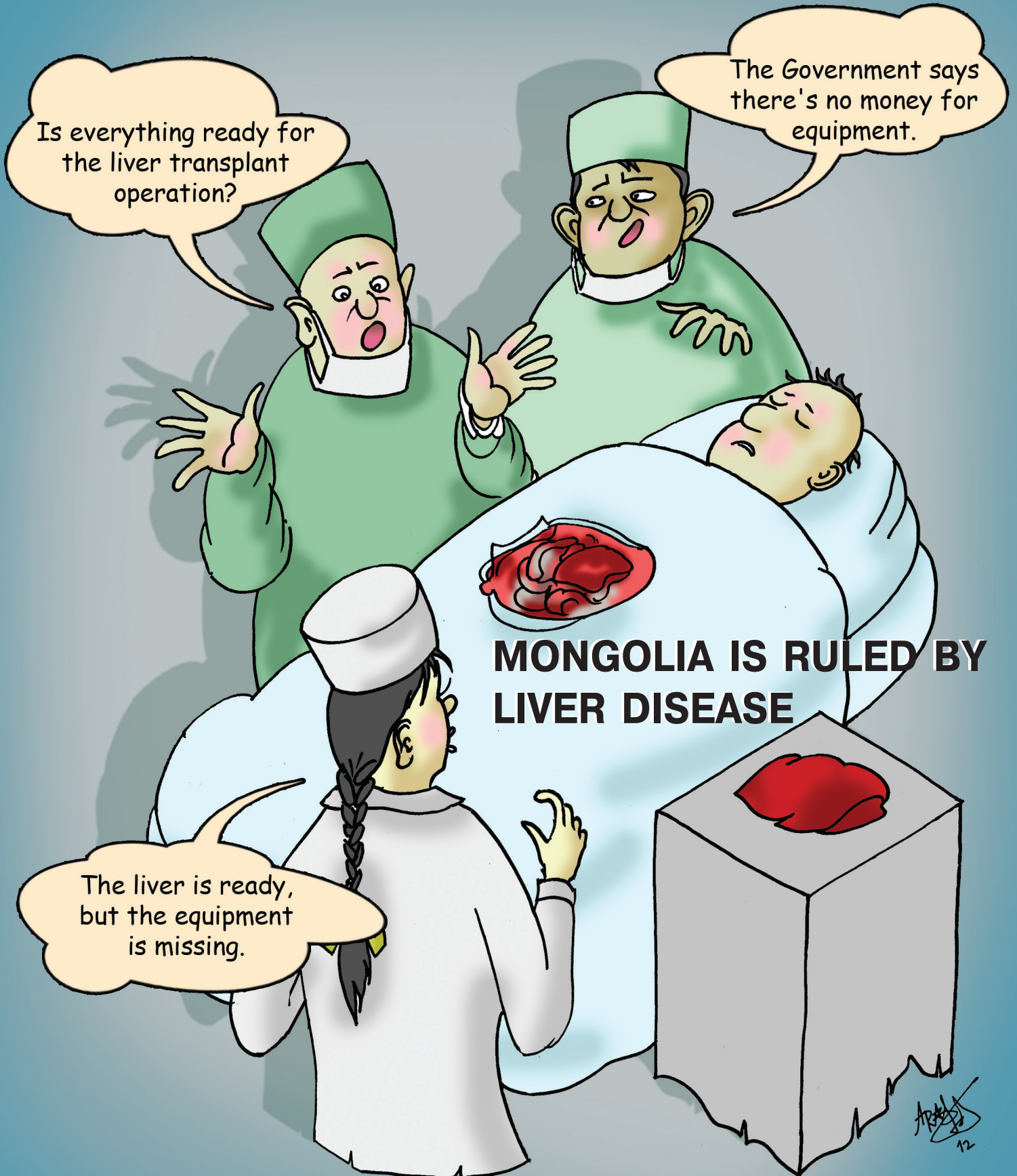


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OYU TOLGOI

WHAT IMPRESSIONS DID THE OYU TOLGOI DEBATE LEAVE ON CITIZENS?

BY B. BAYARTOGTOKH

On November 23 the State Great Khural's Vice Chairman of Parliament Sangajav Bayartsogt and the Parliament Member Sainkhuu Ganbaatar took part in a face-to-face debate on the Oyu Tolgoi investment agreement, broadcast directly by the Mongolian National Broadcasting. The following are the positions and opinions of the public on the debate:



The Oyu Tolgoi Agreement Should be Enforced

D. Regdel, First Vice-President of the Mongolian Academy of Sciences

I watched the two parliament members' debate on the investment agreement. For the public, the debate couldn't provide any concrete or specific understanding on whether the agreement was beneficial or not. In other words, the debate couldn't reach the intended objective. S. Bayartsogt talked a lot from the point of view of economic and mathematical models. This talk might have been relevant to professionals and experts, but they didn't translate well to the public.

Although, S. Ganbaatar's points generally adhered to the questions of public interests, he couldn't express his viewpoints and position well.

In general, I think the Oyu Tolgoi agreement should be enforced. This agreement enabled Mongolia for the first time in its history to use its natural resources for the global market. However, the question of interest is how was this underground wealth estimated monetarily. How valuable is the Oyu Tolgoi mine itself? This question still needs an answer.

No Risk, No Profit

B. Munkhaya, Teacher at the Financial Management Department of the Institute of Finance and Economics

There were a couple of attention-getting subjects in the articles of the agreement. At the beginning of the debate, Parliament Member S. Bayartsogt explained that the agreement is profitable and has no risk at all. A business with no risk doesn't gain any profit. Hence, »

▶ there is nothing with no risk. A long-term project especially has more risks.

As a member of parliament, he might have used the word non-risky to protect his own interests. It is wrong to consider the agreement as non-risky. However, a risk level depends on how you see the risk. Not discussing potential risks with the country during the implementation of the project on the basis of the agreement is itself a big risk.

It is not right to say it isn't risky when everything is ambiguous. I also found several foggy things from the document. Parliament Member S. Ganbaatar was trying to speak more about the risk. He mentioned several risks and conflicts in the agreement. If the rights and duties are not clearly presented in the document, then that is another risk.

The agreement itself is risky. An agreement can be seen as safe if it contains all the right and duties of both sides and if it clearly provides the ways to solve any disputes. Only one of the fourteen things that Ganbaatar said was favoured by Mongolia.

The Mongolian government didn't work actively on the agreement. I think the agreement mostly works to benefit the other side. We have to protect ourselves numerically too. It doesn't mean it isn't risky if we receive enormous profits. It is also interesting where that profit comes from. A system of control, a way to practice that control, and how Mongolia can take steps are unclear. It is a double risk.

A Fresh Start for Media

J. Altangerel, Journalist at Mongolian National Broadcasting

As the moderator of the debate, I followed the rule of being balanced and giving equal chances to both sides. I didn't hold a position to protect Parliament Members S. Ganbaatar or to stand on the side of S. Bayartsogt, nor did I prevent anyone from asking questions favouring either side. The audience should have evaluated the debate from different angles. Personally, I can express my thoughts on who raised what issues and how they were dealing with them.

As a journalist, I tried to encourage both sides to offer lots of information to ▶▶



D. Regdel, First Vice-President of the Mongolian Academy of Sciences



S. Togookhuu, Citizen of Sukhbaatar District



B. Munkhaya, Teacher at the Financial Management Department of the Institute of Finance and Economics



D. Achit-Erdene, President and Chief Executive Officer of Mongolia International Capital Corporation



J. Altangerel, Journalist at Mongolian National Broadcasting



D. Tsend, Herder of Umnugovi province



Kh. Vladimir, Consultant of Eurostar Group International Financial Corporation



B. Enkh-Amgalan, Professor at the School of Economy of the National University of Mongolia



O. Baasankhuu, Member of Parliament



O. Bolor-Erdene, Senior at the School of Economic Studies of the University of Humanities

► the audience via the debate. The debaters answered quite a few questions. However there are still some questions which need answers. The whole of society is watching.

Personally, I think Bayartsogt was mostly explaining economic matters and figures. Some might have noticed that he was quite aggressive and acted superior in some ways. As for Ganbaatar, the audience was expecting him to express his position in an ambitious and aggressive way. However he didn't live up to this expectation. In general, he was seen as one approaching the problem in a calm manner.

The debate was a fresh start for media.

S. Bayartsogt was Supposed to Debate as a Minister of Finance

Kh. Vladimir, Consultant of Eurostar Group International Financial Corporation

As for the debate, Parliament Member S. Bayartsogt had more information, but the data he used were projections. There were no detailed figures. Bayartsogt is an ex-minister of finance. He should have debated as a minister of finance.

He said, "The government's share of the revenue will be 53 percent, or USD 5.04 billion." However this is just an assumption.

What benefits will Mongolia receive from the Oyu Tolgoi Investment Agreement? There have been no specific calculations made on when Mongolia will start benefitting from the project. During the debate, he said that the Technical Economic Evaluation was confidential. However, the detailed figures of the Technical Economic Evaluation which Mongolia took part in were inaccurate.

A team for the project also confirmed that the calculations were inaccurate. They agreed to redeem. There is a meeting protocol made by 24 out of 25 members of the minerals board to revise the omissions of Technical Economic Evaluation of Oyu Tolgoi. Thus, he can't say it is a profitable agreement when the Technical Economic Evaluation is inaccurate. Moreover, an investment agreement is very risky. As a professional, I would say there are dozens of risks in the Technical Economic Evaluation. These risks are not shown clearly. He said Mongolia today has not yet taken a loan. In fact, the agreement is entirely a loan agreement. An intensive project is coming about with the help of loan.

In other words, the agreement has become a financial leasing agreement—but not an investment agreement. The biggest risk is debt. It is not necessary to watch an argument between two members of parliament. The debate could not provide people with sufficient or straight information about the Oyu Tolgoi agreement. People have different opinions on the debate. As for Ganbaatar, we could say he showed

civil will. Furthermore, professionals should debate, not politicians. The estimates that Vice Chairman Bayartsogt told during the debate were just projected analysis made by offshore bank Goldman Sachs.

It is Absurd to Give Conditions to That Which is Not law

O. Baasankhuu, Member of Parliament

The debate on the Oyu Tolgoi investment agreement was disappointing to me. The main purpose of the debate was the agreement, but they didn't talk much about the facts of the agreement. I am disappointed with both sides. They were supposed to debate about the mistakes of the investment agreement which has been signed. However they did not go through it.

Firstly, is the agreement violating any laws of Mongolia? Secondly, are the articles of the agreement working correctly? Thirdly, who benefits from the agreement?

The debate should have been discussed on those three questions. An agreement is a theory. Both sides should agree to conditions of the agreement, the terms, and payments based on the theory. Thus, the concept of the agreement is formed. Agreements are made with these three principles. The rests are deals.

However, three main principles of the investment agreement are contradictory with each other. First, the Technical Economic Evaluation was drafted with mistakes, meaning the evaluation was not yet finished. As for Parliament Member S. Bayartsogt, he can't say the agreement is not risky when a projection is made by only one company.

Uncertain terms means the agreement is uncertain.

Second is the agreement period. The period is identified as 30 years in the Minerals Law of Mongolia. There is no such classification as "20+" years. It is illegal to talk as if the period is actually 70 years. There is no meaning in a condition that is not stated in a law. Third is the price.

The debate was just a show. The subject was the agreement. However, they talked about unrelated things until the debate's end.

The Agreement Should be Discussed in a Business Initiative

S. Togookhuu, Citizen of Sukhbaatar District

I am not sure about whether they were talking about the right or wrong things about the Oyu Tolgoi agreement as professionals. They can not delay the agreement for the good of nations' lives and social development. There must be a couple of things to reestablish in the agreement which the two parliament ►

- ▶ members are debating on.

There is no perfect thing on earth. It is wrong to say the agreement is a fraud. An agreement is an agreement. Thus, our government has to treat it respectfully and the partners should be as thick as thieves.

The minister who concluded the agreement says the agreement has no risk. Then what should we say. Mongolians should stop favouring one side. I hope that Mongolians will benefit from the Oyu Tolgoi mine. It is so sad to hear that Mongolia's reputation is falling due to matters of the agreement. Our politicians have to have political morals. They have to solve the issue of the agreement in a formal way.

On the contrary, they don't need to announce their role or business to the public. It was right to present the problem as a debate. However, it is wrong to talk angrily without any respect for their country's reputation, economy or society.

People Learned Something

O. Bolor-Erdene, Senior at the School of Economic Studies of the University of Humanities

It was tactless for Mr. Bayartsogt to attack Mr. Ganbaatar with words like "You don't know", "You can't do this", or "You are uneducated". In other words, the parliament member and vice chairman must have forgotten that he was in front of the public.

Obviously he had to respect the audience and the debate. People had no education on the agreement before the debate took place. People learned something from the debate. I also got some information, but not enough.

"Ganbaatar was a voice of the public"—I agree

D. Tsend, Herder of Umnugovi province

Many issues about which people did not know about were discussed during the debate. The debate was fine. Member of Parliament S. Ganbaatar talked a great deal about the reality and facts. He spoke using simple words which were very understandable and definite.

As for the Member S. Bayartsogt, he was attacking his debate counterpart using words like, "You don't know anything about it", or "You have not read anything". It was very rude and graceless. Of course he knows everything about the agreement, because he took part in the agreement, worked on the agreement's development and, more, he was the minister of finance at the time. He must be more knowledgeable than Ganbaatar in that respect.

After the debate, Dr. Avirmed said "Ganbaatar was a voice of the public and he was for the public, while Bayartsogt was only favouring the stakeholders and investors." I agree with him.

I am Doubtful it is a Profitable Agreement

B. Enkh-Amgalan, Professor at the School of Economy of the National University of Mongolia

The economic projections and model that Member S. Ganbaatar explained attracted my attention. He talked on a couple of questionable matters about the modeling, which is a capital point. I didn't go over the agreement and its indexes.

As an economist, I am doubtful that the investment agreement is profitable. Mongolia's 34 percent is debt. We are taking this loan with certain interest. This will infringe upon the people in the future. The economy is growing because of the project. He took a cow as an example, but he didn't mention its price. After discussing the price, he had to talk about fodder, water and shelter. In other words, he had to value the minerals under the ground.

Modeling is not entirely safe, and it can't prove that the agreement is profitable. There is no such thing as an agreement without risk. Modeling can't represent the reality. Thus, the debate was probably imprecise and misleading.

Citizens Learned More About the Agreement

D. Achit-Erdene, President and Chief Executive Officer of Mongolia International Capital Corporation

The greatest importance of the debate was that it provided people with some information about the Oyu Tolgoi investment agreement. However it is still hazy what the debate was for. What issues were supposed to be discussed? What questions had to be asked?

The moderator of the debate was not good enough. Moreover, Mongolia proved again that it is a democratic country. The agreement of a resource-rich country is generally made between stakeholders or between one or two families, but in Mongolia they are making an agreement with the government.

In the past, the benefits from Oyu Tolgoi were distributed to each citizen of Mongolia as aid through the MNT 21,000 monthly payments. It is a big opportunity for Mongolia not only to profit from the project but also to expand its economy. Along with that, new work places are being created and non-manufacturing businesses are flourishing. Mongolians will receive dividends. In addition, many citizens have a poor understanding of property relations. People lack this kind of information. ■

SUMMIT (MONGOLIAN INVESTMENT CONGRESS-CLEAN COAL ASIA SUMMIT 2012)

ALL FOR ONE

BY B. UURIINTUYA

Mongolia stands out on the world economic stage. It has been a while since Mongolia first emanated among international investors for its rapid economic growth and natural resources hidden in the heart of its vast lands. Considered as an important destination for mining and investment, Mongolia has been put under the microscope. The entire world is watching to see whether the country will manage to transform its natural wealth into an economic force to keep up that pace of growth.

Mongolia Investment Congress-Clean Coal Asia Summit 2012 will be held from December 10 to 12 in Shanghai, one of the most influential cities for finance and business in the world. The summit, organised by INBC Global in cooperation with the Mongolian Stock Exchange will be attended by world-

class investors and representatives from international organisations. They will discuss topics covering mining, energy, infrastructure, financial services as well as Mongolia's investment opportunities. In addition, there will also be debate over issues concerning Mongolia's coal reserves and resources.

The conference is known as a prestigious summit where attendees from Great Britain, Japan, Australia and France are welcomed. This year Mongolia Investment Congress will address investment opportunities in Mongolia's mining industry, the problems it faces, and its finances. There is also certain to be discussions on the foreign investment climate in the country, impacts of the Law on Strategically Important Enterprises for Foreign Investment and the latest updates on

the development of the Tavan Tolgoi and Oyu Tolgoi projects.

Energy supply and its impact on the environment has been a major issue worldwide in the 21st century. Prominent figures from Newcom Group, Millennium Challenge Account-Mongolia, and PriceWaterhouseCoopers will present such issues as their investment opportunities, the latest technology for coal gasification and liquefaction and visions of clean energy. Also in attendance will be the Business Council of Mongolia and Anderson & Anderson.

Mongolian Economy proudly announces its role as a media partner in the summit alongside World Coal Association, Oxford Business Group and Mongolian National Chamber of Commerce and Industry (MNCCI). ■



FINANCIAL MARKET

CHINGGIS BONDS ON THE MARCH

BY B. TSETSEE

Mongolia made a splash among investors in its latest bond offering through the Development Bank of Mongolia, but what happens next now that Mongolia has a pile of money to spend?

The Wall Street Journal could not wait to report on the release of Mongolia's so-called "Chinggis bond" on the international market.

"Mongolia, a country that has been rescued five times in 22 years by the International Monetary Fund, sold \$1.5 billion in debt Wednesday in its first government bond offering", reads the Journal's article covering the event.

Nyamjav Batbayar, minister of economic development, and Finance Minister Chultem Ulaan, proudly announced the success two days after the sale. They said it was the first time in Mongolia's history that it had successfully released its bond on the international market. This proves that Mongolia's prestige on the global financial market was sensational, they said. Now that the country has the money, all that is left is to spend it wisely.

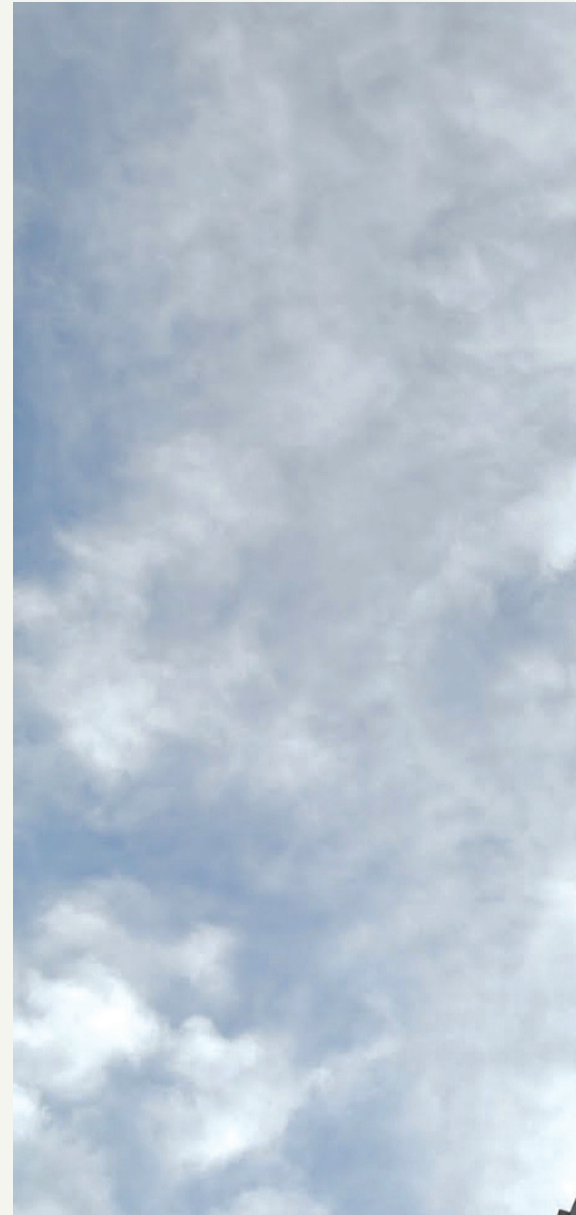
However, their plans on building infrastructure such as roads and railways and factories are rather vague at the moment. Although, the projects have reportedly been

presented to investors, Mongolia still has yet to hear specific details on these matters. After issuing a bond that has put the global financial market in awe, hopefully policy makers have more than a Christmas list for infrastructure and technologies.

"There are only a few projects to be financed. It is not easy to find a project that would bring enough returns to pay back the expenses in five years", said Parliament Member R. Amarjargal.

"We better have done our homework well. Specific projects must have been listed, ranked based on specific criteria, and technical economic analysis must have been made. Unfortunately, we must pay up to USD 140,000 for each day that passes when that money is unused".

The State Great Khural approved the release of the USD 1.5 billion bond offering to finance projects for constructing infrastructure in the coming years. In addition to this, a total of USD 5 billion in bonds has been planned for.



An official knowledgeable in the matter noted that releasing the bond in 2012 was a necessity because the environment in the market was as favourable as it would ever be. During times of economic turbulence, government bonds usually have lower yields. So as not to let the opportunity pass it by, the government might have rushed into this bond offering.

The government sold a USD 500 million tranche as a five-year bond with a yield of 4.125 percent, and another USD 1 billion tranche at ▶



▶ 5.125 percent. That will cost USD 196,000 a day beginning December 6. In five years that debt will come knocking on the door, along with daily interest of USD 140,000 for the USD 1 billion bond. The remaining debt will be paid after another five more years. In total, this USD 1.5 billion bond will cost the country USD 605 million with interest.

A weakening currency could also hamper Mongolia's ability to pay that money back.

Ministers who said bond yields could not exceed 3.5 percent

returned trumpeting the close of a deal with even better terms than European debt crisis instigator Spain had—which has much more experience on the debt market and has a higher sovereign rating from Standard & Poor's than Mongolia to boot.

Is it a good sign or a bad omen comparing Mongolia to Spain? The irresponsible regimes of countries such as Greece and Spain could not manage their expenditures, which is why they needed to be pulled out of the chaos their debt created.

Economist D. Jargalsaikhan wrote in an article, "Other European countries are doing their best to pull these countries out of debt and stabilise their economic conditions. But what countries will be pulling out Mongolia?"

Wise spending could make the bonds fruitful, but squandering that money could lead to disaster. Over 400 financial organisations expressed interest in buying Mongolia bonds, while only about 120 were able to purchase them, demonstrating their lustre and appeal. This has some policy makers thinking the next round of bonds will go flawlessly.

Somehow even with inflation that continues to run in the double digits, sovereign ratings falling to BB- Standard & Poor's, economic growth projections by the International Monetary Fund (IMF) declining to 12.7, and a government deficit rising to 7 percent of gross domestic product, Mongolia still managed to attract international attention using its natural resources as incentive.

Issuing bonds is not a forbidden game. Developed countries have long relied on financing using the capital market. The Australian government, for example, had always had budget surpluses before the 2008-2009 economic crisis. That justified it to release bonds only to pay off the interest of others.

"In times when there is no budget expenditure, releasing bonds would establish a model for interest on the capital market", said S. Tsevegmid, an officer at the Securities Market Department of the Financial Regulatory Commission. "For long-term evaluations of financial tools, there is no such thing as one, two or five-year models for interest. Thus, the government released the bond [to set the benchmark], not to collect debt".

Some say governments should stabilise their bond issuances. Five- or ten-year bonds enable possibilities to finance big domestic projects. If the feet are put facing the right direction, these bonds could bear their benefits. ■

REPORT

THE DANGERS OF RESOURCE DEVELOPMENT

JAN HANSEN
Senior Country Economist at
Mongolia Resident Mission of Asian
Development Bank



Many people in Mongolia dismiss an often observed phenomenon in countries with substantial natural resources, namely the “natural resource curse.” While natural resources provide a unique opportunity for economic development of poorer countries, reality has often proved different. This is the first of two articles on mining-driven economic development and wealth management. The first article discusses some selective issues on the natural resource curse and how it can affect Mongolia. The second article will outline an appropriate fiscal policy framework for natural-resource rich developing countries, highlighting the important role which a sovereign wealth fund can play.

Commodity prices in the global economy have risen dramatically over the past decade, interrupted only briefly by the global economic and financial crisis in 2008 and 2009. By the end of 2011, average prices for energy and base metals in real terms—i.e. adjusted for general consumer price inflation—were three times as high as just a decade ago, approaching or surpassing their record levels over the past four decades. Many analysts attribute elevated commodity prices to the sustained growth in emerging market economies over the past decade.

Natural resources provide unique opportunities, but often undermine economic and social development in developing countries

For developing countries, natural resources provide a unique opportunity for economic development. Mining revenues can finance critical infrastructure, core public services and social welfare programs that benefit sustainable development and poverty reduction, such as investment in education, health, and physical infrastructure. The reality however has often been different. The principle of the natural resource curse states that natural resource-rich countries often fail to grow more rapidly and perform less on human development indicators than less-endowed countries. The natural resource curse is not confined to individual anecdotes or case studies, but has been established in some statistical

tests of determinants of economic performance across a comprehensive sample of countries. The negative correlation between natural resource richness and economic and social development is not very strong, reflecting both successes as failures among natural resource-rich countries. But it certainly does not suggest a positive relationship.

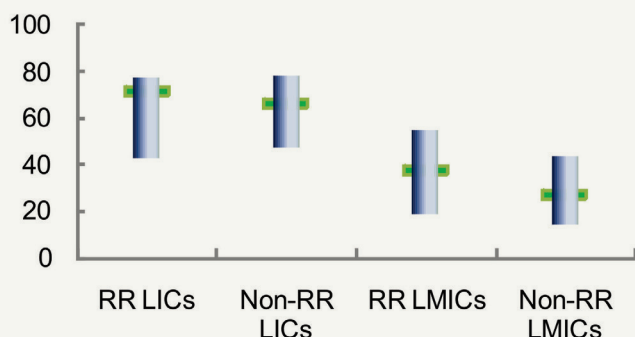
More recently, natural resource dependent countries appear to have grown faster than their non-resource-rich counterparts, reflecting both the recent commodity boom and improved economic policies. Contrary to experience in the 1980s and 1990s, economic growth in the past 10 years has been higher on average in natural-resource-rich countries than those not so wealthy.

There are two interrelated concepts on how richness in natural resources can undermine economic and social development. The first one focuses on the short-to-medium term, perhaps up to five years and is called the “Dutch disease”, while the second one focuses on the medium-to-long term, beyond five years and is called the “natural resource curse”.

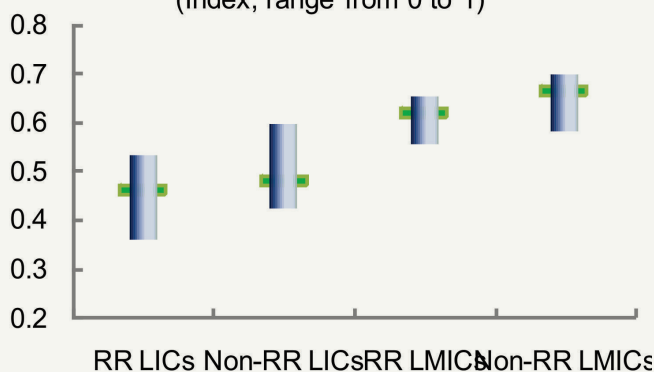
The “Dutch disease”

Dutch disease refers to adverse short to medium term macroeconomic effects of a resource windfall boom. Dutch disease has many faces and it follows an outline of a stylised scenario. First and foremost, depending on volatile and rising commodity prices, resource windfalls and related capital inflows will appreciate the real exchange rate, either in the form of a nominal appreciation if the exchange rate is flexible, or inflation if the exchange rate is fixed. The real exchange rate appreciation will cause a shift of resources to the non-tradable sector, in particular construction, from the non-commodity tradable sector, in particular agriculture and manufacturing, which become less competitive and profitable. Often, the first sector in which supply problems emerge is the construction sector, leading to bottlenecks in infrastructure and traffic congestions. »

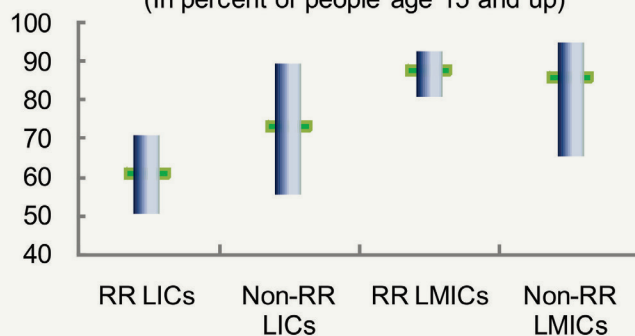
Poverty Headcount Ratio at US\$2 Per Day
(PPP, in percent of population)



Human Development Index (HDI)
(Index, range from 0 to 1)



Adult Literacy Rate
(In percent of people age 15 and up)



► Secondly, compounding the economic challenges caused by a real appreciation is a sudden, large increase in government expenditure, often on public sector wages and social transfers, in the context of political competition and pressure. The result is overheating of the economy, often combined with a housing and construction boom, rising inflation and current account deficits. The uncertainty and volatility of natural resource revenues is typically greater than for other kinds of revenue, mainly as a result of unpredictable and frequently large fluctuations in international commodity prices. Due to the volatility of resource revenue, spending temporary revenue windfalls

is very likely to lead to a structurally unsustainable increase in public expenditures. There is a considerable amount of evidence that volatility of commodity prices is one of the most damaging aspects of natural resource dependence.

This combination of the negative effects of real currency appreciation on competitiveness and the sharp increases in unproductive government spending on the economy are the main features of Dutch disease. It is important to note that some response to the real exchange rate and the composition of output in the direction described by the Dutch disease phenomenon is in fact macroeconomic adjustment to short and medium term internal and external balance.

Dutch disease often entails or is reinforced by pro-cyclical economic (monetary and fiscal) policy. Fiscal policy is pro-cyclical if it tends to be expansionary in booms and contractionary in recessions, thus exacerbating the magnitudes of the swings, while the aim should be to moderate them. Curing Dutch disease often requires a slow and painful process of fiscal consolidation and social security and labor market reform. Cutting current expenditure creates social hardships, while cutting capital spending might involve the abandonment of viable and productive projects.

The wider “natural resource curse”

The natural resource curse refers to a dysfunctional political economy and the lack of economic and social development which natural-resource rich countries often experience, in particular weak political and economic institutions, populist political economies, “easy riches” capital gains, and social instability. Natural resource dependence often leads to economic inequality, as mining creates relatively few jobs, while natural resource revenues accrue to a relatively small portion of the population. High income inequality and concentration of wealth may, in turn, negatively affect development prospects as talented people have little or no access to education and capital. High inequality may also undermine social cohesion and increase the likelihood of civil unrest.

One line of reasoning is that natural resources lead to poor institutions because they create an often unhealthy political contest between elites trying to capture the rents from these resources, whereas in resource-poor economies only economic growth through capital accumulation and market development will create wealth, and this type of development depends on the government being able to create the type of institutions which allow for markets to thrive such as effective provision of public services, secure property rights, the rule of law and institutions which foster broad-based access to economic opportunities. In this context, the manufacturing sector is often regarded as providing positive externalities for long-run growth, in contrast to extractive industry sector. ►►

▶ Dutch disease takes hold in Mongolia

While the mining industry in Mongolia is still at an early stage of development, several symptoms of Dutch disease have emerged. The Mongolian economy grew by 17.3 percent in 2011 and is forecast to continue growing at double digit rates: 11 percent in 2012 and 12 percent in 2013, driven by mining-related investment and output. Medium-term economic prospects are widely regarded as favourable, with the Oyu Tolgoi copper and gold mine expected to begin production early next year and the Tavan Tolgoi coal mine in an early stage of expansion. The mining sector in 2012 created more than 90 percent of exports, about 30 percent of government revenue, 20 percent of gross domestic product (GDP), but only 1.6 percent of employment. Foreign direct investment more than doubled in 2012 to USD 3.7 billion, corresponding to 43.6 percent of GDP. Mongolia is sometimes forecast to be one of the world's fastest-growing countries over the next two decades.

Fiscal policy has remained pro-cyclical in 2012. Government expenditure, which surged by 55.6 percent in 2011 was 38 percent higher in September 2012 year-to-date. Revenues have failed to grow at the same pace, rising by only 10.9 percent. This has flipped the fiscal balance into a deficit of MNT 535.5 billion from a surplus of MNT 236.7 billion in the same period of 2011. Meanwhile, substantial public investment in infrastructure is needed to develop the mining sector in an environmentally-sustainable manner, diversify the economy and create jobs and increase access by the population to essential services like health and education, housing and water and sanitation. These essential investments require very significant amounts of capital relative to Mongolia's current GDP.

Inflation picked up further in 2012 and was 14.8 percent in August. The overly expansionary fiscal policy has increased the vulnerability of the economy to external shocks. One major risk is significantly weaker growth momentum in the economy of the People's Republic of China and further significant falls in global commodity prices, which would severely impact on Mongolia's economy while putting strong pressure on public finances and the current account position. Mongolia was one of the worst affected countries during the global economic and financial crisis in 2008-2009, due to its high dependence on mineral exports and a history of pro-cyclical macroeconomic policies. Recent years have seen a clear trend towards increasing inequality in Mongolia.

Transforming the natural resource curse into a blessing

The natural resource curse is not unavoidable and should not be interpreted as a rule that resource-rich countries are doomed to failure. It is clear that some resource-rich countries do surprisingly poorly economically, while others do well. There are examples of both sorts: countries such as Norway, Botswana and Chile have done very well with their endowments (oil, diamonds and copper, respectively) versus others such as Nigeria, Bolivia and Congo that have done poorly.

The main question then is what policies a natural resource-dependent country should adopt to turn the natural resource curse into a natural resource blessing. The major challenge for economic policy is managing vast mining revenues through an appropriate fiscal policy framework, including the creation of a sovereign wealth fund. ■



ADDRESS TO MEMBERS OF PARLIAMENT

LIFE AND LIVER DISORDERS

BY D. TUYA

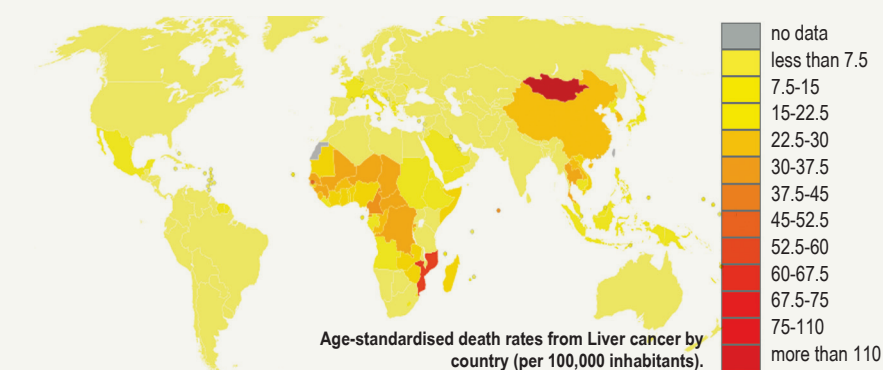
Mongolia is among the countries most prominently afflicted with liver disease. Every one out of five individuals has a liver condition. Everyone one of us knows well that Hepatitis has spread far and wide in the country due to poor sanitation. At times outbreaks have gotten so bad that schools and kindergartens were forced to temporarily close their doors.

Recently the increasing spread of hepatitis among adults has surprised health care specialists who see the disease as a tragedy in Mongolia. The number of patients suffering from cirrhosis of the liver or liver cancer increases gradually year by year, and it is expected to continue on this path.

Excessive consumption of alcoholic drinks and fatty foods among Mongolians are the major causes for the growing rate of liver disorders. Liver disease develops very slowly without much pain. People usually ignore the symptoms and do not give it the serious attention it deserves. This sets the stage for liver cancer or cirrhosis. When a liver disorder reaches its final stage, those patients are left with nothing to do but to pray and entrust their lives to God.

Mongolian specialists know well why liver diseases spread so profusely in the country. They have taken action and have courageously launched their mission to introduce liver transplants to Mongolia. They've decided to commence with this task as quickly as possible because for them it was extremely sorrowful to see many people dying because of liver disease every day, leaving many children behind as orphans.

At the first stage of the introduction of this advanced medical procedure,



some medical scholars and specialists opposed them, saying Mongolia did not yet have the technology and resources. They said it would take at least some 15 to 20 years before the matter could even be discussed.

According to international practices, the level at which a country has developed its health sciences is measured by whether liver transplants can be performed there or not. As a result of the hard efforts to introduce this practice to Mongolia, it has been registered as the 46th country able to do such complicated surgery. Certainly, this must be a sign of an enormous progress for Mongolia's health sector.

At the moment, the national liver transplant team of Mongolia has successfully carried out seven liver transplants with help from the liver specialists from ASAN Hospital in Korea. For a country with as small a population as Mongolia, rescuing the lives of seven people is a considerable achievement. Nowadays the number of patients registered on the list of applicants to undergo liver transplants at the 1st Central Clinical Hospital has more than 50 people.

Many patients with liver disorders leave the country for treatment overseas. For some patients, however,

the disorder has reached its final stage and hospital treatment is useless. So, they stay at home, waiting for their misfortune to be realised.

Experts say that government involvement and support are essential to the struggle against liver disorders and the development of this practice. For Mongolia especially, where liver disease is so common, the government should show some support for the cause. Indeed, specialists from the national liver transplant team are unable to achieve much progress in developing their skills, despite the great pains they have gone to do so.

The government did show some support with a grant of MNT 600 million. That is good, but that is maybe enough for a single apparatus. The operation itself requires great technology and the most advanced equipment. The Korean specialists who come to Mongolia bring their equipment with them and take it back when their work is done. It is no surprise, considering how expensive that equipment is.

The liver transplant team requested from the government a sum of MNT 2 billion in next year's budget so they could purchase the necessary equipment and tools for the National Liver Transplant Center. However, this request failed ▶▶

▶ to pass by the State Great Khural's Standing Committee on Budget.

Medical professionals say that generally people with below-average incomes must seek medical care from public hospitals. So, perhaps parliament members and high-level bureaucrats are ignorant of the conditions of domestic hospitals as well as the liver problems of ordinary citizens. However, it is regretful that they cannot see beyond the cost and see how important this issue is to the future generations of Mongolia.

Elected officials should understand that this decision completely disrupts the team of liver transplant specialists' plans

for next year. Medical staffs need to develop their skills well through regular and uninterrupted practice. And so they shake their heads, bemoaning the lack of support despite all the hard work they did and its importance.

If the government gave the issue of developing liver transplants the proper attention it deserves, they would not have any cause for shame in four years when they come before voters again for re-election. There should not be any doubt that listening to these health care professionals and supporting their endeavors would bring them only the highest marks

from the public.

Mongolia's small population is getting poorer while at the same time it suffers from various disasters and diseases before the stage where a pathetic drama plays out and parliament members, and bureaucrats and are the main actors. They put on their shows, shout well prepared lines about rapid growth and declare "The Year of Rapid Business Development", and so on. It is doubtful that the economy of a country with an unhealthy population can grow so rapidly.

After all, healthy citizens make a healthy economy. ■

EXPERT SAYS

GODLY DOCTOR

BY D.BEKHEE

For Mongolians, he is known as the "God of Medicine". He is given such great respect because he makes people reborn. Medical practitioners are people who do divine deeds to cure unforeseen health troubles and thus, grant people a second chance at life.

The hero of this interview is Korean liver specialist Kim Dong-Sik. He is the chairman of the Organ Transplant Center at Anam Hospital of Korea University, the second biggest university in Korea. For the past year, Kim has successfully performed liver transplant operations on over 10 Mongolians, which includes the donors. His humanitarian attitude towards his patients is admirable in addition to his compassion, professional skills, self confidence, leadership ability and energy. He should be seen as a common representative of all medical personnel from South Korea.

Kim has worked for Anam Hospital since he first received an invitation from the university. Kim has also worked at the ASAN Hospital of Korea as well as in the United States.



Your attitude and care for your patients is commendable. Can you explain your feeling towards ethics and morality in medicine?

A medical practitioner should have compassion and sympathy towards his patients. It is also very important to empathise with them. A doctor must be active and quick to rescue patients.

A surgeon, especially a liver transplant surgeon, has almost no ▶▶

▶ time for one's private life. Morally speaking, this is not a job for earning money. A doctor must work hard to reach his goals. Finally, a doctor's love for the profession, diligence, and hard work together form the strength to save people's lives. Only after saving a life, can I feel satisfaction and pride for my profession.

You have performed liver transplants for many patients. Can you explain the procedure?

A liver transplant is a surgery where a healthy donor's liver is transplanted into a patient. In short, it is a liver exchange. When a person's liver is afflicted with disease or functions improperly for any reason, his liver is removed entirely and replaced with just a piece of another person's liver or the whole liver.

To allow normal functions of the newly transplanted liver, the vessels coming in and out of the liver must be properly connected. Connecting the vessels is the most important step to ensure proper excretions by the gall bladder. Study on this type of surgery initially started in the 1950's in the United States and was officially introduced into clinical practice in 1980. Since then, the surgery has rescued the lives of thousands of patients. Liver transplant practice in Korea today has already reached the international level.

What is the main cause for liver cancer?

It has been found that liver cancer usually shows up in people with causes for liver disease. Those include Hepatitis B and C, alcohol poisoning from excessive drinking, liver adiposity, etcetera.

Usually, hepatitis turns into cirrhosis as a result of a long time of aggravation. Patients with cirrhosis of the liver have a high probability of receiving liver cancer. In general, liver cancer has almost no significant symptoms, and therefore, in many cases, the symptoms of the disease only reveal themselves at the critical stage.

People with Hepatitis B or C must constantly receive examinations to find any signs of cancer. Nowadays, we perform on people with liver cancer operations and treatments such as hepatectomy, liver transplant operations, radio-frequency ablation (RFA), transarterial chemoembolisation (TACE), ethanol injection therapy (EIT), radioembolisation, systemic chemo treatment, and external radiation treatment. Of all these, hepatectomy, liver transplant operations and ethanol injection therapy have relatively higher potential for curing patients.

How can one prevent liver disorders? On average, how long does a patient live after undergoing a liver transplant?

To prevent against liver cancer, first you must see if you have a cause for liver disease. After identifying this, if you are found positive for the Hepatitis B virus you should get vaccinated and avoid excessive alcohol consumption. Furthermore, in recent years, obesity has been found to be a major cause for liver cancer, and so people should give adequate attention against becoming overweight.

In fact, if you suspect that you might have a cause for liver disease, you should have regular medical ▶▶



▶ examinations for cancer, whether or not symptoms have begun to show.

In general, after a liver transplant a patient has a 90 to 95 percent chance of survival for the first year, and 80 percent for another five years. If a patient has no more liver problems during those five years after undergoing the operation, one could almost determine that he won't again suffer from any recurrence of liver cancer.

Are there any risks for the live donors?

A donor also undergoes serious surgery and, therefore, any complications during or after the operation is not impossible.

However, liver donors have relatively better health compared with other people. Since they have decided to undergo the operation, pledging their life for the sake of another's, the specialists do everything necessary to eliminate any possibility for complications to them. Usually, the donors are discharged from the hospital in seven to 10 days after the operation, and usually up to 80 percent of their liver regenerates within a fortnight. Further, a liver is naturally regenerated within six months to a year.

While the health conditions of most donors normalises quickly after the operation, as long as there are no specific daily complications, some patients recover gradually within six months because of excessive fatigue and weariness. After the operation, it is important not to ingest hepatotoxic items, especially alcoholic drinks or fatty foods, until the liver recovers completely. Also, it is not recommended to do any exercise that could cause an abdominal tension for the next one and a half to two months, until the surgical cut has healed well. The reported rate of mortality for donors is between 0.1 and 1 percent.

Mongolia is a country overwhelmingly afflicted with liver disease. How can the rate of liver disease be reduced?

First, the government should pay specific attention to this question. All children should be given Hepatitis B vaccinations early on

in childhood. C virus infection is usually transferred through blood transfusions (haemotherapy). So the government should always keep issues related to blood transfusions and other blood-related vaccinations at the very center of attention. In Korea, narcotics and drug addiction are under governmental control.

The second biggest reason for liver disorders is excessive use of alcohol. Alcohol use is related to the economy and culture of a nation. Everyone knows drinking is harmful, but they don't stop. That's why the government should organise large advertising campaigns on the harmful effects and health risks caused by drinking.

I would recommend an intensive, far-reaching Hepatitis B vaccination campaign for the public. That would significantly reduce the number of liver disorders in 10 to 20 years.

In Mongolia, liver transplants are performed together with specialists from the ASAN Hospital. How can this type of surgery be developed most quickly?

First, highly qualified specialists must be trained. Of course, this would require considerable time. In Korea it took 20 years before liver transplant operations reached the highest level in the world.

That means the liver surgery likely came to the current level due to enormous efforts from a large number of liver specialists and effective government policy targeting the health sector. If it relied solely on the efforts of specialists, its development would not be easily brought to the necessary level. So, I believe it will require several years before Mongolian specialists could independently perform liver transplants. One way to shorten this period would be to cooperate closely with well-known liver transplant hospitals from developed countries.

Liver transplant operations are not performed by a single doctor. It is a team effort. In fact, a liver transplant is not simply the operation. After the surgery, thorough and detailed examinations are continuously had until the patient's liver function is

normalized. In short, post-operational treatment is as important as the operation.

So I stress, it is most necessary to prepare highly qualified medical and nursing staffs that can perform post-operation treatments and examinations as well as the operation.

What can you tell us about the liver transplants performed on Mongolians?

Currently, there have been seven liver transplants performed for Mongolian patients at the hospital, with live donors. All the surgeries gave the expected results and the liver functions of the patients have normalised by now.

The donors are also in normal health conditions and have had no post-surgery complications.

Soon you will visit Mongolia for the first time for examinations and to give advice to patients afflicted with liver disorders. For when have you planned this visit?

I am planning to visit to Mongolia from December 13 to 15, 2012. Patients with liver disorders can be examined at Songdo Hospital on the 14th of December.

I remember the Mongolian patients who didn't understand well the seriousness of their diseases. Some patients arrive in Korea as their last hope to survive, when the disease has already reached the final stage and no medicine is helpful. So, I intend to provide consultations on essential types of procedures of liver treatment for Mongolian patients.

If anybody needs to undergo a liver transplant operation, I try to help him understand his problem as early as possible. In other words, I don't want patients to leave for Korea for liver treatment before getting detailed information and spending a considerable amount of money without even having been consulted whether it was necessary to undergo the operation.

Our hospital will collaborate with the new hospital being established by MCS Group of Mongolia. As for me, I am planning to work simultaneously in both countries by going back and forth between Mongolia and Korea. ■

MEETING AT EDITORIAL OFFICE

GOVERNMENT SUPPORT IS ESSENTIAL FOR LIVER TRANSPLANT OPERATIONS

BY B.BAYARTOGTOKH AND B.ENKHMART

For this edition of Meeting at the Editorial Office Mongolian Economy invited for a conversation the white garment professional who work hard day and night, racing against time to rescue human lives. This meeting features representatives of the country's first liver transplant team from the National Organ Transplant Center (NOTC), which has helped Mongolia's health sector take the next step in its development.

At the meeting were O. Sergelen, the head of the Surgical Department at the Health Sciences University of Mongolia, chairman of the National Organ Transplant Center, and general secretary of the Mongolian Surgeons Association; and L. Ganbold, a professor at the Surgical Department at the same university and president of the Mongolian Society of Anesthesiologists.

More than a year has passed since the first liver transplant operation was performed in Mongolia. What successes and challenges have you experienced during this time? Has the government provided any support?

O. Sergelen: First, it would be best to briefly explain about the urgency for liver transplant operations there was in Mongolia. For a long time in the country, liver disorders such as Hepatitis B and C, cirrhosis, and liver cancer had been listed among the most common of all types of diseases. During this period, hundreds of patients lost their lives while in our care because of liver diseases.

Because of this the liver specialists

of Mongolia were faced with the inevitable need to alter or improve the methods and means for curing liver cancer, cirrhosis, and Hepatitis B and C, as well as for carrying out preventative treatments and receiving training in liver transplant operations. Thus, in 2007 we started taking the initial steps towards liver transplant operations.

At the time we were severely criticised. Some said that Mongolia had not yet reached the point for such serious operations, and that the issue could be discussed only after 15 to 16 years had passed.

Now, however, a total of seven patients have undergone liver transplant operations in Mongolia. Our liver transplant team successfully

proved that even a developing country could introduce highly advanced technology, like the technology used for liver transplant operations, take the risky decision, and do it well. Before, there were 45 countries able to perform this kind of operation, and Mongolia has been registered as the 46th country on this list. Most of them are developed countries.

We receive lots of mail and messages of encouragement and words of praise, appreciation and congratulations for introducing such high technology in a developing country in a very short time period. This demonstrates that the developed capacity of the Mongolian health sciences are recognised worldwide. The latest big achievement is the establishment of the National Organ Transplant Center (NOTC).

L. Ganbold: I also remember the criticisms towards Professor Sergelen that he mentioned. People admonished her, asking why he was so eager to attempt something that would be not be possible until after 10 to 15 years.

Here, I would like to repeat the phrase we say always to ourselves: "Whenever it's done, if not today, whoever would do it, if not I". We ▶▶



Photo by E. ZORIGT

► simply try to adhere to these words.

Our end goal is to train national specialists who could perform liver transplant operations in their home countries to rescue the lives of their own people, and to pass on our skills and experiences to future generations of Mongolian liver specialists.

What shortcomings of the medical environment and technology has the operation team experienced?

Sergelen: Let me please explain from the beginning. In 2007, two of our specialists studied in Finland and when they returned, they were very confident that we could perform liver transplants in our motherland. After that we requested from the administration of the Health Sciences University that it provide us with a separate facility designated for conducting experiments. Then, we developed a project, submitted it to the Science and Technology Fund, and were provided with financing of

MNT 4 million.

From that moment on, our team was formed and had started to carry out its experiments during off-hours from work or on weekends.

We have been informed that you began your experiments on pigs? What can you tell us about this?

Sergelen: We experimented on 23 pigs in total. The MNT 4 million in funding was spent entirely on purchasing the pigs and some experimental equipment.

At that time we couldn't find any more to budget for post-operational treatment for the pigs and other related expenses. So, the pigs began to die after three to four hours after the experimental operations. We had no experience, and so, perhaps, we made several mistakes. Again we were the targets of criticism, called "animal torturers" and so on. We had to seek out financial support by applying not only to the government,

but also to all other potential organisations and individuals. We had to explain that we had to learn much more and needed the financing for academic research and training. But there were no results.

Finally, we decided to apply to the ASAN Hospital of Korea with the request for training and education in liver transplant operations. In the request we gave a detailed explanation for the reasons for taking such steps, which included the extensive reports on the current rates of liver disease in Mongolia, as well as the experiments we had carried out.

Hereafter, the specialists of ASAN Hospital kindly accepted our request and started to train our team with funding from the ASAN Foundation. We would like to use this opportunity to express our genuine gratitude to all the liver specialists of ASAN Hospital. This training is still ongoing.

The most interesting yet saddest point to be made here is that while ►

▶ the government of Mongolia doesn't give the issue the proper attention, overseas specialists and organisations support the development of liver transplants in our country.

We participated in complex liver transplant trainings, step by step, including the initial introductory course, training through joint operations, post-operational treatments, nursing, and care. During the training and practice, we personally felt the difficulties of this kind of operation. At this point the medical staffs at the national center have participated in the trainings in Korea at least three or four times.

Last year in September, we performed the first ever liver transplant in Mongolia at the 1st State Central Clinic Hospital. Because we had no tools or the equipment necessary for such an operation, our Korean colleagues brought all the necessary items from the ASAN Hospital and they performed the operation. This time we participated in the operation as observers, but in operations that have followed we have taken part to attain the skills to perform these operations independently. I say this so confidently because, firstly, our team of specialists is now entirely prepared psychologically; secondly, the confidence of our people in our specialists has grown much; and thirdly, now we have some of the necessary equipment for the operation, although we need more of it.

So now the major problem is related to the supply of some specific and very important equipment. Without them we wouldn't ever become able to independently carry out liver operations. So nowadays, as before, we continue applying for support from the government.

How large a budget would be necessary to purchase the right equipment and tools?

Sergelen: For the first round, we need the necessary equipment, which costs approximately MNT 1.2 billion. Roughly speaking, nearly all of the serious and complicated surgeries performed today in

our country rely mostly on the intuitiveness and sensibility of the specialists. Next, I would like to give the example that one of the monitors that is included in the inventory of essential equipment needed is able to provide early detection of possible hemorrhaging in a patient, and thus provides us the possibility of taking the necessary preventative measures as early as possible. The monitor we use now detects this after the patient has already had blood loss for a while. This is just one example of the many problems.

Another challenge is related to the fact that we also would be required to transplant livers not only from live donors, but also from corpses. There is a special apparatus for identifying healthy organs in a corpse. We have the inevitable need to acquire such an apparatus.

The issue of presenting the cost of these essential equipment in next year's budget initially received support from the Standing Committee for Social Policy, Education, Culture and Science, but was dismissed during a discussion by the budget's standing committee. Waiting for the 2014 budget means losing one more year. Who knows how many patients waiting for this operation will pass away during that whole year. The loss of time would also detriment the efficiency and skills of the professional team.

Most people lack even an elementary understanding of organ donations. What do you have to say on this matter?

Sergelen: The lack of donors is the most serious problem in every country. In most Asian countries the number of organ transplant operations using live donors has grown greatly, while the use of dead donors is well-developed in Europe.

As for our country, we will work with the objective to develop the practice of both donor types.

How much does a liver transplant typically cost?

Sergelen: In our country

the operation for the first four patients was performed for MNT 50 million. At that time, we hadn't yet a detailed calculation of the operation's costs, and so that cost was just an estimate. However, we later realized that MNT 50 million was not actually enough for such a complicated surgery. So before performing the sixth and seventh operations we made the necessary calculations in conjunction with economists and financial officers at the 1st Clinic Hospital.

According to that calculation, based on current rates, the cost for a liver transplant operation is MNT 72 million to MNT 75 million. This is how much it costs without any consideration for unforeseen complications. It means if there were any complications like haemorrhaging, etcetera during the surgery, the cost would undoubtedly increase.

It seems likely that post-operation treatments would also have expenses at no small cost. About how much would be enough?

Sergelen: The expenses for post-operational treatment within the first two weeks are included in the operation's cost. Although the government provides some financial assistance for some medicines and treatments, it doesn't provide a substantial discount. During the first three months after the operation, every fortnight the patient must undergo many examinations. In addition, the patient must also have Hepatitis B vaccinations every time.

On average, these post-operational treatments require MNT 1 million a month.

Ganbold: Sometimes I think it might not be impossible for a large, well-established mining company to sponsor organ transplant practices as part of its social responsibility. If this was the case, that business's reputation and record for social responsibility would improve significantly. ■

COMPANY GOVERNANCE

A TRUSTWORTHY FRIEND

BY B. UUGANBAYAR

The banking sector takes the greatest responsibility upon itself because it comprises the savings of thousands of economic entities and individuals.

Magvan Bold, executive director of TenGer Financial Group and president of the Mongolian Banks Association, talks on the present level of governance within the banking sector, the urgent problems it faces as well as solutions to some of those issues.

As one who focus on good governance at Mongolia's banks, could you provide some new developments on this issue?

One of our clients from Bulgan Aimag says, "The bank is the responsibility and credit is the trust". This clearly reflects the function and responsibility of banks.

The banking sector takes the greatest responsibility upon itself because it comprises the savings of thousands of economic entities and individuals. So, it needs to protect both against the embezzlement of citizens' monetary assets and unforeseen risks. Then, the proper arrangement, function and participation of the board of directors, which is the connecting bridge between shareholders and the executive director, play a key role in such protections.

The executive management of a company, who is entirely responsible for the growth of capital, should be skilled, open, transparent and morally pure. If the relationship between the shareholders, the board and executive management is balanced and well-arranged, it is the first sign that demonstrates the company is developing into an entity with good

governance. In short, these three parties should be the three keystones to a company's good governance.

In addition, certain rules and procedures on regulating ethics and conflicts of interest conflicts are being introduced at the banks.

The banks' operations are regulated by both the Law on Companies and the Law on Banking; and it enables the banks to pay greater attention to improving their governance. In past years we have experienced more than a few troubles where banks with poor governance failed shortly after their establishment, and, as a result, many ordinary citizens suffered losses.

For instance, in Mongolia, 38 banking licenses have been issued in total. But now just 14 banks have stable operations, meaning the other 24 banks have disappeared without a trace as a consequence of poor governance.

What would you say about the development and level of governance in the banking sector compared with other countries?

For our banks there is the possibility of reaching a level of governance that shows exemplary openness in the world.

For example, we have the opportunity to learn the best practices of international institutions, including from international reports. In Mongolia, various domestic and international organisations have already started organising trainings and workshops for governance. So all types of information related to governance is



available to us.

Additionally, the boards of almost all the banks have a foreign expert. When the International Financial Corporation conducted its assessment for two domestic banks, both of them were given the rating of "Good". Also, the Business Plus Initiative of USAID has developed and published its methodology for governance assessment for banks.

The Mongolian Banks Association works with the intention to encourage banks to assess their own levels of governance using said methodology.

To what should the banks pay great attention to improve their governance?

During the first years of the transition to the market economy, the owners of the new bank understood that banks had to serve themselves only. Certainly, this was an extremely primitive conception.

Abroad, this is called a "pocket bank". Such banks are, of course, prohibited by law. Even today, the thinking that a shareholder is entitled to obtaining ►

- ▶ short-term, low-interest loans from the bank or should be granted the privilege of receiving services without paying any fees persists in the country. If things continue this way, they will just harm themselves.

Contrarily, if such thinking is abolished they will be able to continue in a sustainable manner.

Furthermore, shareholders and boards of directors cannot properly monitor a bank's executive management because while some shareholders or board members hinder the activities of executive management by intervening into the details of daily routines, the rest totally ignore the responsibility of overseeing management activity. So, all these issues should be adequately regulated according to the principles of open, transparent and well-balanced governance.

No matter whether it be in a country that is rich or poor, a company with good governance can exist for a long time anywhere.

How can the banking sector contribute to the promotion of good governance in other sectors?

When it grants a loan to a company or any other economic entity, the bank performs a thorough analysis on [that lending company's] governance. For example, that study is concerned with whether the company's management implements adequate market surveys as well as the company's business efficiency, and the rights and obligations of its shareholders, the board of directors and executive management.

So, the experienced loan economists of the banking sector might be able to provide the necessary consultations for interested companies. If this opportunity is effectively taken, the revenue and profits of both the bank and the lender will grow, and thus the conditions for further long-term sustainable cooperation will be granted.

This practice of creating an impact through consultations should be promoted to the next level and implemented accordingly.

In fact, companies issue discrepant quarterly or annual financial reports to avoid paying taxes. But they should keep in mind that such cheap tricks in turn create obstacles for attaining loans.

What is the starting point for implementing company governance?

It comes as a result of understanding the nature of good governance. It's not only increasing profits, but also creating a constant flow of outside investment and expanding the range of business partners.

In addition, the main advantage is that good governance attracts a skilled and qualified workforce like a magnet. In other words, the company with good governance can be compared to a trustworthy friend.

At first, company directors and managing personnel should involve themselves in governance-related trainings. Then, after a while, they would have more and more knowledge on governance and would involuntarily start to work towards increasing their company efficiency. ■

GOOD PRACTICES

EXPERIENCED BOARD OF DIRECTORS

Business Focus: TenGer Financial Group leads companies operating in the fields of banking, insurance, securities, and leasing. These companies include XacBank, XacLeasing, Tenger Daatgal, XacSecurity, and Tenger Capital.

Executive Director: Magvan Bold

Bold worked as managing director of XacBank beginning from January 2009, and in January 2011 was promoted to executive director of TenGer Financial. He specialises in economic policies for banks and structural reform with experience in both public and private sector financial institutions, as well as international financial organisations such as the World Bank and International Monetary Fund (IMF) for over 20 years.

Board of Directors

The board of directors has eight members. Five are representatives of international organisations and funds, including the International Financial Corporation (IFC), European Bank of Reconstruction and Development (EBRD), the United States' Mercy Corps, The Netherlands' Triodos Bank and Switzerland's Bamboo Finance. Ch. Ganbold is the one independent member of the board who acts as board chairman.

A Look at the Finances

Year	Total capital	Profit	Total investment (MNT (Millions))
2010	474.8	6.7	1.6
2011	833.8	12.9	2.0

Shareholders: 16

Strategy to Improve Governance

In 2010, IFC carried out the governance assessment of TenGer Financial Group and XacBank. Hereafter, they developed their 2010-2012 operational plans for improving governance, which is still underway. This led to the approval of its regulations on ethics and conflicts of interests; the procedures for establishing an agreement with common-interest parties; and the selection process for board members.

Each year board members evaluate the board's performance as well as the individual contributions of members. Afterwards the board takes measures to better refine management and implement measures for improved governance.

BY B. TSETSEE

In how many places in the world is L'Oreal sold?

L'Oreal is selling in 130 countries. That means in 130 countries we are working officially with a distributor and a branch office. There are a lot more countries in the world where products are delivered.

I think all around the world you can find L'Oreal products but I think officially we are working in 130 countries.

In what country is L'Oreal the most popular?

The United States because you have 200 million people there. There's also France because it's the home market, and China is getting bigger. The biggest countries are in western civilization.

What unique aspects can you point out about the Mongolian market for your industry?

I think the first big difference is it has a lot of products coming from a lot of different countries. Today in the Mongolian market you don't really see one big market leader. Usually you have countries like the US or Germany where you have home brands like Procter & Gamble or Schwarzkopf. These home brands are usually very strong, and Mongolia, for the moment, does not have such a home brand.

The only one I know that is quite strong is Monnis. You don't have such big brands, so it means today you have all kind of brands coming from everywhere.

The special thing about the Mongolian market today is it is not homogenous. You have so many different products that you can go to five shops and every shop will have different products. You don't see the same picture from one shop to another shop because every shelf is different and carries different products.

Does L'Oreal have to tailor its products differently to European and Asian consumers?

There is definitely a big difference. The hair is different in terms of thickness and length. To give you an example, European women are looking for volume—volume is not so very important to Mongolian ladies. Mongolian ladies want bright, straight hair, and they are looking for repair.



NUMBER ONE IN THE WORLD

So how we handle it is we bring the products that are the most interesting for the Mongolian lady and we try to push this product first to our shops.

In terms of skin, European ladies like to take products to make their skin darker. Asian ladies, especially Mongolian, prefer white skin, so we have a special range of products called Garnier Light. Developed in Malasia and produced in Indonesia, it's a special product developed only for Asian markets, and it's one of the products we're offering for the Mongolian market.

We have a very big portfolio, and we're always looking for the right product that is selling and giving the best results for the consumers of the country. We

sell products all over the world, but we say we have a special product for every type of skin and every type of hair.

What is the advantage of L'Oreal compared to other cosmetic brands?

First of all L'Oreal is number one in the world, and it's not because we are offering one product to all people. As I told you before, we try to adopt ourselves to other markets. The second thing is L'Oreal, in terms of investment and research and develop, is spending much more in new formulas, technologies and products. That means we're always bringing something new to the consumer, not only in terms of marketing but also in terms of effectiveness.

We have something like more than »

Benjamin Rachow is the business development manager for Central Asia and Mongolia for the Consumer Products Division of L'Oreal Group. He is based in Kazakhstan,

hair-dying product. We know today that people are caring more and more for skin. That's why today L'Oreal is investing and focusing in a lot of skin care products for men and women.

We are offering now in Mongolia skin care products for all ages and needs, starting from a very basic daily face cream going up to most innovative products from L'Oreal Paris. We offer two brands today, Garnier and L'Oreal Paris. We are offering very technology-driven products from L'Oreal Paris. We think that skin care is the future of our brand because people are caring more for skin and using creams.

If you see your own mother, twenty years ago she was using one cream in the morning. Now people are using a cleaning product in the morning and the evening, night and day creams, and special eye creams.

We have all these special products for special needs. But we need education to show people why they need skin care and why these things are good for their skin because it's not just using skin care when it feels dry. It's also developing your potential for the future. Using skin cream today means you will have a beautiful face in ten or twenty years. People need to understand that we need to invest in our own beauty by using products today rather than waiting until the first wrinkle appears.

One of my favourite products for Mongolia is the makeup business. We have Maybeline, which is number one in the world and is a very trendy fashion brand coming from the US. It's great that Mongolian people really like the US, so it's very easy for us to transfer the image of New York to Mongolia.

Maybeline is such a young and trendy fashion brand. We are bringing new products every two, three, or four months so it's going very fast. We want always to be serving the new mascara in the pocket of ladies and be at the top of fashion.

Who is your largest competitor here?

It depends on the segment, but for sure in the shampoo business it is Korean brands and Procter & Gamble. In skin care I would say today in Mongolia we are not doing so badly but Monnis is quite a good player. But it's because we

have not yet started it. Once we start this we are going to make a good show of it.

I think in the makeup business there is no clear winner in the market. If you ask me this question next year, I think it's Maybeline.

What other possibilities for your industry and economic growth do you see for Mongolia?

Personally I think we can see very dynamic growth in Mongolia today. It seems that all the mining corporations and heavy industry is having an effect on the people living in UB and I hope the middle class is developing as fast as the economy is developing. I hope that money is not only staying in the hands of a few people but to everybody. If people have enough money, then cosmetics come for ladies.

What does an economic miracle such as 17 percent growth in Mongolia tell a businessman like yourself about the country?

What it says to me is you are a very lucky country because it seems that you have a lot of richness in your soul and you have lots of products you can use and sell.

I hope that it's not like in Africa where you have only a couple of people who are taking profits off this business while all the other people are staying as it was before. I hope that everybody participates in this kind of business. And I also hope that Mongolia will develop the kind of production to become independent from all these natural resources and to have a strong economy and backbone from natural resources.

How large of an impact has the global economic crisis and economic slowdown in China had on L'Oreal? What's your strategy to get past this crisis?

At least for Mongolia, we think the euro-zone crisis is not affecting Mongolia so far. I don't see any problems for the moment here. Even if China doesn't grow as fast as expected, it doesn't, in my opinion, affect Mongolia.

For me there is nothing to do, no risk for management to take. For me the only thing to do is if the euro goes down, as it already is, we for sure have to reevaluate our prices. Otherwise, I don't see any risk. ■

▶ 600 patents every year. The success of L'Oreal is not only the distribution and the adaptation of local needs. It's also to bring the best in cosmetics you can get for everybody. Our claim is we bring beauty to everyone. Whether it is for the young or old, men or women, and rich or poor, we have the right product for everyone and we are the specialist in cosmetics.

Unlike other companies, we are not producing washing powder, household goods, or foods. We are just concentrating on cosmetics. We have over 100 years experience in cosmetics already, and that's why I think the products we are offering with the prices we are giving are always the best ratio in terms of quality and price.

L'Oreal has a strong reputation in Mongolia for the quality of its hair products. What other products that are popular in Asia would be a good fit for the Mongolia?

Hair is one of the most important pillars of L'Oreal. That is where we're coming from. Our first product was a