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MONGOLIAN ECONOMY

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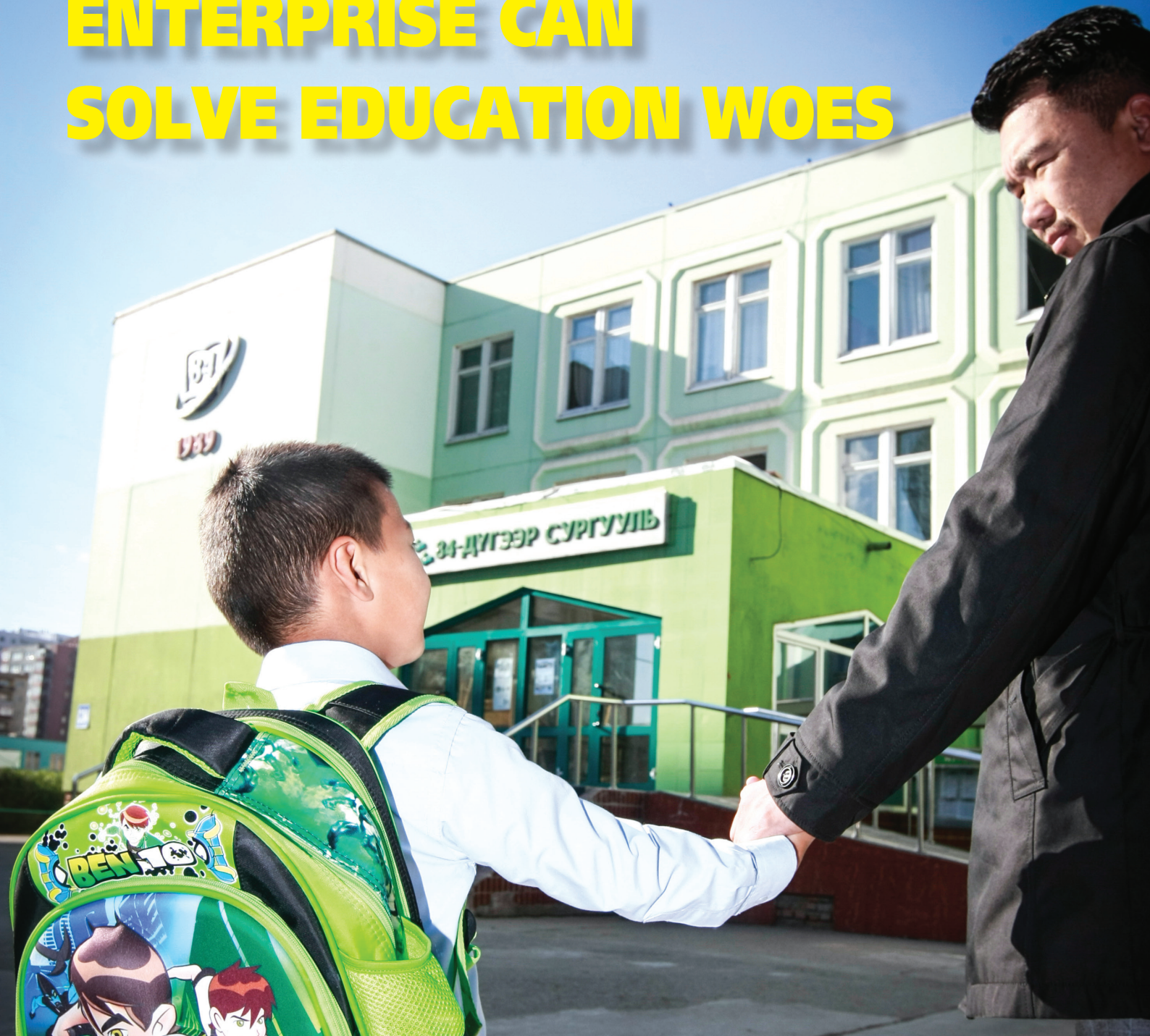
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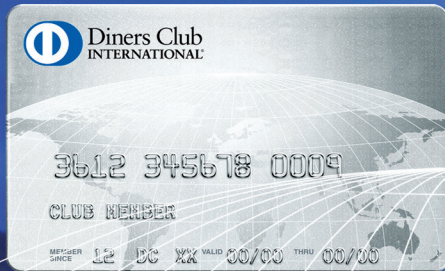
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EDITOR'S NOTE



As it is mid-September, with the school year just beginning, we decided to discuss a topic that does not get much attention: Public and Private Partnership (PPP) in the education sector.

The easy going days of summer have passed and hundreds of thousands of children are back to school, full of joy and expectations. However, their school environment, classrooms and halls are the same old inadequate facilities that have been around for years. Many of these

buildings are far beneath world standards.

Though there are many problems for our children—education quality, food health and nourishment, hygiene, and sanitation—school facilities and infrastructure are the most troubling part of our education sector.

For example, prep-school education requires classes to have no more than 20 pupils, according to world standards; but it's very normal in Mongolia to have 50-60 pupils seated in one class. It is hard to imagine how kindergarten children eat and sleep in such a small space. Sadly, that does not change much as they rise through the twelve grades.

The situation in central and suburban Ulaanbaatar schools is almost the same, with an average of 40-50 pupils to a classroom, due to an overcrowded population and a shortage of schools. But at the same time, there are quite a few well-facilitated schools; local and foreign-invested private schools have achieved a high popularity. Unfortunately, there are not many parents who can afford expensive private school education.

However, Mongolian citizens have a right to good education access. This is an essential part of our government's responsibility. There is a need for our government to collaborate with the private sector. Thus our private and public sectors are partnering together to better our education facilities under a PPP model.

In this issue, we feature articles, interviews, and other related pieces about our education sector. We focus on the current situation, potential opportunities, and the necessity of implementing a long-term PPP plan for improving the infrastructure of our schools.

I would like to congratulate the public and private sector influencers who have decided to solve educational infrastructure issues. Though Mongolia has little experience in PPP, those of us in both the private and public sectors need to remember well that we have a huge task at hand, for the education of our future generations is of the utmost importance.

DEPUTY EDITOR I. OTGONJARGAL

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DEVELOPING EDUCATION



B.UURIINTUYA

Public Private Partnership (PPP) in education has been growing rapidly the last two decades. Although the term is not new, its scope has been recently gathering attention in low- and middle-income countries.

Traditional schooling is largely provided and financed by governments. However, due to unmet demand for education coupled with shrinking government budgets in the public sector, many parts of the world are developing innovative partnerships with the private sector, says the World Bank.

As for Mongolia, the education sector has experienced poor recent development. In fact, standards and recruitment are falling lower with each

passing year. The government is not able to subsidise the sector with the money needed to meet growing demands and needs. For this reason, the government of Mongolia is focused on finding alternatives for financial resources in the education sector. According to officials, one alternative could be Public Private Partnership.

According to official numbers, children aged 0-19 years old comprise about 37.7 percent of Mongolia's total population. Besides the growing demand for schools, most existing school buildings are nearing the end of their usage period. In some cases, children are taught in non-school buildings, because there are insufficient schools.

Parliament's proposal on improving

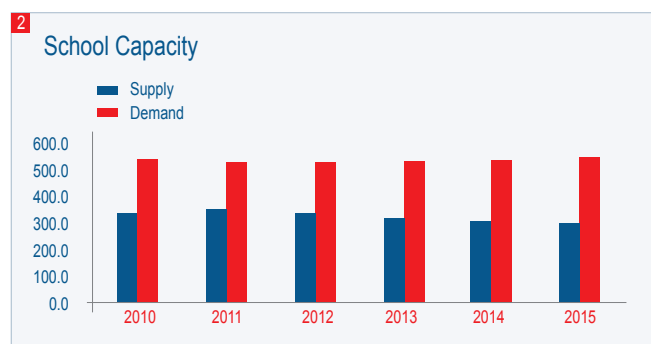
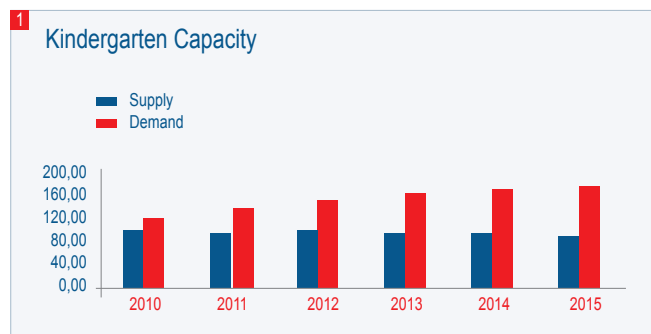
provisions states that about MNT 829.5 billion is needed to build 686 new schools, kindergartens, sport halls, and dormitories to accommodate 196,300 children by 2015. Unfortunately, the government cannot achieve such a lofty goal in such a short time. Many experts working in the field say the government must rely on other domestic resources, such as the private sector, to meet the high demand. However, they also acknowledge the fact that Mongolia lacks experience and practice in PPP.

UNESCO reported in its 'Education for all—Global Monitoring Report 2013-14' that the world's top donors are likely to reduce their financial support to the education sector globally. Thus, for countries like Mongolia, the importance of a partnership between the government »



Photo by B. Byamba-Ochir

Source: The Parliament's proposal for improving provisions of schools and kindergarten recruitment.



“Public Private Partnership is a voluntary alliance between various actors from different sectors where both agree to work together to reach a common goal or to fulfill a specific need that involves shared responsibilities, means, competencies and risks.”

World Economic Forum

► and the private sector could ease the pressure on financing and developing education. “PPP is not wholly new in Mongolia. But now that there is a policy concerning the partnership, its implementation will proceed according to higher standards,” said D.Bailikhuu, Project Advisor to the Asian Development Bank. He added, “There is no specific standard on PPP. However, the implementation should fit certain peculiarities. And regulations should go on as stated in the agreements.”

Often governments lack the money, the capacity, or the latest technologies that the private sector has. On the other hand, private sector participants are often uncertain about the legal environment they are working in. So,

the right cooperation between the two could bring about great results, explained D.Bailikhuu.

PPP in education is based on three main services: infrastructural, support, and educational. Infrastructural provisions include private sector construction, ownership, and operation of facilities, which the government then uses to run a school through a long-term agreement that can often span up to 30 years. With support services, the private sector

provides certain basic amenities in the school—like school meals, IT facilities, laboratories, gyms, transportation services, and so on—for which the government pays. Educational services deliver both infrastructural and support services at once. In this case, the whole school is run by a private sector associate.

In Mongolia, private sector participation does not exceed granting scholarships or opening new laboratories for schools, ►

3 High School supply/demand

Source: The Parliament's proposal for improving provisions of schools and kindergarten recruitment.

	2011	2012	2013	2014	2015
6-17 years old children	548.421	542.827	543.224	550.831	563.639
Children in primary and secondary schools	505.409	510.568	521.263	539.028	562.270
School capacity	406.940	427.309	449.824	474.845	502.813

Countries can dig deeper to fund education from domestic resources

	Country	2011			2015			Unit cost 2015	
		Education as a share of GDP	Education as a share of total government spending	Tax/GDP ratio	Education as a share of GDP	Tax/GDP ratio in 2015	Total potential additional funding in 2015	Expenditure per primary school child (stagnant)	Expenditure per primary school child (tax mobilization and education prioritized)
		%	%	%	%	%	US\$ millions	US\$	US\$
Current tax /GDP ratio of less than 10%	Bangladesh	2.2	14.1	8.6	4.2	13.6	3198	101	216
	Bhutan	4.7	11.5	9.9	7.9	14.9	94	255	924
	Myanmar	0.8	18.1	3.9	2.3	8.9	1 000	389	513
	Cambodia	2.6	12.1	10.4	4.9	14.4	438	82	232
Current tax /GDP ratio of 10-12.5%	Indonesia	3.0	15.2	10.9	4.7	14.9	19 506	526	1 049
	Pakistan	2.4	9.9	10.2	5.2	14.2	7 241	62	262
Current tax /GDP ratio of 12.5-15%	Nepal	4.7	20.2	13.1	5.3	16.1	144	160	185
	Philippines	2.7	15.0	13.2	4.2	16.2	5 361	442	679
	Sri Lanka	2.0	12.9	13.3	3.9	16.3	1 509	292	970
Current tax /GDP ratio of 15-20%	India	3.3	10.5	15.9	6.4	17.9	70 529	157	558
	Kyrgyzstan	5.8	18.6	19.5	6.7	21.5	76	662	751
	Mozambique	6.4	17.0	17.7	7.9	19.7	274	103	137
Current tax /GDP ratio of more than 20%	Mongolia	5.5	11.9	28.0	8.9	29.8	539	953	2 391
	Uzbekistan	6.4	20.5	24.0	6.8	25.8	234	1 170	1 228
	Viet Nam	6.6	19.8	23.5	7.0	25.3	750	446	732

Source: UNESCO 'Education for All Global Monitoring Report 2013-14'

"The main idea is to use the advantages of both sides in the partnership to pursue a common goal."

D. Bailikhuu, Project Advisor to the ADB



► explained M.Enkhee, Officer of the Department of Strategic Policy and Planning. She continued, "There are various forms of participation of the private sector. For example, subsidised loans on importing equipment with the purpose to use in schools is a form of PPP." She also added, the State could not afford to finance all the demands

coming from the education sector. Thus, partnering with the private sector could improve the deteriorating condition of public education.

At the moment, the one and only progressing work in this field is a building project of 72 schools and kindergartens regulated by a Consortium Agreement.

The Ministry of Economic Development is in charge of the project. With the private sector introducing the latest experiences, and a public sector that fully understands the necessity of mutual cooperation, the future holds bright opportunities for Mongolian children and citizens, explained both D.Bailikhuu and M.Enkhee. ■

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All government speakers have confirmed to present at the summit. However their attendance on the day is always subject to their ministerial commitments

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What's New in 2014?

- Prime Minister Norovyn Altankhuyag is tentatively confirmed to deliver his vision for the nation and what he is doing to make Mongolia great again
- Even more governmental ministers than ever before talking on all the hot sectors of the economy
- Speakers from a diverse range of financial institutions representing large quantities of assets under management
- In depth coverage of and focus on a diverse range of industries covering mining, energy, infrastructure, construction, real estate and agriculture
- A greater focus on panel discussions to prompt constructive and productive debate and audience participation
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OFFICIAL VISITS

INCREASED COOPERATION WITH RUSSIA

BY S. ZAYA

Russian President Vladimir Putin's recent visit was seen as a step in the right direction as Mongolia's economy looks to rebound after a period of slowed growth. During the five-hour visit, the two heads of state oversaw the signing of 14 agreements designed to draw closer ties between the nations before Putin's late afternoon departure. President Putin's visit was a topic for discussion and analysis by media and political experts around the world.

The future of the 14 signed agreements and discussions will depend much on Mongolia's effort and enforcement. The balance of trade gap between the two countries is huge. Trade with Russia fell

by 16 percent to USD1.6 billion in 2013 versus the year before, and dropped by another 13 percent in the first six months of this year, according to Russian figures. The import total stands at USD1.5619 million, while export accounts for only USD 61.8 million. The resultant trade deficit pressure has soared up to USD1.5 billion, as Mongolia receives 90 percent of its imported oil products from Russia.

Currently, Mongolia exports leather, suede, meat, fur products and some minerals. Yet exports to the north have remained low due to Russia's high tariff policies. Fur products and carpets, for example, pay about a 22.5 percent import tax. There are also additional taxes such as five percent VAT and a

quantity tax. Analysts advise Mongolia to use emerging opportunities to decrease the deficit of trade. During Putin's visit, Mongolian officials expressed their interest in a bilateral discussion to allow products made in Mongolia into the Russian market without tax, fee, or quantity limitations within the next 20 years.

The Putin effect

What effect did President Putin's visit have on the Mongolian economy? During the visit, the development banks of both Mongolia and Russia agreed on national currency trades and signed an obligatory contract, addressing other cooperation ►

as well. These deals are expected to keep the US dollar rate more stable, although the US dollar rate, weakened in the days since the Chinese leader's recent visit, has begun to rise again.

Mongolian-Russian agreements addressed advanced cooperation in the economic sector, financing of the bilateral trade projects, and use of national currencies (MNT and RUB) when trading a certain range of items. "One of the advantages of trade with the national currencies is a tendency for increased export from Mongolia to Russia," said B.Munkhbat, a director of the Development Bank.

The Development Bank of Russia is to provide USD 74 million of investment for the extension of Thermal Power Station-4. This project is funded by the Development Bank of Mongolia and is distinctive as a cost-recovery project.

countries should have had no infectious animal diseases within the past three years.

For Mongolian domestic meat usage, more than 90 percent of supply is prepared in a non-industrial manner. However, Mongolia used to export hundreds of tonnes of meat to Russia during socialist times. Deleg.S, a PhD and meat expert, elaborated on the issue: "When we say hygiene, we talk about malignant anthrax and aphthous fever. From government, there are many efforts to fight against these diseases. At a manufacturing level, we need to follow the technology and restore the logical order of slaughtering traditions. Before having big talks, we need to regain our knowledge of doing what we once used to be able to do. After that, the meat's taste and hygiene will improve."

At a press conference with President Ts. Elbegdorj, Putin also agreed to increase

trade from its current level of USD 1.6 billion per year to USD 10 billion by 2020. To make this a reality, Mongolia must solve internal problems to reduce barriers to bilateral trade, which will require sustainable policies and good management.

How to cooperate in mining and transportation?

Both sides discussed improving the economic capacity and legal environment of joint Russian-Mongolian owned companies Erdenet Mining Corporation, Mongol Rostsvetmet, and Ulaanbaatar Railways. The counterparts signed an agreement on the reform and development of a strategic partnership for Ulaanbaatar Railways, agreeing on key principles of cooperation in railway sector reform. The agreed upon railway reform is expected to increase rail network expansion and aid mining sector transport.

The visit was an opportunity for the two sides to begin transforming relations into a comprehensive, long-term strategic relationship. Negotiations involved shared issues such as transportation, infrastructure, bilateral investment problem solving, intensifying foreign trade, and bilateral visa-free travel of both nations' citizens.

What remains left to do is for both sides to commit to the signed agreements with bilateral efforts and make them work. ■

"One of the advantages of trade with the national currencies is a tendency for increased export from Mongolia to Russia," said B.Munkhbat, a director of the Development Bank.

Meat exports to increase?

Mongolia, which has more than 50 million livestock animals, has a high interest to export meat to its northern neighbor. Russian restrictions on importing meat have been an insurmountable barrier for Mongolian meat exports, but Putin said there was a possibility for that to change.

Speaking to journalists in Mongolia's capital Ulaanbaatar during his visit, Putin said that there was the "potential for Russia to import Mongolian meat," provided the country could meet international export standards. As food security is the main issue, Mongolian exporters would need to work hard to meet Russian needs and standards.

Russian requirements on meat and meat products are extremely high. For instance, they demand that the meat exporting



Photo by B. Byamba-Ochir

INTERVIEW

MAKING THE MOVE TO A MIDDLE-INCOME COUNTRY

BY D. BEKHBAYAR

N. Enkhbayar, former advisor to an executive director at the World Bank in Washington DC.

N.Enkhbayar graduated Mongolian State University of Agriculture with a Bachelor's in Economics. He joined the Mongolian Ministry of Finance in 2002 and worked as specialist, senior analyst and became deputy director of budget policy. He left the Ministry of Finance after 16 years for further study abroad. He won a scholarship from the International Monetary Fund and went to Japan to study Government Public Finance Policy. Until 2011, he worked as an advisor to the Prime Minister of Mongolia for three years and later went to the US to work at the World Bank as an advisor to an executive director. N.Enkhbayar's contract has expired since the time of this interview, which took place in July.

What has been the attitude like towards Mongolia from the World Bank Group? What kind of experiences and knowledge have you had so far?

For the past years, the International Financial Corporation has expanded well. It has solved annual USD 100 million financing, mainly for private sector, particularly in banking, finance, construction installation, infrastructure, hotel, and trade. For the World Bank, it mostly offers technical assistance and soft loans dedicated to social development such as poverty, education, health, and the environment.

The major change to emerge within the past year is that Mongolia's statistics now determine it as a middle-income country, since the World Bank revised its analytical classification of the world's economies based on estimates of gross national income in 2012. Before then, Mongolia used to get only development assistance as it was a low-income country. The International Development Association issued soft loans under a long-term or 40 years agreement to Mongolia. But the updated classification does not mean direct credit rate change. Mongolia must gradually move from a development-assistance country to a lender country. This transition will happen not in a year but within a three-to-four year period.

Currently, Mongolia's status is classified as a 'blend' category. In other words, it means that Mongolia is still a country that takes development assistance. On the other hand, the new classification gives access to Mongolia to take loans under



commercial terms for the first time. For instance, in addition to technical assistance, the blend category allows the condition to take commercial loans for certain big projects within a shorter term, between 15-20 years. But it has a higher interest rate than aid. IBRD loan is a commercial loan with many alternative structure and scheme, and loan interest to be calculated by the following methodology "LIBOR+0.6 to 1.3%" depending on the market condition. However, compared to the loans ►►

▶ of commercial banks, this loan has a much lower interest rate and offers conditions that are more flexible. Thus, it is a great opportunity for a country like Mongolia that has a number of development issues.

Now that Mongolia has access to loans with better terms, this must be a good opportunity for policymakers?

This credit permit was just given to Mongolia because it has not been long since Mongolia was categorized in the above classification. To give credit permit, the World Bank approves three-to-five years of partnership strategy. We had this document delivered at the Directors' board meeting and renewed in 2013. By then, the World Bank approved priorities of partnership with Mongolia until 2017. The World Bank financial year does not match the calendar year. The 30th of June is the time when the financial year ends, starts another from the next month. The World Bank 2015 financial year started July first. This means that Mongolia has already acquired the right to obtain commercial loans from the International Financial Corporation. However, it takes another two-to-three years to choose and discuss about a project as well as have the related documents prepared. It's still not that easy.

What's your perspective as you assess Mongolia's economy from the World Bank headquarters in the US?

The international market has a direct impact on Mongolia, which exports 98-99 percent of all raw materials. For a country with a mining-based economy, accompanied by a weak development of industry is connected with the foreign market in many ways. Currently, commodities' prices on the international markets are falling. According to international analysts, major metals' prices are not expected to rise in the next two to three years which won't bring any good to Mongolia. We don't need to get excited about the rise of commodities. Thus, we should only rely on appropriate foreign trade policy within two neighbors as we get foreign currencies and flow from foreign trade. In the long term, the most efficient policy is to diversify the economy.

What other opportunities need to be explored for the benefit of Mongolia's economy?

Recent studies talk a lot about second deficits. The monetary policy is in a hard situation, while the budget and the foreign trade both have a deficit. There is no way out of foreign currency appreciation in this case. Taking precautionary measures are very important. You can earn and save money when the mining sector rises. But now when the mining sector sees a fall, there is no money. Thus, it's necessary to look at which sector generates growth and which one creates the balance. We've forgotten some sectors. If it's real national policy, you cannot just keep your eyes in one direction in only mining and infrastructure. Especially at a time when the economy stays slow, it's important to promote subsequent sectors retaining jobs. For instance, agriculture is the major sector that holds an economy in any crisis time by preventing food shortage and pressures on people's backs. What will happen if the agriculture sector which solves public food needs sees a downturn? You need to hold up the base sector which prevents a fall rather than only looking at mining.

International Monetary Fund analysts visited Mongolia and asked policymakers to revisit their economic policies. What exactly did they advise?

Recently, the International Monetary Fund handed an analysis about Mongolia's foreign debt to the World Bank. Annual Debt Sustainability Analysis brought up major indications of macroeconomic policy. Not only Monetary Policy, but also debt of Mongolia has become an issue to worry about. Quite some time passed since economic policies brought inconvenient consequences. It's been almost a year since international organizations delivered their recommendations to Mongolia. But today, problems have not calmed. It means that current difficulties will deepen. I assume the IMF told Mongolia that it may see a bigger fall unless policymakers revise the past two years of economic policies. Those are the main signals given by the international financial institutions. Now we have to listen it and act immediately. ■

DISCOVER MONGOLIA-2014

INVESTORS KEEP AN EYE ON MONGOLIA

BY S. ZAYA

“Discover Mongolia-2014 is as important as ever, because it's happening during the visits of our two neighbours' leaders and government reconsideration of its own policy.” President of the Mongolian National Mining Association, N. Alгаа

Against a backdrop of poor economic performance and current government efforts to restart Mongolia's sputtering mining engine, Discover Mongolia-2014 welcomed investors to its 12th annual international investors' forum held earlier this month. The forum, which has developed in importance and expanded in scope over recent years, received fewer participants than expected. Yet as talks delved into Mongolia's emergent internal issues, there was a general tone of optimism surrounding the government's latest steps toward renewed growth in the mining sector. ▶



Representatives of the private sector and civil society form closer ties.

► Hopeful outlook?

Discover Mongolia-2014 featured an introduction to the recent amendments Parliament made to the Minerals Law, with noted speakers giving investors a detailed account of past amendments, the concept of the new law, and its desired effects.

“To attract investors, the government amended the investment laws at the end of last year, with additional amendments of the Minerals Law and Oil Law passed this spring. A comprehensive policy for the minerals sector was also recently redefined,” said D.Gankuyag, Minister of Mining, in his presentation at Discover Mongolia.

In response to these developments, P.Ochirbat, Chairman of the Organising Committee, said “The changes to the Minerals Law are extremely positive changes, particularly regarding the promotion of foreign investment. Now we are allowed to export through eight border points in China, after the Chinese leader’s visit to Mongolia. Meanwhile, the Russian President has recently suggested the signing of an agreement on transit between Mongolia, Russia, and China. These developments help establish a positive legal environment for Mongolian access to coastal countries’ ports as well as trigger foreign investment interests.”

Positive change would be welcome, after the first half of 2014 in which FDI

fell by 70 percent, according to the Bank of Mongolia. Investment, equal to 53 percent of GDP in 2011, is currently down to seven percent.

Further talks at Discover Mongolia-2014 focused on the mining sector’s legal environment, investment flow and solutions, gold and coal markets, and geology. In addition, the forum hosted the signing of a memorandum on partnership in the minerals sector by private, public, and civil society representatives. Through the memorandum, multisided representatives of the mining sector promised to conduct their operations with a focus on friendliness, transparency, and responsibility.

Mining sector

President of the Mongolian National Mining Association N. Algaa said, “that the mining sector has seen its ups and downs in accordance with a natural cycle. When the price was high, there were a number of local and international investors. Through this forum, we have urged our own local research on law implementation. Discover Mongolia-2014 is as important as ever, because it’s happening during the visits of our two neighbours’ leaders and government reconsideration of its own policy.”

Such policy reconsiderations undertaken by the Ministry of Mining include measures to attract investors and stimulate operation in the sector. An initial step is the retendering of

exploration permits and licenses, a decision expected to generate USD 1-2 billion in investment. Yet the ministry of mining says that it may take time to solve the infrastructure issues needed to enforce these policy solutions. Meanwhile, the ministry insists, potential investors have full access to return to the country after last year’s cancellation of 106 mining licenses.

Investment

One of the forum’s biggest topics of discussion was the investment environment of the past three years. Chief of the Policy Implementation Regulatory Agency of the Ministry of Mining, B. Batkhoo said, “Our Ministry nurtured a number of laws, regulations, and resolutions to increase investment and revive operation of the mining sector, and these laws and regulations have been passed by Parliament. Also, major political decisions have been made related to the export market. So there is the expectation for investment to increase by the end of this year due to positive changes made within Mongolia’s legal environment. Exploration licenses alone are expected to generate more than two billion dollars.”

Nevertheless, license sales and amended laws are merely the beginning. A.Bilguun, CEO of MIBG, said that Mongolia must let Oyu Tolgoi run if it wants to attract more foreign investment. In a presentation titled ‘Review and Outlook of Mongolian Investment Environment,’ he emphasised that a functioning world-class mining project would restore investor confidence on a massive scale.

In 2011 and 2012, Mongolia welcomed USD 4.5-4.7 billion in investment. This year, several research based organisations expect only USD 750 million. Though the number is quite low compared to previous years, Mongolia remains a destination with significant investment potential. If the issue of the Oyu Tolgoi project is solved in the near future, it is likely to be accompanied by a substantial return of investors and their investment. With this possibility, and an ostensibly improved investment environment in the mining sector, experts predict progress and increased growth by Discover Mongolia-2015. ■

OPINION



DISTURBING PARALLELS TO GREECE

BY HANS-WERNER SINN, PRESIDENT OF THE MUNICH-BASED IFO INSTITUTE FOR ECONOMIC RESEARCH

TRANSLATED BY KH. KHULAN

What do Greece and Mongolia have in common? Both are emerging countries with under-developed internal economies suffering from the Dutch disease. And in both countries is an upper class that has enriched itself at the expense of the general population.

After I returned from a recent visit to Mongolia, a comparison with Greece occurred to me. Both are countries with emerging economies, which according to the guidelines of the OECD are not among the world's developed countries. Life is quite chaotic in both countries. In the cities there is a rash of private housing construction, which can take place through corrupt administrative systems due to the lack of functioning city planning. The standard of living is considerable, but distorted. There is no shortage of modern automobiles, iPads, flat-screen televisions, satellite dish antennas, and high-end shops like Louis Vuitton, but streets and other elements of the public infrastructure are lacking. With the exception of agriculture, only the state, trade, and international organisations offer new job openings.

Sick economy

There is no production industry. No value-creating chain has been developed, not even one based on agricultural products. Mongolia, with its vast livestock herds numbering 40 million animals alongside a population of only 2.9 million inhabitants, imports refrigerated milk from New Zealand. Greece likewise buys tomatoes in the Netherlands and olive oil in Germany. The natural environment is certainly beautiful and the people are open and friendly. Tourism, however, is well developed only in Greece, although both countries have splendid landscapes and are attractive because of the friendliness of their people.

Both countries have an under-developed internal economy, and to a great extent finance their imports with money that does not come from the export of finished goods. Mongolia lives from the export of its mineral resources, and Greece from the export of its debt certificates. The corresponding proceeds secure the standard of living, but for that reason also produce wages upon which no competitive industry can be built.

Both countries suffer from the Dutch disease, a phenomenon that was observed after gas deposits were discovered in the Netherlands in the 1960s. The proceeds from the sale of gas flooded the Netherlands with money that was used for pay rises in the private sector and in government employment, and undermined the economy's competitive capacity. Only with the Wassenaar agreement of 1982 was it possible to break the

disastrous pay trend and rescue the economy.

The influx of money has a destructive effect no matter how it comes about. It makes no difference whether it happens as in Mongolia through the sale of mineral resources, or as in Greece through taking out loans abroad, through European Union transfers, and through the energetic use of the printing press, for which the other issuing banks of the Eurosystem acquire the title to set target demands. The money that flows in always makes pay rises possible, which decimate or hinder the manufacturing sector.

Greek Finance Minister Michalis Chrysochoidis expressed this very accurately in an interview with Frankfurter Allgemeine Zeitung, when he pointed out that the funds from the European Union (EU) had already undermined Greece's competitiveness at an early stage. The effect of the funding was, "that those who produced something closed their businesses and established import companies, because they earned more that way. That is this country's real disaster." When he was young, it was still necessary to work hard in order to earn money with exports. Through the EU subventions, that became superfluous.

The Greek disaster continues at present while the country is kept in the EU by political forces and influential economic interests. Instead of seeking a way to rebuild the economy with competitive wages by withdrawing from the EU and devaluing the currency, they cling to the euro for artificial reasons.

Cheap loans

The euro makes certain that the depreciation losses of the Greek bank of issue, occurring with the failure of the Greek banks, are borne by all euro countries; or else that rescue operations are set up beforehand to avoid these failures. This policy enables the Greek state to go further into debt, at tolerable rates of interest, because the European Central Bank supplies the banks with the funding that they need in order to buy Greek government securities. It also provides for cheap connecting loans, which permit Greek and foreign creditors to make their escape and invest their money abroad. It is estimated that rich Greeks have brought at least 100 billion euros to safety in Switzerland.

This is also a disturbing parallel to Mongolia. The country's rich families take abroad much of the income from the legal and illegal sale of Mongolia's mineral resources so as to prepare for day X, when they will move away and take up residence abroad to live on the expatriated wealth. ■



THE UNDP ON DEVELOPMENT IN MONGOLIA

Photo by B. Byamba-Ochir

BY B. ENKHTSETSEG

Sezin Sinanoglu, UN Resident Coordinator and Resident Representative of the UN Development Programme (UNDP), has lived and worked in Ulaanbaatar since 2010. During her time here, she has witnessed Mongolia battle a financial crisis and achieve a 17 percent growth rate. Though the economy is slowing down once again, she believes that the government and people must be committed to inclusive and sustainable policies, to bring consistent growth back to Mongolia.

Sezin, a Turkish national, holds a Bachelor's Degree in City and Regional Planning from the Middle East Technical University, as well as a Master's Degree in City Planning. She's been with the UN for almost 20 years, in countries such as Turkmenistan, Kyrgyzstan, Iraq, and Turkey. Prior to working at the UN, she held positions in Turkey and the US as a city planner.

Regarding the UNDP's contributions to Mongolia's development, what are your focus programme areas at the local level and at a policy level?

The UNDP has been in Mongolia for quite some time and its programme has evolved over the years. Currently, we are implementing a programme that runs from the year 2012 until the year 2016. In that programme we have three main areas. One of them is governance and human rights. The second one is human development and the achievement of the Millennium Development Goals. The third one is environment and disaster reduction. In these three areas, we have been working with partners, mainly the government, but also civil society in the past few years.

Currently, I believe we have about 11 programmes in these areas to address different emerging needs. But we constantly have an eye for what emerging challenges there are in the country—what are new areas of interest? For example, through both discussions with the United Nations Country Team and other agencies as well as our other national counterparts,

we've identified that urbanisation is something that we should be looking into. Urbanisation was not a topic during our discussions of formulating a plan, but it has emerged and we have recently started discussing it. We have something called the development dialogues. Every year, we try to hold four or five of these. We choose topical issues and we try to bring in key people from all walks of life. Recently we had a dialogue on urbanisation, and we had the Minister of Construction, the mayor of the city, the regional developer of the UNDP, and a representative of the private sector.

Have you received much participation from citizens in the dialogues? How do you get them involved?

We try to reach out to all people, whether it's citizens or civil society organisations, depending on who is the most accessible and the most knowledgeable about the topic. For example, we've worked with NGOs. Depending on the topic, we always bring people including academia to be a part of these dialogues. We have »

- ▶ the three main areas that we talked about, but we don't limit ourselves to those. We are always watching for emerging topics and to see if there is anything we can bring to the table as a discussion forum to forward thinking.

What is happening in the UNDP globally?

The UNDP, as with any other global body, is evolving and changing. There are so many changes globally. The UNDP launched its new strategic plan and that plan will guide operations of all UNDP offices around the world, and this puts at the core of its work a few key concepts. The first one is to completely eliminate and abolish poverty at all levels. Along with that comes how to address exclusion and inequalities—how to bring about social justice. That is the common thread across all programmes. The second element is sustainable development which at its foundation is environmental stability. It

Index factor into Mongolia's development?

The index says that you cannot measure progress by GDP alone. Life expectancy is a basic indicator. A second one is education—do people have access to education? Is the education good-quality? Human development tries to examine whether people have opportunities and whether they can access and use those opportunities. We have identified youth as an important vulnerable group that needs further attention. The global reports have a separate assessment called the gender inequality index. When half of the population is not able to get the access that it deserves, then you begin to question the development of that country.

What have been the UNDP's successes and failures?

I think we have quite a few successes. The UNDP helped establish a micro-

programmes that we have implemented here that I am truly proud of. Of course, there are some programmes that fall short because we simply did not have the money so that they can mature to sustainable levels. Some of the work we have done with SMEs needed more support. We brought communities together, especially women, who needed skills. We needed to go one more step to support them strongly to create sustainable businesses. We have identified these weaknesses and are looking at developing markets to solve these weaknesses. In almost all of our programs, we have independent evaluations and build them into new programming progress.

What is the global and regional progress in achieving the Millennium Development Goals? How does Mongolia compare?

There is mixed progress. Globally, wealth has increased. When you look at countries like Nigeria, they are becoming powerhouses in their own right. In that sense, wealth has increased globally—but how has that translated into reducing poverty, exclusion, and vulnerability? That's where we have differences. One of the things we must realise is that the MDGs are finishing next year. Some countries have achieved the most important goals such as reducing poverty, HIV, etc. There has been progress. But just because you have cut poverty, you still have millions living under poverty. Can you stop it? Is there a place to stop? That is the main discussion in the post-2015 discussions. The MDGs are ending next year, so this is something we are talking about. In 2015, if Mongolia reaches 18% poverty, then what can be done? The second question is social justice. It's all about having opportunities. A third thing is the environment. If we do not choose a sustainable and green path now, tomorrow it will be too late.

No country is rich enough to pollute now and clean later. There are a new set of goals called the Sustainable Development Goals that are being negotiated around the world. Currently there are 17. In Mongolia, I would like to give credit for a few key things. Mongolia has recognised the importance of the ▶

“If we do not choose a sustainable and green path now, tomorrow it will be too late. No country is rich enough to pollute now and clean later.”

is to make sure that climate change is stopped and to make sure that people are less affected, especially the poor who are more affected. The third one is how to build resilience—economies, communities, people, cities. This is another very important thread. These programmes can only be achieved if we have governance structures that give a voice to people, that abide by the rule of law, and that follow basic human rights. These are the four key areas that the new strategic plan is focusing on. We are working on a national human development report on youth and we are very excited about that. Hopefully it will be released before the end of the year. We have been having lots of discussions on social media to hear voices around key subtopics such as youth employment.

How does the Human Development

credit project that transformed itself into Xac Bank. The seeds of this bank are from a UNDP project that's growing and has projects overseas. That's a good example. Just recently, we celebrated the 10th anniversary of the National Emergency Management Agency. That agency was established with the help of the UNDP. After 2004, when it was clear that the country needed different management agencies, the UNDP launched a program with the government.

Another success is called the legal aid centers and the concept started through an NGO. It provides free legal aid for poor people. We established it and helped push it up and give it the capacity it needs, and now the government has taken over. It is fully financed and implemented throughout the country. These are just three of many

► MDGs in all of its planning. It has a MDGs based development strategy, and you will see references in many national development strategies. Mongolia is the country that introduced an MDG on governance and human rights to the world. It has established a

weight to monitor MDGs. It is monitored by parliament, but progress has been mixed.

What are the main achievements in collaboration between the UNDP and the Government of Mongolia?

Mongolia launched its fifth MDGs report last year. It is clear that there are three or four areas—out of 24—which they achieved. Some of the rest are on track. The number of people who are suffering from malnutrition is decreasing and it is on track to reaching its target. In terms of reproductive health services, access to these services is on track. Women's political empowerment and participation in politics is something Mongolia has to do much more to increase the number. Air pollution is a problem and it is affecting everybody's health. It was a goal that has not been achieved. In reversing the spread of tuberculosis, there is more to be done.

Is every programme area funded? And does the funding stop when it runs out, whether the programme's goals are fully achieved or not?

In our current programme we have a commitment of about USD 7 million of our own core resources, plus about 21 million of resources to be mobilised from partners, from donors. We're progressing very well in raising that additional funding. There are no areas within our current programme that are completely unfunded. Maybe underfunded by not unfunded. In that sense we are addressing everything. But as I said, there are emerging areas—like urbanisation, like working much more strongly on extractive industries. How do we make sure that any discussion on extractives takes human development into consideration? For that, we have to raise new money. For that we have high aspirations but not necessarily the funding, yet. That will come about over time. But here there is an important development. Mongolia is now a lower-middle income country. Globally, 22 percent of the UNDP's programming money comes, in fact, from a government's own resources. They cost share. Government co-financing. There will be countries that give millions of dollars to UNDP supported programmes. Mongolia is only now starting that. We don't necessarily have to find money from third sources, from third countries. Mongolia has money. If the priorities that we have signed off on together are indeed the country's priorities, there is money. What we're doing is complementing each other's efforts. That's the model that we will be increasingly seeking in Mongolia. ■



Photo by B. Byamba-Ochir

BYAMBAA'S COLUMN

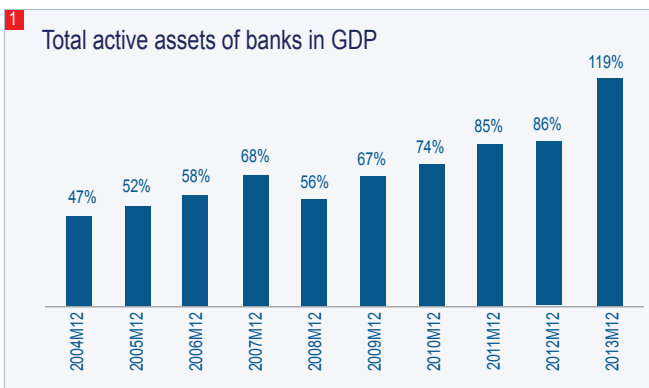


Byambaa Losolsuren is a senior economist and partner of the UMC Group, and Education Committee Director of the Financial Market Association. She was an Investment Officer at the ADB between 2008 and 2010. Byambaa holds a Bachelor's Degree from the State University of Mongolia and an MBA from Waseda University in Tokyo, Japan. She is a board member of the Mongolian Growth Group.

BANK EXPANSION STRATEGIES FOR THE NEW BANKING MARKET

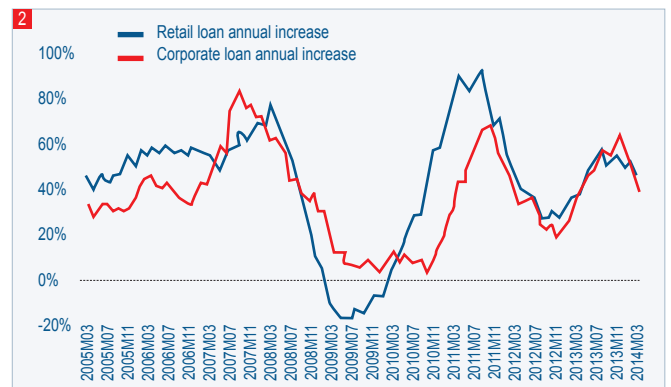
What is today's banking market?

Mongolia's current banking sector has been fundamentally cemented to the point where it now plays the main role in the financial sector. Banks currently supply the majority of private sector, business, and citizen demand. The amount of the sector's active assets has increased regularly over the past decade, last year reaching 119 percent of Mongolia's GDP—near equivalent to the international average.



Source: the Bank of Mongolia, National Statistical Office and Mandal Assets Management

Year-to-year loan amounts have been on the rise in general, despite a temporary decrease in 2009 after the financial crisis. According to statistics by the Bank of Mongolia, loan growth has been around 40 percent a year since 2004. As of the first half of this year, the total loan amount has reached MNT 12.4 trillion.



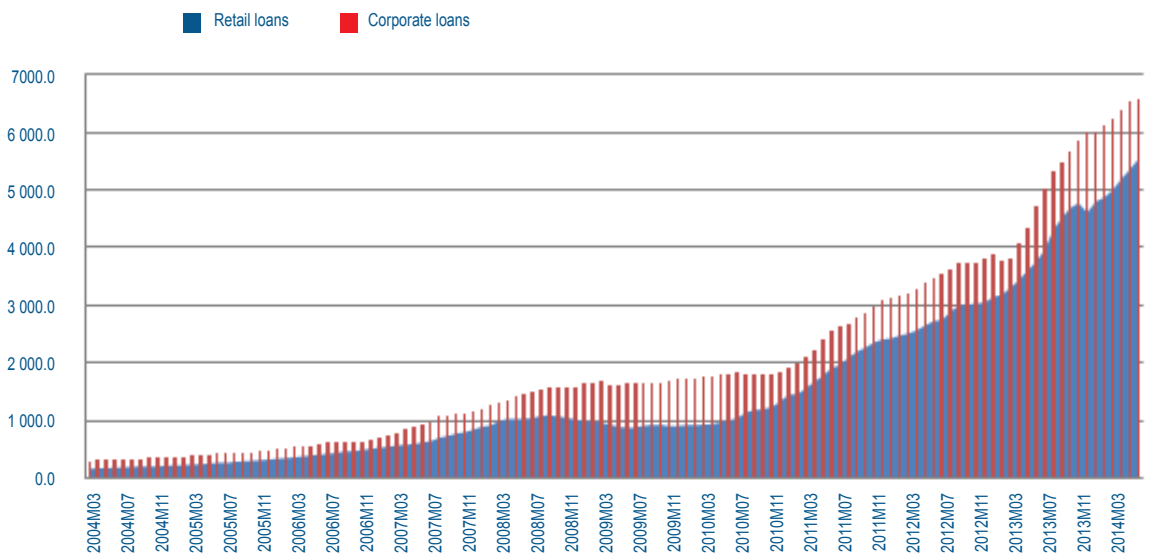
Source: The Bank of Mongolia

Yet the statistics also show Mongolia's banking sector to be fast approaching market saturation, in terms of the aforementioned indicators, the number of banks per citizen, and the number of bank clients and card holders.

Clearly there are too many banks in such a small market. Over the past years, four banks have dominated, comprising 77 percent of total market share as of 2013. An analysis of this issue reveals that the individual banks are differentiated only in terms of their access to corporations or citizens. But in terms of their strategic play and position in the market, there is little difference between each bank.

The saturation of any business sector means that its growth percentage is reduced, expansion is insubstantial, and potential organic growth is slight. For the banking sector, it is doubtful that its loan issuance percentage can maintain 40 percent growth. As a result of the sector's current focus and outdated loan requirements, new borrowers are unlikely to be created. ▶▶

Number of loans issued over the last ten years



Source: The Bank of Mongolia

- ▶ Given the condition of loan saturation and lessened growth, banks' must rely on a more competitive strategy. If a bank could determine the appropriate strategy and take advantage of market opportunities, it would enjoy a greater likelihood of continuing its growth successfully into the future.

What strategy do banks need to use?

As the market becomes saturated, banks need to come up with an answer on how to expand their business. On the one hand, expansion can be achieved by increasing a conventional product, service, or service customers. But expansion can be similarly achieved by introducing a new product or business line to the market.

To increase the conventional product and service customers, and expand the market and partners' circles, banks will have to reach out to companies that were unable to receive loans in the past, or they will have to increase the credit ability of their existing clients. Expansion aimed at increasing credit ability can include mitigation of risk, formation of financial history and deposit, improvement of governance, and so on.

The banking sector might be seen as privileged—without competition in the financial sector—but in reality, this not the case. Most companies have a rational financial structure, and reduce their financial risks by having funds from two sources: loan and investment. Companies would find it hard to expand or run their operations cost-effectively by using only loan sources. If a company can attract increased investment, then its potential to receive loans can be increased to the same extent.

At this moment, most businesses in Mongolia are subject to bank loans. The main constraint of continuously receiving

loans is in the insufficiency of their deposit assets—a company's assets that are deposited in a bank when receiving a loan—and of their own assets. For citizens, loans for consumption, apartment purchasing, or small businesses comprise the majority of loans that are issued. In the future, property deposit registration and citizen loan history are expected to play larger roles in increasing the opportunity to receive a loan.

Banks also must adopt a new strategy to introduce new products and services. In addition to loans, many businesses need opportunities such as direct investment, bonds, leasing, and short-term financing, to name a few. In order to expand a bank's market volume, a new type of service such as office leasing has to be actively sought out to supply their clients' financial demand. The corporate bond market likewise should be developed in the future. This includes the introduction of products and services other than loans. For example, Mongolia's commercial banks have already expanded into selling insurance products throughout the sector.

To introduce a new business line, there are a number prospects, including evolving into a custodian bank or investment bank, investment consulting services, underwriting, and so on. A legal setting for the formation of such institutions is already established in Mongolia. Banks additionally have the opportunity to specialise in areas such as mining, infrastructure finance, construction, agriculture, and trade.

The market demand has developed rapidly in Mongolia to the point where there are signs that the banking sector is approaching market saturation. To survive among the competition and to continue to expand business into the future, Mongolia's banks must face the necessity of formulating and applying new strategies. ■

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