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MONGOLIAN ECONOMY

FEBRUARY 2016 №04 (106)

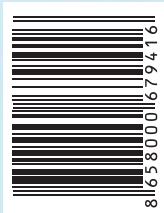
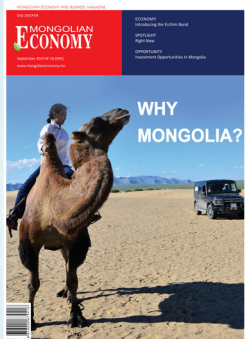
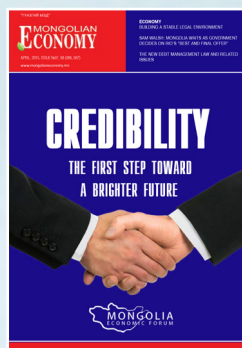
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A Second Wind

Voluntary Code of Practice for Mining Companies

B.Byambasaikhan: SOEs Must Be Run Like Regular Companies

Compilation 2015





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A Second Wind

A spark has been lit in the oil industry, and with it, the economy will get a second wind. After many years of talk, the government has finally come to the decision to build an oil refinery. *page 3*



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A Profile on the Increasingly Poor

The family of P.Batbayar resides on the outskirts of Songinokhairkhan district on a piece of unfenced-in land they don't own. Their household has six members; their only daughter is four years old. When I arrived at their ger, their 15 year-old son was asleep on a bed... *page 18*



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Arjun Bhalla: Company Reports Will Inform the Public, As Per the VCP

One new commitment is that companies will be expected to develop a participatory monitoring programme with local communities. Currently not all the companies do this, *page 9*



B.Lakshmi: Diversify and Decentralise the Economy

The summit is being held separately from the economic forum because we only discuss internal issues at the Mongolia Economic Forum, so we had to organise a separate event to discuss the issues of attracting investment, *page 24*



B.Byambasaikhan: SOEs Must Be Run Like Regular Companies

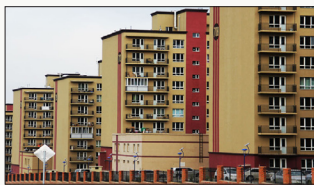
SOEs [...] operate as though they are something other than what they are – a company, *page 26*



Mongolia Has to Scale Back Debt Levels, *page 34*

Mongolia

Construction



Over 1,600 apartments were built in Ulaanbaatar from 1965-2000. The heat loss through the walls, floors and ceilings of these buildings have increased by 35-40 percent from standard levels. The city administration has been working since 2013 to introduce new technology to reduce heat loss, as heat loss means more energy consumption. Complaints about cold apartments from residents of these older buildings used to be endless. However, last year, Bayars Construction insulated one half of a residential building located in khoroo-2 of Bayangol district using their own funds. The heat loss decreased by a fifth, and households' average air temperature increased by 7-10 degrees. According to the company, they used perlite, which is widely used in European countries for insulation, and abolished the use of foam. Perlite is an amorphous volcanic glass that has a relatively high water content which makes it highly resistant to fire. In 2013, the City Council approved 75 partial areas in 24 locations for ger district redevelopment in order to create safer and healthier living conditions for the people and to reduce air and soil pollution. The council has planned for more than 4,000 people to be provided with new, comfortable apartments in the first half of this year.

For example,

In Bayanzurkh district:

Zurgaan Talt LLC – 150-household residential building

Gangar Invest LLC – 168-household residential building

Baganat Urguu LLC – 144-household residential building

In Songinokhairkhan district:

Standard Property Group LLC – 262-household residential building

Hera Properties LLC – 320-household residential building

In Sukhbaatar district:

Premier Investment Group LLC – 60 households residential building.

Currently, 38 domestic companies have been selected as project proponents on 22 locations, 57 partial areas and 86.5 hectares comprising 1,360 locations.

Finance



Acting Director of the Financial Regulatory Commission E.Batbold and deputy head of the General Executive Agency of Court Decision (Mongolia's prison service) N.Tuulkhuu signed an agreement to establish a mutual information exchange. Within the framework of the agreement, the FRC will receive information from the registration database of the GEACD, and the GEACD will get information from the electronic approval system of the FRC. This is meant to reduce state bureaucracy and save time. "Currently, about 90 organisations have sent a request to get information from the electronic approval system of the FRC," stated E.Batbold. "Licence applicants used to gather documents from various organisations such as the National Statistics Office and the GEACD, but this problem

has been resolved, as it is now possible to directly exchange information."

Economy



This year's first meeting of the Economic Council has been concluded. During the meeting, PM Ch.Saikhanbileg stated the following:

"The OT underground mine's works related to investment have begun and the issue of getting the Gatsurt deposit into economic circulation has been approved. Furthermore, we will decide whether the Tavan Tolgoi deposit will be put into economic circulation. We have administered a policy to support the private sector and have started many works aimed at addressing the shadow economy. We have begun seeing results. For instance, since implementation of the Economic Transparency Law and becoming receiving income statements, MNT 14.4 trillion has gone into the state budget. In addition, the implementation of the VAT refund programme has been a big help in revealing the shadow economy. The government will adhere to a policy to transit from a consumption-based economy to a savings-based economy and will support mortgage loans, loans to industries and loans to herders."

Some changes had to be made to the "Rules on the Origin of Goods," which was approved by Government resolution no.88 of 2009 in accordance with the economic partnership agreement made between Mongolia and Japan. Thus, the "Rules on the Origin of Goods" were modified based on customs duties and tax laws. By adopting the new

rules, the international agreements will start to be implemented and traders can enjoy discounted tax rates.

Credit Rating



As of February 22 of this year, Standard & Poor's credit rating for Mongolia stands at B.

Moody's rating for Mongolia's sovereign debt is B2. Fitch's rating for Mongolia is B. They had lowered Mongolia's credit rating due to slower economic growth, the budget deficit and increasing debt.

S&P and Fitch sees Mongolia's long-term credit rating as stable while Moody's said it is negative. Specifically, Moody's concluded that Mongolia's credit rating will be under pressure in the next 12-18 months due to the decline of commodity prices on the global market and China's economic slowdown.

Oil



Factors such as price at the border, taxes, foreign exchange rate movements and operating costs influence the price of retail gasoline. The government has been controlling the retail price of gas through tax measures. Since December of last year, prices at the pump in the western region have decreased by MNT 80-400, and in the eastern region by MNT 10-230. From the 20th of this month, the retail price of fuel is going to decrease by MNT 100-150 in the provinces of South Gobi, Dornogobi, ▶

- Khuvsgul and Arkhangai. The price of fuel in Ulaanbaatar has decreased by MNT 80-150.

Law



The issue of creating a permanent resource for citizens from the mining revenues has been regulated by the Human Development Fund Act passed in 2009. The act has provisions that directly regulate the relations between company shareholders, boards of directors and executive management. It created a confusing structure of governance, as it contradicts other provisions of corporate law. Therefore, a draft to make amendments to the conflicting provisions of the Human Development Fund Act was developed.

With the approval of the draft, Erdenes Mongol LLC's normal operations will be ensured, and the company's management structure can be set in accordance with the general content, principles and regulations of corporate law. Moreover, a legal opportunity to conduct independent, for-profit operations would be enabled. As for management of the Human Development Fund, it will remain in the hands of the Ministry of Finance.

World Beijing Pollution



Ventilation "corridors" are to be built in Beijing in order to improve air flow and tackle pollution. These corridors will comprise connecting parks, rivers, lakes, highways and low-rise building blocks, and obstacles impeding air flow will be removed over time, as the most intense bouts of pollution occur during times of low wind. No time frame was given for the project, but it was reported that five main corridors more than 500 metres wide and several smaller corridors will be built. The government has a set goal of reducing pollution in Beijing by 40 percent by 2020 from 2013 levels. Efforts to address pollution have been revamped after the first smog "red alerts" were issued this past December.

Brexit



London Mayor Boris Johnson has officially called on Britons, in a column for the British newspaper The Telegraph, to vote to leave the European Union in the upcoming referendum on June 23. "When I went to Brussels in 1989, I found well-meaning officials trying to break down barriers to trade," the mayor stated, expressing his past support for the EU project. However, Mayor Johnson now holds that the project has become "unrecognisable."

The fundamental root of the divide on whether to leave the EU is a philosophical question of the limits of centralisation and sovereignty. "The EU acquires supremacy in any field that it

touches," he stated. Britons who want to leave the EU say that there are too many rules, especially in business, that impact the UK negatively and that the ultimate goal of the "ever closer union" is to turn Europe into a "United States of Europe," where the EU government has legal supremacy over national governments. Those that want to stay hold that being part of the EU gives great benefits, such making it easier to sell things to other EU nations, and that the flow of migrants brings young people who are eager to work. British PM David Cameron, a Conservative, supports staying in the EU, but has stated that other members of his party, such as Mayor Johnson, are free to campaign their own messages. In a related matter, the leader of Scottish National Party, which supports staying in the EU, warned that a vote to leave would "almost certainly" trigger a Scottish vote for independence from the UK. Hence, the Brexit vote is shaping up to be arguably the single most important event in the EU this year, as it will have cascading effects throughout the whole of Europe.

Hong Kong Riots



The City of Hong Kong greeted the Lunar New Year with demonstrations that turned violent on February 8. The bloody protest was sparked by a planned crackdown on street food vendors, which are a staple of Hong Kong's culture. Authorities explain that the stricter regulations on food stands are for health and hygiene reasons. The epicentre of the turmoil was the Mong Kok area, a vibrant commercial location considered to be the heart of Hong Kong. The relationship between the public and the police has been deteriorating since the

2014 pro-democracy movement dubbed the Umbrella Movement. Anti-Chinese sentiment has also been growing since then, and there has been popular opposition to street musicians singing in Mandarin and mainland Chinese shoppers. The protests are emblematic of larger tensions in Hong Kong. More radical elements armed with self-made weapons and shields clashed with police, and colonial-era Hong Kong flags donning the British Union Jack could be seen. However, the Union Jack is not so much an expression of love for Britain, but more so a hatred towards Chinese authorities and the Communist Party.

Investors Fleeing Africa



A popular destination for investors not too long ago, Africa is experiencing an exodus of investors. Falling commodity prices, the Chinese slowdown and policy issues are causing investors to rethink investing in frontier market African nations. Nigeria, Africa's largest economy, saw its main stock index fall by 14 percent since the start of year, in part due to plummeting oil prices. The S&P Zambia index is even worse off, dropping 45 percent as the nation's copper exports, accounting for 70 percent of export revenues, are feeling the slowing demand from China. In addition, oil accounts for more than 90 percent of the export revenues of Angola, Nigeria and Equatorial Guinea. Fund managers say that a failure to take advantage of the recent commodities boom and commit to industrialisation is resulting in investors going elsewhere. Some are beating the trend, however. Kenya, with its more diversified economy, and the Ivory Coast, the world's top producer of cocoa, are still able to attract investors. ■



The "Oil and The Economy of Mongolia" international forum. 2016.02.04

Industry

A Second Wind

BY G.ORKHON

A spark has been lit in the oil industry, and with it, the economy will get a second wind. After many years of talk, the government has finally come to the decision to build an oil refinery.

The oil refinery and the pipelines will be built in Bor-Undur soum, located in the southern part of Khentii province. It will be capable of processing 2.3 million tonnes of crude oil per year and is estimated to operate for at least three decades.

Small but beneficial

Today, Mongolia imports about 1.2 million tonnes of petroleum per year and also produces roughly the same amount of crude oil. So, there is the possibility to reduce the price of fuel if crude oil products were processed domestically. Mongolia squandered about USD one billion per year when the price of oil was high. Yet, even at a time when oil prices have plunged drastically, we are still spending at least USD 500 million per year. According to one study conducted by the Ministry of Industry, outflows of foreign exchange reserves can be reduced and the USD-MNT exchange rate can be

brought down by 18-25 percent when the oil refinery starts to operate. It is generally a beneficial thing if those potential outflows circulate internally.

However, some researchers and experts in the field expressed that this oil refinery with the capacity to process over two million tonnes of crude oil per year is not very economically efficient during the "Oil and the Economy of Mongolia" conference which took place before the Lunar New Year. "Small factories to be constructed in the rural areas are not capable of being that efficient," stated former PM D.Sodnom. "They cannot introduce advanced technology. The government is being myopic in this regard. We have to have the technology to process at as high a capacity as possible. The products would not satisfy standard requirements if we build small, basic factories. Modern machinery requires very high quality diesel fuel."

The participants of the conference recommended focusing on attracting the participation of other sectors, as the development of SMEs follows accordingly with the development of heavy industry. We can observe this from the experience of Japan. Small companies that manufacture

vehicle door handles, steering wheels and seat covers were established by depending on Toyota. According to Ts.Anandbazar, President of the "Sod Mongol" group, 40 factories would get established following an oil refinery.

The oil refinery will have significant impact on the economy – equivalent to the central bank. With the establishment of the refinery, it is estimated the amount of foreign currency supplied to the market will decline, and the price of the imported goods will go down. Thus, the foundation for keeping inflation low and stabilising the economy will be set. According to estimates by experts at the Ministry of Industry, the domestic output will increase by 15 percent with the full operation of the refinery. The total output of the industrial sector will increase by 40 percent, and manufacturing will increase 2.5 times. Furthermore, the level of imports will decrease by USD 1.2 billion, and USD 350 million will flow into the state and local budgets in the form of taxes. It is also estimated that the refinery will create more than 600 new jobs.

An opportune time

The whole sector, including the Mongolian Oil Producers Association, agrees that the requirements and opportunity to build an oil refinery has come. The prices of metals are going down, so the price of equipment and materials should also decline. It would not be a mistake to make moves during such a time. "The time to build an oil refinery has

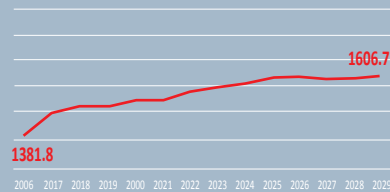
▶ really come,” stated Minister of Industry D.Erdenebat. “I am happy that there are people who are united under one goal and want to get the job done. Our country’s presidents and prime ministers throughout the years have tried to accomplish this feat. Perhaps the timing and market situation was not right for them. However, this time, the combinatino of the economic situation, opportunities and the current price of oil are giving the sign that the time has come.”

The people involved in this industry say that 2.3 million tonnes per year is a bold figure that the government has set, but they have not ruled out the possibility of building such a refinery. They see the state policy on the refinery in Bor-Undur being to import, produce and export. Domestic consumption is 1.2 million tonnes per year. With the establishment of the refinery, we will produce 2.3 million tonnes of processed oil products. This means that domestic demand will be satisfied, and the surplus oil products will be exported. The industrial sector expects that the import-substitutive policy announced by the Ministry of Industry will be realised in this regard and boost exports of value-added products. However, they warned that it is also unwise to put too heavy a restriction on imports.

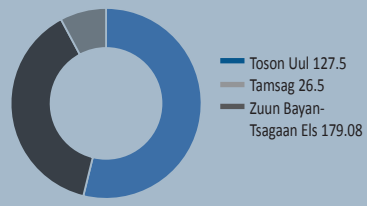
Anastas Gatunok, senior analyst at Russia’s Argus Media Ltd attended the “Oil and the Economy of Mongolia” conference to give a presentation on topic of oil processing technology trends. \



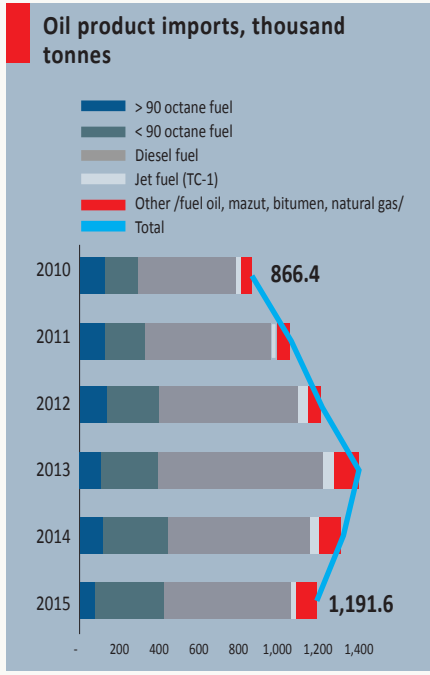
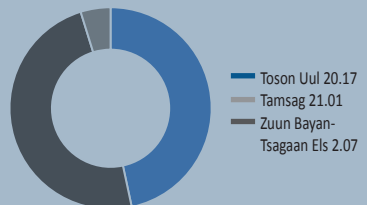
Crude oil extraction projection 2016-2029 (million tonnes)



Crude oil proven reserves, 332.6 million tonnes



Proven developed reserves, 43.2 million tonnes



According to Gatunok, the technological development trends of oil refineries are headed towards underground mining and also the reduction of heavy oil extraction. Most of the oil refineries operating in Russia solve their transportation issues by using underground pipelines. In doing so, they transport not only the raw materials through pipes, but the finished products as well. Having done the calculations, they determined that oil pipelines are the lowest cost method.

In these times when the price of oil has significantly fallen, Russia’s largest oil companies are benefitting more from extraction than export of oil products.

Currently, Mongolia obtains 80-90 percent of its fuel from Russia, but that is not to say the oil relationship between the two countries will dissolve after a refinery is built in Mongolia. Although it is estimated that Mongolia’s extraction of crude oil will reach 1.5 million tonnes by 2020, there will still be a shortage for raw crude oil when the Bor-Undur oil refinery begins to operate at full capacity. It would be possible to import the crude oil from Russia. In addition, Russia has a lot of experience in building oil refineries and implementing projects. Hence, there is the possibility of cooperating on this project.

As for China, their oil imports have reached 100 million tonnes. Given that Mongolia is located in the middle of two huge markets, building an oil refinery would be beneficial for reasons other than domestic ones. Still, domestic consumption will also increase with the establishment of the oil refinery.

The investors to invest in the construction of the refinery will be selected within the second quarter of this year. The investors will be a consortium in which domestic companies are involved. In other words, an open tender will be announced. “The time to call for the investors has come,” state D.Erdenebat. “Most importantly, this refinery shall be built based on domestic and private investments. In other words, there is no state involvement. There must be no state interference. Mongolia’s oil refinery has strategic importance. Domestic investors must unite and implement this project. Completing the project by 2020 is vital for Mongolians.” The construction of the refinery will begin in the fourth quarter of this year and is set to be commissioned in the last quarter of 2020.

Pipelines will be built beside the oil refinery and will receive crude oil from Dornod province. The pipeline extending from the Tamsag basin in Dornod will stretch 544 kilometres and will be built under a concession agreement.

A technical and economic feasibility study is planned for the second and third quarter of the year. Experts noted that Mongolia must develop many feasibility studies and select the most efficient ones. In other words, the state must choose the one that will provide returns on investment. However, economists say that a feasibility study taking into account the global price of oil is necessary. ■

Water Management

Voluntary Code of Practice for Mining Companies



Eight companies became signatories to the Volunteer Code of Practice

BY TS.ELBEGSAIKHAN

Mining companies operating in the South Gobi have signed onto a “Voluntary Code of Practice” (VCP), with a signing ceremony held on February 4 at the International Finance Corporation’s (IFC) office in Ulaanbaatar. Eight companies, including major companies such as Oyu Tolgoi, Erdenes Tavan Tolgoi and Energy Resources, marked the event.

The IFC has been working with the mining sector in the South Gobi region since 2013 with the overall goal of improving water management and stakeholder engagement practices. In this context, the “South Gobi Water and Mining Industry Roundtable” project was developed, and the IFC cooperated with over ten companies to develop the VCP, which represents a mining company’s commitment to improve their water management practices, to be more transparent by disclosing water risks and management approaches, and to ensure community participation in monitoring a mine’s water performance. This collective effort will work towards safeguarding water resources and promoting the efficient and transparent utilisation of water. With the signing of this VCP, mining companies are voluntarily taking on responsibilities for 19 obligations, including developing a participatory water monitoring program, public disclosure of key water metrics such as water consumption, water quality and water levels in a format accessible to local communities, introducing a grievance mechanism for citizens to file

complaints, improving access to water in times of stress and improve impacted water infrastructure in pastureland.

The water resources found in this region have a flow capacity of approximately 2,600 litres per second (l/s). The estimated total water consumption of the region is 665 l/s and will increase to 1,585 l/s after 20 years according to research. Based on this, it is possible to provide the water demanded by mining firms in the region, the Tavan Tolgoi thermal power plant, large industrial and settled areas such as Dalanzadgad, Tsogtsetsii and Khanbogd until 2035. However, one thing remains to be considered. The water reserves formed in the soil of Gobi has accumulated over three thousand years. In order to be replenished, the same amount of time will be required. That is why projects such as Oyu Tolgoi, which will operate for 60-100 years, need efficient water consumption and intelligent management. The VCP is aimed at not only improving consumption and accessibility by mines, but also at ensuring the water availability for local residents and animals. The code contains a concept which holds that water is a shared resource and a risk in the South Gobi region. Each of the 13 companies involved in the development of the code understand this.

“By implementing water management with multilateral involvement, we will build trust between companies and local residents and will create an environment that enables successful work in the long-term,” stated Tuyen Nguyen, Resident Representative for the IFC in Mongolia. “The companies

have an opportunity to introduce and learn the best water management techniques with their involvement in the declaration, and new developments, such as realising its implementation, duties and issues are being introduced.” As for the above mentioned multilateral involvement, the companies will create a system by joining this VCP that fosters experiential exchange, enables residents to monitor water consumption of the companies, receives complaints and comments, gives open feedback and reflects it in their operation.

B.Byambasaikhan, Executive Director of Erdenes Mongol LLC, noted that the involvement in the VCP will have benefits on the competitiveness of the companies. The representatives of the companies who came to the signing ceremony all have agreed on one thing: that many companies have united to develop the code, and many others have also expressed interest in joining the pact. ■

Water consumption of large settled areas, mines and industries of the region (l/s)

	2015	2035
Tavan Tolgoi mine	2.8	371.0
Ukhaa Khudag mine	138.75	138.75
Tavan Tolgoi power plant	0.0	38.0
Oyu Tolgoi mine	510.5	918.0
Dalanzadgad	12.0	70.0
Khanbogd soum centre	0.3	34.9
Tsogtsetsii soum centre	0.2	15.0

Arjun Bhalla: Company Reports Will Inform the Public, As Per the VCP

During the signing ceremony, project leader Arjun Bhalla stated, "Today marks an important milestone for the project. Now the real work begins around implementation."

-What new requirements will be set on the companies that have joined the code? Some companies in the pact are leaders in water management.

-As for additional requirements for the companies, two main things are being raised.

One new commitment is that companies will be expected to develop a participatory monitoring programme with local communities. Currently not all the companies do this. The second thing they were asking companies to do is to publicly disclose their water performance, metrics on water consumption, water quality and water levels in a format that is accessible and understandable by local communities. The law requires companies to do this but it's difficult to access this information in the public domain.

In addition, some companies had no system for receiving complaints from people. The code reflects that all the companies that are signatory to the code must have a grievance mechanism.

-Was the VCP developed in countries other than Mongolia before? Why was it pursued in Mongolia?

-Mongolia is the first country where we developed a code of practice for water management. We are looking at doing something similar in either Columbia or Peru.

One of the key reasons is we are an investor in the Oyu Tolgoi project. It's one of the biggest companies in Mongolia, and we also recognize that there other mining projects around that one mine which depend on local water sources to run their mines. .. By identifying water as the binding issue, we worked with other companies, such as Erdenes Mongol, Energy Resources, and Terra Energy, with operations in the region. All of them expressed that water is a serious issue. We have used the water stewardship framework developed by the International Council on Mining and Metals (ICMM) to learn from their experience and adapt it to the Mongolian reality. This organisation has many years of experience in water management and sharing leading international practices on sustainability.

-How different is the example of Mongolia from the experience of the ICMM?

-Of course, each country has its own characteristics. The ICMM's documents are more general, but they are important because they set the foundation. Besides the land and hydrogeological structure, each country has its own culture and traditions. These cultural relations should be taken into account. For example, the code for Mongolia includes a provision for the companies to protect the water supply for herders.

-The companies that joined the code vary in size. Where



there any conflicts between them during the process of forming the code? How was it regulated?

-There were no conflicts between the companies. However, there are significant differences of opinion. For example, small companies do not have the same resources to match the technology and water programs of larger companies. Therefore, we need to consider this factor when developing the activities each company would commit to implementing. This is the main reason why we spent 18 months developing the code, even though the code itself not a huge document. We tried it to make it as flexible as possible. We have administered the principle that the code must be realistic and in line with the needs and expectations of local communities. There is a chance that companies would not voluntarily join the code if the code were stringent like a legal act or law.

On top of this, Mongolia has one of the better legal environments for protection of the natural environment. In addition, companies are interested in working in this field because all of them are operating in the region and recognise water as shared resource and risk if not managed correctly.

IFC plans to create a public database of the annual reports on companies alignment to the VCP. Thus, we will work to inform the public about how the companies are staying true to the principles and operations in a simple and clear manner.

-How is this being financed?

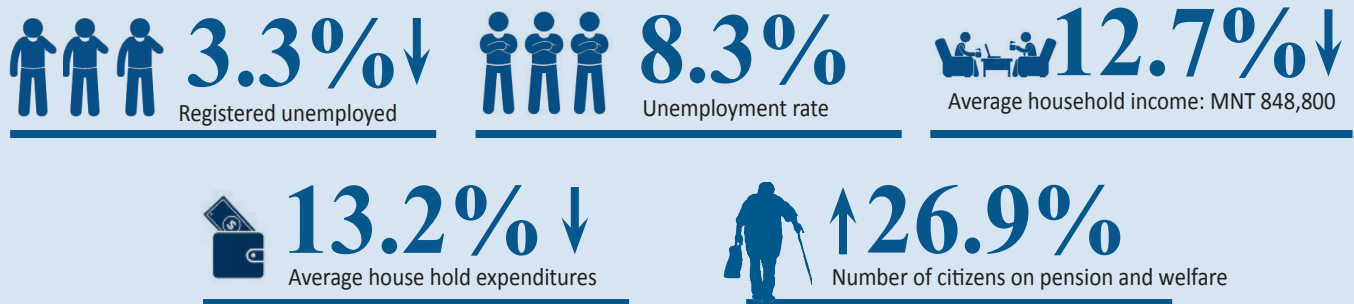
-The main sponsors are the Government of Canada and mining companies in the South Gobi. Also, the 2030 Water Resource Group, the European Bank for Reconstruction and Development and the International Council on Mining and Metals supported the initiative with technical expertise and financial support. Within the framework of the project, a round-table meeting is being organised quarterly. We will also organise training events about groundwater and water monitoring for local residents, government officials and the media. The project will carry on for three years. The total amount of financing is approximately USD 700 thousand.

-This time, it covers the South Gobi region. Are there plans implement the code nationwide?

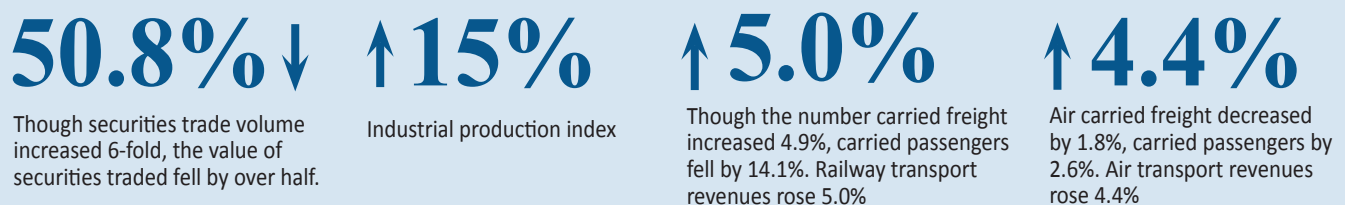
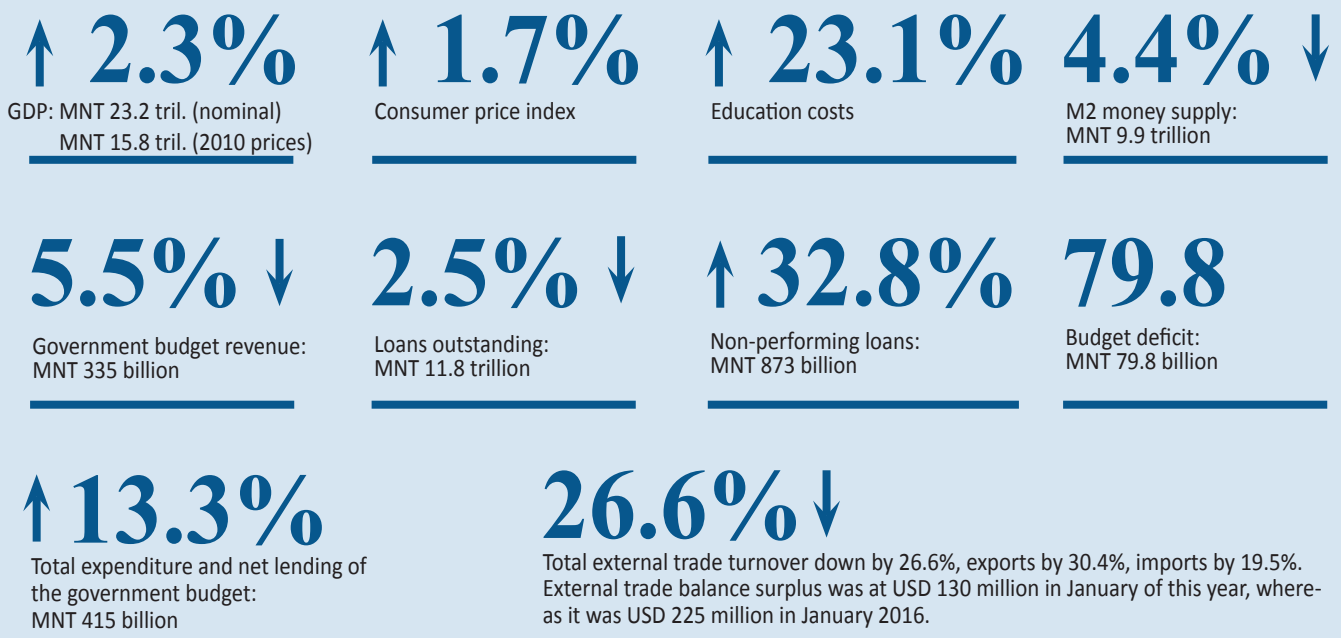
-The code focuses on the Gobi region because we believe it has the risk of achieving fewer results if it tries to encompass to large a scale. However, if companies explore on their own and express interest in joining, we would like to enhance the work we started. The IFC will not permanently guide the project. The project will finish in June 2017. At that time, we will transfer the work to a domestic organisation that can receive the reports of the companies, inform the public accordingly and further enrich the database. ■

Statistics

January 2016 economic indicators compared to the same period of the previous year



Macro-economic indicators compared to the same period of the previous year



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Editorial note

For this issue, we compiled the best articles and interviews published in issues magazine last year. Though our subscribers may have all the issues of 2015, the amount of articles and material can really get up there, as we publish bi-weekly and in two languages. Even we ourselves, the editorial team, sometimes find it difficult to recall and find some of the articles and issues. As such, we decided to compile the most memorable articles and interviews from the 24 separate issues of the previous year. Although we had published an annual compilation issue in December of each year, this year we re-published The Economist's annual issue "The World In 2016" in December of 2015 as their exclusive licensee in Mongolia. Hence, our own magazine's annual compilation issue came later than usual this time around. This past year, our magazine wrote extensively on development, the economy, business, Oyu Tolgoi, and matters of the state as well as Ulaanbaatar city. In particular, we raised a number of issues related to the OT underground mine's investment in order to help get the ailing economy moving. A magazine issue focusing solely on OT was even issued. In addition, two special issues about the development of Ulaanbaatar were delivered to the hands of readers. We hope you enjoy and devour our new as well as past articles.

Photo by B. Byamba-Ochir







Photo by B. Byamba-Ochir

Mongolia's 28th Prime Minister Chimed Saikhanbileg, elected to head the Solution government

Governance

Bilegenomics

Facing a crumbling economy, Russian President Vladimir Putin defiantly stated in his recent year-end press conference: “No one will ever make Russia feel alone.” Meanwhile, Chinese President Xi Jinping seeks to boost his country’s slowing economy by fostering closer relations with growing economies around the world, already in 2015 pledging USD 250 billion to Latin America in a power move of economic expansion. As the new year unfolds, the world’s economic health is faring less well than could be desired. For Mongolia, as the novelty of its new government wears off, Mongolians look to the new Prime Minister for action to combat their current stagnating economy.

According to economists, Mongolia is not beset by an economic crisis; rather it is struggling with economic difficulties. The major problem is that if it does not address these challenges, the country—with half its population poor—may easily slip into a crisis. Many blame the situation on continued social welfare programmes or inefficient expenditures of the government. Some even say attempts to buy voters in the 2012 and 2013 elections, by promising and distributing cash, caused

the current mess. In a recent speech before parliament, new Prime Minister Ch.Saikhanbileg stated: “We, Mongolians, are the cause of the economic failure. Income from big project investments and mining product price increases were distributed carelessly, while shortcomings were financed by commercial loans, which do not often bring the results we want.” He added: “It is not easy to say words like ‘reduction’ and ‘deduction’. However, it is the medicine Mongolia needs. Although it is difficult for me, as Prime Minister, to cut all expenditures, there is no other choice than that.”

It is the Prime Minister’s duty to save money whenever and wherever he can. It is high time that Mongolia stopped squandering money and treating the State Budget like a wish list. The tradition of politicians making empty promises to stay in politics must end, if Mongolia is to avoid a crisis.

The Prime Minister has revealed the general guidelines that will lead policy implementation throughout his term. He notes the importance of increasing credit limits, saying loans should be long term (up to 40 years), and with low interest. This would support the private sector

by offering loans with governmental guarantees. He also intends to impose property taxes and decrease state workers by 15 percent. Although he seeks strict policies to limit budget expenditures, he would do so without neglecting the social groups—the poor, old, unemployable, and single mothers—that need state care the most. Generally, however, the vast majority of Mongolians will not be spoon-fed by others, and must learn to feed themselves. Mongolian Economy magazine calls his action plan ‘Bilegenomics’, a catch-all name—in the tradition of Abenomics, Obamanomics, and Reaganomics—for the measures Ch.Saikhanbileg will undertake to restore prosperity to Mongolia’s economy.

According to the Prime Minister, the Mongolian government knows its citizens well, ever since it conducted a detailed survey on population and family living standards. Thus, he said, the government is now able to reach out to those who really need the help. Yet the proposed saving’s mode salvo seems to be aimed at Mongolia’s upright citizens rather than at those sitting in government. For example, there is a procurement budget for parliament members that includes salaries for advisors and secretaries, and allowances for car fuel and mobile phones, that sums up to MNT 90 million a year. Most in parliament are unwilling to give up such amenities. With few significant voices supporting the idea, it is far from being realized. During an interview with a local broadcaster, parliament member G.Bayarsaikhan spoke out by saying: “There is a budget for every parliament member. I, personally, am willing to just go on with my salary as a member of parliament. And if the government can make 15 percent of the state employees redundant, it can start saving from its expenditures.” Although carving off chunks from the State’s own expenditures are routinely discussed, the idea of exactly how the savings will proceed remains undercooked. Meanwhile, politicians are full of ways to cut holes in citizen’s pockets; one of which is by reducing monetary subsidies given as social welfare.

There have been few occasions since 2006 where underprivileged Mongolians were unable to receive distributed cash from the government. A sudden subsidy reduction would seem harsh for citizens. Although many in government stipulate ▶

▶ that uncontrolled cash distribution caused many of the poor to prefer laziness over the drive to work—a fact that can be traced from recent data on unemployment rates and vacancy announcements—the situation is rather the fault of the government, which unleashed its social welfare so carelessly. While the government tries to fix its mistake, it should not dictate to mothers, children or the elderly to tighten their belts and take on the added burden of a suffering country. At least, not at this starting point, say many. Only MNT 28.6 billion is

believed to be saved, if child and elderly social welfare subsidies are reduced. But MNT 300 billion was spent in the past three years on monthly stipends for university students. A large portion of the population, even students, agrees that this sort of scholarship has now become a form of unnecessary fostering.

Another example of the government's funding of needless expenditures through its approved budget involves financing musical theatre renovation and construction throughout the country. According to a recent data report, it would

cost the government up to MNT 9 billion to renovate or build one new theatre in each province's soum. This year's budget allocated up to MNT 2 billion for the nationwide project. Is the newly formed government really trying to save as much as it can to help the economy avoid a crisis?

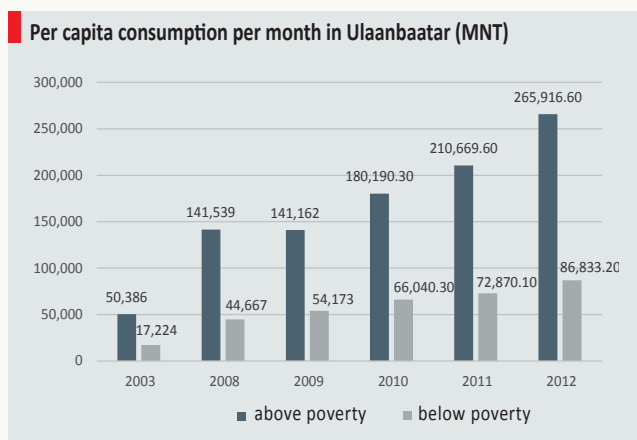
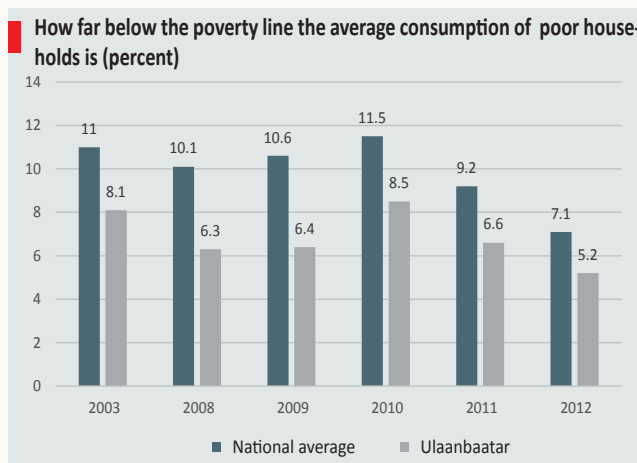
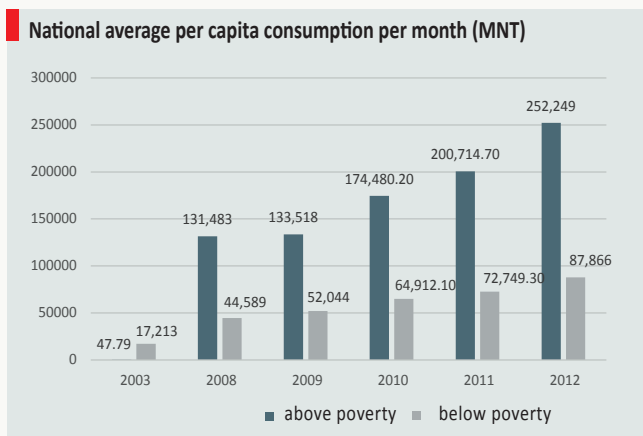
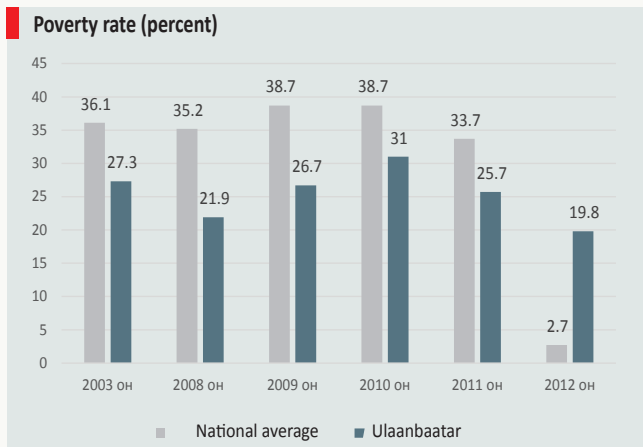
Entering a saving's mode would require a lot of courage and clarity from the government. Bilegenomics must not leave citizens behind, but lead the country out of tough times and back to prosperity. ■

January, 2015 № 080

Statistic

Has Poverty Decreased?

Although the previous figures indicate that poverty has decreased, the share of total national consumption of the lowest income population has not improved since 2008.



The survey of per capita monthly consumption shows that the gap between the rich and poor is growing with each passing year. (Source: NSO of Mongolia)



ITB Report

Continuing Mongolia's ITB Success

The world's leading travel trade show, ITB Berlin (Internationale Tourismus-Börse Berlin), brings together 10,096 exhibitors from 186 countries for the tourism industry's most prominent get together. That's more than double the world's second largest tourism event, the World Travel Market London, which tops off around 5,000 exhibitors. Despite the fact that ITB Berlin-2015 further cemented its position as the world's leading travel trade show, setting new records and achieving unparalleled success in March, many in Mongolian society still question whether Mongolia, ITB's official partner country this year, will share in that success long enough to bring real results back home.

Opening with a bang

When asked about Mongolia's selection as partner country for the expo, the German ITB team revealed that there was a worry among the organisers whether or not the country would prove a suitable partner. Their worry only lasted until the opening ceremony, when Mongolia's representatives and performers stunned the crowd with one amazing show after another, to the great relief of the ITB team. By the time the last Mongolian left the stage that evening, the team said that the ITB-2015 partner

country had far exceeded expectations. The ITB team thanked Mongolia on its well organised, wonderful performance. Project manager Holger Wilke, who co-organised the opening ceremony, said: "I was part of the ITB organizing team for nearly 20 years. Many countries have participated as official partners, and I worked with most of them. But I've never seen such a unique and wonderful opening ceremony like this before. Mongolia's opening ceremony was so unique. For me it was the best."

Throughout the rest of the conference, Mongolia continued to prove that it was a great choice as official partner for 2015, even surpassing previous partners in many respects. For the 15th annual Best Exhibitors Awards, which evaluates over 11,000 booths and pavilions at the ITB Berlin 2015, Mongolia's stand design won sixth place out of 162 in the Asia, Australia, and Oceania category. A survey from the Travel Research Institute of Germany shows that the number of Germans interested in travelling to Mongolia rose by 4.3 percent. That's equal to three million Germans who are now aware of Mongolia as a must-visit travel destination. A further 150,000 surveyed said that they are already planning a vacation to Mongolia within the next three years.

Mongolia had a prominent presence at

the conference and in greater Berlin. Dr. Christian Goke, CEO of Messe Berlin, stated: "These days, Berlin has become the capital of nomads. Because, 300 guests and delegates from the Mongolian tourism industry have come here to Berlin." A big billboard featuring Mongolia's famous natural beauty hung on the main walls of the ITB exhibition centre; taxis ornamented with Mongolian flags transported passengers around the city. Promotional posters were displayed around the ITB exhibition centre and throughout the metro stations and crowded districts of Berlin. At the opening ceremony, with 3,600 travel industry delegates in attendance, Mongolian President Ts. Elbegdorj jested: "The Mongols are back. But this time we're not here to conquer, we're here to befriend." A number of international and German reporters were on hand to capture Mongolian President's speech and quote him in their reports.

Over the past decade, only seven or eight Mongolian tour operators participated in the ITB expo. In 2015, 16 tour operators took part. Participants say that the number of exhibitors and visitors who came looking for Mongolia at the Mongolian stand increased sharply this year. Mongolian tour companies not only had a number of prescheduled meetings at ITB, but an additional number of unexpected meetings with new partners from all over the world in 2015.

"For example, a few years ago we visited Austria and Switzerland to meet with companies, but it was not so successful back then; this year, however, they came to us themselves and talked on contractual levels, so this shows the scope of participating as an official partner" said, G. Bolor-Erdene, ▶



► German market manager for Juulchin Tourism Corporation. She added: “We met with 58 companies and associates during this year’s ITB exhibition. Out of those, 21 were old associates and 37 were new companies.” In total, Mongolian tours operators reported that they met 30 new foreign tours operators for future partnerships.

What should you expect from ITB?

Of the 10,096 exhibitors from 186 countries, more than two-thirds were from outside Germany. Overall, some 115,000 in the general public visited ITB, making up 43 percent of the expo’s visitors. Additional estimates by Messe Berlin show that visitors remained longer at ITB Berlin than in previous years, due to the increase in potential business deals, with the average duration of stay rising to 2.4 days, up from 2.1 days in 2104. The volume of sales surrounding the ITB show increased to 6.7 billion euros, up from around 6.5 billion euros in 2014. Approximately 5,180 accredited journalists from 75 countries, and some 350 bloggers from 29 countries, reported on events at the expo.

Mongolia tried to use opportunity of so many suitors in one place—be they tour operators, tourists or buyers—to mark its formal debut on the world travel market as a trustworthy potential partner. For its debut, Mongolia spent a large amount of money to become official partner country of ITB Berlin. Yet although the government budgeted MNT 18 billion for March event, it has doled out only MNT 7.6 billion so far, and even those payments were often delayed. Mongolia’s organising body, Tourism for Future NGO, even arranged donation events

to raise money for the sake of Mongolia’s participation at the ITB Berlin. While the ITB event was a great success, Mongolian organisers say that they have cut the extent of marketing follow up, a crucial component for official partner countries to prolong their post-ITB success.

There is a fear and a suspicion looming over society that the money spent on ITB will amount to nil for Mongolia’s travel industry. But the fact that Mongolia succeeded in spreading the word for its tourism industry at ITB should be enough to give tourism a boost. How big of a boost is another matter entirely, as Mongolia has outsized goals when it comes to increasing tourist visits in the years to come.

The National Tourism Development Programme plans to welcome Mongolia’s one millionth visitor by 2016. But even after ITB’s success, that number does not seem realistic to tour operators. Most operators expect a significant increase in the number of tourists, but not more than double what it’s been in recent years. If we look at 2014, the number of tourists that visited Mongolia was barely 400,000, a 5.9 percent drop-off from the previous year.

“We may not feel the full benefit for participating as an official partner this year, but starting from next year we are going to get real results. We’re going to feel the benefit even more in the years to come,” said, M.Navchaa, Director of Tsolmon Travel.

During ITB Berlin, Secretary-General of the United Nations World Tourism Organisation Taleb Rifai spoke with D.Oyunkhorol, Mongolia’s Minister of Environment, Green Development and Tourism, saying: “Your performance at the ITB raised you to a high level. When you go from this level to that level, the challenge is how to stay high up there. That is the price of success.”

Although countries spend a lot of money on participating in the ITB expo, they all say the most important time for a country’s tourism industry comes after the expo’s end. The danger is after such big event, some countries go back to zero. No structure, no money. Then there are other countries that managed to increase their visitors by over 50 percent, such as Turkey. It has a lot to do with what you are going to do with all those contacts that you built at the ITB.”

“Well done Mongolia, you showed what your plans and developments are. But it is now really time to walk, not talk. Everybody

even high levels need to do follow ups and talk with those people again you met at the exhibition. Have an agenda and timetable for the next steps” said Martin Bart, CEO of World Tourism Forum Lucerne.

Even the World Tourism Organization stepped forward and made clear suggestions for developing Mongolia’s travel industry. Taleb Rifai insisted that the World Tourism Organization is ready to provide knowledge, technical and political support to help Mongolia deal with its image challenge, legal issues, and human resource shortage, and to make the country a leader in adventure tourism countries by helping to host international tourism meetings and forums in Mongolia.

Earned trust

Mongolia’s biggest achievement at ITB Berlin 2015 is one that’s not immediately obvious: trust. Mongolia earned the trust of international travel market community. And now what we need to do is to sustain that trust by improving our tourism sector capacity, services and marketing.

“Companies need to improve and work more efficiently at professional travel marketing. They should come up with particular products and be special and make presentations on international platforms, as this is considered successful marketing for the whole industry,” says B.Indraa, managing director of Tourism for Future. She added that Mongolia must continue to deepen its tourism marketing by becoming more involved on social networks, a cheap and effective way to spread the word.

Mongolia must prepare itself for the increased interest. Mongolians be must up to the challenge of welcoming more tourists, or they can expect disappointed travellers and tour operators, and damaged relations in the future. M.Navchaa suggests that the “government should focus on improving infrastructure and the legal environment, while we tour operators can take care of the service issues and the rest.”

Mongolia demonstrated the advantages and features of its tourism industry, and showed it was able to raise its reputation on an international level. But the tourism sector yet lacks good management to hold onto this newly-earned reputation. Despite Mongolia’s achievements, the tourism industry remains fragile; if the country doesn’t turn its fragility into firmness, the energy and time spent in preparing for the ITB exhibition will have been for nothing. ■



Photo by B. Byamba-Ochir

Poverty

A Profile on the Increasingly Poor

Batbayar can find anything that might earn him some money from the Ulaanchuluut dumping grounds, where he can earn about MNT 5,000 to MNT 10,000 per day searching for recyclable scraps. "If this place disappears, our life will be in a difficult situation."

There's an expression: "only the poor understand the suffering of the poor". Many distressful issues are arising in our lives today due to rampant unemployment and the government's shoestring budget.

When looking at poverty, statistics and analysis can only reveal so much. In this interview, I tried to share my impression of the people who live on the fringe of our city and suffer from debilitating poverty.

Poverty is a condition where people's basic needs for food, clothing, and shelter are not being met. It would not be a lie to say that every person who I met for this

interview suffers from a basic lack of food. A mother of six children said that mealtime usually consists of her feeding her children one slice of bread while she eats nothing herself. Poverty in Ulaanbaatar affects about 40 percent of the total population, and has not decreased from previous years. Today's economic situation has made the lives of Ulaanbaatar's poor more miserable than ever.

The family of P.Batbayar resides on the outskirts of Songinokhairkhan district on a piece of unfenced-in land they don't own. Their household has six members;

their only daughter is four years old. When I arrived at their ger, their 15 year-old son was asleep on a bed. He occasionally groaned in his sleep; when I asked his mother, S.Tsatsraltuya, if he was sick, she replied: "No, he's not. He's dropped out of school and stays at home. So he sleeps in the morning." Batbayar and Tsatsraltuya are only 40 years old, but their best years might be behind them. Save for food stamps, they receive no welfare from the state. They receive no childcare money from state because of documentation issues. They receive a total of MNT 40,000 per month from the Food and Nutrition Social Welfare Program initiated by the government, which gives a monthly allotment of MNT 10,000 to adults and ▶

► MNT 5,000 to children who are considered the most vulnerable members of society. Batbayar's family spends the entirety of the MNT 40,000 on their monthly food. The money is basically the monthly income of their household, unless head of the family Batbayar can find anything that might earn him some money from the Ulaanchuluut dumping grounds, where he can earn about MNT 5,000 to MNT 10,000 per day searching for recyclable scraps. His wife Tsatsraltuya said: "We will somehow find our food as long as this dumpsite exists. If this place disappears, our life will be in a difficult situation." Recently, Batbayar's family became burdened by the price decline of commodities such as copper and brass; on top of it, the price of iron is decreasing day by day. For example, one kilogram of plastic bottles were MNT 300 in 2014, but now has fallen to MNT 200 in 2015; while the copper price is at MNT 1,500, compared to MNT 4,000 last year. Batbayar is afflicted with a lung disease, which makes him unable to work any full or part-time employment; often, he can't even make it to the dumping ground when he's sick. The trash site's smoke, ash and dust only worsen his health. His wife's bad leg prevents her from picking through waste. They can't get treated at a public hospital, because they don't have insurance, or spare money to spend on treatment. Tsatsraltuya spends her day by looking after her children and reading newspaper fragments brought home by her husband. Her one good leg began to ache last year and has since thinned down to

the size of her forearm. Their two middle sons live in the Lord's Grace foster home, and study at School Number 62 in their district. One of them is visually impaired at birth, and the other's eyes suddenly become so poor that he underwent surgery in Singapore at the expense of the foster home. For basic daily necessities, Batbayar's family collects firewood from the dumpsites, and buys five litres of water from a private well for MNT 5. They tried to get electricity from their neighbor, but they don't have long enough power cable.

No dumpsite, no food

There are many households similar to Batbayar's, which survive on scraps from the Ulaanchuluut dumpsite. The family of R.Ulaanbandi, a household of seven, resides two streets away from Batbayar's. Besides Ulaanbandi's four children, his brother-in-law lives with them. Their family moved to the city from Bayankhongor aimag in 2004. Ulaanbandi and his wife D.Batsaikhan are both 32 years-old, and both are unemployed. They said that they intend to work when the construction work begins. They also make the daily trip to the Ulaanchuluut dumpsite. If R.Ulaanbandi goes to the dumpsite alone, he can earn MNT 7,000 to 8,000 thousand per day; if his wife comes along, they earn twice as much. Ulaanbandi has spinal issues, so he said that he cannot perform hard labour. Their household's main income is MNT 80,000 in childcare money they receive from the state. They spend all their money earned from the dumpsite on daily food, so they don't have the privilege to save money. Their youngest child is three years-old. There is no preschool for her to go to. The wife Batsaikhan said: "It's hard to find a job, even if I want to, because employers set age limits and look at your appearance." When she searches for a job, she finds only cafeteria washer and cleaner positions to be available. She talks proudly of the MNT 300,000 she earned working in construction last summer. But issues like overdue payments are common. She said that working a dumpsite is much easier, because there's no fear of begging someone to get paid. Their family usually uses only one sack of coal per day, but they use more during the winter. In the past, they received a 50 percent discount on their electricity bill from the government's improved boilers project; but now they're

paying around MNT 50,000 per month. The seven-member household spends 10,000 to 20,000 per day, even if they try to reduce and save.

The World Bank defines poverty in absolute terms. Extreme poverty is living on less than USD 1.25 per day, and moderate poverty is less than USD 2 a day. This is about MNT 1,994 to MNT 4,000 (as of the March 25, 2015 Bank of Mongolia exchange rate). Poverty will exist in our country as long as we have families who feed their children six slices of bread per day.

B.Bauvarjan's family of nine lives in a five wall ger in the boondocks of Ulaanbaatar's central Chingeltei district. Bauvarjan's family lives in his wife B.Saruultsetseg's mother's home. They have six children; the eldest son is 16 and the youngest is two. Saruultsetseg's mother is 60, and lives together with the family. Saruultsetseg said that although they moved here from Tov aimag 15 years ago, they're livelihood became more difficult only in recent years. The family of nine live on their grandmother's pension and the children's state childcare money, which totals MNT 350,000. In Mongolia, four children bring mothers the official state honor of 'Second Order of Glorious Motherhood', and an extra yearly MNT 100,000; Saruultsetseg receives this money too. She said that her mother had to take a pension loan to celebrate Tsagaan Sar in February. Her husband used to work for a construction company, but it went bankrupt and he's now unemployed. A sack of flour lasts only a month in her family, because when they don't have meat they use flour to bake bread and fritters. They rarely buy vegetables. Saruultsetseg shyly said: "Right now we don't have flour, so I just told everyone to ration the last remaining bread. We give two slices of bread to our children in the morning, afternoon and evening. Our dinner is two slices of bread and tea, after eating it we go to sleep." Mostly they're out of supplies at the end of the month, but when they can afford to, they usually eat soup. Their families and relatives live nearby, but they're lives are not much better. The household pays around MNT 40,000 per month for electricity, which comes from the grandmother's pension. Bauvarjan worked for two places but could not get paid, and now sits at home, his efforts no better compensated than a slave's. There were many people who performed such ►



▶ free labour in almost every household I met. They blame the lack of compensation on the country's economic troubles. In the past, small construction companies were able to at least pay their workers, but now the situation is different.

What happened to the goal to reduce the poverty rate to single digits?

N.Chagdarsuren's household currently guards the backyard of an office building in Songinokhairkhan district. Their family has four members; they don't have their own land and are forced to shuffle around to different places like true city nomads. The couple has a daughter, Undrakh, who is 25, and a four year-old grandson.



P.Batbayar lives with his family in Altan-Ovoo 39 Zag-dai, 26th District, Songinokhairkhan

Chagdarsuren is 77 years-old, and moved to the city from Bayankhongor aimag nine years ago. When he was young, he worked in construction, farming and animal husbandry, eventually coming to the city to send his only daughter to school. But his daughter only finished 8th grade, and didn't study further. Undrakh has been looking after her parents since 2008. Chagdarsuren's wife had a stroke seven years ago. Today, half of her body is paralysed, and she doesn't recognise her family members. The elders are retired, and their household's monthly income depends on their pensions, totaling MNT 400,000. Besides daily living needs, they spend most of their money on medicine, which can easily reach MNT 200,000 over the course of two weeks. A ten pill pack of blood pressure medicine costs around MNT 10,000. They receive no nursing, medicine or welfare money from the state. Recently, their daughter

pleaded for nursing money, and a local doctor's council gave a positive answer to her plea. Their total electricity bill is MNT 10,000 per month. The owner of the backyard gave two car trunks full of coal as a guard's salary, which was a big help for them. Chagdarsuren buys pain relievers, headache and blood pressure medicine when he gets his pension. He said that when he feels alright enough, he doesn't buy his medicine to save money. It's obvious from their talk that they closely calculate their money to make sure it's sufficient. Chagdarsuren manages the finances and gives some money to his daughter to let her buy food. Their daughter said that even though she wants to work and earn money, she needs to look

professor of the National University of Mongolia Dr. B.Altantsetseg. According to her, Ulaanbaatar's poverty rate depends on the level of household income and economic conditions. B.Altantsetseg said: "Poor household livelihoods deteriorate at first when the economic situation deteriorates. This causes poverty to increase." In particular, low income households which are headed by a female are more vulnerable to the economic situation. When in the field for this report, I heard more often about single female-headed households than single male-headed households; but every household has their own troubles.

S.Enkhbayar, who lives in Songinokhairkhan district with his one and a half year old daughter and four middle-school-aged children, is in a difficult situation. His wife died 10 days ago from breast cancer. He said: "The benevolence money gathered from my wife's funeral has been enough for now. But I don't know how we will live much longer. I hope it'll work out, since I'm still alive. Everything would be fine, as long as I can feed and care for my children." His family's monthly income is his five children's childcare money of MNT 100,000. Before his wife passed, they worked in construction during summers, earning MNT 500,000 to MNT 600,000 per month. But now he's alone, and alone bears the responsibility for his children.

Can't leave their children, even if they want to work; hard to find a job, even if they search; even if they work, they don't get paid—city life has such different shades, but the lives of the city's poorest are getting darker every day. The warden of Chingiltei district's khoroo 12, J.Oyuntsetseg, said: "Because of welfare indulgence, people have become dependent on it, and seek the easy way out instead of fighting." Of course there are people like that. But this generalisation ignores the vast majority of poor out there who will starve to death without state welfare.

Let me say it again: Ulaanbaatar's poor are increasing day by day. Only employment can drive and strengthen this weak economy. A sentence from the president of the Bank of Mongolia N.Zoljargal should say it all: "If the citizens of Mongolia become unemployed, then the whole country will fall into the abyss." ■



after her parents.

This year, our country set a big objective to reduce the poverty rate to single digits. Yet in the last five months, poverty has skyrocketed—Ulaanbaatar's poverty rate is almost double what it was in October 2014—now at 40 percent and rising. These statistics can be seen in consumer confidence index research conducted by

Economy

Today's Economic Revival Actions Won't Pay Off until 2016

To rescue the economy from its current downward spiral, one based on external commodity price decline and a sharp drop in foreign direct investment, the government of Mongolia approved an economic revival action plan ('Measures to Overcome the Current Economic Difficulties') on the eve of the Lunar New Year break between the fall and spring parliamentary sessions. The plan focuses on fiscal stability, the investment environment, foreign balance of trade, and improvement of the financial sector. Generally, the action plan proposes to attract foreign investment into Mongolia's megaprojects via improving the investment environment and loosening formerly tight policies, while simultaneously supporting infrastructure and other domestic sectors. Despite the windfall such projects will bring in the future, at present a planned USD 300 million State Bank bond appears to be the only method to bring cash into the country in 2015. Mongolia's 'cash cows'—megaprojects in mining and infrastructure—are facing continued delay, to the point where any expectation of benefit must be similarly postponed.

Attracting foreign investment in mining

The government's action plan is designed to restore foreign investors' trust in Mongolia and bring back FDI into the mining sector. The now defunct 'Strategic Entities Foreign Investment Law' (SEFIL), approved in May 2012 to limit major foreign investment in 'strategic' mines, and the Oyu Tolgoi mine's underground investment delay since mid-2013, are the two main causes of foreign investors flight from Mongolia. As a result, FDI inflow finally dipped into negative territory at the beginning of 2015. The government's revival plan stipulates that Oyu Tolgoi's investment issues must be resolved and construction work on Power Plant 5 (PP5) must begin by the end of 2016 to prevent a major cash inflow problem. While Oyu Tolgoi's problems are well-known, PP5 has its own

barriers to investment, stemming from the government's artificially low energy prices that ostensibly act as power subsidies. The government pressures energy producers to keep prices low, forcing most to work with a loss. Investor's who might finance PP5 and other similar projects under the terms of a concession agreement are nowhere to be found, as long as the government subsidises energy prices. With 2015 looking more and more like a lost year, the government mandated the USD 300 million State Bank bond to be raised on the international market to quickly attract foreign currency.

If those three initiatives succeed in moving forward, a combined minimum of USD 1.7 billion will enter Mongolia as FDI in 2015 and 2016. Although this amount is not as high as the level from 2010-2012, it is near to the level of FDI in 2013. The investment environment appears to depend more on Oyu Tolgoi's and Tavan Tolgoi's issues between foreign operators and the government, rather than on legislation—as policy makers already approved the investor friendly 2013 Investment Law by removing SEFIL, and added necessary amendments to the Minerals Law in 2014 and 2015. A final decision on Mongolia's top two megaprojects should be enough for significant FDI to return to Mongolia.

Planned infrastructure projects

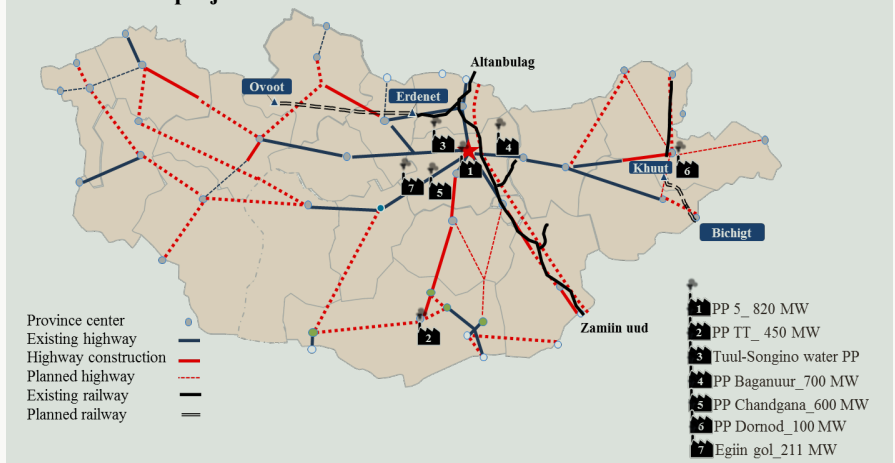
In terms of big infrastructure projects, the priorities are PP5, the Tavan Tolgoi Power Plant, and the Erdenet-Ovoo rail link. Construction on these projects will begin by the end of 2016, leading to positive results in both the short- and long-run.

Several additional projects shown in the map will be implemented through concession agreements; concrete results will take a few more years. The infrastructure projects need at least USD 5 billion in investment. Investment environment recovery along with solutions to current obstacles in the way of megaproject financing will play the main role in achieving short and long term success.

More exports than imports

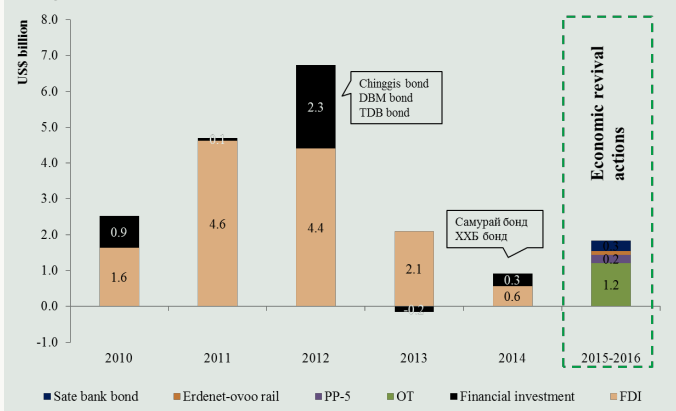
In order to achieve a trade surplus, the government has a three-fold plan to expand mining production (of gold and iron ore), to support non-mining exporters (of cashmere and sewing), and to foster import-substituting producers (of cement and leader products) through a Development Bank loan totaling USD 500 million. A handful of heavy industrial projects are to start by the end of 2016: the Tsagaan Suvarga copper project, a copper smelter, a coal gasification plant, and Mongolia's first oil refinery. The ▶

Infrastructure projects



- projects will require huge investment, and depend on government agreements with China, Russia and Japan. Despite the efforts, mining sector production will continue to remain more dependent on global commodity prices than on government policy decisions.

Foreign direct investment and financial investment



Encouraging fiscal stability

Parliament's approved budget deficit ceilings, 5 percent of GDP for off-budget spending and 58.3 percent for state debt of GDP in 2015, are targeted at 4 percent and 55 percent respectively in 2016. Once parliament approved a higher debt ceiling, fiscal stabilisation fund improvement and the creation of a wealth accumulation fund creation were proposed as well. By excluding the debt of state-owned enterprises from the state debt, according to the newly created Debt Management Law, the government has allowed the debt level to increase. However, to decrease the budget deficit would bring about a different set of problems. First, the economic revival action plan included some public social programs that need support: an allowance for the unemployed, energy bill deductions, and proposed reductions in the unemployment rate from 7.7 percent to 6.9 percent and the poverty rate from 27.4 percent to 26 percent. Second, domestic industrial development will be supported by the off-budget USD 500 million DBM loan. Despite its drawbacks, the action plan would have a positive effect on decreasing state participation in the private sector.

Developing the financial sector

Improving financial stability and reducing financial risks are concurrent priorities. To support the banking sector, the State Bank bond is planned to be raised through Q2-Q3 this year. This comes at a time when insurance systems and investment funds are under development.

Overall, success in the Oyu Tolgoi and Tavan Tolgoi negotiations form the base of the government's revival action plan. Forecasts yet remain favourable, and the fundamental issues should be solved by the end of 2015. But if Tavan Tolgoi negotiations continue to stall due to the outstanding debt issue with China's Chalco, and Oyu Tolgoi's muddled underground expansion stays buried, you can expect 2015 and 2016 to be woeful years. Even in the best case scenario, questions remain. Can Mongolia start all of its megaprojects in a single year (2016)? Can the State Bank bond rescue 2015 alone? Does Mongolia need an International Monetary Fund or World Bank programme to avoid a true crisis? ■

2015.04 №086, 087

Property

Construction Today

The construction industry has been saying that this year, the sector is unlikely to perform well and that things may pick up after the election. This sector will get out of its current rut if the government makes moves, and the economy recovers. Eighty thousand people are working in the country's construction sector, and the industry creates 130,000 jobs in related fields. The Executive Director of the Mongolian National Construction Association, G.Tumenjargal, claimed that more than 40 percent of the industry's workers were laid off as a result of the broader economic situation. It is expected that more than 300,000 people's incomes will decline sharply if we consider the people working in related fields. G.Tumenjargal warned that the construction sector will face major difficulties and that the sector's tax contributions will decline significantly. This situation may cause a circular debt network between constructions material and trade companies if the economy continues to struggle.

"The risk with the construction sector is that it may heavily affect other sectors. Companies implemented works for the state under contract, but they didn't receive the money they should get, making them unable to pay off their loans. Yet, builders are still building. The developments haven't stopped," said M.Batbaatar, President of the Mongolian Builders' Association. Construction companies are running operations from their own resources, but in turn, they are finding it difficult to sell what they have built.

More than 7,000 apartments that were put into operation last year did not get sold. It is said that 25,000 apartments will be put into operation this year, which it means that more than 30,000 vacant apartments are on the market. Those in the industry are saying that the procurement of apartments is unsatisfactory while the supply is there. According to them, the construction sector must do work during the warm periods of the year in order to improve economic "circulation." To do so, thousands of apartments on the market need to be sold. However, the prime minister noted that overdue loans are at 1.8 percent, and non-performing loans account for 0.5 percent of outstanding loans. The purchasing power of the people is weak, and they do not have the ability to repay loans. Hence, ►

Year/quarter	Number of projects	Number of households	wtd. avg. price per sq.m (MNT)
2015 Q2	21	4,350	2,230,776
2015 Q3	17	8,625	2,057,631
2015 Q4	19	9,095	2,468,080
2016	6	1,472	3,645,805



► industry officials are insisting that the government assist the construction sector in today's economic conditions. The prime minister expressed his position about this issue by saying, "The government set the down payment amount to be 10-30 percent in the 'General government policy on mortgages' in order to sustain mortgage loans in the long-run, but it was usually provided at 30 percent in 2013-2014. The government will provide guarantees of up to 20 percent so that banks would bear less risk, allowing residents to pay 10 percent up front and pay the remaining 20 percent further down the line. The government will implement available measures to reduce down payments if parliament gives policy support."

In addition, the loan criterion that apartments must be no more than 80 square metres to be included in the mortgage programme will be removed, and all apartments will be able to be purchased through mortgage loans. MNT 2957.85 billion in loans were provided to a total of 67,612 citizens, and MNT 57.75 billion in grants was provided to 1,657 citizens since the mortgage loan programme started.

The minister of construction said that the ministry will address the situation on two fronts. First, construction businesses will be supported. In this scope, the ministry will prioritise cutting the red tape and improving the business environment. In addition, they are seeking opportunities to continue mortgage loans and ease lending criteria. "This time, we will prioritise boosting demand and look into new financial resources. We will focus on attracting foreign investment as the domestic resources are being exhausted," said D.Tsogtbaatar, Minister of Construction and Urban Development. Secondly, the long-term development of this sector will be planned in accordance with policy. In doing so, they are trying to make the sector's development "people-centred." Being people-centred will be based on three principles: respect for consumers, ensuring employee safety and ensuring the safety of the people.

Industry experts said that the construction sector's future has to be viewed in the context of the broader economy. The data tells us investment in the sector rose by 4.4 percent per year.

The issue at hand is why the sector is not progressing when investments are being made. There is a study which indicates that private companies have invested MNT 4.5 trillion in the housing market in the last two years. Investment increases as the industry develops. There is certain disparity if you consider the fact that construction work performed per year has increased by 10-15 percent on average since 2001. Investments by private firms accounts for a large chunk. The executive director of the Mongolian National Construction Association said that the investors are doubtful whether the real estate will be sold.

There are also obstacles such as late investments arriving late for some construction projects and lack of professional staff. The President of the Mongolian Builders' Association, M.Batbaatar, said it appears as if development has slowed down looking from the investment and finance perspective. However, those in the sector say they are doing what they can in their given capacity. ■

B.Lakshmi: Diversify and Decentralise the Economy

We sat down with the B.Lakshmi, Director of the Economic Policy and Competitiveness Research Center, which is the general organiser of the Mongolia Business Summit.

-Let's start our interview by talking about the Mongolia Business Summit 2015. What are some differences from last year's summit?

-The Mongolia Business Summit was organised in June of last year for the first time. The summit is being held separately from the economic forum because we only discuss internal issues at the Mongolia Economic Forum, so we had to organise a separate event to discuss the issues of attracting investment. People are interested in Mongolia because they come to Mongolian investment summits held in London and Hong Kong. Therefore, this summit is being organised to invite the people with whom we have established relationships to Mongolia, to attract investment and let them meet with our entrepreneurs and introduce the ongoing development works to them. As for this year, the economy is not that well and investor confidence has weakened. We need to make various attempts to attract investors during such times. Foreign countries do not receive enough information about Mongolia. The media provides them with some information about what Oyu Tolgoi (OT) is, but do not provide any actual or useful information. The summit is being organised give concise information.

-What opportunities do the public and private sectors have to attract investment? What were some outcomes of the last year's summit?

-The summit's purpose is to introduce large development works by the public and private sectors to investors, to sign infrastructure agreements and to support the business environment from unified standpoint. As for last year, we signed some

agreements on power plant projects. For example, we introduced the Tavan Tolgoi power plant project to people who are interested in investing in the project, and we also reported the reality on the ground to the participants. As for the project, everything is ready. The thing that is hindering the project is a guarantee from OT. The project is ready to go if OT gives a guarantee. In addition, we signed a concession agreement to build the fifth power plant. Investors have been selected. Such developments are restoring investor confidence.

-What topics are going to be emphasised at this year's summit? What plans are there to attract investors by presenting the major development projects?

-Erdenet Mining Corporation (EMC) is expanding their operations and increasing their production capacity by 25 percent. We all remember how the Sharyn Gol mine was on the brink of bankruptcy and how it got a second wind after switching to private ownership and attracting foreign investment. Also, important topics such as waste water processing are on the agenda. They say that 5,000 people will come to Mongolia during the ASEM summit in 2016. Discussions about developing a good programme for the summit and its effects on the economy will be held. Tourism, traditional



Photo by B. Byamba-Ochir

products, hotels, restaurants and many other sectors can benefit. Like always, there will be a theme about the megaprojects and economic development included. Even though everyone says Mongolia is a country rich in resources, we still have not started the fifth power plant project. We will be out of electricity and heat by 2020 if this project does not get moving now. We do not pay attention to maintenance. We start to panic all of a sudden. It is like how we are pouring waste water into the Tuul River because the treatment facilities are inadequate. We should think about how much time it takes to build a power plant. Who would trust us if we are constantly changing our decisions when we have

▶ not even estimated this. There will also be sessions about our country's real estate, railway, infrastructure and stock markets. Generally, we will discuss the plan about how to bring money into key economic sectors until 2030.

-What kinds of results are you expecting?

-The energy purchase agreement for the fifth power plant is expected to be finalised. Sharyn Gol will make an agreement to export to South Korea. Investment agreements which will give results are to be discussed. Economic conditions may be tough. However, it does not mean there are zero opportunities. Opportunities should be sought. Benefits and results come after trying and seeking. Study tours at major organisations are going to be held during the summit. As for last year, study tours were organised at companies such as Oyo Tolgoi, MAK, APU and Gobi. This year, study tours are planned to be organised at EMC and other factories. The goal is to find investment for rural areas, not only for Ulaanbaatar. Mongolia will develop as a result. This time around, study tours are going to be organised not only in Ulaanbaatar but also in the countryside. There are people who have not been to Erdenet city. Let's diversify our economy. We need to attract investment in cities and provinces other than Ulaanbaatar if we want to decentralise. The most important thing is that the people who are coming to Mongolia to invest do not have information on where and how to invest. We are not coordinating with our embassies abroad. The success of this event will be assessed by how much investment comes to Mongolia. The investors' summit is effective as it is organised specifically to tackle this challenge.

-The Economic Policy and Competitiveness Research Center conducts research in many areas. Most recently, research into green development and the banking sector have been presented. How are the results of these studies being implemented at the policy level?

-Our organisation specialises in conducting studies of economic policy and competitiveness and has been operating since 2010. The studies are quite effective. People have started to receive the results of studies positively. We have been conducting research on the competitiveness of provinces for quite a while now. In general, our national competitiveness will improve by focusing on local areas; we need to develop equally. The reason why people are striving to live in Ulaanbaatar is because they are looking for jobs here with the intention of improving their living standards. Thus, jobs must be created in rural areas to reduce centralisation. By conducting research in rural areas, there is now some kind of base or foundation for research in the future. It will play a big role in directing the projects to be implemented by the government and international organisations.

-Aside from the Mongolia Business Summit, your centre organises the economic forum annually. What are some outcomes of the forum?

-People ask a lot about the outcomes of the Mongolia Economic Forum. I would not say that it literally gives results. The purpose is to discuss vital issues and come to a common understanding. In other words, it is a basis for hearing the voices of the private sector and society in general. It is an opportunity to meet and talk with people who propose new ideas. International organisations were telling us that Mongolia is a real democratic country. People are expressing their views freely in front of ministers and decision makers. Mongolia is a relatively open country. This year's forum was held under the theme "credibility."

It gave an important signal during this time when credibility is nowhere to be found. Even when going to hospitals, we look for connections to find good doctors as we do not know who is credible. We do not trust the government and leaders to do anything. We are always suspicious of one another.

-The OT agreement has been signed. There is the expectation that investor confidence will be revived. What investment opportunities are there for sectors other than mining?

-What we do is we present the projects that are more likely to attract investment. For example, it can be the fifth power plant project. We have talked about it over the past 25 years, but we still have yet to build it. We have the possibility to implement the next megaproject, but thing is that politicising projects exacerbates the issue. When a different party is elected after an election, they start to block or repeal the works of the previous government. We know how much time is spent on doing feasibility studies for the megaprojects. When the feasibility study is developed and entrepreneurs try to attract investment, another party gets elected and completely changes everything. There are many expenses without benefits. Tavan Tolgoi tendered so many bids. Participating companies are spending money to compete for bids. A spokesman for the company Siemens said that they have participated in the bids four times, but there were no exact decisions made, so they are unsure of participating in future bids. Subsidiaries of major global mining companies were in Mongolia. They are all gone now. We have scared all of them away. As for this year, Peabody closed down their branch in Mongolia. Now only a few companies remain. We must focus on keeping them and advancing their projects. Developing our country is not that difficult. Investors are ready to join if appropriate policies can be put into effect.

-We are one the same page. Let's talk about the investment summit. How is the participation of investors and the private sector?

-Private firms are participating actively. Projects are going to be presented, and more than 30 investment companies are coming. Most of them are US companies, while interested companies from Singapore, Hong Kong and South Korea are also coming. The most important thing for investors is a stable economy – it does not matter that much if an economy is weak or stagnant. The government is talking about issuing bonds again.

This is a just paying off debt by taking on more debt. This means that we are adding five more years on our five years of debt. Instead of that, we have opportunities to develop other tools like capital markets. Rather than looking for the easy way out, we must improve the domestic environment so credit ratings and interest rates can improve. There is plenty of money out there. European countries are exercising a policy to incentivise the people with savings to spend their money. That money can come to Mongolia. However, the annual interest rates of bank loans are almost 24 percent in our country. How can we run a business when the financial climate is like this? ■

Corporate Governance

B.Byambasaikhan: SOEs Must Be Run Like Regular Companies

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 companies should. SOEs can't seem to do this 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

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



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

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 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 global 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 interferes too often 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 start of big changes. ■



Tavan Tolgoi

The Divide over Tavan Tolgoi

The plan to develop Mongolia's largest coking coal deposit Tavan Tolgoi for USD four billion is being stalled amid uncertainty concerning agreements between the government and investors. The main point of contention is how much money the two sides are to give and take.

Currently, Mongolians are divided when it comes to the Tavan Tolgoi question: anti-agreement and pro-agreement. Policymakers, economists and other influential people express their polar views on the matter, making people's heads spin. Member of Parliament S.Ganbaatar said, "Tavan Tolgoi is being rushed by saying the coal is turning to ash; yet, no specifics have been given to the people."

Energy Resources LLC, a four percent owner of the Tavan Tolgoi deposit, established a consortium with the Chinese Shenhua and Japanese Sumitomo and won the bid announced by the government. Why Shenhua and Sumitomo? In short, Shenhua has a railway, and Sumitomo has a solid marketing network.

Although the Mongolian government was supposed to sign three types of agreements on investment, the railway and the partnership, the Speaker of the Parliament Z.Enkbold sounded alarm and demanded that the agreement be discussed in parliament. The agreement has seen four changes since being submitted to parliament. "The government signing this agreement would have been a crime," said A.Gansukh, a legal consultant to speaker.

According to Z.Enkbold, "The current agreements that were on the verge of being signed did not sufficiently align with Mongolia's national interests. For example, the Mongolian government's duties have a certain timeline, whereas the other side's duties have no dates, only goals and aims. If the goals and aims fall short of expectation, there is nothing about who or what will answer for it."

Even a working group has been established to get to the bottom of points discussed by Parliament on what measures need to be taken for the development of the Tavan Tolgoi coal deposit investment agreement. The head of the working

group, MP L.Erdenechimeg said: "I have essentially become the person with the most information on this among the 76 members of parliament, but even so, I have only just received the first bits and pieces of information on Tavan Tolgoi. There is much the other members of parliament don't know about Tavan Tolgoi. Therefore, it is necessary that everything be thoroughly examined. The agreement can't be allowed to continue in its current form."

The most alarming part of the agreement according to the speaker of the parliament's consultant A.Gansukh is that the agreement term could have been pushed back until the investments are compensated. According to his accusation, the term of the agreement is limitless.

There is also this one clause in the agreement drawing many critics. It says that if the government were to cancel the contract, the consortium will legally be given the amount of investment back plus 20 percent of the expected annual profits for the remainder of the contract term. "What would happen if one minister



► comes out and tries to cancel the contract after an investor has already put USD four billion into the project?" asked J. Odjargal, President of MCS Group, which is Energy Resources' parent company.

After analysing the 2014 financial reports of the Mongolian Mining Corporation, which has been selected as the Tavan Tolgoi project investor, the company has over USD one billion worth of debt. For example, this company has debts to the Netherlands' FMO and Germany's DEG banks, and they have also issued USD 600 million worth of bonds according to the working group. In response to this, J. Odjargal stated that first of all, the Mongolian Mining Corporation was registered outside of Mongolia to raise funds. The bonds worth USD 600 million concern only MMC, and not Energy Resources. This bill has nothing to do with Energy Resources. He also said, "We can get out of the game right now. We might see some loss, but this country will see an even bigger loss."

The investment agreement also concerns four types of taxes: royalties, income taxes, custom fees, and air pollution fees. If the price of coal remains at USD 80, funds pouring into the state budget would equal to USD 202 million as a result of the above-mentioned taxes. According to the Energy Resources consortium and J. Odjargal, the state will

get all the taxes from the price of coal at the border without any risk. However, the contract gives all administrative rights to the management. Some see this as an intention to centralise all the power in one hand by reducing the involvement of the state to nothing. S. Ganbaatar MP said: "Investors will do the digging themselves, handle the transport themselves and deliver the goods to their own factories."

Think of it this way. If Mongolia takes a 34 percent share like with Oyu Tolgoi, the Mongolian government has the same amount of responsibility to secure investment for the project and to share all costs and expenses related to project. "We will levy taxes according to Mongolian laws. How sorely did we regret and how long did we talk about how the Oyu Tolgoi agreement should have been like this? Now that dream has come true with Tavan Tolgoi," said Ch. Gankhuyag, Executive Director of the Ard Financial Group.

Who is capable?

The work to get the Tavan Tolgoi mine moving started in 2010. According to the Australian JORC standard, the deposit has 7.4 billion tonnes of coking coal reserves. The economist D. Jargalsaikhan said in an article that the deposit's extractable reserves are around 5 billion tonnes, which is projected to yield USD 250 billion over the next 50 years, provided that one

tonne is sold for USD 50 at the Chinese border. L. Erdenechimeg MP said that if the current agreement is to be approved, Mongolia will receive what is equal to 20 percent of the yield altogether, including externalities and benefits. Recently, the Minister of Mongolia M. Enkhsaikhan displayed the yield of Tavan Tolgoi by saying that the investors and government will divide the income 78:22.

Among parliament members, there are on-going discussions regarding who should take the lead on the Tavan Tolgoi deposit mine. Some members are saying that Mongolians would be better off if Tavan Tolgoi is led by the state-owned Erdenes Tavan Tolgoi. They are even suggesting opening a new bid to find a new investor. "If we go along with the path set by Energy Resources, 20 families will get rich. If we go with Erdenes Tavan Tolgoi, Mongolia will develop for the 20 years," said Kh. Battulga MP. L. Erdenechimeg MP said: "If you just compare the two options instead of the rhetoric explaining each one, the mine would only be beneficial if Erdenes Tavan Tolgoi takes the lead."

Are there any successful state-owned companies? Sure. Powerful state-owned companies such as Timasek of Singapore and the China Investment Corporation conduct business and economic activities independent of politics. They are managed far from the prying hands of politicians. But for a country where everything has something to do with politics, it may never happen. There is no guarantee that there will not be any political interference with the Tavan Tolgoi deposit as it moves forward if Erdenes Tavan Tolgoi takes over the whole deposit. It is a nice idea, but naturally there are significant doubts as to whether it will ever work.

"There is no self-interest with Tavan Tolgoi. To forward the big project, we are in talks with the speaker of the parliament. We will handle the issue," said Prime Minister Ch. Saikhanbileg. But it is still unclear when parliament will discuss Tavan Tolgoi's future. Today, we are talking about sums of money equating to half the Mongolian economy. Perhaps the coal will not turn to ash, but it cannot be denied that Mongolia is losing its place in the global coal market as time goes by, and the dream of riding the export train to prosperity is fleeting away. It's tough being poor, but it seems it's even tougher being rich. ■

Oyu Tolgoi

A Deeper Understanding of the Underground Mine

A lot of zeroes have been added to Mongolia's debt in a rather short time. After everyone who collected some piece of paper with "888" on it for projects and spending on the city's beautification were done being coddled and pampered, the economy was also "finished." Suddenly, good news was sounded from the oasis in the Middle East, Dubai, when Mongolians were nearing total bankruptcy. It has increased Mongolia's reputation on the international investment stage, even while some are still raging about it being not an agreement but a plan or whether it was done secretly or out in the open. A very simple example

capital. However, caution need be exercised, or else the money will vanish before we even realise, like by being spent on something as useless as the "student's 70" – a monthly stipend of MNT 70,000 given to university students.

It has been six years since the ubiquitous name of OT, which has become the fuel for Mongolia's economic growth and development, was introduced to us. If OT were a person, it would be a six-year-old primary school student. However, if Mongolians continue to quarrel over whether they are going to educate this "youngster" or not, our reputation will be dragged through the mud all over again.

and its operation are still being sought by domestic and foreign economic and research institutions. According to the Plan, the underground mine's technical and economic feasibility study says that the OT project's economy benefits and returns matched the estimates calculated in the 2010 feasibility study, and the Mongolian government will take 53 percent of the total benefit in the form of taxes, mineral royalties and dividends during the project's implementation. In addition, a cost schedule on the underground mining construction phase and operations, cost estimates on payments of fees to the Mongolian government on the Mongolian territory and other construction costs were issued.

What will the plan bring?

The underground mine development is not only a cash cow. Project proponents are saying that this is an innovative change which will introduce new living standards and experiences to Mongolia. According to the Plan, OT will grant privileges to Mongolian citizens, particularly South Gobi province residents, legal entities, and buy their supplied goods, equipment, raw products, inventory and spare parts produced in Mongolia and incentivise increases in competitiveness, efficiency, quantity and quality. Accordingly, it should be noted that operations of domestic entities will become more active, and many new jobs will be created following the OT project. However, these opportunities will be possible if relevant criteria can be met. Specifically, to get a third party financier for the OT underground mining phase (underground construction of the first floor, underground ore mine processing plant and related infrastructure changes in accordance with the feasibility study), OT must meet the third party financier's requirements and each board of participating parties must approve it. OT must reach its full potential in such way. ▶



of how Mongolia has attracted the attention of others is evident from major channels such as the Discovery Channel and National Geographic broadcasting programmes about our country.

It can be said that the "Oyu Tolgoi Underground Mine Development and Financing Plan" (the Plan) has saved this country nearing death. Even a neat little shopping list of things to buy managed to be drafted after the news of incoming

Therefore, I am trying not to politicise the issue and just dig into the objective details.

What the Plan includes

The open pit mine operation has given quite reasonable returns to Mongolia since the initial investment agreement's entry into force in 2009. However, 80 percent of OT's mineral resources lie deep under the ground. Analyses and conclusions on how our economy will be revived by starting the underground mine development

► However, the government also has to do its part since they own 34 percent of the deposit: the first thing they need to understand is that they need to let it move forward without causing further stoppages. B.Byambasaikhan, CEO of Erdenes Mongol LLC, said that the development of the underground mine is essential to making the deposit one of the world's major mines and that the underground mine's development can provide USD 50 billion in returns at the current price. He said that there are many positive impacts, such as attracting new investments and improving the Mongolian economy, if this project continues "healthily." According to Da.Ganbold, CEO of Erdenes Oyu Tolgoi, an opportunity to introduce advanced technologies will present itself if the underground mining operations begin. He said that business opportunities to partner with major powers will be created, and there would be no need to depend on the two neighbours.

It is good that a plan to resuscitate the Mongolian economy has been developed. It would be even better if it is implemented successfully. However, a few people's signatures are not sufficient to implement what is on paper. A clarification of the rules is the first step to starting the game. The executives of Erdenes Oyu Tolgoi and Erdenes Mongol have said that they have come to an understanding and met these requirements. The next step is the developmental works, which carry on for nearly seven years. It includes the creation of a mining "paradise" that ensures the safety of mine workers. They are planning to kill two birds with one stone when constructing the tunnel, which is an important part of the underground mine development. We will see a certain amount of production, while still excavating. The Plan states that production will start in seven years, and even though more time may be necessary, they have set a clear goal to accomplish it in time.

There is this Mongolian proverb: "He who chases money dies chasing." Therefore, it would be wrong to evaluate the OT underground mine simply by dollars. The issues surrounding this deposit are always about money, as though it were some kind of massive piggy bank. However, it is time that we understand that this deposit is an enormous development that can reset the global standard. ■

OT Second Phase Financing Deal Reached



The Oyu Tolgoi underground mine financing agreement signing ceremony was held on 16 December 2015 at the conference hall of the Shangri-La hotel.

Mongolian PM Ch.Saikhanbileg, Minister of Mining R.Jigjid, CEO of Erdenes Mongol B.Byambasaikhan, CEO of Erdenes Oyu Tolgoi LLC D.Ganbold, Chairman of Oyu Tolgoi LLC G.Batsukh, the President and CEO of Oyu Tolgoi LLC Andrew Woodley and CEO of Rio Tinto's Copper & Coal group Jean-Sebastien Jacques were all in attendance.

The Mongolian PM noted that the nation has waited long for this occasion. "Starting today, Oyu Tolgoi will become a purely business project, not a political and governmental issue," he said. "Now, the door has been opened for Mongolia's private sector to invest, obtain partners and receive loans. Mongolians are back in business".

Jean-Sebastien Jacques remarked during the opening ceremony that "As a project, we're signing an agreement that will make the OT deposit globally important. This financing will be used for development works that will have huge positive impacts in Mongolia." He also expressed his thanks to the

government of Mongolia's close participation in this endeavour. "I would also like to thank the investing banks," he added. "Providing this financing with confidence shows the value of this project."

The CEO of Erdenes Mongol LLC (which is the Mongolian-side shareholder) stated, "Oyu Tolgoi is a Mongolian company, a Mongolian business and the foundational base of the Mongolian economy. By securing the project financing today, the costs of the financing in itself is reduced. Doing so will increase future profits and set the conditions for work to be done efficiently".

At the end of his speech, he mentioned that the OT project gives a positive signal to the economy and added, "Mongolian companies can now estimate their revenue streams for the coming three years."

The operation of the OT underground mine means 80 percent of the mine's total wealth can now be extracted. Project financing for the first phase of development was made in 2011, and 1.5 million tonnes of copper concentrate have been produced since operations of the open pit mine started in 2013. ■

Ambassador

A Great Opportunity for Mongolian Products on the Japanese Market

On the list of Japan's largest export and import destinations, Mongolia ranks 74th and 126th, respectively. Despite the low figures, Japanese Ambassador to Mongolia Takenori Shimizu said that if Mongolia can use the opportunities now in place under the newly signed Economic Partnership Agreement (EPA) between the two countries, Mongolia can greatly increase its status. The Ambassador's work and life has been associated with Mongolia for 40 years. Although his education and profession is in law and foreign policy, he developed an early interest in the Mongolian language, attending the National University of Mongolia's Mongolian language special programme from 1977 to 1978. Today, he's fluent in Mongolian. Ambassador Shimizu has written a number of articles about Mongolia, published in both Japanese and Mongolian. *Mongolian Economy* magazine spoke with the Ambassador about the recent EPA ratification and more.

-How have economic relations between Mongolia and Japan developed in recent years?

-Since the 1990s, Japan has been supporting the sustainable economic development of Mongolia with Official Development Assistance (ODA). Before the EPA, Japanese grant and soft yen loans to Mongolia reached approximately JPY 250 billion, or USD 2.3 billion in total, and reached out to infrastructure sectors like transportation and communications, as well as social sectors like health, education, culture and science. Ever since Mongolia started to use its mineral resources to rapidly develop its economy, Japan has been trying to establish bilateral economic relations with Mongolia, instead of one sided economic relations based on Japanese ODA. Japanese companies' interest in Mongolia is growing; the number of Japanese companies to come into Mongolia has been intensifying and increasing, especially after Prime Minister Shinzo Abe's visit to Mongolia in March



2013. Now, world famous Japanese companies are often heard in Mongolia. The private sectors of our two countries must use their full resources and further develop their economic relations. The Economic Partnership Agreement signed on February 10, 2015, after discussing for three years, will be a significant factor in the development of these relations.

-On what products have the sides reached a consensus?

-To match the basic principles of the EPA with the World Trade Organisation agreement that both Japan and Mongolia agree to, the sides negotiated to exempt tariffs for over 90 percent of the combined total value of trade between the two countries as soon as possible, or at most within a decade. At first, customs duties on vehicle and auto parts exports, amounting to 70 percent of total Japanese exports to Mongolia, must be fully exempt to meet the basic principles of the EPA. Customs duties will be annulled for new vehicles or those up to three years old from the date of manufacture, with an engine size less than or equal to 4,500 cc, as soon as the Mongolia-Japan EPA comes into force. Machinery mainly for construction, such as bulldozers and other

equipment and parts, will be exempted from customs duties gradually within a period of 10 years. We agreed to not exempt the customs duties for vehicles up to 10 years old from the date of manufacture. Five years after the EPA is effectively put into place, negotiations to improve market access and other issues will be discussed. Mongolia requested to have agricultural products become exempt from customs duties, but these are still considered sensitive products in Japan. Through the negotiations, products such as seabuckthorn wine, other seabuckthorn products, and animal feed will be exempt from customs duties. Tariff quotas were set on some processed beef products such as beef jerky and corned beef. Due to issues such as foot-and-mouth disease, it's impossible for Mongolia to export raw meat at the moment, but we agreed to cooperate in the agricultural and livestock sector, specifically in animal health and veterinary services, milk and dairy products, beef and organic foods, and the grain and vegetable industry.

-There's an expectation that Japanese investors will look to the Mongolian market and increase cooperation with Mongolian businesses ▶

► **in the coming years. What kinds of exemptions and opportunities does the EPA provide to Japanese companies and investors coming into Mongolia?**

-Investment wise, progress has been made in improving the investment environment, compared to the previously concluded 'Agreement between Japan and Mongolia concerning the Promotion and Protection of Investment'. In other words, the foreign private sector actors can enjoy the same treatment as national actors and not only after entering the host countries investment market, but also in the lead-up to the investment approval stage. For example, when a Japanese company invests in Mongolia, they will enjoy the same treatment and privileges as Mongolian companies. Of course, it applies not only to Japan investing in Mongolia; the same goes for Mongolia investing in Japan. Mongolian companies actively investing in Japan will surely have a positive impact on the economy of Mongolia.

-What difficulties are there for Japanese investors when coming to Mongolia?

-As the official representative body of the Japanese government, the Embassy of Japan helps and advises Japanese companies on every necessary issue. According to a summary of their issues, the number one problem for them is that Mongolia's legal environment often suddenly changes; the second problem is that there's no agreed-upon interpretation of the law, so it varies depending on the government worker responsible; the third is that licensing regulations are not enforced in accordance with the law, because no one is accustomed to the concept of complying with the rules. Such problems are the ones most encountered. We hope the investment and business environment will improve, and a mechanism to help resolve and decrease these factors will be established once the EPA takes effect.

-What is the necessary paperwork to export Mongolian products to Japan as per the EPA?

-In accordance with the rules of origin, the Mongolian National Chamber of Commerce and Industry must provide certificates qualifying the proof of a product's origin, in addition to other indicated documents that must be provided for customs clearance, if the Mongolian side wants to export products

using the EPA's special preferential tariff rates. When using the customs duty quota, the Mongolian side is required to verify if they are meeting the quota criteria; the designated Mongolian authority shall issue the required documents (to reflect the quantity exported) for the Japanese quota certificate, based on the application of the export applicant.

-What benefits does the EPA offer in the short run?

-Trade and investment flows are highly dependent on the economic climate and exchange rate changes, so it's difficult to predict the short-term outcome of the EPA; but we expect certain results, as there are a number of products that will be customs duty free after the EPA is in place. Looking at the examples of other countries which established an EPA, it should be noted that their investment increased in addition to import and export increase.

The Mongolian government has damaged the investment environment in recent years, to the point where many foreign companies have ceased their operations in Mongolian. What's the situation like for Japanese companies in Mongolia?

The investment environment has really degraded in the past two to three years. I've heard that many companies shut their branches in Mongolia. In contrast, however, Japanese companies operating in Mongolia are tending to increase, because they have confidence in Mongolia's future despite the difficult situation for now. Investment will recover and the economy will improve if Mongolia can use its natural resources appropriately. There's a saying among our companies, that if they start their business here in difficult times, they will find more success in the future. Last year, the number of Japanese invested companies in Mongolia increased by 11, compared to the previous year.

-What preparations must be made before the government and private sector can take full advantage of the EPA?

-Of course the effects of the negotiation will materialise after the EPA comes into force. In other words, it's ineffective if a system and structure to implement the provisions of the agreement is not established beforehand. Therefore, Mongolia needs to immediately start working to meet the appropriate conditions. Based on the agreement, the

joint committee, relevant subcommittees and operational procedures of the agreement will be established after the date of the EPA entry into effectiveness. Also, certificates of origin will start to be issued starting from the date of effectiveness. The staff training of relevant organisations of the government, a system to implement the agreement, and public promotion to support individuals and the private sector in utilising the EPA are very important for Mongolia, as it's their first EPA establishment. I would like to advise the private sector to understand and explore the documents required for EPA tariffs utilisation.

Will Japan end its grant aid to Mongolia as part of the conditions in the EPA?

Grant aid does not apply if GDP per capita of a country reaches USD 4,000. Therefore, Mongolia needs to use the concessional loans of the Japanese government wisely from now on. For example, the New Ulaanbaatar International Airport's soft loan interest is only 0.2 percent per year. Mongolia can use soft loans such as this, but unfortunately the Mongolian authorities prefer short term loans and bonds with high interest rates. The state's repayment capability must be considered. I appreciate the government of Prime Minister Ch.Saikhanbileg for giving more importance to this matter.

-How do you see Mongolian-Japanese economic relations in 10 years?

-Personally, I have one wish. Mongolia's and Japan's economic relations have developed slowly compared to the political and cultural relations of our two countries; I wish it will further expand and develop under the full capacity of the EPA. I wish for private sector investment and trade turnover of our two countries to increase, so that Mongolia and Japan could become mutually beneficial and irreplaceable "strategic partners" who complement one another. I harbour beautiful thoughts about our future. I hope Mongolian companies investing in Japan will become just as successful as our Mongolian grand sumo champions, and I hope that Japanese shops will be filled with many Mongolian brand products. ■

DEBT

Mongolia Has to Scale Back Debt Levels

Beatrice Weder di Mauro has been the Chair of International Macroeconomics at the Johannes Gutenberg University of Mainz since 2001. She served as a member of the German Council of Economic Experts from 2004 to 2012, was on the Swiss Council of Economic Advisors from 2002 to 2004 and was an advisor to the Austrian Vice Chancellor 2009 to 2011. From 1994 to 1996 she worked as an economist at the International Monetary Fund and has been a regular visiting scholar at the research department of the IMF.

Mongolian Economy magazine interviewed her during her brief visit to Mongolia for the UB Impulse: Expert Talks on Quality Growth public lectures and discussions held in April 2015.

-What is your impression of Mongolia?

-I was here 20 years ago. Ulaanbaatar is totally changed. I wouldn't recognise anything. At that time, I had the impression that it was a little village with a big temple. No traffic. That was my impression back then. Now, it has become a city. A lot has changed – a lot of development.

-Good or bad developments?

-It is always impressive when you see a country change so rapidly in a short time. It is obvious from all the construction around that this city is booming. Of course, you always have to be careful when there is such a boom. There can be too much investment, which might turn out to be not so valuable.

I get the impression that there are a quite a number of areas in which the developments are critical. The growth has slowed, and prospects don't look as bright as they used to.

-What is the current state of the EU debt crisis?

-Well, certainly Greece is in a completely different dilemma than all the others. Not only does it have the highest debt as a percentage of GDP, but



it is also in a situation where it has acute problems in trying to roll over essentially. The government itself said it was on a road to a very difficult, if not impossible, negotiation. Greece is really in a risky situation. I think everybody accepts that there is not much time left for Greece to agree with the partners, especially with the EU partners, on a deal that would allow it avoid defaulting. Ultimately, it would avoid the orderly exit from the euro zone. The past few weeks have been not very encouraging. Let's set Greece aside for a moment and talk about the rest. For the rest of the euro zone, the situation is quite different. There are some countries that still have quite a high level of public

debt: Italy, for example. Of course, with low growth, low inflation or even deflation, repaying debt becomes more difficult.

At the present interest rates, the debt is unsustainable. The problem is more that when you have very high debt, it is possible to have a debt overhang situation, which means that growth and investment are hampered by that debt overhang. This is the real danger for the euro zone. Because of the high debt, you get low investment and low growth for a rather long time.

-How about Argentina?

-Argentina is a bit more in the category of slightly crazy states. In that sense, the comparison between Greece and Argentina is closer. Argentina has a history of defaults. Argentina, again, is in a very different category, because it is a so-called a serial defaulter. Also, it has experimented with many different types of currency regimes, and it has been negotiating with the creditors

for almost 10 years now. Essentially, some of the creditors do not accept the restructuring of the debt. They are the so-called hold outs. This is an on-going legal battle that Argentina is fighting with the creditors. It is also in a very bad state in part because the country did not pay attention to debt overhang early enough.

-These countries are considered as the trouble children in the world economic crisis and public debt. Mongolia has been compared to these two countries, in terms of debt. Do you think Mongolia could become such a trouble child?

-Certainly. It is worrying that ▶

► Mongolia has not succeeded in bringing down the debt, but rather it kept increasing it. Although the level of debt, if you considered it in comparison to Greece, may not seem high, it is also true that Mongolia is not a part of the euro zone. It doesn't have the huge backing of the euro zone or the European Central Bank. Greece could never have accumulated as much debt as it did if hadn't had the euro zone behind it. So, for countries that are "alone," so to say, or on their own as Mongolia is, the level of debt that can become unsustainable, where you can actually run into troubles because the creditors are no longer rolling over and interest rates go up very sharply, is much lower. So yes, Mongolia has to certainly focus on scaling back debt levels. In principal, there are already laws, rules and institutions in place. They just have to be implemented.

-As you said earlier, debt should be kept as low as possible. How do you think the government of Mongolia should handle its debt issues?

-If you need to reduce debt, there are only a few ways to do so. The best way is, if you have real growth and inflation that is not so high, you basically grow out of debt. The second way is to restructure, which many countries probably do not consider doing, because creditors do not like it. The third way is what everybody in the euro zone is doing so far: running a primary surplus. It is basically a tightening of the fiscal policy and running a primary surplus to reduce debt. A recent IMF projection I saw suggests that with strong policies it is absolutely feasible over time to reduce debt bit by bit.

-The issuance of Chinggis bonds by the government of Mongolia has been successful. However, how the influx was spent was heavily criticised by many. And in fact, the government might try to issue bonds again to pull the country out of economic recession. Do you think it is a wise way to pay off its debts?

-That does not seem like a prudent thing to do. The policy has been starting to tighten, and then it became loose in the preceding years, 2012 and 2013. If you have increasing debt and inflation, you cannot finance that. You need to basically start to tighten the fiscal policy. These are the things that can happen to resource-rich countries. They have the wealth in the ground. And they think they can bank and borrow on that beforehand. The danger

is that you consume a large part of that wealth already rather than saving that wealth and investing it in the future.

Repaying debt with another debt is not a wise thing to do. And this is what happened to Greece. When you are entering zones where debt starts becoming a problem, then you have to reduce it. You cannot keep borrowing and accumulate more to repay the previous ones.

In terms of sovereign debt, for the payment it is quite imminent to find a solution immediately. Crises, especially sovereign debt crises, currency crises and others of that nature strike very quickly. For that reason, a country has to be very conscious and careful when it is at risk of any of those crises. So in that sense, I am more concerned, because Mongolia's statistics on the financial sector, for example, are actually quite scary. Indications are already not so good. Before a crisis, the indicators look too good. However, afterwards you discover that the reality underneath is worse. This is always the case.

-Are people blinded by these too-good-to-be-true numbers?

-This is typical. For example, the capitalisation of banks in Europe before the crisis, they looked okay. It just turns out that those numbers were wrong, both in terms of capitalisation and in terms of the risks. Afterwards, it is always easy to tell that was wrong. But beforehand, people were feeling quite relaxed, or too relaxed.

-Do you think Mongolia will go on to become a victim of Dutch disease and debt?

-What I see is that there was this temptation to bridge the gap through borrowing and to loosen the monetary policy. At the same time, there is the Financial Stability Law that was put in place, but was not followed. There were all these loop holes that made it both on the deficit and on the debt indicators. So as long as there is intention but no implementation, you don't get out of debt. In that sense, such a thing also happened in Greece. They had a lot of good intentions, but on the implementation it was very difficult. This is when you get into negative debt dynamics. So I think Mongolia has to be very careful about the sustainability of its debt. It cannot just rely on possible future income.

-Then what should a country like Mongolia do to reduce its debt?

-It has always been very simple. It has to save more. It means the country should increase public savings, reduce the deficit and start growing out of the debt.

-At what point do you think the government should make a U-turn?

-I think it is high time, because already one can see that the reserves are declining. It is harder to repay debts. The exchange rate is depreciating. It is getting harder to repay currency debt. In addition, repayment dates are coming. The fiscal and monetary policies have to be tightened. You have to start phasing out the things that are no longer affordable. And one may have to start thinking about whether one can get assistance. What a typical IMF program does is a bit of both financing and adjusting. Balancing the adjustments and financing. It is not unique.

-The standby program by the IMF is often considered to be a means of losing economic independence. Is it so?

-That is the perception. That is what many countries fear. And that is why many of them go to the IMF too late. Countries try to avoid going and then they only go when the disaster is imminent. The problem is that when you go too late you have to make a much bigger adjustment. And the program therefore is harder than if you had went early.

-If a country needs to make an adjustment, meaning tightening the belt fiscally and monetarily, and do some structural reforms, those are the things that you would want to do independently from the IMF. IMF gives you money for that.

-Should Mongolia take the program?

-It sounds like it. If the BoP (balance of payments) pressure continues and it is not possible to do the U-turn by yourselves, you may need some help.

-So you are saying yes?

-Well, it is something that should be considered very seriously. The question is what alternatives you have if you want to borrow at high interest rates or short maturities. That would be a very bad alternative, because that would aggregate the problem. And only borrowing without a program or a program without borrowing can also be bad alternatives.

The program gives you a framework for borrowing without default and with adjustment. That is the advantage of such a program. In addition, the conditions are okay. ►

► **-If we were to invest in a sector, in order to get returns to use as savings, what could be in option for Mongolia, in your opinion?**

-This is a very good question. There is the possible problem of Dutch disease where all the recourses go into the booming sector. And since these may not always be there, there would be depletion in that sector. It is better to have made investments in the other sectors as well.

There are ways regarding how to deal with such issues. One is, not only investing, but saving. You can save in the form of sovereign wealth funds, or have financial investments, in order to make the transfer into the future generation. Certainly, education is one of the investments into the future generations, which is one of the most productive investments.

The case of Dubai is really interesting, in this sense. The country has run out of oil. At the right time, they made other investments into other industries that now turn out to be very supportive in building up a strong economy.

-The government of Mongolia has increased its debt ceiling to 58 percent of GDP. What is your perspective on this matter?

-The debt sustainability analysis that the World Bank and IMF did together on Mongolia last year suggests that there is a moderate but increasing risk of having a non-sustainable debt path. The debt sustainability analysis takes into account the institutional strength of the country. So it has different values of the debt, and what is considered sustainable debt depending on whether the country has strong institutions, taxation systems, bureaucracies, etc.

Mongolia does not have very strong institutions. They are medium strength. It has to keep its debt well under control in order not to run the danger of getting into a zone where it's no longer sustainable. Therefore, there can also be crisis.

-Considering the current debt issues, do you think Mongolia can keep its debt climb under control? Or is the country facing a fate similar to Argentina and Greece and defaulting?

That is probably not going to happen imminently. But the problem always exists if you don't make correction early enough. Once you get into negative dynamics it is very hard to set it right. And usually, governments have the tendency to wait too long. And when markets are already

in panic mode and losing confidence, then correction is very painful. You want to avoid that kind of situation. This is why it makes sense to have a degree of risk. And that degree of risk is not low in Mongolia. It is moderate and increasing. So it is something that needs to be tackled.

Certainly, Mongolia does not want to be talking about default and steering a risky path that might lead to default. So the way to gain investors' trust is to have credibility of rules and to basically announce something for the medium term and do it. It is not enough to have a law. You have to implement it. That is the only way to gain credibility. As for the macro picture, the only way to gain the trust of the investors' is by building credibility step by step. Reputation is something that you have to earn by hard work. But it is easy to lose.

There is this checklist you made. If you have checked the list mostly with "Yes," it means a crisis is nearing. So a doctor is needed. But who is the doctor?

It can be the IMF. But it can also be the government. If a person realises he or she accumulated too much weight and needs to go on a diet, maybe that person can do it by himself. Maybe that person doesn't need help of an external person. But sometimes it is easier if somebody helps you to make a good diet.

-Then what could be the ER for Mongolia in this analogy?

-The point is not who can you borrow from or how can you mortgage your future. The point is you have to adjust. The future doesn't look like the past. So the adjustment path is the one that I am emphasising.

"Who can we borrow from?" is not the main question. The question is "how can we adjust, and is someone going to help us to make this adjustment to make it credible?" I was asked whether Mongolia's debt ceiling is enough. That very much depends on whether the law is actually followed or not. It is whether you can really, credibly commit to the adjustment path. This is something that Europeans also face.

If you can commit to an adjustment path, you can phase out your debt overhang problem overtime. You don't have to do all that so quickly. But you also have to explain to the citizens that growth rates will be low or lower for a certain amount of time. Promising is a bad thing to do, because it is not something that you

can easily fulfil.

-Let's say Greece is not a part of the EU. In such a case, is Mongolia the next Greece?

-Greece has benefited from being a part of the euro zone. But that is also why Greece has such high debt. If Greece was not a part of the euro zone, it would have had these crises at much lower levels of debt. And it would also have a currency crisis on top. Mongolia has many of the typical fragilities surrounding a crisis. The currency fragility, possible financial sector fragility, certainly from the real estate boom, and then on top of that Mongolia has also very specific aspects, such as being a resource economy. This can lead to excess exuberance.

I would not say that Mongolia is the next Greece, but I would say that Mongolia has much vulnerability. The dangers of such linked vulnerabilities are that any of those can trigger the other, because they all hang together usually.

Sometimes one is looking one way, thinking this is the most dangerous thing. And then it hits you from the other side. Then it is the bank or the currency or it is the sovereign debt. But if one of those becomes unsustainable and starts to go into crisis mode, then the others will also be triggered. I hesitate to say Mongolia is the next Greece.

But I would certainly say look at Greece and look at Argentina, if it doesn't want to end up like them. ■

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