

For a green development

MONGOLIAN ECONOMY



Partnering Against Corruption
Initiative Global (PACI)

Corporate Social Responsibility of
the German Companies

Mongolian Economy and Business Magazine

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GOVERNMENT

The Government has approved the 2013-2017 Investment programme. One of the leading directions of the Investment programme is set to create a favourable framework for development in addition to work and living conditions for Mongolians. The other objectives are to shape people-friendly governance, regional economic development, a layout for the basis for responsible mining and heavy industry, enhanced competitiveness for processed goods, and the development of intensified agriculture and infrastructure that promotes economic growth. Financing will come from the state budget. A public-private partnership in accordance with international standards will be utilised for the realisation of the project.

CONSTRUCTION

The government has made plans for a 623-kilometer railway running through Erdenet, Murun, and Ovoot Soums to cost USD 2.2 billion. The railway will travel through Tsetserleg, Murun, Tsagaan-Uul, Burentogtokh, Tosontsengel, Tumurbulag, Rashaant, Ikh-Uul, and Tarialan Soums in Khuvsgul Aimag as well as Khutag-Undur and Bugat Soums of

Bulgan Aimag and Bayan-Undur Soum in Orkhon Aimag. Coal producers will transport 13.5 million tonnes towards Ovoot and Murun and 22.2 million between Murun and Erdenet. Between 11 and 18 rains will travel the route daily

ULAAABAATAR



Technology in accordance with European standards will be utilised to reduce air pollution in Ulaanbaatar. Bakro Khiz, a joint venture between The Czech company Bakro and Mongolia's Gan Khiz, will open operations for small and medium energy consumption. They plan to begin delivering energy by September 15, when the city's central heating system will be turned on.

The company conducted a survey on saving energy, reducing heat loss, and smoke emissions after installing equipment to measure the smoke produced by families in the Sukhbaatar and Chingeltei Districts. The study shows that the effort has resulted in energy savings of at least 19 percent with the possibility of achieving up to 50 percent.

AGRICULTURE

Members of herders' co-operatives have started to receive MNT 2,000 bonuses for each kilogram of sheep and camel wool sent to national factories since 2011. A total of MNT 9.8 billion was granted in bonuses for 4,924 tonnes of wool collected from 32,977 herders from 231 counties. Herders submitted wool to 85 national factories.

FOREIGN TRADE

Mongolia has traded with 123 countries in the first quarter of this year with the total turnover of foreign trade reaching USD 5.6 billion. That figure comprises exported goods worth USD 2.3 billion and imports of USD 3.3 billion. This is due, in part, to 8.1 percent growth in imports compared with exports. The total volume of goods increased by USD 857.2 million, or 18.2 percent, compared with the same period last year. The volume of imports increased by USD 587.7 million, or 21.6 percent, and the volume of exports grew by USD 269.5 million, or 13.5 percent. There was a total of 98.6 percent growth in the export of mineral products and animal hides.

INDUSTRY

Total production from industry in the first quarter of this year reached MNT

1.1 trillion, an increase of MNT 81.8 billion or 8.7 percent, compared with the same period last year. Production of the main products from the mining industry, including copper concentrate, molybdenum concentrate, crude oil, and iron ore, all saw increases ranging between 1.6 and 63.8 percent. Additionally, there was growth of between 0.9 percent to 5.4 times last year's figures in processed goods, including vodka, carpets, cement, baked goods, beverages, base metals, phones, and meat.

HEALTH



The foundation to the National Diagnosis and Treatment Center is complete. The project is financed through USD 55.4 million of a USD 300 million soft loan from the government of South Korea with the Mongolian government to provide an additional USD 10.5 million. The center is planned to have modern equipment and departments for x-rays, laboratory work, gastrology, surgery, emergency care, and intensive treatment.

TOURISM

According to a survey



by ECA International, an international research organisation with head offices in Hong Kong and London, Ulaanbaatar is the most favourable and least expensive city for tourism, business travel, and immigration. The survey named Tokyo as the most expensive city in Asia and the world.

BUSINESS

Results from the Business Trust Index for the first quarter of this year by the Mongolian National Chamber of Commerce and Industry (MNCCI) report satisfactory marks for Mongolia's business environment. In order to improve the business framework, MNCCI recommended reduced interference in business from the state in addition to less corruption and bureaucracy, compliance with laws, and the creation of a framework for fair competition.

CHINA

China is growing at its slowest pace since the recession -- a worrisome sign for the broader global economy.

Compared to a year earlier, China's economy grew 7.6 percent in the second quarter, the National Bureau of Statistics said Friday, marking a deceleration from an 8.1% growth rate in the prior quarter and the slowest growth since early 2009.

While the rate still sounds fast compared to paltry 2 percent growth in the United States, it marks an uncomfortable soft patch for China. Over the last three decades, the country has barreled ahead at an average of about 10 percent a year.

The slowdown can be blamed on a variety of factors. China's government was aiming for a slight deceleration,

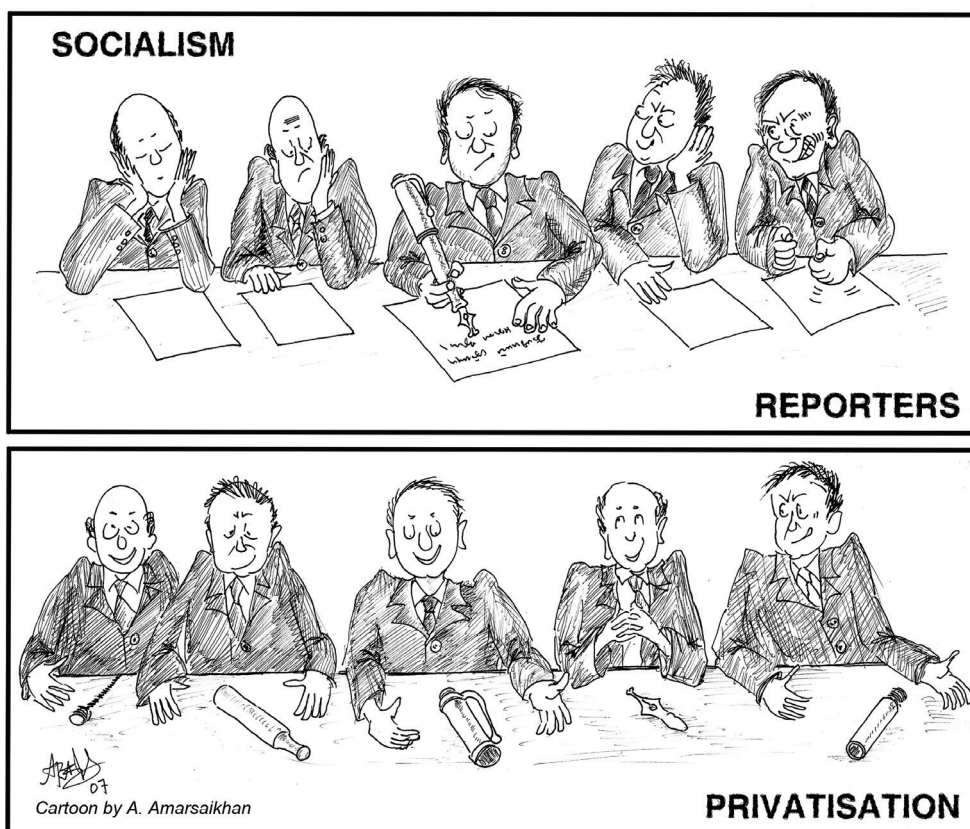
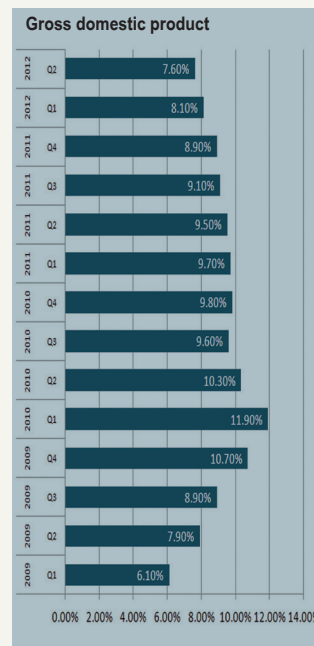
as it tried to tame its real estate boom and rapid inflation.

Those measures have largely worked, with ongoing real estate regulations weakening property sales. Meanwhile, inflation recently fell to its lowest rate in two years.

But the timing of those efforts has coincided with turmoil in the global economy. Weaker demand from foreign customers, especially in Europe and the United States, has hit Chinese exports hard, and its manufacturing sector has slowed.

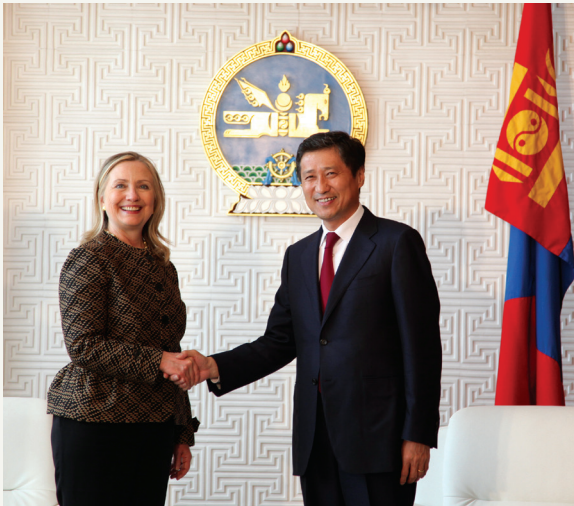
Overall, the economy is now slowing more quickly than initially hoped, and the ripple

effect can be felt especially at large multinational companies.



XӨМЦӨГ

ORDINARY BUT LORDLY LADY



Almost all of the seven billion people in this world people know her. The 67th U.S. Secretary of State, Hillary Clinton paid an official visit to Mongolia just before the Mongolian traditional holiday of Naadam. Though Clinton is 65 years old, she looks younger and livelier, and always has a smile on her face. For her Mongolia visit, she was dressed in a yellow-striped jacket, black pants, flat yellow shoes and some golden accessories. Accompanied by G. Zansanshatar, minister of Foreign Affairs, she seemed extraordinary modest, yet majestic, during her walk to the Chinggis Khaan statue At Sukhbaatar Square.

Clinton first came to Mongolia 17 years ago as the first lady of the United States when her husband Bill was president. This time, however, she visited as secretary of state to take part in the fourth special meeting of the Governing Council of the Community of Democracies and the International Women's Leadership Forum.

Clinton met with President Ts. Elbegdorj at the president's ger and then delivered a speech at the closing ceremony of the Women's Leadership Forum. Elbegdorj came up on the stage to give a speech to introduce the U.S. official, quoting her book: "Mongolia has been an example of how democracy can prevail in places, where democracy seemed impossible. I say to democracy doubters to come to Mongolia".

Adding his own thoughts, Elbegdorj said, "I say to women's equal rights and capability doubters to come to Mongolia".

The president's speech made both audiences and authors smile and applaud. Though the United States has had 200 years of democracy and 44 Presidents, it has never had a woman president. Over Mongolia's 20 years

of democratic experience it has had four presidents.

"I believe, there will be a woman President in Mongolia soon", added Elbegdorj.

After the president's speech, Clinton came up on stage with her smooth and soft walk. Her baritone voice, unusual for a woman, startled the audience with its strong character. The way she delivers a speech expresses strong character, placing her chin over the microphone and using her cross hang seldom to add some strength on her speech.

"Mr. President, I love the way you ended your remarks, that you hope someday you will have a woman President of Mongolia. I think the United States and Mongolia should be in a race to see who gets there first".

Clinton began her speech by describing her impression during her first visit.

"Seventeen years ago, when I was first lady of my nation, I made an unforgettable trip to Ulaanbatar. Like many who came here, I was enchanted by this nation's beauty. I was especially inspired by the Mongolian people's commitment to democracy."

"Surrounded by two powerful nations who have their own ideas about Mongolia's future, the Mongolian people came together with great courage to transform the one-party communist dictatorship into a pluralistic democratic political system. This is the right time to be reminding ourselves about the importance of democracy in Asia, as many countries drive hold with the question of which model of governance best suits their societies and circumstances because the path they choose will shape the lives of billions of people in different regions and beyond.

"What we really want for the people of this region, as we do for the entire world, is that you be free to make these choices for yourselves. People who are free to choose overwhelmingly choose with democracy. Why? Because it offers people the chance to live with dignity and to create better lives for their children. It offers societies a better way to resolve disputes peacefully, share a common vision for one society and a nation. By every measure, democracy is the freedom to make a choice.

"Some suggest democracy is unsuitable to Asian values. All we have to do is look what is happening across Asia today in countries large and small to rebut this notion. Taiwan had a peaceful election. Asia's youngest democracy, Timor Les, had just parliamentary elections. In India, the world's largest democracy, more than one million women serve in local elected offices, working



every day and producing results that improve their lives.

“There is an argument that democracy is a privilege belonging to wealthy countries, that developing economies need to put economical growth first and worry about democracy later.

“Now, Asia does have several examples of countries that achieved initial economical success without meaningful political reform. But that is too short-sighted, ultimately an unsustainable bargain. You cannot, over the long run, bring economical liberalization without political liberalization. The progress of democratic development is directly associated to man and woman’s equal rights.

“To support democracy, we need to talk about women’s participation. Women’s rights are human. A human’s right is a woman’s right. Here we are, all come to Mongolia to reaffirm Mongolia’s and our support for democracy in the region, the world, and particularly highlighting the opportunity for women in democracy.

“In the past Mongolia has held six successful rounds of parliamentary elections. You recently passed a long-awaited freedom of information law, giving your citizens a clearer view into the workings of to their government. They also tried to run the election according to a high standard.

“I can see that there are more members in Mongolian parliament. I believe the newly formed Mongolian government will implement the projects that will bring [the country] up to a new stage of development and make important decisions that Mongolians are waiting for, like how you successfully brought your significant archaeological discovery of a dinosaur back to Mongolia, recently.

“I believe you can launch a battle to fight against corruption successfully. The USA wants to be a strong partner to all those dedicated to human rights and fundamental freedoms”.

The International Women’s Leadership Forum focused mainly on women, energy, and sustainable economic development as well as women as leaders in the both public and private sectors.

Ts. Oyungerel one of Mongolia’s nine woman members of parliament, said, “The participation of Hillary Clinton in this event, held in Mongolia, lifted up the significance of this women’s leadership forum to the world’s agenda”.

Clinton’s tour through Asia may be connected to Mongolia due to many political and economical events occurring here. Her trip reflects the strategic priority of U.S. foreign policy today. At the end of her speech, she congratulated the newly elected members, in particular to the women, of Parliament and took a photo with them.

After her speech, Clinton participated in the Lend network event held at the Government Palace where she met soon-to-exit Prime Minister S. Batbold. Batbold highlighted the bilateral relationship and cooperation that has been intensifying in the recent years between the United States and Mongolia.

He added that there is much opportunity to develop Mongolia’s third-neighbor-country relationships for economic and political gain.

During her one-day visit, she also took part in a special meeting of the Governing Council of the Community of Democracies, which also had other prominent guests such as former President of Kyrgyzstan, Roza Lsakovna Otunbayeva, Estonian Foreign Affairs Minister Urmas Paet, and U.N. Deputy High Commissioner for Human Rights and Assistant Secretary General Kyung-wha Kang. After Mongolia, Clinton traveled on to Vietnam and later Laos to be the first U.S. secretary of state to visit in 57 years. Later still, she joined leaders from across the region at the ASEAN forum in Cambodia.

WORLD ECONOMIC FORUM,

PARTNERING AGAINST CORRUPTION INITIATIVE GLOBAL (PACI)

BY B. EKHTSETSEG

Project manager: Arthur Wassuna

This issue is a behavioural issue

There are many programs out there specialising in anti-corruption efforts. What sets yours apart from others?

What we find that is unique about PACI are essentially three things. One is the fact that we actually require companies to implement something. That's really unique. A lot of the other anti-corruption initiatives out there—if you talk about the U.N. Global Compact, Transparency International, and many others out there—most of them don't require companies to implement anything. Most of them just say lets join together and lets go forward.

The other thing is our private sector focus. If you look at the anti-corruption landscape, most are more focused on the public sector. But there are very few focused on the private sector. I think the third thing is the fact that we are a cross-sector initiative.

If you look at initiatives like EITI [Extractive Industries Transparent Initiative], they do call for companies to implement something. You could say they are somewhat private sector focused but they fail in terms of the third consideration. They are not cross sector but fairly focused on one sector. If you look at those three things, they are what make PACI unique.

How do you ensure that companies implement your directives correctly?

When companies join PACI we require them to complete what we call an implementation commitment survey. What that does it is says how far the company has gone even before joining in terms of implementing the program and assesses the PACI principles, what they need to do to actually implement the program.

Every two years they have to complete this survey and through that we are able to assess the extent to which they actually comply. Non-compliance is a consideration for delisting. Or, if there is a systemic case of corruption, again we delist them. We are very strict on that.

What countries that joined PACI have had the best results in their efforts to rid their institutions of corruption?

First of all, I'd like to mention that only companies can join



PACI. If you look at a company like Siemens, for instance, they joined PACI three or four years ago after they had a big scandal that you may have heard about. Right now, even beyond PACI, they are one of the major companies working on the anti-corruption front. They've even established a USD 100 million fund to fund anti-corruption initiatives all around the world. This has been a huge transformation for the company and it also reflects well for the industries and countries in which they work.

In terms of countries, I wouldn't talk of PACI specifically. But what we have is the Global Agenda Council on Anti-Corruption in the World Economic Forum, which is essentially a high ranking economic body for anti-corruption. One of the members of the council is the prime minister of Georgia. I think they've done a great job in terms of transforming the mindset in that particular country, making it more clean and less corrupt. They've taken quite a radical approach, but it just depends as what works in Country A might not work in Country B.

Mongolia doesn't seem to be alone in the fight against corruption. How did you come to the decision to choose Mongolia and root out corruption?

Mongolia is a good example of what we look for when we're going to these countries, and that is political commitment

coming from the top. When we came here initially, we were drawn in by the mining sector in Mongolia. The forum has a mining team in addition to the anti-corruption team and they were doing a presentation on responsible mining. Part of that has a transparency compliment. My team was initially drawn into the project to provide some kind of presentation for that transparency bit.

When this was seen by some of the higher ranking government officials here, we were called upon to present a much broader based plan for all sectors, not just mining. That then led to the formation of PACI Mongolia. The most important thing was political commitment, which was there, and also a strong chamber [the Mongolian National Chamber of Commerce and Industry] and business community that's committed to anti-corruption.

The third thing is this country is now emerging. It's a very good time to put in place some of these controls and make sure that these resources are actually used for the benefit of the population.

What do you think is the general trend for fighting corruption worldwide now?

For one, the fight against corruption in the world is picking up pace, driven chiefly by two factors. One has been the adoption by the Group of 20 [G 20] countries. They have a very ambitious anti-corruption action plan. This is the first time that the G20 has talked about the issue.

What is unique about that plan is part of it calls for the private sector to partner with the G20 group in terms of implementing the plan. That has never happened before. There's been a very heightened focus on anti-corruption.

The second thing has been the promulgation of far-reaching national laws on the issue. You are talking about the U.S. FCPA [Foreign and Corrupt Practices Act], which is being enforced much more rigorously now. There is also the U.K. Bribery Act, which came into force last year. It provides for wide-ranging jurisdiction for U.K. courts to punish companies that engage in corruption, even outside the territorial boundaries of the UK. That's a huge impetus for companies to do clean business because many companies have operations within the UK and then fall under the act.

I think those two issues from a policy perspective and also from a legal perspective have been critical in moving the fight forward.

What can someone do when they come into contact with corruption and are asked, for example, to give a bribe to a loan officer for approval of a mortgage?

It's an interesting problem and it's not just with the banking sector. It's also many other service industries. When you want a service, the process continues to delay until you provide what they want, even if they don't make an explicit request for a bribe.

It differs from country to country. In countries that I'm familiar with, the banking sector is heavily regulated. They have an oversight body that looks at various issues to do with banking, not just corruption but also interest rates and things like that. They should have some sort of bankers association where affected borrowers can go and complain

about instances like this because it could be a very small issue that only concerns the relevant loan officer. That's case number one. Case number two is it could be a systemic issue with the bank. It's difficult to tell; it depends on the individual circumstances of the case.

The first line of defense would be to approach whoever it is that is the banking regulator and complain about this and have them take action if it's a management issue. If it's a local issue then they need to approach whoever the senior person is and make the complaint.

Mongolia has a law that punishes people for making such a complaint. It expects people to look elsewhere for that sort of service. These issues seem to be well ingrained in society too. How can we tackle this issue?

I totally agree and that is why I say this issue is a behavioural issue. It's about changing mindsets in behaviour, it's not about skill. A loan officer knows it's wrong to demand a bribe, but he'll do it because he knows he can get away with it or because it's something that is established practice. That's a more difficult problem to solve.

Part of it is what you're saying about ordinary people's awareness, making sure people are aware this is not acceptable. The other part is about enforcing the law. There must be a law against doing that and if it's properly enforced then this shouldn't happen. There should be some form of complaint mechanism to go through. At least that's the way it's done in other countries. I'm not sure about the particular Mongolian context, but that's what I can think of.

When will you return to monitor the process?

I've hired a project manager for Mongolia, a Mongolian, to work this particular project, so it's unlikely that I'll come in person. But he will be coming more often to work with the chamber towards implementing the work plan they agreed on.

How will PACI follow the progress of companies implementing your anti-corruption directives?

The first thing for them was to design a plan. Sixty out of 150 of them, I think, have done that. The next stage for those who haven't designed their plan is to design it and then the chamber can coordinate and make sure the plan is being enforced.

What else can we do to increase people's awareness about corruption and it's not something they should tolerate?

Last year I came to the Mongolian Economic Forum and as far as I can remember there wasn't a dedicated anti-corruption session. I think this year there was a good effort to make sure that the issue is at least at the top of people's agenda.

As PACI Mongolia continues to grow in stature, and size I guess that will feed into public awareness. In particular there is the fact that we don't only have a multi-stakeholder board but also a very good backing from the president's and the prime minister's offices. This is critical in terms of changing mindsets and behaviours. It's going to be a step-by-step process, but I think we are generally on the right track. ■

EQUITY

LEADING MONEY TO WHERE THE BUSINESS IS**MONGOLIA HAS BECOME A HOT TARGET FOR INVESTMENT, BUT INVESTORS (ESPECIALLY FROM ABROAD) ARE LEFT WITH FEW OPTIONS**

BY TERRENCE EDWARDS

Businesses are certain to hit a brick wall in their development without diverse sources of capital. Mongolia may be a stronger magnet for investment than ever before, but few pipelines to fund growth are available to foreign investors. While businesses are on the fast track to growth, banks are struggling to keep up.

Banks reported this year that a credit crunch is on the way. In 2011, banks were active in helping finance start-ups and expansion activities. However, their pockets only run so deep, and they will find it difficult to finance the high costs for exploration. And they will not be able to continue that trend for this year with capital dwindling.

Fortunately, banks are not standing idle, and some are getting a helping hand. This year Golomt Bank sold 5.02 percent interests to global commodities trader Trafigura, and before that Trade and Development Bank sold 4.8 percent to Goldman Sachs. All four of Mongolia's top banks have either already released debt offerings or plan to do so as well.

Banks can't do it alone, however. And it would be wise for some of Mongolia's business to watch closely how these banks expand. Not only does it given them the opportunity to take advantage of the added liquidity, but there is no reason why they cannot replicate some of these moves for themselves. If trends continue on this way the pace growth will surpass the amount of capital available, eventually putting on a halt on any progress.

Private Purchases

None of Mongolia's banks have gone public to list on a market exchange domestically or internationally yet. As Randolph Koppa, Trade and Development Bank of Mongolia's president, relented long-term investments are too few in Mongolia and banks are wise to avoid too much exposure to risks.

"Banks are not here to take equity risks, but we need it to get money".

He added that long-term investment opportunities were too few in Mongolia, with a lack of local currency debt offerings and few funds for enterprises private investment.

With banks continually falling behind the pace of growth,

with a possible shortfall of USD 465 million by 2017, banks are on the lookout to go beyond deposits and investment strategies. Private equity placements are one way to added liquidity, as Trade and Development did early last February. The bank was the first this year to announce a sale, and was the first ever to release a debt offering in Mongolia.

For Goldman Sachs the debt offering was a chance for it to get in before the banks do eventually go public, as all of Mongolia's top four banks intend to do, Koppa said. He said with Mongolia's growth banks have a high expectation for greater valuation in the coming years. Trade and Development Bank walked away with the money it needs to expand, with some of that to finance the loans small businesses need to open up shop; while Goldman Sachs got its strong investment.

While the number of loans taken out are indeed on the rise, the loans to gross domestic product ratio is still relatively low. In 2009, the ratio stood at 32 percent for Mongolia, on par with Malawi and Papua New Guinea. However Koppa guessed that would rise too, to about 75 percent in the next three or four years. Bank assets are on the rise too, on the path to triple to 21.4 billion compared with USD 6.7 billion today.

The private purchase deal also gives Goldman Sachs a foothold into the Mongolian marketplace. Apparently weary from troubles in the west, the U.S. investment giant has apparently set its sights on emerging markets just like Mongolia. While the west remains bogged down by sovereign debt issues and low employment, emerging markets are starting to boom, providing a much needed counter balance to the doom and gloom.

"The financial sector is considered as one for the most geared to Mongolia's rapid economic growth, which is being fueled by investors," said securities firm Eurasia Capital in response to the purchase by Goldman Sachs. "The sector has already attracted considerable investor interest from Japan, the USA, Russia, the UAE, and some others."

Eurasia Capital was in the opinion that this would be a growing trend, and that foreign companies would continue to target the financial sector as a means of getting to take part in the storm of economic activity stemming from the booming minerals sector. »



To the Markets

A great deal of growth to the private sector depends on the Mongolian Stock Exchange as well. A local exchange is necessary to fill the gap for much smaller enterprises that are not likely to catch the attention of private financiers.

While investment brokers and dealers in Mongolia like to trumpet headlines calling the Ulaanbaatar securities market the best performing exchange in 2010 and the second best in 2011, the actual growth was rather negligible. Although total capitalisation at the exchange did indeed grow 121 percent in 2010, that growth only really amounted to about USD 663 million compared with the world's top exchanges which trade in the hundreds of billions and trillions. In 2010 total capitalisation on the exchange represented only 18 percent of gross domestic product compared with 51 percent to Indonesia, another mining-based economy. Chile, often chosen as a model for where Mongolia would like to end up, had a market capitalisation to gross domestic product ratio of 161 percent that same year.

Still, there is tremendous potential for equity growth, as Chairman of the Board to the Mongolian Stock Exchange B. Bold pointed out at the IPO Mongolia forum held in March.

There he explained how the entrance of just a few key companies and the privatization of state-owned firms could generate tremendous growth for the exchange, including companies such as Tavan Bogd, Newcom, and MCS, which would add USD 5 billion. If the companies listed on the Hong Kong Exchange (HKEx) were to list in Ulaanbaatar, that would mean another USD 15 billion. Add another USD 15 billion for state-owned firms such as MIAT Airlines and Erdenet Mining Company and between USD 15 billion and USD 20 billion for Oyu Tolgoi and Erdenes Tavan Tolgoi.

While Bold's presentation is perhaps an over-the-top, optimistic look at potential growth, it does provide some idea for the potential in the market. Also, any one of those listings would be worth substantially more than the total growth experienced in 2010.

At the moment the only thing holding it back is a proper legal environment and regulation. The London Stock Exchange (LSE) Group has invested a lot of time and energy to help the Mongolian exchange get on the right track, including the introduction of its Millennium IT software system, which was recently introduced to the market for trading.

Most important is the passage of the Law on Securities, the delay of which has served as a major contributor to the countless decision to push back the public offering to Erdenes Tavan Tolgoi. The law was a major point of focus for the former president of the Mongolian Stock Exchange Bill Goreman, who left his position and Mongolia at the beginning of 2012.

There is still a long way to go before Mongolia can give investors they access they want. The first challenge of attracting investors' notice seems to have been addressed, as evidenced by the opening of new funds and investors entering the market. They will need the tools, however, to transfer their own enthusiasm to investors back home.

Preparing for Takeoff

In his presentations around the world describing the growth experienced in Mongolia, as well as its enormous potential, Koppa likens investment into Mongolia to an A380 jet airplane filled with USD 100 bills. After taking out all the seats, a plane can hold USD 15 billion, weighing about 150 tons, the most a plane that size can hold and still take off. Bills amounting to USD billion can fit in the luggage compartments alone, he said.

The investment is there, but takeoff is the tricky part. It needs the runway long enough for a jet engine that size and with that heavy of a load to take off. It also needs an experienced flight crew and traffic navigators to make sure that the plane takes off safely and reaches the proper destination. Only then, with the proper experience, knowledge and infrastructure, can the plane take off and shower its millions to the people down below. If this same task was attempted with too much haste, before the proper infrastructure and experienced personnel could be put in place, the money would likely end up in the mire, left to sink in the sands of the dunes in the Gobi Desert.

Today the runway is being built and 2.8 million Mongolians are standing there watching. Will the economy take off?



from left: Rainald Thannish (Confederation of German Trade Unions), Ute Kumpf (Member of the German Bundestag)

CSR STUDY TOUR REPORT

CORPORATE SOCIAL RESPONSIBILITY OF THE GERMAN COMPANIES

The secret of this country is in its responsible businesses, which have chosen the paths towards sustainable development. They take care of nature and the environment, contributing a great deal to the social wellbeing while operating profitably.

BY KH. KHULAN

A delegation of Mongolian mining companies visited the companies with the best CSR practices in Germany. Initiated by Gesellschaft fuer Internationale Zusammenarbeit (GIZ) as part of its Integrated Mineral Resource Initiative programme. Representatives from Baganuur, Monpolymet, Erdenes Tavan Tolgoi, Peabody Energy, Centerra Gold, Aspire Mining, Khunnu Coal, Prophecy Coal, Leighton Asia, and MoEnCo took part in the event. Representatives of Mongolian Economy were in attendance to document the proceedings.

The delegation met with the Bundestag (Germany's parliament), the German Ministry of Labour and Social Affairs, Confederation of Trade Unions, energy producer RWE, as well as the companies Thyssen Krupp, Daimler, Siemens, IBM, and several other institutions including the Bertelsmann Foundation, the Bosh Foundation, the Chamber of Commerce and Industry of the Stuttgart and Karlsruhe regions, the Technology Institute Karlsruhe, and Deutsche Bank.

How do you imagine Germany? What pictures come to mind? People associate this country with the great writer Goethe, classical music, football, and even beer. Germany, which has a long history of development, has a leading position on the globe, not only for its arts and culture but also in science, technology, and economics. Everyone knows the brand Made in Germany, but what is the secret to its economic development?

The secret of this country is in its responsible businesses, which have chosen the paths towards sustainable development. They take care of nature and the environment; contribute a great deal to the social wellbeing, while operating profitably.

The concept of sustainable development was developed in the 1980s by the U.N. World Commission for Environment and Development. It closely ties concerns for natural capacities with the social and economic challenges humankind is

confronted with. The commission defines sustainability as a process of change in which the exploitation of resources, direction of investments, and orientation of technological development and institutional change are all in harmony.

Responsible mining is essential for Mongolia, a country that contains tremendous mineral resources.

"IMRI has been working for the past two years with the mining companies as well as with other enterprises with the focus on CSR," said GIZ's IMRI Director, Dr. Stefan Hanselmann speaking on the background of the CSR study tour.

"The results of the survey last year showed that companies need practical information about how to implement CSR in their strategies. Therefore we are organizing this tour for the representatives of Mongolian mining companies to introduce them to the CSR experiences of Germany's leading companies. We believe the practice is more efficient than theory alone".

Eco Parliament

The CSR forum started at the Bundestag and the Ministry of Labour and Social Affairs. The Green Party and environmentally oriented coalitions have been active since the 1980s in Berlin. In front of the Bundestag (the equivalent of Sukhbaatar Square in Mongolia) is a silky green area with bushes growing. Tourists, people on bikes, and parents with their children sit there to relax in the green environment.

Over three million visitors come to Berlin from all over the world to see the German parliament building. The elevator inside of it as well as most of its interior is made of glass, which symbolizes the transparency of its public activities. The upper part of the parliament has 620 seats for parliament members and has a special design. One can look at the members of the Bundestag during their meetings, or go up to the roof of the parliament building while standing inside the huge glass cupola. At the middle of the cupola is a cone-shaped light sculpture with 360 mirrors, a visible indicator of the energy-efficient technology used there.



During the presentation at the Bertelsmann Foundation in Berlin



Rhenish Lignite Mining, Essen



At ThyssenKrupp in Duisburg

► **CSR in Action**

Germany's federal government supports corporate social responsibility, as evidenced by the national action plan for CSR in Germany by the Ministry of Labour and Social Affairs. Its aims include promoting enterprises that champion the practices of CSR and imbedding corporate responsibility practices in small and medium sized enterprises, public institutions and businesses.

Member of parliament Ute Kumpf noted strongly in a presentation she gave that all the standards set for private companies should also be followed by the public sector. She held a speech about corporate social responsibility in Germany, as one with personal affections towards Mongolia. Kumpf joined the delegation when visiting some of the companies and provided additional advice and information regarding CSR.

A national CSR forum with relevant stakeholders was held three years ago by the Ministry of Labour and Social Affairs. Almost 80 percent of all the recommendations submitted to the German government there were adopted, which laid down the foundation for corporate social responsibility nationwide.

Corporate social responsibility activities should be anchored in the core of a business. Its main aim is to address sustainable business operations. The German government focuses especially on CSR for small and medium sized enterprises. A budget of 36 million euros (USD 44 million) has been allocated to finance the consultation and training of these enterprises.

It should also be noted that the public and private sectors have considered the issues of CSR since before the forum was first held in 2009.

Best CSR practice companies

Small and medium enterprises represent 99.7 percent of all German companies. They are thought of as the backbone of the German economy.

According to the European Union's definition of a small- to medium-sized enterprise, one must have up to 250 employees, and may generate 50 million euros in total sales. ►►



Overview of ThyssenKrupp Steel



At Robert Bosch Foundation in Stuttgart



Rhenish open cast mine

► Antje Brehmer, an expert at the CSR Unit of the Ministry of Labour and Social Affairs said that Germany's small and medium enterprises do not widely document their CSR activities but contribute a lot to education and the economy. Policy maker Kumpf noted that CSR should not be considered a public relations activity. However, it is well known that CSR in Mongolia is an essential element of a company's marketing and promotional tools. Companies with good CSR practices are measured by the following criteria in Germany:

- Fair treatment of employees
- Protection and efficient use of natural resources
- Responsible management of the supply chain
- Compliance with human rights and core labour standards of the International Labour Organization
- Transparent operations

German companies implemented their CSR strategy along the "triple bottom line", which is based on social, environmental, and economic dimensions. CSR has been followed actively over the last 10 years, but its origins were developed during the industrialisation era.

German engineer Robert Bosch, the founder of Bosch Group, was a socially-conscious entrepreneur because he believed that the wellbeing of the company was connected with the wellbeing of its workers. In 1906 he was the first German entrepreneur to institute the eight-hour work day. His employees were entitled to free Saturday afternoons and regular vacation. In 1919, the corporate print newspaper Bosch-Zuender included topics on social peace and how to prevent future economic crises.

When the average annual wage for a worker was 1,341 deutsche marks, he paid his staff salaries of 2,000 marks. Bosch believed that, in the long term, an honest and fair approach to business will always be the most profitable. The Bosch Foundation is one of Germany's vital contributing to health, science, education, and international relations.

RWE: Energy Production

One of the highlights of the CSR study tour was a visit to the electricity and gas company RWE in Essen city. The representatives of Mongolian mining companies were able to see the Rhenish lignite mining in real life practice and study the implementation of CSR activities.

RWE is one of Europe's five leading electric and gas suppliers, and the number one energy producer in Germany. The total reserve of the Rhenish mining area is estimated at 20 billion tonnes of brown coal. RWE has a lease to extract 3.5 billion tonnes until 2045. The remnant reserves will be left for the next generation, as decided by the company and the community where the site is found.

This strict resolution was made for the sake of the German citizens and the environment. RWE is already implementing its restoration activities, throwing away the idea that companies should first exploit then restore. When RWE's mining lease expires in 2045, the 180-meter-deep, 23 square kilometer sea will be deemed restored.

The Rhenish mining site consists of three parts: Garzweiler, Linden and Hambach. The open-pit mine has the capacity to extract up to one million tonnes of brown coal during summer.

Last year 91 tonnes was extracted, producing 70 terrawatts an hour. One form of corporate responsibility is also technical renewal. For instance, in Neurath two 1,000-megawatt power plants are constructed.

RWE's CSR strategy:

- Climate protection
- Energy-efficiency
- Innovation
- Guarantee for supply
- Management of supply
- Setting energy tariffs for the market
- Response to changes to demographic
- Labour safety and health management
- Environmental focus
- Social responsibility

In order to run the mining operation in Germany, numerous documents and licenses are needed. Dr. Bernhard Goymann, manager of the Nature and Environment Protection Division, said that environmental issues have become increasingly more important over the last 10 years in Germany. One of the clearest examples of RWE's commitment to protecting the local wildlife from mining activities is its purchase of a piece of land from a private owner dedicated to conserving the local bat and woodpecker populations.

ThyssenKrupp: Metallurgical Production

The delegates put on the uniforms that factory workers wear, including the protective eye-wear, and entered the ThyssenKrupp factory in Duisburg to witness steel production. The green environment principal could be seen even among all the huge pipes. There were even rabbits hopping from the bus window. Outside of the factory building were portraits of the workers hanging.

The history of the company starts with Friedrich Krupp open cast steel factory in Essen in 1811. ThyssenKrupp Steel produces 12 to 20 tonnes of metallurgical products for the international market, including elevators, plant technology, components technology, and marine systems. The company employs 180,000 employees in around 80 countries.

The term sustainability is nothing new for ThyssenKrupp; it has 200 years of experience in this area. For example in 1870 it built a hospital for its workers. Sustainability is reflected in the core of its business strategy, and is based on political and market surveys. For ThyssenKrupp, the balance between the environment, people and industry is essential.

"We are very aware of the situation that we are the part of the value chain. Keeping the high standards in all aspects is important", Vice President for Environment and Climate Dr. Hans-Joern Weddige said.

In other words, the business can be sustainable through the preservation of good quality.

Nine key priorities for integrating sustainability into daily business:

1. Sustainable solutions for customers (The company provides consultancy to its customers on how to use its products more efficiently. In Duisburg, not only is new steel developed, but the staff educates customers about how they can use their natural resources more efficiently.) ►►

▸ 2. Knowledge as a key resource (Thus, attracting skilled workforces is important.)

3. Compliance with responsible corporate culture and values (If you want to be in business for 200 years, you have to have a sound culture.)

4. Efficient production of energy and resources
5. High standards of health and safety
6. Corporate governance and its compliance
7. Sustainable supply chains
8. Community involvement and development.
9. Transparency

ThyssenKrupp has invested nearly 1 billion euros (USD 1.1 billion) towards environmental issues in only a year.

When asked about water consumption, Klaus Potthoff, director of Division Materials said, "We consume at ThyssenKrupp Steel Duisburg 3 million litres of water a day. We are glad that thanks to many years of effort now we can recycle 96 percent of our used water. For the future we are aiming to reach 97 percent".

When people hear about a metallurgical plant, they think of it as a polluting operation somewhere in the desert. ThyssenKrupp borders natural protected areas and has lots of green space, presenting an excellent example of big industry with the best CSR practices. It is the only plant in the world with a system that prevents the dust from being released into the environment.

The company found its own technologically innovative solutions.

Visit at the Chamber of Commerce and Industry of the Stuttgart region



The Chamber of Commerce and Industry in Stuttgart, Germany is the country's second largest and has 150,000 small and medium sized companies as members. Several wars in Europe during the 19th century left the population of Baden-Wuerttemberg poor. Its economy only started to flourish after

Gottfried Daimler from Schorndorf and Wilhelm Maybach, the "King of Designers", invented the first motorbike in 1885, and the first automobile the following year.

Herbert Mueller, president of the Stuttgart Chamber of Commerce and Industry, discussed corporate social responsibility (CSR) during a panel on the topic as well as the current economic situations of Germany and Mongolia.

In your opinion, where should CSR begin?

CSR should start with a good human resources policy. Human resources is the key. First is the equal treatment of men and women. The second thing is if they make a profit then they can retain the equity of the company. If they don't have equity, you will not survive prices.

These companies want to become independent from the banks. Then continue the investment in research and development. When we entered the 2008-2009 crisis, our companies kept their personnel. Keeping personnel during a crisis is important. Another important step is networking. Companies should build their networks with suppliers.

What we also do is connect schools with companies. Company employees are sent to schools to explain their jobs to children.

How did the idea of CSR begin in Germany?

The idea of CSR came up about 10 years ago. It was a question often asked about by big investors. Big investment funds and securities firms wanted to see CSR and sustainability policies at public companies, so in Germany it began with large listed companies. They publish their CSR reports every year, documenting what they have done, and the smaller companies learnt from that. Small and medium companies have their strategies, but need more education on CSR.

Macro economic and political aspects that drove successful growth in Germany:

- Good schools and universities.
- Good infrastructure: railways, air traffic, shipping, and roads.
- A reliable legal system.
- No corruption.
- An adequate tax system: The government needs tax revenue. We are fighting for our companies in government to prevent tax hikes.
 - The need for clustering: Companies need to be international—the domestic market is not enough.
 - Helping young people become entrepreneurs build their own companies is one of our main objectives. Most young people want to be employed by big companies.
 - A constant supply of energy.
 - The banking system: Long-term relationships with one or two banks are important. It is not good to change banks very often.
 - Politicians that are favourable towards the private sector: The economy cannot function without business. The government must support industry. That is very important.

This report will be continued in the next issue with spotlights on Deutsche Bank, IBM, and Siemens. ■

CORPORATE SOCIAL RESPONSIBILITY

TRIPLE PARTNERSHIP

So what we found here in Mongolia are strong drivers within the business community to do it, take the leadership towards other companies, as well as other sectors, and to engage government and civil society organisations.

BY KH. KHULAN

The CCCD (Centrum fuer Corporate Citizenship Deutschland) performed a study on the state of practise of Corporate Social Responsibility (CSR) in the mining industry in Mongolia on behalf of GIZ's IMRI programme. The study was conducted in December 2011 in Ulaanbaatar, and evaluated from January to February of this year in Berlin. Mongolian Economy has met with Executive Director of CCCD Susanne Lang during the presentation of her organization's CSR study results in Ulaanbaatar. CSR expert Celina Pagani-Tousignant (president and founder of Normisur International management consulting company, which specialises in CSR) also joined the interview.



Photo by E. Zorigt

Tell us about the concept of the conducted CSR study.

Susanne Lang: The idea was to get some sort of informed outside view of what is going on in Mongolia. We conducted and evaluated explorative interviews with 25 decision makers and experts in a country. It's basically built on what people here in Mongolia think about CSR—what it means, how it's executed, and what are the roles of business, civil society, and government. We hope to give you a mirror picture of what's going on here.

The result of the CSR study says that knowledge on the matter

from mining companies on CSR is lacking. How should mining companies understand CSR?

Lang: We found a fragmented understanding of CSR, which is not surprising. CSR is a complex concept consisting of several elements (between five and seven). Wherever you go in the world, you find different angles, points of stress, agendas within those elements of CSR. What we learned in Mongolia is that all the elements are there, more or less, with a certain local flavour. It's just not that they have formed a coherent piece that would work as a Mongolian consensus, or a Mongolian

understanding. That will still have to be built, but it's a starting point that is helpful to make CSR work. It will take a lot of information, practical input, leadership of private companies, and public debates between various stakeholders. So what we found here in Mongolia are strong drivers within the business community to do it, take the leadership towards other companies, as well as other sectors, and to engage government and civil society organisations.

Celina Pagani-Tousignant: I provide consultancy for companies. The requests that I get (especially in Latin America) is, the person that is ►

▶ doing the CSR programme doesn't know how to sell the business value of the initiative and they need someone to come and talk with the people who make decisions. It's like breaking a barrier. That might be the step number one.

Another request could be to help the company to develop strategy. That would be a process of nine months, depending on the size of the company. Sometimes it could be something specific like capacity building or how do we measure the programmes. How do we know that we're impacting the community and the company? There are a variety of things that may come up in this topic.

Dr. Lang has worked as a political consultant since 2001. Your key focus is civic engagement. How big is the role of non-government organizations (NGOs) and civil society in business world?

Lang: In strong civil society organisations you find two important resources for a strong CSR culture. The one thing is watching—observing what the company is doing—being ready to accuse under-performing companies. That is giving economic incentive because then it is an issue of risk management. It becomes a reputation risk with all sorts of trust risks. NGOs are doing a very important job in this watchdog role.

The other very important role is that NGOs help companies implement their strategies, to get better in terms of environmental protection, community involvement and human rights protection. Companies today live in a very complex world, and have to face issues that 20 years ago they would never have addressed.

Civil society plays dual roles, both as a watchdog and a partner to companies. It's very important for companies to know that those NGOs are there and have the ability, capacity and opportunity to partner with them. Companies are always a little afraid of the nonprofit world because it's such a different culture that it's really sort of an inter-cultural thing going on between those sectors.



Nevertheless, it's crucial.

In order to improve the structure of NGOs, which mechanisms should be implemented from the state?

Lang: That's a difficult issue. Capacity building in civil society is not just a government task. Certainly government is responsible for giving them a reliable legal basis. Uncertain environments can only cause a lot of problems for civil society institutions.

Then another role of government is (not in all societies, but I think it's a good idea) to delegate certain social services to NGOs and subsidise the NGOs, paying them for doing this, which gives them an opportunity for funding, and gives government the opportunity to have experts in the delivery of these services. From what I understand, there is not too much of this going on in Mongolia yet, even though there are some ideas to move in this direction.

A third thing government has to do is protect the basic rights for a citizen: to speak up, protest and assemble, and free speech. Government has to guarantee these basic rights. In my view, the government's role is also in securing the basic standards of life that enable people to act and feel like citizens.

Pagani-Tousignant: What I have observed living in the United States is that when companies go overseas, and have to do something in the field of education, they're going to

look for NGOs that can help them do something and find what Susanne described: NGOs that are not organized and do not have structure. What are they going to do? Will they do nothing? No, they're going to break the rules. So what happens is the support that would have gone to education would go to strengthening an NGO involved in education. I have seen these types of partnerships. Otherwise, how are they going to do it? So, help for NGOs could come from the companies, but usually I have seen this with multinationals.

Most NGOs face financial problems. How can this problem be solved?

Lang: Being underfunded, for NGOs is a continuous problem in all parts of the world. You have it in so-called highly developed, rich countries as well as the poor ones. There are ways to go. One of them is building strong membership. [A community organisation] must make sure it is of great benefit to its members and then have a membership fee that people are happy to pay. You have the option of paid services, as I mentioned with government and companies. There is also a social entrepreneurship model, discovering business, market opportunities and serving societies' needs with products and services. Then there is grant making via international donors, such as foundations, that would support an NGO for what it stands for or a project idea it has.

In what situation can companies implement CSR best?

Pagani-Tousignant: There are different ways to implement CSR. There is the road of the opportunity and the strategic road. We teach the strategic road because that has methodology; that will get you to a very sure course. But in order for a company to develop a strategy, they need to have a budget to support that. In the meantime there could be opportunities for other things to do. Maybe smaller things. I recommend trying to sell the strategy because that will bring organisation and thoroughness. Otherwise there ▶

are other opportunities, maybe a partnership on a topic with a community. Don't wait to do it.

I see that mining companies in Mongolia saying, "We're going to put someone in charge of CSR." That's a huge commitment and now you have to go do it. And these people are thirsty for tools. That is why we were here talking today about future training for the companies. CSR is a very young field. It's only in the last 15 years that certain organisations in the world are finding the curriculum. There is a curriculum here that needs to land in Mongolia with the right tools for companies to do it. Then companies don't have to go

What most European countries have developed and are now implementing on national levels are strategies, such as what does CSR mean in our country?

through all the suffering as they had to do in other countries when people didn't know what to do. There are methodologies now, they just have to show up here. And the companies will pick it up.

Lang: What companies need to learn here is fulfilling non-company tasks in an uncertain, fragmented, sometimes contradictory legal framework. There is also a leadership task in getting the overall framework ready, helping each other, and coping with the difficult situations. They will have to learn to engage with government for better regulation. They will also have to engage for better implementation, which is the

opposite of what companies regularly do, because usually you would much rather find them in a position where they lobby for less regulations, less control, and fewer laws.

There is also the development agency role that mining companies in particular will have to embrace because they play a crucial role in their communities and are confronted with all sorts of issues that are not just business issues. This is basic societal and economic development they will have to address. They will have to partner with NGOs, community services, and municipalities. Some of it is management tools, but some of it is switching sides, getting out of the core competencies and core business of a company in various societal functions that you will find you have to cover as a company as long as nobody else does it.

Can you tell from your experience with the legal framework in Germany?

Lang: There are several things the government can embrace to support CSR. One thing is legislation. E.g. the high standard of German environmental legislation helped the German companies to become high performers in environmental standards. What most European countries have developed and are now implementing on national levels are strategies, such as what does CSR mean in our country? What are the top priorities? What are we going to do to help companies or encourage them to do better? In Germany, the development of the national CSR strategy took period of one year.

These CSR strategies built policies around CSR and are being developed in multi-stake holder consultations. It is basically a good idea to have this public dialogue to get all the perspectives on CSR, bring them together and put them into a policy that has to be implemented and executed by government in some sort of accountable way. I feel this is a very modern way of government addressing the issue of CSR.

I used to work in Germany for the supervisory authority for health and



safety in the workplace. I thought those guys were always ready to punish companies for not fulfilling some- rule. I was quite surprised to find that there was not a mentality of supervising alone anymore, but also helping companies. These rules are so complicated. You have 17 different things in play and must fulfill all the requirements. It really takes experts to help with implementation.

The nice things I found about those government people doing it, instead of consultants, was that they are totally independent. They don't have to serve their client. They can really come into a company and judge whether it needs help, which often is the case because the issue is complex. Or whether this company needs to be pushed because they are obviously and consciously under-performing.

So there is an interesting helping role for government. If they are doing their job well they can do a somewhat better job than consultants because they have a wider range of options of what to do when they come there. That's a high responsibility for the supervisory authorities, so they need a lot of technical skills. They really need to know their rules and the reality of how this stuff is implemented by companies. But it's also a great potential to really move safety standards in the workplace ahead. ■



NEWSWIRE HIGHLIGHTS

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

BUSINESS

PRESIDENT SETS 2012 DEADLINE FOR TT NEGOTIATIONS

President Ts. Elbegdorj set an end-of-year deadline to select companies to develop part of its biggest coal field, seeking to resolve a year-long battle for the resource between groups from five nations.

Peabody Energy Corp., OAO Russian Railways, and China's Shenhua Group are among companies affected by stalled talks to develop the West Tsankhi area of the Tavan Tolgoi coal deposit, Elbegdorj said. The coal field would become the biggest foreign investment project in Mongolia after Rio Tinto PLC's USD 6 billion Oyu Tolgoi copper mine. Picking the companies to develop West Tsankhi is also key to the planned USD 3 billion public offering of Mongolia's state-run Erdenes Tavan Tolgoi JSC, which holds the rights to the land and would receive royalty fees from the operation.

"If this situation can get resolved, the economic benefits to Mongolia are second only to Rio Tinto's Oyu Tolgoi mine," said Jim Dwyer, the head of the Business Council of Mongolia. "Given the complex, United Nations-like cast of governments involved, the talks may not go so quickly."

Source: Bloomberg Businessweek

ECONOMICS

ELECTIONS WON'T SOLVE CREDIT ISSUES, SAYS FITCH

The Mongolian economy is overheating, fueled by a mining boom and soaring government spending, but promises from the newly elected parties to distribute the spoils of mineral wealth means fiscal buffers are unlikely to be significantly strengthened after the election. That would leave Mongolia vulnerable to a repeat of its 2007-2009 economic crisis if prices for the country's commodity exports fell.

Mongolia has only saved 2 percent of its gross domestic product (GDP) in its Stabilization Fund, which is too small to shelter it from shocks. This leaves the country with little fiscal flexibility in the event of a sustained drop in commodity prices. The accumulation of systemic risks—extremely loose credit environment, inconsistencies arising from implementation of its tight monetary policy, and expansionary fiscal policy and pro-cyclical public finances—makes this increasingly hard to fix.

Government spending surged by 50.1 percent in May year-to-date (ytd). Revenue growth has failed to

keep up, slowing to 18.9 percent ytd from 33.6 percent in 2012, widening the fiscal deficit to 7.6 percent in May from 3.7 percent at the end of 2011. Rapid concentrated credit growth and a weak supervisory regime mean the banking sector could also suffer problems if a global slowdown were to result in falling commodity prices. Contagion risks are exacerbated by cross-ownership as well as heavy exposure among some banks via interbank transactions. Non-performing loans are still low at 6.1 percent in May 2012 compared with their peak of about 25 percent in November 2009.

The volume of U.S. dollars in deposit accounts may expose the system to solvency risk through currency mismatches—when banks use funding from foreign currency deposits to fund local currency lending.

The election showed rising pressure to limit foreign ownership in resource industries, but extreme resource nationalism is unlikely given Mongolia's dependence on foreign investment and technical know-how.

Source: Fitch Ratings

POLITICS

ELECTIONS SIGNAL VOTER CYNICISM

Mongolia's 28 June

election is set to produce a coalition government with no party in overall control but with the right-leaning Democratic Party (DP) commanding the largest number of seats in Parliament.

Tellingly, voter turnout fell to a historical low of around 65 percent, from 74 percent in the 2008 parliamentary elections and 82 percent in 2004 and 2000. This signals a steadily rising public cynicism regarding party politics, which has failed to deliver improved living standards for the majority of the population despite the recent "mineral boom" that boosted last year's economic growth to 17 percent.

In the 1990s Mongolia introduced a multi-party parliamentary democracy modeled on European examples, resulting in an initially vibrant political culture. However, allegations of corruption dogged the political elite who became closely associated in public perceptions with the new rich. The major parties have proved to be good at sharing power but poor at convincing an increasingly jaded public that they were free of corruption.

The author, David Sneath, is an associate fellow in the Asia group at Chatham House and head of the division of social anthropology at the University of Cambridge.

Source: Financial Times

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