia's. The frontier economy of Mongolia is a fraction of the size of Australia's and plagued with political stability issues that undermine its ability to govern effectively. Mongolia's government collects around AUD 3.5 billion to AUD 4 billion in taxes, so on that basis it is no more than 1 percent the size of Australia's government enterprise, and because of its emerging status it lacks any of the cushioning that exists in more developed economies.

While Mongolia doesn't have its own MRRT, it doesn't mean the nation has been spared from inefficient tax policies designed more for their vote-winning spin in the electorate than their effectiveness in building a dependable revenue base for the nation.

The source of Mongolia's tax collection is highly dependent on mineral exploitation with around a third of all tax collected coming from royalties, dividends and corporate income tax from mining operations, and the bulk of this is concentrated into two very large projects: the Tavan Tolgoi coal mine and the Rio Tinto-operated copper and gold mine, Oyu Tolgoi—both of which continue to be mired in controversy.

Tavan Tolgoi is one of the world's largest untapped coal deposits and is 100 percent owned by the Mongolian government, in addition to being located only a short distance from the Chinese border. Mongolia's coal industry accounts for more than half of all exports and over recent years it has fuelled much of Mongolia's growth, encouraging the government to steam ahead with an expansionary approach to their budgeting. However, a series of problems at the mine are severely threatening the government's chances of collecting much-needed tax revenue. Inexperienced management, inefficient work practices and a culture of corruption have limited production at the mine by 50 percent. Ongoing disputes with China's Chalco are another unwelcome factor in the mine's poor performance, which is severely dampening coal export volumes from Mongolia. At the same time, there has been a significant decline in coal prices which further erodes tax collection for the government of Mongolia.

Meanwhile, the nation's other big mining taxpayer, Oyu Tolgoi, has experienced delays because of political interference attributed to parliamentary and presidential elections.

The Oyu Tolgoi mine is also located in the south near the border of China and will be one of the largest copper and gold mines in the world. Production at the mine has yet to commence but already the government and the economy has benefited from the over USD 6.6 billion invested in the construction project to get the first stage of the mine developed. The Mongolian government owns 34 percent of the mine, with Rio Tinto having a majority stake in the remainder, but a resource-nationalism agenda promoted by the newly elected government is threatening to delay production as the government demands a greater share of the mine and increased taxation revenue. While this dispute plays out, there is little chance that Mongolia will receive any of the down-stream benefits of continued construction activity at the mine and the dispute is only delaying receipt of future taxation revenue due when the mine goes into full production.

With an economy that is highly geared towards mining activity and mineral exports, and with its two major projects in disarray, it is clear that Mongolia is about to face a supreme challenge in managing its national budget. The ambitious 31 percent year-on-year growth for tax collection in the 2013 Mongolian budget looks highly unlikely given the current state of play. And with the long list of election promises to be funded on the expenditure side, it is hard to see government spending slowing without losing votes. The budget crisis that looms for Mongolia is an unfunded deficit that will further destabilise its delicate economy.

Recently Mongolia introduced the Financial Stability Law (FSL), and the 2013 budget is the first government budget to operate under this new legislation. FSL commits the government to prudent financial management by setting the budget deficit to a maximum level of 2 percent of GDP. It's very likely that this ceiling will be broken and already the World Bank is forecasting a deficit of more than 6 percent of GDP. A blow-out this big doesn't bode well for the government in demonstrating their credentials as capable financial managers to the electorate and the international investment community.

Mongolia's looming budget crisis means that the government will be scrambling to find cash to fund its enterprises and the most likely source of those funds will be the USD 1.5 billion proceeds from the "Chinggis" bond it raised in December 2012. While these bonds were intended to fund economically significant infrastructure projects, the bonds may end up being called the "Bait-and-Switch" bonds as the government is forced to divert bond investors' funds to prop up its failing budget. Such a tactic will likely see the value of these bonds stumble, heightening investor's sensitivity to Mongolia's sovereign risk and possibly causing a downgrade in the credit rating.

Given the state of play with some of its largest mining taxpayers, we could see the Mongolian government committing the Chinggis bond to stopping the budget from haemorrhaging. However, playing this hand means they will limit their ability to lend any material support to the banking sector, which would likely be under severe distress, faced with a ratings downgrade, in addition to government spending that is beyond what the economy is capable of meeting. Any crisis in the banking system will see a rapid sell off in the Mongolian currency and a hard retreat in asset prices.

While many of Mongolia's bullish economists have focused their contemplation and rhetoric on how they should brace the economy to one day avoid the future effects of "Dutch disease" (an ironic side-effect of rapid success in resource-rich states), it seems that too few of them have been focussed on the more pragmatic aspects of realistic budget forecasting and prudent government financial management. ■

WEALTH FUND

FROM DEVELOPMENT FUND TO WEALTH FUND

B. BAYARTOGTOKH

Society has already begun to benefit from the cash flow generated from the mining sector to some extent. Thus, Mongolia lays the the tracks for the development train. The country must find a way to stockpile the value of its mineral resources, investing them for future generations. The development train has only two destinations: One stop leads to wealth and happiness while the other towards the “resource curse”. If society is able to afford savings and the government a wealth fund, the country would be invulnerable to any sort of crisis.

During the past 15 years, Mongolia’s GDP has grown as much as ten times nominally, from USD 1.2 billion to USD 6 billion, and twice in terms of real growth. Such large-scale economic growth leaves few better options than a Wealth Fund. The government is now drawing up a bill for the management of the fund. Finance Minister Chultem Ulaan said that analysis is under way on how the fund should function and the standards it will follow. It will also outline how much of revenue should be directed to the fund annually and who will manage it.

The most imminent issue here is creating and properly managing the Wealth Fund to save today's revenues for tomorrow.

“The revenues generated from the mining sector are indeterminate. This variability limits long-term economic plans and investment opportunities”, said B. Erdenebat, a lecturer with a PhD at the School of Economic Studies at the National University of Mongolia, in a speech titled “The Resource Curse and Mongolia”. “It could lead to smaller-than-projected profits due to any disruption to the source of revenue”.

There are a number of types of funds in Mongolia including the Revolving Fund, Universal Services Obligation Fund, Health Insurance, and Wealth Fund. Also there are some 40 special funds including Social Insurance, the SME Development Fund, and Employment Fund, but these funds only cater to the present, not the future. Thus, these should not be confused with a Wealth Fund, as those funds are meant for spending—not saving. There is nothing these funds do for future generations.

A Wealth Fund typically acts like an investor. The World Bank and Asian Development Bank say that a successful fund that helps produce sustainable development is achieved through investment activities. Establishing the Wealth Fund is like vaccinating the economy from Dutch disease. It is a gift from the present to future generations and a shield to protect the economy against risks.

There are some good examples of foreign countries that prevented Dutch disease and fostered development though sovereign wealth funds. One such country is East Timor, which, like Mongolia, had high inflation and a small population. East Timor’s oil revenue accounts for USD 2.75 billion per year and 95 percent of total government revenue. The country has no other resources such as copper, coal, iron ore or fluorspar to depend on, but it is more highly developed and has a greater GPD per capita than Mongolia. East Timor is a rich country that managed to create its sovereign wealth fund by saving the revenue generated from oil extraction for an eventual total of USD 10 billion in the fund. Total revenue from the oil industry is expected to reach USD 30 billion.

East Timor’s Wealth Fund is meant to create an efficient long-term financial policy for the well being of its nation. The fund is dedicated to benefiting the present and future generations.

“It is important to have an economic resource in order to use it during crisis, to cut inappropriate spending and to deliver it to future generations. As the oil price is unstable and limited, the oil fund has created savings”, said Vidar Ovesen, a former fiscal policy and petroleum fund adviser to Timor-Leste during the International Conference on Effective Sovereign Wealth Fund Management in March.

Mongolia’s mineral resources equal all the resources of both Australia and Kazakhstan. Mongolia is the only Asian country where coal, gold and copper depos-

its have all been discovered. The Wealth Fund is nothing new to Mongolia and has been a topic for discussion over the past 15 years. Mongolia first learned about wealth funds from the experiences of Botswana, Chile, Qatar, Kuwait and Norway. Yet, a fund has still not been established at home and the standards of living has seen little improvement despite the vast wealth available to the country.

Mongolia has plenty of fluorspar, zinc, silver, iron ore, and other valuable minerals. But which model will be preferential to Mongolia? Is it Chile or Nigeria's model ? One has failed while the other has succeeded. The Wealth Fund is a future property that should not be spent today, and should not be treated in the same way as the Human Development Fund.

The Fiscal Stability Law that took effect this year is a plan for saving, not spending. The more earned, the more efficient spending is, and spending should be efficient. The windfall profits from resources need to be circulated within the broader economy. That means providing savings for the Stability Fund, too. The functions of the Stability Fund overlap with that of the Wealth Fund, to some extent.

Today, the Stability Fund holds MNT 330 billion; but it sits in an account gaining no interest because it lacks a strong framework and a plan of how to manage it. This fund was expected to grow with interest, but today it seems to be undervalued while it suffers from high inflation.

The Wealth Fund's purpose is to meet the current demand and deliver the fund to future generations through the management of mining revenues. The Wealth Fund saves money for the future while stabilising the economy. It could also help control price growth. The Wealth Fund could be employed to tend to a variety of financial means while continually generating interest. This is how it is different from the Stability Fund.

"It would be appropriate to have two wealth funds; one being the Fiscal Stability Fund and the other a fund for the future. The latter is to maintain the socio-economic stability and the former to equalise distributions between gaps in revenue generated from the mining sector. A legal setting should be set to create all the conditions for independent, transparent and responsible management of the funds", said Finance Minister Ulaan.

"The main reason why some countries fail to become rich from their mineral resources is because of poor economic policy and bad investment decisions. A wealth fund is the appropriate method for profiting from mineral resources", said Brian Fischer, managing director of BAEconomics.

Prime Minister Norovyn Altankhuyag effectively summarized these thoughts: "A Wealth Fund should not be used to fulfil any promises made by the government or finance government expenditures. The fund will diversify Mongolia's economy. Other economic sectors, including animal husbandry, crop farming, and tourism should benefit from the fund until they mature. Also, a sizeable amount of of mineral resources should be stockpiled and transferred to future generations". ■

BYAMBAA'S COLUMN

WHERE DEVELOPMENT SHOULD START

ЭДИЙН ЗАСАГЧ

There are a number of studies, discussions, policies and programmes over Mongolia's development strategies. While the country's economic growth was relatively strong compared with the global averages over recent years, the paradox of this growth remains to be a persistently high level of poverty. This situation raises several questions such as whether Mongolian people can benefit from the economic growth, how long the current development model can be sustained, and whether there are better solutions.

Where Economic Development and the Economic Development Model Start

There are many different types of development models and strategies around the world, and logically the development strategy of any country should start with its competitive advantage. For example, Singapore has neither big territory nor natural resources. Thus, after defining its development strategies Singapore could only rely on its people and its geographic location. The country was destined to build its future based on the intelligence of its people. In 1994, Singapore's National Development Authority introduced its Singapore Unlimited Economic Development plan to attract foreign investment.

The proposal reads: "...Singapore will overcome the restraints of its geographical location and think until we make the world a game field... Singapore will become the world's scientific and technological hub, the best location to run industries, and the smart island linking up the world's trade, communication and IT industries".

A similar example is Macao, which was colonised by Portugal for many years before it gained independence as late as 1999. But now its half a million population lives in prosperity. GDP growth accounted for 8.5 percent in 2012. The island had similar difficulties as Singapore, as it lacked natural resources or large territory. Macao gave high priority to the development of tourism, relying on its good weather and strategic geographical location.

In the case of Mongolia, the main driver of development has been the mining sector and its natural resources in the past few years. Legally, the natural resources belong to the nation and its people, but the country faces a number of challenges. For instance, people cannot equitably benefit from the economic growth generated from natural resources; poverty has grown worse, with one-third of the nation living in poverty today; other economic sectors remain underdeveloped; and future generations are unable to benefit from the limited resources available.

As a result, the country's economic development cannot be maintained at the current level, and the economy has become unstable and fragile. It seems that three big transitions must be made in an optimal way in order to rid the country of these difficulties.

Three Transitional Mechanisms

The first transitional phase is the reduced dependence on the mining sector through the gradual investment into the development of other sectors. This is called, of course, economic diversification.

The second one refers to a transition away from the model where a few people benefit from the profits of resource extraction, greater profitability, and higher living standards for all citizens. In this context, a fair distribution should prevail rather than equal distribution.

The third transition focuses on provisions for reasonable long-term stability that will hand over wealth currently being generated for future generations. This means today's revenues should be saved for our children today, their children, and so on.

The most critical problem we face today concerning these three transitional stages is that a fair, efficient and market-based mechanism needs to be embedded properly instead of simply distributing those funds.

State Efforts Are not Effective

So far, the state has been responsible with the re-distribution and transfer of Mongolia's economic resources, but this has proven to be very ineffective. Distribution of state-owned Erdenes Tavan Tolgoi's shares is one vivid example of this. Implementation was not optimal, although the concept of distribution to all citizens of Mongolia was a good one. Company shares are a financial instrument that represents a company's equity capital, and the shares of Erdenes TT were distributed to all citizens through a welfare scheme rather than financial. As a result, the following difficulties were experienced:

- The share price was disingenuous and did not accurately reflect true share value because it did not follow market principles.
- The government was supposed to allocate funds to the company itself from the proceeds from the sale of shares. However, this was never done and so Erdenes TT has no operating capital for further business development and now faces serious financial difficulties.
- Because the shares were not properly valuated from the beginning, it would be difficult to trade them on a secondary market and they cannot act as real financial instrument.

In other words, although on paper all citizens own shares of Erdenes TT, they do not offer any real benefit to shareholders.

There are many other examples of ineffective redistribution efforts by the state. For example, there are some 40 special funds including the Stabilization Fund, Regional Development fund, SME Development fund, and Human Development Fund. Collectively, although these funds successfully distributed resource wealth, equal to 30 percent of GDP, they did not achieve their true purposes. Instead, these funds often operated as accounts withdrawals. The balance from social insurance pension accounts has already reached MNT 5.6 trillion, and that money will eventually have to be repaid.

Is There Any Other Solution?

In the past two decades, entrepreneurship has been developed in Mongolia and now it accounts for 60 to 70 percent of GDP. During this period one issue that became apparent was the need for appropriate financial market infrastructure. Non-banking financial mechanisms, including capital markets, are underdeveloped. This hampers the country's economic development and limits further growth. Thus, the economy is likely to stagnate, requiring new solutions to bring the economy to the next level.

As seen in the Chart 1, investment funds, pension funds and insurance funds play an important role in the financial markets of developed countries. Through these funds the transfer and re-distribution of assets is made in the most efficient way. For example, it is realistically possible for some US citizens to own shares of Rio Tinto, the parent company of Turquoise Hill, through a 401K. They might never have heard about Mongolia or have any idea where it is located. However they are in a position to benefit from Oyu Tolgoi's revenues through the shares they own. Conversely, even though the government of Mongolia owns some 34 percent of Oyu Tolgoi, many are questioning whether Mongolia can ever benefit from Oyu Tolgoi under the current circumstances.

In order to remove this abnormality, an appropriate financial market mechanism must be created rather than increasing state participation and restructuring the responsibilities of the government and its private partners. For instance, a wealth fund could be founded in order to provide profitability and better living condition to all Mongolian citizens, and to transfer the revenue of natural resource exploitation to future generations from the current generation. The underlying principle for the fund operation can be shown through the balance sheet as follows:

Chart 1

ASSETS	LIABILITIES
• Tax revenue generated from the mining sector • Investments in non-mining sectors made from mining tax revenue • Shares, bonds and the other financial instruments	Percentage for transfer to future generations
• Percentage of shares of strategically important deposits that are owned by the government. For example: 34 percent of Oyu Tolgoi 51 percent of Tavan Tolgoi	Shareholders' equity Shares distributed to Mongolian citizens

It should be noted that this is only one scenario for many possible solutions. The following results will be achieved through the creation of a proper financial mechanism:

- Citizens will be enabled to own their natural resources, and profit from the revenue generated from the resource extraction.
- A mechanism for the transfer of wealth to the next generations will be created
- Investment could be made to other economic sectors using the revenue generated from the mining sector

By creating the appropriate infrastructure in the financial sector, Mongolia would be able to resolve a number of issues to raise the economy to a new level of development. ■

MONGOLIAN ECONOMY

SPECIAL REPORT
Corporate Governance

THE GRAVITY OF INVESTMENT AND DEVELOPMENT

LAW

GOOD TIMES ARE COMING

I. OTGONJARGAL

One good aspect of the Company Law that took effect in October 2011 is that it outlines the requirements for the corporate governance embedded in companies registered with the Mongolian Stock Exchange (MSE).

According to those involved in the drafting of the law, more than 400 amendments and alterations were made so it would conform to international corporate governance principles. Although many agree that the law has been improved upon from past versions, it is important, of course, to know if there have been any results since the law took effect. Thus, Parliamentarian R. Amarjargal delivered a query to the State Great Khural in January regarding how well the law was being enforced.

Under development are comprehensive investment and dividend schemes for Oyu Tolgoi and Tavan Tolgoi. There are 80 types of mineral resources below Mongolia's soil. It has become clear that the mining sector is strongly tied to Mongolia's future, but due to inexperience and a lack of knowledge the country decided to allow Rio Tinto to lead the operation.

Many were shocked at the thought that they might lose this resource to mining giants. These emotions have incited repeated disputes over whether to replace the three independent members of Oyu Tolgoi's board of directors or not.

The idea of corporate governance is taking hold here in Mongolia, and this law provides guidelines to how it can be introduced to a company.

What Determines Good Governance?

According to a study by the Financial Regulatory Commission (FRC), there are 216 companies registered with the MSE, of which fifty percent have not held stockholder's meetings thus far, and more than 20 companies had not yet presented their financial statements before they were due.

"Corporate governance is a broad concept that covers many different activities for efficiency and organisation. This is a system that regulates relations between a board of directors, a chief executive, and stockholders of a company", states the Corporate Governance Development National Programme, passed in March last year.

"My understanding about corporate governance was incomplete. Now I understand well how difficult it is because of my experience issuing Energy Resource's initial public offering on the Hong Kong Exchange", said J. Odjargal, president of MCS Group at the Mongolia Economic Forum two years ago.

This is true for anyone serving in management of a Mongolian company, said B. Ayush, a national consultant to the Multi-Sectoral Technical Assistance Project,

"What company has good corporate governance in your opinion"? asked Ayush while addressing an audience of board members and board secretaries from various companies. After a few attempts to answer the question, she replied, "A company that is trustworthy to all stakeholders has good governance".

With 216 companies listed on the MSE and at least nine board members per company, it is reasonable to estimate there are 1,944 board members in total operating within the regulations of Mongolia's stock market. All of them are required to receive training on corporate governance as soon as possible, yet only 5 percent have done so.

Last year, 70 organisations and teachers prepared to give training on corporate governance. Some training sessions were organised by the National Council on Corporate Governance (NCCG) and the Mongolian Association of Securities Dealers in association with the FRC. Some nine organisations including the Banking and Finance Academy, Mongolian Institute of Certified Public Accountants, and Mongolian National Chamber of Commerce and Industry have cooperated with NCCG for this aim.

Meanwhile some companies are developing their own evaluation methods for corporate governance and are vying for a spot on the MSE Top 20.

Conflict of Interests

The Company Law defines the specific rights and duties of the board of directors and management. The role of stockholders, too, is clearly explained there. In Mongolia, the board chairman and board members also often have roles in that company's management. But there is a conflict of interest there, say expert observers, as a board member is most interested in satisfying shareholders and achieving long-term goals while management is likely more interested in short-term profit gains. The Company Law demands independent board members and secretaries participate too.

Three committees exist under a board of directors: the auditing committee, nomination committee and compensations committee. The rights, duties and responsibilities of each committee are clearly specified within the law. The independent board members are appointed by the nomination committee. The law also instructs that the auditing committee is only to be chaired by an independent member. The board secretary is appointed based on a proposal by the chairman. The secretary is responsible for preparatory work for shareholders' meetings and board meetings, writing meeting agendas, and other responsibilities outlined by the Company Law. However, finding a secretary among MSE-listed companies is rare, with this role usually fulfilled by an executive assistant or a similar employee. However, this role is defined by the law as one with responsibilities over creating company policies, more than what is expected from a mere assistant.

Surely, it will take many years before management at Mongolian companies learn to fully bear their responsibilities. But the time is approaching for the country to create a system of controls for companies to encourage transparency and maintain their responsibilities. ■

TOP-20

HOW IS CORPORATE GOVERNANCE OF TOP 20 COMPANIES?

B. SANJAAKHAND

The National Council on Corporate Governance (NCCG) has carried out the first analysis on the Top 20 joint stock companies (JSC) registered with the Mongolian Stock Exchange (MSE), in terms of net-margin. Here D. Ganbayar, director of NCCG, discusses this and more.

What does this analysis say about MSE-listed companies?

Creating financial transparency for any business in Mongolia is one of the objectives for the improvement of corporate governance by the NCCG. According to the law, all JSCs should deliver their annual financial statements to the MSE and Financial Regulatory Committee prior to February 10 every year. NCCG carried out its analysis on JSCs registered at the MSE with this in mind and from some of my experiences at international stock exchanges.

There are 328 companies registered on the MSE, of which 116 company accounts have been closed. Of the remaining 216 companies that were supposed to have regular operation, 204 have undergone financial analysis. The results show that 112 companies, or 54 percent, experienced loss. But any company that trades on the MSE should be expected to profit in order to increase its shareholders' equities. More than half of the companies are instigating the loss of investors' trust in JSCs.

What information can you share with the shareholders regarding the MSE Top 20?

As of 2012, six of the Top 20 companies fell short of completion in their financial statements. This is a very big sign. This analysis can provide leverage for including profitable companies in the Top 20. Also this analysis suggests more realistically the dividends that can be distributed to stockholders.

For instance, ten companies from the Top 20 distributed dividends to their stockholders in 2011, five out of the Top 20 in 2010, and six out of Top 20 in 2009, respectively. But compared to their actual revenues, other companies had high potential to distribute dividends. In Mongolia, there is no transparency of information regarding JSCs. According to the amended Company Law, a company's board of directors should decide on whether or not to distribute dividends and to confirm its decision by submitting the proposal to the stockholders' meeting. Stockholders are looking forward to this.

While carrying out the basic analysis, we classified the sum of net margins as one indicator. The net margin was calculated by comparing sales revenue with net profits. Bayangol Hotel was ranked first according to this indicator.

In Mongolia's case, if any entity earns more than 20 percent profits then it will be subject to a credit ranking of between 15 and 18 percent. Thus, the leading companies in the Top 20 list are seen to be solvent enough to operate in the market.

Next, companies with 10 to 20 percent net margins are listed. Finally are some companies with zero to 10 percent. It means the lowest ranked six companies were found to not have fulfilled their financial statement obligations. Companies that experienced loss might have increased their operational expenses or incurred huge debt. However, these companies have made some profits.

Khukh Gan, which is thought of well by investors, was ranked as one of the lowest. What happened there?

Khukh Gan has licences for several iron ore deposits. This low ranking might be associated with a fall in export volume of iron ore products in relation to the parliamentary election held in 2012.

Цэвэр өгөөжийн үзүүлэлт	№	Symbol	Company name	Sector	Balance sheet			Income statement			
					Asset	Liabilities	Stock holders equity	Revenue	Operational expense	Non-Operational profit	Net profit
20% дээш	1	BNG	BAYANGOL HOTEL	hotel	30,855,471.60	4,969,536.70	25,885,934.90	8,658,014.20	1,064,049.40	50,130.30	3,868,959.70
	2	ULN	ULAANBAATAR HOTEL	hotel	11,283,547.26	598,642.88	10,684,904.38	6,120,241.80	2,690,738.84	99,576.26	2,286,167.85
	3	BDS	BDSEC	Investment bank	9,923,790.10	239,990.78	9,683,799.32	5,802,926.51	3,019,336.04	-38,666.11	1,479,479.04
10%-20%	4	RMC	REMICON	construction materials	16,723,426.07	5,676,899.48	11,046,526.59	19,258,078.37	2,682,133.41	-111,097.89	2,738,601.71
	5	SHG	SHARYN GOL	coal mining	41,097,779.82	1,402,611.38	39,695,168.43	13,784,353.36	3,609,189.21	389,043.64	1,872,804.53
	6	GOV	GOBI	cashmere products	67,704,952.60	30,766,893.30	36,938,059.30	40,826,785.90	5,643,730.50	763,378.90	5,250,708.70
	7	SUU	SUU	Dairy product	28,923,153.80	18,033,749.90	10,889,403.90	24,880,484.10	3,351,744.30	-475,671.90	2,533,625.30
0%-10%	8	TTL	TAVANTOLGOI	coal mining	67,250,227.40	22,815,638.50	44,434,588.90	102,696,824.00	923,671.10	-1,879,132.10	9,188,233.50
	9	JTB	GENCO TOUR BUREAU	Tourism	8,968,655.60	385,350.90	8,583,304.70	2,773,012.60	1,090,506.90	-28,277.50	237,617.50
	10	APU	APU	beverage	169,776,504.57	83,683,144.85	86,093,359.72	284,335,454.42	109,375,446.71	-1,189,432.71	23,455,152.38
	11	TCK	TALKH CHKHER	bakery	33,277,517.90	15,750,326.00	17,527,191.90	20,688,667.60	3,419,243.00	-64,764.70	1,385,664.80
	12	BDL	MOGOIN GOL	coal mining	2,731,797.90	862,614.70	1,869,183.20	1,154,392.00	102,636.20	13,160.50	33,868.40
	13	MCH	TELECOM MONGOLIA	telecommunication	42,533,545.10	10,180,868.30	32,352,676.80	23,043,615.40	4,209,793.10	412,774.70	309,968.90
	14	MDR	MONGOLIAN DEVELOPMENT RESOURCE	Real Estate	18,215,518.17	1,917,527.30	16,297,990.89	540,767.10	1,003,688.90	1,356,380.77	810,871.33
0% доош хувь	15	MSH	HOTEL MONGOLIA	Tourism/hotel	5,592,605.10	2,317,207.00	3,275,398.10	909,575.70	635,336.00	-8,620.10	-18,415.40
	16	SIL	SILICATE	silk. brick, lime	9,041,974.70	5,126,646.80	3,915,327.90	3,206,251.60	284,745.30	-86,452.80	-109,452.10
	17	BAN	BAGANUUR	coal mining	94,060,833.10	70,525,623.30	23,535,209.80	74,145,520.60	10,356,729.80	-165,724.50	-5,802,392.40
	18	SHV	SHIVEE OVOO	coal mining	87,161,792.90	71,118,991.36	16,042,801.55	27,190,377.80	1,371,330.10	-314,216.40	-4,234,857.40
	19	UID	STATE DEPARTMENT STORE	trade, service	10,926,797.20	11,049,368.50	-122,571.30	2,279,703.10	2,908,329.80	-26,627.30	-655,257.10
	20	HGN	KHUKH GAN	Iron ore product	16,260,903.80	8,322,224.50	7,938,679.30	413,974.50	221,380.30	-13,927.90	-133,170.90

Its capitalisation accounts for MNT 16 billion, debt is MNT 8 billion and stockholders' equity is MNT 8 billion. This is considered quite enough to continue operations in the future. We can see the fact that the company's sales were not good last year. The companies who did not meet their financial statement obligations are already in trouble, but they sold their products on the market. For example, Shivee-Ovoo earned MNT 27 billion in revenue, but its loss exceeded that revenue by MNT 4.2 billion. Why are companies that earned good profits failing to submit their statements?

This will be considered by our council as a high priority. If necessary we will suggest to the appropriate organisations they make a proposal for a joint investigation and take the necessary actions.

What are your thoughts on competition in the market?

In 2012, the Bayangol and Ulaanbaatar hotels showed that the hotel sector has made substantial profits. However, while Hotel Mongolia's sales revenue was MNT 909 million, net profit was merely MNT 18 million.

Why are its operational expenses so high? There are three possibilities. Firstly, it could be because of poor management. Secondly, suspicion is warranted that the company may hide its net profit so they can avoid paying out dividends. Finally, indebted companies may use a majority of their revenues to repay that debt.

What are the expected results from this analysis?

Outstanding shares -	Хаалтын ханш 2013 оны 3-р сарын 21-ны байдлаар	Market Capitalization	Нэгж хувьцаанд ногдох (төгрөгөөр)					Net Margin	Ratio		Market Indicators	
			Book value per share	EPS	Dividend per share	Dividend per share	Dividend per share		ROE	ROA	P/E	P/B
423,065	39,000.00	16,499,535,000	61,186.66	9,145.07	340.00	343.00	350.00	0.45	0.15	0.13	4.26	0.64
335,297	93,600.00	31,383,799,200	31,866.98	6,818.34	250.73	300.00	300.00	0.37	0.21	0.20	13.73	2.94
11,000,000	3,500.00	38,500,000,000	880.35	134.50	-	-	50.00	0.25	0.15	0.15	26.02	3.98
78,679,464	196.00	15,421,174,944	140.40	34.81	-	1.60	5.00	0.14	0.25	0.16	5.63	1.40
8,523,985	8,500.00	72,453,872,500	4,656.88	219.71	-	-	-	0.14	0.05	0.05	38.69	1.83
7,801,125	4,510.00	35,183,073,750	4,734.97	673.07	-	100.00	100.00	0.13	0.14	0.08	6.70	0.95
344,000	80,000.00	27,520,000,000	31,655.24	7,365.19				0.10	0.23	0.09	10.86	2.53
52,665,200	6,600.00	347,590,320,000	843.72	174.46	550.00	1,300.00	1,368.00	0.09	0.21	0.14	37.83	7.82
100,000,000	85.28	8,528,000,000	85.83	2.38	1.20	1.25	1.50	0.09	0.03	0.03	35.89	0.99
74,287,700	3,503.00	260,229,813,100	1,158.92	315.73	20.00	40.00	60.00	0.08	0.27	0.14	11.09	3.02
1,023,703	11,230.00	11,496,184,690	17,121.36	1,353.58	-	-	90.00	0.07	0.08	0.04	8.30	0.66
829,622	14,000.00	11,614,708,000	2,253.05	40.82	-	5.00	5.00	0.03	0.02	0.01	342.94	6.21
25,870,276	1,800.00	46,566,496,800	1,250.57	11.98	32.00	32.00	13.28	0.01	0.01	0.01	150.23	1.44
13,750,000	910.00	12,512,500,000	1,120.10	58.97	-	-	-	N/A	0.05	0.04	15.43	0.81
10,000,000	1,000.00	10,000,000,000	327.54	-1.84	-	-	-	-0.02	-0.01	0.00	-543.02	3.05
46,334,602	198.00	9,174,251,196	84.50	-2.36	-	-	-	-0.03	-0.03	-0.01	-83.82	2.34
20,974,360	4,500.00	94,384,620,000	1,122.09	-276.64	-	-	-	-0.08	-0.25	-0.06	-16.27	4.01
13,419,101	7,000.00	93,933,707,000	2,025.84	-315.58	-	-	-	-0.16	-0.26	-0.05	-22.18	3.46
36,807,850	390.00	14,355,061,500	-3.33	-17.80	-	5.00	-	-0.29	5.35	-0.06	-21.91	-117.12
101,317,557	180.00	18,237,160,260	78.35	-1.31	-	-	-	-0.32	-0.02	-0.01	-136.95	2.30

We are focusing on the improvement of corporate management and the enforcement of the business ethics for corporate governance. If a great deal of operational expense comes from poor management, stockholders should have the opportunity to make changes to the board of directors. If board meetings are not held before they are due, or if any board members continue to ignore the course for the acquisition of licences following the passage of last year's law, we can now say that those board members and executive directors are legally incompetent.

And I would like to kindly remind stockholders that now you are entitled to enjoy your rights according to the law.

Why are some incompetent companies still included in the Top 20 if 92 out of the 204 surveyed companies have earned enough profits like you say? Can some of those other companies replace the poor performers on the Top 20?

Absolutely. That is the main point, indeed.

Why does the MSE let those who experience loss stay on the Top 20 list? Some of those 92 companies should be included on the list. From now on we expect to evaluate companies through their margins by sector. Doing so enables us to evaluate whether companies are run well or not, to force boards of directors to carry out their responsibilities of supervising their companies' managements, and to allow stockholders make demand from their boards if necessary. ■

THE BUSINESS COUNCIL OF MONGOLIA

NEWSWIRE HIGHLIGHTS

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

BUSINESS

RIO TINTO SAYS TALKS WITH MONGOLIA ONGOING, PRODUCTIVE

Rio Tinto PLC is having productive talks with the Mongolian government over the investment agreement for its Oyu Tolgoi project, the chief executive of the global miner's copper division said on Tuesday.

Rio and Mongolia are at loggerheads over the future of one of the world's largest untapped copper deposits just as the mine ramps up output and the Rio Tinto subsidiary that owns it tries to line up USD 4 billion for the next stage of development. The mine is operating under a temporary budget after the two sides failed to agree on a deal last month, having disagreed over taxes and rising costs that Mongolia fears will erode prospective earnings.

"While there are complex issues that need to be resolved, constructive progress is being made," said Jean-Sebastien Jacques, speaking as part of the CESCO/CRU copper conference in Santiago. "We continue to have productive discussions with the government on a range of issues."

Source: Reuters

ASPIRE STUDY HIGHLIGHTS $200M SAVINGS FROM NEW OVOOT RAIL ROUTE

Aspire Mining has completed a rail pre-feasibility study revision confirming that it could save USD 200 million by taking a more direct route further to the south for its proposed Erdenet to Ovoot rail extension in Mongolia. The plan reduces capital expenditure for the rail line to USD 1.3 billion.

Importantly, further capital expenditure cost savings are possible from a de-rating of haulage capacity from 22 million tons annually to an initial starting capacity of between 10 million and 12 million tons per year. Optimisation of the eastern half of the alignment could also result in additional cost savings.

Aspire will continue to work on advancing the Erdenet-Ovoot railway by providing more engineering definition and progress towards a bankable feasibility study. When the definition is at a suitable stage the company will start the process to seek a rail concession and the other supporting permits and approvals required from the Mongolian government.

Source: Proactive Investors

ECONOMY

MONTHLY FDI REACHES NEW LOW

The Balance of Payments statement from the Bank of Mongolia in February revealed a 51 percent fall in foreign direct investment (FDI) year on-year.

The fall follows last January becoming the lowest income of FDI since 2010. February's USD 81 million drop, however, is the clearest indication seen so far of falling FDI.

"We don't know whether FDI will continue to fall or rise back again," said the source. "The recent declines in FDI seem to have been caused mainly by political developments—last year's foreign investment law, new Minerals Law, debate over OT—and politics, as we have said, is hard to predict.

Source: Mongolia International Capital Corp.

MONGOL BANK CUTS INTEREST RATES FOR SECOND TIME THIS YEAR

Mongolia's Central Bank cut interest rates for a second time this year to bolster economic growth as inflation eases and foreign investment falls.

The Bank of Mongolia reduced its policy rate to 11.5 percent from the previous 12.5 percent effective 8 April, according to a statement posted to its website today. The cut is aimed at increasing domestic credit and investments and simulating business activities, it said.

Mongolia in January cut interest rates for the first time since 2009 after economic expansion moderated to 12.3 percent last year from a record 17.3 percent in 2011 and foreign investment fell 17 percent. Growth slowed as the price of coal, Mongolia's biggest export, declined and the government introduced more controls of foreign ownership of mining assets.

A deceleration in the face of inflation over the last four months and the monetary authority's estimate for further slowing was the main reason for the cut, Sandagdorj Bold, the Central Bank's chief economist, said in an interview in Ulaanbaatar today. Mongolian trade and foreign investment were also factors in the decision, he said.

“We are concerned about the FDI [foreign direct investment] and foreign trade environment.”

Inflation eased to 11.3 percent at the end of February from 14 percent at the end of December, Bold said. The Central Bank expects the pace to fall further this month, he said.

“In upcoming months we think we will see downward inflation,” Bold said. “So it's consistent with our target of 8 percent inflation by the end of the year.

Source: Bloomberg

POTLICS

PRESIDENTIAL ELECTION SCHEDULED FOR 26 JULY

The General Election Committee (GEC) has scheduled the presidential election for 26 June.

The Standing Committee on State Structure held a meeting to discuss the issue on 9 April. It was then that the GEC chairman proposed the date June 26.

One MP, R. Burmaa, criticised the budget allotment, saying was increased without any basis. According to the Standing Committee, total election expenditure is set at MNT 17.2 billion, of which, MNT 392 million will be spent for the parliamentary re-election and MNT 91 million for media observation.

Source: News.mn, Undesnii Shuudan

DEPUTY MINISTER PLEAS FOR CONSENSUS FOR RETURN OF FDI

Economic Development Deputy Minister Ochirbat Chuluunbat pointed to Mongolia's flagging reputation among investors as a key trigger to the fall in foreign direct investment in Mongolia.

Chuluunbat cited the Strategic Entities Foreign Investment Law (SEFIL) as well as disputes with Oyu Tolgoi and Chalco as key issues that have raised concerns among investors in Mongolia. He noted that investors such as Rio Tinto PLC are free to move their operation to locations such as Myanmar, Mozambique, Mexico, and Bolivia. To encourage an investor to open up operations and maintain them for five or more years, they would need stable legal and tax conditions.

“It is high time to revise our FDI conditions and its legal environment. It does not mean spending extravagantly as happened in 1997. Today we are discussing the fact that the entities that have special permissions to use our wealth have to pay the country, to transfer the licenses to those who have money and for professionals.”

Chuluunbat said amending SEFIL was a step in the right direction, explaining it was important that the law does not look to be charged against foreign investors. As for the Oyu Tolgoi investment agreement, he said the operations should be allowed to run for two to three years before any quick judgments be made.

“The managers who lead OT are also clever and understand that they have to share the country's wealth with its citizens as they utilise the wealth.”

He took the Boroo Gold project, owned by the Centerra Gold, as an example: Following the logic of many politicians, he said, the investment agreement there was terrible because the foreign investor owned the project 100 percent. Yet, in the 10 years of operation there, Boroo has exploited MNT 1 trillion worth of gold, of which 60 percent was direct to the Mongolian government.

Source: Business-Mongolia.com ■

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