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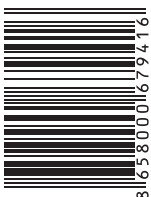
# Fingers crossed for Mongolia

**J. Erdenebat**  
Prime Minister

**Ts. Munkh-Orgil**  
Minister of Foreign Affairs

**J. Munkhbat**  
Head of the Cabinet Secretariat

**B. Chojjilsuren**  
Minister of Finance



# Mongolia



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## MONGOLIAN ECONOMY

**FOUNDER, EDITOR-IN-CHIEF:**  
D. Bekhbayar / 9999-4248

**FOUNDER, DEPUTY EDITOR:**  
I. Otgonjargal / 8800-6228

**EDITOR:**  
S. Otgontsetseg / 9927-8928

**ENGLISH EDITOR:**  
O. Tuvshin

**TRANSLATOR:**  
B. Enkhmunkh

**JOURNALISTS:**  
B. Enkhsetseg  
B. Uuriintuya  
G. Orkhon  
TS. Elbegsaikhan

**DESIGNER:**  
Sh. Oyundari

**MARKETING MANAGER:**  
D. Barianjav / 9409-2904


### Address:

Chingeltei district, 1st khoroo  
Peace Avenue, Express Tower 1101  
Ulaanbaatar, Mongolia

Central Post Office, P.O. Box 2762,  
15160 Ulaanbaatar, Mongolia  
URL: [www.mongolianeconomy.mn](http://www.mongolianeconomy.mn)  
E-mail: [info@mongolianeconomy.mn](mailto:info@mongolianeconomy.mn)  
Tel/Fax: 976 - 7011 5476

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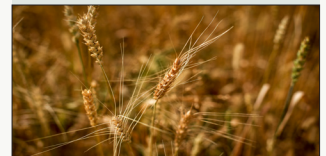
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this sector accounts for a tiny fraction of the overall financial market in Mongolia – less than one percent.

## Taxes



### Fears of tax hikes

The public's concern regarding potential tax increases has not completely subsided. *page 7*



### New government, same agro policy

Farmers want expand their product range to oilseeds and bean plants, instead of just growing wheat and fallow. *page 12*



### Issues surrounding Erdenent Mining Corp

An MP publicly accused EMC of dodging taxes, but there is more to the story. *page 13*



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### Memories and progress

Why is it that such an important sector does not even compose a mere one percent of the financial market? *page 18*

## MONGOLIAN NEWS

## Foreign trade

As of the first nine months of this year, Mongolia has conducted trade with 155 countries, with total trade turnover reaching USD 5,780.8 million. This is a decrease of 9.6 percent (USD 616.9 million) from the same period of the previous year. In addition, exports decreased by 5.9 percent (USD 208.1 million), and imports by 14.3 percent (USD 408.8 million). Decreased imports of mineral products, diesel fuel, gasoline, vehicles, machinery and electronics as well as decreased exports of copper concentrate, crude oil and textile products were the primary reasons behind the fall in trade turnover. Mineral products, jewelry and precious and semi-precious stones and metals accounted for 84.4 percent of net exports.



Source: National Statistical Office

## Budget

A joint meeting of the City Citizens' Representatives Council's Standing Committee on Petitions and sub-committee of the Smart Ulaanbaatar project was held to present the report of the programme. According to the report, MNT 44 billion was spent in a year. More specifically, MNT 792.5 million was spent on the establishment of a data centre in the capital, and MNT 229 million was spent on a video conferencing system. Head of the project sub-committee M.Khaliunbat said that

not one video conference has been held even though administrative bodies have bought the video conferencing equipment. In addition, USD one million was spent for a master plan developed Cisco, but the expenses were recorded as USD 99 million in the state budget. Naturally, the Smart Ulaanbaatar sub-committee stated they will thoroughly check the report.

## Employment

The number of registered unemployed decreased by over 9,000 in just a month, dropping from nearly 30,000 in August of this year to around 20,500 in September. In addition, there were 27,100 active job seekers in September while this figure was 417559 in August. However, the majority of these job seekers were individuals who are already employed but are seeking a second job out of financial need. Furthermore, figures show that people in the 25-34 age group are having a tougher time landing jobs.

Source: Employment and Social Welfare Service Office

## Visits and loans

It has become evident that the new government will need to seek out foreign loans and aid in order to get by during this economic downturn. Minister of Finance B.Choijilsuren and President of the Bank of Mongolia (BoM) N.Bayartsaikhan attended the 2016 Annual Meetings of the International Monetary Fund (IMF) and the World Bank Group held on October 8-9 in Washington, DC, while Prime Minister J.Erdenebat is visiting Japan and Speaker of Parliament M.Enkhbold is heading to the southern neighbor. All these meetings are related to the aim of attracting investment and aid for the financial market. According to the finance minister, the government has submitted all the necessary documents to apply for the IMF's Stand-By Arrangement and is waiting for their reply. Speaker of



Parliament M.Enkhbold's visit to China and the Prime Minister's visit to Japan went successfully, reported officials

## Non-banking financial institutions

The number of non-banking financial institutions (NBFIs) in Mongolia has been consistently increasing in recent years. According to the Financial Regulatory Committee (FRC), 499 NBFIs are operating at the moment. Fifty-three companies were granted licences to operate as NBFIs in the first half of 2016, with four being revoked. As for regional activity, 53 are operating in rural areas, while the remaining 446 operate in the capital. The total assets of NBFIs reached MNT 676.5 billion, which is an increase of 22 percent from the same period of the previous year.

## Social insurance

According to information from the Health and Social Insurance Authority, MNT 1.3 billion went into the social insurance fund in the first nine months of this year, which is an increase of 24.8 percent (MNT 258.9 million) from the same period of the previous year. This increase was primarily due to the income of the pension fund increasing by MNT 216.3 billion. However, expenditures also rose by similar levels. Specifically, the fund's expenditures were MNT 1.28 billion, which is an increase of MNT 123.2 million compared to the previous year. ▶

## WORLD NEWS

### Nobel Prize in economics

This year's Nobel Prize in economics has been awarded to UK-born Oliver Hart and Bengt Holmström of Finland for their work on contract theory, which covers a range of issues from public-private partnerships to executive pay. This is the second year in a row in which micro-economists won the prize.

"Modern economies are held together by innumerable contracts. The new theoretical tools created by Hart and Holmström are valuable to the understanding of real-life contracts and institutions, as well as potential pitfalls in contract design," posted on the official website of the Nobel Prize.

Contract theory is one of the youngest and fastest developing areas of economics. This theory is based on neoclassical principles which say that market players must play by proper rules.

Contract theory studies how economic actors can and do construct contractual



arrangements, generally in the presence of asymmetric information. Oliver Hart made fundamental contributions to a new branch of contract theory that deals with the important case of "incomplete contracts."

Although parties know that there are variable factors that can give priority

rights to one of the parties, the court cannot prove it, because it is impossible to exactly reflect the variable factors such as supply of goods and service quality in a contract. In a nutshell, incomplete contracts have shed new light on parties' positions after a contract.

### Trump in crisis

US Republican presidential candidate Donald Trump plunged into a deep crisis on Friday after a 2005 recording came to light in which he boasted in vulgar terms about women. Adding fuel to the flame, former contestants of the 1997 Miss Teen USA pageant, an event owned by Donald Trump at the time, now allege that the Republican presidential nominee walked into their dressing room while they were changing during the beauty pageant.

Some Republican leaders announced that they will not support Trump due to these revelations. In particular, House Speaker Paul Ryan dealt his own party's presidential nominee a severe blow Monday, telling fellow Republicans he will no longer defend Donald Trump and will instead use the remaining time until the presidential election to focus on preserving his party's hold on Congress. On the other hand, polls favouring

Democratic Party presidential candidate Hillary Clinton have shown an upswing for her after the second presidential debate and revelation of Trump's scandals.

Although the Daily Mail featured an article about a man claiming to be Bill Clinton's secret son, Donald Trump's leaked recording overshadowed this. Election day in the US is scheduled for Tuesday, November 8, 2016.

### Investors leave the UK

Britain has lost its place in the top five countries with the highest investment attractiveness after the decision to withdraw from the EU, according to a report by the consulting company Ernst & Young.

According to experts, potential investors, especially from EU countries, are uneasy about of the uncertainty associated

with Brexit and other geopolitical changes, including the upcoming presidential election in the United States.

According to the results of previous research conducted in April, the UK was in second place, whereas now it is in seventh place in the ranking, behind the US, China, Germany, Canada, France and Japan.

Meanwhile, the Deputy Governor for Monetary Policy at the Bank of England, Ben Broadbent, said that inflation in the UK may exceed the projected level of two percent. According to him, inflation may rise due to the weakening of the pound, but strict budgetary control can reduce its impact on the economy and labour market. ■



*Our fate lies in their hands*

## Government

# Fingers crossed for Mongolia

BY R.JARGAL

Japanese honour guards welcomed Mongolia's Prime Minister and the guests accompanying him at the airport, as though it were an indication saying "Try to keep our trust and be stable now." Over the last four years, the Japanese received different representatives of completely different governments, with each one talking about contradictory things, even though all these governments are rooted from the same political party. While Mongolian politics swayed to different directions, the same old Prime Minister Shinzo Abe stayed in his position throughout these years to receive the Mongolians.

In doing so, Mongolian PM J. Erdenebat talked about the matter of strengthening trust, and in particular, restoring investor confidence and. He also informed that the main purpose of his visit was to strengthen ties between the people and expand private sector cooperation among the two countries. "I will generously support and cooperate on the implementation of Mongolia's medium and long-term development goals," said Shinzo Abe, according to a report by the government of Mongolia, which also stated the PMs had an "effective and important dialogue." In a nutshell, Mongolia's government needs to seek investment at this current pace and

strive to save the economy.

The Asian Development Bank (ADB) forecasts 1.4 percent growth in 2017 for Mongolia, while the World Bank projected a bit more optimistic forecast of 2.7 percent. But these are only forecasts. Whether the economy grows or contracts depends directly on the policy implementation of the current decision-makers. International credit rating agencies have slashed Mongolia's credit rating to a negative outlook, where unstable countries belong.

Thus, the government needs to consider that the people of Mongolia will suffer even more due to such bad indicators. It has been a short while since the Mongolian People's Party came to power after winning the election by promising to take care of the above-mentioned. Everyone is buzzing about what the government was able to do during this period. Some are blaming them for going back on their promises.

Former Minister of Mongolia M. Enkhsaikhan said: "Everyone is trying to determine the 'colour' of the first 100 days of the new government. Personally, I had no high expectations from this government buried in debt to do great things in such a short time. Nevertheless, I have a feeling that they are developing effective policies and creating the conditions to implement them."

According to him, the previous government left nothing but debt and loans for the new government. Prime Minister J. Erdenebat said that the government is losing a lot of time gathering real economic data within a quarter. However, he acknowledges that he is leading a government which has no right to sit back or make mistakes. There is no time to lose complaining, because the bond repayments will start in less than half a year, and currently Mongolia has no other financial sources other than its people's pockets. As if confirming this, B. Choijilsuren revealed the economic conditions, debt and financial indicators to the public as soon as he became the Minister of Finance. His action drew criticism as some said that it has worsened the already falling economy. According to L. Oyun-Erdene MP, it was correct to relay the reality of the situation and set the appropriate policies as the country will not get out of the crisis within 100 days.

Expanding the debt ceiling to 88 percent of the GDP indicates that Mongolia will obviously take out yet another loan. However, few states and organisations are going to have the willingness to dish out more money to Mongolia.

Mongolia is reaching out to the IMF's Stand-By Arrangement. While there are groups that consider this programme to be a threat to our independence despite its potential to bring Mongolia's finances in order, others believe that our state leaders will not allow this programme to be implemented as it will limit their possibility to embezzle funds from the state budget. In reality, there is little to fear from this arrangement if we properly identify the situation as our country has experience in successfully overcoming economic difficulties by using this programme.

The new government has introduced its plan to overcome the economic crisis within a framework of goals and objectives. "Financing problems are likely to arise for the implementation of the programmes aimed at stabilising the economy. Ensuring macroeconomic stability and a legal environment for attracting foreign investment has become an urgent priority," said the Prime Minister.

However, his answer to the question "how?" was murky – not even enough to reassure the people, much less foreign investors. Their new plan says that it will move forward with the mega projects, but such sentiments have been expressed for ▶

▶ the past eight years. “Preparations will be finalised by winter, and the works will begin in spring,” said Minister of Finance B.Choijilsuren. He was referring to Tavan Tolgoi (TT), Gatsuurt and Oyu Tolgoi (OT). The finance minister also failed to talk about how they will do that.

Mongolia will not get rid of debt burdens until 2022 at the very earliest. There was information that the government agreed on USD four billion in financing from China for the repayment of bonds. Yet, there is no signed agreement, so we have to wait to know the truth. When the government submitted the draft budget for next year, they mentioned something about collecting MNT one trillion from the mining sector. But TT’s coal will reach USD 30 per tonne at the best due to the agreement made with Chalco. Coal companies of Mongolia’s mining sector have basically stalled.

One piece of good news from the Prime Minister’s visit to Japan was the signing of an agreement for Energy Resources LLC to export coal to Japan. Erdenet Mining Corporation’s (EMC) ownership issue might continue into next year due to political quarrels. Although a working group was established to resolve the issues regarding EMC, no report has been developed to date as it has become a war between President Ts.Elbegdorj and Ts.Nyamdorj MP. It should be noted that the price of copper on the global market has become unstable over this time. Furthermore, the price of gold is trending downwards.

It is clear that there will be disruptions to state budget revenues. The ruling party tried to save and cut back as recovery sources are limited. The Democratic Party (DP) is bombarding the media to report about the new government’s backward actions because the new government stopped the previous government’s “Good” programmes (where the government rewarded “good” farmers, students, ger plots and stocks), cancelled student stipends, started restricting children’s benefit money based on living standards and reduced welfare benefits.

In addition, the new government decided to take revenge on the DP by continuing the “genocide” started by the Democrats four years ago, firing civil servants hired during the DP’s days en masse. The majority of the civil servants have mortgage loans or salary loans. Relevant organisations are saying that

Mongolian households are becoming poorer if we consider that there are three family members on average depending on the salary of one civil servant. Hopefully the new government has not simply spent the three months since its ascension hiring and firing.

The authorities explained that there was too much civil service staff and that there were many unnecessary job positions. “169 people are working on 85 job positions,” stated B.Enkh-Amgalan MP

Whatever the case may be, the politicising of the people increased over the past 100 days. There was not much to say about the new government other than the “Mothers with Salaries” programme, the Student Loan Fund and the government’s promise to provide 1.25 percent interest loans to domestic enterprises engaged in export-oriented businesses. The government is playing children’s games,

posting on social networks about making dishes for 500 people during World Food Day. Basically, they need to cut the useless crap and start focusing on actual work.

Folks in the US are teaming up. Not only in the US, but through the world teamwork has become essential. Yet, in Mongolia, breaking up into factions has been the trend for a long time. However, people are demanding that Prime Minister J.Erdenebat go hand in hand with the team he has assembled and achieve international recognition for his stable government. In doing so, Mongolia will get rid of its “Hotel Mongolia” nickname – because investors stay for a short while and go – and be more faithful to companies and investors.

Until then, the 76 members of parliament, the opposition and the people need to get acquainted with the plan for the coming years and monitor its progress instead of clinging to the past 100 days. ■

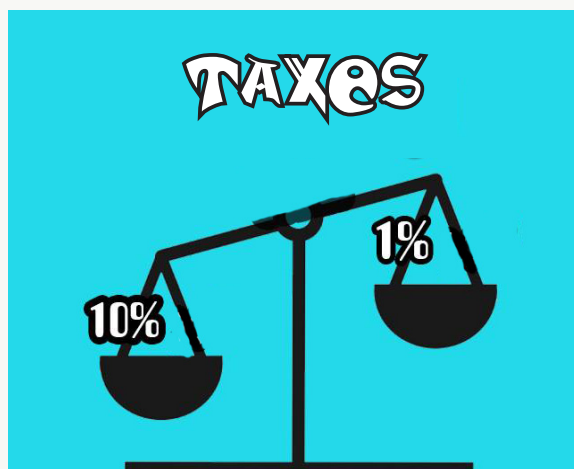
## Tax

# Fears of tax hikes

BY M.BILGUUN

Mongolia’s economic growth was lauded not so long ago. Experts warned about a potential crisis and risks alongside the sudden growth. Unfortunately, their warnings became a reality. The private sector and small and medium-sized enterprises (SMEs) are facing tough challenges. During this time when the coming year’s draft budget and monetary policy are being discussed, the

people fear tax hikes as the government has talked about raising taxes through budget amendments. Although the government’s proposal was refused by parliament, the public’s concern regarding potential tax increases has not completely subsided. Hence, what kind of tax policy would be befitting during this economic downturn? What tax measures are to be taken by the state?



## Is raising taxes the right move?

One way to raise money during an economic crisis is to increase taxes. In other words, it means constituting the state budget by increasing the amount of taxes levied on individuals and entities. However, tax increases have more negative effects than ▶

▶ positive on businesses. For example, it will entail risks such as contraction of businesses and enlargement of the shadow economy. In particular, it runs the risk of lowering investors' confidence in the state and discouraging people's will to work. The role of a government with a market economy is to draw up and approve laws. Furthermore, the government should enforce the adopted laws and monitor their implementation.

If the government oversteps its bounds by causing burdens on entrepreneurs and business, the economy gets worse. It is common for investors to become more "sensitive" during economic crises. It is apparent when they begin to purchase more gold, real estate or other tangible wealth storage instruments instead of circulating their money in businesses. This entails the risk of money freezing up when it could have been invested businesses and of losing investors if bad tax policies get administered, especially in a climate where investors are more sensitive than before. Then what kind of policies need to be administered in order to spur investment and activity in the private sector?

Dr. B.Munkhzaya, the head of the Financial Management Department of the Institute of Finance and Economics, stated: "The way out of the crisis is definitely not by raising taxes. If the taxes get increased, it will induce business contraction, reduced investment and increased unemployment and poverty. It would be better to expand the tax base instead of trying to mess with tax brackets of regular taxpayers. First of all, the state needs to create a favourable business environment. To do this, financing and a flexible tax policy is must be emphasised. In general, setting up a stable taxing system is likely to be more effective for the current situation."

The government has been discussing several measures to overcome the economic crisis. In this context, they are looking back at tax policy to make some changes. One of these concerns corporate income tax. A goal to support domestic industries, SMEs in particular, was included in the new government's platform. Accordingly, parliament has called on the government to decrease taxes to down to one percent per year for certain sector's domestic manufacturers with an annual income of up to MNT 1.5 billion.

Within the framework of this five-year project, entities operating in food, animal husbandry, textile and construction will

be able to enjoy the exemption. Why only these four sectors? What sort of economic benefits will this lead to?

According to E.Altanzul, head of the Budget Revenue Department of the Ministry of Finance: "This government was not the only one to emphasise these four sectors as these sectors have been priority areas of the National Development Strategy until 2030. These sectors were identified as the key economic sectors, which is why they will enjoy such exemptions. Secondly, these sectors domestically produce raw materials. Furthermore, they will produce semi-finished and finished products from the raw materials. These products have the potential to become a national brand through exports. In other words, it can bring US dollars into Mongolia. But the exemption will not be strictly limited to just these four sectors over the long-term, only initially."

Although traditional Mongolian animal husbandry and crop production have risks as they are dependent on nature, the durability of these sectors in economic crises has been taken into consideration in including them in the exemptions. In addition, the stability and employment capacity of these four sectors are also factors. But what are we to do with the other sectors affected by crisis?

"Personally I think all entities with an income of under MNT 1.5 billion should

enjoy the exemption regardless of sector. On top of this, the four priority sectors receive a good amount of state subsidies. Hence, the issue of why taxpayers' money is given to certain groups as subsidies is related to justice and fairness," said B.Lkhagvajav, President of the Mongolian National Chamber of Commerce and Industry.

### Will we see a progressive tax system?

Another important issue being discussed alongside corporate income tax is that of a progressive tax system. This system is an entirely new thing for Mongolia. Our country experimented with progressive taxation in 1992, but stopped soon after. Since 2007, every worker pays a tax rate of 10 percent regardless of level of income. This flat-tax system is actually more beneficial for the rich and a heavier burden for the poor and middle class, those who carry the economy on their backs. It has a risk to totally deplete the poor. The progressive tax system levies higher tax rates on higher-income people and lower rates on lower-income groups. The progressive tax system already applies to enterprises in Mongolia. The significance of this system is that it allows for a more even distribution of wealth. The only question is, what are we waiting for? ■

### Sustainable development

## The beast to bear the burden

BY TS.ELBEGSAIKHAN

**T**he burden on the mining sector is going to get heavier. Perhaps there is no other way considering the future of the business, because this sector has accepted that this burden before the entire world.

The 2030 Agenda for Sustainable Development was adopted by the 70th Session of the UN General Assembly.

Mongolia joined the agenda along with 193 UN member countries. It will be possible to get rid of many of today's pressing global issues if this programme with the aim of extinguishing poverty and eliminating starvation can be successfully implemented.

Even major multinational companies have recognised the importance of these ▶

► goals and are shifting their operations to become more environmentally friendly. Their investment and effort spent on re-usage of water, renewable energy sources, infrastructure in rural areas and environmental remediation is increasing.

We all know Mongolia's economy is highly dependent on the mining sector and that its growth is directly related to the sector's market at home and abroad. The mining sector accounts for about a fifth of GDP and more than 80 percent of net exports. During the Mining in Mongolia and the Sustainable Development Goals Forum, Ms. Beate Trankmann, United Nations Resident Coordinator and UNDP Resident Representative in Mongolia, said that now Mongolia needs to harmonise its plans for the mining sector and state policies with this UN agenda and bolster the effort and involvement of mining companies in order to achieve the 17 Sustainable Development Goals (SDGs).

Held on October 13, this forum sought ways to harmonise SDGs with the mining business by involving representatives from the public and private sector and non-governmental and international organisations to exchange views and experience.

The forum was organised with the support of the Mongolian Alumni of Minerals and Energy for Development Alliance (MEfDA) and the Embassy of Australia.

"The role of the private sector is key as the amount of money budgeted by states is insufficient to implement the SDGs," said Ms. Beate Trankmann. Although the official documents of the programme do not include the word "mining," this sector is definitely correlated with the main goals of improving water supply, boosting employment, eliminating poverty, improving efficiency of energy and land usage and reducing emissions of greenhouse gases.

Dr. Byambajav Dalaibuyan, a researcher at the University of Queensland, said that Mongolia has the

potential to fully implement the SDGs by increasing the economic efficiency of the mining sector and engraining proper resource governance. According to him, working on all the 17 goals at the same time will require too much effort and money. Therefore, the goals need to be put into an order as the fundamental aim in the implementation of these goals is to improve people's living standards. People will be able to focus on education, the environment and health issues only after they reach a certain living standard.

However, challenges facing countries vary. For example, starvation and clean water are not among the most pressing issues for Mongolia. But pollution, creation of stable jobs and reducing inequality may be target issues. People's living standards will improve by successfully reaching the goal of eliminating poverty and inequality, which in turn will help reduce pollution and greenhouse gas emissions as people will use less raw coal. Furthermore, with the decreased amount of lead in the air, respiratory problems will decrease. Dr. Byambajav believes that it will be easier to achieve the other goals if the main problems can be resolved in such ways.



*A parade in Erdenet city during the socialist era.*

Initially, experts thought that the mining sector's involvement would be key in six goals of the SDGs. However, a joint report titled "Mapping Mining to the Sustainable Development Goals" by the UNDP and the World Economic Forum published in January of this year identified a wider connection with the mining sector. The research says that the mining sector is actually connected to every sustainable development goal, based on the opinions of professors of

international universities and academics and researchers of every sector.

According to the report, the mining sector is a global sector and noted that this sector mostly concentrates in the least developed countries, the ones that need the implementation of the SDGs the most. Moreover, the report says: "when managed appropriately, it can create jobs, spur innovation and bring investment and infrastructure at a game-changing scale over long time horizons. If managed poorly, mining can also lead to environmental degradation, displaced populations and increased conflict, among other challenges."

Advancing the sustainable development agenda requires substantial and on-going partnerships between governments, the private sector and civil society. "Partnerships for the Goals" is one of the 17 SDGs. In order to involve mining companies in the SDGs, supporting and rewarding the companies performing activities consistent with the goals is an innovative and effective solution. Currently, major international financial institutions such as the World Bank and the IMF have already started to undertake similar activities. They have started providing long-term and preferential loans several years ago to companies introducing environmentally friendly technologies and meeting green business requirements.

Mongolia has determined its long-term sustainable development policy until 2030. Currently, it is doing the works to harmonise the policy with the mining sector. Just recently on September 23, the UNDP approved the

Country Programme for Mongolia for the period 2017-2021 in New York. The new programme will promote the implementation of the SDGs in Mongolia and support the country in making the transformation towards more inclusive and sustainable development pathways leveraging the potential of its vast mineral wealth. It will focus on two interlinked objectives: 1) reducing poverty and inequality and 2) decreasing vulnerability and marginalisation. ■

## Statistics

The Bank of Mongolia and the Ministry of Finance submitted draft guidelines for next year's state monetary policy and draft bill on the budget to parliament. Below are some of the information figures and forecasts reflected in the drafts.

### Medium-term budget framework indicators

Money Review										
	2015				2016					2017
	Q1	Q2	Q3	Q4	Q1	Q2	Aug.	Q3	Q4	
	Performance					Projections				
M2 money	9904	10041	9935	10050	10114	11188	11259	11226	12057	14416
M1 money	1446	1664	1614	1685	1584	1981	1906	1901	2041	2441
Money outside banks	391	431	407	459	427	562	589	587	630	754
MNT demand deposit	1056	1234	1206	1227	1157	1420	1317	1314	1411	1687
Near money	8458	8377	8321	8365	8530	9207	9353	9325	10016	11975
Net foreign assets	-3048	-2999	-3742	-3909	-4083	-3484	-3920	-4201	-4198	-3747
Net domestic assets	12952	13040	13676	13956	14197	14673	15179	15426	16256	18163
Net domestic credit	14474	14104	14777	14890	12462	13000	13375	13628	14647	16700
Net government credit	312	453	629	683	6	-118	-4	279	1217	2898
Receivables from non-banking financial institutions 14162	13651	14148	14207	12457	13118	13379	13349	13431	13802	
Credit + Mortgage backed bonds	13521	13464	13685	13702	13986	14238	14614	14671	14813	15968
Credit of above	12271	11948	11938	11696	11828	12018	12427	12397	12356	12727
Other net items	-1522	-1064	-1101	-934	1734	1672	1804	1798	1608	1463
Central bank										
Reserves	2469	2352	2410	2460	2361	3526	3258	3276	3427	3934
Net foreign assets	-1184	-406	-1618	-1288	-1699	-952	-1414	-1519	-1404	-796
Net domestic assets	3487	2758	4028	3748	4060	4478	4671	4795	4831	4730
Net government credit	-496	-542	-143	-474	-366	61	159	410	696	910
Loans issued for banks	1797	1907	1554	1686	920	510	574	413	361	438
Receivables from non-banking financial institutions 1725	1704	2210	2511	629	1100	952	952	1075	1075	
Minus: central bank bills	385	1151	629	1025	691	481	847	866	1100	1625
Other net	846	840	1036	1048	3568	3287	3833	3885	3799	3932
Memorandum items										
Change in M2 (%)	-0.5	-0.7	-1.4	-5.5	2.1	11.4	13.0	13.0	20.0	19.6
Change in reserves (%)	-21.1	-18.4	-14.7	-28.2	-4.4	49.9	15.3	35.9	39.3	20.1
M2 money multiplier	4.01	4.27	4.12	4.09	4.28	3.17	3.46	3.43	3.52	3.66
(Credit + Mortgage backed bonds) annual change (%)	15.6	6.8	4.3	2.8	3.4	5.7	7.5	7.2	8.1	7.8
(Credit + Mortgage backed bonds) / GDP	0.60	0.59	0.60	0.59	0.60	0.61	0.62	0.63	0.63	0.65
Velocity of money	2.22	2.23	2.25	2.32	2.32	2.27	2.28	2.20	2.12	1.86
Nominal GDP (MNT billion)	22639	22702	22790	23134	23234	23456	23537	23402	23582	24628
Real GDP growth (annualised %)	7.2	5.4	2.9	2.4	2.2	1.6		1.3	0.8	2.8
Annual inflation (%)	8.9	7.8	5.5	1.6	1.3	1.6	-0.6	-0.4	0.4	4.4

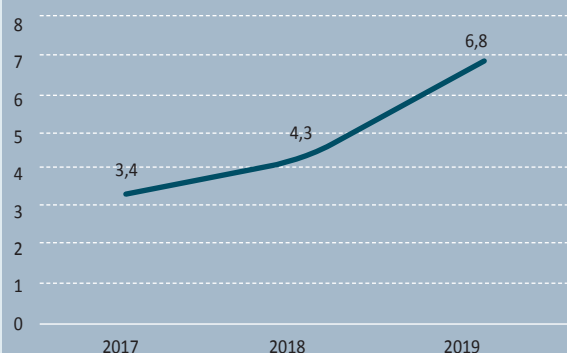
Source: Bank of Mongolia

## Forecast

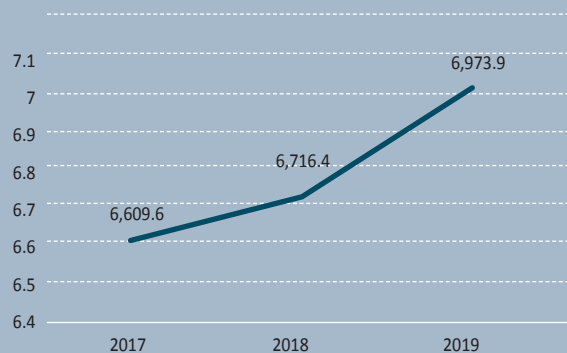
## Medium-term budget framework indicators and forecasts

Key economic indicators	Budget framework	Budget projections	
	2017	2018	2019
Real GDP growth (%)	3.4	4.3	6.8
Consumer price growth (%)	7.0	7.0	7.0
Budget revenue (MNT billion)	6,609.6	6,716.4	6,973.9
- As a percentage of GDP	22.6	21.4	20.1
The maximum amount of budget expenditures (MNT billion)	6,609.6	6,716.4	6,973.9
- As a percentage of GDP	22.6	21.4	20.1
Growth of budget expenditures (MNT billion)	-1,344.8	106.8	257.4
- As a percentage of GDP	-4.6	0.3	0.7
Budget balance (MNT billion)	0.0	0.0	0.0
- As a percentage of GDP	0.0	0.0	0.0
Budget capital expenditure (MNT billion)	993.2	1,009.3	1,048.0
- As a percentage of GDP	3.4	3.2	3.0
The total amount of government debt (MNT billion)	14,640.2	12,566.1	13,886.1
- As a percentage of GDP	50.0	40.0	40.0
The total amount of expenditures financed from the state budget in accordance with the Law on Social Welfare (MNT billion)	309.9	320.0	332.0
- As a percentage of GDP	1.1	1.0	1.0

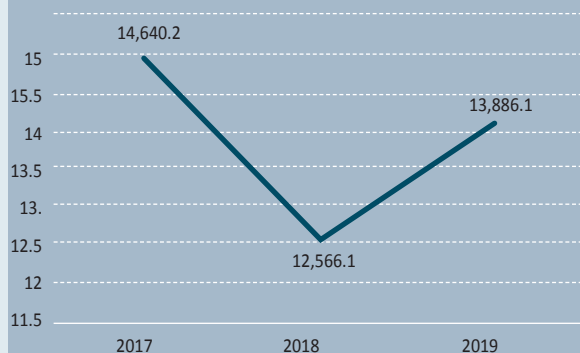
Real growth rate of GDP (%)



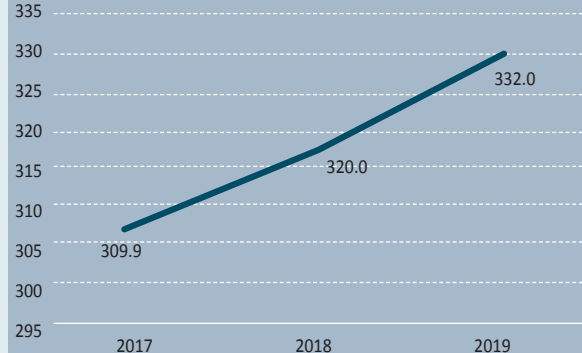
Budget revenue (MNT billion)



The total amount of government debt (MNT billion)



The total amount of expenditures financed from the state budget in accordance with the Law on Social Welfare (MNT billion)





## Agriculture

# New government, same agro policy

BY G.DAVAADORJ

The understanding that an agricultural policy means subsidies, loans, exemptions or state purchases is obsolete. There is much to be done, especially given that the government announced that agriculture will become the leading sector in overcoming the economic difficulties.

Let's look at some of the action plans of the new government.

J.Erdenebat's administration has decided to continue the "Third Crop Campaign," which includes provisions such as improving the quality of agricultural lands, supplying half of produced fodder crops domestically, developing crop farming, expanding greenhouse farming, and meeting demand for stable vegetables such as potatoes through domestic production. In other words, it is nothing new as previous governments also talked about this. Yet, there is still no specific plan on how to accomplish these ambitious goals.

According to M.Enkh-Amar, head of the Strategic Planning and Policy Department of the Ministry of Food, Agriculture and Light Industry, the state will focus on crop farming, reforming Mongolia's national policy on crops and developing crop farming as a complex. Although crop-related issues have been a topic of discussion since the start of the Third Crop Campaign, no system has been formed to date.

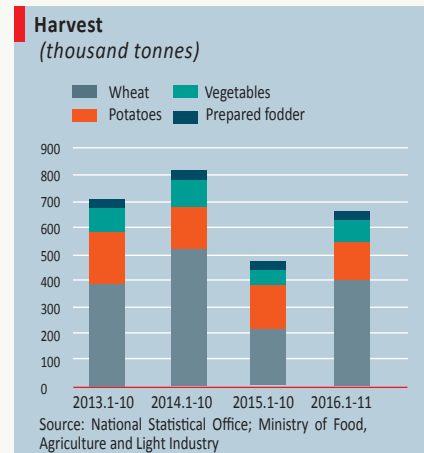
Yield per hectare will increase if the crop quality improves. Indeed, Mongolia has scientists capable of improving crop yields and quality. However, there has not been any state support on implementation of such a project yet.

Another thing successive governments included in their platforms but has gone unresolved to this day is an integrated sales system of crops. "Will support the creation of an integrated sales system," said the new government's campaign platform.

According to the President of the Mongolian Farmers Association, Ch.Perenlei, sales management must be created with participation of the government, because the state sets the price of flour, and farmers and flour factories cannot come to an agreement on prices.

Therefore, the price of flour should be market-determined. Since domestic flour will compete with import products anyway, agricultural companies are confident that the price of bread will not increase if flour is freed from price controls.

The lack of a sales network remains a problem for potato and other vegetable farmers as well. "Maybe I should just stop growing potatoes; there is no profit," said M.Baigalmaa, a farmer from Selenge province, during the First



► National Conference of Organic Food and Agriculture. She has worked in the agricultural sector for many years, but her spirits were broken in 2015 when she lost MNT 20 million in the potato business.

Bringing veggies to the city and selling them is costly. Selling them closer to home is unprofitable. The Mongolian Farmers' Association informed that farmers are selling a 50 kg sack of potatoes for MNT 5,000 in the city of Darkhan. However, the price increases several fold in Ulaanbaatar. According to Ulaanbaatar Statistics Office, city markets are currently selling one kg of Mongolian potatoes for MNT 700 on average (a seven-fold increase).

Mongolian farmers want to provide consumers with fresh and affordable vegetables. They need a modern storage and logistics network as well as cost-effective and efficient transportation. This would reduce the amount of lower-quality vegetables being imported from China.

Nevertheless, the agricultural sector has seen improvements with some state support. However, companies need to be able to stand on their own two feet. They need to diversify the market and produce value-added products. Farmers want expand their product range to oilseeds and bean plants, instead of just growing wheat and fallow. Adequate substitutes will also help improve soil health. However, in order to do so, a certain amount of expenditure and policy support is necessary. Relevant ministry officials said that the government is paying close attention to this issue.

One new positive thing is reflected in the government's platform, which is the establishment of an insurance system in the agricultural sector. The sector's ministry has appointed a working group to develop a draft bill on agricultural insurance. Representatives of farmers say that the law must allow international reinsurance because domestic insurers cannot afford to bear the risks alone.

Let's hope that agricultural policy will not be limited just by the platform. There are many unfinished works and initiatives. For example, the previous government (2012-2016) said that it

would mechanise vegetable cultivation and harvesting and reduce manual operations, but was not successful. Productivity will not rise, costs will not fall and profits will not increase as long as the vegetable industry is not mechanised.

In addition, the fertilisers Mongolia uses are 100 percent imported, but it is certainly possible to produce at least some of that domestically. Granular fertiliser used for wheat cultivation can be made of coal, bird droppings and manure.

It is unfortunate that the government platform did not include a provision to improve the capacity of the agricultural

sector's personnel. According to heads of agricultural companies, the amount of workers capable of utilising modern technology is decreasing. For instance, when farmers purchase new, expensive tractors, mechanics that only know how to fix out-dated Russian technology damage the equipment.

The government said their 2016-2020 plans for the agricultural sector was "Within the framework of continuing the Third Crop Campaign." In general, it can be described as the old policy by a new government. Whether they can actually succeed where the previous government did not remains to be seen. ■

### Hot topic

## Issues surrounding Erdenet Mining Corp

BY TS.BADRAL

Which is more important, Erdenet or Oyu Tolgoi? It was indeed Erdenet at first.

Not so long ago, the 45-year-old Erdenet Mining Corporation (EMC) was compared to the five-year-old Oyu Tolgoi (OT) by taxes paid, with the latter receiving its fair share of criticism. Now, it seems like their places have switched. Ts.Nyamdorj MP called a press conference and released compelling evidence that EMC paid about MNT 20 billion to the state since the beginning of the year, around 11 times less than the taxes paid by OT.

Mongolia now fully owns the formerly Mongolian-Russian joint stock company after the Russian sold their share earlier this year. This corporation has been a pillar of Mongolia's economy for over four decades, so the revelation turned heads, as it means the company's profits decreased drastically over just the three months since half of its shares sold to the private sector.

### 20 billion and 134 billion

After the press conference by the accusing MP, EMC executives led by CEO Ts.Davaatseren announced their own press conference to tell their side of the story. They stated that the company has actually paid MNT 134 billion to the state as of the first eight months of the year. However, the accusations laid by Ts.Nyamdorj MP contain traces of truth, because MNT 70 billion of the MNT 134 billion was paid in advance last year in the form of taxes due to Mongolia's economic conditions. The 134 billion figure comes from adding taxes paid to the provinces of Orkhon and Bulgan on top of the advance payment.

Last year, EMC paid MNT 284 billion income to the state budget. The reason the corresponding figure dropped so sharply this year has to do with the falling price of copper on the global market. The average price of copper was USD 5500 per tonne last year, and the company paid 16 percent royalty fees in accordance with the Law on ►

► **Mineral Resources.** This year, the average price of copper is less than USD 5000, so the company has paid royalty fees at a rate of five percent. Moreover, the amount of copper concentrate produced this year was 400 thousand tonnes, 146 thousand tonnes less than last year. All this adds up to MNT 48.4 billion paid in royalties.

### What happened to the celebration?

Whether the new owner of 49 percent of the company is definitely from the Mongolian side or not was a topic of discussion during the final days of leading up to the general election this year. Mongolian websites published stories about Rostech transferring its shares of Monrosvetmet to a third party surfaced on Russian websites. Soon after, the previous Prime Minister, Ch.Saikhanbileg, made a statement saying that 100 percent of EMC's shares have been transferred to the Mongolian side. But this news immediately raised questions as people did not know whether to celebrate or mourn.

CEO of Trade and Development Bank (TDB) O.Orkhon, who was involved in mediating the transfer of ownership, said in a televised interview that the negotiations started two years ago. O.Orkhon and M.Munkhbaatar, Chairman of the board of the Mongolian

Copper Corporation and new owner of the 49 percent stake, gave answers on the process of the transfer. The Russian side made the decision to sell its stake two years ago. At the time, China and Kazakhstan were interested in buying a 40 percent stake in EMC. Thus, the former owner of EMC's 49 percent stake, Rostech, made a proposal to sell its stake to the government of Mongolia, which owned 51 percent, in accordance with business principles administered by shareholders of closed companies and privilege given by the inter-governmental agreement. At that time, the 49 percent stake was already evaluated at USD 400 million and the government of Mongolia did not have the financial means to make the purchase. Therefore, the government refused to buy the shares. Everything went in accordance with law as the Mongolian Copper Corporation hired Skadden, a law firm based in the US, and Rostech hired UK's Baker & McKenzie, one of the top five law firms in the world. The obligation of these law firms was to harmonise the two country's laws and inter-governmental agreement with international laws.

O.Orkhon and M.Munkhbaatar said that they consider this transfer of ownership to be a good deal for the country and plan to organise a celebration in Erdenet city.

### What value does Erdenet bring?

The majority of the Mongolian citizens hold that the real owners of EMC should be the people. This idea means that the citizenry of Mongolia want to feel the benefits EMC for another four decades. However, ownership is a secondary problem, as benefits can only be reaped if the company works effectively, irrespective of who owns it.

According to a brief report by the company, EMC has been reaching goals at a rate higher than 100 percent since 2013. It is evident that the company is among the most important in Mongolia. However, a few things need to be considered.

The per-tonne production cost of Oyu Tolgoi LLC is about USD 2000, while for EMC it is about USD 4500. EMC sells enriched ore at around USD 4700. The two companies' production efficiency can be easily compared, and the contrast in taxes paid can also be seen from here.

In addition, it is necessary to make the company's finances transparent. The report says that the company took out high-interest loans from banks to pay the MNT 70 billion advance payment last year. It is said that EMC has debt amounting to almost USD 200 million, and this issue is now being discussed at the International Court of Arbitration. ■



*The Erdenet mine*



### Corporate Social Responsibility

## Jane Madden: Mongolians must research expectations of the global market

BY B. UURIINTUYA

*We sat down with Jane Madden, US Managing Director of Corporate Responsibility at Burson-Marsteller, to get some insight on corporate responsibility during her short visit to Mongolia last month.*

#### **-What does responsibility mean for a company and why is that important?**

-Responsibility and corporate responsibility has three components. One is environment. Second is social, which means your employees as well as communities or your supply chain, and the third is governance. So we often talk about corporate responsibility covering ESG issues.

#### **-What is the best way to implement those key factors in a company as well as in its strategic planning?**

-The first step is to do your research. Look internally and see if you are ready to do something that could be considered corporate responsibility. The second is to reach out to your stakeholders and find out what their interests are. Do they care about water? Do they care about child labour? Do they care about CEO compensation? You'll probably get multiple answers from different stakeholders. You need to see

what the media is saying about your company and your industry. Then, map that out to help prioritise all these issues. That is the first step. Then, you have to look at those issues and see where you want to be, whether it is one year, two years or five years and start thinking about goals. A goal such as wanting to reduce your greenhouse gas emissions, increasing performance in the social sector, or if you look at your governance, board of directors, questions as do you have the right people on the board, do you have representation of the different stakeholders on your board should be asked. That is what we call diversity. Does your board look alike, sound alike and have the same experience, or do you have different opinions and different types of experience on your board? Once you develop that plan you can start looking at programming to reach those goals. The most important thing is that your CR programme and CR strategy aligns and is integrated into your business strategy.

#### **-What if board members or the shareholders don't agree with all those important ingredients of responsibility?**

-We are seeing recently that states that boards ►

▶ are taking a much keener interest in corporate responsibility, because the role of the board is to manage risks, help grow a company and give good guidance to the CEO and to the CFO. It is important that we actually see the board saying this is what we are going to put it on the top of our agenda, if you still have board members who don't think this is where you should be spending time or have different issues. It is good to have the diversity of thoughts and to have people question what you are doing, but if you have data, you have goals and you can show how it is good for the business, then you will likely get them to agree with you.

**-What is the key to maintaining those responsibilities within the company and in its operations?**

-I always say that responsibility isn't rocket science. It is actually quite easy to think about as a concept. The challenge is in the implementation. Every single day you have to do this. You can't do corporate responsibility one day and forget about it the next day. You always have to keep working towards those goals the way you are working for your financial goals.

**-For countries like Mongolia, where the economy is based mainly on natural resources, environmental issues often are the big problems in the economy. Where should CR start from for such countries?**

-I think it depends on the company and what sector they are in. Mining obviously is a very challenging industry. It has a lot of environmental and social impacts. So the first thing to do is to look at what those impacts are. Back to the research, looking internally, seeing what the company is doing well and where it could perform better. I think in Mongolia, you could also look at international standards, what the expectations of the global market is in order for Mongolia to grow it will need to meet international standards. So that could be ISO to the international standard. They have a standard on corporate responsibility, but they also have standards on environmental issues and health and safety. You can look at the global reporting initiative, which has set the standards on disclosure on the ESG issues.

**-Transparency seems to be a very important factor to responsibility. But how do you monitor a company's transparency?**

-The company has to realise that transparency is actually a good thing. Many companies feel that they would lose their competitive edge if they share too much information, but the expectation is that companies talk about not only their financial performance, but also about their environmental, social and governance performance. Talking about it, we call it honest being honest and modest. You get a lot of reputation credits for talking about what you do well, but even more for where you have challenges, where you might have a failure. Talking about that to your stakeholders actually improves your reputation. However, more importantly, just like financial information, you have you have to back it up with data. You can't just go out and say "we are the best company." You have to show data on why you are a good company and how you are meeting your goals. However, you also have to talk about where and why you haven't met your goals. It is important to treat your non-financial data, your environmental, social

and governance data as you would treat your financial data and look at it. Again this comes to the integration. Integrating corporate responsibility into your business and not just doing corporate philanthropy, but really thinking about the way you operate your company every day.

**-Does "talking to" apply to regular people outside the company?**

-Yes. You have internal stakeholders, which are very important, but it is very important to engage with external stakeholders and to have a two-way conversation, to listen to your stakeholders, not only push information out. Public opinion carries a lot of weight, particularly on social issues and in communities. You need to listen to them to find out what they think are the main issues for the company. When you go into a new market, you need to understand the community issues and how you can be a good neighbour, how you can provide jobs, how you can keep the community intact. Those are the very important issues. The media is probably the way that most citizens or the most of the public gets information. So it is important to have good relationships with the media and to tell you stories to them, making sure that they understand what progress you are making.

**-So then, when implementing the crucial fundamentals, what should companies pay attention to?**

-Again it depends on the company. This idea of doing your research in the beginning will help you understand which of the priorities you should be focusing on, so whether it is water or greenhouse gas emissions, or if it is social issues such as engaging with the community or child labour. If you do that research that will help you identify what the main issues you should be focusing on are.

**-If you were to give advice on CR for Mongolian companies, which are mostly based on mining, what would you recommend?**

-Mining is certainly a challenging industry as it has more severe environmental and social impacts. Leaders of mining companies really need to look at the kind of impact that it is having in the immediate communities as well as on the overall economy and the country. Mining is the driver of Mongolia's economy. Are the leaders of the mining companies engaging with the community, do they understand the community issues, are they leaving some of the wealth and resources in the community or are they just taking the resources and the profits from the natural wealth out of the community? So engagement is important. I think safety is the probably one of the biggest issues, and environmental impact is the other key issue.

**-When implement anything related to responsibility and governance, ethics could play an important role. How big could that role be?**

-Ethics is a very large part of being a responsible company. It is related to transparency, it is certainly related to governance. When we talk about governance it is about how you operate your company every day. Do you have the right policy in place? Do you enforce these policies in a transparent mode? Is the CEO held to the same standards as every employee in the company? These are a few of the very important questions. ■

## Project management

# Talent Triangle

BY S.OTGONTSETSEG

Climbing the ladder and furthering one's career is the result of not only a result of hard work, but also perpetual self-improvement. True professionals set themselves apart from others by their adaptability in today's constantly changing work environment. With the word "smart" trending today, smart organisations are spending a lot of money in order to foster management skills and flexibility in its governing bodies. So, how can such skills be engrained in project management teams, and how would we measure them?

The third "Best Practices in Project Management" international conference, a two-day event organised jointly by the Project Management Institute (PMI)

how to introduce international best practices in project management fitting for Mongolia's features; how to develop professional project managers; attracting investment in major projects; and creating a professional environment to reach concrete solutions. More than 400 people attended the conference including the PMI's Board of Directors; more 20 PMI Chapter Leaders from Hong-Kong, Japan, South Korea, Taiwan, Singapore and Asia Pacific; leaders of PMI Mongolia Chapter; and other business experts.

In her opening speech, Cindy Anderson, Vice President in charge of Brand Management at the PMI, talked about her analyses on international

Mongol LLC; and Sandeep Khara, Chief Information Officer of Khas Bank shared their vast knowledge about project management. Then the participants were divided into three categories and each group had 8 presentations. For example, the construction and mining sector meeting had presentations about the most cost-efficient management of these sectors' businesses; issues surrounding creation of new infrastructure and energy businesses; the "New Ulaanbaatar International Airport Construction Project" and "How Wagner Asia is using Six Sigma to improve its internal business processes and perfect its customer service."

As for the non-mining and services sector meeting, there were presentations on topics such as "Project Management in Agricultural Industry", "Film Industry" and "Lessons learned working in the cheese industry." A presentation on a new tax initiative by G.Ariunbat, Director of Strategy and Planning Department of the Information Technological Center for Customs and Taxation of Mongolia, garnered much attention.



36 speeches and presentations along with eight training sessions were held at the third "Best Practices in Project Management" international conference.

and its chapter in Mongolia, was held in Ulaanbaatar on October 7-8 to answer this question, with the conference motto being "Learn, Network and Develop." The first day of the conference was as a meeting, and the second day passed in the form of training. The objective of the annual conference was to discuss and find resolutions on topics such as

project management, on what to focus on to implement lessons learned in Mongolia and advantages of project management for organisations and individuals.

After the opening speech, Michel Charron, Project Director of the Oyu Tolgoi underground project; Ts.Tumentsogt, CEO of Erdenes

The PMI Mongolia Chapter organizes this annual event under specific themes. Last year's conference theme was "Capacity Building for the Future," while this year's conference focused on project management units. The previous conferences used to invite only foreign speakers, while this year's conference invited capable domestic ▶

## Talent Triangle



businessmen to exchange experience. In addition, one feature of this year's conference was its messages directed at information technology, agriculture and food sectors.

"Although 300 people were to attend this year's conference due to economic conditions, more than 400 people came to the conference, which shows that Mongolians value the importance of project management. In addition, people that attended last year's project management workshop were hired by the biggest companies in Mongolia. In other words, project management was able to rapidly develop in Mongolia in a short time," noted Secretary General of the PMI Mongolia Chapter, Mark A. Tasse.

He took the Shangri-La Center construction project as an example and noted: "Foreign participants were amazed at how quickly Mongolian workers learn and pick up new concepts. Mongolia has a small population; opportunities are limited. Furthermore, investors will be more critical and precise on projects during these tough economic conditions. Therefore, methods to develop and implement more effective projects need to be taught instead of copying other experiences. By doing so, it will allow for companies to be more competitive and productive."

Project and project management is a relatively new concept for Mongolia, and will become only more important as projects and the economy expand. In recent years, Mongolian companies are starting to understand the value of the Project Management Professional (PMP) degree. By obtaining a PMP degree, managers fully satisfy the criteria

to work as a project manager in any country. It is estimated that 1.57 million jobs related to project management will be created throughout the world by 2020 and the criteria for job candidates are expected to change frequently.

"Project teams can now execute a project without further participation of foreign experts," said B. Oyunbileg, CEO of Tatakh Khuch LLC (Gravity LLC), during her presentation titled "Shangri-La Center Construction Project: Project Controlling and Monitoring." It means that internationally-accredited professional project managers are being created in Mongolia. Although there are several organisations that conduct project management training in Mongolia, the advantage of the PMI's training is that it is carried out in accordance with standards issued by the PMI Global. More than 80 member organisations of PMI comply with this standard, so almost everyone is on the same page. Hindrances such as differences in standards do not occur. The most in-demand skills sought by current employers are defined by the Talent Triangle. Let's look at the brief

introduction of PMI's Talent Triangle:

1. Technical Project Management: skills and behaviours related to specific domains of Project, Program and Portfolio Management

2. Leadership: Knowledge, skills and behaviours specific to leadership-oriented skills that help an organisation achieve its business goals

3. Strategic and Business Management: Knowledge of and expertise in the industry or organization that enhances performance and better delivers business outcomes

Project managers must constantly develop themselves by networking efficiently, combining various analytical, technical and business knowledge and skills in order to meet modern market demands. Far-sighted and wise institutions consider this trend as an investment in the future in order to beat their opponents. This approach is much more efficient than hiring already skilled project leaders from abroad. By doing so, organisations are able to develop themselves in a more responsible, coherent manner meeting their needs. ■

## Insurance

## Memories and progress

BY CH. JALBUU

How do you measure the level of development of Mongolia's 82-year-old insurance sector? Why is it that such an important sector does not even compose a mere one percent of the financial market?

This sector accounts for a much higher share of financial markets in developed nations. Although the number of professional insurance companies and people's knowledge of insurance has been increasing thanks to the relative stability of insurance companies and the compulsory driver's liability insurance, this sector accounts for a tiny fraction of the overall financial market in Mongolia

— less than one percent. Yet, it is clear that effective risk management has a crucial role in the economy in minimising and preventing losses.

Mongolia's insurance sector had been steadily growing, until last year, since Mongol Daatgal LLC was privatised in 2003. We have been quantifying the development of the sector by using figures on the growth of the total premium income and assets as a proxy. Although the numbers are clearly growing, these statistics do not reflect the sector's maturity, insurance companies' ethics and human capital.

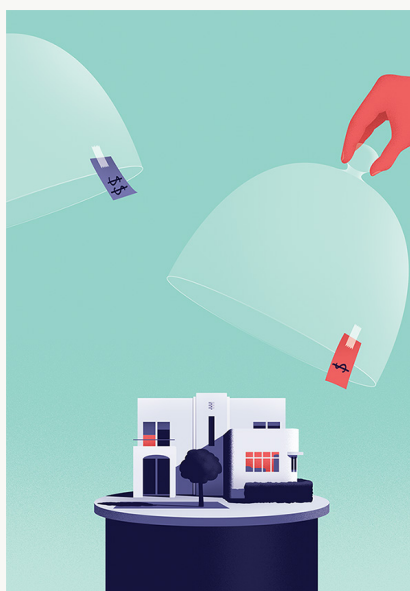
Loss ratios, how much a company ▶

collects in premiums versus how much they settle in claims, are relatively higher in countries with developed insurance systems, at around 60 percent. In Mongolia, this indicator stands at about 27 percent – meaning companies collect almost three times more than they provide for coverage. This raises the question: are Mongolian insurers pursuing unreasonable profit margins?

Development of an insurance sector is measured by two main indicators: insurance penetration (premiums as a percentage of GDP) and insurance density (ratio of premiums to total population). As for Mongolia, these indicators are showing an upward trend, but Mongolian insurance is still quite weak by international standards. To be fair, Western countries such as the United Kingdom and France have over three centuries of history in insurance, while Mongolia ratified its Law on Insurance in 1997. Hence, time is needed.

Although there are others factors that affect development of this sector – urbanisation, population density, income level, religion and inflation – experts noted state policy is the most important for a young, immature market such as that of Mongolia. In addition, we have relatively few types of mandatory insurance to serve as a foundation for further development of the sector, and the existing types, such as agricultural insurance and liability insurance, are not well implemented.

The new government has expressed that it will emphasise the stability of the insurance sector and its legal environment and promises to develop a banking, financial and stock market that benefits the people and the economy. The Financial Regulatory Committee (FRC), the state body that oversees the sector, announced that it will focus more on financial sectors other than banking and plans to administer medium and long-term policies to support insurance companies by giving tax incentives, increasing their minimum statutory fund



until 2019 and reducing the number of insurance companies by encouraging mergers and acquisitions in order to establish a few major companies. Even foreign experts generally agree that five or six insurance companies would be sufficient for Mongolia's market.

Furthermore, things such as the public's financial education, especially knowledge concerning insurance, cannot be left unmentioned. As mentioned earlier, the mandatory driver's liability insurance has given people an idea of

compensation principles, damage assessment and its reduction is still lacking, and it is still common for people to think that insurance companies are being fraudulent.

Our magazine spoke with B.Javkhlantugs, an officer at the Mongolian Insurers' Association in charge of training and research, to ask about the measures being taken to improve the people's knowledge about insurance. According to him, the association regularly conducts training for its member companies and gives recommendations on professional ethics. They are currently working on producing easy-to-understand video content about insurance through media channels. In addition, he mentioned that the association has set a medium-term goal of inserting an insurance education programme in the general education textbooks by cooperating with the Public Education Department of the Bank of Mongolia.

The FRC receives many complaints from people saying insurance companies make grand promise when making insurance agreements, just like MPs, but go against their word when it comes time to provide reimbursement. Thus, the FRC will review insurance companies' agreement terms for non-compensation and check whether agreements contain provisions violating the rights of the insured.

In conclusion, the key to the development of the insurance sector in a developing market like Mongolia's is the harmonisation of three policies: effective state policies on the sector, ensuring professional ethics in insurance companies and raising people's level of awareness and education. ■

#### Indicators of the insurance sector as of the 2Q of 2016

Total assets	MNT 201.4 billion
Total premium income	MNT 61.1 billion
Total compensation	MNT 16.4 billion
Loss ratio	27%
Companies (total)	84
Commercial insurance companies	15
Insurance brokers	39
Claims adjusting firms	30

Source: 1212.mn; Statistics Information Database; Financial Regulatory Commission

insurance, but most people view this the same way they view taxes and do not connect the principle it to reduction of risk and losses. In particular, knowledge about insurance relationships such as the agreement, insurance cases,

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