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MONGOLIAN ECONOMY



JUNE 2016 №11 (113)

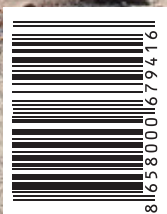
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All the ducks in a row

E.Temuulin: The city will reach
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Professionalism in project
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Industrial parks for development



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All the ducks in a row

Establishing industrial parks would be beneficial not just to Ulaanbaatar, but the entire economy of Mongolia. *page 6*



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T.Chimegsanaa: Legal ambiguities slowing development of industrial parks

“The motivation for establishing the parks is that entities are interested in certain discounts.” *page 14*



James Robinson: Mongolian political institutions in working progress

“[Nations] fail because they construct a system of institutions of rules which do not push people’s energies in a socially desirable direction.” *page 20*





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Editorial Note

Our magazine believes that the capital city of Mongolia, where more than half the population resides, has a bright future. As an organisation of the fourth estate, it is our duty to engage in the current dialogue concerning the development of the city. As such, our magazine has stayed in close contact with the City Mayor's Office for the past four years, and we are delivering to you our fifth issue on the developmental, economic and investment challenges facing the city.

Last year, the recently-established Ulaanbaatar Chamber of Commerce (UBCC) cooperated with the City Mayor's office and organised the Partnership for Development forum in the city, on which we reported. This time around, our magazine cooperated with the Ulaanbaatar Development Corporation to give our readers information on projects and endeavours planned for Ulaanbaatar city.

Although newly established, this organisation

is diligently striving to implement the major projects that will catalyse urban development, hoping to create a cleaner, greener, more industrious capital city together.

In this issue, the reader can find information on how the national industrial policy relates to the city's development, how this urban development organ's initiative to support SMEs and the private sector will affect entrepreneurs and what the overall aims of this organisation are.

There is information on what opportunities there are when it comes to public-private partnerships and the major projects. To put it plainly, we are delivering to you, our readers, information that the Ulaanbaatar Development Corporation would like citizens, investors and other stakeholders to be aware of.

MONGOLIAN ECONOMY MAGAZINE

Project

All the ducks in a row

BY B.UURIINTUYA

Although the issue of turning the satellite towns surrounding the capital into cities with their own satellite towns has been talked about for many years, no progress has been made as of yet. Establishing industrial parks would be beneficial not just to Ulaanbaatar, but the entire economy of Mongolia. Therefore, the Ulaanbaatar Development Corporation (UBDC) is organising the Ulaanbaatar Development 2016 business forum to hash out issues related to the establishment of industrial parks. Several projects to establish industrial parks have been developed. Specifically, projects such as the Nalaikh Construction Material Industrial and Technological Park, Emeelt Light Industrial and Technological Park, Nalaikh Construction Material Trade Centre and Eco Park are awaiting implementation through the Ulaanbaatar Development Corporation within the framework of the “Ulaanbaatar 2020

Comprehensive Plan and Development Approach for 2030.” The UBDC informed that MNT 768 billion will be required in order to implement these projects, noting that it is possible to resolve its investment in cooperation with the private sector.

Six economic sectors are actively operating in the capital: wholesale and retail trade, open pit and underground mining, small and medium value-added production, real estate, finance and insurance. The Ulaanbaatar Economic Development Strategy, published last year, states that these sectors account for more than 60 percent of the value-added GDP of the country. Over the last five years, the city’s economy has grown by 9.5 percent. Industrial parks as well as other developmental sectors are crucial in increasing this performance. However, the preparation works of the projects are just beginning, as the working group organising the forum explained that

initial works such as pre-feasibility studies, partial plans and detailed assessments of environmental impact are being developed. The Deputy Mayor for Ecology and Green Development, T.Bat-Erdene, is heading the working group, while the Executive Director of the UBDC, E.Temuulin, is serving as the secretary.

If indeed these projects are successfully implemented, then the Ulaanbaatar of 2030 would become unrecognisable from what it is today. There will be more sources of diversified economic income, and significant changes will be made in the infrastructure sector. All the key information, including objective and scope of projects, required investment, repayment and private sector involvement, will be included in the proposals. The UBDC, which is striving to implement these projects, developed the details meticulously, and even prepared English versions as an attempt to attract foreign investors.

Among the mentioned projects, Eco Park is raising a lot of eyebrows. It should be noted that Mongolia, a developing country, is giving importance to ecology at a time when nature and environmental issues have become a global concern. In addition, the population of Ulaanbaatar, where the majority live, is increasing year by year. In such a situation, the



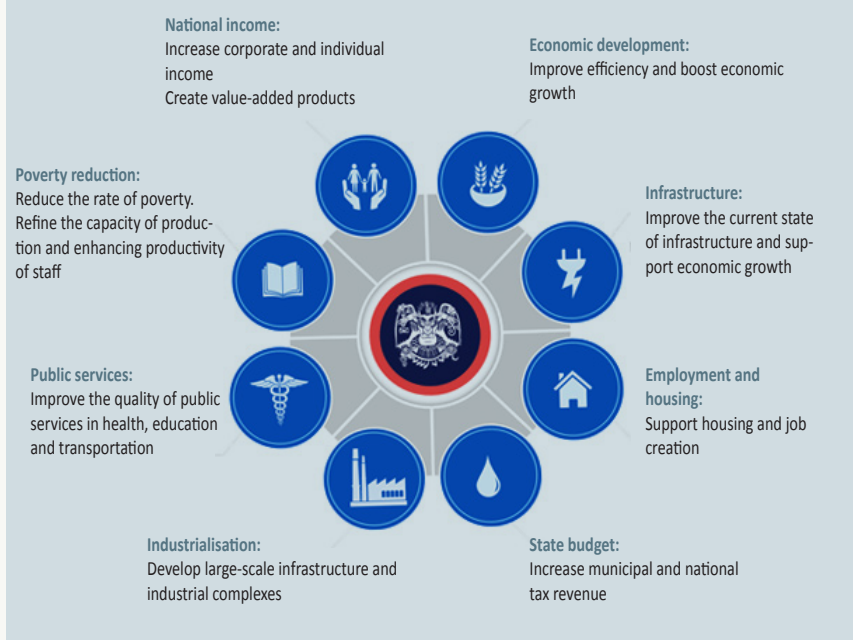
volume of urban waste is rapidly increasing, as up to 3,000 tonnes a day head towards the dumps. This amounts to around a million tonnes of waste per year. Meanwhile, the processing industry has not developed in the city, let alone the whole country. In this regard, there is a dire need to improve waste management, minimise environmental impact and not dump waste openly. Hence, the Eco Park initiative may just be a timely solution if it gets implemented. The main objective of the park is to classify and recycle wastes and use the most economically and environmentally friendly technology to do so. The park, which will be built at two main locations, was planned with a rather broad scope, as it will be built on area covering 174 hectares along five kilometres of the Naran hillside road and includes 12 recycling plants and five infrastructure facilities. It is estimated that USD 246 billion will be required for the project, with a repayment period of just under 10 years and construction finishing in 2020.

More than 10 other expected projects are waiting for turn for implementation. The organisation in charge has done everything except actually building the things and is facing financing issues. It was said that Ulaanbaatar has the potential to become an Asian financial hub during last year's UB Forum. If all these projects currently only on paper are realised, Ulaanbaatar will get a good start to its goal of becoming an economic and financial hub in Asia.



The Planned Emeelt Light Industry and Technology Park

THE UBDC'S AREAS OF FOCUS



ULAANBAATAR CITY OVERVIEW

Economic Summary



Investment:

2.25 billion \$ /equals to 50% of the total investment of Mongolia (Foreign Direct Investment: 11.3%, Domestic Investment: 88.7%)



Entities:

39.1 thousand /representing 62% of the total registered entities of Mongolia/ Foreign Invested Entities: 554 /China-54.3%, Korea-18.1%, Hong Kong: 2.1%, Japan:2.9%, Others: 22.6%



Economic growth:

5% /average growth /



Inflation rate:

8.8%



CPI:

10.7%



GDP:

10.54 million \$ /UB constituted 60% of total GDP of Mongolia: annual growth rate: 6%; projected to reach 80% of total GDP by 2016/



Assets:

MNT 1,827.7 billion /Current Assets-6.4%; Non-current Assets: 93.6%



Trade:

MNT 13,470.3 billion /86.3% of the total Trade revenue of Mongolia/



S and L:

Savings: US\$ 3.98 billion /83% of Mongolia/, Loans: US\$ 6.006 billion /84% of Mongolia/

Speech

Cooperation is the only way



E. Bat-Uul: “The Economic Development Corporation must not become the same as other administrative organisations, which have a bureaucratic mindset that rips off and orders around the private sector.”

Quote from the Mayor’s interview with Mongolian Economy magazine in April 2015.

Below is the text of the speech delivered by the Mayor of Ulaanbaatar and Chairman of the UBDC’s Board of Directors, E. Bat-Uul, at the opening of the meeting organised by the UBDC in January.

After our previous meeting, I participated in the 2015 United Nations Climate Change Conference held in Paris (COP21), which has significance on our cooperation.

First of all, I would like to relay to you a piece of good news. During the meeting, it was announced that USD 100 billion will be spent on supporting green development. Most importantly, it should be noted that this source is oriented towards financing projects under public-private partnerships. During the meeting, we introduced the Ulaanbaatar Development Approach for 2030 and works to be done in the area of green development to the ADB. I would like to express my appreciation to the ADB, as it is providing much assistance in installing a methodology consistent with the requirements of international financial institutions. In addition, we are also grateful to the Japan Fund for Poverty Reduction and the Government of Canada for their willingness to provide support and assistance to us.

Thus, if there are projects that can contribute to the fight against global warming, the funds are there. However, the main criterion in order to receive that money is it must go to public-private partnerships. Therefore, I would like to say that cooperating with the private is the only real choice.

We established the UBDC in order to cooperate with all of you. Operations have already begun. Now, the UBDC will start directly working on the projects. There are lots of opportunities if we can cooperate. Of course, the above-mentioned money is dedicated for the world. However, Ulaanbaatar has turned into one of the largest emitters of greenhouse gases in the Central Asia. With 200,000 chimneys spewing smoke, air pollution is an urgent problem. That’s why international organisations such as the World Bank and the ADB have expressed that they are ready to provide support. That’s why we have a chance. It is crucial that we have good policies and take practical steps to bring that money here for the development of the capital city. ■

Development

E.Temuulin: The city will reach new heights of developments

BY I.JARGAL

We sat down with the CEO of the Ulaanbaatar Development Corporation (UBDC), E.Temuulin to talk about the operations of the city-owned corporation and industrial and technology parks. He had worked as the Director General of the Economic Development Agency of the City of Ulaanbaatar starting in 2012 and helped develop the “Ulaanbaatar Economic Development Strategy.” Since December 2015, he has been heading the Ulaanbaatar Development Corporation, which he established in order to implement the economic strategy he played a key role in developing.

- What are the main topics and features of this business forum organised by the UBDC?

- Its objective is to present to the business community information about the works done by the corporation up to today and projects that have the potential to be implemented under public-private partnerships. This is not the first time we are reaching out to the private sector. Our organisation met with private sector leaders for the first time in December of last year, right after being established. At that time, we introduced the UBDC, how it was established and what its purpose is. A second meeting was held in January. We have studied how other countries manage roads, city lighting and insulation of schools and kindergartens under public-private partnerships. Many representatives from the private sector attended this meeting. We organise annual meetings in this regard.

This purpose of this year's forum is to inform people about industrial projects and investment opportunities.

- Why was the UBDC established?

- During the time when I worked as the Director-General of the Economic Development Agency of the City of Ulaanbaatar, our team developed the Ulaanbaatar economic development strategy based on Ulaanbaatar Development Master Plan for 2030 and got it approved by the City Council. The first task we implemented was the establishment of the Ulaanbaatar Chamber



of Commerce. We were also determined to implement various economic projects and programmes. It was quite incorrect for the Economic Development Agency of Ulaanbaatar to implement such projects. At the very least, the agency was not able to enter into business relationships, as it was an organisation under the city administration. Therefore, we decided to establish a city-owned closed corporation. By doing so, we were able to hire skilled

staff capable of conducting research and analysis from the private sector by offering higher salaries.

What is the main objective of your organisation?

- I mentioned two policies pertaining to the development of Ulaanbaatar. Simply stated, its objective is to implement projects and programmes the city administration needs to implement in order to foster the development of the city. We estimate that investments of around MNT 25 trillion will be required to implement projects up to the year 2020. Neither the government nor the city administration has such money. Thus, there is the need to raise funds in cooperation with the private sector and financial markets. Another responsibility of our corporation is to facilitate project financing. However, we will not solely raise funds, as we will cooperate with involved parties, mainly the private sector. In 2010, the Law on Concessions was approved in Mongolia. However, it is quite error-ridden and unclear. We aim to show how public-private partnerships are actually done internationally and introduce these practices into Mongolia through the UBDC. Our

corporation has consultants of the Asian Development Bank. They counselled us on how projects are implemented under public-private partnerships in accordance with global standards.

We did not invent the concept of a development corporation. Most major cities of the world have companies with the status as ours. Through those companies, an effective mechanism beneficial to both the business community and city administration

gets created. We are working on introducing this in Mongolia.

- What are the most immediate business objectives of the corporation?

- It is important to introduce a system that implements the economically important projects and programmes related to the development. In other words, we aim to create a system where the private sector is not afraid of doing business with the city administration. As for objectives for the near term, we will establish a development fund. It will invest in projects and programmes, reaping returns and reinvesting that money in other development projects. If required, it will make capital guarantees. Currently,

a guarantee from the government or the Development Bank is necessary in order to implement a project. But the projects do not move forward due to the national debt ceiling. If we establish something similar to a guarantee fund, projects can be implemented without a guarantee from the government.

- Industrial parks are going to be discussed during this meeting. There are a number of projects and programmes in this area. What role does the UBDC play in implementing these projects in cooperation with the private sector?

- Our corporation was established in order to attract investors to Ulaanbaatar and implement major projects in cooperation

with the private sector. Therefore, the corporation will support projects will play a vital role in the development of the city. For example, if the Nalaikh Construction Materials Industrial Park gets built, we can provide all kinds of support, such as resolving infrastructure issues and freeing up lands to businessmen. We will raise necessary investments in cooperation with the private sector. Today, people engaged in business are spending a lot of time and money searching for land. In addition, there are many areas on the outskirts of the city that are claimed by unknown owners and have gone unused for years. This is not good for the city's development. ■

BRIEF INTRODUCTION TO LARGE-SCALE INFRASTRUCTURE PROJECTS IN ULAANBAATAR

Large-scale infrastructure projects stem from the Ulaanbaatar general plan for 2020 and are driven by the need to address urgent issues such as air and water pollution, traffic congestion and other urban problems. The projects consist of 8 megaprojects, with each project requiring at least USD 300

million of financing. As for readiness assessments, most projects' feasibility studies, related designs and blueprints have been completed. Some of the projects' documentations are expected to be completed within the next 6 months. Below are introductions on some of these projects.

EMEELT LIGHT INDUSTRY AND TECHNOLOGY PARK

OVERVIEW

According to the Ministries of Agriculture and Industry of Mongolia, 80% of total processing, or 8 million units of hide, are processed at the premature stage (wet blue). Mongolia's leather industry adds the least value and operates at the most primitive stage of raw materials processing, confirming the need to develop an industrial cluster.

The UB municipal government is planning to build the Emeelt Light Industry and Technology Park and move all leather processing tanneries outside of the city, in order to reduce the volume of untreated effluent discharge to the central wastewater treatment plant (CWWTP) or directly into the Tuul River.

Many tannery factories and wool washing factories are located in the covered area of the CWWTP. As the high pollutant load of wastewater generated in these factories affects the treatment function and effluent quality of the CWWTP, Ulaanbaatar has urged a plan to move these factories to the planned Emeelt industrial park in order to improve current operations of the CWWTP.

Annual Capacity: 10 million units of hide, 22,000 tonnes of wool

OBJECTIVES

- Produce value-added products,
- Reduce pollution of the Tuul River
- Direct creation of 3,500 jobs
- The Argalant-Emeelt area consists of the existing Emeelt village and new development areas near the village and Emeelt industrial park. According to the development plan of the Emeelt industrial park, small areas adjacent to the park and Argalant village will be newly developed as residential areas for workers of factories located in the Emeelt industrial park as a part of the development plan of the park.
 - Park development Phase 1, 2016-2017: Tanneries 50%, Cashmere factories 20%
 - Park development Phase 2, 2017-2018: Tanneries 100%, Cashmere factories 100%
 - Park development Phase 3, 2018-2020: Final product factories

INVESTMENT

Total capital expenditure (CAPEX): EUR 65.8 million in 3 phases Net Present Value: EUR 30.71 million

PROJECT READINESS

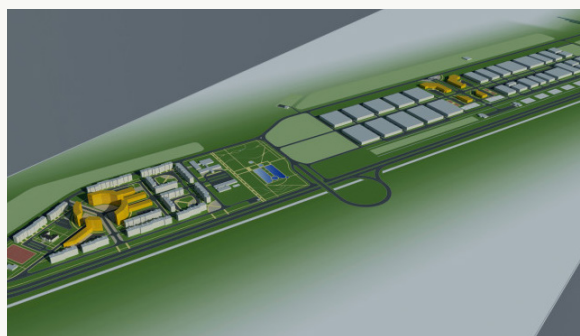
Feasibility study Completed General plans Completed
Blueprint On-going Readiness score (0-4) 2.9

PRIVATE SECTOR PARTICIPATION

- The project will be funded by the private sector, international financial institutions, government and public-private partnerships.
- According to the feasibility study, MNT 173 billion will be needed for the building and equipment of the leather plant.

PROJECT PROPONENTS

- Ulaanbaatar Development Corporation JSC
- Emeelt Project Unit



INTEGRATED FREIGHT LOGISTICS CENTRE

OVERVIEW

The Ulaanbaatar City Integrated Freight Logistics Centre (UBLIC) is being implemented in accordance with Mongolia's transportation policy and supports the most important aspects of projects such as the "Transit Mongolia" programme approved by the government on March 13, 2009, as well as the general development plan for Ulaanbaatar city up to 2030 in order to replace existing freight terminals with the new UBLIC.

OBJECTIVE

- Establish a centralised city logistics system to improve Mongolian competitiveness in the trade and transportation logistics sector and support the economic growth of the country.

- Reduce sorting costs of commodities
- Improve transportation management
- Reduce internal costs

The UBLIC will contain and/or be capable of handling the following:

- Containers, but not double-stack containers
- Bulk railcars
- Open/rail trucks for heavy equipment and machineries
- Bonded and non-bonded warehouses
- Customs and state inspections
- Independent laboratory
- Wholesale and exhibition halls
- Integration of the volumes handled by existing terminals

Freight forwarders will enter into 3PL and 4PL logistics services: hence, the UBLIC will offer bundling, unbundling, packing, labelling and warehouse related businesses.

RELATED LEGAL ACT

130 hectares of land has been granted to the project by Mayoral Decree no. 512.

INVESTMENT & RETURN

Required investment	USD 120 million for the first phase (Total CAPEX: USD 219 million, to be invested progressively)
Financing options	Private sector, PPP
Project repayment period	6 years
Project NPV	USD 276 million
IRR	23%

PROJECT READINESS

Feasibility study Completed Blueprint On-going
General planning Completed Readiness score (0-4) 2.9

LOCATION

The UBLIC will be located in between the Bumbat and Bayan stations of the Ulaanbaatar railway, in close proximity to the road and railway, approximately 10km from Nalaikh city and 34km east of downtown Ulaanbaatar

FINANCING

LOAN, EQUITY, PPP

PROJECT PROPONENTS

Tuushin LLC, both state and private freight forwarding companies

JVA-Ulaanbaatar Railway

State-owned and private container handling facilities

Ulaanbaatar Development Corporation JSC

CONSTRUCTION MATERIALS INDUSTRIAL PARK

OVERVIEW

The municipal government is planning the construction of a new technology park with over 40 construction material plants on 120 hectares of land in Nalaikh city. The project is expected to directly generate over 1,500 jobs. The existing construction material plants which currently operate in UB are expected to be transferred to the new construction material park in Nalaikh.

RELATED LEGAL ACT

Law on Technological and Industrial Parks

INVESTMENT AND RETURN

Plants	USD million Investment	NPV	IRR	Payback period (yrs)
Concrete	33.5	14.6	25.00%	2.89
Panel	5.5	7.4	30.20%	2.8
Steel	5.7	4.2	22.00%	3.4
other	3.05	4.9	37.00%	2.78
Total	47.75	31.1	28.00%	2.97
MNT 135 billion required				

PUBLIC-PRIVATE PARTNERSHIP TYPE

Build-Own-Operate

PROJECT PROPONENTS

- City-owned agency of the Nalaikh technology park
- Ulaanbaatar Development Corporation JSC



ECO PARK

OVERVIEW

City waste has been growing in tandem with the rapidly growing population, and current waste sites receive 2,800-3,000 tonnes of waste per day and 850,000-950,000 tonnes of waste per year. Therefore, there is a need to improve waste management in order to reduce negative impacts on the environment, abolish the current practice of dumping waste in open space by introducing classification of waste and establishing centralised points with standard infrastructure, where waste recycling facilities can carry out its operations efficiently.

The Eco Park is an industrial complex that separates and recycles waste based on cleaner, more efficient and environmentally friendly technology and is expected to be concentrated at 2 main locations: Narangiin Enger and Tsagaan Davaa (two current waste collection locations).

OBJECTIVE

- Centralised recycling facility
- Reducing the negative impact on the environment by stopping the traditional dumping of waste in open space.
- Create a healthier and more comfortable living environment
- Job creation and commissioning of new facilities
- Introduce proper waste management of international standards
- Improve irrigation and reduce water and air pollution
- By recycling waste, produce value-added products for export

INVESTMENT

- Currently, the Eco Park project’s feasibility study is being developed by ICG Group. (Infrastructure to construct: recycling facilities at Narangiin Enger and Tsagaan Davaa will be handled by the government; 4 waste management facilities to be constructed by 2020)
- CAPEX: MNT 246 billion
- IRR 23%
- Payback period 9.8 years

PROJECT READINESS

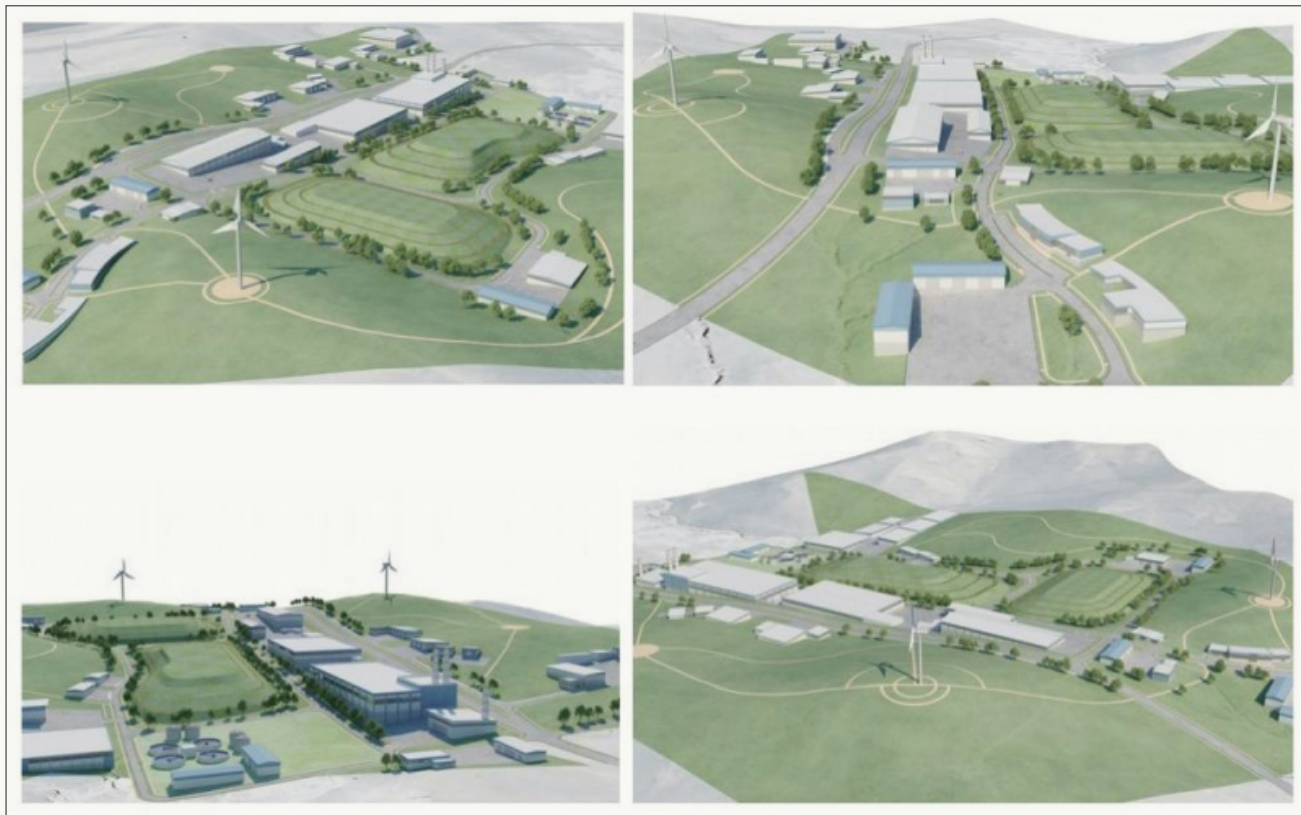
Feasibility study	Pre-feasibility completed
General planning	On-going
Technical drawing	On-going
Readiness score (0-4)	1.2

FINANCING

30% equity and 70% debt financing.

PROJECT PROPONENTS

- Ulaanbaatar Development Corporation JSC
- UB City Governor Office
- National Waste Recycling Association



Source: Ulaanbaatar Development Corporation

Expert opinion

T.Chimegsanaa: Legal ambiguities slowing development of industrial parks

BY TS.ELBEGSAIKHAN



We sat down with the Head of the Free Zones and Industrial Parks Division of the Department of Light Industry Policy and Regulation, T.Chimegsanaa, to talk about the state policy to establish and industrial and technological park in Mongolia.

- The policy on industry and related documents have become clearer with the establishment of the Ministry of Industry. What decisions and resolutions are being implemented by the state to establish an industrial and technological park?

- A policy document on the establishment and development of an industrial and technological park were issued in 2004 and the Law on the Legal Status of Industrial and Technological Parks was approved in 2009. We are working in accordance with these two documents. Currently, the government has

granted permissions for the construction of industrial and technological parks at five locations – Darkhan, Erdenet, Bayan-Ovoo soum of Southgobi province, Telmen soum of Zavkhan province and most recently, Baganuur district of Ulaanbaatar.

There are three main aspects in establishing and developing the parks. The first is the called a “tenant park.” These are mainly small parks based on SMEs and household production. The second is a specialised park which consists of coordinated industrial units engaged in closely related operations. The third is a hybrid park which consists of industrial units engaged in various types of operations that are unrelated technologically. The currently established parks generally have hybrid characteristics.

- What are the reasons for choosing these locations?

- There is a global standard. On top of this, the parks are being established in accordance with laws and policies adopted by parliament. Most importantly, there must be infrastructure. They must also be close to raw materials and have a sufficient workforce. They must have investment, transportation and be in a befitting location geographically. For example, there is already heavy industry in Erdenet with necessary infrastructure and raw materials. Darkhan used to be called an industrial city. As for Baganuur, the park is being established based on Baganuur JSC’s coal mine. These locations have the infrastructure and the workforce.

- What types of products would be produces?

- Mining-oriented heavy industries are predominant in Erdenet. Light industry will also develop, as it is a hybrid park. As for Darkhan, it would be a hybrid park with three zones: heavy industry, light industry and research. In general, a park is a complex. This complex has

multilateral dependence, as government must be responsible for the policy, while professional associations must represent the industries. Furthermore, there must be professional organisations such as customs and laboratories to examine products. On top of these, supporting industries and, most importantly, research organisations must be there. Parks can have stable operations by developing in this way. We too are adhering to this standard.

- In recent years, public-private partnerships are being prioritised. What would be their involvement in the development of parks? What opportunities are there for the private sector?

- According to international standards, there are three different experiences of developing industrial parks. First, the state carries out all the management, considering it a strategically important project. The other one is that the private sector establishes the park and earns revenue from its development. The third is that the state builds the park and gives it to the private sector to be managed. We believe that the third model is most fitting for Mongolia. In fact, the private sector must do all the development works within the park. Parks will develop with the leadership of the private sector. The state will show support by composing policy, building infrastructure and attracting investment. The private sector must handle the rest.

- Establishing such parks requires a lot of resources and effort. How is this being addressed?

- Massive investments are required in order to build infrastructure. However, these would require relatively less investment since the parks are going to be built based on the existing infrastructure of Erdenet and Darkhan. However, investment is still necessary. It would be difficult to invest from the state budget.

Therefore, the issue is going to be resolved through public-private partnerships or concessions. Some of the infrastructure issues of Baganuur have been inserted into concessions within the independent policy of Ulaanbaatar city. In addition, works are going to be carried out to attract foreign investment and loans.

- What advantages are there for enterprises in becoming part of the parks?

- The motivation for establishing the parks is that entities are interested in certain discounts. Four types of discounts are being provided. First, if entities invest in park infrastructure, their investments will be deductible from taxable income. Second, renovation and depreciation costs can be deducted. Also, life of equipment and machinery can be reduced to three years in depreciation accounting. Third, the established park gets exempted from real estate taxes. Fourth, the land of the park is being exempted of land fees.

- In recent years, new developments have faced land acquisition issues. What difficulties are there in addressing the land issues of the parks?

- Local citizens' representative assemblies make the decisions regarding the land on which parks are to be built, and we then determine whether if there is any overlap. In general, our parks have no issues. Local provinces build the parks on empty locations.

- The establishment of industrial and technological parks is currently in the initial stages. Are there or have there been any hindrances?

- In fact, some time has passed since the establishment of parks. However, the implementation of law is not that good. It stems from an incomplete understanding about industrial parks in our society. In addition, investment policy has been inefficient. The legal environment is also vague. The technological level of entities interested in joining the parks is insufficient. Such issues are causing a slowdown in the process of developing these parks.

- You said that research institutes play an important role in the establishment of parks. Are universities and scientific institutions showing enthusiasm in getting involved?

- Scientific institutions and university professors are highly interested. We receive many requests to establish a park and conduct research. Academia has been quite interested and active. ■

Project financing

Professionalism in project financing

BY B. ENKHTSETSEG

Many unfinished construction projects can be seen throughout Ulaanbaatar. Most of these incomplete buildings are due to decisions to invest in projects without feasibility studies and to start projects when the funding was not fully secured. Some projects have even gone bankrupt, again due to imprudent financial foresight. Although taking risks is a part of doing business, gambling on project financing is asking for certain death.

Project financing is an investment that gets investors, lenders and other parties to come together and get on the same page regarding costs, risks and benefits, on mutually beneficial and fair terms. As it increases attention to corporate governance, it can lead to greater transparency. Mongolia was able to raise USD 4.4 billion for Oyu Tolgoi from international financial institutions, which is the result of carefully studying and evaluating previous works and others within the framework of the project. In other words, the money was lent after detailed calculations on management, ore quality, infrastructure, future opportunities and the Mongolian and Chinese economy. It is a megaproject. Financing, public investment, public-private partnerships and loans from financial institutions allow megaprojects to be implemented.

From the mid- 90s until the turn of the millennium, most of the financing Mongolia received was in the form of aid and grants, while every penny behind the money we are now using has an owner, someone expecting repayment. Each project's budget contains loans that must be paid back with interest. The Chinggis and Samurai bonds are clear examples

of this. As the economy expanded, many more projects were proposed and sought funding. Unfortunately, Mongolian banks do not have the capital to finance Oyu Tolgoi, Tavan Tolgoi and Tsagaan Suvraga. Spending the money raised by government bond on one project is too risky.

"The business community knows that the large-scale projects come with high risk, so project financing is the form by which they will be funded. Many



companies get involved. One example is the financing of Oyu Tolgoi," said economist Ch.Otgonchuluu.

Project financing is a new concept for us. Major global organisations have been practicing this type of financing for over a half century. For example, Malaysia and South Korea can be taken as examples. These two nations have implemented project financing to develop infrastructure. Although Mongolia's banks cannot afford to do this kind of financing at present, they have to be able to do it in the future.

"Mongolia's banks got used to financing trades and services of mining that directly extracts and sells. It has less risk," said the CEO of Trade and Development Bank (TDB), O.Orkhon. "Now the banks need to pick up other much needed forms of financing for more high-risk projects,

production and infrastructure which provide benefits in the long run.”

Low-interest credit and collateral which help a new business get on its feet are necessary in our society. The loans to support projects related to SMEs and environmental protection measures implemented by international organisations and the government are aimed at startup businesses. Experts say that the most common mistake entrepreneurs of developing countries like Mongolia make happens at the first stage: the project proposal.

“Investors reject project proposals due to a poor presentation of investment efficiency, poor justification and the fact it gets written by people unrelated to the project. Therefore, it is required to get training and learn skills in this regards,” said N.Dolgormaa, the Head of the SME and Investment Support Department of the Mongolian National Chamber of Commerce and Industry.

A project proposal must include all the necessary information investors need to know. Research on the external and internal environment, expansion plans, required goods, materials and equipment as well as the amount of money being requested all have to be crystal clear. Some businesses are unable to grow as they would like to, even if they were possible to get loans from financiers, due to not clearly indicating the required amount of funding. It is a common mistake made by SMEs. It is a mistake to calculate financing considering only basic costs. Hence, a project proposal must include many things besides working capital, such as loan repayment obligations, risk management, equipment procurement and maintenance services.

“Companies need to improve corporate governance and learn to develop proper feasibility studies and investment plans in order to attract financing,” stated economist Ch.Otgonchuluu. “In addition, employees need to be able to communicate with the administration of major banking and financial institutions anywhere in the world.”

Experts recommend approaching financial organisations after thorough calculations that include method of financing, base assets, loan amount, capital expenditure of the project, required investment and size of the project. Projects that did not abide by proper project financing procedures and steps know what results this brings. If it is a large-scale project, it is likely that a single

bank or organisation will not independently provide financing. Investors practice good risk management by not financing a project all alone, but rather split the funds (and thus, the risk) with other investors. Project proponents should only begin work after its financing is fully secured.

According to the CEO of Erdenes Mongol LLC, B.Byambasaikhan, starting work even if only 10 percent of the financing remains unresolved is not wise. It is a matter of principle. Business wise, it would be more efficient to conduct construction work without disruptions by completely resolving financing beforehand. If there is a disruption in

funds in the middle of work, costs will mount.

The word “project” has been used ubiquitously over past few years. Many ideas have been proposed. They days of when you find someone who has written a project proposal before to do your proposal are over. Only those who provided grants accepted such project proposals. Now we must learn to develop reliable, well-grounded and promising project proposals in order to be considered by foreign and domestic investors, as they decide whether to cooperate or not by analysing potential profits and not out of some gracious desire to help. ■

Interview

Matthieu Le Blan: Infrastructure attracts

BY B. TSETSEG

We sat down with Matthieu D. Le Blan, the Head of the European Bank for Reconstruction and Development's representative office in Mongolia, to talk about the EBRD's operations in Mongolia and their future works, especially in Ulaanbaatar city. Matthieu has over 15 years of experience in development financing. After graduating from the Paris Institute of Political Studies, he joined Arthur Andersen LLP's emerging market department in 1998. During his 3 years there, he audited French banks as well as clients in the Balkans, the Caucasus and Central Asia. In 2001, he joined the EBRD as an infrastructure analyst. In 2004, he moved to Tbilisi to work at the EBRD's Resident Office, where he financed infrastructure deals and SME clients. In 2007, he became the Head of EBRD Office in Dushanbe, Tajikistan, and then, Head of Istanbul ETC Hub, covering Central Asia. In June 2013, he was appointed as Head of the EBRD's Mongolia Office.

Could you give us a briefing about the EBRD's operations in Mongolia and their results?



We opened the office 10 years ago, ever since, we have financed more than USD 1.5 billion in projects, mobilising an additional USD 2.5 billion in co-financing. Two-thirds of the EBRD's volume of investment is in the mining sector, so of course OT is a big chunk of it. We just disbursed out USD 1.2 billion, including the syndicated USD 400 million directly from the EBRD, to Oyu Tolgoi.

Most interestingly, I would say that

two-thirds of the projects (not the dollar amount) are in the non-mining space, with a view to develop and support the diversification of the economy. By diversification, we mostly have in mind SME development, which is a very strong job creator and can have an impact on the regions outside Ulaanbaatar. We also believe regional development is something quite important. In the non-mining space, we finance local commercial banks – Khan Bank, Khas Bank. We also developed specific tools – energy efficiency credit lines, SME credit lines, value-chain financing credit lines – to support local small businesses. We also directly financed SMEs in Mongolia. What do we finance? In general, we finance import replacements. Mongolia has been importing way too much, and we saw that even during the boom of 2011-12, when imports increased dramatically, putting pressure on the balance of payments. We believe that there are many products that can be made in Mongolia. That goes for agro-processed products like water, beer and cola, as well as for construction materials; we financed Monpolymet for cement. It will be a very important project to decrease the reliance of Mongolia on

because in an environment where the budget is extremely constrained and under pressure, two such private initiatives in education and healthcare were made. This is very important, so we finance these kinds of projects. We have not yet been able to finance infrastructure per se, except the Salkhit wind farm. Salkhit is very interesting, again private. Following the Law on Renewable Energy, we know that the government is quite committed to developing renewable energy, in particular with the new amendments on the per-kWh price of green electricity. We financed Salkhit, which is, I would say, a landmark as the first real PPP in the country, a real private investment in infrastructure.

Given the economic difficulties, did you need to change your perspective when assessing projects? Did you experience any loans that went bad? I realise the EBRD are experts at analysing all these projects coming in, but has the overall economy affected financing negatively?

We took risks. Let's be very clear about this. That is the beauty of the institution. We are able to take risks international commercial banks cannot take yet, and we want to show that those are calculated risks. In the mining sector, because of the reversal of the market and currently depressed commodity prices, we have some difficulties.

Meaning you experienced losses in the mining sector?

No, it means that a few projects are being discussed for restructuring. That is what we do, and the first step is discussing with the client. Usually the client needs more breathing space, and we are keen on giving that breathing space, but upon certain conditions – upon a credible restructuring process and credible future cash flow. We don't restructure just to delay a non-payment. We have a common goal, which is to save the company, to make it stronger in the future and so on.

How is your relationship with the Ulaanbaatar Development Corporation (UBDC)?

We want to collaborate with the UBDC. We believe the UBDC is a very good exercise and platform, mostly to have a critical mass of strong specialists able to develop PPPs (public-private partnerships). We know that the UBDC has been given a few assets which can create a base for some financing, but we see the UBDC as mostly the team of strong

experts who can develop more complex infrastructure projects in Ulaanbaatar. We all know the projects they have – street lights, parking. All these are meant to be done in the PPP format, which is complex, but will lead to much efficiency, not only in the financing but also in the operation of those assets. We also know that the ADB intends or has already provided some support to create this base of specialists. On our side, we are mostly talking about financing of the sub-projects which would be developed by the UBDC. That is where we stand.

Would it concern more infrastructure financing with the UBDC?

For us, the talk is only about infrastructure financing, and our understanding is that the UBDC's role is actually to develop infrastructure in Ulaanbaatar.

What kind of projects are you talking about?

We are extremely cautious about the grandiose projects, such as the metro. We don't really believe that today it is appropriate to speak about a few billion dollars of financing. If someone wants to finance it, then good, but to do it on a private basis will be very difficult. Hence, we are focusing mostly on smaller projects which will demonstrate the capacity of the UBDC to develop a PPP structure. Of course it is always easier to start out with smaller projects such as the street lighting project. It can also be in the transport sector, in public municipal transport. It can also be on some municipal utilities such as water or wastewater, even if it is quite complex.

Today, in Mongolia, there is the issue of (electricity) tariffs. It would be very difficult to attract private investment as long as tariffs cannot even cover the costs. We fully understand the political sensitivity of it, but there are many ways to alleviate the pressure on the tariff. One is to decrease losses. There are many losses in the system – water, hot water – that could be avoided. It requires investment, but ultimately, it will decrease losses. Also, you can have more efficient municipal companies. Today, many municipal utilities are in emergency mode, repairing stuff. If you invest and you have good-quality equipment, then you focus more on the efficiency of your own processes, collection of tariffs and many other things. One thing which we feel is fundamental



imports. If high-quality cement can be made in Mongolia, it would be good for real estate development and for Oyu Tolgoi, where lots of cement will be needed for the second phase of development. So that is our vision.

Also, I have to say that in Mongolia, we have extremely interesting projects not in import replacement. For example, we financed Orchlun school. We financed Intermed. These are quite interesting

to developing municipal infrastructure is a tariff methodology. When you have an increase in the price of coal, for example, or an increase in the tariff for electricity; when you have your pumps running as a municipal water company, that should be reflected in the price of water. We have all these things. What is good in Mongolia is that the willingness of the population to pay is quite good. With a little bit of investment and a stronger managerial structure, we believe we can make those companies quite efficient and alleviate the pressure on the costs. I think that is where the UBDC should focus, starting from a smaller, straightforward project to create a base of know-how, enabling them to develop more complex projects. PPPs are complex, but the beauty of them is that it puts a lot of the responsibility on the private sector. With a PPP, you don't ask yourself how to manage a company; the private sector will do it and do it efficiently. The company selected will have responsibilities and will have to be accountable for their results and the tariffs they charge. That is always in the contract, but it alleviates a lot of pressure on the structure of the UBDC. The UBDC has actually done quite a lot of work recently to improve the basic infrastructure of the city and to beautify the city as well. The infrastructure must develop very quickly, and we know that infrastructure projects take very long to develop. To cope with such a pace of growth – population growth, economic growth – Ulaanbaatar has to become a totally different city. That is why we strongly believe that the UBDC will be able to develop those kinds of projects, but again, a little bit of time is necessary.

How would you profit from these kinds of projects? Infrastructure projects do not actually produce products.

PPPs are very good and, as you said, not highly profitable but very stable cash flows. That's why I would say we have private sector champions in France and Turkey who like to do those projects. Although they may be capital intensive, they generate long-term cash flow, and this is backed by a PPP framework or agreement. The tariff is extremely predictable, so it is a relatively low-risk project as long as the operator is good. Usually PPPs are win-win solutions. That is how you benefit from this. We are not supposed to make money out of this; we are supposed to minimise our

losses. The role of the EBRD is to foster transition from a centralised economy to a market-based economy. PPPs are clearly within this mandate, and despite being challenging, we feel that it's the best way to guarantee sustainable municipal infrastructure, not only financially, but also technically, because the technical solutions offered by the private sector are usually very good since the operator has to operate something for 15 years. We feel it is a much better way of financing.

Indeed, this is project financing. Those projects are based on cash flows, so you don't make billions of dollars, but you make good, sustainable, predictable cash flows. That's why we feel the PPP structure is quite good for the development of municipal infrastructure, as long as you have a predictable tariff mechanism.

Would you talk a bit about industrial and technology parks utilised around the world?

We have seen a few layouts and designs.

Mongolian Economy magazine question:

How will the establishment of industrial parks in Ulaanbaatar affect the economy and business?

Dr. Ch.Khashchuluun, Professor at the National University of Mongolia, economist and Executive Director of the National Council of Private Sector Support:



- Ulaanbaatar accounts for a significant portion of the economy of Mongolia with a great concentration of business. Many industries have operated here. Even a whole district was called the "industrial region." Infrastructure, transportation and new technology are necessary in the modern era. The city is facing issues concerning the workforce, electricity, water and emissions of wastes. Hence, the Mayor's Office developed projects to build industrial and technological parks in order to resolve these issues. Although manufacturing is concentrated in the southern part of Ulaanbaatar, Industry Street and the Gurvaljin bridge today, it does not satisfy health and environmental requirements for a city with a population of over one million people. Currently, the permission to build an industrial park in Baganuur district has been given. One

advantage of the districts of Nalaikh and Baganuur is infrastructure. Most importantly, they have the workforce. Because these districts have depended on mines for many years, they have many experts and have a high potential to develop by establishing industrial and technological parks.

D.Bailykhuu, Advisor to the State Property Committee and Board Member of the Corporate Governance Development Center:



- Parliament approved the Law on Industrial and Technological Parks in 2009. In general, legal entities can establish any industrial enterprise on any possible location. However, the reason why this law was developed was to stop the current practice of creating establishments without an integrated policy and to build interrelated industries as a complex in accordance with a set plan. It is an act to establish legalities related to state support of the entities implementing these projects.

The city administration has decided to build several types of interrelated

It's good, and it makes sense to have an industrial park for several reasons. One is logistics, and the second is infrastructure. If you have all the transportation of raw materials in one hub and a well-organised transport system towards a city, you can decrease costs. We have studied the biggest challenges faced by the private sector in Mongolia, and one of them, strangely enough, is access to electricity. It takes time to get access to electricity, to get the permit and other things. This is

very strange in a country where you don't have so many electricity cuts, but that is the reality. So, if you are a company and you have direct access to electricity, wastewater treatment, which has a huge ecological benefit, and transportation, you are de facto more efficient. That's what we like about this idea. I know the city already has commitments from a few dozen (I'm not sure of the exact number) companies that are interested in going into this park because they see the obvious benefits. We are looking at

this project, and we are interested, but it is too early to consider financing the infrastructure of this industrial park. If an industrial park is just piece of land, then it doesn't work. You need strong infrastructure to be attractive.

Location is important, but it is not critical. What you offer the companies is critical. If you offer good services and a sort of one-stop shop for all the permits they need, access to utilities and the network of water and hot water, then it would be very attractive to companies. ■

manufacturers, service centres or parks by using this state policy within its own development policy. For example, it has decided to move forward with the proposed Emeelt Light Industry and Technology Park, Nalaikh Construction Materials Industrial Park, Construction Materials Market in the eastern part of Bayanzurkh district and the Integrated Freight Logistics Centre in the southwest of Nalaikh. By doing so, many facilities will be concentrated outside of the city. It will be a major change in the city's development and traffic. In addition, it has other benefits as businesses can enjoy a variety of preferential conditions by operating at dedicated locations.

Many works have been done in order to determine the locations of these complexes, resolve land issues, develop the necessary designs and blueprints, conduct environmental studies and define infrastructure issues. This forum provides an opportunity to introduce the works done to interested parties and cooperate in the future.

D.Khulan, CEO of Natural Essentials LLC



- I have been searching for land for two years to develop and expand my manufacturing business. All the land in Ulaanbaatar is owned right now. The owners of the land want to keep the land even though they don't use it for anything. Therefore, it is a good that the state intends to build parks and give permission and land to deserving entities. I do think there should be support and preferential treatment for more environmentally friendly production. Unfortunately, there had been no real progress on the issue of establishing industrial parks, despite being discussed for a long time. Thus, I'm not confident on whether a real opportunity will be presented to producers.

I.Ser-Od, Director of the Mongolian Business Database NGO



- In general, it would be difficult to attract foreign and domestic investors if the parks are built in remote locations. In that context, building industrial parks in Ulaanbaatar has many advantages. In re-

cent years, many people have said that cluster development is necessary for business. The capital city is most suitable for establishing a comprehensive system with infrastructure, transportation, markets and a product distribution network. Even the merchants from remote provinces are getting wholesale products from Ulaanbaatar. We need to use this already existing advantage. However, on the other hand, it is correct to administer a policy of decentralisation, so it is a good thing that the parks will be built in satellite cities instead of inside the city. Secondly, there will be many positive effects on society and the economy if systems and mechanisms such as ecological assessment, use of environmentally-friendly modern technology, and good management of waste and wastewater are clear. Today, there is a need to establish industrial parks, as industries such as tanneries within the city need to be relocated outside the city. ■

Guest

James Robinson: Mongolian political institutions in working progress

BY B. UURIINTUYA

*James Robinson is a professor at the Harris School of Public Policy of the University of Chicago. His research focuses on political economy, comparative politics and economic and political development, with a particular interest in Latin America and Sub-Saharan Africa. He has written and co-authored numerous books and articles and became widely known as the co-author of *Why Nations Fail: The Origins of Power, Prosperity and Poverty*, which was published in collaboration with Prof. Daron Acemoglu and earned international acclaim in academic and popular publications. Currently, he conducts research in the Democratic Republic of the Congo, Sierra Leone, Haiti and Colombia. He has taught in the latter for many years during the summer at the University of the Andes in Bogota. Robinson obtained his Ph.D. from Yale University, his MA from the University of Warwick, and his BSc from the London School of Economics and Political Science. He also taught at the Department of Economics at the University of Melbourne, the University of Southern California and the University of California at Berkeley.*

Mongolian Economy magazine sat down with James Robinson during his visit to Mongolia for the UB Impulse public lecture and discussion, organised by the GIZ Integrated Mineral Resource Initiative.

Is this your first time here in Mongolia? What is your impression of the country?

Yes. It has been very interesting so far. We went with an NGO around the ger districts in Ulaanbaatar just to see how people lived and the problems with services, access to water, electricity, development, property rights and so on. It was very interesting to see how ordinary

part of the city and then you go to the outskirts?

Well, yes. There is a lot of inequality that reflects the transition that the society is going through and the impact of the mineral wealth: whether it is benefitting just some people or whether it is trickling down and



people are living. So, it has been extremely interesting so far. I am not an expert on Asia, but Mongolia seems very different in surprising ways from surrounding countries that I know a little bit better like Kazakhstan, China or whatever. So I'm learning a lot and enjoying it.

So Mongolia is completely different than when you arrive in the central

changing most people's lives. I guess one of the biggest challenges in Mongolia now is how to take this wealth and actually use it to transform everybody's lives and not just the lives of the people in the Shangri-La hotel.

How can we do this?

I think the evidence suggests that this is all about the institutions in the society, about

the rules that create patterns of incentives and opportunities in the economy, but also, perhaps more importantly, in the political system. I think the evidence is overwhelming that countries which have good political and economic institutions are able to take natural resource wealth and use it for the benefit of people in the society. However, in countries which have weak institutions or dysfunctional institutions, mineral wealth gets stolen or misallocated and has no or maybe even a negative impact on society. So, Mongolia has to try to build institutions that allow it to benefit from the natural resource wealth. I think the evidence is overwhelming on that.

If you were to evaluate Mongolian institutions, what score would you give them?

I tend to focus a lot on the political institutions. My research suggests that political institutions are really crucial for determining economic prosperity. So I would say, if I looked at the Mongolian political institutions, there have been a lot of progress in some dimensions. Mongolia back in 1990s managed to create this competitive democratic polity with great success. If you look at the regions and countries around Mongolia, you can see that this is an enormous success. This has generated a lot of benefits, seems to me, in the society. Still, many other aspects of political institutions are in working progress. The state seems to be very politicised and very unbureaucratized; there is lack of continuity in policy. There are a lot of political appointees and incoherence. So this is where the work needs to be done. I'm trying to get a sense of civil society. How does the civil society work? How coherent is the civil society? Does civil society really put pressure on politicians to be accountable, to be transparent and to provide public goods? So, my impression is that Mongolia has part of what you really need to have sustained prosperity, but only a part of it, and a lot of the other parts are missing. That is where progress is needed.

In that sense, Mongolia is often compared to some African and Latin American countries. Would you agree with such comparisons?

No, I don't think so. Mongolia doesn't have the kind of political instability that many African nations do. There is no violence or civil conflicts. It seems that there is a lot of consensus about the political

system. I think that compared to any other African countries that I know politics here is actually much more competitive than in Africa. I think there are many other benefits, even in the history of socialism. Look at education, female empowerment. Women are massively discriminated all over Africa. The Soviet system did provide a lot of education. There are elements, and there are advantages. To me, the history of a society is very important. The history of Mongolia is very different from African and Latin American countries, and it offers much potential for the future. I mean I have to think more about it, but I haven't been struck by comparisons with Africa or Latin America. Seems to me Mongolia has a very different history, very different context, very different type of society. Here is an advantage over every African country: Mongolia has a real kind of identity. There is national language, national identity. And that is very different. In Mongolia people have enough in common culturally, ethnically. That allows some sort of national vision to merge, which I think is very important in terms of trying to agree on institutions that are beneficial to the society.

I think such comparisons come from the idea that they are all mining countries.

Yes, maybe. I think whether you can or cannot handle those opportunities depends on institutions and political institutions. Yes I am sure that is a challenge, but I would think Mongolia has a lot of advantages. I think the fact that it is much more homogenous culturally and linguistically gives an advantage in terms of trying to develop a national project of institution building to manage this wealth. One African country which has done a very good job in managing resource wealth is Botswana. Botswana is similar. It is very homogenous culturally, linguistically and ethnically, and they were able to build institutions. If I were going to compare Mongolia to an African country, I would compare it to Botswana, which has been a great success, not a failure.

Why and how do nations fail?

They fail because they construct a system of institutions of rules which do not push people's energies in a socially desirable direction, which allow for the concentration of political power, which allow for the creation of monopolies, which allow for some people to be

benefitted enormously at the expense of other people. So this is what we call extractive institutions. A society can become organised extractively in a way which is very beneficial for some people who exercise authority in power, but very bad for the society in general. Nations fail when they get these extractive institutions, and they succeed when they have inclusive institutions, which spread power much more broadly in society and create much more broad-based incentives and opportunities. It is all about the way that people themselves organise their society and about the politics of the construction of these different types of societies.

How then do these countries overcome the struggles to create good institutions?

That is a political process. What is the difference between Mongolia and Uzbekistan? Uzbekistan has a dictatorship of personality; the communist apparatchiks in the late 1980s managed to capture a post-Soviet state. That did not happen in Mongolia. There was a popular opposition to the communist state. The communist state gave up, and there was an election. There was a transformation to a much more open political system. If you want to know what pushes the society from extractive to inclusive, it is things like that. It is popular mobilisation, so I think that is an interesting example. If you compare Mongolia to many Central Asian countries, there is reluctance to use violence here. In many other places, violence was used when people started complaining they were repressed, but here they didn't want to repress people. They could have done it with the people who were on hunger strikes on the square, but they didn't want to do it, not even the communists. There is something about the society. It is something about the values in the society where they don't want to use violence to repress people here. To me, I don't know systematic research on this, but if I look at the countries that I know well, it varies a lot. The willingness to use violence against other citizens varies widely across different societies. Some places have much more solidarity and much more empathy with other people, and that makes them reluctant to use violence. That is something about Mongolia which is a great strength of the society. I don't know if it comes from the history of Mongolia, so I think it is civil society's popular mobilisation that drives

this change. However, this is difficult to achieve, coordinate and to sustain.

Would you say Mongolia is going on the right path or is the country failing in certain ways?

I think it has been going very successfully, but there is a lot of work to do. Also, there is no reason why it couldn't go into reverse. You have seen societies in the past post-Soviet world they looked like they were on the right track like Ukraine, but then things went into reserve. I see many signs of progress, but I think there is a lot of work to be done. There is a lot of work to be done in terms of developing institutions, especially the state, depoliticising the state, debureaucratising the state and developing civil society. So, it is a working progress.

Are there any signs when a nation is failing?

Let me give you one example of recent Mongolian history: the change in the electoral system. The political parties have just changed the electoral system. They changed it into something which they think is kind of more expedient for them. That is not a good sign. This ability to manipulate institutions in your short-run interest is a very bad sign I would say. That is not the way to change institutions, just for some short-run political interests. You have to think in the long-run about the country. To me, that is a worrying sign that politicians are willing to act in their short-run self-interests at the cost of consequences to the country.

What are then the signs of good progress?

In Mongolia's case, you should see what comes after the election. My impression here is that when power changes hands, there is enormous rotation of offices. New people come in; old people get out; policies are discontinued; there is a sort of lack of continuity. What you want is that continuity; you want to see changes in the rules under which the state operates to try to create more continuity in policies. I think that there some things, which everybody seems to agree on, so you would like to see progress in exactly in those dimensions.

What do you think is the biggest challenge for Mongolia and for its institutions?

It seems like managing this natural resource wealth is a big challenge.

We have been doing a lot of

management. In terms of developmental management, an excuse has always been made that Mongolia has been a democracy for just over 20 years. Where do you think Mongolia should start and what should it focus on?

You have to build institutions. You have to improve the quality of democracy; you have to build the effectiveness of the state. You have to build a depoliticised, bureaucratic state. To me the state seems to be very unbureaucratized, and that is just the basic element of what you need. If you want to provide public goods, stability or a long range vision for the economy or the society, you need a state with the capacity to do that. That has to be built through practices or recruiting the right people, promoting people, giving them incentives, giving them long horizons, not making them subject to the whims of politicians or who wins elections. There are lots of models for that and lots of wisdom about how you do that. The World Bank, the ADB and others know a lot about that, but the politicians have to do it. You have to be prepared to implement that. You have to be prepared to give up the short-run political incentives in order to have some vision for the society.

When you say building institutions, what exactly do you mean?

It means building rules. It is not building physical objects. It is about building democracy, making democracy work better and making democracy high quality. That means improving transparency, improving accountability, which is about helping people understand what their rights are, what politicians should be doing; getting people organised so they can demand provision of public goods; and that they can demand politicians do and act in a socially desirable way. It is about introducing practices and rules in the government. It is not about discretion or about what people want or making deals. It is about rules. Rules can be built. You have to establish precedents. Let me give you an example. George Washington was the first president of the USA. He was president twice, and then he said: "I don't think anyone should be president more than twice, because if you stay in power too long, you just lose perspective or you become too authoritarian, so I am not going to run again." So, he didn't. Hence, for 150 years he set the precedent that nobody should be president more than twice, and everybody

stuck to it until Franklin Roosevelt violated it. Lots of people wanted to violate it, but it was a rule that people were willing to enforce it. Roosevelt got it away with it because there was World War II. Things were chaotic and he could argue that it was a special circumstance, but after the war, people decided that was a bad idea and rewrote the Constitution, added the amendment to introduce presidential term limits. That is a rule. So people have to establish and institutionalise rules. Laws don't get you anywhere unless you enforce the law, so it is really about people making decisions, politicians making decisions, people in civil society making decisions that they are going to do things like this and that. Let's make rules and stick to them. This changes people's expectations and behaviour; you coordinate people on a new equilibrium. This is how it works. Also, there is the media. The media plays an incredibly important role in promoting good institutions and inclusive institutions, accountability and transparency.

What does building good institutions depend on?

I think it is willingness. People may feel very disempowered. People may not do things because they think it is a waste of time or they can't change anything. People tend to be very disempowered. I think everybody aspires to have a prosperous Mongolia. Everyone wants to have better education for their children. They want to have opportunities, high living standards and a secure world. People have all these aspirations, but they don't know how to achieve them or what you can do on your own. That is why collective organisations and civil society are important. Collectively, you can do that. George Washington was one man, but he was powerful. He was the head of the army during war of independence. He was a very important, very significant person. That means that the President and the Prime Minister of Mongolia, they are in a very important position to signal we are going to do things differently. But do they? I don't know. It is up to them. They should take the initiative. People can be cynical, but you have to lead by example.

What is public policy and what role does it play in a country's development?

Public policy is crucial, in terms of providing public goods among other things. In the 1990s, Mongolia tried to create a market economy from socialism

and tried to create a private sector and private business, entrepreneurship. Public policy is crucial as an input into that. That means having a stable currency, raising taxes to provide public goods and infrastructure and having regulations with a stable environment or rule of law. The government provides incredibly important services, which would be an input into a

policy, monetary policy and fiscal policy, but also in microeconomic policy, regulatory policy, educational policy and environmental policy –those are all very important. That is why you need have a state, which works, which is bureaucratised and unpoliticised, where people really have the incentives to do their job and to deliver these public services.



healthy economy. I think in many cases of post-Soviet transitions, people lost sight on this idea of downsizing the state in the rush to having a market economy. They lost the sight of the fact that the state has to provide all types of public goods and important public policies to make a market economy work.

Public policy is important in many dimensions, not only in macroeconomic

From what you have seen during your visit to Mongolia, what do you think of Mongolia's public policy?

My opinion about that is very superficial. I have only been here for a short time, so I am not sure. I've read a lot of things, but I'm not sure if I can say anything based on my own experience. I think there are lots of things that are going well. For example, someone

told me that the mayor of Ulaanbaatar randomly chose people to vote on what infrastructure project they thought had the biggest priority. That is very a consultative democratic process to decide what the government should prioritise. That is great. There was a process whereby text messages were used to allow people to say whether they liked a policy, yes or no. So I think there are signs that there is transparency and accountability. There has been a lot of progress on that, but then there is also one very bad trend. For example, whenever the political party in charge changes, the party that comes in cancels everything that had been implemented previously, and that is terrible. You need to have continuity in policy. This is massive politicisation of the state, which is very unhealthy. Some things have been going well and some things not so well, but that is better than in many parts of the world. From my perspective, things are going well compared to some places like Uzbekistan. There is something here to really build on.

If you were to give an advice to Mongolia, as a nation, what would you recommend to pay attention to?

You are about to have an election next month. People should ask themselves: what is the election about? What is it that the politicians are offering? Are politicians really offering something which is about the health of the society or for the good of society, or are they engaged in giving favours away for political support? So, people should be focused on the society, public goods and public policy. People should be arguing about what is good for Mongolia and what is going to be good for developing Mongolia and its institutions. They should be focusing on serious discussions about what is wrong with the country and not about what I can do for you or what I can give you. It should not be like "If I win, you get a job." That is very unhealthy. People should be worried about what the politicians are offering and what the politicians are arguing about. If they are not arguing about the health of the society and what is good for Mongolia, then they should complain about that and not vote for a politician who just offers you a favours. That is terrible for society. ■