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# MONGOLIAN ECONOMY

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Warehouse Management

Company+Government+  
Individuals = Responsibility

## THE GERMAN-MONGOLIAN PARTNERSHIP

An aerial photograph of a city skyline, likely Frankfurt, Germany. The image shows several prominent skyscrapers, including the Commerzbank Tower with its distinctive spire. In the foreground, a tall, modern glass skyscraper with a red logo on its upper section is visible. The city is densely packed with buildings, and a yellow construction crane is visible at the bottom of the frame. The sky is blue with some light clouds.



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# CONNECT, DISCOVER, GROW!

## I. OTGON

**G**IZ Country Director Sabine Mueller said that the demand for technical support is much greater than her organisation can provide alone. Yes, it certainly is.

The accelerated development of the country continuously requires from us new ways of thinking, creating new demands and pushing Mongolia forwards towards sustainable development. Fortunately, today we are provided with a great opportunity to meet these new demands and reach a new stage of development, relying on the experiences of developed countries.

It is an advantage that a number of countries are interested in cooperation and sharing their distinguished practical experiences with Mongolia.

Most recently, the International Mineral Resource Initiative (IMRI) of German development organisation GIZ organised the German-Mongolian Corporate Days conference in Ulaanbaatar from October 22 to 24, under the banner "Connect-Discover-Grow"! The discussions held at the Conference covered a number of sectors such as Food supply and quality standards, renewable energy, vocational education, and human resources.

During the event, scholars, researchers and business representatives from various sectors of industry in Germany generously shared the practical experiences for the development of the sectors they work in—many of which have just started to develop in Mongolia. According to the event's organisers,



attendance never fell from the 1,000 heads counted over the course of the three days. This clearly shows that Mongolia's private sector was eager to learn from these experts from Germany, a country which has the highest standing in technology, quality of education and logistics.

Germany is also seeking opportunities to develop in cooperation with Mongolia. Proof of this is in the fact that for the last two years the governments of both countries have had delegates visit one another and held official events for expanding cooperation.

This issue of Mongolian Economy brings its readers the most pressing

issues discussed at the conference. There were many other interesting topics that could not be included here, but there are plans to present them in successive issues.

When participants were asked about their impressions of the conference, they expressed satisfaction, underlying its importance as the first event where both German and Mongolian businesspeople had the opportunity to share information and experiences. They said they hoped for more results as the conference continued, too.

Yes. Undoubtedly our two nations will cooperate, learn and grow together. ■

GUEST

# RESPONSIBLE BUSINESS REACHES GLOBAL MARKETS

BY KH. KHULAN

“We believe that sustainable development is achieved when the government, private firms and individuals work together. A coherent strategy in the area of CSR is certainly a powerful tool nowadays that a company can use in order to compete in the international marketplace”.



## What is different about Mongolia compared with the other countries you have lived and worked in?

People often ask this question. It is not easy to answer. When one enters a new country, it is always like a new start. The experiences made in other countries don't necessarily help because of the various social and cultural frameworks.

For example, I remember well what it was like when I came here. In the afternoon of my second day in the office, my assistant came and told me, “You are supposed to meet the Environment Minister- right now. You must go now”. I was taken completely by surprise, because I was used to planning and preparing well for such things. I haven't encountered this “right now” anywhere else in the

## GIZ-Mongolia Country Director

*Sabine Mueller was born in Frankfurt am Main, Hesse, in Germany. She comes from a family with three brothers. Her interest in living and working abroad sparked when she was a child.*

*She started her work for GIZ more than 20 years ago. Sabine Mueller has worked in countries such as Bangladesh, China, Sri-Lanka, and Zimbabwe. Before coming to Mongolia, she also taught the seminar “Development cooperation” at the Albert-Ludwigs-University in Freiburg, Germany's sunniest and greenest city. Mueller combined her teaching activity at the university with her employment at GIZ. She and her husband came to Mongolia together in 2010.*

world. By now I have gotten used to it. I even like it [smiles]. I just have to be careful not to do things in the same way in Germany, because it doesn't function that way.

There are other cultural and social differences that one only notices after some time. There are so many

changes in such a short time, such as what we have experienced in Mongolia, and this has an effect on the society. On the one hand there are so many chances for individuals, companies and also the country, but it is challenging especially for a young democratic system like Mongolia! I »

► have experienced rapid changes in China too, but of course it has a completely different political system. Something else that is different is the strong German—Mongolian relationship. There is a large network of German-speaking Mongolians who have studied or worked in Germany. As a foreigner, one is welcomed into this network. That makes life sometimes easier, no matter if it is work related or private. I feel very comfortable about that.

Before I came, I had already thought about how I could get through the winter. Now I'm in my third winter, and it is much more pleasant than I thought it would be. That is because we have sunshine, and it is light and bright. A German November is worse than a sunny winter in Mongolia.

**I know you had visited Mongolia twice while working in China, once in 2000 and again in 2002. What are the starkest changes from your first visits to Mongolia of today?**

I didn't recognise anything any longer. When I came back to Ulaanbaatar, I had no idea any longer where the house was I stayed at during my vacation. Everything here had changed so much, and there were so many new buildings.

There is a great deal of migration to Ulaanbaatar, to the ger district. The hills are now covered with new residential areas. It was different earlier. The dynamic in Mongolia has increased considerably. When you look at the country as a whole, you can hope that the country will benefit from the development that is taking place now.

Has life in Ulaanbaatar become better? In winter, certainly not when I think about the air pollution. From our project that works on energy efficiency I know, that the supply of energy is quite challenging; no matter if it is electricity or heating.

**German - Mongolian cooperation is expanding these days, especially in strategic partnership in the economic sector. What activities is GIZ pursuing in this connection?**

First a few words about the German International Cooperation Agency



Photo by E. Zorigt

(GIZ) in Mongolia. Earlier it was GTZ [German Technical Cooperation]. We have been here for 20 years now. We are an implementation organisation that works for the German government. We have an annual turnover of about 10 million euros.

Today we are focusing on three areas: biodiversity, energy efficiency and mineral resources management, which also includes technical education as vocational training in this area. Some things have changed with the merger with the German developer service DED and the capacity building international InWent.

Of course, our organisation has increased in size, especially in the area of personnel. We have 100 employees. What I find very interesting is that we are the largest German employer in Mongolia. More than before, we are concentrating on bringing technical expertise. Now we have about eight different instruments for assigning experts at all levels of companies or organisations. I guess

we can call this: our unique selling point!

We have noticed an unusually great demand for that on the Mongolian side—technical support. For example, last year colleges and vocational schools had been equipped with brand new technology by Millennium Challenge Account or Oyu Tolgoi. That means that we now have modern technology available at the colleges and we can now offer support by bringing in experts who work with these technologies. We note that this is very welcome on the Mongolian side. It has to do with quality, technology and real support at different levels. I am very pleased about that.

**Technical support and know-how transfer are both essential for Mongolia.**

We have noted that demand is much greater than what we can serve. Therefore we try to cooperate with other institutions who could step in. Education and Vocational Training is ►

essential for the development of the country.

**I think that the demand is greater because it is concerned with competitiveness. The products that we offer now in the marketplace, must be more innovative and more competitive.**

That was one reason why we organised German-Mongolian Corporate Days. It shows a quite different face of GIZ, where we work very intensively with the private sector, because we are convinced that this cooperation makes our work much more sustainable and successful. We have various opportunities for cooperation. We can cooperate, or jointly finance certain activities and projects.

That is the more business-oriented part of GIZ, which is not so well known in Mongolia. The German-Mongolian Corporate Days event was a great success. It was initiated by the Integrated Mineral Resources Initiative (IMRI). We had about a thousand Mongolian and international participants. That number did not decrease over the three days; rather more and more people came. There was a broad spectrum [of organisations in attendance], from business, science, government and non-government organisations. This event was supposed to be a platform where Mongolian and European business people could exchange ideas on issues of modern corporate management.

We had prominent German companies such as Siemens, Thyssen Krupp, Bilfinger, Audi, Linde, and also Mongolian star performers such as Nomin. These companies reported in great detail about their daily work activities, and developed ideas about how Mongolian business entrepreneurs can compete more successfully. It was a learning platform. Now we already have some feedback from the companies that had established good contacts. It would be good for Mongolia to expand German-Mongolian trade.

**This year, IMRI presented the Corporate Social Responsibility Forum in October. The consensus there is Mongolia has surpassed the first phase of corporate social responsibility. What else was learned**

**there?**

We believe that sustainable development is achieved when the government, private firms and individuals work together. Each one has a different role to play. Therefore, two years ago we started to put great emphasis on this idea and we were pleased with the great response from Mongolia.

Definitely the Mongolian government can formulate the framework for good conditions for companies and citizens, and to appeal to their social responsibility. But for that, it is also necessary for individual citizens and firms to change.

Companies can become more sustainable if they bring their employees and economic relations in line with social, environmental and economic standards. A coherent strategy in the area of CSR is certainly a powerful tool nowadays that a company can use in order to compete in the international marketplace. And it can be a sustainable model for a company to market itself well.

It isn't a cost factor, as it is often assumed. Rather, over the long term, it can enhance the reputation and growth of a company. It would be a responsible business that reaches global markets!

**In your opinion, what is good project management? In Mongolia, numerous projects and programmes are implemented. What should managers pay attention to for better implementation of a project?**

In my opinion, human resources management is one of the most important aspects of management. All of us face the challenge of finding qualified and skilled staff members for our projects, competing for the best. GIZ needs excellent human resources. That is why, for me, it is the number one topic for our management. And we need a good working environment in order to be efficient and effective. It's not an easy job to do, but during the last two years we have lost only two people who have left for other companies.

For our HR policy, we do not only concentrate on technical skills but also on what we call "soft skills". These include communication, facilitation

and moderation skills. It is essential for development cooperation to bring partners together, and, also to have good social competencies.

For me, sustainable management has a lot to do with personnel management. It is the overall umbrella that helps employees continue to grow so that they can accomplish their work goals with better service to customers.

**Do you believe the development of human resources is a part of corporate responsibility, too?**

Indeed, this is also a part of CSR [corporate social responsibility]. At the first CSR Forum a colleague said: "Maybe we should not always talk about CSR, but also about PRS [personal social responsibility]. That reflects the responsibility of each individual in an organisation. It is always a "give and take". But human development doesn't happen automatically; rather it has to be supported.

**How do you see the future of the German—Mongolian cooperation? Not only on the economic level, but also in all the sectors of cooperation.**

I am not worried about the German-Mongolian partnerships. These are so strong and have become traditional.

Some say that the number of the Mongolian students in Germany has decreased nowadays. I think that is normal because today the students have many more choices where to go. Yet there are numerous Mongolians who have studied in Germany and come back to work and live in their home country, which I think is great.

Diplomatic visits also indicate the role played by the cooperation between our two countries. Archaeological excavations are carried out together with German universities. But in connection with the growing development and strong changes in Mongolia, the cooperation between our two countries will also change.

And I am sure that the role of developmental cooperation will also change. As equal partners we should not stop discussing our visions, goals and different roles for the future. And I am very much looking forward to take part in these discussions. ■

## NEED

# WAREHOUSE MANAGEMENT

KH. BURTE

New technologies and expanded trade are bringing more products into the country than ever before. But where is everyone going to put all that?

While the country faces troubles, not knowing where and how to store its wheat and vegetables, some countries such as Germany focus instead on transit warehouses using nanotechnology. This is a completely new method for both air and railway transport. Although the commercial sector has built a handful of warehouses and put them into operation, nobody can confirm how well they stack up against standards.

During the German—Mongolian Business Days forum held in October, some presentation on warehouse storage were given. Although the presentations had more than a few good ideas that could be adopted, it was difficult to find a Mongolian representative engaged in this sort of business.

## Short-term Solution

Klaus Spicher's presentation titled "Warehouse Management Strategies: How to Find the Right Strategy for Your Needs" had plenty of useful ideas.

"In many countries, especially in highly developed European countries, the warehouse and transit warehouse businesses have

developed into strong competitive businesses", said Spicher. "But a businessman who decides to try himself in this field of business might be almost unafraid of losing".

There are three types of warehouses: storage, transit and mixed warehouses. It is essential that transit warehouses establish agreements with clients, or fix the terms of storage with different categories set at certain prices. Spicher emphasized the importance of setting different prices for the storage of various commodities, but at short-term periods rather than storing them at a single-fixed price for longer periods.

Transit warehouse vendors are likely to prefer the simplest arrangement of their facilities for loading and unloading goods and keeping their heavy machinery. Klaus Spicher explained that from his own experience the compartments, carts and other equipment used in transit warehouses are frequently damaged because they are not maintained.

Over the last five years, the transit warehousing business has rapidly developed in European countries. As a result, by now most tourists prefer this kind of service to other forms of

storage keeping.

The mixed type of warehouses consist of two separate compartments, each designed respectively for the transit or storage of goods. For most clients, the type of warehouse is not so important, but organisation that allows for items to occupy as small an area as possible leaves a good impression. Moreover, reliable and fast service would undoubtedly earn a customer's trust.

## The Image

"For the arrivals, it is most important that the goods are in hand on time", said Spicher.

"For this, prompt and well-arranged services are required. Additionally, the internal rules of a warehouse must be strictly observed. The most important factor above all else is the design and internal structure of the warehouse building".

In most countries where the warehousing business is well developed, storage buildings have only a few floors. However, in a few Asian countries, including China, most warehouses have multiple stories.

The reason for this is more labor, electricity and money is wasted when having to frequently carry goods up and down floors. Tall warehouses are considered tactless, risky and inefficient in design among those in the industry. A single-storied building or one with just a few floors, however, is adequate for positioning many »

### Statistic information about wares passed through the customs of Mongolia

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total wares turnover	1150.3	1159.2	1214.7	1416.9	1890.8	2249.2	3028.4	4119.3	5779	4023.1	6108.6	11415.8
Import	614.5	637.7	690.7	801	1021.1	1184.3	1485.6	2170.1	3244.5	2137.7	3200.1	6598.4
Export	535.8	521.5	524	615.9	869.7	1064.9	1542.8	1949.2	2534.5	1885.4	2908.5	4817.5

- types of goods, saving both time and money.

Since the database and inventory units bear greater responsibility over a warehouse owner's success, proper attention should be paid to expanding these units. In other words, a good registrar, correct arrangement, organisation, safety, and prompt loading and delivery all create the best circumstances for business. Also, it is best to separate certain kinds of goods, such as perishables and fragile objects.

"Currently, there are over 800 international-scale warehouses operating in the world. However, a majority of them serve traders and businesses by storing or delivering their goods and commodities", said Ingo Shraiber, who gave a presentation titled "Warehouse

Infrastructure and Its Systems."

"This shows that warehousing services, which continuously try to simplify operations, still haven't been refined yet".

Shraiber also emphasized that although the best warehousing operations in the world have tried to promote transit warehouses exclusively, they have not yet achieved the expected results. Perhaps, it might be related to transnational trade, and international freighters undoubtedly prefer the mixed-type or storage warehouse system.

As for Mongolia, larger trading companies such as Nomin Holding and others have already started constructing their own storage facilities. G. Tsolmon, a marketing manager at the General Customs

Office, said that there are too few large-scale storage facilities in the country. Also, he mentioned a few organisations engaged in transit warehousing, namely Erin International, which is engaged in freight forwarding and re-export services. It does so by receiving direct transit goods transported through Mongolia within a designated area over a given time period.

This beginning is fine. However, by now, Mongolia needs strong management to efficiently develop this kind of business.

The Mongolian market hasn't yet adequately developed to introduce the mixed type of warehousing service, not to mention the transit of goods and commodities.

The country must develop transit storage mixed warehousing services nationwide. Although a long time has passed since this system was first introduced in developed countries, today when the mining industry and international trade networks are targeting Mongolia, it would be undoubtedly beneficial for both the state budget and businesses. ■



"Номин холдинг" компанийн агуулах

## PRODUCTION

## NO TIME TO WASTE

BY B.UUGANBAYAR

**A lack of logistical prowess is keeping producers from reaching their full potentials.**

The term supply chain has forced its way into the mouths of Mongolian businesspeople as its incomparably sharp economic growth took off. This fact was confirmed at German-Mongolian Corporate Days, where there was no small number of business associates, researchers and scholars of various practices from Germany.

The second day of the session focused on the impact a supply chain can have on a developing market such as Mongolia's.

Klaus Spicher, a professor at the Fraunhofer Institute for Material Flow and Logistics, presented the report "Supply Chain Engineering: The Significance of Supply Chain Management for Global and Local Businesses" [find the full report published in the next issue of Mongolian Economy. Spicher offered many good ideas for Mongolia to adopt, as supply chain management and logistics are major issues it faces with its rapid economic growth.

"All the processes concerned with the delivery of any goods from point A to point B can be determined in the whole as the supply chain", said Gerhard Wackenhut, executive director of

logistics of the Automotive Aviation Division at Nomin Holding. "This includes purchasing, storage delivery, and supply".

The growth of the mining sector has been a particular spot of worry as far as logistics are concerned. The range of the types of buyers has grown considerably and customers are becoming smarter about their purchases. Now, Mongolia is faced with the task of adopting supply chain management techniques from sophisticated Western markets. However, Western countries had many years to do so while time is short in Mongolia.

Looking at the experiences of foreign countries, one will easily notice that great care is given to the arrangement of purchases, storage and delivery, and supply. In contrast, Mongolian producers are often caught in a panic, lacking the resources to move materials up the supply chain as Western markets do. In agriculture, when crops have already been harvested, still the country must seek donations for wheat.

Alot of new foreign terminologies such as logistics, cluster, and innovation have continuously been entering the Mongolian

vocabulary. That leaves the question of how can Mongolians adopt these principles of business and the economy well. On the other hand, although Mongolians are quite unfamiliar with these subjects they are provided with ample opportunity to develop their understanding of these concepts through experience sharing.

"Especially for Mongolia, it is important to put agricultural goods and commodities into the supply and procurement chain" said Spicher in his report.

In Germany, for example, the government purchases its fish products to place a control over the supply chain. They are next frozen before an auction is held for the sale of the fish.

Spicher also recommended creating a master plan for a national supply chain. Logistics should not be neglected, he warned, if the goal is to develop an efficient supply chain.

Germany sees logistics as the driving force to the economy. It is also an innovation engine, he said.

While Germany stands at the leading position for logistical performance, Mongolia "stalks along the list" at 141. The United States as well as neighboring China and Russia have also failed to achieve much in this area. In Germany the logistics sector accounts for 7 percent of gross »



Photo by A. Amarsaikhan

▶ domestic product (GDP), while its workforce is equals to two-thirds of the Mongolian population.

The efficient development of logistics does not only rely on physical infrastructure, but also skills. If a country promotes the logistics sector well it can open a new market while attracting investors and tourists.

Mongolia's overloaded, and bumpy roads as well as the long distance between Mongolia's central locations in each province make logistics a particularly difficult issue to tackle. For instance, the total length of road between Zamyn-Uud Soum and Ulaanbaatar is 250 kilometres. So, it is not surprising that the cost of goods delivered to Ulaanbaatar and next through to the rest of such large, expansive country is considered such a difficult

task. The roads have also grown damaged and weatherworn after years of use and multiple winters, which is also a safety concern for drivers. All this drives up the price of goods when they reach store shelves.

When goods are transported over quality roads, as are found in developed countries, the price of goods can remain reasonable.

But roads are not the only challenge Mongolia faces—there is also the railway network to deal with. Mongolia's rails face problems including a lack of railway carriages, warehouse space, and cranes for lifting heavy freights.

These issues are well taken care of in Germany where the fuel price and the driver's pay account for a greater portion of transportation cost. Also,

German law grants clear and fixed regulations to the responsibilities of logistics companies regarding transportation procedures and drivers' work schedules.

The road inspection authority and traffic policy cooperate in monitoring the law's enforcement. Certainly, their transportation and logistics companies are also well conscious of their functions, and the drivers have the highest senses of responsibility and ethics.

In addition, because many logistics companies must compete with each other the prices for their services remain affordable.

For a country as highly disciplined and punctual as Germany, it must have been natural for logistics to have developed in this way. Mongolia should count itself lucky then to have such a good teacher. ■



LOGISTICS

# SEEDS SHOULD BE SOWN IN THE RIGHT CLIMATE

BY E. LUTAA

Bruno Selmoni, vice president of roads, freight and multi-modals for DHL Asia Pacific, speaks on logistics during an interview while attending the German-Mongolian Corporate Days.

**There are lots of definitions for logistics. However, generally it is recognised in the world as a sector that involves not only transportation, but also numerous other aspects such as planning, management, supply and infrastructure. What is your understanding of logistics?**

Good question! If I must give the shortest definition of logistics, I would say it is an activity that helps making people happy, contribute to prosperity and helps save lives.

In general, logistics can be explained in many ways because it involves an extremely broad range of concepts. Logistics plays a relevant role in the whole of economic development and contributes substantially in every day life.

**As a global leader in logistics, can you describe the range of DHL's operations?**

DHL operates in over 220 countries and territories. Mongolia is one of them within this large network. DHL has more than 3,000 logistics facilities and operate with more than 275,000 people worldwide. We could say that DHL is one of the largest logistics providers worldwide.

**The logistic sector is not so**

**developed in Mongolia. How would you comment on this as a professional in the industry?**

I've only been in Mongolia for a few days. So, I haven't yet had enough understanding of the Mongolian reality. Consequently I can't make any comments on the achievements or shortcomings of the logistics sector in Mongolia.

But, here I just would like to say that logistics is one of the enablers and major contributors to the development of any country. Related to this, proper attention should be paid to three major actors. These are the governments, the freight-forwarding companies and the shippers. The logistic sector will improve if these three main parties actively cooperate. All of them are key and their activities are also interconnected.

Although, they are the major force for developing the sector, the development of infrastructure has a specific importance. Personally, I think that Mongolia is moving forward in this respect.

Judging from the presentations made by my Mongolian colleagues during the German-Mongolian Corporate Days, they have a firm understandings about logistics and

see the ways and importance of its development. And investment in this sector is increasing.

An example of this is the decision for the construction of new railway lines. Also, here, I would like to add the road network and the new international airport. These are important factors for the development of logistics.

**You have discussed the three major factors necessary for the development of the logistics sector. How would you determine the role or involvement of the authorities in its development?**

I just would like to name again the three factors which are the administration, the security and the infrastructure.

In the administration, a lesser burden from paperwork and procedures can help boost efficiency. Although a certain degree of monitoring is required, it is necessary to provide a complex service with reduced bureaucracy. So, the governments should give proper attention to this matter in order to provide simplified procedures and reduce administrative documentations.

In today's world, we are ▶▶

▶ increasingly required to be fast in order to succeed in any type of business. This is one of the outcomes of globalisation. So, time plays a relevant role. Introducing standard processes or even electronic customs procedures and increasing electronic connections between authorities, shippers and logistics companies can help in reducing lead time.

In this respect, in Mongolia a survey conducted by the Mongolian National Chamber of Commerce and Industry (MNCCI) pointed out that the procedures are quite time intensive and there is also an increased level of administration related to paperwork.

Looking into the area of infrastructure area, as I mentioned in Mongolia the authorities are already focusing and developing key projects which are of high importance to develop business and trade.

**The MNCCI survey reported that 70 days are required for collecting more than 10 documents necessary to attain a permit for the export or import of goods. However, the new government plans to bring the number of documents to three or four. How is this regulated in other countries?**

Each country pursues a flexible policy on this issue, directed to protect their own interests. However, it is somehow difficult to give a concrete definition to this question. Every country issues regulations and procedures depending on the country's political, economic and financial situations. International trade is one the most important drivers of economic growth and rising living standard, so improving these administrative activities and processes can only positively contribute to development itself.

**How can Mongolia learn from the experience of other countries?**

I think that we should consider all of this on a global scale, but then adapt it to the local conditions. However, it is not always good to implement something new just by showing or understanding that we think globally. The main thing is to sow the seeds for the right climate. This means that

you can take the experiences and best case from all over the world but you need to adapt them to your local situation and culture.

**Scholars believe that after the 20th century, the development of logistics and technological sectors has risen to a new stage of development. What do you believe are the major problems this sector**

**faces?**

We are a service company. In this sense, we carry out the activities relying on economic situations and customers' interests and needs. So, we have to be ready all the time to act and react in any situation to provide our customers the best and most efficient solutions in order to satisfy their needs and market requests. ■

## WORLD STANDARDS

# STANDARDISED WORLD

BY E. ZORIGT

**Mongolia will continue to lack a competitive advantage against foreign traders as long as it lacks the standards in its operations.**

Standardisation is one of the three major revolutions of industrialisation by mankind. It was the first step towards the possibility of mass production of manufactured goods. This combination brought a number of distinct advantages such as mass production and transnational exports. When Henry Ford introduced the assembly line, he established the division of labour that served as the basis for the modern automotive industry. However, Mongolia has not yet come to a full understanding of standards yet.

The concept of standards originates from a gun maker who thought to create gun barrels of the same size. During the continued

development of this concept to its present-day understanding, the world community has given lots of attention to production and quality in relation to the expansion of goods and services and mass production. Yet production has also seen the emergence of threats to the environment and human health. This has ultimately led to the creation of a framework of conditions for safety.

This issue of recording events as they happen has also become an issue of great importance. It is unimaginable to think of any business that ignores marketing. Standards and quality provide the main support for marketing.

According to the Office of ▶

► **Standardisation and Measurement:** “The standard is a formal law that should be strictly observed in economic and market relations. For any person engaged in business relations, it is required to identify essential norms and standards for the purpose to enforce policies towards the protection of customer interests and balance the uneven, weak position of customers compared with business people”.

Establishing a framework of rules for methodology and production can provide a guarantee to consumers of quality. It also can give a new producer the boost it needs to compete in the global market.

## The Need for Fixed Standards

European countries have focused on reaching the next stage of development since the end of the Second World War. How did they develop so efficiently? At the Maastricht convention in 1993, Europe formed a commonwealth with a single parliament for representation. A common currency was issued and borders were drawn up and agreed upon. What was once a loose, economic union has become the trans-governmental pact the world now knows as the European Union.

However, most important was the adoption of European standards. Each and every member country had to follow a set of standards. Everything including training, medical service, food safety, and urban planning, was accredited with well-defined standards. Failure to comply meant a country could not be included in the union.

There are many ways quality can be described. A person is free to choose the most useful attributes for himself and then correct or adjust them to create standards. Sometimes quality is thought of as the sum of all possibilities for management. That means planning, monitoring, enhancement and correction should be carried out without interruption to ensure the



continued quality of every institution, including for-profit companies, development agencies, and government institutions. Standards and quality cannot be separated from one another, although each has its own understanding.

## Measuring Achievements

Quality is a criterion that is chosen by both manufacturers and customers. Nonetheless, there is talk about company management, production, and monitoring. The end goal is to reach a level of client satisfaction and enhance the suppliers' level of service. In short, it is ensuring quality.

Quality is subjective. For instance, your perception of high quality service at the checkout line in the market may be different from someone standing behind you in line. Ulaanbaatar's markets might also have different standard of quality from that of Darkhan or Erdenet. Therefore, the idea of quality should be standardised in some sense.

The standards of the International

Standards Organisation (ISO) imparts a global scale for regulation. For instance, the ISO 9001 standards have been utilised by 1.1 million organisations worldwide.

“Although, in some sense quality is both invisible and untouchable, the world community can make it an objective thing based on the methodology for fixing and accrediting standards. One clear example of this are the globally well-known ISO standards”, said Norbert Kiene, the head of Linde Engineering Dresden's marketing department, at the German-Mongolian Corporate Days forum.

ISO is made up of representatives from over 100 countries that provide quality assurance and regulate standards. Its goal is to promote the international exchange of goods and services worldwide, and support intellectual, scientific, technological and economic cooperation. Today's trends of globalisation opens the market to any company. However, success first requires a supply of high-quality goods.

Beer Budoo, chair of ISO's development and education unit, ►►

► said, “ISO determines a system called quality guarantees by combining a large number of standards observed worldwide”.

## Mongolian Quality

Mongolia has attracted the attention of international investors thanks to its enviable annual growth. That puts it in a position where it can compete with other nations. But that alone is not enough.

“Currently, most of the world’s countries lack a firm positive or negative understanding of the current economic situation of Mongolia”, said Stephen Kreppel, coordinator of the Market for National Brands programme.

He gave the example of China, whose quality of manufactured good generally garners low opinions from consumers around the world. Most foreign consumers are unfamiliar with Mongolia’s production capabilities, he said, which can be advantageous as Mongolia now has the opportunity to set its reputation.

“First, the opinion that all the goods manufactured in Mongolia are of adequate quality must be made”, said Kreppel.

To achieve this goal, Mongolia first must develop into a manufacturing nation and then prove that its quality meets international standards such as ISO’s. The goods manufactured in countries such as Germany or Switzerland have

less need for guarantees of quality because they have already earned the trust of the world’s consumers.

Integrating global standards is the first step in earning consumers’ trusts. Mongolia already has the potential to attract consumers interested in organic or environmentally friendly products. Mongolians have adapted to nature and the environment throughout their history, a fact that could be used to help launch a global brand.

Labels indicating 100 percent cashmere from Mongolia means nothing to consumers today. To give meaning to this label, Mongolia must prove that it meets international standards. If it can manage that much, the world is certain to acknowledge the quality of its goods. ■

## FOOD SAFETY

# TRADITION OR RENOVATION?

### I. OTGONJARGAL

Mongolians have a long tradition of slaughtering their own meat. But regulating that practice for export abroad is a brand new concept to herders.

Any time, whenever he wishes to eat fresh meat, enjoy hot tasty mutton soup, or to satiate his children’s hunger for kidney or heart, the Mongol herder may simply go to his flock of sheep and slaughter one for supper. Every herding household has a man able to prepare a khorkhog or boodog, Mongolia’s traditional cuisines. If any man was unable to slaughter a goat or sheep, especially among those who grew up in the countryside, he might be picked on or scolded for straying from Mongolian traditions.

It is the same for women. A woman who learned well how to clean a slaughtered animal and

handle its entrails is well admired, especially by her elders.

In Germany, although there are many private farmers raising livestock they are not legally allowed to slaughter their livestock whenever they want. Its laws compel farmers to have their livestock killed at a slaughter house due to food safety standards. Judging by this, the traditional methods of slaughtering livestock in Mongolia have developed in the completely wrong direction.

From a professional point of view, meat is considered a quickly perishable product that creates a comfortable environment for bacteria growth. These risks have led the rest ►

► of the world to give special attention to food technology and the safety of the meat industry. There is also great interest in the quality of meat, with strictly observed sanitation regulations and procedures at meat processing facilities.

Germany leads the world with the latest technology and equipment of the meat industry. Most of Mongolia's most highly valued food technologists studied in Germany. Leading meat and sausage industries of Mongolia such as Makh Impex and Khatan Suikh are also equipped with German technology.

One of the key topics discussed during the German-Mongolian Business Days forum held last month in Ulaanbaatar concerned renovations to the meat industry and the quality of meat products. On the first day of the event were two presentations on this subject.

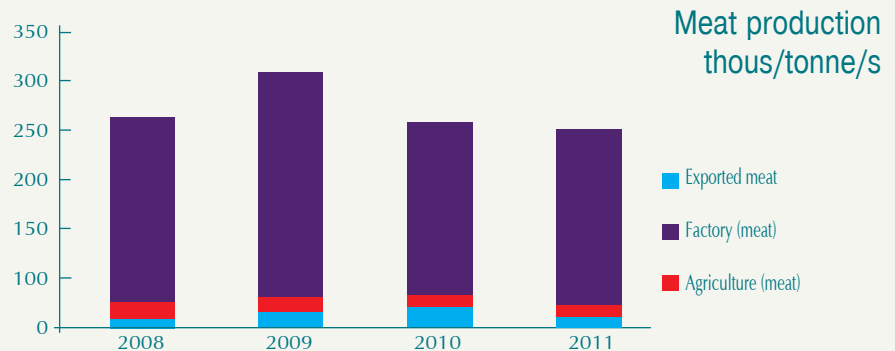
Joseph Hammer, director of Hammer-Dorfmark LLC, presented first, explaining the importance of proper methodology and equipment for meat processing.

"Practical technology, high standards of hygiene, many years' experience, traditionally inherited processing methods, and modern renovation... all of these altogether characterise the German meat industry".

A specialist with industrial meat equipment, Hammer outlined the timeline of the industry's development in Germany. Included in that sequence of events was a time when a number of small-scale meat enterprises were constricted by larger facilities due to hygiene and sanitation requirements that were difficult for them to meet. However, the result was a well-refined national industry that is recognised worldwide for its outstanding quality.

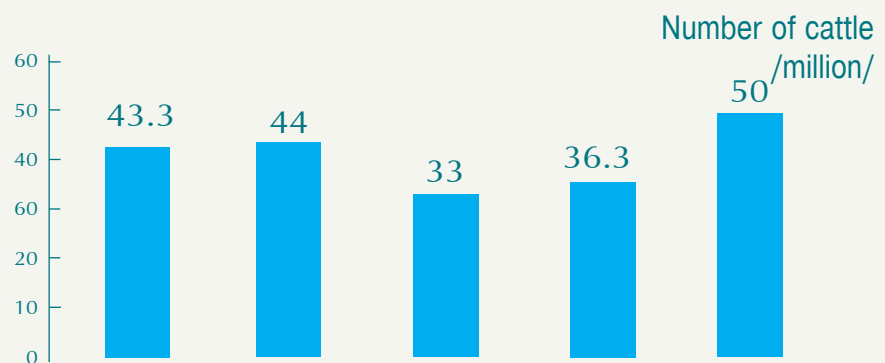
The hygiene and safety demands raised by customers, too, are changing. That is why the Mongolian traditions for preparing meats must change; so it can meet the standards set by the rest of the world's industries.

Over eight million heads of



Production volume by cattle types  
thous/tonne/s

Products	2008	2009	2010	2011	2008-2011 Хувь
Beef	4274.2	9222.3	5777.7	4324.5	101.1
Mutton	3300.3	1852.1	2889.5	4498.7	136.3
Horse meat	3402.8	6585.3	2337.1	2592.3	76.1
Goat meat	1031.9	613.3	1016.8	1748.7	169.4
Sausage	1784.1	1651.6	1734.8	2204.4	123.5



livestock are slaughtered on average each year to produce up to 240,000 tonnes of meat products in Mongolia. Of the 208,000 tonnes of meat produced last year, 15.6 tonnes was processed in industrial facilities. According to a 2008-2012 report of the meat sector from the now dissolved Ministry of Food, Culture and Light Industry, the total amount of meat prepared grew by 26.8 percent and again by 1.9 percent in 2008 and 2011, respectively. In 2011 the production volume of sausage and similar products reached 2,204.4 tonnes, increasing by 27 percent compared to the previous

year. However, the volume of beef production fell by 25 percent from the previous year, while the production of other products grew between 10 and 70 percent.

According to the same report, the total number of slaughter plants nationwide was 42 with a total capacity of slaughtering 18,620 heads of small livestock, and 3,600 heads of large livestock. In total, the industry is able to refrigerate and freeze 30,237 tonnes and 1,160.2 tonnes, respectively.

However, just 10 of the 42 facilities in the country have stable operations because they do not meet ►

▶ the necessary veterinary hygiene standards or have not yet been inspected by the Hazard Analysis Critical Control Point (HACCP).

In 2010, the former ministry and the State Professional Inspection Agency inspected 35 meat-processing plants. Over the course of these inspections, six plants received "AAA" ratings, while 28 others received that of "AA". However, one facility has since lost its "AA" rating.

The HACCP was first introduced to Mongolia and its meat industry in 2011 when it first inspected Just-Makh Market, one of biggest companies in the domestic meat industry. Afterwards, it received a certificate from the International Auditing Organisation. This has created the opportunity for the country to export its meat products.

The second presentation on the meat sector was given by S. Enkhbayar, national project coordinator, for the Quality Meat for Consumers project at the United Nation's Food and Agricultural Organization. Enkhbayar studied in Germany before working for the Ministry of Industry and Agriculture for many years and is duly recognised one of the country's most experienced experts in the meat industry.

His project, which received USD 520,000 in financing from the Italian government, has sought to improve sanitation since the second half of last year and will run until 2013. It has done so by introducing general manufacturing practices for meat management.

Although Enkhbayar intended to implement these practices at two plants he was only successful at Darkhan Meat Foods LLC.

There is more involved here than simply installing modern technology, there must be regular inspection at every stage of processing. This means Enkhbayar's team of specialists had to visit sites, organise training workshops and provide constant instruction to reach their goal.



On the other hand, a plant's management should also do what is necessary to procure the investment required to raise the standards of their facilities. The project team found Darkhan Meat was well able to meet this challenge. This can be seen in the company's success in renewing its production line, expanded operations through a new boning method, sorting and packaging, and its wide variety of meat products.

German meat technologist Michael Benker works as a project consultant there and the instructions he has provided to the plant and other small local meat shops have already shown strong progress. In

addition to Darkhan Meat, Benker has introduced HACCP standards to 15 small meat-processing facilities in rural Mongolia.

At these rural facilities the project team introduced slaughtering techniques and supplied them with MNT 37.4 million worth of equipment. Each shop employs four workers able to slaughter up to five large and 20 small animals each day.

There was a sense of remorse lingering among the project developers, however. After all, it seems silly to have to explain to rural Mongolians how to slaughter an animal and herders are hesitant to cast away their traditional methods. ■

## RETRACTION

In the story "Open Platform for Business" in the first issue of November, which reported on the fifth anniversary of the Business Council of Mongolia, was an error when naming the resigning chairman of its board of directors. Mr. J. Peter Morrow was mistakenly named instead of Mr. Laurenz Melchers,. Please accept our apologies.

B. UURIINTUYA

Now that Russian fuel exporters have raised their prices, once again Mongolia looks to ease its dependence on foreign oil.

Privatisation has become a key headline in Russia. Its government has decided to sell off nine of its state-owned companies deemed strategic assets. One of them is the oil giant Rosneft, which is responsible for quenching most of Mongolia's thirst for oil.

According to Rosneft's official statements, about 6 percent of the company will be privatized in 2013.

To lessen its petroleum dependency on Russia, Mongolia needs to take control over the petroleum industry that has been in Rosneft's hands for almost a half century. If Russia remains the main supplier of petroleum it will continue imposing higher prices on its oil exports,

Panic has started to set in. Lately Russia has been harsh on Mongolia, whose people have only dared to dream of having a refinery. Every time prices rise, the Mongolian government takes emergency action. But its solutions do not last forever.

Recent discussions on price increase have the nation wondering if the newly formed government can find sustainable solutions.

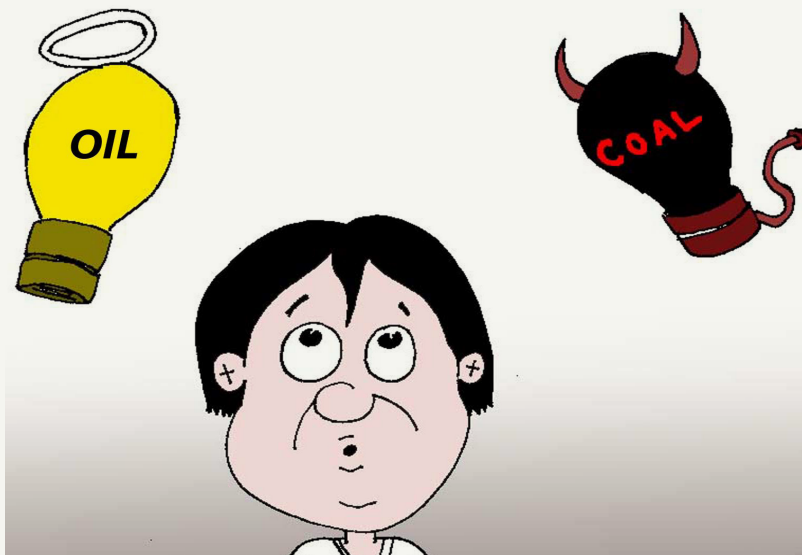
Recent news from Mongolia's petroleum sector has not been good ever since Rosneft said it would raise its prices on fuel exported to Mongolia. The government, as usual, took quick action and agreed to grant loans worth USD 120 million to domestic importers. Some cynics say the government's actions are just more public relations measures to end 2012 with strong support, while others laud it as the right decision for the current circumstances.

### Work with What You Got

Mongolia's crude oil reserve is estimated at 1.6 billion tonnes, with 196 tonnes of proven reserves. About

OIL

## SHOW AND TELL



30 million tonnes of that crude oil can be extracted now. If Mongolia could find the right key to its locked reserves, the government would not have to be afraid of Rosneft's price fluctuations any longer.

But there are rules to unlocking that treasure chest. Mongolia has 30 known oil fields, 18 of which have extraction or exploration operations conducted by 14 domestic and foreign companies. The tenders to the other fields have not yet been announced.

Exploration and exploitation of oil requires a lot of time and money. In fact, exploration alone requires a minimum USD 30 million and up to five years of hard work. Pumping oil costs at least USD 100 million, and that is just the beginning. Currently, about USD 1.3 billion has been invested in the Tamsag and Zuunbayan basins, according to an industry source from government. Unfortunately, that is not enough to meet the fuel demand of nearby regions.

Industry officials note that more needs to be done to meet domestic demand. That is a fair enough observation as boring a single well

requires around USD 2 million and drilling up to 4,000 metres. If Mongolia expects to exploit its proven reserves it will need a huge wave of investment.

### Withdrawing Invitations

Adventurous profit seekers are willing to invest in Mongolia's oil sector. Although there seems to be a welcome sign over the country, it tends to lock its doors when guests arrive.

The country's reportedly extensive oils reserves is one reason for the attraction to the sector. Common wisdom in the industry suggests that spudding two oil wells for every ten drills is considered good. Following this line of logic, half of the 10 borings have been excellent at just four of the 18 oil fields with operations.

It is important to build a fire out of a small flame, but unfortunately the government appears to do the opposite. Instead of supporting the industry it apparently prefers only lots of talk. A proper legal environment is crucial to investors. The country legalised the Petroleum Law back when democracy first began flourishing in Mongolia in ▶▶

▶ 1991. Compared with the 10 countries with the best petroleum legislation in the world, Mongolia's law was considered one of its best. However, the modern market demands revisions.

### Any options

Market prices naturally fluctuate, but when they peak they put heavy pressure on countries dependent on import products.

Mongolia has set the immense goal of building a refinery in its attempt to reduce dependency on fuels from Russia. Too bad nothing has been accomplished yet. There are no new reports except for a few official statements from sources such as the Ministry of Mining, which released a statement on the processes for building oil refineries.

The government has ordered the minister of mining to intensify his focus on the development of a technical economic analysis for refinery projects. Industry specialists have kept mum as well.

Numerous refinery projects have been introduced over the last couple of years. Yet not a single thing has materialised. There are representatives of the petroleum sector who approve of the refinery project introduced by Khet and chose it as the best option the country has in front of it. Khet proposed the construction of a refinery with the capacity to produce 121,000 tonnes of oil at the cost of around USD 50 million.

Then there is the Namjim project, a long-discussed project that would be financed by a Japanese firm and built in Darkhan. Again, there has not been a single trace of action for this plan.

In addition, 34 percent state-owned Dornod Petroleum was established during the rule of the previous government. But at present the firm does not even have a director.

These examples show that it is high time that the government finally pay some attention to these lost dreams of so many years.

The first President of Mongolia, Punsalmaa Ochirbat, once said in an interview with local media a year ago,

"Factories don't necessarily have to be big constructions. We could build small refineries in the basins of Tamsag or Zuunbayan. Or even at appointed locations".

"The most important thing is to do something. It is not that Mongolians are inventing something new".

When Ochirbat said this last year, he added that about USD 500 million would be "more than enough" to construct Mongolia's first refinery. However, the geological structure makes it sometimes difficult to extract crude oil.

According to industry specialists, coal-to-liquid technology could be one alternative to petroleum fuel. It is an interesting prospect, indeed, but the saddest truth is that this kind of technology is still generally

experimental. Thus, for a country like Mongolia, which is not even capable of enacting much cheaper solutions, it would be a difficult challenge for sure.

China, for example, has been trying to advance this technology for many years. It has made official claims to have succeeded, but reality shows a different picture, say many scientists around the world. However, some of Mongolia's most prominent companies are collaborating with foreign investors to try extracting fuel from brown coal.

Above all, creating a larger fuel reserve would be the optimal solution for now. Even countries with refineries have crude oil reserves stockpiled for emergencies. Japan, for instance, has ordered national oil reserves sufficient for 240 days compared with Mongolia's mandate of reserves for just 60 days. ▶

### OPINION

## THE STATE OF ECONOMIC RELATIONS



Dr. Stefan Hanselmann,  
Programme Director,  
GIZ's Integrated Mineral  
Resource Initiative  
Programme

The state visit by Mongolia's President Elbegdorj in March 2012 was the first official visit to Europe by a Mongolian president and further evidence of the high quality of German-Mongolian relations. 2012 marks 20 years of bilateral technical cooperation between BMZ and Mongolia. The intergovernmental agreement on cooperation in the fields of raw materials, industry and technology signed during Federal

Chancellor Merkel's visit in October 2010 is yet another clear indication of the mutual interest in more extensive cooperation.

The structural differences between the countries—with Mongolia's raw materials on the one hand and Germany's state-of-the-art technology on the other—mean that they complement each other ideally. However, on closer examination, it is clear that economic cooperation and the level of commitment of German companies in Mongolia have so far fallen short of expectations and failed to reach their full potential. Germany is Mongolia's most important trading partner in the European Union. Although the volume of trade is growing rapidly, at 156 million euros (2011) it remains well below its potential, given ▶

▶ Mongolia's average annual fuel usage is estimated to be 1 million tonnes. Although, Mongolia could stockpile just above half of its annual demand, it cannot afford to pay for it. Although the law for fuel reserves orders reserves for 60 days, thus far it has only managed for 44 days of reserves, as reported by petroleum authorities, falling far short of what the State Great Khural ordered.

If Mongolia cannot even buy enough fuel to meet national oil reserve requirements how can it expect to become

independent for oil?

Government policy for the petroleum sector until 2017 includes various regulations on creating a sufficient supply of oil. Bright, positive prospects can be seen in that policy, such as the call to prepare petroleum specialists and develop a workforce for the sector.

In the end, all these options must somehow come together to form a vision that establishes an ample supply of fuels as well as the development of oil refineries. ■

▶ that Germany is the world's second largest exporter and Mongolia is one of the world's richest countries in terms of natural resources.

In concrete terms, Germany exported goods worth 145.5 million euros to Mongolia in 2011 and imported goods worth 10.4 million euros from the country. Whereas Mongolia is the 122nd (2010) largest export market for Germany, it occupies the 154th position (2010) in the list of countries Germany imports goods from. Conversely, among Mongolia's main export markets, Germany is only the sixth largest. In 2010, Germany's principal export goods to Mongolia were machinery, accounting for a share of 34.2 percent of exports, electrical engineering products and motor vehicles, including motor vehicle parts, each with a share of 12.1 percent, and foodstuffs with a 9.5 percent share.

## Development of bilateral economic relations

Despite Germany and Mongolia having enjoyed intensive and friendly relations for many decades, the current level of economic activity by German companies in Mongolia is unsatisfactory. There are a number of reasons for this. For instance, Germany is not a mining country in the strict sense. In the future, the various opportunities for German companies and investors to take part in mining projects need to be examined more thoroughly. A company need not necessarily be

a mining enterprise itself in order to take part in a mining project. From the German perspective, the possibility of financial investments (primarily equity financing) by individual German companies or consortia has not been sufficiently considered to date.

Although Germany and Mongolia have shared close ties for many decades and a large number of Mongolian experts who trained in Germany could serve as sources of information, German companies often do not know enough about Mongolia. In some cases, this has led to projects being initiated without sufficient due diligence having first been carried out by the German party involved. Cultural differences, varying expectations and poor preparation are the reasons why projects are then either aborted or fail during the implementation phase. What is communicated on the German side, often incorrectly, is that it is not possible to carry out projects in Mongolia. This is regrettable: German companies have a conservative mentality and essentially seek long-term and sustainable partnerships, which makes them extremely reliable partners once they have decided in favour of a project.

On the other hand, in view of German companies' conservative business mentality, it does not help that only some of the legal and administrative conditions in Mongolia are transparent and predictable. On major strategic projects, there is often not enough coordination. One of the principal weaknesses of Mongolian legislation is the fact that legal implications are either not evaluated

at all or are only insufficiently assessed prior to laws being passed (legal impact assessment). Also, it is not uncommon for laws to lack binding implementing regulations. This in turn provides scope for a wide range of differing interpretations of laws by governmental, regional or local authorities and bodies.

## Options for enhancing cooperation

Cooperation between Mongolia and Germany should in the future focus on using German expertise to create value chains and improve sustainable value creation, productivity and, as a result, profitability in Mongolia, as well as to contribute towards sustainable economic and social development. To this end, one or two smaller-scale projects in the raw materials processing industry should be identified as pilot projects and then systematically developed over a longer period of time. This would require particular conditions to apply to these projects (in terms of tax relief, long-term agreements and guarantees) wherever necessary. Given that these projects are models that are designed to demonstrate what is possible, the government (e.g. in the form of the Mongolian Ministry of Economic Development) should cooperate intensively on the project. This may be as part of a financial partnership, although this does not need to be the case. A cooperative arrangement with the state, which is limited from the outset to a particular period of time, would also be conceivable. ▶

► Ensuring that these projects are systematically and adequately prepared and documented will be important. This does not mean several million dollars have to first be spent on carrying out a feasibility study. Project documentation that appropriately addresses initial key issues and, in so doing, stirs the interest of a potential investor, will be sufficient at first.

A select number of projects need to be systematically prepared and then publicised in Germany (via road shows, promotional events at German Chambers of Commerce and Industry and trade and industry associations). From the German side, the GIZ programme Integrated Mineral Resource Initiative (IMRI) has been given the mandate to actively support such activities. If the projects are backed by the government, a small group of three or four specialists could be set up within the Ministry of Economics, for instance. They then carry out the road shows, in cooperation with IMRI for example, and have knowledge of various aspects.

The projects must be technologically relevant, i.e. they should concern technologies which are forward-looking and therefore of long-term benefit to Mongolia. From the perspective of German business, the projects need to be connected to strategic raw materials, while at the same time having long-term relevance. When selecting potential German partner companies, Mongolia should focus far more on small and medium-sized enterprises. What Mongolia needs is a “German Mittelstandsoffensive”, an initiative aimed at realising the potential of the Mongolian economy through small and medium-sized German enterprises. Major projects such as a coal-to-liquid facility or a coking coal plant certainly need to be in place. In terms of employment effects, however, these projects are not the solution. The capital expenditure per workplace will be enormous, yet the overall number of jobs will be. The German economy is not solely dependent on major corporations such as Siemens, Daimler or ThyssenKrupp. These

companies are merely the most visible. Seventy-five percent of all German employees work for small and medium-sized enterprises (in Germany, ‘medium-sized’ means companies with up to 250 employees and an annual turnover of no more than 50 million euros). The *Mittelstand* is key to Germany’s economic success; these companies are highly flexible and innovative in offering optimum benefits for their customers. They include many so-called ‘hidden champions’, firms which are unknown outside of their respective industry, but which occupy leading positions globally. In the event of cooperation with these companies, the long-term benefits for Mongolia will be many times greater than is the case with large-scale projects. Most of these companies are both run and owned by families but they lack the human or financial resources to be able to manage crises over a longer period of time. Projects therefore need to be well prepared.

Germany continues to possess leading global expertise both in mining technology and processing mining products such as coal, coking coal, copper and many other industrial minerals. It would be considerably easier to use these technologies were Mongolia to introduce—with German support—a modern system of standardisation which meets international requirements and through which the technical specifications of the technologies employed are clearly defined. Without the frame-work set by a modern system of norms and standards, competition is usually based solely on price. In this case, quality and product safety suffers greatly, particularly as a result of cheap imports from China. Moreover, the already weak Mongolian standards regime is being fragmented ever further by the introduction of a whole array of norms and standards from different countries such as Australia, Canada, Germany or Japan. It is already clear at this stage that this will cost Mongolia a lot of money and compromise its efficiency in the medium to long-term. Technical regulations and standards,

in conjunction with a strong standards regime, form an essential basis for targeted economic development, which is why GIZ IMRI has been promoting their development for several years. The development of a modern system of norms and standards would not only help directly with large-scale technical projects, but would also indirectly advance the modernisation of Mongolia. One such example is occupational health and safety where there are also a large number of norms and standards.

It will take some time yet before the number of mining projects increases enough to trigger a critical expansion of market potential. Despite individual large-scale projects such as Oyu Tolgoi or Tavaan Tolgoi, the mining industry is still relatively small, especially as far as Mongolian mining projects in the implementation phase are concerned. Access for German suppliers to foreign (e.g. Canadian or Australian) mining projects is difficult, since companies such as Rio Tinto have their long-standing suppliers who are extremely familiar with the technical specifications of these clients. Although supplying mining corporations such as this is not completely out of the question, different sales channels apply. On the other hand, a growing number of Mongolian projects would lead to German mining technology suppliers setting up a base in the country; they would gradually establish various operating functions in Mongolia (e.g. Voith at the GIZ German Centre of Excellence). This creates jobs and brings technological expertise to the country in the long-term.

Both Mongolia and Germany have repeatedly expressed their wish to expand economic and technological cooperation. Germany and German companies must be clear that the speed of change in Mongolia is high and that its raw materials make Mongolia attractive to many countries. On the other hand, Mongolia must make it clear that its Third Neighbour Policy, and the particular role assigned to Germany in this context, is also reflected in the area of economic cooperation. ■

## ENERGY

# A SENSE FOR ENERGY SAVINGS

BY E. ZORIGT

The economic boom has also brought an explosion of energy consumption. With the commissioning of new power plants still far in the horizon, Mongolia will have to settle for interim solutions.

By now over 60 years have passed since mankind first encountered the need to limit its energy consumption. This eventually led to the emergence of services catering to the need for saving energy. The first energy savings services were set up in France over 50 years ago, with similar companies appearing in the United States and Canada beginning in the mid 1960s. In recent years in China several companies have emerged focusing intensely on saving energy.

Each country refers to this industry differently. In the United States, for instance, it is called “economic agreement and performance”, in Europe it is referred to as “technological agreement performance, and in the United Kingdom it is “third party financing”. Yet, even today, Mongolia still has very little idea of these kinds of services.

The main objective of energy-savings companies is to increase

economic efficiency for a client by suggesting changes in energy management. In addition, they offer all types of services required for improving energy efficiency, including technical and financial advisory, auditing, and repair and maintenance services, while adapting to the company’s needs.

However, in some cases companies are faced with certain challenges during their basic operations. Just surviving is quite difficult in a country like Mongolia, with a poor understanding of energy savings services.

## Initial Issues

Nowadays, the world economy revolves around production and consumption. However, it should not be forgotten that the producers are often also the consumers. A great deal of what they consume is energy.

Production requires specific attention be paid towards reducing superfluous energy. This is the first step towards producing better quality products while spending less. However, over the last 20 years the government has implemented hardly any real policy regarding the energy sector.

Today, when the cost of energy is set by government, producers do not care about saving energy. In short, it is because the price of energy occupies such a meagre portion of a

company’s expenses that so much energy is wasted. So, in some sense, liberalising energy tariffs might be one way to convince energy consumers to ease up on their usage.

“Judging from international practices, it is obvious that considerable economic savings are achieved through energy savings, the market, and various tools related to the market”, said Daniel Hesse, a consultant at McKinsey and Co. of Hamburg, Germany.

“For instance, a company providing energy savings services is obliged to create reliable conditions for reducing energy consumption and reach target savings through its own methodology and financial resources”.

Although Mongolia claims to rely on capitalism, when it comes to the energy sector convenience and consistency are considered more important than economic efficiency. However, the market law requires any entity engaged in production activities to compensate for any losses suffered. Energy experts warn that investment into the sector is diminishing, and will continue to do so unless energy producers are permitted to set their own tariffs.

Less investment has resulted in lapses in regular maintenance and repairs, also putting the safety of engineers into question. Now the headache-inducing question left over is how to renew this out-of-date technology and equipment. »

► P. Tovuudorj, head of Strategy, Policy and Planning at the Ministry of Energy said that the country's average annual energy consumption grows by 8 to 10 percent every year. Thus, in accordance with the market law, there must be a greater supply of energy to prevent any problems from inflicting upon the general population. Additionally, liberalising pricing would make it possible to attract greater investment and participation from the private sector while changing people's perception about the importance of limiting energy consumption.

Saving energy would also benefit the environment. Even meagre energy savings would reduce the volume of coal burned and soot released into the atmosphere. Once burned the smoke from coal contains more than 200 toxic substances.

To save energy, first technological renovations must be implemented at the power plants. Importing high-quality technology that meets international standards has greater costs that most companies cannot bear. Generally, any organisation lacking a long-term development plan pays little regard to energy consumption.

## The Next Step

Inevitably, the country will need a professional agency to sweep away this sort of indifference and calculate the economic benefits companies would feel. An energy savings company is designed to carry out such tasks.

These companies can calculate how much is spent on energy used for production, identify opportunities for energy savings, and estimate how much could be saved with greater efficiency.

Hesse also noted that both parties should understand the expenditures from capital spent on making savings should eventually be returned from the money saved. For instance, Germany's BEA has provided these kinds of services to nearly 1,400 organisations in Berlin. As a result of this work, it is estimated that



annual carbon emissions had been reduced by 68,000 tons on average. It was further estimated that those organisations saved 11.3 million euro, or 26 percent of total energy expenditures the year prior to the energy-saving modifications were implemented.

Before any action is taken, both parties must agree to specific terms to ensure that the company provides the services it has promised that it will help improve energy efficiency. In Europe clients have relatively high demands.

"Efficient energy consumption can only be achieved when the supplier's offer is compatible with the client's demand", said Guenter Hain, a manager for the Near-East and Asia-Pacific regions at industrial automation firm Festo Didactic. "So, the parties should thoroughly reflect upon their respective demands, requirements and responsibilities in the cooperation agreement".

The agreement should also outline

the penalties if either party is unable to meet their commitments, said Hain,

Although, it is pleasant to see the number of modern high-rising towers, tall apartment and office buildings, and industrial complexes grow each year, all this is followed by shortfalls in heat and electricity. That is exactly what happened in 2010 when peak energy consumption reached 728 megawatts, exceeding the capacity of the country's thermal power stations. Afterwards the country was forced to import an additional 70 megawatts of energy from Russia.

Projections indicate that in 2020 peak energy consumption will reach 1,128 megawatts. Although Power Plant No. 5 would be operational by then, energy shortages are likely to continue still.

The simplest solution to this challenge is ending wasteful energy consumption. It will be up to each and every one of Mongolia's 2.7 million citizens to make the effort to save energy in their homes. ■

## CORPORATE SOCIAL RESPONSIBILITY

# COMPANY+GOVERNMENT+ INDIVIDUALS = RESPONSIBILITY

BY KH. KHULAN

Understanding the responsibility of companies is important to all sectors of the economy. But its realisation in the mining sector is a top priority today...

If one turns the pages of humankind's history, the era of industrialisation holds great weight. Beginning in the 1800s, the industrial revolution brought technical and technological progress. Large corporations have become firmly established since that time.

Many people from rural areas dreaming of better lives came to live in the cities. Industrialisation flourished and the process of urbanisation expanded, impacting class distinctions.

The middle-class was formed in accordance with the wealthy and worker classes. The market was supplied with the first luxury consumer goods, such as the bicycle, gramophone, typewriter, and automobile. The income from industry and trade grew day by day, but there were also a lot of downsides, too. Namely, these are the loss of a direct link between nature and humans.

The factories polluted the air, water, and environment, leaving a great deal of poisonous substances and waste



Photo by E. Zorigt

*At National CSR Forum in October 2012*

## Why Responsibility?

The industrialisation period, was not at all environmentally friendly. It was when many of today's largest companies got their first start and they focused most strongly on business operations without much concern about the impact their activities might have on the surrounding environment.

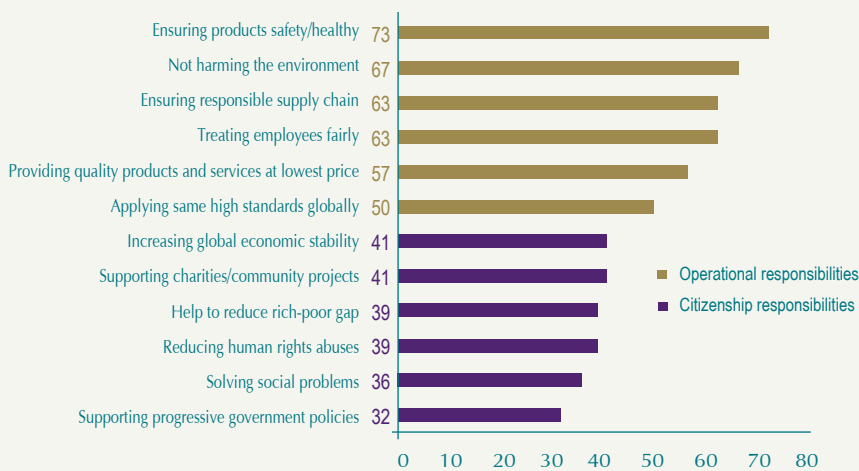
Today, the topic of corporate social responsibility is talked about worldwide. The term is not new for entrepreneurs. The definition of social responsibility, as it pertains to business, originates from the 1950s

when several European countries began implementing its core ideas.

Big corporations have realised that they must act responsibly towards their customers, employees and society. Environmental responsibility was added after social responsibility later in the 1980s. It came about after it was apparent that the ecological conditions were changing worldwide.

During the Earth Summit in Rio De Janeiro in 1992, politicians from all over the world came to the conclusion that sustainability must be included in economic planning too. »

### New Expectations of Business



Source: Celina Pagani-Tousignant's presentation "The Role of Companies in Society", 2012

development of economic growth as well as the issues concerning the environment and society, she said.

This ideal is related to companies of all sizes and it is needed within sectors such as mining, construction, public transport, tourism, and processing factories, said D. Erdenebayar, head of the Sectoral Development Policy Coordination Department at the Ministry of Economics.

Though often overlooked, reporting on activities is no less important than any other aspect, according to Rolf Dietmar, director of the Sino-German Corporate Social Responsibility project.

"CSR reporting means informing about the progress a company has made on sustainable development to the public", said Dietmar in his presentation.

Most countries publish their reports voluntarily. Yet, interestingly, France and Sweden have made reporting mandatory since 2001 and 2008, respectively.

Another example comes from Mongolia's southern neighbour. Chinese companies had 32 CSR reports when the concept first started to take hold in the country compared with over 890 today, said Dietmar.

Ch. Nergui, head of the Policy Planning and Coordination Department at the Mongolian National Chamber of Commerce and Industry (MNCCI) noted that Mongolian companies tend to forget to issue these reports.

Understanding the responsibility of companies is important to all sectors of the economy. But its realisation in the mining sector is a top priority today. There is a great demand for the application of environmentally friendly technology.

The main message of the forum was that corporate responsibility brings more efficiency if the state, businesses and society can implement it together. The development of this concept has already started in Mongolia, and there is no way back in today's globalised world. ■

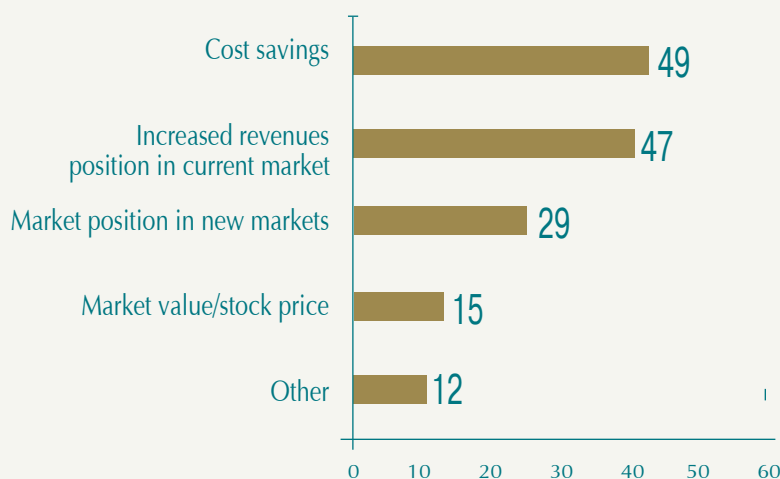
### ▶ A National CSR Forum

Corporate social responsibility is not a brand new topic to Mongolia either. Mongolia's private sector has passed the initial phase and is now working from the next level, said G. Kherlen, vice director of the Financial Regulatory Committee at the Corporate Social Responsibility (CSR) Forum. The event, presented by German development agency GIZ's programme Integrated Mineral Resource Initiative (IMRI), opened with remarks from S. Oyun, the minister of nature, environment and green development, and Peter Schaller, German ambassador to Mongolia.

The forum included discussion of the International Standards Organisation's (ISO) 26000 regulations, the benefits of activity reporting, and project development in various aspects of industry, society and the environment.

Oyun explained the significance of upgrading standards of methods and technology. She said the creation of inclusive green growth is essential, which the government has acknowledged with the creation of a ministry dedicated to green development. Prime Minister Norov Altankhuyag will lead the Sustainability Committee while paying particular attention to the

### Benefits of CSR Reporting



Source: Rolf Dietmar's presentation "Benefits of CSR reporting", 2012

## Mongolian Economy asks CSR experts



Dr. Rebecca Chung-hee Kim, Assistant professor of CSR and International management, The University of Nottingham Malaysia

### How has the role of corporate social responsibility (CSR) grown in business development worldwide?

In the old days, Milton Freedman [1970] said "The social responsibility of a business is just to increase its profit". However times have changed, and the Western idea of maximizing shareholder interests is limited to the area of the competitive global market.

Why CSR? Because the market has been changed. And beyond shareholder returns, companies have to think about how they can share their ideas and profits with the community, which gives a legitimacy and driver's license to a cooperation.

It is about business for making a profit and generating the shareholders' returns, and how they can get the help and consensus from the Mongolian government, the media and shareholders. This is a much more holistic approach towards business. It is very important.

These days people tend not to trust corporations. They think corporations always tells lies to make money. However, with the idea of CSR corporations can get that trust and support from the local government. It is about entering the market through to society. It is really critical and all about business; not about PR or donations.



Celina Pagani-Tou-signant, President at Normisur International management consulting company

### How does the social contract companies had in the 1960s compare with that of today?

The wellbeing of a society depends on the support of three sectors: government, private [companies] and civic society.

In most countries in the West, over 40 years ago, the roles of each sector were set. Government took care of the social needs of people and also developed laws to keep order in societies; companies provided jobs, paid taxes and did a bit of philanthropy; and organisations in civic society (NGOs) took care of the social issues that government did not cover.

These organisations were humanitarian organisations. A social contract was established among the sectors and each sector fulfilled the obligations of the contract with the assigned roles.

In the last 40 years there have been many changes. Companies have grown a lot, some of them have budgets bigger than the GDP of [some] countries and have become very powerful. Globalisation helped companies expand their operations overseas into countries where they didn't have a presence. They reached new clients and hired new employees and suppliers. At the same time society started to change. The way people looked at certain issues related to environmental contamination, human rights, labor issues, workers' health and safety, etcetera changed; and all of a sudden individuals, NGOs and governments started to look at them with great concern.

These issues were intimately related to

companies and the way they operated. Many of them developed environmental and human rights, and other types of policies at their corporate offices. But they didn't transfer these policies to their operations in foreign countries. This went unnoticed for a while, but in the last 15 years with the advances in communication and new technology, when news travel fast, companies cannot have this behavior anymore. As society's expectations of companies began to change over time, their role expanded.

People expect companies today to provide jobs and pay taxes, but they also want companies to sell safe products, diminish their environmental footprint, contaminate less, treat their employees well, create a safe work environment for employees, make ethical decisions, support the communities where they operate, etcetera. Companies need to do much more.

During this time, the role of government got smaller because budgets diminished. As a consequence, social services were cut. Civil society expanded. More humanitarian NGOs were created and also others with different purposes. New radical voices emerged from the people who protested against company abuses and environmental contamination, and they founded activist NGOs. These NGOs became very powerful and today they can bring companies to their knees.

There is a new social contract between companies, civic society and governments. The size of each sector also depends on the political, economic and social context of the country. ■

## HUMAN RESOURCES

# A LACK OF SKILLS AND KNOWLEDGE

BY KH. ANAND

...I am not a dreamer. I don't believe it's necessary to have a giant company with many workers to serve the world and many people...

Thorsten Trede, director of Aplicatio Training and Management, has worked in Mongolia since 1993. During his career he has accomplished much and possesses a great deal of professional experience to offer Mongolia. According to him, the development trainings his company has organised around the world have already achieved concrete outcomes. Some of those can be found in Mongolia.

"Although all the social aspects including infrastructure, and so on must be developed, unless human intelligence and skills are both promoted parallel to one another it cannot really be called development", said Trede.

Trede has led various human resource projects, not only in Mongolia but also in many other countries in Central Asia, Eastern Europe and Africa.

"We clearly see that the economic development train is accelerating in Mongolia more and more, and the enormous capital investment it carries with it is materialising. However, this acceleration should not ever come ahead of the investment into the people".

Applicatio's experts provide professional consultation services for human resources and capacity-building. Its training initiatives include six groups of employed staff and over 30 freelance experts. Since its establishment in 1993, the company has implemented over 400 long,

medium, and short-term projects in a number of countries, including more than 60 projects successfully implemented in Mongolia.

Trede directs his training and consultations not only towards the development of thinking capacity and the professional skills of participants, but also teaching them to be genuine owners of their skills to make them more independent..

His company's specialists work all over the world for only these purposes. ▶▶



► They begin with the “Policy-level Development” training and consult at all levels regarding the types of methodology managers should pursue, what they need to do to motivate employees, and how managers can develop their own skills themselves.

The training next involves consultations on how to promote human resources and the economy of other organisations. In addition, they offer online training on various topics as well as online training on development itself.

Thorsten said that in addition to the consultations they also organise training for investors. These training are important because they help investors evaluate whether they can trust a company, identify potential profit-making opportunities, and identify ways to support them for future projects. This training is particularly useful for those who hold their money tight or are nervous about investing.

## Every Project is a Success

Most of the projects implemented in Mongolia have been completed, with over 90 percent of those who took part in those training now working as consultants, trainers, or in leading positions.

“I am highly pleased to see how the number of consultants grows and spreads like a virus as a result of our projects, and how their business and lives flourish day by day”, said Trede proudly.

One example Trede offered was when GIZ requested their services for training on how to write and implement a business plan in Darkhan as well as Orkhon and Zavkhan Aimags. Those in attendance participated enthusiastically and eventually were able to establish over 80 enterprises. Those organisations further employed another 400 personnel. Over 30 consultants were trained in that one activity as well and still operate in the field.

“This was the best outcome, and

I like to mention it every time I speak about our Mongolia experience”, said Trede. “Most important was the project was enacted in the rural provinces rather than Ulaanbaatar”.

In 2006 Applicatio partnered with Invent LLC, which was just beginning its operation with just three employees learning online. This partnership helped the company expand and re-organised into The Mongolia Development Gate which now has over 200 members.

Nowadays, the organisation prepares various online trainings at universities, colleges and other training institutions while providing consultations. Additionally, it has nine long-term programs to prepare professional consultations in Mongolia. The programme trained between 15 and 20 young medium-level managers for three months in Germany.

By now, most of the over 180 experts who participated in the project have set up their private consultancies,

while some of them have gone on to succeed in business and politics.

Trede named former Finance Minister S. Bayartsogt, former Minister of Food, Agriculture, and Light Industry Ts. Gankhuyag, and former Director of Erdenes Tavan Tolgoi L. Enebish as his associates in the development of these projects.

The organisation cooperates with international development organisations while collaborating with globally known funds and companies such as GIZ, the World Bank, European Union, and the U.N. Development Fund.

The company has also led and sponsored a number of socially oriented projects, including initiatives to combat poverty, environmental degradation and desertification, and health campaigns.

Applicatio received the “CSR-Mobility” award in 2010 for its work supporting eco tourism management as well as “Enterprise of the Year”. ►





# THE 67TH VISIT

*Thorsten Trede is a native German born and raised in Hamburg, Germany. However, as his wife Gerelchimeg confirms, his lifestyle and some of his hobbies resemble that of Mongolians. This latest visit was his 67th to Mongolia.*

## **How is Mongolia different today from the first time you arrived?**

I can surely say that Mongolia in 1993 is not comparable to Mongolia in 2012 in any way.

During my first visit, the country was experiencing a difficult transitional period of economic and social development. But now that lots of foreign investors are interested in Mongolia foreign investment grows by the minutes and seconds. Consequently, people's livelihoods have improved considerably.

To tell you the truth, after my first arrival I was wishing to return home as quickly as possible. Of course, now I never feel this way. Sometimes to me it feels like when I arrive in Mongolia it's a holiday.

## **What is lacking in Mongolia as far as human resources are concerned?**

Currently in Mongolia it's important that investment into the people isn't neglected. Human investment is a process of capacity building that makes one the owner of his skills and allows that person to grow independent.

Advanced technology and equipment have no value without someone with the skills to operate them. This is something that I've seen is missing in Mongolia. Today the country's developing too fast, overtaking the speed of which education can improve.

Another shortfall I've seen in Mongolia has to do with the specific skills and abilities of individuals. These are particularly concerned with the skills and abilities that cannot be acquired through study at any university or college. For instance, although there are lots of carpenters in Mongolia, it has become difficult to find a really skilled carpenter who could make a genuinely well-crafted table. Similarly, while the country has lots of people with

higher education, the number of people who possess the necessary skills and knowledge to perform even simple tasks is still not enough.

## **What's your long-term aim for your organisation? Do you plan to simply continue your consultation services as you do now or do you hope to someday expand your consultancy greatly?**

I am not a dreamer. I don't believe it's necessary to have a giant company with many workers to serve the world and many people. On the contrary, the information and knowledge we provide people, the teaching methods and the content should reach far and wide and be known internationally.

There is a principle that if you want to keep your present position, you have to always be changing. We try to adhere to this principle as much as possible. Size and quantity are not so important, but content and methodology should always be first in line.

The most important thing is to feel the results of what you've done for people. We aren't chairmen, inspectors or supervisors. But we like to teach and instruct others one-on-one and make them capable enough while we both develop together.

## **I've heard some of your hobbies are horse riding, hiking, and hunting. I've even heard you enjoy archery. How do you usually spend your free time?**

Yes, these are my true hobbies. However, they were already my hobbies before ever coming to Mongolia. I discovered Mongolia much later.

My wife and I were married ten years ago and now we live in Hamburg together with our two sons. My specialty is working as a carpenter. Although I haven't worked in this profession, I have no doubt I learned how to do this to develop myself so I could do what I'm doing now.

My outer appearance and some of my behaviour is very German, but perhaps everything about me and my family is somehow more similar to the Mongolian way. ■

## SUMMIT

# SHORT-TERM PAIN OR LONG-TERM PROFIT?

The Mongolia Investment Summit in Hong Kong revealed investor worries as well as points to hold steadfast for continued investment in Mongolia.

In flashy Hong Kong, opportunity seekers come and go, day and night. Nobody turns away from opportunities in this place.

In October the thick starched white collars gathered in the sleepless city of light and speed for the development of the land of the blue sky. A rainbow of lights blended and danced without casting any shadows. Over 500 investors who had heard about the world's fastest growing economy driven by an overwhelming sum of natural resources in the heart of Asia arrived to hear more.

The first day's focus of the summit was to look at the current situation of the Mongolian economic environment, its mining sector and stock market opportunities, and challenges. The second half concentrated on non-mining sector interests such as roads, the rail transport network, energy supply, real estate, banking and insurance.

## Too Democratic

The sovereign bond offering and Oyu Tolgoi project agreement took center stage while the sensation surrounding the foreign investment law now took back seat. It was clear, however, investor interest was still hot for Mongolia.

Jargalsaikhan Dugar, chairman of Mongolian Investment Holding (MIH) Group, said, "No one would argue

that there aren't massive investing opportunities in Mongolia. It is clear that issues related to the Oyu Tolgoi agreement has had some negative impacts as I see with some investors here. Most importantly, what I see here is the strong interest to learn the new government policy ahead".

Mongolian participants from the private and public sectors said they had been trying to convince investors Mongolia had the system in place to correct its mistakes and move forward.

"The next hundred years is clearly for Asian dominance", said Ganzorig Ulziibayr, chairman of United Mongolia Corporation. "In order to fuel that growth, Asia needs resources. Mongolia has that".

"I would rather say Mongolia is too democratic. That is why things are so stingy and slow".

According to the event host, the number of visitors at this year's event had expanded. It was hard to find seats during presentations over the course of the two days.

According to Lkhagvadorj "George" Tumur, managing director of Hunnu Coal, "Many investors are wondering and waiting if there will be any improvements for the foreign investment policy. We cannot say that everything is going great without a problem to foreigners while Mongolian government policy and regulations are still not very clear. For that reason, investors are still on the side of continued cautiousness".

Many investment events have been held in recent years, not only in Mongolia but also in other parts of the world. The Mongolian Investment Summit is a key event that locals and investors do not let pass by.

This year very few state delegates took part in the investment summit. Recently re-elected Parliament Member R. Amarjargal came to the summit to gain a sense of what investors were thinking.

"Government participation was much less than expected. The investors expected a very clear message from government delegates in terms of new government structure and new policy", said Amarjargal. "Unfortunately, there was not any clear message but only emptiness. They are left with uncertainty".

## Long Love

It is natural for investors to weigh the opportunities against the challenges of any country before deciding to invest.

In order to fill that "tell me more" desire, the early presentations of the first day tended towards straightforward information about Mongolia. Those presentations were given generally by investors already too familiar with Mongolia. The presentation that attracted more attention than any others was "The Mongolian Tango" by Christopher de Gruben of M.A.D. Investment Solutions.

De Gruben started his presentation with a look at recent news headlines coming out of Mongolia over the past four months from various international news sources. *Trefis* wrote, "The spectre of resource nationalism in ▶



Photo by Steve Schechter

► Mongolia has come to haunt Rio Tinto once again”; Reuters said “A string of missteps and delays have made Erdenes Tavan Tolgoi JSC look inept”; the *New York Times* rang out, “Royalty and tax proposals threaten the OT project”; and the *Wall Street Journal* warned “... the country is on the verge of becoming yet another failed post-socialist experiment in democracy”.

“It seems that recent press articles concerning Mongolia have been universally negative, so are we to understand that the eternal blue skies of Mongolia are finally turning grey”? asked de Guben. “Have investors finally fled Mongolia for good”?

In his conclusion de Gruben made it clear that the year 2013 would be an exceptional year for investments in Mongolia. The slow down is bringing out worthwhile opportunities across the board and is actually giving Mongolia the chance to settle down and strengthen its offerings and bring stability to the country. We might even see fewer “cowboy” investors and more smart money coming into the sector.

On the-other-hand, if Mongolia is unable to present a united front with a stable fiscal and political regime for foreign investor then they will not stick around in the hopes that Mongolia may some day eventually gets its act together. If the situation does not improve soon this might well become the last tango in Ulaanbaatar.

It is possible that the number of those who doubt the further potential of Mongolia has grown in the past half year. But investment firm Garrison Capital has a different view.

“Everybody’s complaining about infrastructure and asking what the service is there. In reality, you can build, explore, and develop mines very

quickly in Mongolia. I do not know any country that you can take a licence to a producer in 18 months,” said Mathew Wood, Garrison’s executive director, during a panel discussion.

“That is going to be a huge tick for Mongolian authorities and support”, adding, “Garrison’s got a very long-term view on Mongolia”.

One issue asked by investors many times during the panel discussions what other solutions are there for the weak infrastructure. The panel said infrastructure is not the issue investors need to worry over.

“If we look at the purpose for the government bond issue, I think it is absolutely the right policy for the Mongolian government”, said James Passin, co-founder and manager of the Firebird Mongolia Fund “Assuming that bond financing gets off, it is a clear indication that more infrastructure will come”.

## Love at First Sight

Had investors’ attitudes changed by the end of the summit? Not every guest at the summit was new to Mongolia. In fact, some had spent the better part of their careers watching Mongolia make its climb in the last decade.

“Investors generally, globally have become more cautious. The headlines put up by the [Financial Times] and in London were not so kind and I would say, to be honest, not very balanced either. It is so easy to read headlines and make very quick judgments” said Eric Zurrin, director general of Resource Capital (ResCap).

According on the investors who have lived in and worked with Mongolia for years, the general atmosphere of the Mongolian business environment is not

too difficult to work with. Capital moves around in and out of country quite easily, taxes are quite friendly, and it is a democratic country. The downside to democracy, however, is investors are often confronted with opposing views in government and from society. Still, it is these investors who continue to come back to Mongolia.

Uncertainty is likely to prevail in Mongolia for the short-term. It is an obstacle many will have a difficult time trying to convince new investors to look past.

“The second speaker early on in the first day’s panel scared me. I can take risk but I am not going to take foolish risk” said Peter Kuang, chief executive at Alpha Group Holdings.

Kuang has never been to Mongolia before, and for many new comers like him taking a leap of faith was a tough prospect.

Some investors, however, had already decided to take the leap and move to Mongolia. Andrew Johnson, managing director of Maxwell Johnson, is one of those bold investors. He was an Australian investor who planned to invest in real estate.

“We have been thinking about Mongolia for six to eight months. But now we are not hesitating at all”, said Johnson “I like plain speak. So, for me, this summit was a more balanced view”.

The Mongolian Investment Summit was a chance to rally behind Mongolia on key issues. Though it started with hospitality it ended with a deep understanding of where Mongolia has come from and what opportunities are in store. There was both criticism and praise from those in attendance. Though the summit left some questions unanswered, investors made their messages to Mongolia very clear. ■

## COMPANY GOVERNANCE

# THE GROUNDS FOR GOOD GOVERNANCE



Photo by A. Amarsaikhan

BY B.UUGANBAYAR

Mongolian firms are no longer a novice to the idea of corporate responsibility, but there is still room for improvement.

Good governance in a company means cooperation and proper relations between shareholders, management and a board of directors. Indeed, the profitability and long-term sustainability of a company is directly dependent on its board.

The board is responsible for the development of a company's strategy while its major function is protecting the interests of share-holders and

keeping track of management's performance. In business it is said that the secret to a highly profitable, well-reputed large company is a strong board of directors.

Although every public company has a board in Mongolia, they exist more as a gesture of compliance than an active force for the company. Its functions, responsibilities and structure were thoroughly explained in the Company ▶▶

▶ Law. It stipulates that one-third of a board must be independent members, divided into three sub-committees. These are auditing, nominations and compensation.

"In fact, companies' managements don't understand well the importance of strong governance and the proper arrangement of a board of directors", said J. Unenbat, the director of the Corporate Governance Development Center (CGDC). "Because of this, they cannot improve the reputation and profits of their companies, nor can they attract investment".

If companies met the standard set up by the Company Law, their boards would be better equipped to manage risks, monitor company activities, review any of management's decisions, and implement long-term policy. Unfortunately, at the moment the law's provisions are only implemented on paper, which is why these boards are commonly given sarcastic nicknames such as "hand raisers," "stamp holders", or "ghosts".

This sardonic attitude reflects their weakness as domestically owned companies are usually dependent on a single authority for the decision-making process. Unenbat said 80 percent of public companies in Mongolia are made up of families.

However, more than a few companies have begun to understand the importance and efficiency of good governance. B. Daajamba, deputy chairman of the Financial Regulatory Committee recognises that the fact domestic companies cannot grow and miss out on the market to foreign companies is a direct effect from poor governance.

Last July nearly 20 companies had not yet established their boards of directors nor organised a meeting of the shareholders, as per the law. Those companies had their operations suspended.

Continuous regular changes create new demands for improved company governance. Those companies with poor governance are not likely to fair well against businesses with stronger reputations for governance and investment opportunities. ■

## GOOD PRACTICES

# BEREN MINING



### 1. Members of Board of Directors

Nine members (three are independent members)

### 2. Executive Director

Berenbaral Munkhdalai

1986-1990: Head of Communication Engineering Department at Baganuur Mine

1990-1996: Engineer at Beren LLC

1996-2006: Director general at Beren Construction

2006-present: Executive director at Beren Mining

### 3. Business Focus

Beren Mining focuses on iron-ore extraction and processing. It aims to process one million tonnes of iron ore annually.

### 4. Shareholders

As Beren Mining is currently planning for a public offering, it does not yet have any shareholders. It is relying on an iron-ore deposit at Khotont Soum, Arkhangai Aimag with a reserve of 80 million tones. It hopes to generate as much as MNT 130 billion from the offering.

### 5. Shareholders' Meetings

Before organising a shareholders' meeting, first a proposal from a member of the board must be submitted. If there is any disagreement during the course of a meeting, Beren Mining turns to a professional mediator to settle the dispute. Dividends are distributed through to investors' accounts.

### 6. Training

According to the Company Law, board members must participate in training on corporate governance and receive certification.

### 7. Strategy to Improve Governance

Beren Mining is now attempting to introduce internal governance within its company structure. One new provision introduced by the company is it prohibits any staff member from accepting any gifts or financial incentives. It also focuses on providing a pleasant atmosphere for working staff.

### 8. Promoting Corporate Governance

Beren Mining understands that companies must first understand the benefits of good governance before they can be expected to implement it on their own. The company supports the establishment of an organisation that brings together company representatives to help bring standards for governance. Such an organisation could be used for honest experience sharing as well as guidance for companies with less experience in self governance.