

DIG DEEPER

# MONGOLIAN ECONOMY

May 2015, Issue N° 12 (091)

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## ECONOMY

Agreements unfruitful for years

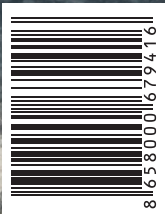
## REPORT

Resurgent crisis: Struggling to afford a meal

## BUSINESS

I. Ser-Od: Times like these demand that we be more creative and proactive

# THE DIVIDE OVER TAVAN TOLGOI





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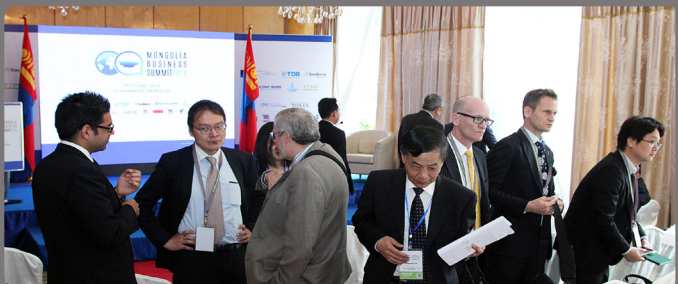
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NEWSSTAND PRICE

18.000₮

FOUNDER, EDITOR-IN-CHIEF:

D. BEKHBAYAR / 9999-4248

FOUNDER, DEPUTY EDITOR:

I. OTGONJARGAL / 8800-6228

MAGAZINE EDITOR:

B. UURIINTUYA

ENGLISH EDITOR:

O. TUVSHIN

WEB EDITOR:

B. ENKHTSETSEG

JOURNALISTS:

Ts. ELBEGSAIKHAN

B. ENKHTSETSEG

G. ORKHON

A. BURENJARGAL

DESIGNER:

S. ERDENETSOGT

MARKETING MANAGER:

D. BARIANJAV / 9409-2904

CH. UURIINTUYA / 9409-2905

ADDRESS:

EXPRESS TOWER #1101

PEACE AVENUE, CHINGELTEI DISTRICT ULAAN  
MONGOLIA

CENTRAL POST OFFICE, P.O.B 2762, 1516

ULAANBAATAR, MONGOLIA

URL: [WWW.MONGOLIANECONOMY.MN](http://WWW.MONGOLIANECONOMY.MN)

E-MAIL: [INFO@MONGOLIANECONOMY.MN](mailto:INFO@MONGOLIANECONOMY.MN)

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**CONTACT**

Email: [marketing@mongolianeconomy.mn](mailto:marketing@mongolianeconomy.mn)  
Tel: +976 7011 5476 / 9409 2905



PRINT RATES (USD)	Casual	3 Months (x 6 issues)	6 Months (x 12 issues)	12 Months (x 24 issues)
Double page Spread (A3)	842	631	On enquiry	On enquiry
Full page (A4)	421	368	305	289
half page (A5)	263	236	210	200
Quarter page (A6)	210	200	184	158
<b>Special Position</b>				
Inside front cover Full page (A4)	631	526	On enquiry	On enquiry

ONLINE RATES (USD)	Per day	> 7 days	> 14 days	Month
240 x 105 pixels	52	315	526	789
720 x 90 pixels	79	473	347	1052
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## POLAND



The M Promotion Agency is conducting a promotional event under the name "Export Stimulation on Selected Markets" orchestrated by the Polish Ministry of Economy. The Polish food and mining industries have expressed their willingness to cooperate with Mongolia's entrepreneurs. The two countries' entrepreneurs are meeting in in the Polish capital Warsaw. Representatives from six Mongolian enterprises headed by Erdenes Mongol JSC, Shivee Ovoo JSC and Max Group flew to Poland on 13th of this month.

The study tour will carry on for six days. Mongolian entrepreneurs will take part in two B2B meetings with 24 Polish enterprises interested in cooperating with Mongolian companies and will also visit the headquarters of three companies representing mining machinery manufacturers of Poland. Additionally, they will have an opportunity to familiarise themselves with the functioning of the Special Economic Zone while visiting their headquarters.

Poland has one of the leading economies in the world and invited 11 countries with which it seeks to develop and expand trade and cooperation, one of which is Mongolia.

## COPPER



The price of copper per tonne at the London Metal Exchange was at USD 6,050 on the 7th of last month, but the closing price on the 7th of this month

was USD 6,437, an increase of USD 387. As of May 15, the cash sale price of one tonne of copper is at USD 6395.5 at the LME.

The forecast for China's copper demand increasing and a decrease in production of major manufacturers in part explains this increase in price. According to analysts, China accounts for 40 percent of the total copper supply, and the country's policy to stimulate its economy is affecting the price increase.

As for Mongolia, it is projected to export one tonne of copper at USD 6024.97 this month.

## VIETNAM



Delegates from the Department of Veterinary of Vietnam's Ministry of Food and Agriculture will come to Mongolia to inspect and conduct a formal examination of 20 slaughterhouses and meat processing factories between the 20th and 30th of this month. In doing so, they will issue a report on the likelihood of successful export of mutton and chevon (goat meat) in the context of agreements signed by the two countries.

The Vietnamese side has submitted their criteria regarding what the inspections will emphatically check for. That is, they will examine the monitoring of the origins of livestock at slaughterhouses and the internal and external supervision of factories. As for processing factories, the inspectors will pay careful attention to technology. They will come to a decision regarding from which factories and what types of meat they would be willing to import after the inspection.

Mongolia has 54 million heads of livestock. Of those, 10.3 million were slaughtered for meat production last year and 11.8 million this year. It is evident that Mongolia has the capacity to export meat while simultaneously meeting domestic demand. According to one study, Mongolia has the capacity

to process 6.4 thousand tonnes of camel meat, 60 thousand tonnes of beef, 38 thousand tonnes of horse meat, 38 thousand tonnes of mutton and 132 thousand tonnes of chevon per year in regards to food and foodstuffs.

## STOCK MARKET



Asia Pacific Properties JSC, Mongol Makh Expo JSC and Bishreft Industrial JSC have changed their company's status to Limited Liability Company and put forth a request to the Financial Regulatory Commission to buy back all their outstanding shares. The Financial Regulatory Commission stated that these companies' trades would be halted as per their request starting May 14, 2015.

## FOREIGN TRADE



As of April 2015, the foreign trade deficit decreased by USD 511.8 million from the same period last year and sits at a surplus of USD 418 million. This is largely due to the 1.4 percent increase in exports and 32.2 percent decrease in imports.

At the end of the reporting period, foreign trade turnover reached USD 2,486.5 million, which is a 16 percent or USD 472.1 million decrease from the same period last year. Again, this is explained by the USD 19.8 million increase in exports and USD 491.9 million decrease in imports. ■

## WORLD NEWS

## OIL PASSES USD 60 PER BARREL



The price per barrel of crude oil has reached USD 60 for the first time in 2015. Since hitting a record USD 147 per barrel in 2008, prices have dropped quite a bit. Growth in China and Europe has slowed, causing a drop in demand. China is still growing fast compared to most economies, but its rate of growth is not in the double-digits as it once used to be. Last year, the US overtook Saudi Arabia as the largest oil producer after hydraulic fracturing, or fracking, of domestic shale rock deposits proved fruitful for the energy industry. The increase United States' domestic production of crude oil and natural gas means its demand for foreign oil has also decreased by a certain amount. What is OPEC doing about all this? Not much at the moment. At its semiannual meeting in Vienna in November 2014, the majority of the 12 members supported cutting production to raise prices; however, this move was quashed by Saudi Arabia's petroleum minister, Ali Al-Naimi.

## UK ELECTION 2015



The United Kingdom general election of 2015 was held on May 7. David Cameron has held his office as the Prime Minister in what was predicted to be the closest election in decades in pre-election opinion polls. A hung parliament, where one party does not hold a majority, was predicted by the polls. However, those polls turned out wildly inaccurate. Labour and the Liberal Democrats

suffered crushing defeats in what has become the first majority Conservative government since 1992. Yet, the biggest surprise concerned the Scottish National Party, who won all but only three of their contested constituencies – 56 out of 59 seats. The Liberal Democrats, who had 56 seats in Parliament prior to the election, now have only eight. The Labour Party and the Liberal Democrats, who used to enjoy relevance in Scotland, now have virtually no presence. In one fell swoop, Ed Milliband, leader of the Labour Party, Nick Clegg, leader of the Liberal Democrats, and Nigel Farage, leader of the UK Independence Party, have all stepped down from their posts following their respective party's devastation.

## CHINA CUTS INTEREST RATES



For the third time in half a year, the People's Bank of China has cut interest rates to spur growth in the slowing economy. It is expected that further easing will take place in the coming months in an economy that is likely to experience its worst year in a quarter century, with a growth rate of 7 percent, which is low by recent Chinese standards. The one-year lending rate was dropped to 5.1 percent, down from 5.35 percent. The PBOC has also relaxed the reserve requirement ratio and is expected to further lower this ratio in the near future. Banks are struggling as lending has decreased and bad loans are increasing. However, economists are optimistic that the overall effects of the steps taken by the PBOC and the government will see a positive outcome and that the economy will gradually stabilise sooner rather than later.

## US: INFLATION DROPS, JOBS ADDED

US employers added 223,000 jobs in April, and the inflation rate dropped to 5.4 percent. Higher-wage sectors such as construction and business services

saw a relatively higher number of jobs added than lower-wage sectors such as retail and leisure. One significant loser was the energy sector, where 10,000 jobs were slashed in April, partly due to low oil prices for the past year. Another figure to consider is the percentage of discouraged workers, people who have given up on finding a job. Discouraged workers are not considered in unemployment figures. Thus, the labour-participation rate has been stagnant at the lowest point in decades. Economists are now looking to the Federal Reserve to see when or if they raise interest rates, which have been near zero since 2008.

## MAJOR BANKS GUILTY

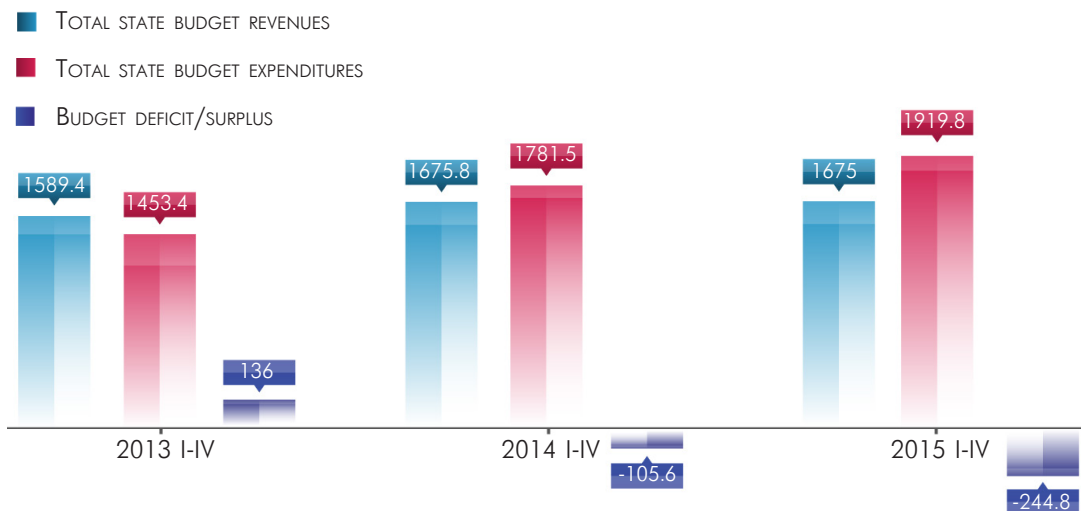


Five major banking institutions are expected to plead guilty after investigations by the U.S. Department of Justice into collusion and rigging in the foreign exchange market. JPMorgan Chase & Co, Citigroup, Royal Bank of Scotland, Barclays and Swiss bank UBS were all investigated and are currently negotiating with prosecutors at the U.S. DoJ. Although not completely unprecedented, it would be the first time in decades that a parent company pleads guilty to criminal charges. U.S. authorities have rarely pursued criminal convictions out of fear of the consequences to innocent employees, such as the massive layoffs which occurred after the conviction of Enron in 2002. The charges come at a time in recent history when several banks have narrowly dodged criminal convictions due to the government not wanting unforeseeable consequences, such as when HSBC was investigated for working with Mexican cartels or when JPMorgan was investigated for failure to report suspicions about Bernie Madoff. The forex market experiences USD 5.3 trillion per day in trades. ■

# The economy today

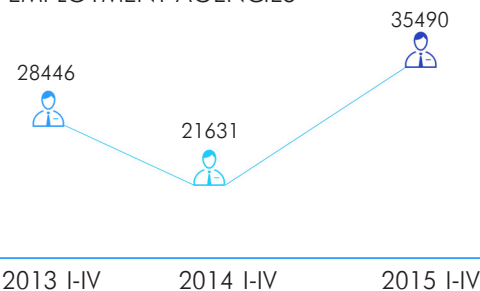


"PAST DUE BALANCE ON LOANS EQUAL MNT **587.8** BILLION AS OF APRIL 2015, AN INCREASE OF MNT **288.8** BILLION COMPARED TO THE SAME PERIOD LAST YEAR."



THE TOTAL AMOUNT OF DEBT TO BE PAID AS OF APRIL 2015 AMOUNTED TO MNT 1.9 TRILLION, CAUSING THE BUDGET TO RUN A DEFICIT OF MNT 244.8 BILLION, AN INCREASE OF MNT 139.2 BILLION COMPARED TO THE SAME PERIOD LAST YEAR.

## NUMBER OF NEW ENROLLMENTS AT EMPLOYMENT AGENCIES



EXCHANGE RATES		2014 IV	2015 IV
\$	US DOLLAR	1 784.11₮	1 975.83₮
	YoY CHANGE	25.9%	10.7 %
€	EURO	2 464.69₮	2 132.42₮
	YoY CHANGE	33.7%	- 13.5%
¥	YUAN	286.64₮	318.62₮
	YoY CHANGE	25.1%	11.2%

## DEBT

## Mongolia has to scale back debt levels

By B.Uuriintuya



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

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

### What is your impression of Mongolia?

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

### Good or bad developments?

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

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

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

Well, certainly Greece is in a completely different dilemma than all the others. Not only does it have the highest debt as a percentage of GDP, but it is also in a situation where it has acute problems in trying to roll over essentially. The government itself said it was on a road to a very difficult, if not impossible, negotiation. Greece is really in a risky situation. I think everybody

accepts that there is not much time left for Greece to agree with the partners, especially with the EU partners, on a deal that would allow it to avoid defaulting. Ultimately, it would avoid the orderly exit from the euro zone. The past few weeks have been not very encouraging. Let's set Greece aside for a moment and talk about the rest. For the rest of the euro zone, the situation is quite different. There are some countries that still have quite a high level of public debt: Italy, for example. Of course, with low growth, low inflation or even deflation, repaying debt becomes more difficult.

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

### How about Argentina?

Argentina is a bit more in the category

of slightly crazy states. In that sense, the comparison between Greece and Argentina is closer. Argentina has a history of defaults. Argentina, again, is in a very different category, because it is a so-called a serial defaulter. Also, it has experimented with many different types of currency regimes, and it has been negotiating with the creditors for almost 10 years now. Essentially, some of the creditors do not accept the restructuring of the debt. They are the so-called hold outs. This is an on-going legal battle that Argentina is fighting with the creditors. It is also in a very bad state in part because the country did not pay attention to debt overhang early enough.

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

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

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

If you need to reduce debt, there are only a few ways to do so. The best way is, if you have real growth and inflation that is not so high, you basically grow out of debt. The second way is to



you restructure, which many countries probably do not consider doing, because creditors do not like it. The third way is what everybody in the euro zone is doing so far: running a primary surplus. It is basically a tightening of the fiscal policy and running a primary surplus to reduce debt. A recent IMF projection I saw suggests that with strong policies it is absolutely feasible over time to reduce debt bit by bit.

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

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

Repaying debt with another debt is not a wise thing to do. And this is what happened to Greece. When you

are entering zones where debt starts becoming a problem, then you have to reduce it. You cannot keep borrowing and accumulate more to repay the previous ones.

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

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

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

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

What I see is that there was this

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

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

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

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

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

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

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

If a country needs to make an

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

### **Should Mongolia take the program?**

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

### **So you are saying yes?**

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

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

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

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

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

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

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

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

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

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

That is probably not going to happen imminently. But the problem always exists if you don't make correction early enough. Once you get into negative dynamics it is very hard to set it right. And usually, governments have the tendency to wait too long. And when markets are already in panic mode and losing confidence, then correction is very painful. You want to avoid that kind of situation. This is why it makes sense to have a degree of risk. And that degree of risk is not low in Mongolia. It is moderate and increasing. So it is something that needs to be tackled.

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

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

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

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

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

"Who can we borrow from?" is not the main question. The question is "how can we adjust, and is someone going to help us to make this adjustment to

make it credible?" I was asked whether Mongolia's debt ceiling is enough. That very much depends on whether the law is actually followed or not. It is whether you can really, credibly commit to the adjustment path. This is something that Europeans also face.

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

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

Greece has benefited from being a part of the euro zone. But that is also why Greece has such high debt. If Greece was not a part of the euro zone, it would have had these crises at much lower levels of debt. And it would also have

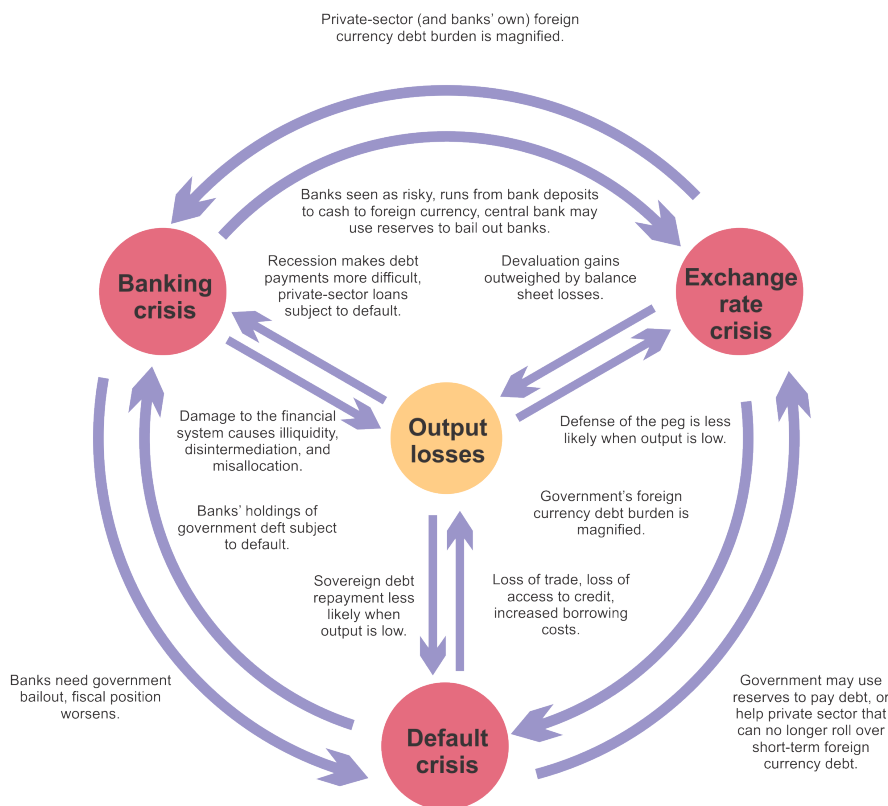
a currency crisis on top. Mongolia has many of the typical fragilities surrounding a crisis. The currency fragility, possible financial sector fragility, certainly from the real estate boom, and then on top of that Mongolia has also very specific aspects, such as being a resource economy. This can lead to excess exuberance.

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

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

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

## Lessons: debt crises do not come alone Feenstra/Taylor 2011



## REPORT

# Resurgent crisis: Struggling to afford a meal

By A.Burenjargal

It has been awhile since the words economy and crisis have been so closely together. Despite optimists saying this is just a downturn and not a crisis, the opposite is true. The purchasing power of the average and below average is coming to a halt, and cash turnover is declining – so say some produce sellers. Trade and transactions are inextricably intertwined. A vendor at Bumbugur Market said that prices of everyday goods are increasing with each passing day and have gone up by 30-40 percent compared to two years ago. Yet, buyers' salaries and wages have not increased. Quite the contrary, people are becoming unemployed or having their wages cut. I paid a visit to the food section of Bumbugur market. There, a vendor who sells everyday goods said, "Purchases have plummeted by half in just a year. Sales are declining because of the depreciation of our currency, especially for stores like ours that sell imported products. People are glad just to be able to buy meat, flour and bread, so how can they think about buying anything else." She added, "The number of customers fell drastically. Stores selling other, less vital products such as clothing are of course struggling even more so, considering how bad food products are selling. Food and produce vendors like us at least see some sales because food is a daily necessity. Vendors who sell clothing and other goods on the second floor haven't seen any income in days."

## Hard work, no gain

This past April, mutton was at MNT 6,630 per kilogram and beef was at MNT 7,946 per kilogram. As of May 7, prices have increased such that mutton is now at MNT 7,200 and beef is at MNT 8,800. Meat prices alone have increased by MNT 600-950 in the span

of just month. One customer named N.Erdenechimeg talked about how the price increases affect people: "There's no point in working. Salary is never paid on time, and the flow of cash has stopped all around. Right now, I'm heading to the pawnshop to pawn my necklace, so that at least I can buy food until I get my paycheck. People are struggling just to afford a meal. In difficult times in the past, we could at least afford food." She added, "Even if I manage to get some cash from the pawnshop today, tomorrow I will start worrying about how to get my necklace back from the pawnshop. It's tough out here." In these trying times, pawn shops see a lot more activity. Pawnshops operate in almost every corner of the city as they lend money to people pawning small items such as gold, jewellery, their traditional silver bowls, antiques and laptops. Lately, shoes and mobile phones have been added to their list of items able to be used as collateral. According to the National Statistical Office, about 560 operational pawnshops are registered in the city as of last year. People are pawning their items that might be valuable to pawnshops at 9-14 percent monthly interest in order to afford their food. Pawnshops' services are based on simple short-term lending, unlike complicated bank loans. In the past, pawnshops operated in small one-window rooms. Nowadays, they have expanded, and people stand in rows and long queues awaiting service. The "Nachin Zaan" credit service centre has more employees than some smaller banks now. People seeking loans from pawnshops are exceeding people who are trying to get bank loans. The owner of the "Erkhes" pawnshop said that their operations used to take off during holidays or at the beginning of school terms in the past, but the number



of customers have increased significantly these days. He said, "People seek out pawnshops out of inevitable necessity in order to not sleep on an empty stomach. Otherwise, there would be no need to pawn their belongings at all. To me this is a telling sign of how the economy is." The majority of the middle class have taken out some kind of bank loan, so they are seeking non-banking financial institutions or pawnshops as a result of the unavailability of further loans. Banks have tightened their lending policies, and people have no option other than to turn to high-interest loan services. An expert on non-banking financial institutions said that it is mostly people who have had issues with their paperwork when dealing with commercial banks or people who have had an experience with unfavourable loans seek these kinds of non-banking institutions. As for non-banking financial institutions, they provide loans up to 40 percent of the price of the immovable asset used as collateral. Interest rates are around 3-5 percent depending on loan conditions. These kinds of institutions start their operations after analysing people's financial demands, and the reason why they are unavailable to get standard bank loans. By looking at this example, we can see that one man's loss is another man's gain. Some people pawn their belongings to have food for the night, but behind them are many people who are living on six slices of bread per day with nothing to pawn. Interviews with such destitute people were printed in our previous issue. The time to develop a policy that can find the source of these issues and save our people from poverty is long overdue. After all, though we cannot place all the blame on them, a big part of the reason for this crisis is the misguided policies drawn up by our reckless policymakers. ■

## Agreements unfruitful for years



By Ts.Elbegsaikhan

Prime Minister Ch.Saikhanbileg said in his speech in front of parliament that taxes will neither be raised nor lowered, but steps would be taken to make the legal environment easier to understand. However, some MPs are regarding his words as contradictory to the "Capital city tax law" recently submitted to parliament during a plenary session.

The Prime Minister's rhetoric about taxation reforms were not all too different from Minister of Finance J.Erdenebat's statements previously made to the public. However, the one sentence that garnered attention from his speech was, "Mongolia will levy taxes on foreign companies that earn revenue from Mongolian sources." As reflected in the Corporate Income Tax Law, foreign companies earning revenue on or from the territory of Mongolia or sources related to Mongolia must pay taxes accordingly. I guess this means that this provision had not been enforced in the past. He followed this by saying that this is the answer to the questions surrounding the double taxation issues.

Mongolia had signed double taxation treaties with 35 countries up to this point. Four were terminated in 2012, because IMF experts studied the Mongolia's treaties and concluded that the double taxation agreements with the Netherlands, Luxembourg, Kuwait and the United Arab Emirates were unfavourable treaties and advised termination. Had these treaties not been terminated, Canada's Ivanhoe Mines would have used its subsidiary in the Netherlands

to earn dividends from Mongolia's Oyu Tolgoi without paying any withholding taxes, because one of their shareholders is Oyu Tolgoi Netherlands B.V. Boroo Gold LLC, one of Mongolia's biggest tax payers, has enjoyed MNT 99 billion in tax exemptions in 2011 and 2012 due to a double taxation treaty. Boroo Gold LLC received 100 percent of its investments from the Canada-based gold mining company Centerra Gold.

According to Mongolia's head of government, double taxation treaties need to be amended. Most of the treaties were made in 1990, when Mongolians were attempting to develop the economy by improving foreign relations and attracting foreign investment. Thus, Mongolia had signed tax treaties without giving them much thought during the high-level state visits so soon after the democratic revolution. Officials explain that this was due to a lack of experience negotiating contracts and little knowledge of the consequences.

The biggest unintended consequence of the double taxation treaties is that it has opened a legal route for the nation's large companies to evade taxes. Mongolia has given tax rebates of MNT 84.7 billion in 2010 and MNT 52.1 billion in 2011 under the double taxation treaties. Household names such as Mobicom, Unitel, Skytel, Golomt, Savings Bank, Khan Bank, Trade and Development Bank, Mongol TV, Sansar Cable, Shunkhlai Group, Petrovis, MCS, Ard Insurance, Gobi, Erdenet Mining

Corporation, MIAT and Telecom Mongolia are all included in this list.

Yes, there are ways to rectify the shortcomings of the treaties today. Each country has the right to terminate the treaty unilaterally without permission from the other five years after the treaty enters force according to "Termination" clauses. However, there is no need to jump straight to termination when it is possible to renegotiate terms. Nevertheless, a state does not easily change conditions that are advantageous to itself. The annulment of the treaties with the aforementioned four countries was decided in the unilateral fashion. Most recently, Mongolia has made this type of treaty with Singapore, the DPRK, Austria and the Netherlands. In other words, our country has the right to terminate any double taxation treaties in force unilaterally. This is the international norm.

The main objective of these treaties is not only to eliminate double taxation and prevent discrimination, but also to prevent tax evasion. However, taxation, a complex subject in itself, has started to serve against its intended purpose after the broadening of international relations. Foreign countries prioritise issues regarding double taxation with a highly qualified team of experts working on these matters, but only a few people are responsible for the same here in Mongolia. Therefore, there is a desperate need to train staff, enabling and empowering them to effectively negotiate and update future treaties. ■

ASEM

# Will the ASEM preparations finish on time?

By G.Tushee

The Asia-Europe Meeting (ASEM), where Asian and European countries assemble biannually to discuss political, economic and cultural issues, will be held in Ulaanbaatar next year, chaired by Mongolia.

Hosting the meeting successfully will increase Mongolia's international reputation, and this will present an opportunity for growth in investment and tourism. The organising country bears a significant responsibility as next year marks the 20th anniversary of the ASEM summit. As such, the President of Mongolia, Ts. Elbegdorj, issued by decree a National Council to deal with organising and executing the 11th ASEM summit in Ulaanbaatar.

The National Council assembles every week, and six working groups have been established. The head of one of these working groups, the Minister of Foreign Affairs, L. Purevsuren said, "Our working group will issue the agenda and materials for the meeting. Mongolia's own aspirations and positions should be reflected here. We're working diligently on this to foster the next 20 years of direction for this huge organisation linking Asia and Europe." Each sub-working group has its individual responsibilities such as facilities, infrastructure, housing for delegates and media and promotion. The head of the working group in charge of ASEM's promotion, A. Ganbaatar, is optimistic that preparations will be completed in time. Over 5,000 guests including leaders, government officials, international agencies and media personnel from 51 countries are expected to attend the event. Hotel and accommodation issues were finalised during meetings held last month, and the official logo and the website of the 11th ASEM summit were chosen and launched this month. According to the working group, the

meeting preparations are also making good time.

So far, a total of 43 hotels consisting of three five-star, four four-star, 11 three-star, three two-star hotels and one one-star hotel have officially been chosen to accommodate the participants of the meeting. Thirty four of the hotels require investment for renovations, with a little under MNT 200 billion required for the upgrades. It has been decided that the businesses will be provided with softloans with three- to five-year terms at an interest rate of nine percent. A maximum of MNT 30 billion will be provided for one hotel.

In addition, the government will support organising training for hotel staffs. Many professional international chefs and managers are going to come to conduct the training on the government's dime. Also this year, big hotels such as the Holiday Inn, Sheraton and Shangri-La will open.

## The ASEM website

The official website of the 11th ASEM summit, [www.asem11.mn](http://www.asem11.mn), has been launched. Detailed information about transportation and services for delegates are going to be under the "Mongolia" menu. Information about the summit can be retrieved from the website, where summit participants will also register. The Director General of Mongolian National Broadcaster, Ts. Oyundari, stressed that the website will become the guide for Mongolians as well as international participants and journalists. The website will be developed over three months.

A total of 22 participants sent 35 logo designs for the 11th ASEM summit, and the design drawn by S. Altankhuyag from the Union of Mongolian Artists has been selected. His logo will be used as the ASEM 2016's official logo and also will be officially placed in over 10 sub-meetings.



Asia - Europe Meeting 11

This stylistic logo has an opening at the top of the upper frame of the traditional Mongolian yurt called the "ger" representing the globe, which in turn symbolises the global significance of the 11th ASEM summit. The slightly diagonally-sloped E letter reflects the three belts of the Mongolian ger as well as the past, the present and the future. The blue colour embodies the eternal blue sky, strength and peace, whereas the red signifies dignity and prosperity. Red and blue are also the national colours of Mongolia. The logo will be used on documents and letters of governmental and non-governmental organisations and embassies, and it will especially be placed on emails and documents sent to foreign countries.

The event preparation in our country, which became an ASEM member during the 7th ASEM summit in Beijing, is in the works and so far is making good progress. In addition to the organisational efforts, there are some issues regarding air travel. The issues will be solved if the new international airport at Khushig valley can be completed before the summit, but so much time has already been wasted just to select the project proponent of the Khushig valley international airport located 40 km from the capital, despite officials saying that it is possible that the project be completed next year. Everyone is expecting the Khushig valley airport to be in operation before the ASEM summit.

The President said, "Receiving the bid to organise this summit shows that Mongolia's reputation has become more esteemed." ASEM involves not only the political sector, but it also provides an opportunity for civil society organisations and businesses to expand its scope and cooperate with similar organisations from member countries. Therefore, the government and business sector alike should prioritise the 11th ASEM summit. ■



TAVAN TOLGOI

## The Divide over Tavan Tolgoi

By B.Enkhtsetseg

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

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

Energy Resources LLC, who is a four percent owner of the Tavan Tolgoi deposit, established a consortium with the Chinese Shenhua and Japanese

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

According to Z.Enkbold, "The current agreements that were on the verge of being signed did not sufficiently align with Mongolia's national interests. For example, the Mongolian government's duties have a certain timeline, whereas the other side's duties have no dates, only

goals and aims. If the goals and aims fall short of expectation, there is nothing about who or what will answer for it."

Even a working group has been established to get to the bottom of points discussed by Parliament on what measures need to be taken for the development of the Tavan Tolgoi coal deposit investment agreement. The head of the working group, MP L.Erdenechimeg said, "I have essentially become the person with the most information on this among the 76 members of parliament, but even so, I have only just received the first bits and pieces of information on Tavan Tolgoi. There is much the other members of parliament don't know about Tavan Tolgoi. Therefore, it is necessary that everything be thoroughly examined. The agreement can't be allowed to continue in its current form."

The most alarming part of the agreement according to the speaker of



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

There is also this one clause in the agreement drawing many critics. It says that if the government were to cancel the contract, the consortium will legally be given the amount of investment back plus 20 percent of the expected annual profits for the remainder of the contract term. "What would happen if one minister comes out and tries to cancel the contract after an investor has already put USD four billion into the project?" asked J. Odjargal, President of MCS Group, which is Energy Resources' parent company.

After analysing the 2014 financial reports of the Mongolian Mining Corporation, which has been selected as the Tavan Tolgoi project investor, the company has USD 1.023 billion worth of debt. For example, this company has debts to the Netherlands' FMO and Germany's DEG banks, and they have also issued USD 600 million worth of bonds according to the working group. In response to this, J. Odjargal stated that first of all, the Mongolian Mining Corporation was registered outside of Mongolia to raise funds. The bonds worth USD 600 million concern only MMC, and not Energy Resources. This bill has

nothing to do with Energy Resources. He also said, "We can get out of the game right now. We might see some loss, but this country will see an even bigger loss."

The investment agreement also concerns four types of taxes: royalties, income taxes, custom fees, and air pollution fees. If the price of coal remains at USD 80, funds pouring into the state budget would equal to USD 202 million as a result of the above-mentioned taxes. According to the Energy Resources consortium and J. Odjargal, the state will get all the taxes from the price of coal at the border without any risk. However, the contract gives all administrative rights to the management. Some see this as an intention to centralise all the power in one hand by reducing the involvement of the state to nothing. PM S. Ganbaatar said, "Investors will do the digging themselves, handle the transport themselves and deliver the goods to their own factories."

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

### Who is capable?

The work to get the Tavan Tolgoi mine moving started in 2010. According to the Australian JORC standard, the deposit has 7.4 billion tonnes of coking coal reserves. The economist D. Jargalsaikhan said in an article that the deposit's extractable reserves are around 5 billion tonnes, which is projected to yield USD 250 billion over the next 50 years, provided that one tonne is sold for USD 50 at the Chinese border. MP L. Erdenechimeg said that if the current agreement is to be approved, Mongolia will receive what is equal to 20 percent of the yield altogether, including externalities and benefits. Recently, the Minister of Mongolia M. Enkhsaikhan displayed the

yield of Tavan Tolgoi by saying that the investors and government will divide the income 78:22.

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

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

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

# I.Ser-Od: Times like these demand that we be more creative and proactive

Ts.Elbegsaikhan

**-What were the motivations behind the creation of the “Mongolian Business Database”? Do similar databases exist in other countries?**

-First off, I would like to say I am glad the Business Council of Mongolia is establishing a regular column in your magazine, and I am delighted to be giving the inaugural interview.

It is not news that the business and investment environments are in difficult situation in Mongolia, but we should not be sitting still, painting everything in black and losing hope. Times like these demand that we be more creative and proactive and see the glass half full. The fact that internationally recognised companies like SUEZ from France, SMBC and Mitsui from Japan, the multinational Schneider Electric based in France, Ramada and Shangri La are all opening offices in Mongolia is a sign that they see positive trends and opportunities in starting operations here. What this means is that now is the optimal time to prepare any business plans you may have, taking advantage of this “gap” phase in which overall business relations are rather sluggish.

Indeed there are analogous databases such as the Canadian Business Database or American Business Database, but those tend to be just a registry of company information. When creating the Mongolian version, we aimed to have it more tailored to conditions in Mongolia, establishing a platform where domestic and international companies currently operating or intending to operate in Mongolia, or make purchases from Mongolia, can interact and communicate with one another. In general it can be said that the business database is expanding to be a comprehensive registry of companies and entrepreneurs focusing on Mongolia. It is becoming

a readily accessible database where anyone, from anywhere, at any time, can register and be fed business related information regularly. Currently, there are approximately 1500 companies already registered in the database.

**-Are there any examples of cooperation or initiatives established between local and international companies through the platform?**

-There is no need for us to monitor communication between companies. Any in case, business relations should be kept confidential. However, the percentage of the first online correspondence of one company with another is visible to us. We can see that information about this website is reaching communities far and wide. We recently received a request from a Polish company saying, “We found out about a tender announcement from your website. We are one of the largest cable manufacturers in eastern and central Europe. The detailed information about the tender is in Mongolian; would you help us find the English version?” This is exactly the kind of communication we wish to facilitate using this platform.

**-From which country do you have the highest number of visitors?**

-Besides our two neighbours, most visitors have been coming from the USA, Singapore, UK and Japan. Hong Kong, Brazil, Turkey, Poland, and the Czech Republic come after. Most are interested in selling products and expanding their businesses into Mongolia, and in order to do so, they need to find partners and distributors here. Something interesting worthy of mention is that visitors from Brazil can always be seen at the top. One would wonder, why are there so many visitors from such a distant country? This is most likely because there was a forecast for 2015 that countries like Venezuela and Brazil would experience



stagnation, so entrepreneurs and investors in those countries are looking for business opportunities abroad.

**-What opportunities are made possible by the Mongolian Business Database, and furthermore, what is the long-term vision?**

-Despite attempts to steer away, the truth of the matter is that we have an economy based heavily on mining and natural resources. However, there is a dire need to utilise revenues and income generated by this sector to support and develop other sectors of the economy. Simply put, we are dedicating most of our efforts to the development of the other business sectors. Today we have this two-pronged problem where relations between wealth-creating businessmen are weakening, and at the same time, society in general has become somewhat passive, anticipating and waiting for the government to take action. The undeniable truth is that the only way out of this situation is to promote business initiatives and expedite the establishing of business relations. We just want to do our part in making that a reality.

This project is not just about an online platform. We also aim to grease the wheels for face-to-face entrepreneurial meetings so that businesses may expand. For instance, we started organising B2B networking events in cooperation with the MNCCI every month. When such gatherings take place on a regular basis, usually at their first meeting, people exchange their name cards; at the second meeting, they share their business ideas. Then, further down the road they will end up in more detailed discussions and make business agreements and deals. Such is the norm in Western countries where business relations are more progressed. ■



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Contact Us:

12th floor, Express Tower,  
Chingeltei District, Ulaanbaatar,  
Mongolia

Phone: (976-11) 32 13 75

Fax: (976-11) 32 78 25

Website: [www.qsdc.mn](http://www.qsdc.mn)

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## INSURANCE

## G.Enkhtaivan: The insurance sector can develop alongside big projects under the right conditions

By B.Enkhtsetseg

*Last year, Mongolian companies paid around MNT 107 billion in insurance fees, an increase compared to the previous year. Despite the economic downturn, insurance fees have increased by 42 percent per annum in the previous four years before 2014. Total assets of the sector have reached MNT 152 billion. G.Enkhtaivan noted that if we look at the bright side, we have a real growth opportunity even though the sector's development is subpar. G.Enkhtaivan graduated from Cardiff Metropolitan University with a degree in business*

*administration and works as reinsurance manager at Mandal Insurance LLC. He has worked in companies such as Tenger Insurance, Chono Corporation and UMC Alpha. As for foreign work experience, he has worked at the "Maygrove Estates" real estate company in London.*

**-The development of the insurance sector of the financial industry is relatively weak. Why is this the case?**

*-Mongolia is a country where large-scale accidents and natural disasters rarely occur. Compared to countries*

*where there are significant risks of hurricanes, tsunamis or a war breaking out, Mongolia is relatively safe; hence, there is not that much of an interest in insurance here. There's a positive correlation between risk levels and the number of insured. The development of the insurance sector, or lack thereof, can also be explained by people's living standards. People don't consider insurance as vital as food, clothing and shelter. Insurance is placed quite low in people's list of priorities. I think the regulation of the sector is fine but not*

quite befitting, since there are drawbacks in our current business methods and ethics, on top of the fact that we don't have leaders in the industry as there is a lack of unity. The professionalism of the people leading the sector is certainly not at the level it should be. Expertise is lacking. Insurance is one representation of the knowledge economy, and the public lacks understanding about insurance. We should strive to taper this gap in understanding, by developing companies' public relations departments and giving the image of the industry a make-over.

#### **- How is our country's insurance sector faring compared to other that of other nations?**

-When looking at developed countries, the insurance sector accounts for about 5-8 percent of the entire economy, whereas this figure stands at 0.6 percent in Mongolia. The underdevelopment of our insurance sector is obvious. If we look at our financial sector, the assets of banking sector account for 97 percent of total assets. There is no comparison.

Our company studied Mongolia's insurance penetration rate and compared it to Lloyds' international insurance penetration standards. According to the Lloyds study, the benchmark requirement for insurance penetration should be at least 1.6 percent of GDP. In other words, it means that the figure being at 1.6 percent is just acceptable, not satisfactory. If it's higher than that, great. As of 2014, our insurance sector's revenues amounted to MNT 107 billion, and GDP growth is at 7.8 percent, or MNT 21.8 trillion. Our insurance penetration rate being at 0.6 percent means it is 62.5 percent lower than international standards. Hence, our insurance sectors needs to generate MNT 350 billion in revenues from premiums, or 2.7 times higher than the current level, to catch up to standard international norms. There are many entities and people who are not covered by insurance. According to one study, only 12 percent of the total vehicles in Mongolia are insured. Of those, even fewer are insured voluntarily, which just goes to show how low insurance penetration truly is. Again, acceptable does not mean satisfactory. If our industry was like that of the Netherlands and

collected fees equivalent to 9.5 percent of GDP, this would amount to MNT 2.1 trillion.

#### **-What needs to be done to develop the insurance sector?**

-The insurance sector needs investment. Our companies' capitalisation is quite low, but an insurance sector requires a relatively high amount capitalisation compared to other sectors. If this were the case, we would see more benefits and operations would run smoother and faster. Having studied the sector's peculiarities, we know it is difficult to establish a high rate of organic growth with low capitalisation. This results in growth that adds to assets from its own net profit. There are non-organic methods which are more likely to be effective in today's globalised business environment with various possibilities to seek investors. All in all, capitalisation is the key to developing the insurance sector.

#### **-What type of insurance sees the least enrolment?**

-If we look at the insurance types, vehicle insurance and property insurance are predominant. Large companies' insurance on properties account for the majority of this figure. Small and medium-sized enterprises are less likely to seek coverage. People are opting out of health insurance coverage, even though it's rather important. Such is the state of the market, so development is lagging significantly. Mongolia's rates of illness are high, even among our youth. People open donation funds and ask for help instead of getting insured. As the number of ill increases, so does the number of insured. The health sector has been neglected for many years. Now it's only developing because of the need in society. Today, two percent of every worker's salary goes towards health insurance, but it's hard for people to see the benefits because it's too complicated.

#### **-Is it possible to develop the insurance sector in conjunction with major projects?**

-Naturally, there are several possibilities to develop the sector. However, is it possible to develop our insurance companies within the context of large scale projects? Perhaps. First of all,

projects need to be clear and defined. I see two types of projects: projects funded by foreign investments in mining and mine deposits, and the second type is projects such as infrastructure and housing construction. The proponents are mostly domestic companies cooperating with the state. If insurance laws and regulations were reformed and amended, opportunities to work with such projects would become possible. In addition, the proponents on the Mongolian side must take on insurance issues themselves and cooperate with domestic insurance companies. Major mining companies are usually foreign-invested, foreign companies and thus, work with their own insurance companies. Of course those companies would also be foreign. Risks associated with mining occur on the territory of Mongolia, but domestic insurers are incapable of competing with foreign insurers.

#### **- So what should be done to improve the competitiveness of domestic insurance companies?**

-It's possible to create advantages for domestic insurance companies in Mongolia through legislative means. If this doesn't happen, we cannot compete with internationally renowned companies no matter how much we devote to advertising or promotions. Companies operating internationally work with big brokers or common insurers to reduce insurance costs under the master agreement or to create sources of income by budgeting the cost of insuring work performance. The more the better if fees are concentrated in the country. As more foreign companies come to Mongolia and get insured, the insurance payments are in turn going overseas more so. There are countries that make this a policy matter by requiring foreign companies to be insured by domestic insurers before getting insured by foreign companies. In other words, insurers that are unregistered and unlicensed in Mongolia by the Regulatory Commission would not be able to operate as an insurer in Mongolia if our country had this regulation. Aside from these, the clients in Mongolia must take responsibility for the insurance issues of infrastructure and construction projects by themselves. ■