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MONGOLIAN ECONOMY

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BREAKTHROUGH**



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EDITOR'S NOTE

Mongolia, known today as a land of mining, was once popular as a land of agriculture. Now that mining has settled into a period of stagnation, the government of Mongolia must reconsider agriculture as a profitable option to bring new growth to the economy. Although policy makers have yet to broach the subject, economists, experts and others in the field have started to declare agriculture as the next savior of the economy. Mongolian Economy agrees that the sector—which at one time put food on the table of every Mongolian family—should revive its former prosperity. For this reason, the magazine is devoting its latest issue to agriculture.

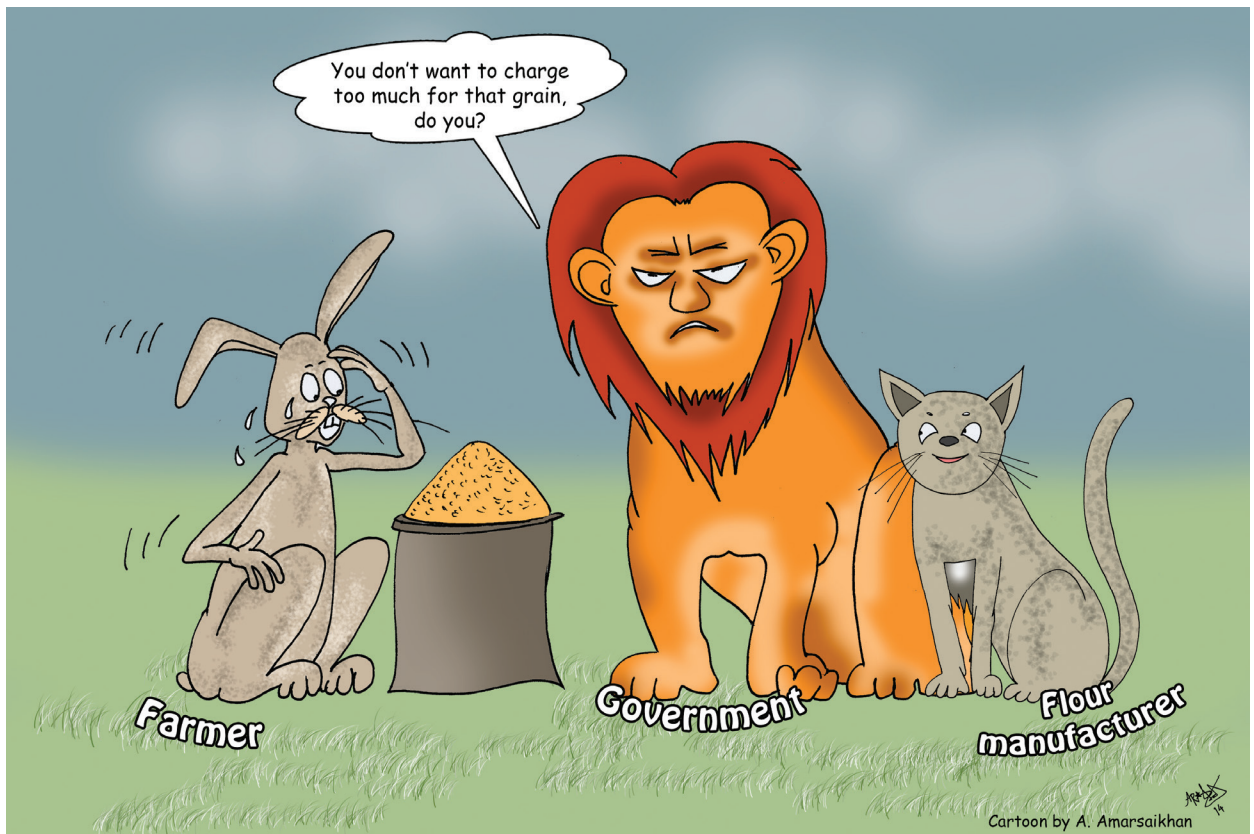
The agriculture sector's problems and prospects are featured in several articles, as well as its policy realities and the changes that must be made to help grow the sector into one of the economy's main contributors. In addition, comprehensive graphs on price levels for cereals and vegetables highlight the burgeoning trend.

We also interviewed Laurent Pochat-Cottilloux, AXA Regional Managing Director for Asia-Pacific Health Reinsurance Markets, to learn how an international insurance corporation plans to expand the underdeveloped Mongolian private insurance marketplace.

As for the mining sector, current benchmark prices have caused major setbacks throughout the industry. Mining sector associates recently gathered to talk about the benchmark problems and potential solutions, and Mongolian Economy was there for the latest.

We hope you enjoy our in-depth coverage of the most topical issues Mongolia faces today. As Mongolia cannot wait for resumed progress in the mining sector, we must reexamine agriculture as a serious contributor to the economy.

Deputy Editor I. Otgonjargal



MONGOLIAN NEWS

Mining



A tax dispute that threatened to delay the giant Oyu Tolgoi copper mine has been resolved by both Rio Tinto and the government. A USD 130 million bill submitted to Rio Tinto in June was cut down to USD 30 million after months of stalled negotiations. A recent feasibility study by Rio Tinto subsidiary Turquoise Hill Resources announced that the second stage of development requires USD 4.9 billion for underground expansion. Second stage operation is pending, until a decision by Oyu Tolgoi's board of directors.

Tourism

The 'Hospitable Ulaanbaatar' campaign, designed to attract two million tourists to the city by 2020 and five million by 2030, has been approved by the UB City Council. This year's budget for tourism is MNT 35 billion, far greater than the MNT one billion spent in 2012. The city is to receive MNT 35 billion annually for the development of the tourism and culture sector, which over the next decade plus will double city revenue and create 35,000 new jobs.

Infrastructure

Road construction has significantly slowed in 2014, with only 900 km of paved road completed out

of a targeted 1,886 km. This number is well below the 1,800 km completed in 2013. The government has approved 2,300 km of total roads for construction, however a lack of financing has mired projects nationwide.

Economy

Annual average growth of vehicle quantity in the capital rose by an average of 16.5 percent a year for the past three years, according to the Statistics Department of Ulaanbaatar. The results of a national technical inspection show that 71.6 percent of total vehicles are cars, with 85 percent of all cars registered under individual ownership. The data reveals that the increased number of cars is the main cause of traffic problems throughout the city.

Energy



Amgalan Thermal power plant construction, begun in August of 2013, has progressed to 75 percent completion. Despite losing time to a land issue, the first block of the power station is expected to be online by the end of this year. The Amgalan station will ensure a reliable heat supply for Ulaanbaatar city, reduce the load of Thermal Power Plant IV, and partially meet the country's increasing demand for energy.

Budget

In the first 8 months of 2014, total equilibrated

revenue and grants of the General Government Budget amounted to MNT 3.7 trillion, while total expenditure and net lending of the budget reached MNT 3.9 trillion, representing a deficit of MNT 153 billion. Compared to the same period in 2013, the budget total equilibrated income was increased by MNT 347.8 billion. The projected revenue collected has not achieved initial targets, and currently sits MNT 623.4 billion below expectations. 51 percent of total revenue is from the State budget, 27 percent from the local budget, 17 percent from the social insurance fund, and five percent contributed by the Human Development Fund.

WORLD NEWS

Alibaba public offering



Alibaba, China's e-commerce giant, has raised USD 25 billion in the largest initial public offering in world history. Shares surged in the hours and days since the IPO of the amazon.com-EBay-PayPal hybrid. The Hangzhou-based Alibaba Group is now open for trade on the NYSE (BABA). Though traders can buy and sell Alibaba shares, foreign ownership of stock in any Chinese internet company remains officially illegal under Chinese law. Shareholders own a piece of

Alibaba Holdings, a Cayman Islands-based holding company.

Y&R Mongolia

WPP-owned Y&R Advertising has acquired a majority stake of the Creative Advertising and Research Agency owned by MCS Holding, one of Mongolia's largest conglomerates. Y&R Mongolia, as the revamped agency is to be named, is the first Mongolian advertising agency to be majority-owned by a multinational ad network. Referring to Mongolia's fast-growing economy and the recent influx of top international brands into the marketplace, president of Y&R Asia Mathew Godfrey said "Look at all the industries in Mongolia—none have made the decision it's too small. If it makes sense from a client perspective to be there, it makes sense from an agency perspective. We could be starting a trend of other agencies looking at the market a little more seriously."

Turkish press 'not free'

Turkey remains the world's top prisoner of journalists, ahead of China and Iran, for the second year in a row. In its 2014 press freedom rankings, Freedom House downgraded Turkey from "partly free" to "not free." Since 2002, when President Erdogan's Justice and Development Party (AKP) came to power, the Turkish government has increasingly cracked down on any non-pro-AKP related media, resulting in dozens of arrests, forced resignations, and departures of domestic and foreign journalists from the country. Turkey's largest newspapers and television networks are owned by 10 holding conglomerates that ▶▶



are in a fierce competition for billions of dollars of state contracts in non-media sectors. In such an environment, the majority of Turkish media is now firmly pro-government, ever-willing to curb dissent, while eleven journalists remain imprisoned today.

Mongolia on Bill Clinton's bucket list

Accomplished former US President Bill Clinton, when asked about what he would yet like to experience before he 'kicks the bucket,' said "I still haven't been to Mongolia. I do want to ride a horse across the Mongolian steppes, try to imagine what it was like to be in Genghis Khan's horde."

Setback in Sino-Indian relations

Chinese President Xi Jinping has visited many of China's 14 neighboring countries in recent weeks—including a favorable stop in Mongolia—ahead of November's APEC summit to be hosted in Beijing. Yet tensions were high in India during Jinping's talks with new Prime Minister Narendra Modi. Diplomatic and economic negotiations were derailed after 1000 Chinese PLA soldiers entered disputed territory along the Sino-Indian border. Although the meeting was touted beforehand as a major step toward rapprochement, the incident's unfortunate timing prevented most objectives of the Jinping and Modi camps from being accomplished. ■



MONGOLIA

THE LATEST ON TWITTER

WikiLeaks @wikileaks Sep 14 **#Mongolia** revealed to be extremely high user of German surveillance malware <https://wikileaks.org/spyfiles4/customers.html> ...

'Weaponised surveillance software' purchased by Mongolian law-enforcement or government agencies to spy on own citizens? Nearly 1 million euros spent on state-based domestic spying.

Freedom Online @FO_Coalition • Aug 25 Preparations for **#FOC** conference in Mongolia kick off today in Ulan Bator **#FOC15** @Badrals @SimoneHalink @leakaspar

Is the Mongolian government really against online human rights abuse? Mongolia chairs the Freedom Online coalition protecting online human rights. Next FO conference to be held in Ulaanbaator in 2015.

OFID @OFID_Opec_Fund Sep 11

OFID extends US\$20m to @XacBank of **#Mongolia** to help strengthen the SME sector in the country. Read more: <http://bit.ly/1qMUBcD>

Lending to SMEs now accounts for over 50 percent of XacBank's loan portfolio.

Lisa Gardner @leesebkk Sep 24

#Mongolia's overall press freedom rating remains 'deteriorated' thanks to slow progress in changing **#media** codes <http://www.media-update.org/countries/mongolia/>

According to the Asia-Pacific Media Update on Press Freedom, Mongolia's overall rating for the first half of 2014 remained deteriorated, due to slack protection of journalists and to strict defamation laws that protect authorities.

D.Naranzul @naranzuld

In 1930, if there were 15 kids in one class across the country, today 193672 kids are getting pre-education in 1067 kindergartens.

Brief information @hiubmn

The National Statistic Office predicts that the three millionth citizen will be born early second quarter of 2015. Though due to rapid growth of birth rate, the date is expected to be earlier.

N. Ganbyamba @nganbyamba

This year, six trillion tugrug is projected to come in taxes from taxpayers. Out of this amount, 5.3 are the administrative, operational expenditure and the spending of directors.

D.Sainbayar Developer @dsainbayar

900.000 of us are employed, 400.000 are unemployed, 300.000 study, 200.000 take pensions, 60.000 are in disabled social care, and remaining one million are all under age 15.



DEVELOPMENT SOLUTION

AGRICULTURE'S BREAKTHROUGH

Preliminary estimations from the Ministry of Industry and Agriculture noted that 439,000 tonnes of grain would be harvested from 293,000 hectares in 2014.

I. OTGONJARGAL

With mining growth suspended in limbo, Mongolia needs to reconsider what sector could be the next focal point for economic growth. Mining has been in decline for almost three years now, and while the government still hopes for a revival, Mongolian Economy magazine thinks the next thriving economic breakthrough is in agriculture. For this reason, we will partly dedicate this and further issues to the advantages, peculiarities, and opportunities in Mongolia's agricultural sector.

Success and controversy

As the mining sector boomed,

agriculture was ignored. Yet despite the neglect, agriculture has been operating rather successfully without any privileges from the state. Preliminary estimations from the Ministry of Industry and Agriculture noted that 439,000 tonnes of grain would be harvested from 293,000 hectares in 2014. This is more than enough to supply domestic demand. As of 29 September 2014, the harvest is in full progress with 50 percent completion. Although rain and snow have caused a few setbacks, harvesting is expected to finish by 10 October 2014.

While the domestic demand of wheat has been supplied, each year the issue of market pricing makes headlines. This process is regulated by the Fund for ▶▶

producers agreed to set the price at MNT 555,000 on warehouse terms. Even though the Ministry's policy is to keep the price of wheat down in order to balance the price of flour, the negotiations still resulted in small price increase for flour.

Protective measures

The government has been trying to keep prices as stable as possible by implementing a programme to stabilise commodity prices, with cooperation from the Central Bank of Mongolia. Yet as there are over 80 small and medium flour factories that try to purchase wheat as cheap as possible, there is a threat to the domestic market with imported wheat. This year, however, there is enough supply for domestic demand. Thus, importing wheat would be unnecessary, said the President. He also addressed the fact that flour producers should support wheat farmers. According to the Ministry,

Revival of the agricultural sector dates back to 2008, when S. Bayar was Prime Minister. After one too many requests abroad for a helping hand, he stated, "Begging is such a shame. From this day on, Mongolians will bring their agriculture back to life and supply their domestic demands. To do so, Atriin Ayan III, a campaign, will be implemented during the period of 2008-2010." The campaign was relatively easy for Mongolia to implement, since it had experience in large-scale agriculture dating back to the 1950s. Today, after the successful completion of the campaign, about 1,100 farmers and enterprises are operating in grain fields, while about 60,000 farmers and enterprises are working as potato and vegetable providers. Wheat and potato demand is 100 percent supplied by domestic producers, while 54 percent of vegetable needs are fulfilled by domestic suppliers. This has happened all because of the Atriin Ayan III campaign. Outdated Russian equipment has been replaced

"We should not lose what we have achieved," said President Ts. Elbegdorj during his recent visit to planting sites. "We always have to improve our success."

Photo by G. Erdenetuya

► Agriculture, a regulatory constitution from the Ministry of Industry and Agriculture. It is also responsible for collecting the wheat supply for the national reserves. Thus, it sets the price for a tonne of wheat, which is authorised by the Minister. This year, the fund set the price for a tonne of wheat at MNT 460,000. The decision triggered dissatisfaction among farmers, citing undervaluation of their hard work and expanded expenditures in agriculture due to the rising USD ratio to MNT. During a visit to agricultural sites, President Ts. Elbegdorj advised that both the Ministry and farmers should come to an agreement based on negotiations and an understanding of one another. Following the President's advice, Ministry representatives, farmers, and flour

Mongolia's domestic flour demand is 290,000 tonnes annually, even with diet changes in households that have caused flour needs to decrease in recent years.

The privatisation during the mid-1990s led to a drop-off in Mongolian agriculture that continued until 2007. Extreme weather conditions played a devastating role as well, to the point where enterprises in the sector had no financial capacity. These factors caused Mongolia to subsist on imported or donated wheat and flour. To avoid living through such rough times again, Mongolia needs to thoughtfully reconsider its agricultural policies.

Today and tomorrow

by modern technologies from countries such as Germany, Canada, the US, Japan, China and Ukraine.

As the agriculture sector moves forward, farmers must move beyond just planting and harvesting. They should also focus on improving soil fertility, diversifying crops, incorporating the latest technologies, and improving trade logistics. "We should not lose what we have achieved," said President Ts. Elbegdorj during his recent visit to planting sites. "We always have to improve our success." With a favorable outlook for future success, the agricultural sector has the potential to be the next breakthrough in the economy. ■

WORDS FROM AN EXPERT

CULTIVATING BETTER AGRICULTURE



BY I. OTGON

M. Ariunbold, senior expert at the Regulatory Department of Agriculture for the Ministry of Industry and Agriculture, talked with Mongolian Economy about the latest farming issues, current programmes and yields, and Mongolia's potential to export crops throughout Asia.

Increased crop rotation and no-till techniques are topics that have been discussed for several years now. Why is it that farmers still stick to planting wheat or leaving fields ploughed and fallow?

There is no farmer who doesn't understand the essentials of plant diversification. Money is the only force. If there is a new farm, its buyers and market becomes the issue. Circulation is needed. In order to create that, herders and farmers' associations must change their business plans. All enterprises in agriculture should have their own animal farming. For example, the company Gatsuurt has a huge field with a watering system in Tsagaannuur soum, in Selenge province. Next to the field, the company also has a husbandry facility. It improved its fields by planting forage for their cattle. In this way, farming is expanded. Products are sold.

The Ministry of Industry and Agriculture created a 'Stable Development of Agriculture' programme, which has taken quite a long time for authorisation. Once approved, what could it bring to the future of agriculture?

This is a very good programme that was developed based on current situations in the sector. Prime Minister N. Altankhuyag initiated and led discussions with the operating team from the Ministry 11 times in total. Representatives from the Institute of Plant and Agriculture in Darkhan-Uul, Mongolian State University of Agriculture, scientists, and farmers also participated in the development of the programme. If approved, it will certainly have benefits. It will span from 2014 to 2024, and be divided into three stages.

Easy sales and high prices have seduced farmers to plant rapeseed in recent years. About 20 percent of fields currently belong to rapeseed production. What is the Ministry's policy on that matter?

According to our plan, rapeseed agriculture should cover a territory of 40,000 hectares. However, current harvest balances and field counts show it has reached 82,000 hectares. Wheat production could be undermined by rapeseed. The Ministry will act strictly on this matter.

Potato and vegetable sales still have problems. What could be done to solve this?

Creating preservation facilities and logistics for vegetables is a concerning issue. In the scope of the government's Price Stability Programme, warehouses that meet the standards will be built within the next two years. By next year, all farmers and enterprises working in the vegetable sector will be registered. This will allow them to preserve their products in those new warehouses. Consumers will also be able to access domestic grown quality vegetables.

Domestic wheat and potato demand is fully supplied. Does the Ministry consider developing agricultural exports?

Mongolia could supply East Asia with food. If the 'Stable Development of Agriculture' programme is approved, agricultural products could be exported by 2017-2020.

Will agricultural fields increase in the coming years?

Currently, farm fields cover up to 750,000 hectares, well above the Atriin Ayan III campaign, which aimed to expand farm fields to 660,000 hectares. Of this, up to 420,000 hectares was planned to be used for wheat farms. The goal is to expand fields to 1 million hectares by 2025. During socialism, the number reached 1.2 million hectares, of which 200,000 hectares were used for animal husbandry. ■

INFOGRAPHIC

1 Agriculture production 2014

2013	Planted Field (hectare)	275,0	15,2	8,1	11,9	79,4	275,0 thou/hectare
	Yield (thou/tn)	370,3	190,4	102,2	43,6	42,6	



2014	Planted Field (hectare)	289,0	11,5	6,1	10,5	49,0	329,0 thou/hectare
	Yield (thou/tn)	426,4	198,5	106,8	25,4	47,8	

2 Wheat warehouse storage

Quantity Storage capacity (tonnes)

Fund for agriculture

5 | **146,000**

Flour factory

10 | **237,000**

Food factory

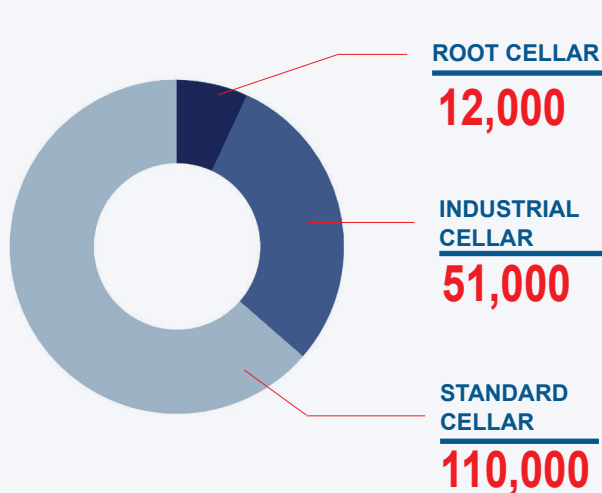
3 | **9,500**

Large-scale farm

1 | **40,000**

Total | **19** | **432,500**

3 Vegetable cellar storage capacity in tonnes, 2013



4 Potato, Vegetable storing cellar capacity reached 182.3 thou/tn in 2013

Bayan-Ulgii	Uvs	Khovd	Zavkhan	Gobi-Altai	Khuvsguk	Bayankhongor	Arkhangai	Bulgan	Erdenet	Darkhan-Uul	Selenge	Uvurkhangai	Dundgobi	Umnugobi	Dornogobi	Choir	Khentii	Dornod	Sukhbaatar
1250	2880	2780	4540	1828	4900	2170	955	1200	2600	9720	36400	3685	470	725	620	350	2100	3918	850

5 Seabuckthorn planting



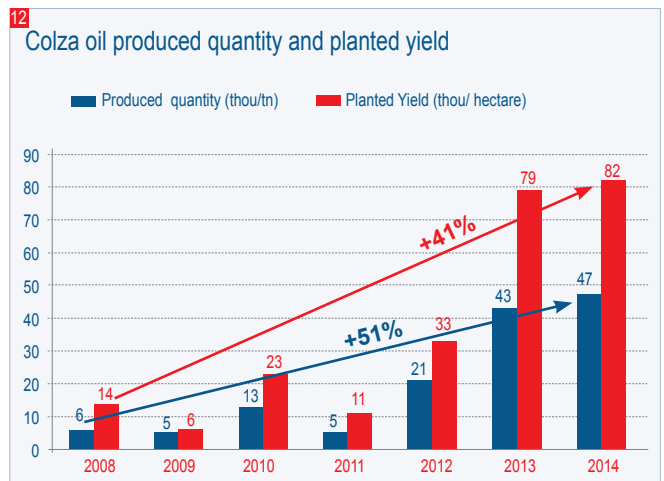
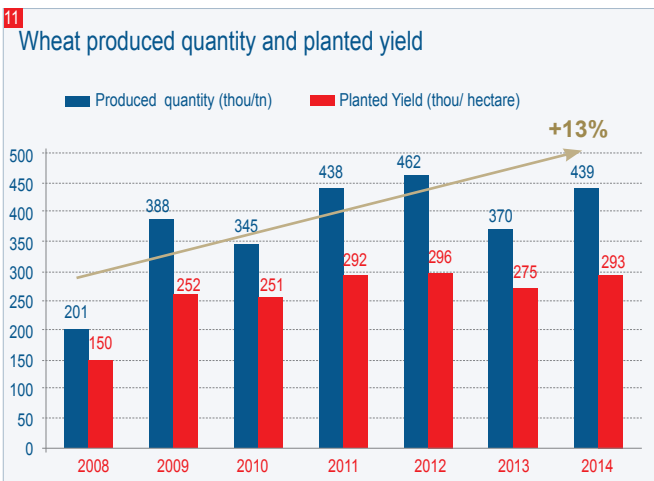
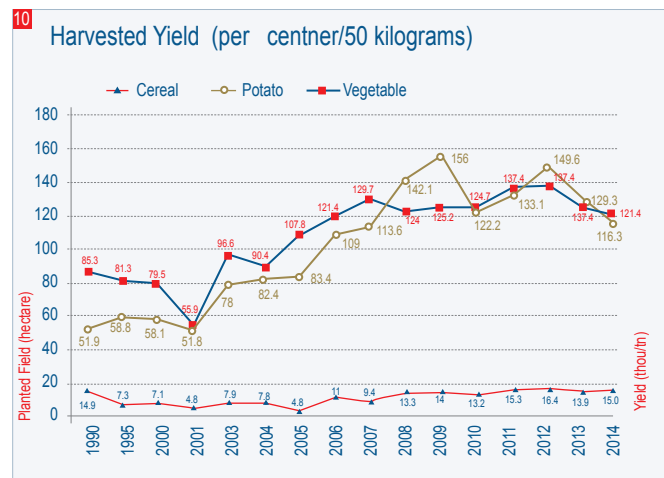
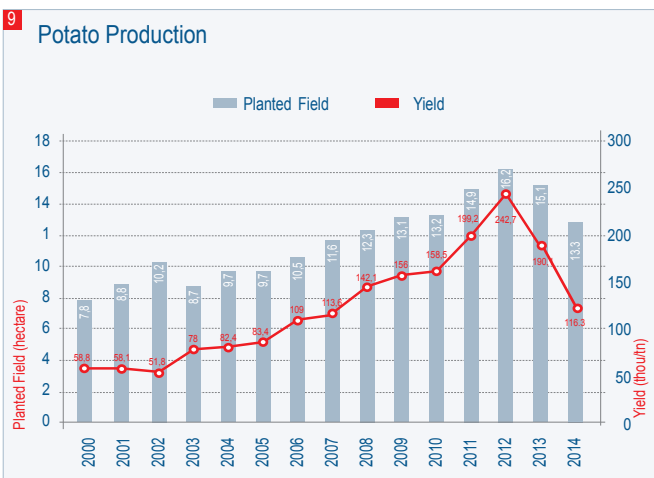
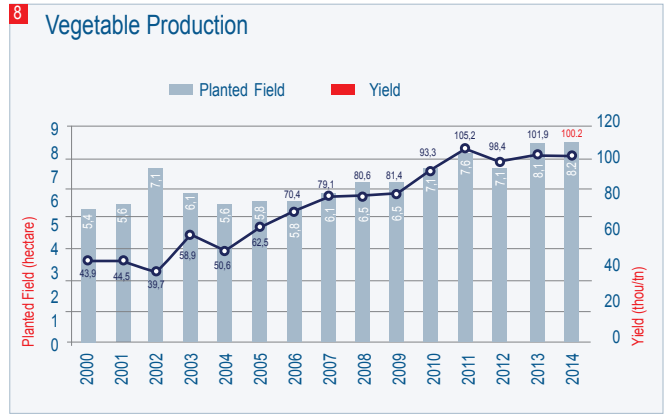
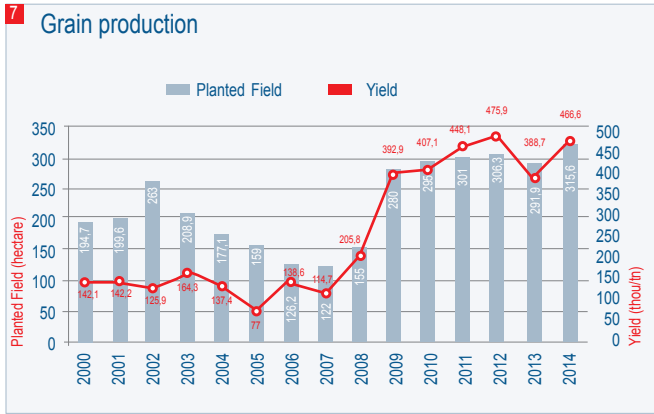
	2013	2016	2020	2024
Planted Field (hectare)	4,4	7	12	15,0
Yield (thou/tn)	1151	4,0	20,0	35,0

6 Other fruits (strawberry, black currant, apple, plum)



	2013	2016	2020	2024
Planted Field (hectare)	0,5	1,0	3,0	5,0
Yield (thou/tn)	271	1,0	5,0	10,0

Source: Ministry of Industry and Agriculture



13 Technical study-2014, used in cereal production

Names of technics	Нийт	1-4	5-8	9-12	13-16	17-20	Above 20	Renovation percentage
Tractor	1788	312	376	340	277	302	181	57.5
Scarifier	1277	230	275	192	217	230	133	54.6
Seeder	2010	311	362	372	442	382	141	52.0
Combine harvester	1138	158	195	223	248	182	132	50.6
Total	6780	1079	1293	1205	1293	1232	678	52.8

Source: Ministry of Industry and Agriculture

14 Planted Yield /usege

Name of Region	Planting Yield	Field in use / hectare	Fallow land / hectare	Field, not in use / hectare
Centre	821 208	569 145	252 063	30,7
Forested	139 768	440 98	95 670	68,4
West	126 393	22 302	104 091	82,4
East	181 753	84 811	96 942	53,3
Gobi	376	376	0	0,0
Total	1 269 498	720 732	548 766	43,2

EXPORTS

BENCHMARK PRICES: A NEVER ENDING STORY

BY B.UURIINTUYA

Mining associates gathered for another round of discussion last month to talk about the exceedingly high benchmark prices set by the current government. Although Mongolia has enough natural reserves to supply a large percentage of world demand, its mining sector has plunged into a deep hole of immobility. High, arbitrary benchmark prices on export resources are a large part of the problem. A benchmark price generally guarantees the government a certain level of taxation on each export, which brings some stability to the government's budget. Yet when the benchmarks are too high, private enterprise suffers. Many in the private sector believe the government should stay out of the way of business, and allow exports to be sold at market price. As such, recent benchmark prices set by the government have generated a high level of controversy.

The Mongolian National Mining Association organised a debate called 'Mineral exports and competitiveness: Benchmark price,' on 24 September 2014 to address the issue. The scope of the forum was broader than usual forums, with many participants in attendance. The main presentation, titled 'Methods to set benchmark on mineral products: International experience,' was presented by D. Galsandorj, a doctor, professor and mineral economist. Sub-debates included issues on royalties and international standards in mining royalties. "Private and public associates gathered with the purpose to present facts and information from the mining sector. We are not here to complain, but to find a gate through



"Mineral exports and competitiveness: Benchmark price" on September 24th, 2014.

which to improve the current situation. The benchmark price has been a huge burden to exporters. These issues will be addressed in sub-sessions," said N. Algaa, President of the Mongolian National Mining Association, during the opening of the forum.

Time is running out

The government of Mongolia once thought mining was only about coal production. Such imbalanced behaviour caused its economy to slow when coal exports declined. The result was other sectors within mining became weaker than they already were.

China's huge demand for iron ore may seem like an opportunity for Mongolia. However, the trend won't last for long, say many experts in the field. "From 2020, the demand for iron production will decline rapidly. Currently, China is the only country in the world to import such a huge amount of iron ore," said L. Bayaraakhuu, Director of the Mongolian Association of Iron producers. As such, he believes Mongolia should take advantage of this limited opportunity and

supply China with iron ore while there is still time. However, "the high benchmark is the trouble child in this sector," said L. Bayaraakhuu. "If you look at the business plans of mining giants like Rio Tinto, their forecast extends only to 2025. After that they see no big demand for these sorts of products. This is not good." According to him, it is unrealistic for Mongolia to use a benchmark that is used to transport iron from Australia to China. (When setting benchmark prices for many exports including iron, the Mongolian government uses averages of Australia-to-China export prices that are posted publically on an Australian website.) Today, nearly 90 percent of iron production is not operative. The forecasts are not looking good for at least 3 years.

Another example of a failing sector is fluoride. Mongolia contains about 10 percent of the world's total proven fluoride reserves, at about 240 million tonnes, and is the third largest producer of this mineral. Unfortunately, only 7 out of 40 official mines are operating at the moment. Exports have decreased from 400,000 tonnes to only 100,000 tonnes. The Director of the Mongolian ▶▶

► Association for Fluoride Production, D. Munkhbazar stated, “The sector is in taxation debt. Demand as well as price has fallen. Big buyers like Russia are refusing to buy from Mongolia. In addition, benchmark prices are set way too high for producers to export. It is time for the government to consider whether it is doing the right thing to one of its main economic contributors.”

Mining operators were reluctant to complain that set benchmark prices are bad in general. Rather they think the methods are unreasonable. Copying and pasting arbitrary prices from a faraway continent is not beneficial, they said. As one of the participants concluded, the government of Mongolia is failing to save and bail out its most important economic sector.

Illegal legal environment

The Minerals Law states that the monthly price average of international trade should be used as the basic price when exporting minerals. Thus, royalties must derive from that amount. However, the General Department of Taxation has its own theory on royalties. L. Byambajav, the Director of Metalimpex LLC, said, “Take zinc concentrate for example. If you calculate the trading price for this mineral as stated in the Minerals Law, the price would be approximately USD 597. If you recalculate it according to the methods by the General Department of Taxation, exporters have to pay about USD 954 including royalties. It is their duty to pay taxes. However, taxation

regulations have to be fair and legal. The General Department of Taxation should work in correlation with the Minerals Law for enforcement.”

On the matter of illegal enforcement of the law, B. Tsetsenbileg, the Director of MBS law firm, said, “Trade price and benchmark price are two different concepts. Trade price should be calculated from the benchmark. And the benchmark should be set on stock exchanges. The government is only entitled to announce those stock exchanges. In the case of Mongolia, the government is breaking the law it made by announcing sources for these benchmarks.” In another words, the government is forcing exporters to pay royalties from the benchmarks it set by using sources it has chosen. In this sense, law enforcement goes as the government wishes it to go. And what the government is doing is by all accounts illegal.

How it should be

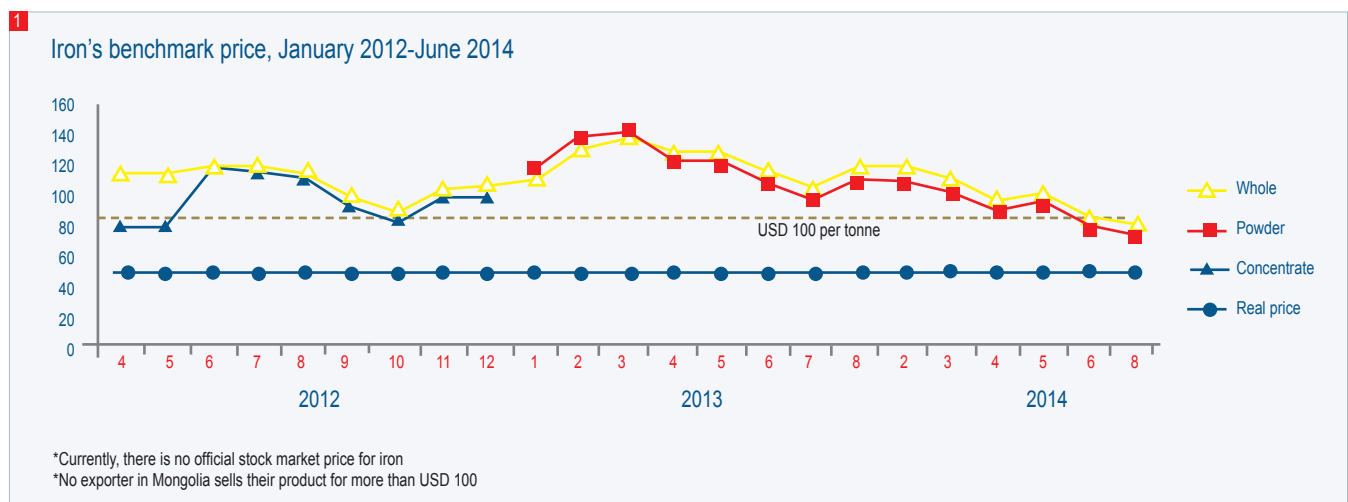
Mongolia is an independent country, a member of the United Nations and the World Trade Organisation. It can use its own benchmarks that suits its own peculiarities and situation. Yet Mongolia is using FOB, DAP prices from Australia and China without any tailored adjustments. On this matter D. Galsandorj said, “Regulations on calculating benchmarks on mining products from the Ministry of Finance and the Ministry of Mining states that international market information shall

be taken from a source then brought to an agreed upon average. Unfortunately, there is no such thing as this in reality.” He added, “Benchmark prices must suit the country. High taxation puts pressure on working assets. This is enough reason to revise how market prices are quoted.”

If market prices are not representative of the real world, national economic statistics will also appear wrong. The State cannot take taxes from a sum that has never been there. “The mining sector might see its end not because the products are bad, but because the legal environment is vague and instable. We have come to a situation where we can’t even sell products to our neighbours,” warned the Director of the Mongolian Association of Fluoride Production, D. Munkhbazar.

Ch. Tsogtbaatar, senior expert at the Policy and Regulation Department of the Ministry of Mining, offered some advice to representatives of the private sectors at the debate. “It is understandable that private sectors criticize the government. Of course, many issues persist. The government talked about the situation many times. I would suggest that associations should present their ideas to solve their issues to related Ministries on official papers.”

The warning signs were obvious to many in the mining and export sectors, however it remains unclear if the government has heeded the multitude of recommendations to lower benchmark prices and return growth and stability to the marketplace. ■



Source: Mongolian Association for Iron producers

RESEARCH

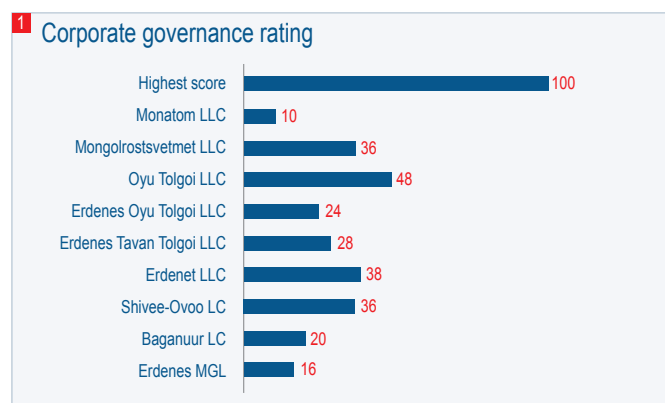
FIXING CORPORATE GOVERNANCE

BY A. BURENJARGAL

Corporate governance has a bad reputation in Mongolia—especially when it comes to state-owned companies. Better governance standards are needed to attract both national and international investment and improve the operating environment of the country's mining industry. With that aim in mind, the Open Society Forum and the Ministry of Mining conducted a survey, using data from April-August 2014, to evaluate the corporate governance climate of Mongolia's state-owned mining companies.

Scoring low

There are 10 state-owned mining companies operating in Mongolia, of which nine were included in the Open Society Forum and Ministry of Mining survey. The survey, based on research methods developed by the International Financial Corporation, evaluated Mongolian companies and gave them a percentage score, with 100 percent being the highest level of corporate governance. However, most Mongolian companies rarely surpassed above-average scores, despite the many talks on corporate governance that have been held in recent years. The survey's ultimate goal is to help corporate governance standards of state-owned mining companies reach the highest international standards.



Mongolian mining companies ranged from 10 to 48 percent in terms of company governance, according to the survey.

The majority of companies averaged scores of only one third of 100 percent. Oyu Tolgoi was ranked highest with a score of 48 percent. The results are 1.5 to 2.5 times lower than companies operating in other developing countries, including Vietnam, Thailand, and the Philippines, where corporate governance

percentage scores range between 48 to 77 percent, according to the International Financial Corporation.

Moving forward

"Most Mongolian companies take corporate governance just as a theory. They don't enforce it in their operations. This hinders their further development. Foreign invested companies in Mongolia are listed on the stock exchange. Thus, their actions are transparent. This is one of the first things to do to improve corporate governance," said D. Bailikhuu, who led the corporate governance evaluation survey.

2 Corporate governance of other Asian countries

Name of country	Rated year	Rating	Description
Vietnam	2009	43,9%	Integrated rating of the country
Hongkong	2008	72%	-.-
Thailand	2011	77%	-.-
Philippine	2008	72%	-.-
The average score of MSE Listed TOP20 companies	2013	27,5%	The rating of open LC companies
The average score of state owned Mongolian Mining companies	2014	28%	The rating of state owned companies

According to the research team, the level of transparency in operational activities and financial reports shows how corporate governance is implemented within a company. Although there have been a number of innovations and improvements relating to the legal framework of company governance in recent years, many issues still persist. For example, information on financial balances and reports are often not available; or there is no evaluation of a board member's activities, which dramatically diffuses responsibility. To change this current reality, companies should become as transparent as possible in both financial and operational matters, said research team associates. Recommendations were published on improving corporate governance for state-owned or state-participated companies.

The survey concluded that the legal framework of corporate governance in state-owned companies is poorly implemented, because individuals within the company make opinion-based decisions instead of choosing the best options for the future of a company. Additional surveys are slated to take place annually and evaluate further corporate governance improvement. ■



Photo by B. Byamba-Ochir

BY B. ENKHTSETSEG

Laurent Pochat-Cottilloux, Managing Director at AXA Healthcare Management based in Singapore, has spent 18 years in the private medical insurance industry. With an MBA from the London Business School, he has worked both in start-ups—launching the UK health subsidiary of French insurance group Azur-GMF—and in mature corporate environments—as UK Health Commercial Director for Standard Life.

Laurent, as Regional Managing Director of AXA for Asia-Pacific Health Reinsurance Markets, is blazing the trail for private medical coverage in Mongolia, where basic healthcare has been traditionally covered by the state. Yet as state healthcare falls further behind the times—with long waiting lists, outdated facilities, and doctors without the specialized expertise found in better equipped hospitals abroad—there is an opportunity for private hospitals and private insurers to fill the void. While there are currently 17 domestic insurance companies in Mongolia, AXA is the first international company to enter the marketplace, and is working in partnership with top domestic insurer Bodi to bring employer-based coverage to Mongolia.

INSURANCE

MOVING INTO MONGOLIA'S HEALTH INSURANCE MARKET

How many years have you been in this business?

The health insurance which I am representing, AXA, has been in the health insurance business for 70 years. I have been in this business for 18 years, and four years with AXA. I like the fact that health insurance gives medical treatment to people when it's needed. It's nice to see that we are helping people's lives.

You are trying to bring world standard health insurance to the private health sector in Mongolia. What kinds of products are you trying to introduce here?

There are already private health insurance companies in Mongolia. What we are trying to do here and elsewhere in Asia such as in Korea, Pakistan—we are introducing comprehensive coverage. It means you can get more for your money. You get medical expenses paid. You can go to the best hospitals in Ulaanbaatar, like the recently opened private hospital InterMed, with lots of doctors and brand new machines. We would also allow people to go to six countries for medical treatment—Korea, China, Europe, Singapore, Bangkok and so on. There are mid- to high-end market products not for mass market but for the middle-class and above. Maybe in Mongolia, a hundred thousand people could buy it.

There are very few employers who offer insurance to their employees. Is it hard for you to penetrate a market with such a foreign concept to Mongolia?

Yes it will be a little bit slow in the beginning because ▶▶

▶ people are not used to it. It will take a few years but we're patient. We've done a lot of research and we've asked a lot of companies here and employers in Mongolia. Practically every HR manager we've talked to has said "we're looking at this, we're thinking about it." They haven't yet bought the products but they're thinking about it, and that this might be something they need to do in the future.

As a business person, why come to Mongolia?

I am covering a big region, Mongolia was one of the last markets where I didn't have an insurance partner. Although it's not a big market, we're very excited about what it could become in a few years' time. We just need a few large employers like MCS for example to start providing health insurance to their staff. Then everybody will have to do the same, and people will start comparing the market and they want to look good. It could move quite quickly. Of course we're in bigger markets as well. We're in China, we're in India, Malaysia, Indonesia, Thailand.

Why did you choose Bodi insurance out of the 17 insurance companies in Mongolia?

AXA and Bodi are going to enter into a partnership, not just on health but also on large industrial risks like insuring airplanes, power plants, and stuff like that. There is a logic to it. Bodi is a large insurance company—number two in the market. They're dynamic, they have good managers and they've got good distribution, hundreds of agents.

It seems like most investors are moving out of Mongolia, so it's interesting to see you coming into Mongolia and bringing business—is this a difficult decision to make?

The slowdown in the market is really just a blip. As soon as you have the next big project coming in they start reemploying people. We have the same situation in other countries who are very dependent on a few projects like Myanmar, Papua New Guinea, in some parts of Indonesia, eastern Indonesia. Right now it's a little bit down, but we're not worried about the long-term prospects for Mongolia.

Which is the leading country in Asia buying health insurance today?

Practically every emerging and developing market has a lot of trouble with public health systems—it's very difficult in places like India, Indonesia, and China to provide good public health care. So there's a need for private healthcare as well. There's waiting queues in lots and lots of places. Indonesia has introduced social security, universal health insurance, but there are very long waiting lists at Indonesian hospitals. We sell a lot in Indonesia, but we are successful in most markets.

How many hospitals can you cover in Mongolia?

Approximately, six to eight main hospitals. We will also be giving access to hospitals outside of Mongolia. AXA has contracts with 12,000 thousand hospitals worldwide.

What percentage of costs can your health insurance cover?

It depends on the product you buy. Typically, we cover 100 percent. We compare 100 percent of costs as long as treatments that you are claiming for are covered. So typically, insurance products don't cover for your illnesses that you had prior to joining. If you have had a heart attack just before buying products, you are not going to be covered for health services. But otherwise, if it's new, we should be able to cover everything.

Do you have a different policy for people working in the mining sector?

We would apply price loading. So it is more expensive for mining sector workers and less expensive if you work in a bank. We are working on a range of products with Bodi insurance, equivalent to 500 dollars per year to about 3,000 dollars.

What services can I receive with my insurance?

Well if you claim, and get surgery, you will get many times your premium back. The idea of insurance is that we're hoping one out of ten users use the product in a year and you share the risk. So if it might cost 20,000 to have heart surgery or 10,000 dollars to have knee surgery, and if you have to go to the

hospital for treatment, the benefits you get would be many many times what you pay in premiums.

How do you know that the diagnosis is correct?

We spend a lot of time managing claims' costs. We have doctors and nurses employed by us. They know how much things should cost. We question—why is this guy staying 10 days when it should only be five. Why are you doing all these tests when you can only do two tests? Hospitals and doctors, their business is to treat people, they sometimes overspend. As an employer you don't want to pay too much for medical treatment that makes your premiums go up. We do a lot of work trying to keep medical expenses low by making sure that people get the right treatment.

I think you heard that Mongolia is a country with a very high rate of heart disease. Are there other lifestyle factors you might take into account when you enter a market?

We take into account other lifestyle factors when we supply products. The product would have to take into account all the risk factors. So in countries where there's more smoking, the product is more expensive. Each market has its own price. Launching this product with Bodi insurance, we want to better educate people to lead better lifestyles. To be healthier to have a better diet, do more exercise. In some countries we include a 'wellness' service in the product. They will tell you what you need to change in your life to be healthier. This kind of service will be included in the products.

What are the main benefits for Mongolians using your services?

You get treatment faster, you get to spend more time with your daughter, you get better diagnostic services, better facilities, you can get treated in the best hospitals abroad if you want to. We've met a lot of people who told us they went to Korea, to Inner Mongolia, to Germany, Bangkok, Singapore, to get treated, because for whatever reason they prefer to do that. It's a good opportunity for Mongolia to acquire the kind of products used everywhere else in the region. ■

TOURISM

BUMPY ROADS FOR TOURISM

BY TERRENCE EDWARDS IN ULAANBAATAR

Mongolia is seen by locals as a remote paradise full of splendors that only the motherland can provide. It's a country rich with culture that its children are proud to share. Too bad that negligence from government keeps the industry a blip on the economic charts.

Sustainable tourism provides jobs in local communities and encourages more spending there. It's also an economic incentive to help preserve cherished vanishing cultures, such as Mongolia's nomadic traditions. Conversely, mining tends to benefit only a small portion of a population. Too much reliance on resources typically results in depreciations of the local currency and deteriorating competitiveness in all other sectors – a phenomenon known as “Dutch” disease.

By most accounts, tourism in Mongolia has been a drag in 2014. Government figures have shown that the number of people entering on tourist visas was about 8.5 percent less in the first seven months of 2014 than last year. That total number of visitors during the 2014 period was 210,587.

However, because many people enter the country to look for work or other reasons unrelated to tourism, that figure alone is unreliable. Financial reports from the publically traded Genco Tour Bureau show earnings were down 22% for the first half of the year. Tsedevdamba Oyungerel, Mongolia's Minister of Tourism, Sport and Culture, confirms that tourism is down from past years, saying “July was quite a successful month. But

only July. June wasn't successful and August was not good either.”

Roughin' it

The services found in Mongolian tourism leave most travelers wanting more. A lack of roads makes travel overly long and sometimes perilous at night when there is little-to-no visibility. Although the government plans to have paved roads built between the capital and every province next year, there still won't always be routes between provinces.

“The quality of roads is really bad—its bumpy with many potholes. Really government should do something about the roads,” said Unbrakh Tsetsenbileg, a sales manager who has also worked as a tour guide during her four years at Juulchin World Tours.

Air travel is also unreliable at best, she said. It is common to book flights weeks in advance, only to learn the day of your flight that it has been cancelled.

Oyungerel and Tsetsenbileg both think tourist companies must find ways to intrigue more potential travellers through marketing and promotion. That's why the Tourism Ministry has spent most of this year's budget on its partnership with the ITB Berlin trade show to help build up a network with travel companies around the world.

But actions like last year's attempt by the Ulaanbaatar Citizens' Council to ban the use of foreign languages on signs outside buildings are hurting the industry. Oyungerel said she took a loud stand against the movement that arose

because locals felt their capital looked too much like “a foreign country.” Her argument that the signs were helpful to foreign guests prevailed.

One of the country's largest tourism draws, the Mongol Rally, fared less well amid similar hostility, however. The event's organizer, The Adventurist, will for the first time since launching the driving marathon 10 years ago end it at a new location, according to event manager Katy Willings. 2015's brave motorists will travel 10,000 miles from Britain across Europe and Eurasia to finish at the capital of another Mongol nation, Ulan Ude in Russia's Buryatia Republic.

Once a significant source of revenue for the government, this year will also be the first time rally cars will be shipped out of Mongolia back to Europe, rather than donated or sold. “New policy: no car left behind. We're never going to import another car to Mongolia,” said Willings.

Local newspapers decried the Mongol Rally as a public nuisance and an excuse for super-charged young foreign travellers to leave junked cars in the developing country. To the contrary, Willings says the cars are all refurbished and must pass inspection before being sold or donated. Proceeds from sales that exceeded The Adventurist's own expenses were donated to charity, said Willings.

Strained relations with the Mongolian government made organizing the event more trouble than it was worth, she said, so participants will not even have to drive through Mongolia anymore to finish. ▶

► For Mongolia, that means no customs duty, VAT, excise tax, and sales tax on hundreds of cars. Worse still are the lost dollars that would have been spent by the rallyers in Mongolia during their travels.

Rolling the dice on casinos

Oyungerel at the Tourism Ministry is now hoping to legalise gambling to create new attractions for the country. She says she expects to see parliament vote on a law that would allow for a horse racing track. She is also preparing a second bill that would allow for a casino.

"The legalization of gambling, if done in a responsible way, would be a major

positive for Mongolia's economic growth and create an industry that is larger than the current mining based economy," said Harris Kupperman, chairman of the real estate development firm Mongolia Growth Group. "With over one billion potential customers in China alone, the legalisation of gambling would allow Mongolia's tourist sector to mirror Macao's growth over the past decade."

And The Adventurist, which encourages its clients to get "lost and in trouble," hasn't abandoned Mongolia either. It will continue to host the Mongol Derby in Mongolia – a 1,000 kilometer horse race that replicates the journey of the postal riders that delivered messages for the 13th Century Mongol Empire. The event

employs herders to provide the horses for the race. Mongolia's horse culture also lends more affection to the event for Mongolians, said Willings.

But the real challenge Oyungerel and tour groups will have to manage will be improving the industry without wiping away the rugged veneer that makes Mongolia such a special place to visit in the first place. "There is a beauty about that," says Oyungerel, about the uncertainty in Mongolia that all at once is a cause for frustration and awe for visitors. "Those who travel to Mongolia should expect some spontaneity. If they live by a set schedule they should come to Mongolia and leave behind their schedule for some days." ■



Photo by B. Byamba-Ochir

Eagle hunters of Bayn-Ulgii province, Western province of Mongolia



999 horsehead fiddlers played at Chinggis Khaan square on the 5th of July in 2011.



A 10,000 horse-rider parade, certified as a Guinness World Record on the 9th of August, 2013

Photo by B. Byamba-Ochir



9,999 young chess players compete in the world's largest chess competition.

MONGOLIA'S PRIDE

CHESS PLAYERS SET WORLD RECORD

BY B. BUREN

A new Guinness World Record was set in Zavkhan aimag as 9,999 young chess players assembled together to compete in a chess tournament. The event was organized by Parliament member and Minister of Labour Ya. Sanjmyatav, and welcomed Kirsan Ilyumzhinov, president of the World Chess Federation (FIDE).

The competition—designed to support and spread the game's popularity and boost local tourism—brought together chess players in each soum of Zavkhan aimag. The best of the one hundred players that made it to the finals in Uliastai city were awarded gold, silver, and bronze medals, as well as a travel ticket abroad.

During the opening ceremony, Minister of Labour Ya. Sanjmyatav, commenting on Zavkhan aimag's successful organization of the massive youth chess tournament, said "It's been six years since our three

pillar policy was implemented. In that time, 666 children received computers, and 999 horsehead fiddlers played music at the base of Olgontenger Mountain as well as at Chinggis Square in Ulaanbaatar. Today we show the third pillar of the policy to you all. This time, 9,999 chess players have made a move together at the same time. We have achieved a historical success."

FIDE President Kirsan Ilyumzhinov remarked that although he does a great deal of travel throughout the 181 countries enrolled as member nations in FIDE, he has never seen an event such as the one in Mongolia. He also highlighted that having 10,000 chess players play together simultaneously is great publicity for the game of chess in Mongolia and around the world.

The grand competition mirrors an event in August 2013, when over 10,000 horse-riders paraded at Khui Doloon Khudag grounds outside Ulaanbaatar, a feat similarly certified as a Guinness World Record. ■