

MONGOLIAN ECONOMY

November 2015 №21 (100)

www.mongolianeconomy.mn

SPOTLIGHT

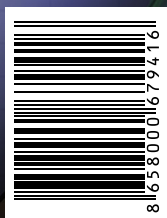
INTERVIEW WITH CEO OF ERDENES MONGOL LLC,
B.BYAMBASAIKHAN

THE TRUE COLOURS OF STATE-OWNED ENTERPRISES

ECONOMY

HOT TOPIC: S.ERDENE, THE SELF-IMMOLATION HOT-HEAD

Keep Politicians Away from SOEs!



Carton By B.Ser-Od



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Your comprehensive guide to the coming
year's global economy

The World in 2016

Mongolian Economy magazine has been granted exclusive permission to translate and reprint in Mongolian the **Economist's** "The World in 2016" annual special issue. On top of articles by "The World in 2016" that provide analyses and forecasts of the coming year's economic news, our own journalists and editorial team will contribute content related to Mongolia's economic, financial and business developments.

MONGOLIAN
ECONOMY



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EDITOR'S NOTE

Season's greetings!



In this issue, aside from the main topics of the economy and business, we have highlighted the issues surrounding the governance of state-owned enterprises. A company must be profitable. While newly-established private companies have evolved and are already standing firm on their own two feet, why are SOEs at a standstill? They talk more about loss than they do about profit. The enemies of corporate development – corruption and nepotism – follow SOEs like their own shadow. How long are we going to tolerate the pretenders abusing state property, syphoning easy money to get rich? How long are we supposed to feed them with our tax money?

Now is the time to put a stop to these issues and entrust the development of the economy in the market. Therefore, we have highlighted what the issue is and the way out. An interview with the CEO of Erdenes Mongol LLC, B. Byambasaikhan, about the reasons behind poor governance of SOEs and ways to improve will give you insight into the issue. In addition, you can get information about the draft law on state property, familiarise yourself with experts' research on the governance of SOEs, and you can also read about the experience of Singapore's state-owned Temasek Holdings.

You can also find information about what was discussed during the Ministry of Industry's "Made in Mongolia" forum held last month, as well as the fifth national forum of Corporate Social Responsibility held this month.

In the end, we have for you an interesting interview with Jurgen F. Conrad, Head of the Economics Unit of the ADB Resident Mission in the People's Republic of China.

I. Otgonjargal, Deputy Editor

“ P30



Since the Convention on the Rights of the Child was ratified, progress for children in Mongolia has been undeniable and remarkable...

Priority now is to ensure that these achievements are equitable and not only reflect a national average, as progress has not been distributed equitably among all children and there is a widening gap between socio-economic groups that exacerbates the fact that the most disadvantaged lag behind.

“ P20



It seems like it was just yesterday that we believed economic growth will reach 20 percent soon. The only thing everyone agrees on is that next year's budget has some advantages over those of previous years.

“ P27



Banking accounts for 95 percent of Mongolia's financial sector. This is a systemic imbalance which shows overreliance on one sector, and carries with it huge risks.

SPOTLIGHT

- 8 The True Colours of State-owned Enterprises
- 10 The Iron Throne of State-owned Enterprises
- 11 CEO of Erdenes Mongol, B.Byambasaikhan: SOEs Must Be Run Like Regular Companies
- 13 Re-shuffling of State Property
- 14 D.Bailykhuu: Very Few Cases Where SOEs Are Necessary
- 15 Temasek and the New Era of SOEs
- 17 Interview with O.Batbold of the GIZ on Corporate Social Responsibility

ECONOMY

- 20 Figures for the Upcoming Election Year
- 21 Hot Topic: S.Erdene, the Self-immolating Hot-head
- 23 President Elbegdorj's State Visits to China and France
- 24 Interview with Jurgen Conrad of the ADB Resident Mission in China
- 26 The New Path of Industrialisation
- 27 Developing Capital Markets
- 29 Infrastructure the Key Topic at CAREC Forum
- 30 UNICEF Representative Roberto Benes: Inequality Morally Unacceptable

MONGOLIAN NEWS

SMALL- AND MEDIUM-SIZED MANUFACTURING



The Confederation of Indian Industry (CII) in partnership with the Indian Ministry of MSME is organising the "Global SME Business Summit 2015" on December 7-8, 2015 at the India Habitat Centre in New Delhi, under the theme "Make in India through Global SME Partnerships."

The objective of the summit is to connect global SMEs with Indian SMEs for mutual business development and to explore the emerging Indian market. This summit will also work towards creating a solid platform for key decision-makers, business leaders and multilateral, global funding agencies to address issues common to SMEs and identify cross-border partnership opportunities. This summit would create platform for various countries to showcase the business and technological strengths of their SME sector to global counterparts. It will also be useful for SMEs from various countries in forging global partnerships and in helping the growth of the SME sector globally.

ENERGY



During Minister of Industry D.Erdenebat's official visit to Germany, the Director of "West Mongolia Energy" LLC, B.Altangerel, and the Director of German joint "SaxEnergy Mongolia" LLC, Frank Kockisch, signed a memorandum

of understanding to build a power plant with a capacity of 60 MW in Ulaangom.

It will be the first hybrid – coal and renewable energy powered – power plant in Mongolia. By building this type of modern power plant, western provinces can satisfy their energy consumption needs domestically without importing energy from Russia.

The project is being implemented under a public-private partnership concession agreement. The memorandum of understanding states that West Mongolia Energy LLC shall repay a loan worth EUR 120 million within 40 years.

BUDGET

The final discussions on the submitted drafts of the state budget for 2016, social insurance fund budget for 2016 and the Human Development Fund budget for 2016 have ended and the drafts were approved.



The state budget's total revenue is MNT 7,013.9 billion, equivalent to 25.4 percent of GDP, and the total expenditure is MNT 7,954.4 billion, equivalent to 28.8 percent of GDP. The total deficit is MNT 940.5 billion, or 3.4 percent of the GDP.

WASTEWATER TREATMENT PLANT

During a regular meeting, the government came to the decision to implement the project to establish a new wastewater treatment plant with the capacity to treat 250,000 cubic metres per day in Ulaanbaatar.

Due to the out-dated technology and equipment, the current facility's energy consumption has become very high, costing MNT 250 million per month. Built in 1964, the Central Wastewater Treatment Plant of Ulaanbaatar desperately needs technological renovation and maintenance of facilities,

as well as the new wastewater treatment plant.

The Minister of Industry, D.Erdenebat assigned the Head of the Investment



Authority, S.Javkhlanbaatar, the task of organising the concession tender in accordance with the relevant regulations.

LAW

The first discussion on the draft law on joint pension has been held. The draft law states that a deceased civilian's husband or wife of 15 years has the right to collect the social insurance fund pension or military pension, and the measure was supported by a majority of the members present at the meeting.

They also voted that the government will determine the amount of pension each year for the pensioner eligible for joint pension, taking into consideration minimum subsistence requirements and price changes, and joint pensions must be not less than 20 percent of the full pension provided from the social security pension fund. The draft law has been transferred to the Social Policy, Education, Science and Culture Standing Committee to be prepared for the final discussions.



ASEM

The Mongolian Ministry of Foreign Affairs announced that the former visa scheme will be restored for the citizens of 42 countries, effective starting January 1, 2016.

Citizens of the 42 countries have been enjoying visa-free travel for up to 30 days in Mongolia since June 2014. However, Mongolia will tighten its visa regulations and border controls within the framework of the preparations for the 11th ASEM Summit, taking place in Ulaanbaatar in 2016.

"In addition to improving domestic and internal security procedures, exceptional security measures, such as temporary suspension of the selected bilateral visa-free agreements in order to strengthen immigration control, may be introduced before the Summit," stated the Ministry through official channels.

WORLD NEWS

INDIAN HEALTHCARE PROJECT

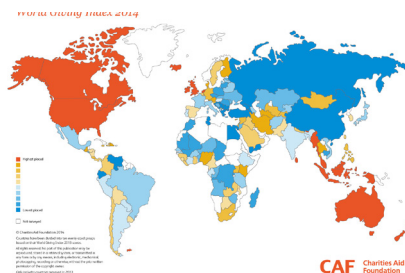


An unprecedented project to reduce the cost of expensive medical treatments involving things such as anti-cancer drugs and coronary stents has been implemented at the All India Institute of Medical Sciences (AIIMS). Under the Affordable Medicines and Reliable Implants for Treatment (AMRIT) programme, 202 drugs used for treatment of cancer and cardio-vascular diseases will have their prices reduced by 60 to 90 percent on average. Furthermore, 148 types of cardiac implants will be sold at costs 50 to 60 percent cheaper than the market rate. The project will be run in conjunction with HLL Lifecare, an Indian state-owned enterprise that manufactures drugs and other medical necessities. This pilot program was launched on November 15 by the Union Health Minister J. P. Nadda.

2015 WORLD GIVING INDEX

The Charities Aid Foundation published its World Giving Index for the sixth consecutive year. The index

measures generosity and charitable behaviour and surveys 145 countries, accounting for 96 percent of the world's population. The results are scored by averaging the percentage of people



in each country who donated money, volunteered or helped a stranger in the past month. Myanmar topped the list, with the USA just slightly lower to come in at second place. The list also shows that wealth is not necessarily the decisive factor when it comes to generosity. Only five members of the G-20, the group of 20 wealthiest nations, made the top 20 of the list. Six of the G-20 (including China, Russia and Brazil) failed to make the top 100. Mongolia placed 52nd on the list. According to the survey: 2.2 billion people helped a stranger in the past month; 1.4 billion people donated money; and 1.0 billion people volunteered their time.

JAPAN RECESSION



The Bank of Japan announced on Thursday, November 19 that it will keep its policy rate steady, even as Japan enters recession territory. Weak demand from emerging markets has caused Japanese exports and production to fall for the first time in over a year. The BoJ reiterated its pledge to increase base money (cash and deposits at the central bank) at an annual pace of JPY 80 trillion (USD 650 billion) per year through purchases of government bonds and risky assets. Nevertheless, according

to a poll by Reuters, half of analysts surveyed stated that they expected the BoJ to begin easing in January. Deflation, partly caused by the drop in oil prices, has become a real cause for concern, but printing more money has yet to tackle the problem.

GREEK BAILOUT SAGA

Greece and its international creditors have reached a deal on the next round of economic measures to be taken, and along with it EUR 12 billion in additional loans. Greek officials had originally hoped the measures passed in October would be enough to secure the next installment in its EUR 86 billion bailout programme, but Eurozone finance ministers stated the measures taken were unsatisfactory.



The key issue this time around involved a mathematical formula for providing some highly indebted Greek homeowners protection from foreclosure. Two of the 12 billion euros will be allocated for Greece's domestic needs, while 10 billion will be used to recapitalize banks (increasing their cash reserves to make them less vulnerable). Creditors' demand for foreclosures has been a point of contention in the negotiations, with the Greeks insisting that protecting Greek families from losing their homes is crucial to social cohesion. Under this most recent agreement, 25 percent of homeowners belonging to "vulnerable social groups" will continue to enjoy protection from foreclosure. An additional 35 percent are eligible for foreclosure protection based on criteria such as repayment record and value of the property. Issues that still need to be resolved in future negotiations include determining which non-performing bank loans can be sold to foreign investors, and whether home mortgages can be included. ■

The True Colours of State-owned Enterprises

By G.Orkhon



The governance of companies operating in Mongolia is disappointing in general, but state-owned enterprises even more so. Several reports and pieces of research confirm this. The governance rating of state-owned mining companies was 28 percent in the past year, which is 2-3 times worse than Hong Kong, Thailand and Philippines, whose companies have a performance rating of 72-77 percent.

In defence of the governance of today's companies, it can be said the notion of SOE governance is relatively new, but nevertheless, operational information of state-owned or state-controlled companies should still be transparent. Good corporate governance has significant positive effects on the stability of a country as well as the global economy. Hence, addressing the problem of poor governance in today's organisations is of utmost importance.

Governance in the leading sector

In recent years, corporate governance in Mongolia has been improving, and relevant regulations and rules have been issued, but the average governance rating of state-owned or controlled mining companies is still low. An example of such can be seen from the study conducted last year by a research team led by economist D.Bailykhuu.

Using a method developed by the International Finance Corporation, the study included nine state-owned

companies, including big names such as Erdenes Mongol LLC, Oyu Tolgoi LLC, Baganuur JSC and Shivee Ovoo JSC.

The majority of the companies scored only one-third of the maximum score. Oyu Tolgoi LLC showed a slightly higher

Corporate governance rating



State-owned mining companies integrated assessment of governance /by indicators/

Indicators	General assessment
Control system	2.7
Regulations and other legal acts, its contents	2.6
Board of directors	1.7
Executive management	1.7
Protection of the shareholders' rights	1.7
Shareholders' meeting	1.2
Dividends	1
Quality of certain important negotiations	0.6
Information transparency	0.4
Overall score	1.4

score than others by receiving a score of 48 percent. However, it should be noted that this does not even reach the half-way mark. The average corporate governance rating of the companies surveyed was 28 percent, which is 1.5-2.5 times lower than other Asian countries. The reason for this poor governance rating is closely related to the lack of information transparency, poor negotiation quality and protection of shareholders' rights.

In a nutshell, these companies' activities in these categories are mostly illegal and dysfunctional. Corporate governance, especially good corporate governance of state-owned mining companies, prevents embezzlement and improves organisational operations. Furthermore, the research team stressed that it increases the possibility to attract foreign and domestic investment and ensures long-term sustainability.

"This issue has become the opinion certain officials, since the legal basis state representation in state-owned enterprises' is unclear," stated D.Bailykhuu. He added in his reports, "SOEs' implementation of state representatives is inadequate, and the implementation of regulations is not orderly. The provisions of regulations to guide these activities are uncertain. Such uncertainty creates an opportunity for officials to resolve the issue at their own discretion."

The report noted that the legal provisions concerning the disclosure of information are not being implemented. All the surveyed companies scored extremely poorly on this issue, and companies such as Erdenet Mining Corporation and "Mongolrostsvetmet" LLC received a score of zero. These companies' poor decision-making on significant negotiations and failure to disclose their financial statements to the public brought down their governance rating.

Corporate governance ratings of state-owned energy companies are also low: around 30-44 percent at the end of 2014. However, indicators of corporate governance in other developing Asian countries are around 48-77 percent. This indicator shows that there's a lot of work to be done in order to improve the governance of SOEs in Mongolia.

The results of the corporate governance study conducted by the initiative of the Open Society Forum showed such poor results and 13 companies, including Thermal Power Plants 2, 3 and 4, were included in the survey. According to the research team led by D.Bailykhuu, the uncertainty of the legal basis for state representation in SOEs is making it the matter of certain officials' whims. The zero rating that pulled down the evaluation of companies is related to questionnaires about shareholders' meetings, boards of directors and management.

They say the key to good corporate governance is disclosure of information about company activities. However, the majority of the companies surveyed

have not made clear progress in this regard. This report shows the poor implementation of corporate law and other relevant provisions related to the disclosure of information. Another thing that brought down the corporate governance indicator is that companies are engaging conflict-of-interest negotiations. D.Bailykhuu said proper negotiation of large deals is beneficial to companies. It should be an essential tool to protect the company from the private interests of officials in power and their affiliates.

The current corporate governance ratings of SOEs of the so-called key sectors of energy and mining showed such poor ratings. In addition, researchers noted that the legal provisions related to corporate governance and international business principles are not being implemented. The research team said that their report given to surveyed companies includes detailed company-specific recommendations on how to improve corporate governance in each of the companies – something that companies in both sectors can greatly benefit from. ■

Assessment on information transparency of state-owned energy companies

Company name	Information transparency	
	By points	By percentage
TPP-4 JSC	1.6	32
TPP-3 JSC	1.9	38
TPP-2 JSC	2.1	42
DTPP JSC	1.2	24
ETPP JSC	0.8	16
UBEDN JSC	2.4	48
Eastern Energy System JSC	2.2	42
Baganuur South East Zone	2.5	50
Electricity Distribution Network		
Ulaanbaatar Heating Network JSC	2.0	40
National Power Transmission Grid JSC	2.1	42
Erdenet Bulgan Electricity Distribution Network JSC	0.8	16
National Dispatching Center state-owned LLC	2.9	58
Western Region Energy System JSC	1.7	34
Average rating of the companies	1.9	38
Highest rating possible	5.0	100

A pillar sector's partial governance



MANAGEMENT

By G.Tushee

They say that SOEs operate continually sustaining losses. Yet, no one talks about the underlying causes. There are only two problems causing them to have to work with deficits: social responsibility and the exchange rate. The Head of the Property Management Department of the State Property Committee, V.Darkhanbaatar, stated that there is no company with deficits in core operations. Although certain companies are working with deficits, the losses have been declining in recent years. State-owned enterprises had deficits equal to MNT 69 billion in 2012, but this figure decreased to MNT six billion in 2013.

State-owned energy companies suffer losses because the state controls its pricing. Several companies have suffered investment losses in recent years, particularly due to exchange movements. For example, MIAT purchased a Boeing 737-800 last year. In doing so, they suffered a 50 billion tugrik loss due to exchange rate movements. V.Darkhanbaatar said that the director of the company took responsibility and was fired. In general, the State Property Committee is directly responsible for issues related to the management of SOEs. Researcher D.Bailykhuu said that such bodies in other countries also monitor companies' management and evaluate their performance. Thus, the poorer an SOE operates, the more the

director's seat gets replaced. However, the thrones of some companies are unfavourable to their real holders, while being advantageous to others.

Today, there are 75 state-owned or state-involved legal entities in Mongolia, and the same number of executives are there to lead their respective teams. These 75 organisations consist of joint stock companies, limited liability companies, state-owned enterprises and state-involved companies.

Who sits in the seat of management, which has obligation to fulfil the state's orders, is decided by the State Property Committee after discussions with relevant ministries. The State Property Committee directly appoints the head of SOEs, makes a one-year labour contract with the person and approves the year's economic targets. In order to meet targets, the principle for each director is to mobilise all its resources. However, directors of state-owned joint stock companies are appointed by a board of directors in accordance with corporate law. But the State Property Committee approves economic indicators, investment plans and the directors' purpose of work to be carried out over the year. The management of state-owned or state-involved companies receive one year appointments and the board of directors decides if an executive's tenure should be extended

considering the successful fulfilment of obligations. If it was not enough, they part ways with the management. The State Property Committee oversees the implementation of the management's work through the board of directors.

A company's business will not improve just by replacing the director. In order to enhance the effectiveness of SOEs, board structure and operations must also be good. According to corporate law, SOEs, regardless of their size, must have a board of directors with more than nine members. But today, some SOEs' board structure is not in line with that provision. Last year's state-owned and state-involved companies assessment reports say the core activities of the boards of directors is not in accordance with relevant regulations. Particularly, a company's CEO must be appointed by the board of directors, and his or her work performance must assessed by them. However, cases of the government or its agencies directly dealing with the company's executive director and giving them orders occurred in the majority of surveyed companies. It stated that this is diminishing the role of the board of directors in the company's operation. "We select the executives of SOEs by such a method, and it's same for the board of directors," stated V.Darkhanbaatar. "Also, the selection of independent members of the board is openly publicised in

daily newspapers. However, there are difficulties in implementing good corporate governance in reality. At the recommendation of the prime minister, we tried choosing independent members without the involvement of ministries and the State Property Committee. However, the independent member candidates say 'what are we supposed to do in such a small company's board of directors with such a low salary?'"

Not long ago, state-owned or state-involved energy companies were suffering sustained losses. But in recent years, some of the companies started to see profits, while others' deficits shrank thanks to price changes by certain policies by the Ministry of Energy and

the government. For example, last year, economic indicators of several companies such as TPP-3 (Thermal Power Plant) and Ulaanbaatar heating network showed profits. According to last year's annual economic indicator of state-owned and state-involved companies, TPP-3 made a profit of MNT 2.3 billion.

The management of SOEs must make a contract with the chairman of the board, with the director being responsible for managing his team. Essentially, the management must be good managers. Management needs to carry out the basic operations of the company at as low costs as possible. On the other hand, companies' boards should meet once

a month. Today, most companies are meeting once a month in accordance with this regulation, but some of the more rural companies, especially road construction companies, are not able to hold monthly meetings. In addition to finishing their work in a timely manner, there are financial issues in coming to the capital every month.

V.Darkhanbaatar said that in order to improve the management of SOEs, its selection processes must become more transparent and open. In some current cases, selection is not in accordance to regulations. However, as for the companies operating in the red, experts say that they can turn a profit if they improve corporate governance. ■

CORPORATE GOVERNANCE

B.Byambasaikhan: SOEs Must Be Run Like Regular Companies

By D.Bekhbayar



We sat down with the CEO of "Erdenes Mongol" LLC, B.Byambasaikhan, to talk about the current situation and future of state-owned enterprises.

- You having been doing a lot to change corporate governance of SOEs. How are things going at the moment?

- We're not going to reinvent the wheel. Our aim is to make SOEs actually adhere to the system already in place. To put it simply, it doesn't matter who the owner is, let's just run a company how a company should be run. The citizens of Mongolia are the owners of the SOEs. However,

we know how SOEs are perceived by the public. Everyone knows.

Today, most SOEs are operating in the red. I would say that they can operate profitably only if these companies are run like normal companies. The objective of any company is to bring profit to the owners. Why is it that SOEs operate with losses, while private companies are profitable and well-managed? The private sector is accounting for 80 percent of the country's output. They are carrying the country's development on their backs since they work how a company should. SOEs can't seem to

this is because they operate as though they are something other than what they are – a company. There are many good examples of the successful development of private Mongolian companies.

Hence, we are working on the preparations to make SOEs operate according to business principles. To do so, first we need to determine where exactly we stand. For example, we are focusing on whether financial reporting is consistent with international standards and requirements. One of the world's four largest companies is performing the audit. With this, we will determine our

company's level of financial reporting and where we need to improve. Everyone is striving to develop as a company. In our country, a rather well-developed corporate law framework is in place, meaning a good legal environment has been established. We must adapt to this framework. There will be changes in approaches. Even the employees will become inspired and more energetic if the company starts to be profitable.

- What is the significance of undergoing financial auditing by a large multi-national company?

- Financial auditing is very important. In order to raise capital from international markets, a financial audit report of the last three years conducted by an international financial auditing firm is necessary. From these reports, the consistency of a company's financial management with international accounting standards can be seen. In addition, capital must be raised in order to introduce new management and expand a company's operations. SOEs operate in a limited scope within the regulatory environment. In order to solve issues and conduct major operations, it's necessary to work within the scope of many laws, rules and regulations, so a lot of time and money are required. Some of the laws and regulations are inconsistent with each other. A lot of time is spent trying to figure how a company is supposed to operate under such conflicting regulations. I can personally attest to this. Today's business is a race against time, in a highly competitive environment. SOEs are working in a competitive environment, but then on the other hand, they are also working in a restrictive environment. We are preparing the works to change this situation under the law.

Our country has already chosen the path of a market economy. If this market were connected to the international market and if corporate governance is improved greatly, we can significantly contribute to the long-term prosperity. If such were the case, we would save time and money and operate profitably. Companies are the foundation of economic development. The private sector producing 80 percent of economic output is a testament to this.

- Parliament will discuss soon the

draft law on improving the governance of SOEs. When exactly will this issue be discussed?

- There is the expectation that this process will intensify with state support. I hope parliament discusses and approves it sooner rather than later. Reforms are most likely needed on many levels. Before anything, we need to upgrade the system, improve the legal environment and become free from political interference.

- They say the objective is to develop Mongolia's SOEs by the model of Singapore's Temasek Holdings.

- Temasek is a role model that shows what success can be achieved by working like a real company. In the past, Singapore's SOEs also used to be unprofitable; its system was poor and not beneficial to the owners. However, the government set a goal to make Singapore's SOEs operate like a real company, and they reached the current level of development by removing the status "state-owned." Of course, this is not a process easily completed in a month or even a year. We are aiming to emulate and adapt this model borne out of Singapore's experience in Mongolia. This does not mean that we're going to outright duplicate Temasek. The secret to this world-renowned model is the able personnel. Temasek is profitable, successful and benefits its owners, who are the citizens of Singapore. This can be attributed to the fact that they attract the world's most skilled personnel to employ them in asset management.

- Is it not possible to bring the best managers and employees to the companies that you run?

- At the moment, no. But it's possible if we really strive for it. Honestly, there aren't a whole lot of possibilities to attract skilled managers by giving them satisfactory salaries, bonuses and authority to run companies today.

- There is a high turnover of SOE executives. Yet, replacing executives does not bring about significant change. Are you saying that there will not be any meaningful results, no matter how many times the executives are replaced, unless the entire governance system is reformed?

- Today, politicians appoint the executives of SOEs. For example, the government appoints the CEO of Erdenes Mongol LLC. This needs to be changed. The owner of a company should actually run the company through the board of directors. According to corporate law, a company's executive director must make an agreement with the board of directors and strive to efficiently run the company by being responsible and held accountable. Our private companies have been through many stages of development over the past 25 years. They choose their director according to this principle, and the executive director reports to the board of directors. We are working to introduce this system to Mongolia's SOEs.

- You are saying you should actually report to the board of directors instead of the prime minister. The Temasek model does not allow any prime minister, members of parliament or ministers to barge in. However, the total opposite is the case in Mongolia.

- Right.

- You often say that Mongolia will develop by following world standards.

- Following international standards is crucial because we are passed the time when Mongolia works only within its borders. Our economic growth is connected to what is happening in the world. Things such as the global economy, the decisions made by the US Federal Reserve and increases and decreases in Chinese production have become very relevant to us. We need to clearly understand that we live in a globalised economic environment. It's not possible to only comply with local standards in today's world. Other countries have a common understanding, play by international rules, raise capital from the global market and expand their activities. How can we develop if we just play by our own rules?

Hence, we need to introduce international standards and strictly adhere to them. These standards don't need to be reinvented. Private companies understood this a long time ago and sought out companies of international standards to prepare their financial

statements. Financial statements need to be ready in order to raise funds in foreign markets. We're aiming to make this the norm for SOEs. Adhering to global standards is not such a difficult thing. In order to adopt and use these standards, we need reforms to improve our methods, concepts and practices.

- In recent years, the state has actually been increasing the amount of SOEs instead of pursuing privatisation. What are your thoughts on this trend?

- It is wrong. One of the main things hindering economic growth is that the government too often interferes with business. Businessmen cannot make long-term business plans if the

laws and regulations are unintelligible and uncertain. Long-term business planning is a key measure of business competitiveness. There's no need for long-term planning if the legal environment is unstable and changes frequently. Look at the rules and regulations of highly competitive countries; they have fostered rapid growth by developing stable laws and regulations that have not changed for years. Everything is clear for the entrepreneurs. This applies equally to private and public companies. Constantly playing short-term games makes it difficult to know what will happen next year and for companies to develop.

-How are things going at Erdenes Mongol LLC nowadays?

- Our main objective is to conduct operations in accordance with international standards of financial management. The role of major projects is vital to our economy, so we have to move forward with them. The OT underground mining project has started and is moving forward. We are conducting fundraising activities on international markets for two companies, Baganuur and Shivee Ovoo. Furthermore, we are thinking about how to profitably run the Tavan Tolgoi project. Although there are many on-going works, we are pursuing our strategy as a holding company and focusing to work with a plan on the main works. We are at the beginning of big changes. ■

LAW



Re-shuffling of State Property

By Ts.Elbegsaikhan

In the Constitution of Mongolia, it is stated "By its state structure, Mongolia is a unitary State." However, fully complying with the provisions of the constitution over the past twenty years has not been the norm. "State and Local Law" afforded to each province, soum and even district the right to administer itself. This conflict is due to the term "local property" in the law. In particular, provinces, the capital city, soums and districts each have rights to manage, lease, bestow or pledge their property without seeking permission.

On September 28, the government submitted a draft law on "State Property" to parliament. The draft law includes provisions and regulations that would correct the shortcomings of the current law and resolve the above mentioned issues. The government believes that by doing so, state property will become

more unified and controlled, and governing bodies will be more cohesive.

As a nation with a unitary system, the government believes that the government must own state property and administer it in accordance with the laws passed by parliament, and provincial governments should only have the right to manage it. In other words, the properties currently considered "local" are to be registered as property of the state. Only parliament will have the right to change a state-owned property's entity status and privatise it. It is reflected in the draft law that parliament will give the national government the right to realign and privatise, and the government may grant the right to provinces and city councils. Furthermore, the government will be responsible for issuing detailed regulations on this issue.

One important regulation included in the draft law is the conditions and requirements in establishing a state-owned enterprise. The current law does not have any regulations in this regard. Getting started on such regulations after 20 years can be considered a step forward. In doing so, not only will it require validity to establish SOEs, but also assurance of operational and financial information transparency after establishment. The glass account law and other legislation require SOEs to be open and transparent. They must submit quarterly financial statements with audit conclusions and disclose any bonuses and awards to the members of the board of directors and executives. In addition, SOEs must disclose the unified reports of the company's operation to the public bi-annually. The information to be disclosed

to the public must reflect mandatory financial and non-financial information. By doing so, state participation in the operations of SOEs will become consistent with the standards of other countries.

Today, the governance of the SOEs is one of the issues of concern. Nepotism runs rampant within Mongolia's SOEs. The root of the problems lies in the fact there were no regulations and laws regarding corporate governance. The current law in force openly allows the person in charge of a company that represents the state to freely make decisions freely. D.Bailykhuu, a member of the Board of Directors of the Corporate Governance Development Center, believes that oversight and accountability regarding this issue is far from satisfactory. The draft law

includes solutions on how to deal with this problem. It sets limits and creates a system in which "Any state institution shall be prohibited from participating in the nomination of an independent member of the boards of directors of any state-owned enterprises," and "the government must submit the names of the candidates to become the member of the board of directors to the company's nomination committee." The "nomination committee" carries an important role and will handle the selection of the state representative. In other words, the appointments will be made not by the higher authorities, but from below, according to this system.

Then there is the weak accountability. Under the current scheme, an official who violated a law shall be fined a maximum of MNT 60,000. Specifically,

the law states "a guilty official who donated, bestowed, pledged, loaned or incorporated a state property without the consent of the relevant authority to another legal entity shall be fined MNT 30-60,000 and compensate the damages caused." However, by the approval of the "State Property Law," the guilty official will not only have to compensate for the damage, but will also be fired from his position.

Who, then, will represent the state? The draft law states "The legal entity to represent the state share can be a person from the government or it can be several organisations." It also says, "If necessary, a legal entity from the private sector or a non-governmental organisation can be appointed as the shareholder."■

EXPERT OPINION



D.Bailykhuu: Very Few Cases Where SOEs Are Necessary

By Ts.Elbegsaikhan

We sat down with the State Property Committee advisor and member of the Board of Directors of the Corporate Governance Development Center, D.Bailykhuu, in order to get detailed information on the new state property draft law.

- If private companies start to represent the state, many people would suspect that they intend to make money off the state. Is it right to be suspicious of this?

- In order to avoid this, the state

representative will be appointed from the bottom, not the top. Members of the board of directors of a company will be nominated and appointed by the Nomination Committee. High-ranking officials will only have the right to submit nominations. The procedure for submission of nominations has become clear and who can become a candidate has also been specified. If implemented as it should be, the plague of nepotism should be reduced.

Also, management's salaries and other financial information will become

transparent and will be under the scrutiny of the public. The people will be able to demand rectification for misconduct. It has been 400 years since the beginnings of corporate governance. Throughout the centuries, international experience has made clear what is good and what can lead to bad consequences, so it is important to learn from others' positive experiences.

- What is the main purpose of the draft law?

- The main change is that it separates the national government's and local

governments' state property at their disposal. It seems as though it's taking away local properties. However, that is not the case. All the rights in the current law remain the same. Although the owner would be the state, the local government will still retain the right to manage a property. It's just that if the state property proprietor makes an illegal decision not in line with state policy, parliament can arraign the official and revoke the decision. According to the current law, the local administration can make decisions regarding their property without any consent.

Secondly, state institutions handle their own economic and financial affairs. Each state institution has its own financing. They carry out works such as decoration on their own aside from their basic works. This has been distinguished and regulated. The state is building new housing with tax money. As a result of many years of doing so, each state institution has its own establishment. Some are not being used and renting out their unused spaces. It is alright if the state rents private properties. This has also been regulated. Now ministers and officials don't need to pay attention to whether a chair needs to be painted and can carry out their main duty of developing policies.

- In recent years, there were several proposals to increase the authority of local administrators so that they can deal with their matters internally. It seems like if the law gets

approved, the opposite would be true and their authority would be reduced.

- We're going to have a unified registry and develop accountability mechanisms. It doesn't mean that the local governors' authority will be reduced. Proprietors' rights and obligations have been made clearer. Federal states have federal property. Because our country is not a federal state, it makes sense to have unified state property. Even the people understand that local property is part of state property. However, this is not the case with the current law. Right now, parliament does not have the right to rescind a local government's decision when they make decisions inconsistent with the state's policies.

- How involved should the state be regarding property relations? What is the ideal situation for state property and private property to coexist?

- There should be no concept of one being more protected by law than the other. In 1991, the former lower house of parliament regulated the issue in this fashion, and this regulation is being followed to date. Therefore, property should be protected regardless of the type of the property. Establishment of private property must be supported through policy and be protected by law from encroachment.

- Certain requirements were set for the establishment of a state-owned enterprise. It even states that it must be a limited liability or joint stock company. What's the importance of

doing so?

- Actually, there are very few cases when the state needs to establish an SOE. Generally, state must not get involved with entities and business. The state must only concern themselves with the things that private sector is unable to do. When two people cannot regulate the relations between themselves, they get support from the state. For this, they pay taxes. The state is responsible for making the regulations paid by those taxes. It should not establish a bakery with that money and compete with the private sector. SOE establishment should be allowed only when it is necessary.

- Privatisation of certain state properties is yet to be finalised. How was this issue reflected in the draft law?

- No changes will be made. If there is the need, something can be privatised or sold. Every country in the world has state properties. In 2008, the US government bought many banks and turned them into state property. The US government directly owns 70-80 percent of the world's largest insurance company. It was necessary that the US government buy those shares because many people would have suffered great losses had that insurance company gone bankrupt. State property must be established or privatised when such is needed. This is a social relationship. Some people say that the state must have no property. That is wrong. Mongolia is moving toward this international standard. ■

EXPERIENCE

Temasek and the New Era of SOEs

By Ts.Buyan

Temasek was the name of an early city on the site of modern Singapore, which we now know as metropolitan city-state with 5.5 million residents. Singapore's state-owned corporation Temasek Holdings is named after this ancient city.

After 700 years, Temasek has risen again. In accordance with Singapore's corporate law, Temasek is a commercial investment company. It has full rights to represent the state in equity relations and reserves the right to invest, privatise and acquire. Temasek owns and manages a

net portfolio worth USD 194 billion (as of March 31, 2015). Its portfolio covers a broad spectrum of sectors, including financial services, telecommunications, media and technology, transportation, industry, science, real estate, energy and resources. Since its incorporation



in 1974, it has enjoyed on average 16 percent returns on its shares annually. Moody's and Standard & Poor's gives Temasek a credit rating of AAA. Since being reviewed for the first time in 2004, the company maintained this stellar rating.

This company has revolutionised the way people think about state-owned enterprises. Historically, there were only two types of corporations. One is the private equity company, and the other is the state-owned enterprise. SOEs have their beginnings in the Soviet Union and China. Western nations hold the criticism that SOEs do not develop and that they decay from the inside because the state orchestrates all the management, hindering competition and suffocating the market. After the collapse of the Soviet system, many SOEs in transitional economies were privatised – many, not all. During 1990s, the number of SOEs declined due to a wave of privatisation, but governments retained SOEs in their strategically important sectors. For example, Saudi Arabia retained "Aramco," Mexico "Pemex," Italy "ENI," Norway "Statoil," China "Sinopec," Brazil "Petrobras" and Russia "Gazprom." During that time, the structures of SOEs were reformed, and their role in the market was changed. They started to sell shares on stock exchanges, established boards of directors and brought skilled executives from abroad. The operations and governance of the largest SOEs began to parallel private corporations and became competitive.

Harvard Business School professor Aldo Musacchio said private companies have not realised the strength of the

competitors yet. Musacchio and Brazilian Education And Research Institute researcher Sergio Lazzarini co-authored a research paper titled "Leviathan in Business: Varieties of State Capitalism and Their Implications for Economic Performance." According to them, SOEs have a significant impact on markets and have the power to "play" the market at will. SOEs of developed and emerging markets especially account for a large chunk of the world's SOEs. To put it bluntly, private enterprises are losing their market share.

Traditionally, private companies and SOEs were looked at as black and white. But Aldo Musacchio stated, "Whether it is in the US or the Soviet Union is not all too important. In the real world, there's also a lot of grey. There are many examples of successful SOEs. Kazakhstan's "Samruk Kazyna" and Malaysia's "Khazanah Nasional" can be mentioned. But the reason why this article is focusing primarily on Temasek Holdings is that it created the "Temasek model" of scientific corporate governance. This model's main feature is that it has allowed the government to maintain its position of ownership without it getting involved in the company's management.

Only the president of Singapore has the right to appoint and relieve a member of the company's board. The 10 members of the board consist of well-known, independent members from the fields of finance, investment and business administration. For example, 30 percent of the board had previously served as a central bank director, prime minister and minister of finance, while the same percentage of members served

as managers of top national companies. The remaining members are university professors, banking experts, market researchers and people from other research institutions.

However, the board of directors avoids involving itself in Temasek's day-to-day operations, and neither does Temasek involve itself in the day-to-day operations of its subsidiaries, since they employ qualified managers in the first place.

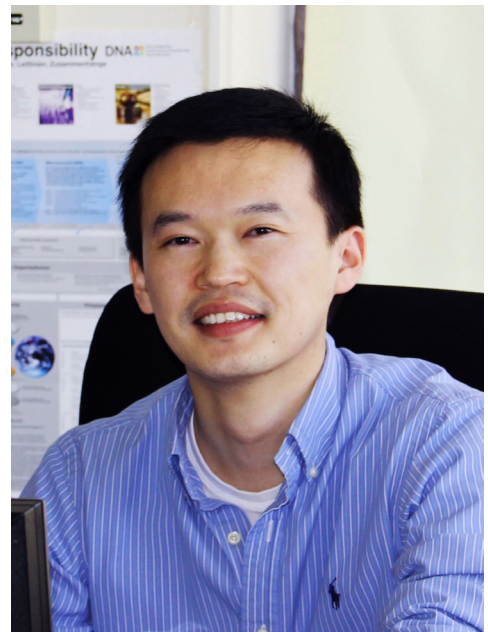
The President of Singapore and the government are prohibited from influencing the company's decisions related to operations unless it concerns the protection of Temasek's reserve funds. The company has full authority to independently allocate their income. It has combined the strengths of both "black" and "white," as the company focuses only on investing in profitable projects.

The company's revenues consist of dividends from subsidiaries and associated companies. "Temasek was able to become an active investor. But it's not the most active," stated Stephen Forshaw, Managing Director of Corporate Affairs at Temasek Holdings. It is appropriate to speak about the successes, but it also has its fair share of critics. Currently, "Singapore Airlines" and "DBS Bank" are the only internationally recognised brands in Temasek's portfolio. Asian private corporations such as Samsung and LG are providing strong support their country's economy, and have not fallen into debt or had deficits like Mongolian state-owned enterprises. Quite the contrary, Temasek has been highly profitable. ■

CORPORATE SOCIAL RESPONSIBILITY

Working with All the Stakeholders Is the Key to Local Agreements

By I.Jargal



Initiated by German International Cooperation (GIZ), the Integrated Mineral Resource Initiative programme held a national forum on corporate social responsibility for the fifth consecutive year on November 11. We sat down with O.Batbold, Deputy director and Senior advisor on Sustainable development at GIZ, to talk about the key topics of this year's forum.

-The CSR Forum organised by your organisation has become one of the most anticipated meetings. What changes and outcomes have been realised compared to five years ago?

-The CSR forum was co-organised by the GIZ, Integrated Mineral Resource Initiative and other Mongolian organisations for the fifth consecutive year. The CSR national forum first started under the theme "Competitiveness and social responsibility" at the behest of the President of Mongolia. At the time, the agenda of the forum included topics such as what CSR is, its implementation and international experiences. We also organised a tour of mining companies for the forum participants. CSR is a subject that existed before our forum. There were companies that discussed and implemented good CSR practices. After five years, the topics discussed during the forum have become more detailed. There are even Mongolians

who have begun to specialise in this field. It can be seen from this forum that we have become experienced enough to share our own examples about this issue with foreigners. On the other hand, the economy is different from five years ago, especially the mining sector. The difference between now and five years ago is that the companies have started to think more thoroughly about how to be socially responsible in a more cost-effective manner, how to apply it in practice and how to benefit from it.

During the opening ceremony of the forum, R.Amarjargal MP stated that differences in the understanding of CSR still remain. He noted that there is still widespread misunderstanding of the fundamental ideas of CSR, which are the awareness and integration societal issues such as human rights and interests of other others in the day-to-day operations.

-What were the main issues discussed this time around?

-I mentioned above that the CSR topics have been discussed in more detail. For example, this year's main topic was community development agreement. The next topic was occupational safety and health, a very important social issue. Accidents and injuries concern not only the individual, but the person's family as well as society if we think about pensions. It carries even more weight

for a country like Mongolia, which has a relatively small labour force. Hence, it is something companies need to pay attention to. Large mining companies are quite exemplary in this regard. As for occupational safety and health topics, many things, such as law, regulations and accident reporting rules, have changed this year. We provided information about these changes. Also, we shared German practices on occupational safety and how to improve hygiene. The third key topic was business integrity and fair trade. In this regard, the CSR forum in cooperation with Transparency International Mongolia gave recommendations on international practices and standards on how to keep business free of corruption. In addition, we organised a round table discussion on the current situation in Mongolia.

-The forum informed us that a sustainable development and social responsibility council has been established. We would like to know more about this council's activities. What can we expect out of this?

-The council was established this year and co-organised this year's forum. In his speech opening speech, R.Amarjargal MP stated that we need to become specialised in our own respective sectors to become more qualified, noting the emerging change in the field of social responsibility. In 2012, experts of mining

companies that were responsible for social responsibility, community and the environment took part in a round table discussion organised by us. It was them who came together to establish the above-mentioned council. It was established in order to contribute to the development of their sector. We see that in itself as a positive result.

-What are the duties of the council?

-To identify standards of sustainable development and social responsibility concerning mining, to introduce them, to participate in policies, to train people and to help to overcome the challenges of working in communities. First of all, the council will provide companies with information about good practices in Mongolia and mistakes that we make. We seek to make companies understand that specific projects are more effective than one-time donations. CSR should be more emphasised in small- and medium-sized enterprises. It's not that difficult to foster CSR in large companies, but SMEs have the opportunity to choose their own methods of implementation. We plan to provide such consulting services, which will help companies maintain long-term, stable operations and also expand. The council includes experts and researchers in the field.

-On the community development agreement issue, it has talked about previously, but it's quite a new thing for it the changes to be implemented. What works are being done and what major works are planned for the future?

-It gets called many things, such as community cooperation agreement or multilateral cooperation agreement. It is written as community cooperation agreement in the Minerals Law (42.1). Changes were made when it was revised in July of last year. It was reflected that a mining company must establish a community partnership agreement with local authorities. There was a need to make a sample of this agreement. Accordingly, projects were developed by the support of the Ministry of Mining and the World Bank. It was not easy to develop the design, as the agreement must be consistent with reality and ensure the balance of parties. Many parties' interests must be considered. There

are certain necessities when making such an agreement. For example, the reputation of the mining sector fell and people began to view mining negatively.

On the other hand, it also focuses on keeping the revenues from the mining sector inside Mongolia. In addition, changes in the tax law are going to take effect starting January, so how the revenues make their way to communities is also important. By doing all these activities, there will be many advantages such as more revenues from mining going to local communities and improvement of people's life. This issue is also related to mining infrastructure and the environment.

Another aspect of a partnership agreement between a mining company and the local administration is to promote jobs. In the past, companies made agreements in this field – OT's large scale contracts, for instance. "Mon Enco" LLC made agreement with soums and provinces. Energy Resources also did this. But this time it will be done under the law, so we are working to develop the design. On our side, we're working to ensure the participation of parties prior to adoption, and to include their proposals in the project. We also invited foreign researchers to know if such legalised models exist, and if so, how effectively it can be applied.

-So does a legal model exist internationally?

-During the forum, director and lead consultant of Independent Social Performance Pte. Ltd, J.Kuschminder, gave a presentation on the topic "International approaches for comprehensive community development agreements - what works and what doesn't." He said that such agreements exist in about 10 countries, mostly African countries. We would love to learn of the experiences of developed countries, but Canada and Australia don't have such contracts.

-Because it will involve multilateral participation, it is necessary to do it right. What are your expectations on the model regarding preventing conflicts between parties?

-The above-mentioned issues reflected in the law have something that will prevent conflicts. An issue will

be raised, and whether it is a small exploration company or a large foreign-invested company makes no difference. How will a small exploration company handle it when they have no direct revenue? Good communication is important. Once the model gets developed, local administrations enforce adherence. On the other hand, potential problems can arise and mines may close down. Therefore, the government must analyse a contract from many perspectives before approving it. Seeing the balance of company size and capacity for influence is very important.

-It seems lots of meetings and conferences will be needed. As of today, how many meetings have been held?

-The Ministry of Mining said seven meetings were organised in one way or another. The meetings are usually held in the capital. In some cases, local representatives come to participate. Capacity-building measures must be taken in all the soums where mining contracts will be made.

Because of the lack of information, undesirable situations may arise later on, as people might think they will become rich just by signing a contract without considering the negative impacts of mining. On the other hand, there are many issues of concern, such as the negotiation skills of provincial and local governments. Of course, it would be a dream to hash out a contract that pleases all sides. However, the ministry is working to inform people that the contract will have no problems if it gets at least 70-80 percent support.

-Why is your organisation involved in this?

-We're operating in four provinces. Mining activities will take place in these provinces. Based on the lack of capacity, we're focusing on capacity building. Our project's main feature is that it considers small- and medium-sized enterprises separately, since mostly local entrepreneurs run SMEs. On the other hand, they are the mining suppliers, so SMEs must participate as the fourth party in the integrated community development partnership. Therefore, we are working to make draft agreements consider the balance of the parties' interests. ■



MONGOLIAN ECONOMY

MONGOLIAN
ECONOMY

Mongolia's Economy and Business Magazine

May, 2013. №09 (M3)

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Figures for the Upcoming Election Year

By Ts.Saikhan

Salary reductions and layoffs are never good news for public sector employees. It is not such pleasant news for the private sector either. When the draft budget with a 3.3 percent deficit was submitted, many economists and businessmen were critical, saying that a deficit-free budget must be approved, as important years are ahead. They believed that there is a chance to zero the deficit during the one-month approval process. It is within the powers of parliament to make that happen. But ultimately, the approved budget ended up with a deficit equivalent to 3.4 percent of GDP, higher by 0.1 percent than the earlier-submitted draft.

Although the total sum has not changed that much, significant movements were made in the structure of revenues and expenditures. The draft budget reflected cost-saving changes to the structure of government to take effect in the second half of next year, but the proposal was retracted as parliament applied pressure, saying, "If structural changes are going to be made, start from the beginning of the year." The government proposed the dissolution and unification of certain agencies, and parliament's working group decided to absorb the General Authority for State Registration to National Statistical Office, Customs General Administration to General Department of Taxation. Other agencies are to stay intact. As a result,

MNT 130 billion in payroll expenses got added to the budget.

Still, it was clear from the beginning that state organisations at all levels were to adopt a policy of austerity, yet significant changes were not made in the end. It was firmly expressed that although wages are not going to be deducted, they will not increase either. As for the current expenditure, operating expenditures such as foreign and domestic assignments, guest reception, training, seminars and publications were reduced by MNT 16.4 billion. Investment projects and activities financed by the Development Bank also saw reduction in funding. In this regard, loan interest payments were reduced by MNT 26.6 billion. Furthermore, civil servants' wage fund was reduced by 10 percent.

Speaker of Parliament Z.Enkhbold said that budget administrators' right to make adjustments within the current expenditures is authorised by law. The heads of ministries, agencies, provinces and capital city governor have the right to decide whether to cut jobs or slash other current expenditures. For example, the Parliamentary Office re-allocated MNT 10 million required to draft laws this year, and as a result, they saved themselves the need to get rid of 43 jobs.

The burden on the budget increases in tandem with the growth of operational expenditures, leaving it with no options other than cutting capital expenditures.

This year, the budget was amended twice, and investment expenditures fell by 50 percent. Essentially, the state barely engaged in development works, just a few works done under concession agreement. Members of the parliament agreed that no new schools, kindergartens or hospitals shall be built next year. Thus, investment expenditures were reduced by MNT 94 billion. In doing so, projects valued at MNT 149.9 billion were cut, and other projects worth MNT 79.2 billion which were not included in the draft were added. "With the increase in expenditures, the issue of a budget deficit with unclear sources of funding arose. In the past, the source of funding for deficits was clear. We also need to consider the current interest rates on government bonds," stated Minister of Finance B.Bolor after the second consultation.

The increased expenditures included MNT 667 million for computers and technical equipment for parliament, MNT 1.7 billion for police department buildings nationwide and MNT two billion for the establishment of vocational training centres in soums were added. In addition, the completion dates of some projects to be finished in 2017 were moved up to be done faster.

Also, projects to be finished within 2016 – such as the MNT 5 billion project to support community jobs and increase employment, MNT two billion for labour

sector equipment, MNT 2.1 billion to build hot water facilities and 24 garages for border patrol – were added to the new investment expenditures. The prime minister added MNT 8.1 billion to the budget in order to improve waste water treatment plant after paying a visit. His decision was lauded by the public.

On the other hand, money from cut projects included MNT five billion for the Gobi region oil refinery infrastructure engineering design, feasibility study and environmental impact assessment. There was also MNT 400 million for a new source of clean water for Altanbulag soum, MNT 900 million for connecting soums with high speed fibre-optic cable and MNT two billion for taxation system software for the new VAT refund scheme.

Economic projection was the main conflict during the budget discussion.

According to the forecasts by analysts at the Bank of Mongolia and Ministry of Finance, the economy will grow by 4.1 percent next year, 4.6 percent in 2017 and 8.9 percent in 2018. Last year, domestic experts expected the economy to grow by 5.4 percent in 2015, while experts at international organisations predicted growth to be 3-4 percent. But a recent study by the World Bank forecasts that economic growth is to be just 2.3 percent at the end of this year. Growth is likely to slow again next year as a result of the price drop of mining raw materials. In any case, parliament's working group has decided to go with the domestic analysts and have not made any changes to projections.

It seems like it was just yesterday that we believed economic growth will reach 20 percent soon. The only thing

everyone agrees on is that next year's budget has some advantages over those of previous years. Welfare policy is beginning to be more discriminate. It was decided that children's money, which is granted from the Human Development Fund, is to be provided to children of low and middle income households.

There are approximately 823,000 children who will be provided with this money. They say the budget had less hysteria compared to previous election years.

Although they were not able to approve a deficit-free budget, at least it was kept relatively low. Speaker of Parliament Z.Enkhbold said that the Ministry of Finance plan to balance next year's revenues and expenditure was approved. This should have a positive impact on bond repayment issues. ■

HOT TOPIC

S.Erdene, the Self-immolating Hot-head

By Ts.Badral



Members of Erdenes Tavan Tolgoi's labour union announce a strike. Erdenes Tavan Tolgoi negotiated with the employees and was able to resolve the dispute

The Head of "Erdenes Tavan Tolgoi" JSC's labour union "Solidarity Union," S.Erdene, set himself on fire during a live press conference to the shock of the public. The press conference was announced as a protest to the "mining cooperation agreement" made between Erdenes Tavan Tolgoi JSC and TTJVCo LLC. Before setting himself on fire, he said that Erdenes Tavan Tolgoi has become just text on a piece of paper as a result of the government's bad

policies. "If I'm supposed to burn, then I shall burn," he exclaimed before being engulfed in flames.

According to his diagnosis, his airways have been burnt in addition to 30-40 other burns. He is now being treated at the National Trauma Orthopedic Research Center. His condition is improving, and doctors say he is mentally fit.

Where did it all start?

On October 12, the employees of Erdenes Tavan Tolgoi found out that they are being transferred to the management of TTJVCo LLC. The employees who initially signed contracts to work for Erdenes Tavan Tolgoi began to fear that they may lose their jobs. The labour union posits that the company's management sold its employees to the Chinese-invested company, which is a serious violation of the labour law.

According to the contract made

between the two companies, 203 employees engaged in the mining of the Tavan Tolgoi East Tsankhi deposit are being transferred to TTJVCo LLC. Thus, those employees will make labour contracts with the latter company and will receive their pay from them. The executives of Erdenes Tavan Tolgoi are blaming the economic situation for the transfer of employees. Coal prices in the global market are continuing to drop. Currently, the company has been at a standstill for 14 months. They are responsible for supplying coal to China's Chalco from the East Tsankhi mine, and because of down payments not being fully paid, Chalco have been demanding the coal. The longer they delay repaying the money they borrowed, the higher the risk of increased interest, fines and penalties. Thus, the company reached an agreement with TTJVCo LLC after extended discussions.

The fact that the agreement between the two companies could not be found in Mongolian added fuel onto the fire of employees' suspicions. The labour union was able to ascertain the Mongolian version of the contract after demanding it from company management. Erdenes Tavan Tolgoi's administration reached an agreement with TTJVCo LLC to increase the labour contract period from one year to 33 months. The employees were notified that their salaries and positions will not change with the structural changes during the fulfilment of the contract.

About TTJVCo LLC

In 2011, Erdenes Tavan Tolgoi announced a tender to select the operator of the Tavan Tolgoi deposit's East Tsankhi mine, and Australia's Macmahon Holdings was selected. This company operates through TTJVCo LLC, a company registered in Mongolia and are responsible for equipment and management. Erdenes Tavan Tolgoi paid the production costs to this company.

Information on TTJVCo LLC could not be found on the internet. Macmahon Holdings' website did not contain the word "TTJVCo." According to the information provided by Erdenes Tavan Tolgoi JSC, this company does not have any Chinese state or private sector

involvement.

How did the situation develop?

In connection with S.Erdene's self-immolation case, Prime Minister Ch.Saikhanbileg gathered and gave some orders to relevant officials after the incident. It was decided that Erdenes Tavan Tolgoi JSC will pay the medical costs of S.Erdene, and CEO B.Batbileg is to be dismissed from his position. Until the appointment of a new CEO, Erdenes Mongol JSC's Director of Legal Affairs, T.Bilgee, was appointed as the temporary acting director.

On the day of the incident, November 13, the state-owned Erdenes Tavan Tolgoi JSC made a statement. "We regret the actions of S.Erdene," stated T.Gereltsansar, Head of the company's Foreign Relations, Local Government and Public Affairs Department. "In order to not leave our employees at a standstill, we decided to let them work for another company for 33 months."

The labour union's current demand criticises the fact that the company is turning permanent jobs into term contracts. The Acting Executive Director of Erdenes Tavan Tolgoi JSC, T.Bilgee, said that labour contracts must be made with the employees of TTJVCo LLC in accordance with the labour law. He added, "The law doesn't have provisions which state term-related issues can be clarified within the contract. Businesses have no choice other than to cut jobs if they don't have income."

In the last two years of economic difficulties, many people were laid off for this reason. But in order to save jobs and provide the employees with stable jobs, we set some requirements for TTJVCo LLC and were able to get them approved." According to the acting director, all employees will make indefinite-term labour contracts with TTJVCo LLC, and a provision was added in order to prevent the company from firing these employees within 33 months through structural changes.

In relation to S.Erdene's self-immolation case, a criminal case was opened in order to determine the causes of his suicide attempt, based on Article 95.1 of Criminal Code. Specifically, S.Erdene was determined to be a victim as he burned himself to physically

damage himself, and the police are examining the reasons behind this incident. The administration of Erdenes Tavan Tolgoi JSC stated that S.Erdene could have appealed to a judicial body.

Events around the incident

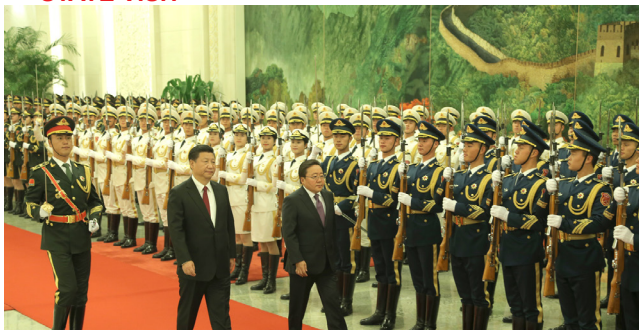
Representatives of "People's Justice Court" NGO, "Khukh Mongol" association and the labour union of Erdenes Tavan Tolgoi JSC expressed their position on this incident. At the time of the incident, media were buzzing with news stating initiation of criminal proceedings against S.Erdene had begun. The aforementioned organisations say the state and government consider this incident of self-immolation to be public incitement and a call for violence, but civil society organisations have a different opinion.

After the incident, the Mongolian Democratic Union made a statement. "Although we consider S.Erdene's actions inappropriate, risky and inconsiderate of the severe impact on the minds of the Mongolian people, we support him as we feel his approach was for his country and for the benefit of Mongolian people," it said. "S.Erdene's self-immolation was a manifestation of the people's radical solution due to the attitudes of some high-ranking politicians who would rather save a few oligarchs from bankruptcy by betraying their nation's interests."

International media and social networks have reported that the head of the Mongolian labour union burned himself as a protest against a Chinese company's coal mining. In addition, some people expressed through social media their willingness to choose radical forms of protest against the government by other self-harm methods or by burning their assets.

After quitting, the former CEO of Erdenes Tavan Tolgoi JSC, B.Batbileg, clarified the key issue of the incident. "During the process of transferring the employees, the majority of the employees were looking at the issue from the correct angle, and expressed their willingness to consider their own, and furthermore the country's, interests," he said. "If the issue had gone to arbitration, 203 people would've become unemployed immediately." ■

STATE VISIT



President Elbegdorj Visits Counterparts in China and France

At the invitation of Chinese President Xi Jinping, his Mongolian counterpart Tsakhiagiin Elbegdorj paid a state visit to the People's Republic of China on May 9-11. The visit is special in that it is the first visit since the establishment of the comprehensive strategic partnership between the two countries.

"Today, the China-Mongolia relationship is the most favourable it has ever been historically," stated Xi Jinping. "I consider my visit to your country last year historically significant, as it has opened a new era of bilateral relations with the joint declaration of the establishment of a strategic partnership. China-Mongolia relations are the results of joint efforts, and we're satisfied with the consistency of the two sides' common

interests and the support of the two countries' peoples. China and Mongolia are good neighbours, good friends and good partners, and we give high priority to the two countries' relations and regard its development as a priority of our foreign policy."

"The increasing frequency of high-level visits and meetings between our two countries have significant importance in fortifying mutual political trust," stated Mongolian President Ts.Elbgdorj. "Trade and economic sectors have been the two countries' key components of a comprehensive strategic partnership, and there's opportunity to further strengthen trade and economic cooperation, as well as an opportunity to achieve the objective of reaching a bilateral trade volume of USD 10 billion by 2020."

ON THE SIDELINES OF THE STATE VISIT TO THE PRC, THE PRESIDENT ELBEGDORJ ATTENDED THE SIGNING CEREMONY OF THE BILATERAL COOPERATION AGREEMENTS. THE FOLLOWING DOCUMENTS WERE SIGNED:

1. Economic and Technical Cooperation Agreement between the Government of Mongolia and the Government of the People's Republic of China;

2. Letter of exchange between the Government of Mongolia and the Government of the People's Republic of China on the implementation of projects under the Government of People's Republic of China's 300 million yuan grant to be provided in 2016;

3. The Memorandum of Understanding between the Ministry of Industry of Mongolia and the Ministry of Trade of People's Republic of China in the field of Trade and Economy;

4. General Loan Agreement regarding the utilisation of a one-billion US dollar preferential buyer's credit line from the Government of People's Republic of China to the Government of Mongolia between the Ministry of Finance of Mongolia and the Export-Import Bank of the People's Republic of China;

5. Agreement on the cooperative execution of the feasibility study for the Shivee-Ovoo project between the Ministry of Energy of Mongolia and the National Electricity Transmission Network Corporation of the People's Republic of China,

6. Individual Loan Agreement on the overhead bridge project over the Traffic police department intersection and railway project,

7. Individual Loan Agreement on the construction of the new Yarmag bridge and old bridge reconstruction project,

8. The Memorandum of Understanding between the General Agency for Specialized Inspection of Mongolia and the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China on food safety regarding cooked beef, mutton and goat meat imported and exported between Mongolia and China,

9. Civil aircraft search and rescue operational agreement between the Civil Aviation Authority of Mongolia and the Civil Aviation Administration of the People's Republic of China,

10. Cooperation Framework Agreement between Trade and Development Bank LLC of Mongolia and China Development Bank Corporation of the People's Republic of China.

THE PRESIDENT'S NEXT VISIT

President Ts.Elbgdorj paid an official state visit to the French Republic on November 11-19 at the invitation of

President Francois Hollande. During the visit, the two presidents held talks and agreed to actively promote cooperation in the

fields of politics, defence, economy, energy, agriculture, the environment, healthcare, culture, education, science and sports. They also agreed to explore the possibility of increasing the number of French higher education scholarships granted to Mongolian students. In addition, both countries will continue to develop Mongolian-French archaeological cooperation.

Furthermore, the President of France said that he will cooperate and provide support for the preparations for the 11th ASEM Summit to be held next year in Mongolia. During the visit, the following documents were signed:

- An Intergovernmental Agreement on Educational, Cultural and Technical Cooperation between the Governments of Mongolia and the French Republic;

- An Intergovernmental Agreement on the Expenditure of Financial Assistance of the Food Aid Foundation of France;

- An Agreement on Implementing a Joint Scholarship Programme between the Ministry of Education, Culture and

Sciences of Mongolia and the Ministry of Foreign Affairs and International Development of France;

- A Memorandum of Understanding on Cooperation in the Film Industry between the Ministry of Education, Culture and Sciences of Mongolia and the National Centre for Cinema and the Moving Image of France;

- An Agreement on Cooperation in the Tourism Sector between the Ministry of Environment, Green Development and Tourism of Mongolia and the Ministry of Foreign Affairs and International Development of France;

- A Letter of Cooperation on Improving Breed and Selection of Cows between the Ministry of Food and Agriculture of Mongolia and the Ministry of Agriculture, Agrifood and Forestry of France;

The French Prime Minister's visit to Mongolia in 2016 will foster the implementation of this partnership and take the relations between the two countries to a new level. ■

CHINA

Jurgen Conrad: Still Many Opportunities to Export to China

By O.Tuvshin

Mongolian Economy magazine sat down with Jurgen F. Conrad, Head of the Economics Unit of the ADB Resident Mission in the People's Republic of China. Mr. Conrad visited Ulaanbaatar to give a lecture on China's economic situation and trends as part of the ADB Mongolia's "Insight Mongolia" seminar series on November 13. He has 24 years of experience in private and public sector financial institutions. Since early 2013, he has headed the ADB's economics team in Beijing, which focuses on economic surveillance and policy dialogue on key structural reforms.

- It seems like all the current news regarding the Chinese economy is spelling doom and gloom, but the ADB has forecasted growth in 2015 to be 6.9 percent. How "bad" is it really, and do you think using words like "downturn" and "stumble" to describe China's economic situation

is appropriate?

- No actually, we don't think this is appropriate. Of course, we see a slowdown in the GDP growth rate. It used to be around ten percent or even above that before the global crisis, and it has now come down to below seven percent. However, in the meantime, China has grown. China is now a very big economy, accounting for 13 percent of global GDP. So this economy is still growing at a rate of seven percent, which can hardly qualify as a downturn.

- During the summer of this year, there was a very rapid and severe stock market plunge. The Guardian even compared it to the Wall Street crash of 1929. What has been the effect of China's Black Monday on the economy at large?

- Well, clearly there was a major market correction starting in June and coming to a close in August, but that followed a dramatic and excessive rise in



valuations since late last year. So, I think we just saw a correction. Since August, by the way, valuations have recovered by almost 25 percent. We saw some volatility, but clearly not a collapse of equity markets. Equity markets in China are much less important for the economy than they ever were in the United States. Only a small number of enterprises raise capital through the stock market. Most capital and credits, like in the old days, come from the banking system. Also on the investor side, there are very few households investing in equity. From a macro-economic point of view, the stock market turbulence this summer was essentially a non-event.

- In May, the IMF declared that the RMB was no longer overvalued. In August, China devalued its currency twice, and the US has been accusing the Chinese state of currency manipulation for a long time. Does the ADB hold an official position on

this matter, and if not, can you give your personal take on it?

- We actually do have an official position. Like many other institutions in the 90s and early 2000s, we saw that the RMB was undervalued, which was brought up in policy dialogue with the IMF and some governments. But this process has come to a halt. At this stage, we and the IMF, as well as most other market participants, believe that the RMB is fairly valued. We also don't believe that what the Chinese government actually intended to do in August was devaluation. It was just understood as one. What the government really wanted is to make the fixing of the exchange on a daily basis more market-driven. Essentially, let brokers and investors decide what the exchange rate should be for the next day. However, that was misunderstood as an effort to devalue the currency and gain external competitiveness, which the Chinese government has not been doing for a long time and definitely never in a crisis situation. Not during the global crisis, and not during the Asian crisis. So why would they do it now?

- The Trans-Pacific Partnership (TPP), which is led by the US and will apply to 40 percent of the world's economy, has been completed. Signatories include Vietnam, Japan, Malaysia, Singapore and the US, all of whom conduct heavy trade with China. How is the Chinese government receiving this deal?

- China developed interest in the TPP about two years ago and would have been prepared to be part of the negotiation process. This did not happen, and I don't want to give value judgments here, but we need to keep in mind what this TPP is about. It's not only about trade in goods; it's also about trade in services, which is very innovative and typically not covered under WTO agreements. It's also about state procurement, and it's about many non-trade barriers. This is a very ambitious agreement, and including China at that early stage would have been very, very difficult, because in many of these areas, for instance in opening the service sector or state procurement to foreign companies, China is still a little bit reluctant. In other words, almost everybody wants China on board, and

ultimately, China will be able to come on board, just not now.

- The price of raw materials and commodities are in a trough right now on the global market. Imports going into China are expected to decline. However, although Chinese manufacturing is slowing, retail is growing relatively quick. What should countries dependent on exporting to China do to adapt its own policies given China's "new normal"?

- The countries trading with China have to adapt indeed, because structural changes in China unfold very fast. China is looking for a new growth model, and whoever does business with China is well advised to also look at structural changes in his or her home country and look for new models. What that really implies depends on what you export to China or what you import. Commodity exporters are in one bracket, but exporters of machinery and consumer goods, for instance, are in a different bracket. The "new normal" means that growth will be lower than in the past, but high enough for China to grow into high-income status over the next 15 years. In other words, growth will be enough for China as a market to grow, and there will be many, many opportunities for exporting countries – not necessarily in old heavy industries, which are clearly declining, but more and more in newly emerging industries, in consumer-orientated industries and in services.

- As for countries like Uzbekistan, Kazakhstan and perhaps Mongolia, do they have any competitive advantage to make use of China's new normal and its drive to be a service- and consumption-based economy?

- There is a lot of talk in commodity-producing countries about economic diversification, and the ADB is supportive of this. However, focusing on commodities and being more competitive in commodities markets is actually a viable alternative, particularly for small countries. Even if the demand for copper, for instance, in China declines, a small and exporting economy can increase its market share in this declining market. Mongolia, Kazakhstan and neighbouring countries are closer to China than Australia or Canada. I don't see any

reason why they cannot carve out their niche and do well in these commodity industries. If they invest more in upgrading production and infrastructure, which is on its own very necessary, then they could do well and do business with China for a long time.

- In Mongolia, nationalism is a major factor in political discussion and economic policy-making. In China, how big of a role does nationalism play in political discussion and economic policy?

- I'm not sure I can define nationalism properly, but I can say it is very natural for the population of a specific country to be conscious about its nationality and to be proud. I believe that this is even more important for small countries than for big countries, which I believe should be a little bit more generous. China is a specific case because it had a troubled history, as we all know.

Many value systems have come under pressure. I believe what the Chinese government and many stakeholders in China are doing is to revive consciousness of being Chinese and be proud of achievements. So far, so good, I would say, as long as that does not aggressively turn against other nations. China has two important political slogans that have to do with this growing awareness. One is the "Chinese Dream," and I guess some people in China dream dreams which might look nationalistic from a distance. The other slogan is "National Rejuvenation" – national revival basically. The idea is that China was globally and regionally a big and dominant nation until about 150-200 years ago, and they want to reclaim this position.

Again, this can look threatening from a distance, but to a degree, it's natural and should be accepted. China is a big and growing economy. We all have to look for what opportunities this presents to us – trading opportunities, investment opportunities, attracting investment. I think fair compromises need to be made, and projects need to be viable. Other considerations like being proud or not, or being nationalistic or not, should be pushed to the background by economists, by bankers and hopefully also by politicians. ■

INDUSTRY

The New Path of Industrialisation

By G.Orkhon



If Mongolia's industrial sector were a child, it would be only just now be learning to crawl. This was the sentiment expressed by participants at Mongolia's first industrial forum. In other words, this sector accounts for only 10 percent of GDP. Countries such as Japan, South Korea and Taiwan have already reached the most advanced stages of industrial development and are leading the world of modern production with innovative products. Officials relevant to the industrial sector as well as the state authorities are saying that Mongolia has the potential to reach these the levels of these countries in the short-term. The minister of industry noted that the goal of the policy to simulate industrialisation is not to chase after these countries, but a development policy to compete with them. Therefore, the Ministry of Industry announced to manufacturers that it would support the production of value-added final products based on innovation and advanced technology. However, it is clear that many challenges await us. "We should not forget that a country afraid of taking risks will be doomed no matter what. Mongolians are standing at the starting line," stated Minister of Industry D.Erdenebat during the industrial forum held on the 16th of last month.

The results of researched conducted by international organisations on Mongolia's business environment and level of industrialisation reflect poorly on the country and state that the involvement of the civil societies as well

as both the public and private sector is critical. Investors pay close attention to such research and indicators. According to a World Economic Forum report, Mongolian competitiveness ranked 109th out of 133 countries. Medium-high technology accounts for only 5.3 percent of total manufacturing, four times lower than Russia and eight times lower than China.

As for the World Bank's report on the ease of doing business, Mongolia ranked 72nd out of 189 countries. The good news is that things are gradually improving, but we are still falling behind in foreign trade. The state policy on industrialisation is supportive of the foreign trade and seeks to promote exports to support the sector. In his opening speech at the industrial forum, the President of Mongolia highlighted that it is the right move to develop an export-supportive industrial sector in order to ensure economic stability.

The Ministry of Industry announced that it would support export-boosting production. However, experts say that the policy to protect domestic entrepreneurs, which is to be implemented within the import-substitutive policy, should have its limits. An overprotective policy might backfire and cause domestic producers to be uncompetitive in the market. "There must be competition. Export promotion and development of import-substitutive domestic productions is necessary. Both of them are needed," said the 14th Prime Minister of Mongolia, D.Sodnom.

Is there the need to produce export-orientated, international quality standards products? Yes. To do this, large amounts of physical capital and factories are required. The forum participants expressed that if this can be arranged, they could manage the other aspects. The minister of industry said to journalists that the state policy is geared toward this and that exports must be promoted in general. He said that the reason why the work to support exports is delayed is related to self-organisation issues. Therefore, the Ministry of Industry organised the industrial forum to provide an opportunity to give common understanding to the public and private sector, and research organisations.

Da.Ganbold, CEO of Erdenes Mongol LLC, told attendees that Mongolia has been exporting goods since the term "economics" was first introduced. According to him, products currently exported, such as wool, cashmere and leather, were exported even in the times of Genghis and Kublai Khan. In other words, we have not expanded for centuries and are still exporting the same goods. Thus, exporting in and of itself is not the key issue, but exporting finished products. In doing so, the country would have an opportunity to earn more than it does today.

Manufacturers stressed that state support is vital for the industrial sector, but the state is not extending a helping hand to some types of production and is even pulling back support for other types.

For instance, according to the Director of "Exclusive" LLC, G.Maitsetseg, raw and auxiliary materials used for textile production were excluded from the list of items to enjoy customs duty exemptions. Also, entrepreneurs used to enjoy customs duty exemptions on imported raw materials, but this rule is coming to an end as of this year. When questioned by a representative of "Urban Jeans" LLC as to whether this rule will be extended, D.Gankhuyag MP answered, "Issues related taxes on exports and imports

issue. A parliamentary working group on commercial law has been established. These tasks require a considerable amount of time, patience and labour. We must overcome it."

Participants brought up the fact that money is not being spent on research and analyses of the sector and that little attention is paid to the improvement of small- and medium-sized manufacturing competitiveness. Experts say that our small- and medium-sized manufacturers' (SMMs) ability to compete on foreign

such as "small", "medium" and "micro", private sector representatives warned that it is creating "small" uncompetitive production. The Director of "Mon Lans" LLC, D.Baasan, mentioned that the sector should not be made even smaller in an interview in our previous issue. Another indicator of the lack of entrepreneurial competitiveness is that many are unable to repay their loans. On the other hand, consumers say products churned out are of poor quality. As such, the Ministry of Industry and other relevant government bodies were reminded of the need to focus on this issue.

It should be noted that the most interesting panel session of the industrial forum was the "production of export-orientated goods." Given that 80 percent of net exports are related to the mining sector, economists say that industrial development can be funded from this sector in the near term. There is plenty of data showing the lack of economic diversification today. However, Mongolia is preparing to become an industrialised country based on export of raw materials resources to one focused more on export-orientated production utilising the raw materials. In doing so, we will not chase after South Korea and Taiwan, but instead, pursue a uniquely Mongolian path of development. ■



Attendees listen to Minister of Industry D.Erdenebat's speech at the Made in Mongolia industry forum on October 16.

under the law to support industrialisation were relayed to the government. We believe that the government will be able to resolve the customs tax exemption

markets is quite weak. Although the Ministry of Industry is attempting to implement a more concise policy by dividing manufacturing into categories

CAPITAL MARKETS

The Path of Development for Capital Markets



By E.Uranbileg, Actuary

Banking accounts for 95 percent of Mongolia's financial sector, thus it shows a systemic imbalance of overreliance on one sector, which carries huge risks. Looking at developed countries, it can be seen that a balanced development of banking, insurance and capital markets – the three pillars of a financial system – fosters stability and profitability in financial sector and provides positive effects on economic growth by becoming its immunity.

The slow progress of Mongolia's insurance and capital markets suggests that state policy support is necessary. One

of the ways to boost the development is to support the establishment of institutional investors on a policy level. Institutional investors, i.e., private pension, insurance, and a variety of other investment funds, increase the liquidity and value of assets by professionally investing colossal amounts of cash in financial instruments. Liquidity is the indicator that shows the efficiency of transferring cash surpluses to places where there is cash demand.

The main mechanism of institutional investment works as follows: a professional team invests in various types of securities and bonds (government issued, corporate, etc.) based on meticulous calculations to increase their value and benefit from their returns. For example, they allocate certain portion of the cash to relatively low-risk, low-return government bonds, and allocate the rest to corporate stocks and bonds that are openly traded on the markets. In other words, experts decide on the amount and types of securities to invest in the portfolio, which then yields high return and low risks.

The benefits of the emergence of professional players on the financial market are explained for each sector below.

INSURANCE

Placing reserve insurance funds consisting of a certain percentage of premium income in efficient financial instruments is effectively one of the long-term sustainable growth methods of insurance companies. Foreign insurance companies usually follow the aforementioned method, namely Allianz, ING and Travelers Group. As for our country, the Financial Regulatory Committee started allowing investment from insurance reserve funds in 2013 and set the limitation for each category of securities by their regulation, which

was amended in 2015. On one hand, it protects clients' interests, but on the other hand, it limits the cash injected into the capital market. For example, the regulation states up to 15 percent of the reserve fund can be invested in shares issued by publicly traded companies on the Mongolian Stock Exchange, and up to 20 percent can be invested in investment funds.

PRIVATE PENSION FUND

A private pension fund is an entity which an employer or employee places retirement savings voluntarily without state involvement. This structure is widely used in developed countries and accounts for a large proportion of institutional investors. Since, the reform in the social insurance system is imperative, private pension funds are certainly one possibility to give people an additional source of income on top of state pensions, and it will also reduce the burden imposed on the state. Unfortunately, there is no legislation regulating private pension fund as of yet.

CAPITAL MARKETS

Trade volume of Mongolian Stock Exchange is continuing to decline in recent years, partly related to the economic slowdown. The establishment of institutional investors will result in amelioration of the unfavourable circumstances by improving liquidity of shares on the stock exchange and increasing its movement. Moreover, the financial securities that are not widely traded in Mongolia such as options, mortgage-backed securities and derivatives will have buyers. In addition, companies will have more options and opportunities to raise funds. The investment fund law was approved in 2013, and it states that the fund must be managed by licensed management company, and the assets are required to

be deposited in custodian banks. Despite the approved legislations, this fund is not deployed due to the economic instability and financial instrument risks.

OTHERS

A Well-developed stock market serves as financing bridge for new start-ups, which are effectively the source of the country's innovation. Another advantage is that it becomes a major force behind the increase in the stock value of companies, reduction of asymmetric information and improvement in corporate governance.

Although the development of institutional investors can bring a myriad of advantages, the significant risks that follow shall be taken into consideration, and the policymakers should carefully create the regulatory environment. The economic recession of 2008 started due to many factors, but one should be noted: the unregulated trade of financial instruments such as mortgage-backed securities.

In order to establish institutional investors and support its sustainability, the first step is to create a legal framework consistent with international standards. The Financial Regulatory Committee started supporting this endeavour at the policy level in cooperation with the Grand Duchy of Luxembourg on project MON/004 "Strengthening the capacity of the financial sector" starting this year. Under this project, the FRC is working to revise investment fund regulations, to improve the capacity of regulatory institutions and to pull the assets of budgeted and off-budget funds to the securities market.

Finally, it is important that students and youth of Mongolia get proper training and education on this sector, as the capital market is developing. ■



INVESTMENT



Prime Minister Ch. Saikhanbileg addresses the participants of the CAREC Forum

Infrastructure the Key Topic at CAREC Forum

By G.Orkhon

During the opening ceremony of this year's CAREC investment forum, the CEO of Erdenes Mongol LLC, B.Byambasaikhan, noted that infrastructure issues are hindering regional cooperation in Central Asia. In this region, there are several mining-based economies led by countries such as Mongolia and Kazakhstan, and improving infrastructure has become a priority in order to develop this sector.

The countries addressing regional infrastructure issues are looking to resolve the question of regional integration within the framework of Central Asia Regional Economic Cooperation (CAREC) programme. In other words, good infrastructure is the gateway to boosting these countries' economic development and cooperation.

Currently, the region needs USD 28 billion in infrastructure investment within the program. The need for substantial investment, especially from the private sector, was noted during the forum, as many infrastructure works are planned for the future. Investment from public funds would not be enough to finance the projects.

This year, the CAREC investment forum was held in Mongolia. In addition to representatives of member countries, domestic investors also attended and shared experiences on attracting effective investment and the investment opportunities in the region.

The programme is a partnership that comprises 10 countries interested in regional cooperation to support development and trade on the Eurasian territory. Countries can always individually invest in major economic and infrastructure projects, but coordinating developmental projects brings much more benefit than doing it alone and is more cost-efficient.

Member countries meet and hold discussions each year under the programme, whose chairmanship rotates annually. This year, Mongolia is chairing the programme. The ADB, Erdenes Mongol LLC and the Business Council of Mongolia cooperated to organise the investment forum and ministerial conference in Mongolia, with 300 representatives from 26

countries participating the forum.

"Infrastructure such as roads is ineffective on their own. Vehicles must go on that road and transport goods. This investment forum is being held because mostly the private sector decides who transports the goods and in what line of business they engage. To this conference, we mainly invited business people who are looking to invest. We hope that they would actively get involved in regional infrastructure cooperation and create a pillar for its business by getting detailed information about the programme from this conference" said Ayumi Konishi, Director General of East Asia Department of the ADB. China, Japan and South Korea have all proposed initiatives to improve connectivity between Asia and Europe through infrastructure. The CAREC programme supports all of these initiatives.

"Mongolia has been involved and actively supporting this programme since the beginning. The Asian Development Bank has been a key partner in the development of our country over the past 25 years and we have been working together on the implementation of many projects and programmes. Furthermore, our country is willing to expand the scope of cooperation and work together with the programme's member countries and investors," stated Mongolian PM Ch. Saikhanbileg.

The CAREC programme's strategy for the coming 10 years reflects aims to improve regional connectivity among landlocked countries. Officials noted that one possibility for Mongolia to strengthen the economy is by cooperating with countries in the region. CAREC provides funding to its members through international organisations such as the UN Development Programme, IMF, European Bank for Reconstruction and Development, the ADB and the World Bank. It is not the first time the initiative to address infrastructure issues, as it has been paying close attention to road transportation, energy, transport and trade sectors in order to improve economic cooperation among member countries. ■

CHILDREN'S RIGHTS



UNICEF Representative Roberto Benes with children near the outskirts of Ulaanbaatar

Roberto Benes: Inequality Morally Unacceptable

By I.Otgonjargal

We spoke to Roberto Benes, UNICEF Representative in Mongolia.

This year marks the 25th anniversary of Mongolia's ratification of the Convention on the Rights of the Child. Hence, we wanted to deliver the thoughts of a representative of UNICEF, is one of the most active international organisations in Mongolia. The organisation is focused on children's rights in Mongolia and implements projects and programmes accordingly. In addition, they provide proposals and recommendations to relevant government agencies and cooperate with them at the policy level.

-Let me convey my congratulations to you and your team at UNICEF on the 25th anniversary of Mongolia signing the UN Convention on the Rights of the Child. In your opinion, how well have children's rights been promoted and protected in Mongolia over the last 25 years? Where have we succeeded and where have we failed?

- Since the Convention on the Rights of the Child was ratified, progress for children in Mongolia has been undeniable and remarkable. For example, between 1990 to 2013 early childhood education

enrolments increased from 35 percent to 79 percent; since 1990 under-five mortality decreased by more than two-thirds; the percentage of children who are underweight has dropped by over 90 percent; and since 2000 primary school completion rates reached 98 percent compared to 75 percent in the mid-1990s. Progress has also been made on complex issues such as child protection where since 2006 corporal punishment is illegal in schools. This goes to credit of Mongolian Government that has made children a policy priority, and UNICEF has been a protagonist of this positive change and a close ally of the Government of Mongolia as part of the United Nations system. Our partnership and close collaboration with Mongolia goes back over 50 years.

Priority now is to ensure that these achievements are equitable and not only reflect a national average, as progress has not been distributed equitably among all children and there is a widening gap between socio-economic groups that exacerbates the fact that the most disadvantaged lag behind. Attacking persisting inequalities is now the key. For example, a child is four times more likely

to die before his or her fifth birthday if he or she is born in the Western provinces compared to a child in Ulaanbaatar. Child mortality is almost four times higher for poor children than for children in the wealthiest quintile. The prevalence of stunting is almost twice as high for rural areas in comparison to urban areas, while it is three times higher for children in the poorest quintile than for those in the wealthiest quintile. This pattern of inequity limits the rate at which a country can make progress, especially because we know that economic growth does not automatically trickle down to all sectors of society. UNICEF aims at ensuring that all children everywhere in Mongolia can enjoy the same opportunities, and access to services and protection. This is complex work. There are many facets of inequity linked to a variety of factors, such as poverty, gender, ethnicity, race, religious or other cultural affiliations, disability, and geographic location of residence, all which affect a child's chance of surviving the first years of life and having access to primary health care and education. If unaddressed, the consequences of these deprivations span throughout the life cycle, undermining the

child's opportunity to reach his or her full potential and break the cycle of poverty.

Today we know that inequality is not only morally unacceptable – and as a human rights organisation we voice this very strongly – but also it is bad for the country's growth and future potential. New OECD research shows that when income inequality rises, economic growth falls. Tackling inequality can make our societies fairer and our economies stronger. This is why, when crucial political decisions are being taken on Mongolia's development strategy, equity must be a key national priority. Equity is and will remain at the core of UNICEF work in Mongolia, as we believe that it will be a critical issue to determine the success of the Country's tomorrow.

- We are aware that there are some unaddressed issues when it comes to children's rights in Mongolia. In your opinion what is the biggest children's rights issue in the country? Why?

-Against tremendous progress achieved for children in the last 25 years, there are also some important areas where progress has been slower or stagnant. If I had to pinpoint one main priority area, this is certainly the one related to water, sanitation and hygiene where Mongolia is still struggling with slow or stagnant progress and overall lagging beyond most of countries in Central and North-East Asia. National level rates of use of improved drinking water sources are at only 64 percent and the use of improved sanitation facilities at 59 percent, with further disparities based on geographic location and income. Use of improved water sources stands at 73 percent in urban areas, but is as low as 58 percent in rural areas. The wealth disparities of this indicator are even larger, with only 41 percent of those in the poorest quintile having access to improved water sources, while it 99.9 percent of those in the wealthiest quintile. In addition, the use of improved sanitation is 69 percent in urban areas and 39 percent in rural areas, while it stands at 19 percent for the poorest wealth quintile and 99 percent for the wealthiest quintile. Such a poor performance in access to water and proper sanitation undermines the future of the next generations, as it is behind many child diseases, but

also an overall loss for the Country. It is estimated that Mongolia annually loses an estimated MNT 35.5 billion, or USD 26 million, due to poor sanitation and hygiene, equivalent to approximately 0.5 percent of GDP.

Another area where is opportunity for further progress is access to pre-school that stands at 68 percent in Mongolia with significant inequalities between rural and urban and peri-urban areas, as well as wealth quintiles. UNICEF advocates for early childhood development as one of the areas with highest return in building human capital. Early years of childhood form the basis of intelligence, personality, social behaviour, and capacity to learn and nurture oneself as an adult. Children who receive early childhood development services achieve more success at school. As adults they have higher employment and earnings, better health, and lower levels of welfare dependence and crime rates than those who don't have these early opportunities. Investment in early childhood education has one of the most impressive rates of return, with USD 12.90 per dollar invested.

- What should Mongolia do at the policy level in order for all children to fully enjoy their rights? What is UNICEF's focus going to be in years to come?

- Mongolia has today unprecedented opportunities, boosted by resource rich potential, a dynamic private sector, strong leadership and a young and energetic population. To maximise these opportunities, the country needs to take right and timely decisions for children with a forward-looking vision and clarity of priorities. There cannot be economic growth without human capital to sustain it. This is why UNICEF's storyline in Mongolia is about investing in new generations as a foundation for long term human capital and sustainable development. This requires policy decisions in closing the unfinished children's agenda in water, sanitation and access to quality social services for the most vulnerable children both in peri-urban and remote rural areas. In addition we need to see a long term vision built on investing in high return areas such as pre-school and adolescent development.

It is important to protect child spending during time of macro-economic readjustment, when budgetary decisions are difficult and competing to ensure that Mongolia can have the resources to close inequality gaps, as well as design sustainable social protection systems that can help build resilience of most vulnerable populations. It is important to think in terms of system building and this is relevant, as an example, to ensure that children grow protected by any form of violence, abuse and exploitation. A child protection system made by well trained and coordinated state services (including law enforcement, judicial, social welfare sectors) is essential to ensure that we help bring into adulthood a generations of Mongolian that has grown free from any harm and with their potential fully developed.

UNICEF stands ready, with all our efforts and capacity, to support partners in this process, to help all Mongolian children reach their full potential to become productive citizens. UNICEF is driven by an overall objective of ensuring better equity for all children in Mongolia, especially the most disadvantaged, and the creation of a policy environment that promotes and protects child rights. We seek to have a sustainable impact by influencing social policies, systems and budgets for children that will deliver real results for children at the local level. Key strategies include provision of high quality technical expertise in child related areas, generation of data and analysis and continued advocacy to develop child sensitive policies, programmes and budgets. Investment in networking and leveraging national and international stakeholders around child priorities are also important strategies, as well as playing a role of broker of international knowledge by facilitating horizontal cooperation as a way to connect Mongolia to global innovation and best practices for children.

Mongolia is in a time of tremendous opportunity to take political decisions that can shape its own development. UNICEF stands ready to contribute to Mongolia's bright future built on the most important resource each country has: its human capital, its children, its new generations. ■