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MONGOLIAN ECONOMY



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Mongolia's Economy Finance and Business Magazine

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BUSINESS

In a survey conducted by the International Financial Corporation, the financial arm of the World Bank, it was noted Mongolia could become a leading countries in the Asia-Pacific region for ease of doing business. According to Augusto Lopez Claros, head of аxy department of world indexes and analyses, Mongolia had already been included in the list of Top 10 countries for ease of doing business for the region. South Korea has stood at the first place for seven years straight, while Hong Kong and China held subsequent positions.

World Economic Review reported that Mongolia would remain as one of the most intensley developing countries until 2030 with high gross domestic product (GDP) growth.

INFRASTRUCTURE



A special permit for the development of the country's railway network was granted to Mongolian Railways at the Cabinet of Ministries. It was given the task of managing issues concerned with project financing through cooperation with the government and foreign and domestic investors. Further, it was decided development would start next year with the construction of a 1,100 kilometre railway line running through Dalanzadgad Soum, the Tavan Tolgoi coal project, the Sainshan industrial

complex, Baruun Urt Soum, Khuut Soum, and Choibalsan Soum to create a network connecting the industrial complex to major destinations throughout the country.

HUMAN DEVELOPMENT

The World Economic Forum has issued the gender equality rights report titled "The Global Gender Gap Report 2012". Iceland leads the list with Norway, Finland, Sweden, and Ireland taking other top positions. Mongolia stands at 44 out of 135 countries, falling behind its ranking

Economic involvement, access	First place	0.839
Educational level	50th place	0.994
Health (highest point 0.980)	First	0.980
Political rights	127th	0.032

CHINA

A key economic indicator released by the government of China has shown China may be in economic recovery, say economists. The purchasing managers index (PMI) grew from 49.8 in September to 50.2 in October.

Russian website Pravda.ru reported that the rating agencies Dagong Global of China, RusRating of Russia, and Egan-Jones of the United States will partner to establish a joint international ratings agency called Universal Credit Rating Group. The companies said they made their decision based on the fact that the three largest credit raters, Fitch, Standard and Poor's and Moody's, have fallen behind international standards and have given undeservedly high ratings to certain client organisations, obscuring how certain companies should be rated. Universal Credit Rating Group plans to open its services beginning next year.

The company has promised to rate entities acutely while maintaining its independence.

RUSSIA

The total from privitised assets in Russia this year reached 300 billion rubles, or USD 19.4 billion.

"An issue regarding the privatisation of state-owned Rosneft within the 2013-2014 financial year is being discussed by government. Since Rosneft is an energy-related estate, we are ready to privatise it to large investors", said Igor Shuvalov, Russia's first deputy minister.

He added that the government plans to complete the privatisation of major state-owned enterprises by 2016. According to a statement released by the Ministry of Economic Development, VTB Bank, Rosselkhozbank, Rosagrolizing, Sovkomflot, Sheremetevo Airport, Aeroflot, United Grain Company, and Alosa, will be the first to be privatised.



ECONOMIC GROWTH IS GOOD—EDUCATION IS BETTER

BY I. OTGON

Mongolia is shining on the global stage. Its economic growth for this year's first quarter was 16.7 percent, once again catching worldwide attention. 2012 began quite pleasantly for Mongolia and its end is expected to be so as well.

Officials have projected 14 percent economic growth for 2013. According to the International Finance Corporation, Mongolia is one of the Asia-Pacific region's top ten countries with eased business conditions. World Economic Review noted that Mongolia would be at the centre of global development until 2030. Good news lingers around the world.

However, it is high time for policy makers to focus on what is not doing so well instead of boasting about today's economic growth prospectives.

How long will Mongolia's economic growth continue to astonish the world? Government should create policies that distribute the profits from the mineral sector into sustainable development. The tremendous economic growth currently experienced in Mongolia is a benefit of its resource exports. During the Discover Mongolia 2012 conference, Punsalmaa Ochirbat, the first president of Mongolia, said "Mining will keep its leading position in the world economy for the next 30 years, whether you want it or not". Thus, the rapid development of mining and its management as well as preventative measures against

"Dutch disease" have become the country's priorities.

Economists say profit and deficit analysis must be made to support sustainable economic development. And cooperation is needed from both economists and politicians. The Economic Research Institute debated Mongolia's own economic policies for this reason. This issue, *Mongolian Economy* presents the research discussed at that event.

The importance of such surveys is a fact that is largely ignored in Mongolia. Politicians should give this kind of research the seriousness of attention it deserves. Currently no government policy being issued is based on sound data. The catastrophic situation faced by today's society is a political game playing out in nearly all of government's decisions while national issues are resolved based on the whims of just a few authorities.

These conditions are too ridiculous. They allow empty-headed individuals with personal or family connections to take the reins of government agencies. This kind of bad behavior has played out continuously throughout the many eras of Mongolia's history and its various governments.

Unfortunately, this unethical phenomenon is likely to grow further still.

An acquaintance of mine received appointment to a superintendent post. He enters politics with the newly installed government, which has

begun calling itself "the government of innovation". Before when we met in passing, he usually sent warm greetings, discussed the economy, or criticised prevailing corruption and needless bureaucracy.

But during our recent meeting I could hardly recognise him. He »



seemed completely changed, very boastful and too self-important. There is nothing more for me to do than to wish him and his peers luck in creating sound and relevant policies. Hopefully they pay heed to the input from some of the best minds studying the economy and society.

Today, everyone knows that the country's public institutions are overfilled with unqualified, unskilled staffs. A number of new organisations such as the Ministry of Economic Development and Development Bank of Mongolia have been established too. They are likely expected to

help Mongolia take the right course for its development. However, nobody knows how these agencies received were staffed. Undoubtedly, a certain portion of those staffs consist of experienced, skilled and knowledgeable experts. But what of the rest?

Meanwhile, a new, younger generation of well-educated individuals with degrees from the United States and Europe returns home. Many live modestly lecturing at Mongolia's own universities and institutes. They are not holding out for those coveted government posts. Instead they work collecting data and researching the issues needing attention from government.

It is also worth mentioning that these people returned home to lead simple lives among those of us whom never left—rejecting offers for well-paid jobs with average monthly wages of USD 4,000 in the United States. And they did it for the love of their country.

Those young scholars understand well that a good economist must contribute to their chosen studies and publish their hypotheses and findings in well-known international professional magazines. Dear readers, look for these kinds of studies in future issues of *Mongolian Economy*.

Mongolian Economy makes its appeal to the government to give attention to studies whenever necessary. ■



Photo by E. Zorigt

POVERTY

POVERTY IS IN THE BLOOD

E. ZORIGT

Ulaanbaatar is home to Mongolia's wealthiest and poorest sections of the economy.

Two Sides of a City

A year ago, *Mongolian Economy* magazine reported on a single mother, L. Bayanjargal, who lived with her seven children, in-laws and grandchildren. In total, 17 of them lived in a small ger in the 12 Khoroo at Denjiin 1000. A year later, we were curious if their lives had changed.

The family has now two more members living with them. The daughter, who was a hairdresser, was fired from her job. The single mother said their lives were getting poorer day by day.

Skyscrapers surround Sukhbaatar Square. On the east side, luxury-brand shops Louis Vuitton, Emporio Armani and Burberry run at Central Tower. On the 17th floor patrons can enjoy the taste of Australian tenderloin while drinking expensive French white wine.

This is every-day life at the city centre. Unfortunately, it's not an image typical outside this area.

There are some who make a living out of selling meat scraps, often as dog food, for a mere MNT 650 a kilogram or cattle intestines for MNT 350. Some even sleep on empty stomachs.

Deep Secrets of Deep Poverty

Mongolia's economic growth has come as a surprise to the whole world. Unfortunately, poverty in Mongolia is also on the rise.

"A recent study shows that the poverty rate has reached 29 percent. That means 30 percent of poor people are living in deep poverty", said one of the few researchers of poverty, S. Davaasuren.

"The monthly income of those living in deep poverty is MNT 25,600 lower than those of [the average poor]".

It is hard to believe, but about 30 percent of the poor

are living the most deprived lives. Policy makers have promised to reduce poverty, but so far those words have been little more than lip service. There is still yet to have been a single policy on reducing poverty passed.

Experts in this field note that investing in education and the health sector is an excellent solution to the problem. The experiences of developed countries show how important it is to invest in them to combat poverty. The health conditions of poor or low-income people are considered twice as bad as those with average incomes. Children from poor families often drop out of school because of health issues.

The future of children with poor health and who lack education do not look that bright. Such conditions lead to inherited problems of poverty further down the line, said B. Bat-Erdene, a member of the State Great Khural.

"I'm afraid that poverty will continue to be inherited. If you have a poor life, your children will live poor as well. The society has become this way", said Bat-Erdene once.

The government would be wise to introduce policy to invest in health care and education like Norway has done to combat poverty. The Scandinavian nation ruled that physical and mental health as well as dental services should be free to all children under 16-years age. In addition, any medicines prescribed for more than three months in a year should be available at a discounted price. Health services make about 9 percent of Norway's growth domestic product (GDP), to which the government provides 84 percent financing. As a result, Norway's poverty is only 3 percent.

Today's poverty-stricken youth will not stand much of a chance in living a decent life unless health and education issues are solved immediately.

"The lives of poor people are cyclical", said S. Davaasuren, a professor at the School of Economic Studies at the National University of Mongolia. "This means that problems occur one after the other."

"For example, the only family member who brings food to the table often has no time to take care of his or her health. For that reason, those breadwinners could even lose their lives. That is one of the reasons why people are getting poorer. This is what we call deep poverty". »



▸ Disparities

Policies should vary depending on the needs between different locales, especially to compensate for the differences between urban and rural locations. According to Davaasuren's research, doing so would help reduce poverty in a major way. A study from the National Statistical Office reveals that one of every two citizens in rural areas and one of every three citizens in the city were poor. It also noted that the disparity between incomes grows wider as one looks further away from the city.

Where one lives has great influence over the direction his or her life might take. Living in rural area limits the chances one has in getting a good job and a leading a well-off life, leading to the mass exodus to Ulaanbaatar.

The government should focus on employing society's poorest. However, it seems as if it does much in the opposite for Mongolia. About 47 percent of the population is comprised of people aged between 15 and 40, reported the National Statistical Office. Unfortunately, the labour market for those people is shrinking with each passing day.

"The chart shows that people's interest in work has declined with the distribution of cash", Davaasuren

said. "For some families, a cash allowance [from the government] is the only income. When people earn money just by sitting at home, they lose their desire to work".

However, not everyone feels so sympathetic towards these people who ask for a helping hand.

"There is a part of society that calls themselves victims. Those so-called victims wait to be spoon-fed, while the rest that works is ready to spoil them", once said D. Jargalsaikhan, director of FSCO Mongolia, in an interview.

He added "Now they have crossed the line. Even politicians are taking advantage of their laziness and distribute cash".

Scandinavian countries have successfully managed to distribute government allowances to the citizens who most need it. Instead of handing out cash to the poor, they focus developing the middle class so they are able to save. As for low-income people, their government focuses on their employment.

As for Mongolia, poverty would decrease if both the government and the citizens strived to create a sustainable middle class society, instead of increasing the gap between the rich and poor. ■

BUDGET

LAW ABIDING BUDGET

B. BAYARTOGTOKH

A new law that calls for budget restraint promises fiscal stability, lower inflation, and long-term strategy—none of which Mongolia will see unless policymakers fall in line with its mandates.

Mongolia is one of 60 countries to have ratified a law putting strict limitations on government spending. But now it is up to policy makers to show what they can achieve with the law.

The Law on Fiscal Stability, which was ratified two years ago, will take effect beginning January 1 2013. The law is expected to put an end to outrageous spending.

The 2013 budget will reveal whether parliament is capable of doing its job properly. Drafting the budget, its financing and its enforcement all fall under the scope of the Law on Budgetary Organisation, a law that regulates the financial issues of government agencies. It seems Mongolia may have ratified a law that is both wise and proper this time. It could mean the government is trying to erase the mistakes it made when developing past budgets.

The government ratified a stability programme as an attempt to balance the budget in 2009. Its contents included a draft Law on Fiscal Stability. The 2010 State Budget legalised the 85th Resolution, which regulates how

a budget is balanced. It stressed the need for a well-defined legal environment that would bring stability to the budget.

In 2010, when the law was still under debate, former Minister of Finance S. Bayartsogt commented, “The Law on Fiscal Stability would set the budget administration and its fiscal requirements as well as its long-term sustainability. This would determine the responsibilities of enforcement agencies and the administrative legal environment”.

Parliament approved the Law on Fiscal Stability in June that same year, but it will not take effect until 2013. Its first resolution states that its purpose is to establish its administrative policies and legal requirements as well as the rights, duties and responsibilities of state agencies. It also makes clear how the wealth derived from the mineral sector should be used to support economic growth and hold onto savings.

“It is expected that the law could minimise governmental expenses, causing inflationary pressure”, said Batdelger Tuvshintugs, The director of the Economic Research

Institute.

“Looking at the draft budget, coal export prices seemed to have been set quite high. In general, the budget is still dependent on mineral product prices, which means if those prices fall budget capital might be met with certain problems”.

However, Minister of Finance Chultem Ulaan has insisted to the media that the drafted budget fully meets its fiscal requirements.

Donors Losing Faith

International financial organisations are cautiously observing this year’s budget proposals. Although, officials have repeatedly stated that the 2013 budget draft meets legal requirements, analysts from organisations such as the World Bank and Asian Development Bank feel differently. Sh. Altantsetseg, an economist at the World Bank, pointed out that this year’s budget may not meet the general aim of the Law on Fiscal Stability because the Development Bank of Mongolia is not accounted for.

“In order to enforce the law completely, project investments financed by the Development Bank should be included in the state budget as well. The Development Bank should not be excluded”.

She explained that investment ►►



▸ from the bank is projected to be 4.5 percent of this year's gross domestic product (GDP), bringing total government expenditures to about 9 percent.

Unless the law is followed completely, Mongolia may not experience the full potential of its benefits.

"The budget stability law has crucial impacts on avoiding the wealth curse and "Dutch disease", creating alternative basics for the economy and making economic growth distinctive for the nation and reducing poverty", said Jan Hansen, senior economist at the Asian Development Bank.

Hansen noted that reducing operational expenditures while increasing investment would create jobs in health and education as well as infrastructure creation.

The 2013 budget hangs off a steep cliff. It is up to parliament

to decide whether or not to save it. Unfortunately, many parliament members do not seem very enthused about this year's budgetary limitations. Listening to the discussions of parliament and its standing committee would leave one to believe that the main thought behind this year's budget is seeking out funds to spend and distribute.

This law was thought to be a means of removing risk. However, the politicians who ratified the law have not been eager to follow it.

Article 6. Special fiscal requirements of the Budget Law

The following is an excerpt from the Law on Fiscal Stability:

6.1. The following special fiscal requirements shall be followed in the budget:

6.1.1 Consolidated budget revenues shall be estimated by structural procedures;

6.1.2 The structural balance of the consolidated budget shall have

deficits with amounts of not more than two percent of the GDP of the particular fiscal year or be in surplus;

6.1.3 Total budget expenditure growth rate of a particular year shall not be more than the greatest from non-mineral GDP growth rate of that particular year and the average of non-mineral GDP growth rate for 12 consecutive years preceding that particular year;

6.1.4 The net total of government debt, calculated by excluding any government borrowings taken for the purpose of contributing into paid-in-capital of a foreign-invested legal mining entity, and in accordance with a contract concluded with the condition of repayment from the future profits of this legal entity or loan guarantees issued by the government under these conditions shall not exceed 40 percent of gross nominal domestic product of that particular year. ■

MARKETPLACE

SEEDY MARKET

BY B. UUGANBAYAR

The lack of growth in the banking sector is becoming a drag to the rest of the economy

Today, with such a considerably bleak perspective of the world economy, economists note that the time for accounting for economic risks has come“.

In his report based on observations of economic risks in Mongolia, B. Erdenebat, a professor at the School of Economics at the National University of Mongolia, found that the financial market currently stands at a starting point for new development. However three problems need addressing: national debt; the growth of debt held by individuals and entities; and inflation.

The volume of debt has doubled in Mongolia over the last two years. Yet, according to the report, nearly none of the money borrowed has been used to improve national industry, which would create jobs and create added-value to national exports. The majority of loans were used for general consumption, home mortgages, and keeping the retail and construction sectors going.

However, Erdenebat's observations show that other countries behave differently. Many developed countries support their industrial sectors with interest rates for loans between 3 and 6 percent made available. Mongolia, on the

other hand, only provides loans with annual interest as high as 20 percent.

According to Erdenebat, this situation makes the economy difficult to analyse. Currently access to loans is quite narrow. According to a World Bank report published last year, average interest for loans worldwide is 12 percent compared with 16.6 percent in Mongolia. More recent data from June this year shows interest had grown further to 17.9 percent.

Targeting Banks

The World Bank report also shows that not only is loan interest too high, it also leads the world in interest on savings, at sixth place. Worldwide interest rates average at about 4 percent compared with 10.5 percent at the end of last year and 11.5 in September in Mongolia.

Other countries with such high interest naturally tax savings. Mongolia's Law on Civil Income Tax, adopted in 1996, does have a provision on taxing interest from savings, but it has never been enforced, possibly due to influence on the State Great Khural from Mongolia's wealthiest, who hold large savings.

Government is eager to discuss an amendment to this law to impose proper tax on savings, but its effectiveness could be curtailed by a loop hole. The law stipulates, "A tax shall be imposed on those who

hold amounts exceeding over MNT 100 million deposited within a single bank". Many criticise this provision for it allows the wealthy to distribute their savings to multiple bank to avoid paying taxes. Also, there is a question of how many people among Mongolian citizens are able to accrue so much money in their savings.

According to O. Chuluunbat, deputy minister of economic development, 90 percent of total savings are held by 2 percent of all savings holders in Mongolia. Also, according to a staff member at the Bank of Mongolia, 5 percent of all savings holders hold 95 percent of all fixed-term deposits.

Another considerable risk associated with the banking sector is how banks procure their U.S. dollar holdings and grant their loans. When the U.S. dollar appreciates against the Mongolian tugrik, banks will buy up more dollars. In Mongolia, dollar deposits account for one third of total savings, a fact that should bring apprehension, according to Erdenebat. However, loan expansion in the country is occurring just when global levels remain relatively low and debt is positive. This is a result of both the United States and Europe maintaining low interest to encourage borrowing and support the economy.

As it stands now, Mongolia currently must rely on large foreign investment, and Erdenebat cites foreign dependence as another risk to the economy. Lowered interest could also help reduce inflationary »



Raw Material Currencies

Countries such as Canada, Chile, Russia, South Africa, Australia, and Mongolia are called countries with “raw material currencies” because the strength of their currencies is directly dependent on raw materials prices. In the second half of 2008, when foreign currencies experienced sharp growth, the central bank burned through its reserves while trying to pin down the tugrik at specific rate for two months.

Those efforts continue even today. Erdenebat warned that the Bank of Mongolia should not forget what happened in 2008 after it spent 50 percent of its reserves. The bank kept the tugrik within its range by selling its foreign currencies and withholding turgriks from the domestic market. Afterwards, the bank eventually recovered the dollars it sold and built up its reserves once again.

The history of the Mongolian financial market is rich with unique tales of its capricious nature. For example, the country’s money supply increased by 56 percent and 62.5 percent respectively in 2007 and 2010, at a time when, according Erdenebat’s report, the country stood at first place in the world.

Also, last year when the European debt crisis was at the very center of global discussion, Mongolia froze its exchange rate. Meanwhile, Canada, Chile and Russia maintained flexible exchange rate policies.

Since the 1990s, foreign liabilities have grown without interruption. Erdenebat suggested loan opportunities should be opened up for businesses that can help drive the economy. There is, however, a significant drawback that these loans are categorised under the vague title of “investment loans.” Instead, the report recommended real companies be established in the name of these projects, and investments related to the development of projects be registered as real estate.

Government debt is another risk for concern. In today’s market conditions, with the commodity prices on the decline, the number of gold-hearted benefactors falling in love with Mongolia is dwindling. However, if Mongolia makes the mistake of thinking that love is eternal and the investment will never end it is in for a rude awakening once commodity prices hit the floor. As Mongolia has already seen, when that happens that love will disappear and so too will investment capital.

Currently, Mongolia pays its bond interest of three and five percent in US dollars. However, it would be more useful to introduce the commonly used standard of binding bond interests with real assets. For example, at the end of 1970s, Russia paid back its debt owed to Japan in the form of wheat. The arrangement is one example of how a country can lessen its dependence on volatile raw material prices while marginalising risk.

The report clearly shows that these steps aimed at reducing risk should be taken before crisis sets in. If not, Mongolian will have few options for relinquishing itself from its debt once a dire scenario becomes reality. ■

- ▶ pressures. The central bank is currently the target for criticism since it has failed to bring down inflation to the single digits as it promised.

Looking at developed nations, more accountability is often afforded to their central banks. Great Britain’s central bank, for instance, will give a statement to citizens explaining why certain targets have not been met as well as how officials will be held accountable.

The exchange rate also plays a role. The exchange rate is typically cited in either its nominal or real form. The nominal rate is the one that receives the most attention from people while the real rate is not often taken into account. But the real rate says a lot more in regard to Mongolia’s competitiveness compared with other countries. For example, if the price for goods is much higher in Mongolia than China, it means that both the real exchange rate and inflation are high.

Current levels of inflation in the country are much higher than 2000 levels, real rates for exchange having experienced growth of 50 percent since then, according the Bank of Mongolia. This situation leads to less foreign tourists visiting and deters foreign trade. For most of the world, growth experienced by the real rate usually follows growth by the nominal—but not in Mongolia. On the contrary, instead of the nominal rate of growth, according to Erdenebat, it is an effect from inflation. He points to actions by the central bank that keep the exchange rate within a certain range rather than allowing a flexible currency that naturally ebbs and flows with the economy.

OYU TOLGOI

SAVINGS

BY BAYARAA

Now that a power agreement has been made between Oyu Tolgoi and China, operations are ready to commence.

The Erdenet copper refinery is recognized as a driving force for the nation's economy and its development in the 20th century. During those years Mongolia's state budget depended on that factory while the factory depended on copper prices on global markets.

The Erdenet factory will likely continue to weigh heavily on the state budget. However, in the 21st century the Oyu Tolgoi project has started to play a significant role to the economy as well. Currently, Oyu Tolgoi is preparing for first production, and its enrichment factory is near the start of operations.

"About 50 days are left before the factory begins productions", said President and Chief Executive Officer Cameron McRay.

He added "First of all, we need to protect Oyu Tolgoi's investment agreement. The agreement has been the basis for Mongolia's economic growth for the past three years and a bridge to many common people who wanted to start their own independent businesses. Second, the foreign investment law must be developed. Currently the law is unclear. Third, Mongolia urgently needs clear laws on mining that can

attract foreign investors".

Enough time has passed since the agreement was made to build friendly relations between both parties. Unfortunately, politicians politicise the situation. Such attitudes have brought major risks to not only Oyu Tolgoi's operations, but the entire mining sector. Investors are keeping their distance from Mongolia as long as uncertainty prevails. Shares of Mongolia's mining companies have fallen and the current of capital flow seem to be reversing. As a result, revenues to the government will fall far shorter than expected this year.

If mining is thought of as the legs of the Mongolian economy, then Oyu Tolgoi would certainly make up the entirety of one of those limbs. The mining sector is the chief driver of the Mongolian economy.

According to the International Monetary Fund, one out of every three tugriks earned in Mongolia comes from Oyu Tolgoi, and up to 71 percent of all the profits will go in Mongolia's pockets. According to the Ministry of Economic Development's "2013 Predictions for the Mongolian Economy" report, the Oyu Tolgoi project will produce 556,000 tonnes of refined copper for exportation. Beginning from 2020, according to the investment agreement, Mongolia will also be able to earn revenue from dividends from its 34 percent stake in the project. Today that date is being reconsidered for an earlier one.



According to the Mineral Resource Authority, 68 percent of total revenue from mines will benefit the government and the nation. The government will not have to spend a single penny on the construction of the Oyu Tolgoi project, but they will receive most of the profits. »



▶ All of this has played a large role in Mongolia's 17 percent growth last year. Meanwhile the Bank of Mongolia has projected 14 percent growth for 2012.

Oyu Tolgoi currently employs 11,956 Mongolians. In addition, Oyu Tolgoi LLC has paid USD 837

million to Mongolian companies for their services, allowing them to rapidly and greatly expand their own operations. In just three years, the project has delivered USD 803 million in taxes to the Mongolian government—enough to provide MNT 20,000 in monthly allowances

to every citizen for six year. These benefits are a direct result of the 2009 investment agreement.

The Oyu Tolgoi mine will guide Mongolia through its development as the heart. ■

BIOGRAPHY

HOW BUSINESS IS LIKE ARCHITECTURE



BY KH. ANAND

Jambaljamts Odjargal is one of Mongolia's first billionaires and one of its most controversial figures since the transition to a market economy.

It is everyone's dream to become rich and famous while leading a luxurious life. However, not many of us are able to achieve this dream.

There are 2,160 billionaires in the world. For some, a great deal of their billions were inherited. For others, their fortunes are a pay off from their hard work. But Mongolia's billionaires gained their wealth after the democratic revolution in the early 1990s. Obviously it was not magic that made them rich. Instead, they all had a driving force for Mongolia's development.

He has a net worth estimated at USD 2.3 billion. His contribution to state revenue and his savings make him a leader among Mongolia's richest. Some say he always strives to be a pioneer, while others say he sold out his country to China, with 75 percent interest in MCS Group held by Chinese entities.

However, such rumours don't matter, since he is a true leader for what he has achieved. An employer of thousands upon thousands of people, he established a number of great ▶

Photo by U. Odbayar

▶ structures in each and every corner of Mongolia. His name is Jambaljamts Odjargal. Born the second eldest son in 1965 in Bayankhongor Aimag, he spent his childhood in the 3rd District of Ulaanbaatar and graduated with honors from School No. 33 of Ulaanbaatar.

Leaping to Success

Some who have become rich and successful lived poverty-stricken lives or as orphans. Living like this could have influenced their desires to succeed and make their dreams come true.

When Odjargal was in secondary school his parents passed away, leaving him and his five siblings with their grandmother. He has childhood memories of trying to make his grandmother happy by studying hard, though he missed the hugs and kisses of his loving parents.

Despite living such a hard life, he managed to gain admittance to the Institute of Kiev in Russia and graduated in 1989.

After graduation, Odjargal worked as an automation engineer at the Central Power System for two years. In 1991 he was hired as an engineers to work on the construction of a hydroelectric plant planned for the Eg River and tasked with applying techniques and economic analysis for the plant as well.

Odjargal attended a three-month exchange programme at Electrowatt in Zurich, Switzerland. During his attendance there, he came up with the idea of starting a business in energy consulting. Without any idea of how large it would grow to today, he and three friends established Mongolian Consulting Services (MCS).

In addition to consulting and researching energy, the business earned money through the sale of champagne. Eventually, the World Bank offered them the opportunity to participate on research studies. Odjargal, who did not even have a proper office at the time, recalled having to ask a friend who worked at

the National Statistical Office to let him use his office for 20 minutes because he had an important meeting.

That meeting concerned a project worth USD 5,000 and was his first leap towards success.

"The most profitable business I ever had was importing paper from Russia, making it into tobacco paper and selling them", said Odjargal in an interview. "This business turned 58 kopecks into MNT 30,000".

"I haven't experienced such profitable business since then".

Prior to this, like many other Mongolian students in Russia, he sold marmot and mink fur hats, and traded motorcycles and their spare parts. However, he said that it was a short-term business.

Monopolies and Negative Press

Odjargal compares business to architecture. His best quality was his ability to recognise what was missing in peoples' lives. He imported office furniture and computers from Singapore, which later expanded to the Anun Centre. Soon after, he introduced products from world-famous brands such as Packard Bell and Procter & Gamble to Mongolia. He also established one of the biggest printing presses, Interpress.

His expanding business has conquered all possible sectors in private business and MCS's sister companies shine like stars.

MCS Group possesses a total of 54 subsidiary companies operating in media, communications and technology, food, cashmere and wool, real estate, and mining. Spirt Bal Buram, the Tiger brewery and Coca Cola beverages factory, Goyo, Orchlon Secondary School, the Anun furniture store, Anungoo, Unitel, the Central Tower office building, and Energy Resources all belong to MCS Group.

Odjargal confines all his efforts to making MCS a transnational corporation. Although his official net

worth is estimated to be USD 2.3 billion, it is likely much higher.

If Nambar Enkhbayar is thought to be the godfather of corruption, Odjargal may be its paternal father, some people say. Having a skyscraper at the heart of the city, owning half of the National Recreation Park and other A level properties has put an asterisk next to his name in the papers, both negatively and positively.

Some even criticize him for making business out of bids for state tenders. Reports reveal that about 1,882 of the 2,334 tenders offered by the government were awarded to MCS or one of its subsidiaries. The latest example of a tender snapped up by MSC is the smokeless oven project, initiated to reduce air pollution in Ulaanbaatar. Many protest that the state has neglected the values of fair market competition by slamming the door of opportunity on others.

However, people should not forget all the charity work, advocacy campaigns and scholarships MCS is responsible for. The company has always lent a helping hand to those who needed it. Unfortunately, there are reports that some large media organisations and members of the Mongolian People's Party are in the pocket of MCS. Some even speculate that government's catering to MCS is responsible for some of the instability in the nation's economy and legislature.

Although the company has been ranked among the top three largest tax payers, it gains more than it gives.

Sometimes he is described as an economy killer. However, Odjargal is someone who has truly opened up a whole new chapter in the country's history of private business. He has been in business for only 17 years, but his achievements are enormous.

Currently Odjargal is researching opportunities to connect Zaisan Tolgoi with the city centre via airway elevators. Investment and participation in such projects could bring them greater respect from citizens.

There are two sides to every story. Remember that next time you hear a company or prominent figure vilified in the media or conversation. ■

EVENTS

AN OPEN PLATFORM FOR BUSINESS

BY B.ENKHTSETSEG

The Business Council of Mongolia celebrated its fifth anniversary this month, reflecting on five years as a means of gathering together members of Mongolia's private sector and acting as its voice.

A meeting and ceremony was held where the Business Council thanked its members for their continued support of its aspirations to lift business relations and create a favorable business climate while promoting the activities of the private sector, which bring substantial contributions to the economic development of the country. In front of an audience of diplomats, directors and staff members and management of various organisations, Executive Director Jim Dwyer named a few of the major achievements of the Business Council while expressing confidence that there was still much more it could achieve over the next five years.

Representatives of companies such as Trade and Development Bank of Mongolia, Oyu Tolgoi LLC and Peabody Energy presented on their businesses and the sectors in which they operate. Houston Spencer, vice president of communications and media relations at Oyu Tolgoi announced that the prolonged talks for the purchase of energy for the Oyu Tolgoi copper and gold project from China had finished at last and a deal was made. Those in attendance were some of the first to hear the news.

In addition, Arshad Sayed, President of Peabody Energy Mongolia and India, ended his speech



with remarks that his company was committed to a long-term partnership with Mongolia and its development.

"Peabody Energy will undoubtedly remain a long-term partner for the development of Mongolia", said Sayed. "Peabody Energy will render the necessary support for Mongolia to achieve its goal to become an energy-supplying country".

As the economy develops, the role and involvement of organisations representing businesses in Mongolia have notably expanded. Proof of this is in the fact that over the past five years the Business Council has brought together nearly 250 domestic and foreign investors, businesses and organisations as members into its fold. Its monthly meetings have become anticipated events where members

and guests can seek out new partnerships and share experiences. Sometimes government officials, too, make important announcements and provide updates on legislation and projects of interest to the private sector.

The NewsWire, a news aggregate of the latest current events and opinions of Mongolia, is delivered to members weekly and is seen as one of its most highly valued assets for investors in a country where current news is often hard to find.

Towards the end of the evening, Peter Morrow, chairman of the Business Council's board of directors, and Luvsandendev Sumati, deputy chairman, announced they would step down from their posts. Subsequently B. Byambasaikhan, executive director ▶▶

MONGOLIAN ECONOMY СЭТГҮҮЛИЙН АСУУЛТ

of Newcom Group, and Tim O'Neil, executive director of CPS International, were announced as their replacements, respectively.

The board of directors is a collection of representatives from industry-leading firms and influential figures from sectors of the economy. Some of its most prominent members are Goldstream Mongolian Managing Director B. Bold, Boroo Gold Director of Finance and Administration Douglas Krahn; MIH Group Director D. Jargalsaikhan, Khas Bank Chief Executive Officer D. Bat-Ochir, and Tavan Bogd Group Vice President D. Hulan.

Mongolian Economy named "Media Company of the Year"

During its celebratory gala dinner, the Business Council recognised its most successful members, including its choice of *Mongolian Economy* as "Media Company of the Year". The winners are as follows:

International Company of the Year:

PricewaterhouseCoopers Audit LLC;

Local Company of the Year:

Mandal General Insurance LLC;

Media Company of the Year:

Mongolian Economy;

Government Friend of the Year:

B. Ganbat, Head of Innovation and High Technology Department, Ministry of Economic Development

Working Group of the Year:

MahoneyLiotta

What would you say are the most important benefits of the Business Council?

J Peter Morrow Deputy Chairman, Newcom



BCM's leadership and staff have taken it to a level of influence and success we could not have foreseen at its founding in 2007. Its role now as a diversified and influential business association of Mongolia is a huge success story.

Cameron McRae CEO Oyu Tolgoi LLC



The pace at which the group has grown has been astonishing. This is a testament to the vision of its leadership and the tireless efforts of the volunteers who willingly give their valuable time. Having the biggest names in Mongolian business in BCM is vital to their interests. Members know that when they need to act as one, BCM will be their mouthpiece.

Amarsanaa Tsembe Director of Specialized Career Consulting



To Mongolia—which opened up just 20 years ago and now is at the top of the list of the world's fastest developing countries—it is crucial to have an organisation like BCM. It is a great platform where representatives and decision makers from all sectors meet together to discuss current issues and future opportunities in Mongolian business.

Carolyn Clarke Managing Partner, PriceWaterhouseCoopers

BCM has established itself as the

leading professional body representing companies and organizations across the Mongolian business community. In doing so it has contributed to the rapid economic development of the country, providing a means for discussion of



critical issues as well as for forging valuable relationships between members. As the leading professional services firm providing audit, tax and advisory services in Mongolia, including many of BCM's members, PwC is proud to be associated with BCM and to be represented on its Board as well as a number of its working groups.

Baasantseren Damdindorj General Director, Eurofeu Asia

Being a member of this council has always been a great support to our fire safety activities and we look forward to continuing our growth in cooperation with this highly esteemed council.

Norihiko Kato Chief Executive Officer, Khan Bank

BCM has been addressed the vital issues for business and investment in Mongolia and has served as an



important platform where members, government officials, and global business people can exchange their views in a frank manner. Khan Bank thanks BCM's management and would like to collaborate more with BCM in the future with the aim of creating a favorable environment for all stakeholders.

CORPORATE GOVERNANCE

PROFIT, REPUTATION AND VALUE

B. UUGANBAYAR

Developing corporate governance is one strategy to try and pass an economic crisis with minimal loss.

In the following interview, D. Ganbayar, chairman of the National Council for Corporate Governance, speaks on obstacles hindering the development of corporate governance and what it will take to overcome them.

Last year, the government adopted the National Program on Corporate Governance. What are some of its goals?

As part of the of the National Program on Corporate Governance, the National Council for Corporate Governance (NCCG) under the Financial Regulatory Committee was established. As a result of the development of company governance, companies would be more efficient, the stock market would grow, and the number of investors would increase. Governance has three basic parties: the shareholders, the board of directors and executive management. Nowadays Mongolia does not have enough communication and trust between a company's board of directors and executive management, and



because of this the business cannot run efficiently. The reason is connected with inadequate knowledge and a poor concept of governance from companies' executive managers. Therefore, the National Council, in cooperation with other organisations, engaged in the training workshops for corporate governance to provides executive managers with an understanding of governance. We assess the governance of companies, and for companies with poor governance we identify their worst problems and provide recommendations.

Also, in conjunction with the

Mongolian National Chamber of Trade and Industry, we assess the governance of joint stock companies, introduce the public to the experiences of companies which show a good example of corporate governance, and aid them with grants or incentives. Also, we are planning to cooperate with the Government Property Committee to improve the capacity of joint stock companies.

What kind of challenges do you see for the development of company governance?

All things are dependent on whether the company shareholders and members of the board of directors correctly understands how corporate governance provides efficiency and how to introduce it in their operations. Currently in Mongolia, companies that anticipate the needs of the market can improve their governance, attract investment and, consequently, improve their efficiency and profits. Take for example entities like Khan Bank, Golomt Bank and APU JSC. In my personal opinion, when looking at all Mongolia's businesses, just 10 percent of them understand the value and necessity of governance well, while the remaining 90 percent cannot yet perceive or recognise this.

Governance should be perceived not only in terms of actual profits, but also as a company's »

reputation and a way to earn the confidence of investors. A company will undoubtedly need to raise its reputation if it desires efficient operations for a longer period with sufficient profits and revenue, at first it will undoubtedly need to raise its reputation and value.

What are some of the trends observed in governance worldwide?

Recently we took part in a forum on company governance

held in Taiwan. The major question discussed at the forum concerned the necessity to provide opportunities, ways and means for companies to develop their governance rather than forcing governance on them. Judging by international standards, the race to good governance is not begun by government institutions but by private companies.

There is an organisation called the Asian Governance Association. This organization issues a company governance assessment

for each country and provides them with recommendations. So, we submitted a request to the association for an assessment of our country.

By now, internationally, every country is beginning to understand and give the proper attention to the value and openness of corporate governance. At least when there is severe economic crisis, national companies could serve a torch to finding the way out of such a critical situation. ■

A BRIEF LOOK AT APU'S GOVERNANCE

Board of Directors: Nine members (Of who three are independent members and two are consulting expatriates)

Executive Director: Ts. Erdenebileg



Employment experience:

1995-2000: engineer, business manager and senior manager at Gobi JSC;

2000-2006: Executive director of Erdenet Khivs JSC;

2007-2008: Deputy director of APU JSC

2008-present, Executive director of "APU" JSC.

Production and Services:

Produces alcoholic beverages, bottled water, milk and juices.

Number of Shareholders:

Approximately 3,500.

Financial Statement

Year	Total capital	Net profit	Total investment	Dividends
billions (MNT)				
2010	96.5	19.7	21.3	2.9
2011	126.4	20.0	14.5	4.4

Arrangement of Meetings for Shareholders and Board of Directors: In accordance with the law, a shareholders' meeting is held once a year to discuss the company's investments that year and introduce its operational perspective and major projects planned for the next year. During the meeting is also when dividends are distributed among shareholders. The board of directors meeting is held quarterly. Furthermore, board meetings are held online whenever it is necessary to discuss any big projects or unexpected issues.

Corporate Governance Reforms: Since 2000, two big international standards have been introduced for the purpose of improving internal governance. The first one is the ISO 2021 "Food Safety Standard System" and the second is the ISO 14001 "International Standard for an Environmentally Favorable Management System". As part of these efforts, we have installed at the plant the latest advanced technology and equipment from Germany designed to reduce electricity and water consumption waste. In addition, we are giving due attention to issues concerned with the reprocessing of solid wastes, economising electricity, and recycling industrial water.

Strategy to Enhance Corporate Governance: We aim to strengthen both internal and external governance even more, while maintaining quality. Additionally, we will always pay particular attention to the shareholders and will operate with the aim of ensuring company growth from all possible aspects.



Simon Alig

BY KH. KHULAN

Mongolian Economy
interviewed Simon Alig during the Cluster Management study tour held at the Technology University of Darmstadt in Germany. Alig studied electrical engineering with business administration from October 2003 until September 2009 at University of Technology Darmstadt, EC Lyon (France) and Tongji University Shanghai (China). He also gained relevant work experience during internships at General Electric in Brussels (Belgium), B. Braun Melsungen AG and Roland Berger Strategy Consultants. Afterwards Alig joined University of Technology Darmstadt as research associate and Hessenmetall Cluster-Initiative as a project manager.

Alig explains the benefits of cluster strategies and how they can be introduced into a new market such as Mongolia's.

CLUSTER

EXPANDING THE MARKET WITH COMPETITORS

When was the Hessenmetall cluster first initiated and how did it start?

The Hessenmetall Cluster Initiative was started by the Metal and Electronics Companies Association and Technology University in 2006. Now it contains four clusters.

Because we want to offer you the best possible venue for dialogue, we continuously identify innovative companies and industry clusters as part of the Hessenmetall clusters initiative. With their success, already four of our clusters are actively maintaining their network with regular group meetings in Hessen. The four clusters operate in automotive ►

- ▶ production, aviation, electronics, and plastics.

On the agenda are relevant project issues such as purchases, sales, human resources, and research and development. Technical research institutions are frequently involved. They exclusively share their innovative results with the members of the cluster.

Aside from project work, the exchange of experiences is of particular importance. The rule is the more trust there is within a cluster, the more honest and forthcoming the exchange.

The competitiveness gives way to a sense of community and each participating company will recognise it can only benefit from the collective knowledge of all other participants and research institutes. The clusters are coordinated and supervised by the members of the research staff of the Department of Cluster and Value Chain Management at the Technical University of Darmstadt.

What is unique about the metals industry in Hessen? How many members are there?

The metals and electronics industry in Hessen is mostly SMEs [small-medium enterprises]. There are 30,000 employees working at about 600 companies. In our four clusters we have about 50 member companies.

How do you create efficient cooperation with the research institutions and a regional administration?

In our plastics cluster we have a “technology scout”. He is an employee from the University of Kassel and he is in charge of identifying technology projects in the cluster. Thus he has to generate new ideas with cluster members in workshops and so on. Afterwards he has to coordinate the project.

It is important to integrate knowledge from universities as an integral part of cluster management. This is done via the technology scout.

How can a metals industry cluster contribute to the value chain?

The metals and electronics industries constitute an integral part of the value chain of industries in Germany. It is the core of industry.

Describe the “coop-etition” strategy used within the cluster? How can companies compete with each other while, at the same time, cooperating with one another?

The companies compete in the market for customers.

However, because of high investment in new technology and increasing pressures from companies in emerging markets there is the need for greater investment for innovation. For a single company to accept investment alone is a high risk. Thus it is better to pool the resources and abilities of different companies.

For example, Daimler and Renault cooperate in the automotive industry as OEM for the electric car market—however, in other segments they are competitors.

What benefits does clustering bring to a business?

A cluster should increase and expand the base of knowledge for a company. Companies get to know the competencies of other companies in detail and gather certain new project ideas they wouldn't have gotten outside the cluster.

Which challenges are there to initiating a cluster?

The most critical part is getting companies to join the cluster. To do so you have to show them a strategy and convince them that they can benefit from this. You have to show how companies benefit with concrete examples.

What is your advice to the Mongolian businesses and research institutes that are interested in initiating a cluster project?

They should settle on a common vision for the next 15 to 20 years. Based upon this vision, they should identify opportunities the clusters pose. These ideas have to be developed before starting a cluster. ■