

Exclusive Mongolian licensee of *The Economist's* "The World in 2017" annual special issue

*Dig Deeper*

# MONGOLIAN ECONOMY

NOVEMBER 2016 №18 (120)

[mongolianeconomy.mn](http://mongolianeconomy.mn)

To be self-sufficient,  
or spoon-fed?

Lost opportunities

No country for old men, literally

# So near, yet so far



# G550

CABIN ALTITUDE: 1,172 M\* · PASSENGERS: UP TO 19 · SIGNATURE OVAL WINDOWS: 14

## WORK *at* EASE

Welcome to the next level of success. The Gulfstream G550™ offers every aspect of exquisite interior design to maximize the comfort of ultralong-range travel. Flexible interior layouts with crew rest areas and stateroom privacy, numerous wireless options and an ultraquiet cabin mean you can handle business even as the G550 cruises at Mach 0.87.

For more information, visit [gulfstreamg550.com](http://gulfstreamg550.com).

+86 10 8535 1866 | HERMAN CHAI | [herman.chai@gulfstream.com](mailto:herman.chai@gulfstream.com)

+852 2918 1600 | PETER HOI | [peter.hoi@gulfstream.com](mailto:peter.hoi@gulfstream.com)

+86 10 8535 1866 | MATTHEW LIU | [ziqiang.liu@gulfstream.com](mailto:ziqiang.liu@gulfstream.com)

\*At the typical initial cruise altitude of 12,497 m

**Gulfstream**™  
A GENERAL DYNAMICS COMPANY

## MONGOLIAN ECONOMY

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

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

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

**ENGLISH EDITOR:**  
O. Tuvshin

**TRANSLATOR:**  
B. Enkhmunkh

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

**DESIGNER:**  
Sh. Oyundari

**MARKETING MANAGER:**  
D. Barianjav / 9409 2904  
B. Dulguuntamir / 8608 0000

**Address:**

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

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

**Selling points:**

Internom bookstore  
Minj plaza  
Altantulkhuur bookstore  
Nomin supermarkets  
Max supermarkets  
BTSI supermarket  
Az orchlon bookstore  
Bileg store  
Grand plaza  
Metro mall  
Sky supermarket  
Ulaanbaatar store  
Max mall

 [facebook.com/  
Mongolian.Economy](https://www.facebook.com/Mongolian.Economy)

 [twitter.com/  
EconomyMongolia](https://twitter.com/EconomyMongolia)

 [youtube.com/user/  
MongolianEconomy](https://www.youtube.com/user/MongolianEconomy)

### Economy

**6 Alright, that's enough!**

It can be concluded that Minister Sergelen's 20 percent figure [on livestock intensification] was pulled out of thin air.

**7 So near, yet so far**

Generations of Mongolian governments have talked about doing this and earning money for such a long time now that it sounds like a broken record as nothing is moving forward as it should.

**9 The unliked**

With banks in the driver's seat [of the financial sector], a lot can go wrong should they lose control of the wheel.

**11 Turning point**

The BoM believes that although a difficult choice, [accepting IMF arrangements] is necessary.

**12 New PM visits Japan**

"I hope the relationship of the two countries comes up fast like a horse and shines like a rainbow after rain," he said.

**13 New historical relations marked in snowy Novosibirsk**

You could see in their eyes the nostalgia of their time as university students in Russia.

**16 To be self-sufficient, or spoon-fed?**

It would not be a lie to say that Mongolia is maintaining the tradition of a centrally planned economy, because it still employs a system where

the higher-ups try to resolve everything related to the budget.

**18 Lost opportunities**

A key railway project, already stalled for six years, faces another hurdle.

**19 Current issues of Mining legislations of Mongolia**

Compared to other countries which generally have only one state authority in charge of obtaining such a license, in Mongolia, there are three different and responsible authorities.

**20 No country for old men, literally**

One important thing that [health experts] have raised alarm about is the average life expectancy of men, which has fallen to 64 years.

### Business

**21 Mongolia's largest pharmaceutical company**

Twenty-six years ago, a small pharmaceutical company was established with a budget of just MNT 4000 and two employees.

**22 Christian Strenger: Corporate transparency mitigates risks**

Interview with the Honorary Professor and Academic Director of the Center for Corporate Governance at the HHL Leipzig Graduate School of Management

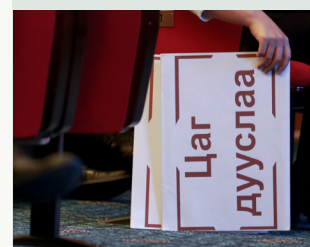
**24 Tourist or traveller?**

Global tourism standards separate "tourists" and "travellers."



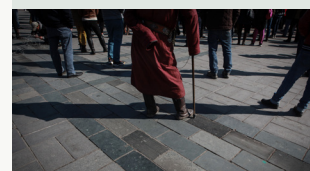
**So near, yet so far**

The main reason for livestock diseases is an irresponsible and unsupervised system of veterinary services. *page 6*



**The unliked**

People trust banks more than stocks. *page 9*



**No country for old men, literally**

here is a Mongolian joke that men are the waste basket before the trash bin, because any food the mother or children do not want to eat goes to dad. *page 20*



**Christian Strenger: Corporate transparency mitigates risks**

"...what is particularly missing, as I'm told, is proper enforcement." *page 22*

## Mongolia

### Politics

Local elections were held on October 19 to elect soum and district Citizens' Representative Councils. However, a repeat election had to be held October 23 in almost 300 electoral districts due to insufficient voter turnout. Although the second election had 61 percent voter turnout, yet another third election had to be held because 117 candidates tied in 19 provinces. A total of 15,191 candidates ran local offices in these repeat elections, with the MPP likely to show a solid performance.

### Economy

The Parliamentary Standing Committee on the Economy held discussions on the draft guidelines on monetary policy, in which representatives from the Bank of Mongolia (BoM), Ministry of Finance, National Statistical Office, Financial Regulatory Commission, Mongolian Bankers Association and Mongolian Association of Securities Dealers, as well as other academics exchanged views.

During the discussion, it was announced that monetary policy will aim to keep annual inflation below eight percent per year in 2017-19. Moreover, the government will seek to stabilise the MNT against world currencies and make it more flexible and consistent with macro-economic conditions. Also, relevant state organisations will carry out an assessment of the stability of the financial system in cooperation with international financial organisations and implement macro-prudential policies in order to reduce risks in the sector. A final objective is to make the central bank more independent and improve payment and foreign exchange systems.

### Development

A solar power plant with a capacity of 50 MW will be built in Khushigt Valley in Tuv province. A groundbreaking ceremony at the site of the plant,

### Mongolian deel (traditional costume) going into Guinness World Records

Bat Zuu LLC made a Xiongnu (Hunnu) style deel with a length of 14 metres and width of 18 metres in order to be registered in the Guinness World Records.



This deel modelled after the original pattern of a deel found at a place called Bukhan Khoshuu in Delgerkhaan soum of Khentii Province is now being kept at the National Museum of Mongolia. More than 50 tailors sewed the deel over two months

planned to be the fourth largest solar power plant in Asia, was held on October 15. The proponent of the project is Moshea Eco Energy, while Idea Bridge LLC is the chief investor and Korean Engineering Consultants the contractor. The new international airport being built at Khushigt Valley will have a source of energy with the commissioning of the solar power plant. This project will be carried out in three phases. The first is to build a 15 MW to be commissioned in 2017, while the second 15 MW plant is scheduled for 2019 and the final 20 MW plant for 2021.

### Helipad to be built at the National Traumatology and Orthopaedics Rehabilitation Centre

A working group appointed by the order of the Minister of Road and Transportation Development developed a study on possible locations to build helipads for use of emergency services.

The working group studied locations such as the rooftop of six-story parking lot planned to be built next to the First Central Hospital; the rear of the Emergency Medical Service Centre; along the bank of the Selbe River; at the southwest of the National Traumatology and Orthopaedics Rehabilitation Centre

(NTORC); on top of the Mongolian National Burn Centre building; and on top of the University Hospital of the Mongolian National University of Medical Sciences.

Currently, the bank of the Selbe River and the NTORC have been chosen. Plans for additional works have been developed and will be presented to the relevant authorities.

### Loan interest rates

Golomt Bank has announced a contest under the topic "National Strategy to Reduce Loan Interest Rates".

Loan interest rates in Mongolia are having a negative impact on economic growth. The objective of the contest is to explore ways to reduce the rates as well as to impart knowledge unto the people about credit and the impact of its interest on the economy. Academics, researchers and representatives of public and private institutions are invited to participate in the contest.

The winner will be selected through two phases as experts at Golomt Bank and sector economists will evaluate scientific studies submitted by participants, selecting 10 studies by December 7. The second phase will be held in the form of speeches and presentations, as finalists present their cases to the public.

## World news

### Environment

The number of wild animals living on Earth is set to fall by two-thirds by 2020, according to a new report by the World Wildlife Fund and the Zoological Society of London. The main cause is human activity, particularly destruction of wild habitats, hunting and pollution. Since 1970, there has already been a 58 percent overall decline in the numbers of fish, mammals, birds and reptiles worldwide, according to the WWF's latest bi-annual Living Planet Index. "One of the things I think is most important about these stats, these trends are declines in the number of animals in wildlife populations – they are not vanishing, and that presents us with an opportunity to do something about it," said Dr. Robin Freeman, Head of the Zoological Society of London's Indicators and Assessment Unit

### Technology

Microsoft unveiled its next ambition after Windows 10. Due to be released in spring of next year as a free upgrade, the Windows Creators Update will be built around the company's aggressive push into augmented and virtual reality, with an array of 3D tools. For example, "Paint 3D" turns simple pen sketches into 3D with the press of a button. In addition, emoticons or picture messages will also appear in 3D. Furthermore, new features such as sending messages to Android phones from your computer are getting added.

### Economy

The Chinese government made a statement on October 19 saying the Chinese economy expanded an annualised 6.7 percent in the third quarter of 2016, the same pace as in the previous two quarters. For 2016, the Chinese government is targeting 6.5 to 7.0 percent growth. As for 2017 growth, observers forecast 6.3 percent

### US Politics

The US Presidential Election will be held on Tuesday, November 8. Nearly 7 in 10 voters nationwide say they think Hillary Clinton will win, but most also say that if that happens, Donald Trump will not accept the



results and concede gracefully, according to a new CNN/ORC poll.

The CNN/ORC poll was conducted by telephone between October 20 and 23 among a random national sample of 1,017 adults, including 916 registered voters. The 68 percent who say they expect a Clinton win now is up from the

59 percent where it stood on September 1 and 55 percent back in June, just after party primaries ended. Overall, 66 percent of Americans say that they have at least some confidence that votes for president will be accurately cast and counted in this year's election.

growth. Although China's GDP is growing, the pace at which it is growing is moderating, and its government is facing the difficult challenge of managing this deceleration.



The new British one pound coin will enter circulation in March 2017. According to the Royal Mint, the body permitted to strike British coins, the old pound will be phased out by next fall because its design makes it vulnerable to counterfeiting. The Royal Mint said more than 2.5 percent of all one pound coins currently in circulation,

approximately 1 in 40, are fake. The new 12-sided coin is being hailed by the Royal Mint as the most secure coin the world. However, it is also causing certain businesses a headache. Due to its shape, and because its different metal composition gives it a different weight, it will not fit most existing vending machines, lockers and shopping carts. Updating these machines will be expensive. The Automatic Vending Association estimates it will cost the industry GBP 32 million to make sure the 500,000 vending machines across the UK are ready for the new coin. The heads side of the new coin has a portrait of Queen Elizabeth II, and the reverse it features a crown and four plants growing from a single stem to represent the four countries of the UK. ■



*Mongolia's nomadic livestock industry has no mechanisation other than herders riding motorcycles instead of horses to herd livestock.*

### Livestock agriculture

## Alright, that's enough!

BY G.DAVAADORJ

Generations of Mongolian governments have promised many things but few have delivered regarding the livestock husbandry sector. Government action plans since 2004 have all had points such as “Will intensively develop livestock husbandry”, “Will develop veterinary services in accordance with international standards”, “Will use pasture effectively” and “Will introduce advanced technology to the livestock husbandry sector.”

Although the issue of accelerating the development of the livestock industry has been talked about for a long time, the society and herders have been unable to find common ground on the matter. Livestock health has even worsened, and pasture overgrazing has become an alarming issue. Also, forget about the promise of introducing advanced technology to the sector – that is not even close to happening.

In 2009, a policy on the livestock industry was adopted as it was thought the industry cannot develop without it. Many national, medium-term programmes were implemented, or perhaps it should be said that implementation was attempted. Although some were more fruitful than others, these have stopped in recent years. High-cost milking cows were brought in from overseas in 2012-2016 by bond money, but there are still no results to be seen.

The “Mongolian livestock” programme was approved in 2010. However, the National Audit Office investigated the programme in 2013 due to its suspicious implementation. The investigation results concluded that the programme did not carry out tasks on time and spent budget funds inefficiently. For example, there was evidence MNT 130 million was spent on gifts for council representatives, while MNT 62 million was spent on purchase of equipment. It

turned out to be one of the most poorly implemented programmes.

Although the 2012-2016 ruling party said they will intensify this programme, it also failed. The new government also included the word “intensify” in its platform. In addition, it says another programme with a similar name, “Mongolian herder,” will be implemented. Who knows what good that will do?

The authorities used the issues surrounding the livestock industry for political gain as the number of local appointments increased just before the election. Otherwise, their main work in rural areas has been to race horses and hand out gifts.

### Hoping to see a different livestock industry

People who worried about the development of the livestock industry are ►

▶ hoping the government will work a bit differently. Minister of Food, Agriculture and Light Industry P.Sergelen announced that efficiency of total livestock would be “intensified” by 20 percent. Let’s consider its possibility under the current circumstances. According to the figures released by the ministry in 2014, about 115 thousand heads of livestock (sheep and cattle) were used for intensive husbandry, but this number did not grow significantly within two years. At the end of 2015, Mongolia’s livestock count reached 55 million. Thus, it means that at least 10 million livestock need to be “intensified” in order to reach the minister’s promised 20 percent.

The main thing needed for intensive animal husbandry is mechanisation and technological penetration. However, Mongolia’s nomadic livestock industry has no mechanisation other than herders starting to ride motorcycles instead of horses to tend to livestock. This is because there is no mechanism to motivate herders into accepting and using advanced technology. More specifically, the current method of herders’ lifestyles has made them reluctant to introduce new things, putting them in a circle of non-development. This is the key issue that the state needs to address.

This suggests that the idea of livestock intensification may only be implemented among herders and producers near the city and urban areas. Hence, it can be concluded that Minister Sergelen’s 20 percent figure was pulled out of thin air.

### What does the MPP have in store for a legal framework?

The government platform says that laws on genetic resources of livestock, livestock health and support for the livestock industry will be approved.

The first two draft bills were submitted to parliament on July 2015, but were not discussed. The new government has dismissed these drafts and plans to re-submit them for discussion during the autumn session. The Ministry of Food, Agriculture and Light Industry holds that the legal environment to expand the genetic variety of Mongolian livestock, increase benefits from livestock and

make veterinary services work in accordance with global standards will be possible with the adoption of these laws.

For now, the draft bill on supporting the livestock industry is being discussed.

However, the draft bill on pasture was not included in the government platform although it should have been one of the top priorities. The draft bill on pasture was developed in early 2016, but was not submitted to parliament.

Overgrazing negatively impacts the ecology as well as the economy and makes the livestock industry uncompetitive. According to research conducted by the Mongolian Society for Rangeland Management and Centre for Policy Research, sheep that grazed on degraded pasture weighed eight kg less than sheep that grazed in spring. Cow milk yield was 2.5 times lower, and goat cashmere yield was eight percent lower.

Researchers believe that the most effective method to use pasture is through pasture lease agreements. This is not a way of limiting herders’ rights and income, but a way to use the pasture by seasonal schedules instead of using it as the commons.

From abroad, the Swiss Agency for Development and Cooperation is concerned about Mongolia’s pastoral issues as well. The agency started implementing the “Green Gold” project from 2004 to help herders who suffered from severe weather conditions. Thanks to this project, a basis for pasture research in Mongolia was established, but now the government needs to establish the legal framework on pasture utilisation by using the results of the research. Unfortunately, the new government’s action plan did not contain a single word addressing this matter.

The new government included the implementation of a new work in its plans, translated as the “First meat and milk campaign.” Its objective is to provide safe and ecologically pure meat and milk to urban populations. Currently, there is no precise plan. There is hope because the MPP previously saw results from at least one similar campaign. At the same time, water supply and pasture issues of rural areas

need to be specifically addressed as it has been rumoured that there was a case of murder due to this issue, stemming from a conflict between a farmer and a herder over land.

The situation is only getting worse over time. In particular, pasture issues are really the most difficult challenge for herders of the central provinces. Unfortunately, the MPP did not consider this issue to be of significance. Yet, herders are waiting without trying to raise their voice to the authorities, as if a solution will fall from the sky one day. Perhaps it is wrong to blame them as they are scattered throughout the vast steppes with little contact with politics other than by watching TV or listening to the radio. Herders who live throughout the harsh four seasons of Mongolia have been deceived from election to election.

The ruling party has declared agriculture as the top priority sector, so they need approach the issues from a rather different angle. ■

### Exports

## So near, yet so far

BY G.DAVAA

Although the notion of exporting meat may seem as though it is within grasp, there is still quite a ways to go for it to become a reality. Generations of Mongolian governments have talked about doing this and earning money for such a long time now that it sounds like a broken record as nothing is moving forward as it should.

Both the government and the private sector know where the issues lie. Livestock diseases are the main factor hindering meat exports, and the main reason for livestock diseases is an irresponsible and unsupervised system of veterinary services. Herders improperly vaccinate their livestock, rural-to-urban ▶



Sergelen met with Hungarian Minister of Foreign Affairs and Trade Peter Szijjarto and agreed to cooperate on technical upgrades to the Biokombinat state-owned factory, with the two sides establishing a working group on the matter. Hungary will provide a soft loan in the amount of USD 25,000 to Mongolia, and the project will begin from 2017, said Minister Sergelen. At least the new government has not been sitting around twiddling their thumbs. There is hope that there will be results.

Despite these promising moves, the number one priority at the moment is to boost the currently stagnant meat exports as adopting laws and reforming the system will require time. The newly-elected government promised in its action plan that it would "support the export of meat and meat products, increase the annual volume exported to 50 thousand tonnes and increase the income of herder households." That 50 thousand tonnes is 10 thousand more than the amount which used to be exported during the socialist era.

However, such quantitative promises sound not only unrealistic, but can actually end up being damaging. In September 2015, the Chinese Deputy Prime Minister; Deputy Minister of Quality Supervision, Inspection and Quarantine; and Minister of Agriculture met with then Mongolian Minister of Agriculture R.Burmaa and said that China is ready to purchase meat worth USD one billion if Mongolia can meet health and sanitary standards.

Yet, as is usually the case, the issue was exaggerated and officials stated that China will purchase a billion dollars? ▶

▶ migration is not tracked or controlled and there is no exchange of information on livestock diseases. These are conditions ripe for spread of disease. On the other hand, livestock diseases serve as a nice business for opportunistic companies to push vaccines.

Although each soum has 1-2 private veterinary clinics, most are concerned more about profit than the health of livestock. There is no governmental oversight or inspection. Furthermore, it adds to the confusion that the responsibility for livestock health lies with state organisations. Provincial agricultural agencies are in charge of veterinary clinics in rural areas, but the National Emergency Management Agency becomes responsible when outbreaks of animal diseases occur.

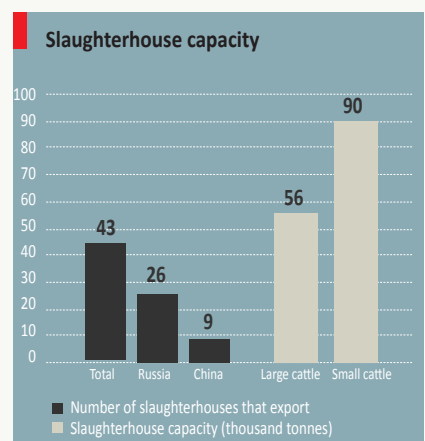
Introducing a vertical structure in veterinary services is the way to fix all these abnormalities. A vertical structure means that the relevant ministry and veterinary agency will be responsible for the nationwide veterinary system while departments and divisions handle provinces and soums, forming

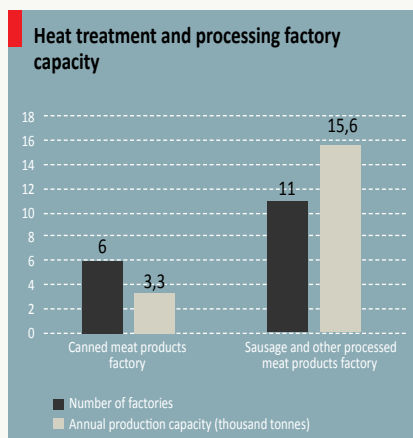
an understandable pyramid of responsibility.

Experts also say there needs to be a mechanism that enables soum-level veterinary divisions to cooperate with private veterinary clinics. Legislation needs to be passed in order to introduce such a vertical structure. The Minister of Food, Agriculture and Light Industry said that the draft bill on livestock health is going to be discussed during the autumn session of parliament.

Minister of Food, Agriculture and Light Industry P.Sergelen, who has occupied that office for about 100 days, promises to dramatically reform the veterinary sector. He visited Russia and Hungary last month and met with Russian Minister of Agriculture Aleksandr Tkachyov, coming to an agreement to cooperate on continuing the implementation of a national programme to improve livestock health and boost meat exports to Russia. Minister Tkachyov will visit Mongolia this month to meet with representatives of Mongolian herders and meat factories.

In his visit to Hungary, Minister





► worth of meat from Mongolia in no time. Then Minister R.Burmaa bragged about the USD one billion deal through press and media for a while. When a journalist asked what steps the ministry has taken to secure the deal, she gave a vague answer, saying "certain works are being carried out."

However, her plan was unsuccessful. After eight months, in May of this year, the Mongolian Meat Association notified that only 100 tonnes of meat was exported to China in a full year. When we inquired about the issue, the reason was that the Burgastai port, where the meat to be exported is handled, has no warehouse, cooling system and paved roads, making it difficult for trucks to go through. Thus, the former minister's words have become just newspaper headlines. Meat exports to China have come to a complete standstill as livestock disease outbreaks occurred in some provinces of Mongolia.

So can we really rely on that promised figure of 50 thousand tonnes? According to the estimates by professor of the Mongolian Research Institute of Animal Husbandry B.Minjigdorj Ph.D., there is indeed the possibility of exporting 50 thousand tonnes of meat should there be no outbreaks. According to the professor, it is possible to prepare 50-60 thousand tonnes of meat for export without slaughtering the female livestock. To do so, we need to prepare as much goat meat as possible. He said that there is little harm in slaughtering five million out of 25 million goats.

Still, 50 thousand tonnes sounds quite unlikely if we consider the demand from abroad. The requirements set

by countries interested in importing Mongolian meat are obvious. They say that they are ready to buy if Mongolia can ensure that livestock were slaughtered appropriately and that the processed meat adheres to health and hygiene standards. Unfortunately Mongolia fails at the very first stage, slaughtering. Today, 97 percent of the total meat produced in the country is prepared by hand. It is impossible to issue health and hygiene guarantees for such meat.

Even if livestock disease outbreaks stop, there is still another major obstacle to exporting meat to China. Since 2015, meat was exported from only five western provinces and the meat was transported through the Burgastai port in Gobi-Altai province. It is impossible to export the amount of meat desired through this port. Hence, it is necessary to prepare meat from central provinces and export it through ports with better-developed infrastructure such as those in Zamyn-Uud and Gashuun Sukhait. However, the Chinese side is wary of

purchasing meat from the central region of Mongolia. During the October 26 session of parliament, Minister Sergelen said he requested that China's Quality Supervision, Inspection and Quarantine Department allow the possibility of exporting meat from the central regions of Mongolia.

N.Tsagaankhuu, Head of the General Agency for Specialized Investigation, the Mongolian counterpart of the above-mentioned Chinese state agency, said that the Mongolian side requested permission to export meat to China from the central region provinces when a general veterinarian recently came from China. The reply will come after a month, he said.

If the Chinese side says no, then the government's promised 50 thousand tonnes will not come to fruition. Nevertheless, it is commendable that the government is administering a policy to address the health and hygiene issues of livestock and increase their export. ■

## Stock market

# The unliked

BY A.SEVJID

Mongolians were introduced to shares with blue and pink Chinggis and Samurai bonds. Today, the total assets of commercial banks have reached MNT 21.5 trillion while there are around 300 companies listed on the Mongolian Stock Exchange (MSE) with a total market value of MNT 1.4 trillion, equal to just 0.7 percent of GDP.

Although the foundations of the stock market were set almost immediately after the democratic revolution of 1990, financial experts agree that the industry has not developed in any real sense. However, we should not underestimate the successes over this time. Most recently, 17.4 percent of Mongolpost SOE's shares were openly traded through the



"Time is running out"

MSE with the objective of raising MNT six billion, but MNT 12 billion was ►

► raised in a surprise turnout. In addition, Energy Resources LLC raised USD 700 million on the Hong Kong Stock Exchange.

In a nutshell, there is hope. Seeing from the two examples above, the sector’s experts believe that it is possible to diversify the financial sector away from commercial banking through policy. By doing so, people and enterprises will have a greater amount of options when it comes to financing.

However, the development of this industry is not only the issue of this sector that needs to be addressed, as the “One Goal - Joint Solution” forum showed that an integrated state policy is needed. The Mongolian Association of Securities Dealers organised the forum in cooperation with the Financial Regulatory Commission (FRC) and the MSE. The prime minister pointed out in his speech that the country is facing the need to develop the stock market. Indeed, the banking sector currently accounts for 96 percent of the financial market, whereas non-banking financial institutions, securities firms and credit and saving unions are scrounging for

individuals and entities actively participate in this market. About 59 percent of the participants are from the private sector, 16 percent are state institutions and 15 percent are self-employed individuals. Domestic participants account for about 90 percent of the total. In other words, Mongolia’s business and investment environment is less favourable for foreign investors and has economic and political risks for the investors, said forum participants. Moreover, experts criticise that the number of companies listed has not increased in recent history and that only two companies have issued IPOs to raise money on the MSE in the past two years. They also say that there is a lot of red tape and cost burdens are high.

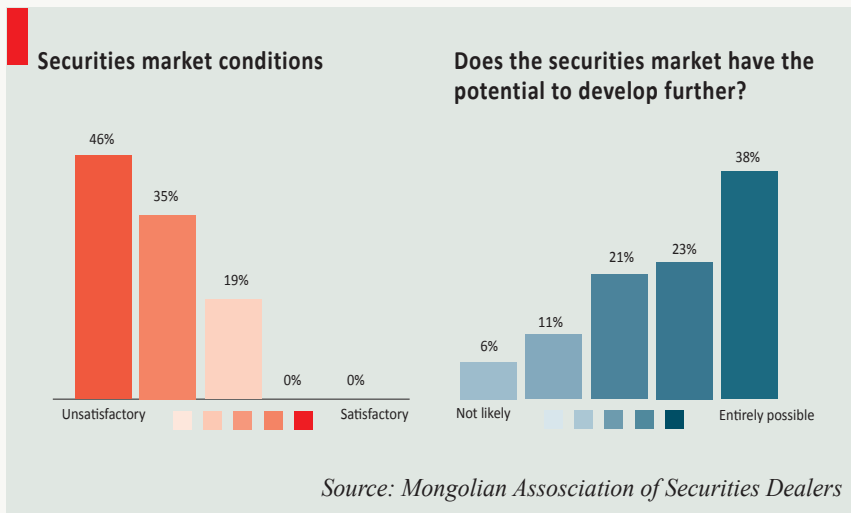
“Raising money on the stock market requires time and preparation,” said T.Tserenbadral, Head of the Securities Regulation Department of the FRC. “In some cases, preparatory works can go on for a year. But the FRC has to make a decision on completed materials within 20 days in accordance with the law. It seems that people have differing information about the costs. MNT 500

and London stock exchanges and participate in transactions, while no such mechanism exists for the MSE. Therefore, companies listed put forth a proposal to the FRC recommending that immediate measures be taken to create multilateral participation methods.

“99 of the 299 listed companies are almost non-existent,” said the President of Mongolian National Chamber of Commerce and Industry, B.Lkhagvajav, during the event. “These companies need to be removed, because the stock exchange’s format itself is problematic. Who is going to go to the MSE when there is a bank offering savings at 12 percent interest? Due to such problems, we are losing the market to banks. Furthermore, savings interest rates need to be reduced by 2-3 times. If the annual 12 percent interest rate savings continues, everything will come crashing down along with the banks.”

People trust banks more than stocks as 68 percent of the 156 active stock exchange participants involved in a survey gave a mark of “average” or “below average” on the quality of information of securities firms. They explained that information comes very late, reading newspapers is not always possible and securities firms do not closely work with their customers. On the other hand, the banks spend millions on product advertisements and attract customers. In addition, society’s lack of knowledge about the stock market and bad impressions about it are directly related to why the number of participants has not increased. Therefore, the participants of the forum reached an understanding at the end of the event: that conducting more trainings and campaigns to improve people’s knowledge about the stock market is crucial.

In the end, the outcome of the forum was that enterprises in the securities market signed a memorandum of mutual understanding to sustainably develop the stock market over the long-term, create a fair competition environment and take public-private cooperation to new levels. ■



the remaining market. With banks in the driver’s seat, a lot can go wrong should they lose control of the wheel. Thus, the stock market is the next element to be developed, rather than another megaproject, in order to balance the domestic economy. According to research, over 4,000

thousand must be paid in order to issue and register securities, and MNT 200 thousand must be paid for companies issuing additional securities.”

Another important issue raised during the forum was the lack of online trading. For example, anyone can register online with the Tokyo

## Monetary policy

## Turning point



*Bank of Mongolia Governor N. Bayartsaikhan (right) and Deputy Governor B. Lkhagvasuren (left)*

BY TS. ELBEGSAIKHAN

The coming year presents the best opportunity yet to successfully implement monetary policy, as there is no room to expand the budget. So, what room is there to implement monetary policy? Let us take a look at the 2017 State Guidelines on Monetary Policy.

The fact is monetary policy needs a lot of space, starting with the legal framework. The guidelines on monetary policy define “the policy strategy to be implemented over the next three years.” According to the rules, parliament is responsible for deliberating provisions and details of the guidelines on monetary policy and is supposed to approve a draft budget for a coming year within November 15 of each year. In reality, results of monetary policy decisions are seen in the 5-6th quarter, well past a fiscal year. For example, the results of the August 18 decision by the Bank of Mongolia (BoM) to increase its policy interest rate will not be felt in the market until the fourth quarter of next year.

This is the reason why state guidelines on monetary policy submitted to parliament every year tend to look quite

similar without significant differences. Perhaps that is also why monetary policy is not taken as seriously as fiscal policy. However, monetary policy is the main tool for ensuring balance in the market.

### What will be the focus of monetary policy?

This year, the economic situation is drastically different from previous years. The central bank tried to hold inflation at one percent for several years. Then last year, the policy impact was much stronger, and the inflation rate fell sharply. On one hand, it has to do with not implementing an expansionary fiscal policy, explained G. Bolormaa, professor at the Economics Department of the National University of Mongolia. Implementation of soft monetary policy alongside an expansionary fiscal policy usually shows weak effects on the market. However this year, inflation is not even at one percent – it has fallen into negative territory. As of the first half of the year, the economic growth is at 1.4 percent.

In such a situation, the Bank of Mongolia is aiming to keep the inflation rate at eight percent. To do so, it will use only market-based instruments. In other words, it will not conduct price stability programmes. A total of MNT seven trillion in financing was provided under ultra-low interest rates within the framework of a price stabilisation programme implemented by the Bank of Mongolia (BoM) in cooperation with the government for over three years. The central bank believes that it created the current burden of a depreciating currency and depletion of foreign exchange reserves.

Moreover, the central bank says that it will work to make exchange rates more flexible. However, it will still be involved with the objective of mitigating volatility in exchange markets. On the other hand, the central bank only has a limited ability to involve itself in the market and affect exchange rates, as the foreign exchange reserves are limited. Therefore, this year's monetary policy is different from last year's in that there is the additional goal of increasing foreign exchange reserves.

The works planned by the central bank are meant to help overcome the economic downturn with minimal scars. Their new task is to ensure the prerequisites for stabilising the macro-economy in the short-term and fostering growth in the medium and long-term.

### What are the options?

There are two options. The first is to finance foreign debt to be repaid in the coming years and budget deficits through bonds and commercial loans. This has been the chosen method for the past four years on various issues. The other option is to accept IMF arrangements and take out soft loans and assistance from donors within that framework.

The BoM believes that although a difficult choice, the second option is necessary. At the same time, it also says it is necessary to take measures to ensure fiscal discipline and stabilise the economy in the medium-term. In any case, the draft guidelines noted that there is a necessity to implement a comprehensive policy directed at ensuring the stability of the macro-economy and state debt, making the financial system multi-pillared and restoring foreign exchange reserves. Fiscal discipline and appropriate debt management will be the key challenges. The BoM warns the government not to offset budget deficits by taking out high-interest debt.

Currently, the Ministry of Finance has submitted to parliament a draft budget for 2017 with a deficit of MNT two trillion. Although budget expenditures were reduced by MNT 1.1 trillion from 2016, there is still estimated to be an MNT 2.4 trillion budget deficit due to a 3.4 percent economic growth projection. If monetary policy is ineffective in the short-term, if deflation continues and if production falls, the budget deficit will exceed the two percent of GDP allowed by the Law on Fiscal Stability. In addition, economic growth predictions by the Ministry of Finance were quite off the mark for the past two years, whereas forecasts by the Asian Development Bank (ADB), the IMF and the World Bank were closer to reality. The World Bank and the IMF projects next year's economic growth to be 2.5-2.7 percent while the ADB forecasts it to be 0.5 percent. ■

## Cooperation

# New PM visits Japan

BY O. KANAKO

Freelance Journalist, Tokyo, Japan

On October 12-15, about 100 days after the cabinet was formed, Prime Minister J.Erdenebat visited Japan on his first trip abroad since taking office. On the 13th, the Mongolia Trade and Investment Forum organised by JETRO (Japan External Trade



Organization) was held in Tokyo. Over 70 participants including economic ministers and business executives from Mongolia and over 200 from Japan attended the event.

“Mongolia has been building good relationships with Russia and China, and as a third neighbour, Japan is economically a very important country we would like to cooperate with in various aspects,” said Mongolia’s newly-elected PM in his speech during the opening ceremony of the forum.

His message contained three main points. First off, “invest in Mongolia as we try to prepare the environment for investors.” From 1990 to 2016, as Mongolia gradually moved from socialism to democracy, Japan invested USD 262 million in Mongolia and is the biggest investor country. Pointing to

this fact, he emphasised that Japanese investment would be necessary in order to stabilise the macro-economy of Mongolia.

Secondly, he hopes to expand trade volume between the two countries through the EPA (Economic Partnership Agreement). Mongolia wants to export more agricultural and pastoral products and mineral resources to Japan, and also wants to adopt advanced technology from Japan for the development of the manufacturing industry and to produce more value-added products.

Thirdly, Erdenebat wants to foster a more beneficial, stable and long-term alliance between the two countries. That means not only politically, but also in terms of private companies and organisations. In 2015, more than 550 Japanese companies

operated in Mongolia, including Toyota, Suzuki, Nissan and Bridgestone. “I hope the relationship of the two countries comes up fast like a horse and shines like a rainbow after rain,” he said.

Before the EPA, annual trade volume between the two countries was USD 300-400 million. “After the EPA enters into force, [trade volume] could increase by 50-60 percent,” estimated Senior Deputy Minister for Foreign Affairs B.Battsetseg.

O.Erdembileg, Deputy Governor at the Bank of Mongolia, showed FDI data, which was USD 4.6 billion and 45 percent of GDP in 2011 but fell USD 110 million and one percent of GDP in 2015, and described the Economic Stabilisation Plan (ESP) for the coming four years as a breakthrough for a difficult situation.

The topic of renewable energy

presented by the CEO of Clean Energy Asia, D.Gankhuyag, seemed to particularly interest the audience. The company will ensure over 2,500 sq.km. in the Gobi Desert area, an area larger than Tokyo, for use for wind and solar power.

The “Asia Super Grid concept” project aims to send electric power generated by wind and solar power in the Gobi to Asia via integrated grids. Japan, Mongolia, China, South Korea and Russia are involved in the project. The proposer, Son Masayoshiwho, CEO of Soft Bank Group Corp., thought of the idea after the Fukushima Daiichi nuclear power plant accident in 2011. This huge project may not seem like a giant leap taken quickly, but in 2017, a 50MW wind power plant is set to begin operations in Tsetsii. It is a dollar-denominated project co-financed by JICA (Japan International Cooperation Agency) and the EBRD (European Bank for Reconstruction and Development).

In March of this year, Soft Bank Group, the State Grid Corporation of China, KEPCO (Korea Electric Power Corporation) and ROSSETI (the Russian power grid company) signed a memorandum of understanding for carrying out the feasibility study of infrastructure for Northeast Asia. The Mongolian government fully supports the power export project, and practical steps have been taken by Mongolian private companies such as Newcom.

On 14th, Mr. Erdenebat met Japanese Prime Minister Shinzo Abe. They agreed that both countries will strengthen economic partnership through the EPA, and that they will cooperate in the United Nations Security Council against North Korea’s nuclear tests and ballistic missile launch and to resolve abduction issues.

Furthermore Mr. Erdenebat was interviewed by the Nikkei newspaper and stated: “I want to reduce the budget deficit from the current GDP ratio of 18 percent to nine percent in 2017. In October, we want to discuss concrete support to accept the IMF investigation team. We also hope for a yen loan from Japan, as we sought the last time we accepted IMF support in 2009. To recover the trust of foreign investors quickly, we will open a ‘complaints window’ under the jurisdiction of the Prime Minister.” ■

## Foreign relations

# New historical relations marked in snowy Novosibirsk

BY D.BEKHBAYAR

They were elated. You could see in their eyes the nostalgia of their time as university students in Russia. I was pleased to see such travelling Mongolians enjoying the Russian food, speaking and singing fluently just like a Russian native. To them, the feeling of the few days we spent in Novosibirsk felt as though they have come back home.

Winter has come in Novosibirsk, the administrative centre of the Siberian Federal District, one of eight federal districts in Russia. Trees have donned their white winter uniform, and the people have started to layer up. “Although it is cold outside, it is warm in our hearts,” said Mongolian MP B.Enkh-Amgalan, who longs for the close relations our two countries had in the past and to write a new chapter in relations today.

The city of Novosibirsk hosted the 2016 Russian-Mongolian Cooperation economic forum on October 27-30. This event was organised on the occasion of the 95th anniversary of the establishment of diplomatic relations between the two countries.

The group of delegates visiting included more than 200 people representing Mongolia’s public-private sector and culture and sports figures, led by the Vice Chair of the Mongolia-Russia Parliamentary Group, B.Enkh-Amgalan.

It was a major event that has not taken place in the last 25 years of relations between the two countries. More specifically, the group of delegates included Mongolian MPs B.Sarangerel, J.Bat-Erdene and D.Gantulga; Deputy Minister of Education, Culture, Science and Sports Yo.Otgonbayar; Deputy Minister of Food, Agriculture and Light Industry J.Saule; officials from the Ministry of Foreign Relations; Governors of Khuvsgul, Zavkhan, Khovd, Uvs and Bayan-Ulgii provinces; directors of universities and colleges; and academics and businessmen.

From the Russian side, Member of the Federation Council of the Federal Assembly of the Russian Federation and the First Deputy Chairman of the Federation Council Committee on Economic Policy, Sergei Vyacheslavovich Kalashnikov, came to attend the forum. Novosibirsk city administration officials were with the Mongolians for four days. The way the event was organised showed how much effort the city



administration put forth. Even Siberian businessmen were interested in cooperating with Mongolia and were willing to establish joint ventures.

In general, both Mongolia and its northern neighbour want to take bilateral relations to higher levels and boost trade turnover. “We need to create new, mutually beneficial economic conditions that will complement and enrich each other instead of continuing with old economic ways and relations,” said Sergei Kalashnikov.

During the forum, the idea of cooperating under new partnership relations instead of brotherhood relationships was one of the most talked-about subjects. Moreover, medium-term cooperation programmes and strategic relations agreements were established. The number of tourists going to Russia ▶

► also increased dramatically after Mongolian citizens were permitted to travel to Russia without a visa. Currently, high-level policy initiatives to implement regional projects such as the China-Mongolia-Russia economic corridor are on-going.



Mongolian Speaker of Parliament M.Enkhbold tasked B.Enkh-Amgalan with taking concrete steps towards renewed partnership on his visit to Novosibirsk. The delegates who came along with him believe he has fulfilled that assignment.

“This forum that brought together public and private institutions and business and science industries was held successfully despite having only a short period for preparations. Novosibirsk was of course not chosen randomly to host the forum, for it is the scientific centre of Russia,” said Mongolian Ambassador to Russia B.Delgermaa. “As a region with a developed scientific industry, it is a place possible to develop cooperation and businesses. I am

confident that the forum will show results.”

B.Enkh-Amgalan, Vice Chairman of Mongolia-Russia Parliamentary Group, and Sergei Kalashnikov, First Deputy Chairman of the Federation Council Committee on Economic Policy, signed a 20-clause memorandum of understanding during the forum.

“It is a memorandum of understanding to cooperate in many sectors including science, industry, economy, business, agriculture, culture and education,” noted Enkh-Amgalan. “The works will actualise because the two sides have mutual interests. In addition, we will discuss further issues concerning customs in order to develop and accelerate business relations. We have agreed to write the issues down and resolve them step by step. The city administration of Novosibirsk has great interest in cooperating with and restoring economic and business relations with Mongolia. There are also many opportunities in Russia for Mongolia.”

In addition to the political and business events, the Siberians admired the Mongolian cultural performances. Russian and Mongolian dancers performed together in the “Steppe Winds” concert, which truly captured the atmosphere of intimate relations between the two countries. Moreover, sports competitions were organised between Mongolian and Russian athletes in a 10,000-seat complex. The seats of the sports complex were filled as Honoured Athlete and Hero of Labour N.Tuvshinbayar led the Mongolian athletes, while the Russian team included Olympic and other world-renowned athletes. In addition, 25 legendary Russian Olympic medallists came to Novosibirsk to watch the sports contest as members of the audience. This all shows the attention Russia is paying to the friendly relations

between our countries, and it began in snowy Novosibirsk. We will report on forum participants’ thoughts on the event in the coming issues.

Mongolian Economy magazine is cooperating with the embassies of the two countries in order to publish a special magazine issue dedicated for the 95th anniversary of the establishment of diplomatic relations between the two countries in Mongolian, English and Russian in December. In this context, Mongolian Economy journalists attended the forum in Novosibirsk and are now working in Moscow. The Russian capital again welcomed us with snow, and here, new historical relations will continue to move forward. ►

## Thoughts

# New atmosphere, new colours and new Mongolian-Russian relations

This year marks the 95th anniversary of the establishment of diplomatic relations between Russia and Mongolia. In this context, the 2016 Russian-Mongolian Cooperation economic forum was held in Novosibirsk. We are reporting on the thoughts of the MPs who attended the event.



**D. Sarangerel, MP and Member of the Mongolia-Russia Parliamentary Group**

-The two sides agreed that it is time to update the relations we established in the 20th century, making it modern and multilateral for the 21st century. We mainly discussed the need to create new relations consistent with current global development trends in addition to enriching the historical relationship that has been maintained for years. The Russian side wants to have precise relations instead of a general one. In particular, it has been noted that press and media cooperation among the two countries needs to be promoted. We agreed to foster cooperation among journalistic organisations to give more information about our respective countries to the people. Also, we agreed to resolve legal obstacles in doing business with each other at the parliamentary level. Thus, this forum brought a new atmosphere and impetus to the economic and business relations between the two countries.



**J. Bat-Erdene, MP and Member of the Mongolia-Russia Parliamentary Group**

-In recent years, cooperation between the two countries has stagnated. Traditional relations need to be restored in many sectors. Development of economic relations, in particular, local and provincial relations are of great importance. I believe that is the reason why Novosibirsk was chosen to host the forum. Novosibirsk is the capital city of the Siberian Federal District. It is a railroad and highway hub that connects Asia with Moscow. The city has a high trade turnover, so bringing this trade turnover to Mongolia and supplying products from Mongolia in return should be discussed. I am supporting a proposal from the Russian side to depend on mutually beneficial economic relations instead of the old brotherly relationship. It is correct for us to cooperate with our neighbouring country under new, modern relations.



**D. Gantulga, MP and Member of the Mongolia-Russia Parliamentary Group**

-During the forum, the Parliament of Mongolia and the Federation Council of Russia signed a memorandum of understanding on 20 areas. The Russian side expressed that they are ready to change laws in some cases to cooperate with initiative. This word is very important. We will discuss issues concerning customs duties by the next intergroup dialogue. It will be effective if we can agree on issues related to elimination of customs bureaucracy, changing the legal framework, improving the operations of border ports and increasing capacity. The Russian side is interested in purchasing many types of goods produced in Mongolia, such as meat, leather and other raw materials. This is an advantage. Representatives of more than 40 Mongolian companies such as Gobi, Goyo, Buyan and Khaan Khuns came here to seek partnerships with Russian businessmen. Russian businessmen also want to work with Mongolians. I believe that the forum will show good results. ■

## Opinion

# To be self-sufficient, or spoon-fed?



**B.TUVSHIN** (*Economist*)

Mongolia has been trying to reduce economic centralisation since the transition to democracy and a free market economy. Local self-governing bodies, authorities and territorial units were established by the 1992 Constitution. However, we have not seen big strides toward the goal of decentralisation despite more than two decades having gone by.

In the meantime, rural-to-urban migration is perpetually increasing as people seek more opportunities due to the increasing gap between urban and rural development. Almost half of the population is concentrated in Ulaanbaatar, which takes up 0.3 percent of the total land area of Mongolia. As the population of the capital increases, so does the urgency with which we need to resolve infrastructure and public service issues, but we all know that the development of the capital as well as rural areas has been noticeably slow. How did it reach such a state?

Everything is related to money. Power and responsibility are not exercised simply by adopting laws. These things depend on aspects such as where to allocate money, how to spend it and how to oversee it. In other words, rural areas will be able to develop only with the right to plan and manage their own budgets. This goes not just for rural areas, but also provinces and soums as well the capital city and its districts. Now let's look at the results of the past few years.

Local budget expenditures used to account for 30 percent of the state budget, but it fell to 10 percent from 2003 to 2011. The ability of local administrations to spend has fallen sharply as the authority for budget spending was re-transferred to the relevant ministries. Then in December 2011, Mongolia adopted a new budget law. More financial and budget authority was given to local administrations under this law which went into in 2013 and was a big step towards improved decentralisation. However, the self-sufficiency of local budgets is still weak because a centralised fiscal policy currently adhered to.

## Rubber stamping

It would not be a lie to say that Mongolia is maintaining the tradition of a centrally planned economy, because it still employs a system where the higher-ups try to resolve everything related to the budget. Parliament approves the medium-term budget statement, and the Citizens' Representative Council of provinces, the capital, districts and soums discuss within that scope to approve the budget.

Their only responsibility is to rubber stamp what is given. They do not plan the budget by themselves and focus just on allocation. Specifically, parliament is supposed to approve a draft budget within November 15 of each year in accordance with the Law on Budget. As for the provincial and municipal Citizens'

Representative Councils, they must approve the budget within December 5, and districts and soum councils must approve it within December 20 of each year. Although local authorities submit their budget proposals, it is no secret that it gets slashed from the above. Hence, there is no such thing as an independent local budget in Mongolia. Soum and district budgets are dependent on the province and the capital city budgets, respectively, and the provinces and the capital are dependent on the state budget.

## Instilling a spoon-fed mentality

Local budget revenues have several sources: self-funding and tax sharing and transferring between budgets. However, the important tax sources are allocated to the state budget while less important ones are allocated to local budgets. Provinces, the capital, soums and districts have no right to levy new taxes, so their ability to generate revenue is limited. A local administration's financial privilege is low due to its own small amount of revenue. Therefore, they are dependent on financial assistance from the state budget. In 2017, MNT 130 billion in financial support is planned to be provided to the budgets of 15 provinces from the state budget in order to offset deficits in local budgets. As for this year, it is expected to provide MNT 150 billion. Does the financial support have positive outcomes?

Personally, I think that the current system that mends deficits in local

► budgets under the name of “financial support” instills a spoon-fed mind-set in the heads of the local governors. They have no need to brainstorm and come up with ideas to expand income sources and keep expenditures efficient as long as deficits get plugged from the state budget.

At the same time, the Ministry of Finance transfers an excessive amount of revenue to the state budget from the approved local budgets through tax sharing and reduction of transaction incomes. It is easy to understand why the local authorities have a sluggish approach to budget management, as the authorities above will draw from it even if there were additional income. Due to such reasons, local authorities just spend the given amount of money instead of planning the budget or doing management.

### Can local administrations be self-sufficient?

Seeing from international experience, local administrations have quite a bit of power when it comes to their budgets. It is clear that only by doing so, more efficient budgets will be developed. For example, who knows best about the lives of residents of Durvuljin soum in Zavkhan Province? What is needed to improve livelihood and public services, and how should the revenue sources be expanded? Is it the Ministry of Finance or the residents of Durvuljin soum?

Local residents know about their situation and needs better than anyone, so it only makes sense that more efficient management can be implemented if they themselves oversee budget matters. Our scholars and researchers know this very well, which is why they have been recommending decentralisation for many years.

It should be noted that progress has been made within the goal to decentralise. It is commendable that more financial and fiscal rights were

given to local administrations in 2011 within the framework of the Law on Budget. Before that, the central government was responsible for local investment, and local authorities were responsible only for overhead, maintenance and other operating costs. With the implementation of the above-mentioned law, a certain part of the investment costs was transferred to local administrations. A transfer system

now been reduced to five percent. Likewise, the 30 percent of the income from mineral royalty fees that used to be allocated to the fund is now 10 percent. In addition, the revenue allocated to the fund from provinces with primary balance surpluses is now going to be allocated to the state budget. In a nutshell, the nation is moving backwards on the issue of decentralisation.

The authorities say that in this current

#### 2017 local revenue, by structure

10.7

billion MNT

Income of state institutions carrying out certain responsibilities and duties of the government financed through special purpose funds in local and rural areas

130

billion MNT

Financial support provided from the state budget

72

billion MNT

Support from the Local Development Fund to provinces and the capital

3.5

billion MNT

Support from foreign projects

1,051

billion MNT

Special purpose funds to be provided to local and rural areas from the state budget

818

billion MNT

Local and rural administrations' base budget revenue

Source: 2017 draft budget

based on a formula to strengthen local governance was introduced through the local development fund. Moreover, mandating residents' participation through the planning of the local development fund was a major piece of progress.

Unfortunately, parliament has blurred this success by making amendments to the Law on Budget in September. Specifically, they decreased the integrated regional development fund's sources. For instance, 10 percent of the VAT on domestic goods used to be allocated to the fund, but this has

economic and fiscal climate, there is no other way given the state budget deficit. Contrarily, increasing local administrations' autonomy should have a positive impact on economic growth. This has been the experience of other countries. Give the money to local administrations. Power and responsibility will transfer along with the money. After that, the local authorities will start to use their brains regarding how to keep expenditures efficient and save costs without asking from higher-ups. Only then will they shed themselves of the spoon-fed mentality and become independent. ■

## Railway

# Lost opportunities

BY TS.BADRAL

A new scenario for a key railway is to be developed. On October 21, Minister of Road and Transportation Development D.Ganbat informed that the concession agreement made between Mongolian Railway SOE and Samsung C&T to build the 267 km Ukhaa Khudag-Gashuun Sukhait rail has been revoked. The project contractor, Samsung C&T, notified that it will not carry on with the suspended agreement due to financing issues with Mongolian Railway.

the first feasibility study which reflected that USD 1.1 billion would be needed for the railway's construction and commissioning. The works began under terms to transfer a certain ownership percentage of the rail to the state after 30 years of usage, according to the concession agreement. This rail is planned to have a capacity to transport 30 million tonnes of coal per year. It is estimated that the project can break even within 11 years by regularly transporting coal.

In 2012, the Democratic Party's

now to be settled in court.

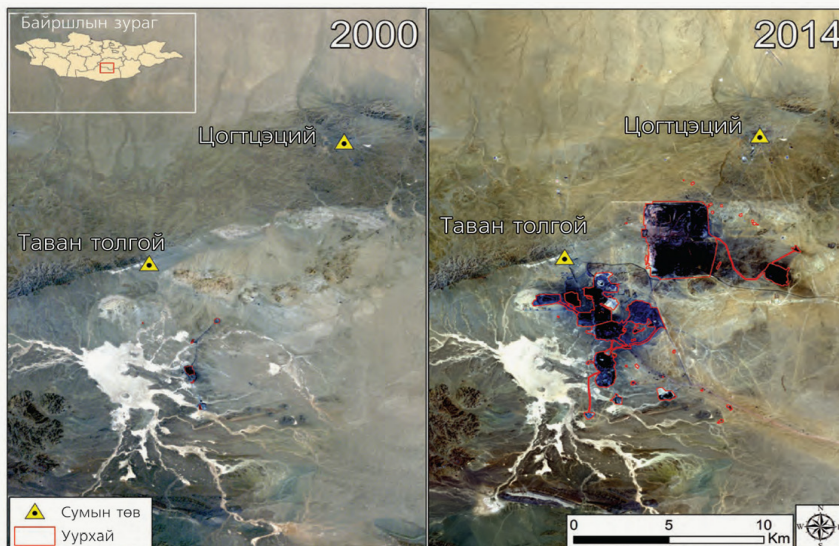
At the time being, there is not much new information to give to the public as the inspection process is ongoing. Although Mongolian Railway has resolved the funding issues and asked Samsung C&T to continue the construction work, the company informed that it is not willing to carry on with the project even if the investment issues are resolved.

Already stalled for six years, this mega-project would give Mongolia a significant competitive advantage economically. This unfinished rail would export coal from Tavan Tolgoi (TT) coal as well as copper concentrate from Oyu Tolgoi (OT) and other products by mineral producers in the South Gobi. Another key element of the railway is that its operation would help plug holes in the state budget, which has been running deficits for the past several years.

There are many mining deposits that are considered unprofitable due to high transportation costs, which this rail would greatly help. For example, large mineral deposits such as Nariin Sukhait, Khuut and Tamsagbulag can be mentioned. It is estimated that the transportation costs of exporting coal will fall by USD 10 per tonne with the commissioning of this railway which will extend to the Gashuun Sukhait border crossing immediately south of TT and OT. This translates to improved efficiency for companies. Furthermore, more profitable companies mean higher state budget revenues. Everyone involved regrets not being able to commission this rail route during the mining boom. For Mongolians, it is a sour lost opportunity.

In addition, the rail should make a significant contribution to job creation. According to estimates, the rail will require about 5,000 workers after its commissioning. A source of income should have been created for a similar number of households and families had the rail been commissioned as initially planned. The list of missed opportunities can go on.

Mongolia lost more than just opportunities: there have been considerable negative impacts from an ecological perspective. With no other way to transport goods, trails left by the ▶



The areas marked in red show pasture degradation near the Tavan Tolgoi deposit

Thus, construction issues surrounding the railway are going to restart for the third time. "The agreement was mutually annulled by both sides. The contract review process has been completed after carrying on for three months," stated Minister Ganbat. According to the transport minister, it was decided that the length of the railway would be extended by changing the direction to Tavan Tolgoi-Gashuun Sukhait. However, he also noted that there would be no changes in the feasibility study.

Energy Resources LLC developed

"reform government" terminated the concession agreement and transferred the responsibilities to Mongolian Railway SOE. Mongolian Railway made a new agreement to build a 267 km rail with Samsung C&T's subsidiary SCTECM and resumed earthworks. However, since last spring, the question of whether any substantial work had been done was raised. Press and media reported that domestic companies involved in the construction works were not receiving the due remuneration for the works carried out, and these financial issues are

▶ giant wheels of heavy duty trucks on the fragile soil of the Gobi leave only piles of dust. Livestock pasture is deteriorating, drinking water is getting contaminated and respiratory conditions are rising due to these reasons. In the picture on the previous page, the area surrounded by red indicates pasture degradation near the Tavan Tolgoi deposit. Construction of the stalled rail project is the only way to remediate

these issues and eliminate the discord between mining and pastoral animal husbandry.

Yet, once again everything must start all over again. The construction will not resume until the selection of new contractors and investors. This matter needs to be expedited while there is still hope of economic revival. This economic downturn may just be an opportune time to build at low costs. ■

shall issue an official notice in a daily newspaper according to the Minerals Law, Article 19

Such a complex process often causes difficulties in obtaining a license for mineral exploration and mining due to bureaucratic barriers such as corruption attributed to one or more of the state authorities.

Most countries in the world have open regulations on mineral law in relation to tenure rights. If investors want to transfer the rights to a license or want to lease the license, they have specific regulations for this matter and investors have some freedom to enter into an agreement or transfer or lease their licenses by free negotiation.

However, in Mongolia, there is a lack of regulation for license holders regarding transferring or leasing a mining license and there are no regulations about mining leases. If an investor wants to obtain a license for mineral exploration or mining, they only need permission from the State Authorities, not negotiate with license holders.

Finally, the third issue of the mineral legislation in Mongolia is frequent overlaps of tenure.

Foreign investors should be aware of the overlaps that occur with other tenures and the impact of these overlaps on the investor's ability to explore or produce from the designated mining area before obtaining a license. Most countries have regulations in cases where tenures overlap. In some instances, in case of an overlap with petroleum tenure, Canadian legislation encourages the foreign investor to make an agreement with the holders of the overlapping tenure.

However, the Mongolian Minerals Law regulates overlapped tenures only through a process of registering and issuing licenses. When an investor submits its request for a license to the State Administrative Agency, the Agency is in charge of verification of the requested land to determine whether it overlaps with other tenures. However, even if there is a dispute of overlapping tenures found later, there is no law or regulation to govern this issue.

Considering above three current problems in the Mongolian mineral legislation, many legal specialists suggest revising mineral legislation in favor of foreign investment in order to better develop Mongolia's mining sector. ■

*Anderson and Anderson LLP*

## Law

# Current issues of Mining legislations of Mongolia

Mineral exploration is a high risk business activity at all stages because a great deal of time and financial investment is required to see a result in this business area. Therefore, in order to support investment in the development of this type of business, the government of a country must pay attention to the importance of security of mineral tenure during mineral exploration and production, reduce risks and uncertainty in mineral exploration and production and ensure rights of mineral tenure. Foreign investors prefer to invest their money in a country which has such a policy.

In Mongolia, there are some current issues in the mining sector, which gives foreign investors problems.

One of the current issues is in relation to state authorities' bureaucratic impediments in the mining sector during obtaining a license for mineral exploration and mining. According to the Minerals Law, state authorities are responsible for any issues in regard to obtaining a license for mineral exploration and mining.

Compared to other countries which generally have only one state authority in charge of obtaining such a license,

in Mongolia, there are three different and responsible authorities in charge of processing and issuing licenses as follows:

State Central Administrative Agency;

Inspection Office of Mongolia; and

Local administrative and self-governing agencies.



Generally foreign investors need to submit a request to the State Administrative Agency in order to obtain a mining license, which agency is responsible for the process of verification of documents

and other requirements of the investors and processing licenses pursuant to the Minerals Law, Article 10.1.4.

After the verification, the State Administrative Agency will transfer the verified documents of the foreign investors to the Governor of an aimag or the Capital city. The Governor of the aimag or the Capital city must consult with the Citizens Representative Hural (Council) of the soum or District according to the Minerals Law, Article 19.4.

Immediately following the grant of an exploration license, the State Administrative Agency must notify to Governors of the aimag or soum and then the State Professional Inspection agency and State Professional Inspection Agency

## Health

# No country for old men, literally

BY J.BAYARJARGAL

Mongolia is a country of young people. Young people can be seen everywhere in the city streets, and even in rural areas tending to their livestock. You do not need to look up statistics to get the idea that it is a nation of the young. Today, people are becoming even more the proud of the country's youthfulness. Sometimes it even seems as though politicians worship this fact. Cabinet ministers say that we are a young country whenever they get behind a podium, and MPs talk about it in front of the cameras.

But! Perhaps this seemingly great feature should be looked at from another angle. What is the average life expectancy of Mongolians? What percentage of the population is composed of people 65 and above? People need to see the statistics and think about it. The National Statistical Office regularly publishes such statistics. Hence, is the proud statement "Mongolia is a country of young people" really just a euphemism for "Mongolia has a low life expectancy country"?

We struggled to reach a population of three million, but the average life expectancy is unsatisfactory. According to 1989-2008 rates, Mongolian people aged 65 or above have been increasing by an average of 0.67 percent per year. It was 3-4 times lower increase than the 1995 World Health Organisation rate (2-3 percent increase per year). Such a slow rate of increase is a direct result of the high mortality rate of this age group in Mongolia. These are not random figures, but conclusions by experts. Therefore, we need to think carefully. It is time to heed the advice of experts instead of sugar-coating reality with platitudes on the young.

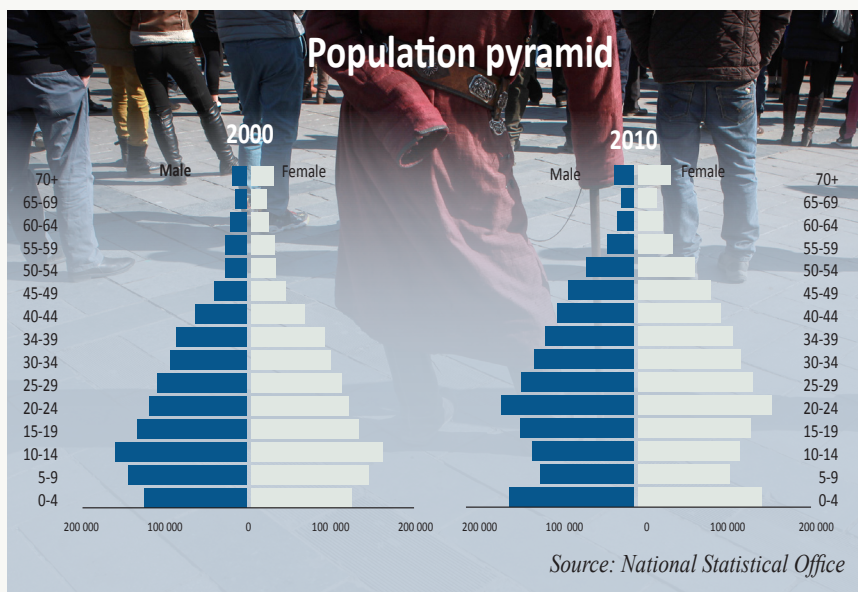
According health sector experts, the life expectancy rate has not improved and has even declined in some ways. One important thing that they have raised alarm about is the average life expectancy of men, which has fallen to 64 years. Perhaps it is related to the carefree, or perhaps reckless, nature of

Mongolian men. Mongolian men need to pay more attention to the health. It is not just a journalist saying this, but experts, doctors in particular. In contrast, it seems that women are much better at taking care of themselves as their average life expectancy has risen to 73 years, mean that women live nine more years than men on average. This gap is widening year by year. One of the many reasons is men's carefree nature as stated above. Secondly, Mongolian men love the drink.

In Japan, elder people account for 26.7 percent of the population, and researchers explain that their high life expectancy is related to their lifestyle, but most people probably already know why the Japanese live long. Japanese people hold their health and diet in high regard. That is the culture. However, the traditional Mongolian lifestyle is bringing down the life expectancy of men. There is a Mongolian joke that men are the waste basket before the trash bin, because any food the mother or children do not want to eat goes to dad. Doctors point to such cultural tendencies, as the views such a joke represents are actually a big part of the reason for the deterioration of men's health. Another issue is that parents do not give enough attention to boys. Mongolian parents living in rural areas try to provide education and good food to their daughters, while the sons are left to tend to the livestock in the freezing cold. All the hard work is on the boys' shoulders, in their ripped and worn-out clothes. This treatment of boys instills the attitude of disregarding health from a young age, according to research. When you look at it that way, it is hard to deny its truths.

Just take a look at the men around you. Are there any who willingly practice good hygiene and health? Rare, very rare. They will not clip their nails unless the woman nags them to do so. Perhaps women need to keep nagging until one day or another when men start to give a damn about their health. Hence, we need to thank the doctors who have been nagging us for years. Their ceaseless efforts are starting to reach the public.

It sure would sound nice if people lauded that "Mongolia is a country of young people" if average life expectancy were a bit higher. ■





### Health sector

# Mongolia's largest pharmaceutical company

BY G.DAVAADORJ

Twenty-six years ago, a small pharmaceutical company was established with a budget of just MNT 4000 and two employees, a pensioner and a high school graduate, in a one-story old wooden house without electricity or heating, once a Russian military base. It was the seed that sprouted Mongolia's pharmaceutical industry. Today, that seed has grown to become Mongolia's largest pharmaceutical company, occupying an area of 1,700 square metres near Sonsgolon with a capacity to produce 352 million tablets per year.

On the 21st of this month, the Mongolian National Chamber of Commerce and Industry organised a visit tour at Monos Group's pharmaceutical factory, one of the top enterprises of the 2015 Entrepreneur ceremony. It was incomparable to any other pharmaceutical factory I had ever visited as a journalist.

M.Odgerel, CEO of Monos Pharma LLC, said the visitors coming to see the new factory have been pouring in.

This factory was built in accordance with the strict standards of international medicine production known as Good Manufacturing Practice (GMP). It is a strict standard where the factory workers and pharmaceutical raw materials must enter the factory through different routes. If one of the two nearby doors is open, the other must be closed. Each room has air conditioning, humidity and temperature controls, ventilation and pressure adjustment system.

Monos Group produces medicines such as Chitamon, Salimon, Dentamon, Naturvit and Nefromon by using herb grown in Mongolia. According to B.Enkhzaya, the Deputy Director in charge of the factory, production capacity has grown 3-5 times with the commissioning of the new factory. For example, a medicine was compounded within 4-5 days while now it only requires 40 minutes. In addition, the new factory provides more than 100 people with jobs. Hence, they are proud of the new factory, saying it is a historical development in the

national pharmaceutical sector.

Former Minister of Health S.Lambaa said that 30 percent of drugs listed as essential used to be produced domestically, while now 50 percent of the essential drugs can be produced in Mongolia.

Investment amounting to MNT 20 billion and six years effort went into building the factory. Project research began in 2009, with construction work starting in 2012. Building this type of pharmaceutical factory is entirely different from building apartment buildings. First, the main building must be built. Afterwards, steel plates must be assembled inside the building.

Monos Group has sent its employees to more than 40 foreign and domestic trainings since 2012 as the industry requires one to stay up to date on new knowledge and skills to keep up with standards.

The pharmaceutical industry is one that does not forgive those without scientific knowledge who only seek profits. Monos Group reached where it is today thanks to the efforts of scientist L.Khurelbaatar, and now it is already preparing to hold an IPO. The company's policy and desire to improve its governance and be more open to the public could be felt during the visit tour as Deputy Director of the factory B.Enkhzaya answered journalists' questions.

It was clear that the company is striving to truly implement social responsibility into its business atmosphere. ■



### Corporate governance

## Christian Strenger: Corporate transparency mitigates risks

BY B.UURIINTUYA

**C**hristian Strenger is an Honorary Professor and Academic Director of the Center for Corporate Governance at the HHL Leipzig Graduate School of Management. He is also a member of the supervisory boards of Deutsche Asset & Wealth Management Investment GmbH (Frankfurt) and TUI AG (Hannover) as well as Chairman of the Board at The Germany Funds (New York). The German Corporation for International Cooperation invited him to present a speech in Ulaanbaatar on October 12. Our magazine was able to sit down with him after his speech.

**-You have been here for three days now, and you have met some prominent people of Mongolia. What is your impression?**

-I think it's a country with enormous opportunity. However, there are many things that need to be changed. I think one of the most important things that needs to be changed is the field of corporate

governance. The key pillars of transparency, conflicts of interest and a few others are direct qualities that are so important to change. There are many prerequisites, such as a code [of conduct], a scorecard and bylaws, but what is particularly missing, as I'm told, is proper enforcement. People regard the idea of corporate governance as an academic exercise, one that is not for them. Therefore, it is vital that the people understand the value of good governance is for them, and they are the ones who have to make the changes. Of course, this starts with the people themselves.

**-So what would you suggest?**

-Adopt and increase transparency, because that's the key to governance in any country or company. There should be greater obligations to report in a timely and transparent fashion. That starts with the Mongolian governance code, with which in most other countries it is mandatory to show compliance in the annual report and other places. That's what I think is important, and this is something that may not be easy for people to do because more transparency ►

► might hurt them in terms of their own interests – as a big owner of a company; for their related party transactions; to hide the amount of remuneration paid. All these things need change in order for the people to accept that the leaders and others are really serious about changing. There is a good chance from a timing point of view, because there is a new government and the national situation is in a shape where you have to make changes. One of the very reasonable demands of outside financing sources, the international institutions, is that the country follow a good governance regime. If that changes, I think you can expect that they would say, “OK, it’s a tough time, but we feel that because of the changes, the country is on the right way forward.”

**-Mongolian people are somewhat familiar with the word “governance,” but it seems many still do not understand the core essence. So, where does good governance begin, and how can you tell that a company has good governance?**

-The simple translation of good governance is good housekeeping in the company, like at home, meaning that you have to know exactly who has to do what and what the particular responsibilities of the individual are, whether it’s a non-executive, a director, the CEO or the chairman. All these things have to be brought together in a way that people understand who has to play which role. In Europe, the younger people in a company would not go there if they cannot see the governance structure – who is in charge and who has to do what. They are very keen in seeing that a company is properly governed and managed.

**-Globally speaking, what is the current state of governance, and where is it heading?**

-It’s moving forward in a way that is satisfactory. It has made big moves between the years 2000 and 2010. Now, in the more developed countries, you have slower progress, but that is clearly because all the ground rules are in place and they are observed, so there is not so much to be done. What is equally clear is that in best practice, you have to adjust the code regularly reflect important developments that have happened. A governance code is never like a law, which sits there forever in a very rigid fashion, but it is something that has to take account of changes in the real world.

**-What are some of the trends of those changes?**

-Internationally, one trend is terms that deal with proper remuneration, which is payment for the executives. There is a strong move from rewarding managers for short-term performance in favour of longer-term performance, because too often the incentives for managers were to achieve a quick profit and benefit from it in a strong fashion. This trend is being seen in many countries where compensation is playing a big role. The highest pay is in the US

and the UK, where you have people earning between 5-50 million dollars, and nobody is too concerned whether that many is properly earned, whether that is the reward for being really profitable. What is particularly no longer admitted or permitted is when an executive has a good performance in year 1, gets a big bonus and then underperforms or makes a loss the next year, and he doesn’t care because he already has his money, so what? We want to have it so that these managers are compensated on a longer-term performance record.

**-Is that one of the key issues in the future of good governance?**

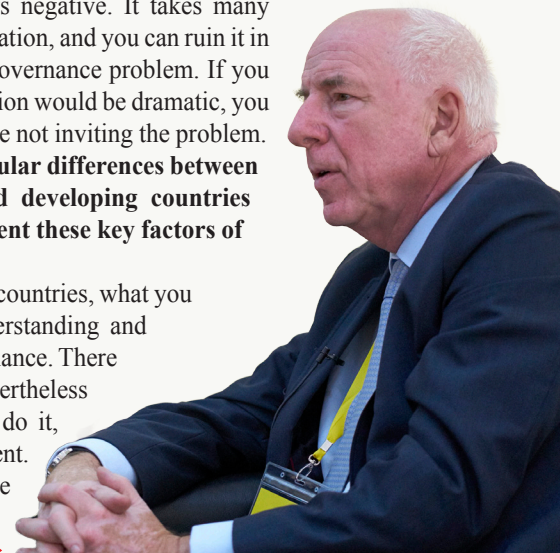
-Well, there aren’t so many big issues left. We have a pretty good understanding of what needs to be done. There will always be individual points. What is now coming in big countries is a higher importance placed on environmental and social responsibility, which is usually denoted by ESG (Environmental, Social and Governance).

**-As for companies that are facing problems with good governance, will they keep facing them in the future if they don’t make the changes you mentioned?**

-Yes. If you have a problem and you make the changes, then you have to prove that you are doing the right thing for quite a few years. Eventually, people will accept that it is a changed economy, a changed company and a changed country. That is the task ahead. Again, if you have a good governance situation, then it will be something where people say, “That’s what we expect.” The problem starts if you make a mistake or don’t do things in terms of governance properly – false accounting, cheating on emissions – and you denied wrongdoing. Then you get found out, and the reaction of the market in particular but also the other stakeholders is dramatic. Share price drops by 50 percent, and people boycott your products, among other sources of discontent. The real impact is always negative. It takes many years to build a good reputation, and you can ruin it in just one day. That is the governance problem. If you know that a potential reaction would be dramatic, you want to be sure that you are not inviting the problem.

**-Are there any particular differences between developed countries and developing countries when they try to implement these key factors of good governance?**

-In the big, developed countries, what you have now is a clear understanding and acceptance of good governance. There are still people who nevertheless think they don’t need to do it, but that is a tiny segment. However, they do harm the reputation of the rest. In the emerging countries ►



► and economies, you have the problem where the ownership is either in the hands of the state, their families or other similar big holders. They are not used to giving things up, so they problem they have is obviously adjusting to good governance concepts, such as transparency and other key points we have discussed.

**-Are these problems the main issue of companies that operate in developing countries, especially ones like Mongolia, where businesses are often in the hands of one person or one family?**

-Whoever is in charge – a person, a family, the state – has to understand that their future is dependent on taking the stakeholders properly along the road. If

**-At what point should the state limit its involvement in any kind of company activity regarding governance? In Mongolia's case, there seems to be limit to all the kinds of involvement by the state.**

-The state is governed by the politicians, and they have to understand that they also have to enforce the rules that they set and not let those who violate the rules go so easily. The state also has the possibility to privatise things, drawing people to own the shares, and therefore, there will be much higher interest from the general public as a minority shareholder to see better governance.

**-There are many politicians in government that have their own companies and run their own businesses. Do you think that Mongolia is open to the idea of corporate governance?**

-I would hope so. I am not going to be here long enough to be a perfect judge. I hear there needs to be improvement. The country needs strong people with stature to push the changes through. If you look at all the reasons why governance is important – better access to financing, lower cost of financing, better relations with authorities, better relations with customers – it is quite evident that it may be a little extra work in the short-term, but in the end, it will also be beneficial for the owners of the companies.

**-Perhaps they see that, but they may not be willing to let people know that they see.**

-It could depend on whether someone owns a company by himself. You may not have to publish so much, but you still have to live by the rules of transparency to a certain extent. So, it depends, but if you take money from the public, you have to play by the rules. Otherwise, it's no good, and if companies are listed, then they should adhere to the rules.

**-Do you think it's a good idea for politicians to run their own companies?**

-You will not stop them, because politicians come and go every four years, but they should obviously be entirely required to live by the rules, particularly when it concerns their own interests. A simple rule could be that if you are elected to parliament or have some other political role, then you have to report regularly on how you dealt with your own company and make it transparent. Transparency always helps avoid bad things, because then if they have to publish what they have done in terms of nice things for themselves, they will not do those things. ■



they ignore this, it will become clear that they are not good citizens. If you have regulatory matters to deal with, such as in mineral resource companies, you have to deal with many authorities. The authorities themselves will treat you a lot better if you have a good record to show and are open. In some ways, people who implement good governance can expect better treatment.

**-Do you think there needs to be a legal environment that is devoted to implementing good governance in a company or state?**

-There is already a legal environment in place. However, there are a few things that still needed to be added. They are not so many, but the problem is mostly in the way of enforcement or non-enforcement. The rules are there, but nobody really looks after them in terms of saying "no good." This may lead to people thinking that if so-and-so is not being properly sent to court, then I can do the same.

# Tourist or traveller?

The number of inbound tourists coming to Mongolia is increasing year by year. The government has even set a rather ambitious goal of receiving one million tourists by 2020. Though it may not cross the minds of many people, global tourism standards separate “tourists” and “travellers” by criteria such as their purpose of visiting a foreign country, impact on the economy, attitude and age. Such classification allows for easier identifying of clients and implementing effective tourism policies. However, every foreign person that comes to Mongolia is simply labelled a “tourist.” So, what is the difference between a tourist and a traveller?



## Tourists



Tend to be older

Regard relaxation of mind and body over adventures

More often seek the services of tour operators and hire guides and drivers

Tend to go to popular places

Tend to stay at hotels

Often travel in groups

Buy the better services and products of the country visited

## Travellers



Tend to be younger

Seek adventure

Tend not to seek out guides, translators or drivers and try to do everything by themselves

Interested in going to places not many people go to

Tend not to stay at hotels (as much). A hiking backpack is often the only hotel they need

Mostly go alone or as couples

Tend to be minimalists

*Tourism sectors tend to attract more tourists than travellers, because tourists make a greater contribution to the economy than travellers.*