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MONGOLIAN ECONOMY

Credit Guarantee Funds –
The First Year Report

The Race to Amend
the 2014 Budget

Mongolia's Economy and Business Magazine

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BIG GOVERNMENT STEAMROLLS OVER BUSINESS



Cartoon by A. Amarsaikhan

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THE REPORT Mongolia 2014

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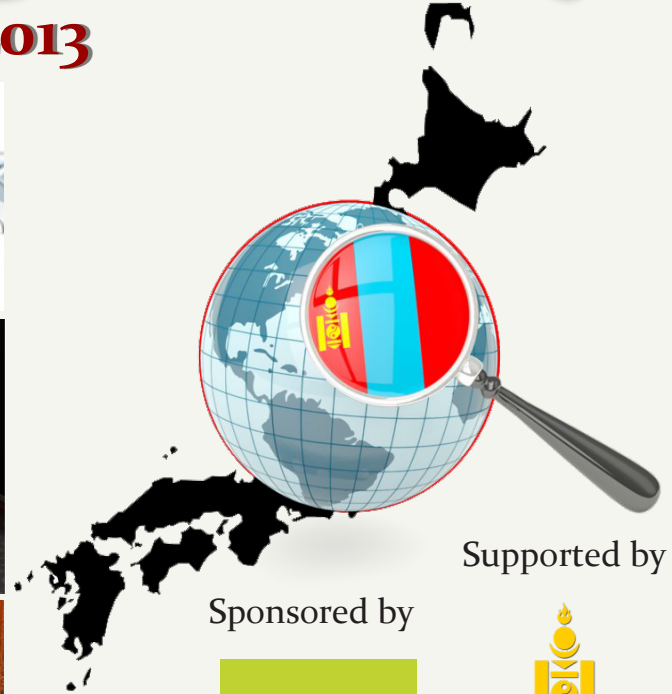
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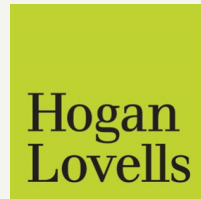
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WHY DO WE MEET IN TOKYO?

1. Strong political ties between Mongolia and Japan.
2. Abenomics effect and emergence of investments by Japanese to Frontier markets.
3. Lots of high growth investment opportunities which Japanese investors have never encountered.
4. However, risks remain. So, it is important to listen to industry experts.
5. Favorable bilateral relation makes it easier for Japanese investors to find their partners.

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Banking and finance:

Sumitomo Mitsui Banking Corporation (SMBC), the second largest bank of Japan, opened its first branch in Mongolia on November 27 this year. This is the fourth foreign bank to open in Mongolia. SMBC plans to invest in mega projects in mining and infrastructure. The bank is one of the world's top ten banks holding USD 1.5 billion assets in total. SMBC is a partner with the Bank of Mongolia and Khan Bank and has relationships with MCS, Oyu Tolgoi and Tavan Tolgoi, in addition to public organisations such as the Ministry of Energy.

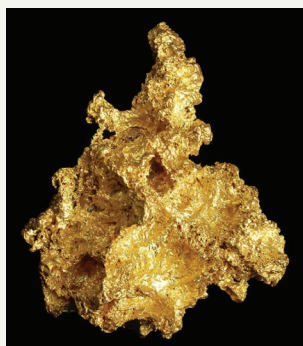
Khas Bank has been selected as the best bank of the year in Mongolia, according to *The Banker* magazine. The 2013 Banker Award Ceremony was held in London. The award is based on five criteria including financial statements from the past three years, initiatives, market dominance during the past 12 to 15 months and measures taken to contribute to small- and medium-sized enterprises.

Energy:

A hydropower plant with the capacity of 220 megawatts in Egiin River will be funded by USD 50 million and launched next year, post approval. A preliminary estimate reveals that the plant will save USD 10 million a year and recover its cost in 10 to 15 years. Funds are also expected from foreign and national investment.

Mining:

When gold royalties were 2.5 percent in 2005, Mongolia mined some 24 tonnes of gold—the largest volume so far. This volume has declined since the approval of the Law on Taxation on Increase in Prices of Some Products. Last year, the volume fell to six tonnes a year. The market price of gold is on the rise, but the volume of mined gold is going down. The instability of Mongolia's legal setting is to blame, according to the Mongolian Gold Miners Association.



Agriculture:

The Ministry of Agriculture and Industry will implement a marketing strategy for agriculture and livestock farming to encourage the agricultural manufacturing industry. The World Bank is using USD 11 million to fund the project and will be implemented in the 15 soums of Arkhangai, Bayankhongor, Gobi-Altai, Zavkhan and Khuvsgul aimags.

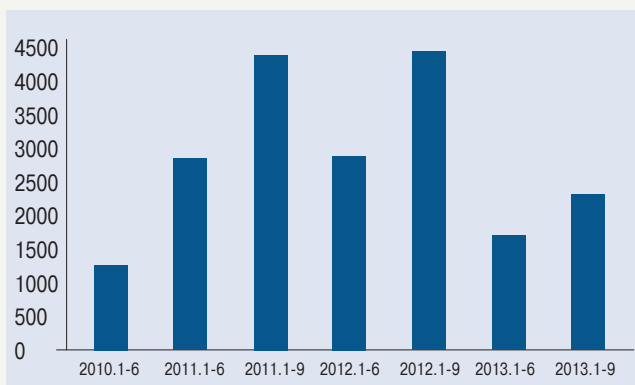
Capital market:

New laws regarding securities and investment funds are expected to take effect next year. A planned

custodian service will be regulated by this. This service aims to safely store the investors' assets, to provide information on security related transactions and to have shareholders' representatives involved in the company's operation. The Financial Regulatory Commission has developed a draft rule to regulate the detailed relations of the custodian service based on feedback provided by international organisations including International Organisation of Securities Commissions [IOSCO]. JPMorgan, HSBC, BNP Paribas, Bank of New York and Deutsche Bank were also involved.



Foreign Direct Investment in Mongolia (as of Jan to Sep 2013)



WORLD:



USA

US shoppers spent a record USD 2.29 billion on “cyber Monday” with significantly more purchases coming from mobile devices. According to the Adobe Digital Index survey, mobile sales rose 80 percent from last year, and overall sales were up 16 percent. Wal-Mart, the world’s largest retailer, said more than 1 billion people visited its website on Monday. The stronger-than-expected figures came after a disappointing Black Friday sales’ weekend.

Eurozone



Eurozone factory orders rose for a fifth consecutive month in November, with activity accelerating at its fastest pace for more than two years, according to a survey. France was the only country out of the 17 that uses the euro to report faster declines in both output and new orders. The Markit Manufacturing Purchasing Managers’ Index (PMI) stood at 51.6 in November, up from 51.3 in October.

China

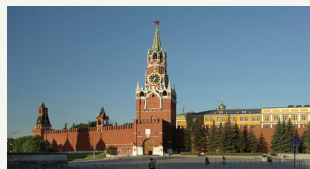
Chinese President Xi Jinping, on December 3, announced that China will stick to the policy tone of seeking steady progress and manage the overall economic and social development with reform next year. Reform should be integrated into all sectors and all links of China’s economic and social development in



2014, said Xi.

Russia

The Russian government



will provide state guarantees for the country’s struggling metals companies, Vedmosti Daily reported. Prime Minister Dmitry Medvedev will order ministries to draw up plans by December 23 to support firms suffering as a result of the global economic slowdown. Terms include prolonging preferential state guarantees until the end of 2015 and improving state guarantees to refinance accounts payable formed after huge investment projects. The companies will also be supported by subsidies from federal and regional budgets

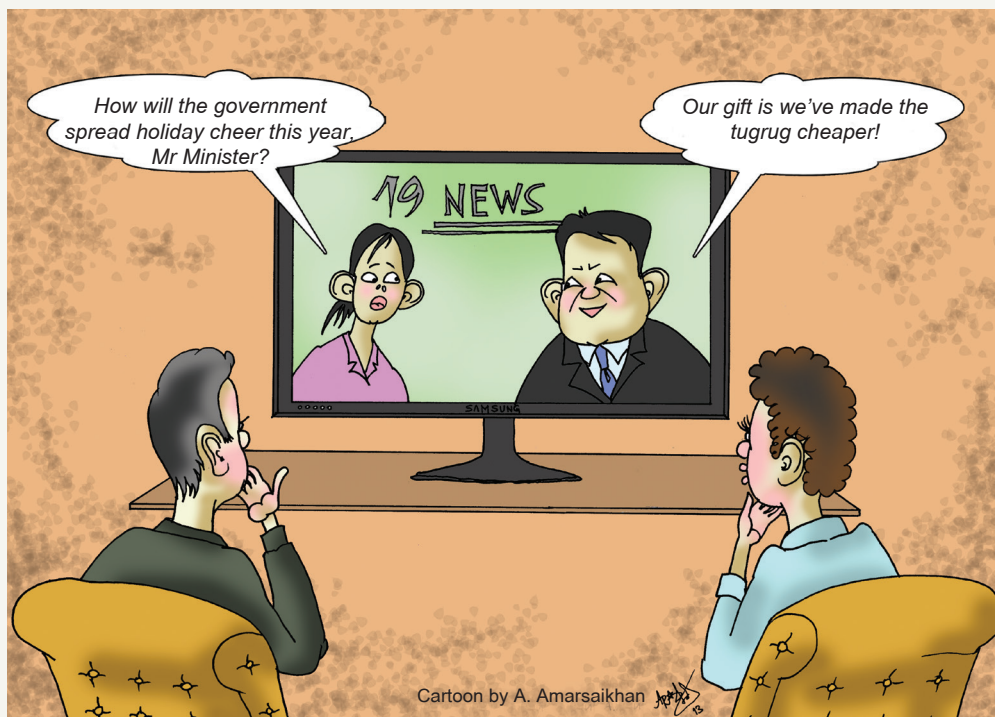
for conservation of plants.

Japan

The Japanese government’s planned economic stimulus package will be worth about USD 53 billion. The measures are also designed to cover an expected drop in demand after the sales tax is raised from the current 5 percent to 8 percent next April. The package sets aside about 10 billion dollars to promote the development of innovative medical drugs, and supports smaller firms’ overseas operations. ■



A. Amarsaikhan’s column



Cartoon by A. Amarsaikhan



BUSINESS ENVIRONMENT

THE WINDS OF REFORM

BY I. OTGONJARGAL

There are more than 40,000 entrepreneurs in Mongolia that contribute to 70 percent of the nation's GDP. They provide jobs for more than 800,000 citizens, according to the National Statistical Office. The men and women in business in Mongolia face a number of problems every day, including an unpredictable legal setting, bureaucracy and corruption.

The Mongolian National Chamber

of Commerce and Industry released the 2013 Business Confidence Index of Mongolia, questioning more than 2,500 businesspeople from international organisations and public and private sectors from both urban and rural areas. Some 47 percent of those who participated in this study suggested that the business environment here is fair while 20 percent said that the environment is poor and 6 percent said it is very poor. And 73 percent suggested that the business environ-

ment needs improvement.

The new Investment Law was approved in the second half of this year and a package of taxation laws are also under discussion. Meanwhile, a number of events occurred that were supposed to improve the business environment. At the "From Big Government to Smart Government" forum, President Tsakhiagiin Elbegdorj said that businesspeople were the ones most under pressure.

In the first half of 2013, foreign ▶▶

investors were disappointed with Mongolia's poor business environment, but their confidence is likely to pick up again during this second half of the year. A number of setbacks hit the business environment this year, including delays to the Tavan Tolgoi and Oyu Tolgoi mines, the 40 percent decline in foreign direct investment, the decline in export revenues, and the growing budget deficit.

Businesspeople used to complain about the lack of laws catering to domestic investors compared with all the protections granted to foreign investors. Indeed it is the domestic manufacturers who will always remain in Mongolia. The new investment law that took effect November 1 is meant to address the apparent differing treatment between domestic and foreign firms.

Parliamentarian Sambuugiin Demberel said the current government differs from its predecessor in its courage to make drastic changes to the business environment. Recent actions by the government will either prove or refute the claim.

According to the World Bank's 2013 "Doing Business" report, Mongolia ranks at 76th place, 10 places up from last year. However, Mongolia dropped 14 places from 2012 in competitiveness, falling to 107th place. This might mean that the government initiatives have not yet borne results, but it is likely they will eventually.

According to Cabinet Minister Chimediin Saikhanbileg, the government has been most active in the areas of construction licences, electric connections, foreign trade, assets registration and tax payment. Its efforts brought Mongolia to 25th place for start-ups, 27th for asset registration, and the 22nd in terms of investor protections. Other improvements include the ease of customs documentation, reducing the required 10 to 11 documents to a mere two to four.

Tax payment has improved less drastically, although some actions have been made. The problem is financial statements must be submitted monthly, at the great expense of time. The Ministry of Finance hopes to cut

tax filing to a quarterly or annual basis. But the main achievement made in the way of taxes was the introduction of an online payment system. Oddly, however, some taxpayers do not trust the online transactions. When the World Bank team arrived in Mongolia they noticed there were still plenty of paper documents, which gave them the impression that reform was not fully implemented.

As for construction, some 121 signatures in total were needed to attain a permit for building construction, necessitating 208 days. This has been drastically cut to just 35 days, which has sped up the process

quite a bit. Transparency International's Corruption Perception Index ranked Mongolia 83rd, advancing 11 places from last year. Yet corruption is still widespread in Mongolia, according to international organisations and those who do business in Mongolia.

The growing competition with state organisations and entrepreneurs is also a growing problem. Although the government should encourage small businesses, the advantages state-owned companies have are stifling their private competitors.

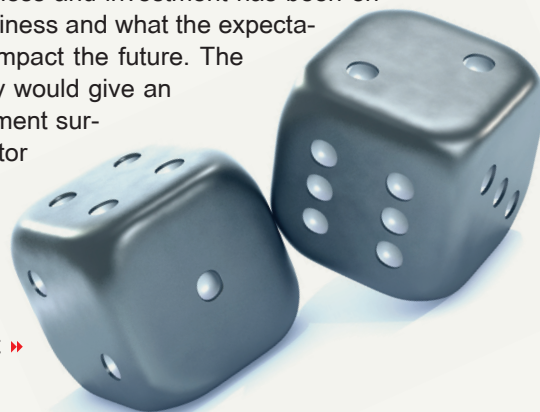
The winds of reform have blown through Mongolia. ■

POLICY SURVEY

WHAT THE PRIVATE SECTOR IS THINKING

More than 2,500 businesspeople from urban and rural areas were surveyed by the Mongolian National Chamber of Commerce and Industry, where they said they felt that government policy was essential to maintaining double-digit growth and accelerate economic development. However, policy will have to meet the challenges facing the declining mining industry in the country, the stagnation of foreign investment, the climbing exchange rate, and growth in unemployment.

The Business Confidence Index survey aimed to gauge how well state policy for business and investment has been enforced, how it affects business and what the expectations are for how it will impact the future. The hope was that the survey would give an idea of the general sentiment surrounding the private sector and extract an idea of the kinds of revenues businesses were collecting. It also attempted to identify the state organisations that ▶



are hindering private businesses. Those surveyed were asked how they felt about the state of the macro economy and what they feel needs to be done to improve the situation.

Some 74 percent of those surveyed belonged to business organisations, 11 percent to state organisation, and 15 percent to professional associations and non-government organisations.

The survey results showed that people in business felt

Table 1. Participants' evaluation of the change in business environment

2010	2011	2012	2013	Change	
				2012	2013
Improved	7,9%	4,1%	8,3%	3,8%	- 4,5 %
Slightly improved	61,5%	27,4%	30,5%	34,6%	+4,1 %
No change	15,3%	13,8%	14,7%	17,3%	+2,6 %
Slightly worsened	0	36,7%	33,1%	18,4%	-14,7 %
Worsened	0	11,6%	2,3%	16,2%	+13,9
No idea	15,3%	6,4%	11,1%	9,7%	-1,4 %

the economic stimulus measures taken by government have not been enough to significantly improve the business environment in Mongolia. Of those surveyed, 46.8 percent said that state interference was the greatest challenge facing private business while 41.6 percent answered that bureaucracy was the chief concern.

Further, state-owned companies were seen by those surveyed to have an unfair advantage over their private competitors. Results showed many felt the emergence of state-owned competitors were pushing the private sector away from the market and increasing the bureaucracy within state organisations.

The business men and women surveyed also noted a sudden decline in the amount of soft loans, credit granted at below market interest rate—for small- and medium-sized enterprises (SMEs). This makes it overly difficult for start-ups to enter the market and compete with their larger competitors. One of the biggest disappointments for when working outside the workplace was the amount of red tape, corruption and the unpredictability of the state. They also said the environment for banking and finance environment was subpar.

On a brighter note, a third of those surveyed said they had noticed improvements in the business environment.

Clearly many are underwhelmed by the actions taken by government to stimulate the economy, which are sentiments likely closely tied to poverty, unemployment and inflation in the country. Business confidence is low for the

near term. Mongolia has a number of obstacles to overcome for the country's business leaders, and looking at this survey it seems many of them have yet to have been addressed.

Feedback from the Survey:

- The state needs to create good conditions for running business. By doing so, the country's economy and business development would accelerate and this would be a new step forward for industrial development. This would give the business people new hope.

- Reduce state regulations and state participation in the businesses. Today there are no large businesses that can compete with the state. Competition between the public and private sectors might lead to pushing the latter away from the market.

- Keep the promise to cut through the number of [required] licences. At least 50 percent must be reduced from the current number of licences, which is more than 1,200. In the future this needs to be reduced as low as possible.

- Bureaucracy and corruption still exist among the state organisations. This exacerbates the issues that need to be tackled.

- Only a select few sectors have benefited from monetary and financial policy. Contributions are needed in the area of small business.

- Competition must be fair in banking and finance. A substantial change is needed in the way of an introduction of new financial resources. ■

Table 2. Participants' evaluation of the change in business environment (by groups)

	State organisations	International organisations	NGO	Private sector	Other	%
Improved	31.6%	.0%	.0%	0.8%	.0%	3,8%
Slightly improved	57.9%	.0%	36.8%	33.8%	20.0%	34,6%
No change	10.5%	.0%	15.8%	20.8%	.0%	17,3%
Slightly worsened	0%	.0%	42.1%	17.7%	.0%	18,4%
Worsened	0%	100.0%	5.3%	16.2%	40.0%	16,2%
No idea	0%	.0%	.0%	10.8%	40.0%	9,7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%



Photo by B. Byamba-Ochir

INVESTMENT

BEHIND THE NEW INVESTMENT LAW

E. ZORIGT

Mongolia's investment environment was destabilised for over a year before the State Great Khural repealed the Strategic Entities Foreign Investment Law (SEFIL), finally replacing it with the new Investment Law on October 3. The impact of the law since taking effect on November 1 is now unfolding.

The 2013 Mongolia Investment Summit held in Hong Kong from November 18 to 20 this year saw more than 320 participants from 18 countries. The greater attendance this year from the previous year demonstrates at least some renewed interest in Mongolia.

"Regulating the benefits from in-

vestment is clearer with this law. The law is also beneficial for business communities", said Sereeter Javkhlanbayar, director of the Investment Department at the Ministry of Economic Development.

One advantage posed by the new law is it provides tax stability, guaranteeing consistent tax rates for value-added tax, corporate income tax, royalties and customs, for a period between five and 22 years. The new law also removes the requirement for private investors to attain government approvals for investments above 33 percent in the mining, banking and finance, media and telecommunications sectors—although state-owned companies are still bound to that prerequisite.

The new law has been hailed by a number of parliamentarians as a success for both protecting Mongolia's investment environment while creating tax stability incentives for developing large-scale projects here.

The law is also protected from knee-jerk reactionary attempts by the Khural to amend it following the unfolding of unforeseen events by requiring a two-thirds majority to amend it.

High Expectations

The day after the Investment Law was confirmed by the Khural some stakeholders noted the absence of an article that would have exempted tax-stability certificate holders from new taxes introduced after their cer- ➤

► tificates were issued.

“All investors want is a stable environment”, said parliamentarian Dulamsurengein Oyunkhorol. “When was it removed from the law”?

The consequences of another tax similar to the 68 percent Profits Windfall Tax, which was a major deterrent for investment for gold mining in Mongolia while in effect from 2006 to 2009, could be reason enough for another foreign investment drought.

According to a study by the Foreign Trade and Economic Development Centre, foreign direct investment (FDI) has fallen 40 percent and is likely to fall further until the

end of this year.

But that doesn't mean expectations are low for the new law. At the 2013 Mongolia Investment Summit, USD 84 billion was cited as the amount of investment needed for Mongolia's development plan. This money cannot be found within the domestic market, so FDI will be essential. And Mongolia will be unable to borrow its way out of the problem due to the 40 percent debt to GDP ratio constraint

In the Meantime

Sitting and waiting for the investment to come will not solve much. There

is a great deal the government can do to re-incite investor confidence in Mongolia for the meantime.

“Investors are interested in four mega projects, including Oyu Tolgoi, Tavan Tolgoi, Power Plant No. 5 and the Tavan Tolgoi railway”, said B. Byambasaikhan, chief executive at Nova Terra during the 2013 Mongolia Investment Summit.

These large-scale projects will need long-term implementation plans. Frequent delays to projects such as Power Plant No. 5 or Oyu Tolgoi is a sticking point for investors as well.

The law is no quick fix, but it is a step in the right direction. ■

Table. Period of certificate for tax stabilisation (by year)

Amount of investment (billion/s of MNT)	Ulaanbaatar	Central region (Gobisumber, Dormogobi, Dundgobi, Darkhan-Uul, Umnugobi, Selenge, Tuv aimags)	Khangai region (Arkhangai, Bayanhongor, Bulgan, Orkhon, Uvurkhangai, Huvsgul aimags)	Eastern region (Dornod, Sukhbaatar, Khentii aimags)	Western region (Bayan-Ulgii, Gobi-Altai, Zavkhan, Uvs, Khovd aimags)	Period of certificate for tax stabilisation (by year)	Completion period of investment (by year)
30-100	5	6	6	7	8	8	2
100-300	8	9	9	10	11	11	3
300-500	10	11	11	12	13	13	4

INVESTMENT LAW OF MONGOLIA

October 3, 2013

The State Palace, Ulaanbaatar city

The following is an unofficial translation of a New Investment Law of Mongolia, which was approved by the State Great Khural on October 3 this year and took effect on November 1.

CHAPTER ONE GENERAL PROVISION

Article 1. The purpose of the law

1.1. The purpose of this law is to protect the legal rights and interests of investors in Mongolia, to set a common legal guarantee for their investments, to contribute to their investments, to stabilise the tax environment, to determine the rights of the state authorities and rights and obligations of investors regarding the investments, and to regulate other relations associated with investors.

Article 2. Legislation of investment

2.1. Legislation of investment shall consist of the Constitution of Mongolia, the General Law of Taxation, this law and the other legislative acts enacted in conformity with these laws.

2.2. If the international treaty specifies differently than this law, the former shall prevail.

Article 3. Definition of terms

3.1. Some terms used in this law are as follows:

3.1.1. “Investment” means any assets, both tangible and intangible, that are invested in a joint venture of any entity that runs profit-making operations in the territory of Mongolia and is reflected in its financial statement;

3.1.2. “Investor” means both Mongolian and foreign invest- ►

▶ tors who invested in Mongolia;

3.1.3. "Foreign investor" means a foreign legal entity or a person (a foreign national or stateless persons not residing permanently in Mongolia, or Mongolian citizens permanently residing abroad) who invest in Mongolia;

3.1.4. "Mongolian investor" means a Mongolian legal entity or a person (Mongolian citizens, foreign nationals and stateless person permanently residing in Mongolia) registered and who invest in Mongolia;

3.1.5. "Foreign invested Mongolian entity" means an entity that was founded in Mongolia according to Mongolian laws, and more than 25 percent of its total shares are owned by foreign investors, and an entity with foreign investment of more than a USD 100,000 by each foreign investor;

3.1.6. "Representative's office of a foreign legal entity" means an entity founded in Mongolia by a foreign entity but without the rights enjoyed by a legal entity and with the purpose of running a representative's operation based on a power of attorney.

3.1.7. "Tax environment" means a set of legal regulations in which types and amounts of taxes specified in the laws are determined, imposed and paid;

3.1.8. "Tax stabilisation" means to keep the current amount of tax without increasing it or to reduce it during the effective period of a certificate for tax stabilisation according to Article 13.4 of this law;

3.1.9. "A certificate for tax stabilisation" (hereinafter referred to as "certificate") means a certificate that is issued from a competent authority to an investor who meets the requirements specified in Article 16.1 of this law in order to stabilise the amount of tax and payment specified in this law;

3.1.10. "Certificate holder" means a legal entity registered in Mongolia that acquired the certificate according to this law;

3.1.11. "Foreign state-owned legal entity" means a legal entity that directly or indirectly owns more than 50 percent of the total shares of the entity;

3.1.12. "Person with common interest" means a person who is specified in Article 99.1 of the Company Law.

Article 4. Scope of the law

4.1. This law is subject to investment made in the territory of Mongolia by both Mongolian and foreign investors.

4.2. The investor shall invest in overall sectors, industries and services that are not prohibited by Mongolian laws.

4.3. If a foreign state-owned legal entity gets a permit for investment according to Article 21.1 of this law, it shall be entitled to make an investment.

4.4. Mongolian and foreign investors shall run operations in Mongolia by having them registered in the state registration according to Company Law, the Law on State Registration of Legal Entities and other legislative acts.

4.5. According to the Law on Purchasing Product, Labour and Service on the State and Local Budget, the state or local investments for state organisations shall not be subject to this law.

4.6. This law shall not be subject to any donation or grant aid by international and non-governmental organisations, private companies and citizens.

4.7. Article 20 of this law shall not be subject to any

investment agreement on the nuclear energy sector, which is regulated by the Nuclear Energy Law.

Article 5. Forms of investment

5.1. In Mongolia, investment shall be made in the following forms:

5.1.1. investor can establish an entity on its own or jointly with other investors;

5.1.2. investor can purchase stocks, bonds and other securities;

5.1.3. investment can be made in the forms of a merger and acquisition;

5.1.4. investment can be made in the forms of concessions and product sharing, marketing, management and other agreements;

5.1.5. investment can be made in the forms of finance lease and franchising;

5.1.6. other investments that are not prohibited by laws.

CHAPTER TWO

COMMON LEGAL GUARANTEE FOR INVESTMENT

Article 6. Common legal guarantee for investment

6.1. Investors shall enjoy the right to get tax and non-tax incentives for their investments.

6.2. According to this law, the state shall provide a guarantee for stabilising the amount of tax and tax environment by issuing a certificate, or by making an investment agreement.

6.3. In the territory of Mongolia, it is prohibited to illegally expropriate any properties that belong to investors.

6.4. Investors' properties may be used (or expropriated) for public purposes or interests according to the laws under the condition of full compensation.

6.5. Unless otherwise stated in the international treaties compensation shall be awarded for investors based on the estimation of a then-market price when the properties were used (or expropriated), or when notification was sent to investors or to the general public.

6.6. Mongolian State shall protect the intellectual rights and ownership of investors according to the laws.

6.7. If investors fulfil their duties on tax payment in Mongolia, they are entitled to send the following properties and income abroad without any hindrance:

6.7.1. operating profit and dividend;

6.7.2. royalty, work and service fees;

6.7.3. principal payment of a loan issued from abroad and its interest;

6.7.4. own properties after liquidation of a company;

6.7.5. other assets that are generated legally or is owned by the investor.

6.8. When transferring any cash assets specified in Article 6.7 of this law abroad, the investor shall be entitled to opt to convert the assets to any preferred currencies that are internationally convertible.

6.9. Unless otherwise specified in the law and the international treaties, if there is any dispute regarding the relations of the agreement made with the state organisation, investors shall enjoy the right to have the dispute resolved by international or Mongolian arbitration. ▶▶

▶ 6.10. This law shall be amended upon request by two thirds of the State Great Khural.

Article 7. Rights and obligations of investors

- 7.1. Investors shall enjoy the following rights:
- 7.1.1. to have independent options on the type and amount of investment, and area and region to invest;
 - 7.1.2. to invest in more than one sector, project, industry and activity;
 - 7.1.3. to import/export products, work and services from/to abroad for the investment project
 - 7.1.4. to supply own demand of foreign currency by purchasing or selling the currency through commercial banks and non-banking finance institutes registered in Mongolia;
 - 7.1.5. to spend own assets, to transfer/receive official revenue and profit to/from abroad;
 - 7.1.6. to manage and to participate in managing the entity with foreign investment, and to transfer their rights and obligations to other persons in accordance with the law;
 - 7.1.7. to make a request for finance, loan, aid and use of land and natural resources, and have the request resolved;
 - 7.1.8. to receive public service equally;
 - 7.1.9. other rights specified in the laws;
- 7.2. The Investor shall have the following common obligations, except for the main obligation to run operations in accordance with the laws:
- 7.2.1. any products, works and services manufactured and provided by investors should meet the international standard and Mongolian national standard;
 - 7.2.2. to keep accounting records according to international standard;
 - 7.2.3. to enable the taxation authority or other state organisations to enjoy their rights and to receive the required information on time;
 - 7.2.4. investment activities should be respectful of consumer rights, ecologically friendly and supportive to human development;
 - 7.2.5. to pay health and social insurance fees for staff in accordance with the laws;
 - 7.2.6. to focus on the improvement of knowledge, experience and professional skills of staff and their managerial methods, and to introduce good governance principles for management teams;
 - 7.2.7. to be respectful of the traditions and customs of the Mongolian people;
 - 7.2.8. the certificate holder shall make an investment according to Article 16.2 of this law;
 - 7.2.9. other obligations specified in the laws.

CHAPTER THREE RIGHTS OF STATE ORGANISATION ON INVESTMENT

Article 8. Rights of the state organisation in charge of investment issues

- 8.1. The state administrative organisation in charge of investment issues shall enjoy the rights below:
- 8.1.1. to comply with and monitor this law;
 - 8.1.2. to work out feedback on policy, contribution and investment measures and to submit this to the government;
 - 8.1.3. to issue a permit specified in Article 21.1 of this law;
 - 8.1.4. to receive annual and quarterly reports and statis-

tics from the Bank of Mongolia and the state administrative organisations in charge of employment, tax, customs, social insurance, registration and the Immigration Authority on the following information related to investment:

- 8.1.4.a. source and amount of investment;
- 8.1.4.b. tax payment;
- 8.1.4.c. number of jobs;
- 8.1.4.d. permanent residency permit for foreign citizens;
- 8.1.4.e. amount of investment through imported products and services;
- 8.1.5. other rights specified in laws.

Clause 9. Rights and duties of state administrative organisation in charge of the investment issue

- 9.1. The state administrative organisation in charge of investment issues is responsible for attracting investment, promoting the investment environment and providing services for investors.
- 9.2. The organisation shall have the following rights and obligations:
- 9.2.1. to implement a set of activities to attract investment;
 - 9.2.2. to support and provide services for investors to protect their legal rights and interests;
 - 9.2.3. to advertise the legal setting of investment and a local market conditions for investors;
 - 9.2.4. to support investors to make investment plans;
 - 9.2.5. to provide consulting and online one-point services of other state services regarding the investment;
 - 9.2.6. to issue the certificate to the investor who meets the requirements specified in Article 16 of this law;
 - 9.2.7. to monitor whether investment activities by the certificate holder meet its business plan and feasibility study under a project and the completion period of investment specified in Article 16.2 of this law;
 - 9.2.8. to receive the certificate holder's financial statement from the state administrative organisation in charge of taxation issues, and if necessary, to ask for the statement from the holder;
 - 9.2.9. to keep record of certificate holder's state registration;
 - 9.2.10. to support stable continuation of investment in the future;
- 9.3. A freelance council to make a conclusion on issues specified in the Article 9.2.6 of this law shall be established based on resolution by the cabinet members.
- 9.4. The cabinet member in charge of investment issues shall set the rules for the council specified in Article 9.3 of this law.
- 9.5. Representatives to protect the rights and interests of investors shall be a component of the council specified in the Article 9.3 of this law.

CHAPTER FOUR CONTRIBUTION TO INVESTMENT

Article 10. Type of contribution to investment

10.1. The contributions for investors shall consist of tax and non-tax contributions.

Article 11. Tax investment contribution

11.1. Investors shall be provided by a tax contribution ▶

below:

- 11.1.1. tax exemption;
- 11.1.2. tax incentives;
- 11.1.3. to calculate depreciation cost that is subtracted from taxable income in terms of an accelerated depreciation;
- 11.1.4. to calculate a deficit that is subtracted from taxable income by transferring it to the future;
- 11.1.5. to calculate a training cost for staff by subtracting from taxable income.
- 11.2. Under the following circumstances, imported equipments shall be exempted from customs tax and up to "0" percent value-added tax can be imposed during the period of a construction;
 - 11.2.1. construction of plants for building materials, oil refining, agricultural processing and manufacturing exported products;
 - 11.2.2. construction of plants that manufacture products with a nanotechnology, biotechnology and innovation technology;
 - 11.2.3. construction of energy plant and railway.
- 11.3. Contributions to investment specified in the Article 11.1 and 11.2 of this law are regulated by taxation law.

Article 12. Non-tax investment contribution

- 12.1. The following non-tax investment contributions shall be provided for investors:
- 12.1.1. the period of ownership and use of a land shall be up to 60 years based on the agreement and the term can be extended once only by 40 years according to terms and condition of the agreement;
 - 12.1.2. to contribute to investors who invest in free economic zones and industrial and technological park, and to provide them with a registration and checkpoint service in terms of alleviated procedure;
 - 12.1.3. to contribute to the implementation of projects in the areas of an infrastructure, industry, science and education, and to provide them with permits, including the use of workforce from abroad, increasing the number of workforce, exemption from workplace payment/fee and the other related permits in terms of alleviated procedure;
 - 12.1.4. to contribute funding to innovative projects and to make a guarantee for funding innovative manufacturing products;
 - 12.1.5. to grant a multiple-entry visa and a permanent residency permit for foreign investors and their families who invest in Mongolia according to the laws;
 - 12.1.6. other contributions specified in the laws.
- 12.2. Non-tax investment contribution shall be regulated by the Law on Land, the Law on Free Zones, the Law on Legal Status of Industrial and Technological Park, the Law on Innovation, the Law on Sending Workforce Abroad and Receiving Workforce and Specialist from Abroad and other laws.

CHAPTER FIVE

STABILISING the INVESTMENT ENVIRONMENT

Article 13. Stabilising the amount of tax

13.1. By issuing the certificate to an entity specified in the Article 13.5 of this law, stabilisation shall be subject to the amount of tax that will be paid by a legal entity to implement

the investment project.

13.2. The certificate shall take effect from the date of issue and the amount of tax shall remain stable during the effective period of the certificate.

13.3. All issues related to the tax stabilisation, except for Article 4.7 of this law, shall be regulated by this law and the investment agreement specified in the law.

13.4. During the effective period of the certificate, if any amendment is made in taxation law aimed to reduce the amount of tax specified in Article 14.1 of this law, the certificate holder shall be subject to the amendment. If the amendment is about increasing the amount of tax specified in Article 14.1 of this law, it shall not be subject to the certificate holder.

13.5. Depending on the type of organisation implementing the investment project, the certificate shall be issued to the following legal entity:

13.5.1. if one legal entity is to implement investment project, the certificate shall be issued to the entity;

13.5.2. if two or more legal entities are to implement the investment project, the certificate shall be issued to their parent company.

13.6. There shall be no stabilisation on the amount of tax for production, import and sale of cigarettes and alcoholic drinks.

Article 14. Type of tax stabilisation

14.1. During the effective period of the certificate, the following taxes shall be stabilised:

14.1.1. corporate tax;

14.1.2. customs tax;

14.1.3. value-added tax;

14.1.4. royalties.

Article 15. Certificate for tax stabilisation

15.1. The cabinet member in charge of investment issues shall approve a template for the certificate.

15.2. The following information should be included in the Certificate:

15.2.1. the name and address of a legal entity that holds the certificate;

15.2.2. the state registration and registration numbers of the certificate holder;

15.2.3. the name, the state registration number and registration number of a legal entity specified in Clause 13.5.2;

15.2.4. the name of the investment project to be implemented;

15.2.5. the issued date and the effective period of the certificate;

15.2.6. the amount of tax specified in Article 14.1 of this law.

15.3. The certificate cannot be sold, deposited or gifted.

15.4. If the certificate holder is undergoing a merger or acquisition, the certificate should be transferred to a new holder or successor under a condition below:

15.4.1. if a new legal entity continues the implementation of the investment project;

15.4.2. if the investment project meets the requirements specified in Article 16.1 of this law.

Article 16. Requirement and period for the certificate

16.1. The certificate shall be issued if the project is imple- ➤

- mented by a legal entity and meets the following requirements:
- 16.1.1. if the total amount of investment indicated in a business plan and feasibility study reaches the amount specified in

Article 16.2 and 16.3 of this law;

- 16.1.2. if it is necessary, in accordance with the laws, a general environmental impact assessment is required;
- 16.1.3. to create stable jobs;
- 16.1.4. to introduce advanced technology.
- 16.2. The certificate shall be issued for the following sectors in the terms below:
- 16.2.1. mining, heavy industry and infrastructure sectors:

Amount of investment (billion/s of MNT)	Period of the Certificate (year)					Completion period of investment (year)
	Ulaanbaatar area	Central region (Gobisumber, Domogobi, Dundgobi, Darkhan-Uul, Umnugobi, Selenge and Tuv aimags)	Khangai region (Arkhangai, Bayankhongor, Bulgan, Orkhon, Uvurkhangai and Khuvsgul aimags)	Southern region (Dornod, Sukhbaatar and Khentii aimags)	Western region (Bayan-Ulgii, Gobi-Altai, Zavkhan, Uvs and Khovd aimags)	
30-100	5	6	6	7	8	2
100-300	8	9	9	10	11	3
300-500	10	11	11	12	13	4
+500	15	16	16	17	18	5

- 16.2.2. other sectors except for the sectors specified in Article 16.2.1:

Amount of investment (billion/s of MNT)						Certificate for tax stabilisation (year)	Completion period of investment (year)
Ulaanbaatar region	Central region (Gobisumber, Domogobi, Dundgobi, Darkhan-Uul, Umnugobi, Selenge and Tuv aimags)	Khangai region (Arkhangai, Bayankhongor, Bulgan, Orkhon, Uvurkhangai and Khuvsgul aimags)	Southern region (Dornod, Sukhbaatar and Khentii aimags)	Western region (Bayan-Ulgii, Gobi-Altai, Zavkhan, Uvs and Khovd aimags)			
10-30	5-15	4-12	3-10	2-8	5	2	
30-100	15-50	12-40	10-30	8-25	8	3	
100-200	50-100	40-80	30-60	25-50	10	4	
+200	+100	+80	+60	+50	15	5	

- 16.3. If investors implement the following projects, the period of the certificate specified in Article 16.2 of this law shall be extended as many as 1.5 times:

16.3.1. any project, despite its location, will be implemented in any sector for the duration of no less than three years, with an investment of more than MNT 500 billion (according to the current exchange rate set by the Bank of Mongolia), with approved feasibility study and aimed at manufacturing products to replace imported goods, or for export, which will be of a great importance in the long-term sustainable socio-economic development of Mongolia;

16.3.2. if any investor meets the requirements specified in Article 16.1 of this law is manufacturing value-added products and product exports.

16.4. Completion period of investment shall start from the date when the certificate is issued.

16.5. The certificate holding legal entity can request the state administrative organisation in charge of investment issues for an extension of the completion period of investment

specified in Article 16.2 of this law. If the request is considered reasonable, it shall be extended up to two years.

Article 17. Application for the certificate

17.1. If investors meet the requirements specified in Article 16.1 of this law, the investors can apply for the state administrative organisation in charge of investment issues to obtain the certificate.

17.2. When applying, the following documents should be enclosed:

17.2.1. the statement by applicant indicating that the applicant meets the requirements specified in Article 16.1 of this law;

17.2.2. the company profile and the state registration licence of the applicant, if necessary, a copy of a special licence and other certificates issued by a competent authority;

17.2.3. the profile of advanced technology which is being introduced by the applicant;

17.2.4. an environmental impact assessment, if necessary;

17.2.5. a business plan if a project investment is below MNT 10 billion, and a feasibility study if the investment is above MNT 10 billion.

Article 18. Issuance of the certificate

18.1. Upon receipt of application, the state administrative organisation in charge of investment issues shall make a decision within 30 days on whether to issue the certificate for the applicant based on the requirements specified in this law. If necessary, the application process can be extended by 15 days.

18.2. If the organisation decides to issue the certificate to the applicant, it shall make a note in the certificate and hand it over to the applicant, which is a legal entity registered in Mongolia.

18.3. If the investment project does not meet the requirements specified in Article 16.1 of this law, or the project lacks the required application documents, the organisation shall send a written notification to the application explaining the reason of its objection within the period specified in Article 18.1 of this law.

18.4. If there is any change in information specified in Article 15.2 of this law, the organisation shall amend the certificate upon request by the certificate holder.

Article 19. Cancellation of the certificate

19.1. The certificate shall be cancelled by the state administrative organisation in charge of investment issues based on the following rationales:

19.1.1. if the effective period of the certificate has finished;

19.1.2. if the certificate holder has made a request to cancel the certificate, or the holder was liquidated;

19.1.3. if the certificate holder has completely withdrawn the assets from Mongolia;

19.1.4. if the certificate holder used illegal or forged documents in the acquisition of the certificate;

19.1.5. if the successor does not meet the requirements specified in Article 15.4 of this law;

19.1.6. if the certificate holder violated Article 15.3 of this law;

19.1.7. if the foreign state-owned legal entity did not obtain ►►

- ▶ a permit specified in Article 21.1 of this law;
 - 19.1.8. if the certificate holder did not invest within the period specified in Article 16.2 of this law;
 - 19.1.9. if the certificate holder has made the investment agreement.
- 19.2. The organisation in charge of investment issues shall send a written notification about the cancelation of the Certificate based on Clause 19.1 to the Certificate holder and the state administrative organisation in charge of taxation issues within five working days.

Article 20. Investment agreement

20.1. The Government of Mongolia shall make an investment agreement with an investor who invests more than MNT 500 billion in order to keep the investment environment stable upon the investor's request.

20.2. The cabinet member in charge of investment issues shall make the investment agreement with the investor.

20.3. The investment agreement can be made within the period specified in Article 16.2 and 16.3 of this law.

20.4. Unless otherwise specified in the laws, the investment agreement can include terms and conditions that will make a legal guarantee for investors, stabilise the tax environment and provide both regulatory and financial contributions specified in this law.

20.5. The certificate holder who invests more than MNT 500 billion can make the investment agreement on his/her request.

20.6. The Government of Mongolia shall approve a procedure for the investment agreement.

CHAPTER SIX INVESTMENT BY FOREIGN STATE OWNED LEGAL ENTITY

Article 21. Investment by foreign state owned legal entity

21.1. A permit shall be needed if any foreign state-owned legal entity owns more than 33 percent of total shares issued by a Mongolian legal entity that runs an operation in the following sectors:

- 21.1.1 mining;
- 21.1.2. banking and finance;
- 21.1.3. media, information and communication.

Article 22. Request for permit, and receipt and resolution of the request

22.1. foreign state-owned legal entity specified in Article 21.1 of this law shall directly apply for the permission to the state administrative organisation in charge of investment issues, or through its representative's office in Mongolia attaching the following documents:

- 22.1.1. a notarised copy of the applicant's licence issued by the related competent registration authority;
- 22.1.2. the reference by registration office for the past two years on chief executives of the applicant, persons with common interests and a legal entity specified in Article 22.1 of this law;
- 22.1.3. the type and terms and condition of any pre-negotiation between the foreign entity and its Mongolian side, counterparts involved in the negotiation, number of shares to

be sold, number of shares owned, the price of the agreement, procedure of a legal entity and any deal on making changes in the entity's management team;

22.1.4. the presentation and disclosure of a financial statement by the foreign state-owned legal entity and Mongolian entity that is involved in the negotiation;

22.1.5. the investment plan and business of the applicant that will be implemented in Mongolia.

22.2. application documents specified in Article 22.1 of this law shall be in Mongolian language.

22.3. the state administrative organisation in charge of investment issues can ask the applicant for additional documents other than the ones specified in Article 22.1 during the application processing.

22.4. the organisation shall receive the application that meets the requirements specified in Article 22.1 of this law and check if the application is against the following conditions:

22.4.1 if the investor's activity and nature of the investment is against the National Security Concept of Mongolia;

22.4.2. whether the applicant meets the terms and conditions that comply with Mongolian laws and business routine;

22.4.3. whether the investment has any nature to limit the competition or to be dominant in the related sector;

22.4.4. whether the investment has a serious impact on the budget revenue and other policies and activities.

22.5. The state administrative organisation in charge of investment issues shall make a decision within 45 days upon receipt of the application documents specified in Article 22.1 of this law.

22.6. After making decision specified in Article 22.5, the organisation shall send a notification to the applicant within five working days.

CHAPTER SEVEN OTHER PROVISIONS

Article 23. Liability for violation of the law

23.1. In the event of any violation of this law, a judge or judicial authority official shall impose the following administrative liability:

23.1.1. if illegal documents were used in the application to obtain the certificate, the guilty person shall be fined by as much as 25 to 50 times higher than the minimum monthly wage and the guilty entity shall be fined by as much as 100 to 200 times higher than the minimum monthly wage, and payable tax shall be paid and illegal income shall be expropriated.

23.1.2. if the certificate issuance was objected illegally, or the certificate was issued violating the law, or the certificate was cancelled illegally, the guilty person shall be fined by as much as 10 to 20 times higher than the minimum wage.

23.2. If any investor defaults on the obligations specified in Article 7.2.1–7.2.5 and 7.2.8 of this law, administrative liability shall be imposed on the guilty person according to the related laws.

Article 24. Effectiveness of the law

24.1. This law shall take effect from November 1, 2013. ■
SPEAKER OF THE STATE GREAT KHURAL
ZANDAAKHUUGYN ENKHBOLD

CORRUPTION

CORRUPTION IN BUSINESS

BY B. ALTAI

Anywhere in the world where business activities are allowed to expand employment expands alongside. This also reduces the unemployment rate and increases tax revenue, which would finally result in the improvement of the quality and availability of social services, including education, healthcare and security.

The Overview of Mongolia Economic Freedom Index indicates that the functions of the government and its agencies are to create a good business environment and improve investment in those businesses. Creating such an environment is key to running a long-term business that generates profits and is competitive.

Power, bribery and secret dealings continue to strangle businesses in Mongolia, according to a recent study by USAID. The study surveyed more than 300 companies, including 86 small- and medium-sized enterprises in entertainment, services, manufacturing, mining, agriculture and construction.

"There is huge corruption in Mongolia", said D. Battulga, chairman at the Ulaanbaatar Citizens' Khural. "According to the latest study, public officials are bribed by MNT 479 billion a year in Ulaanbaatar, which is far more than the amount of investment for the city".

Corruption was identified as the destination for much of companies'

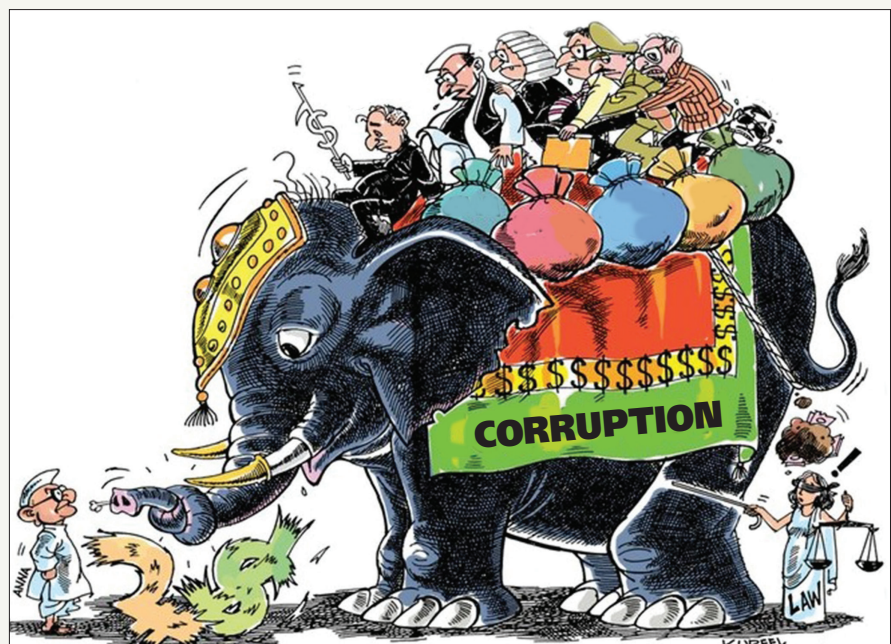
resources. Of those working at large companies, 17 percent of employees spend more than half of their working hours dealing with excessive regulations. Alternatively, approximately 8 percent of small companies spend 25 percent of their time dealing with red tape.

The construction industry has long been a target for criticism in Mongolia. According to the USAID study, the reputations of construction companies pale in comparison to businesses operating in other segments of the economy. However, construction companies face a number of challenges from government agencies.

The mining sector shows similar signs of corruption. Mining companies bribe agencies to obtain licences and signatures of approval more quickly.

President Tsakhiagiin Elbegdorj warned that there is pressure on the government's relationship with the private sector during his speech at a national consultative meeting to encourage smarter government and reducing bureaucracy in November.

"Businesspeople are the ones under pressure. There is a complete system which put them under pressure," the president said. He also said that the government should not be involved in business. Rather, it should help when needed, provided ▶



► there is no conflict of interest.

For businesspeople, bribing public officials is considered standard practice. Alleviating corruption, said the USAID study, will require effort from government, businesses, and non-government organisations. It the main function of the government and its agencies to serve the general public, it must not drive a hard bargain by asking businesspeople for rewards or incentives.

Of those involved in the study, a mere 12 percent said that they had counter-measures against corruption at their disposal. Some 42 percent of companies involved in the study considered corruption as a mounting problem in Mongolia, especially in construction. Business communities have selected the General Taxation Department as the organisation acting as the greatest hinderance, followed by the General Specialised Inspection Agency.

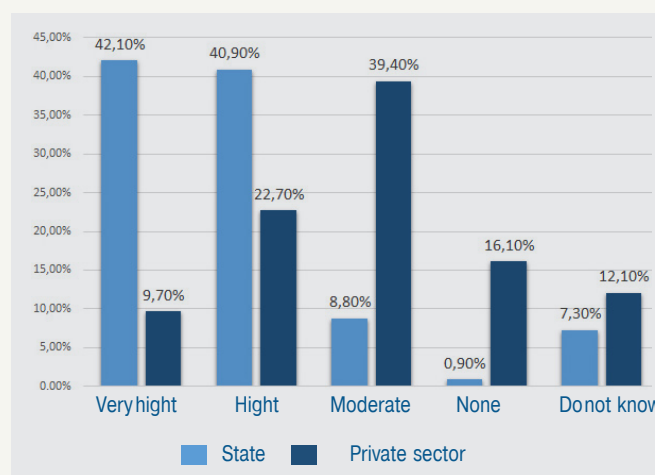
If corruption among state organisation was reduced, the net profits of businesses would grow, according to 50 percent of the businesspeople involved in the study. However, 20 percent said that their profits would fall if corruption was reduced. Also, some participants said reducing corruption would result in revenue increases for construction companies.

Some businesspeople in Mongolia use corruption as the main instrument to overthrow their rivals by bribing public officials. And most of them said that penalty should be imposed on both active and passive bribery offenders.

There are a number of options for reducing corruption in private business for Mongolia. For instance, some 62.5 percent of those involved in the USAID study suggested businesses could prevent corruption by operating fairly, conducting counter-measures against corrupt politicians and releasing information to the media.

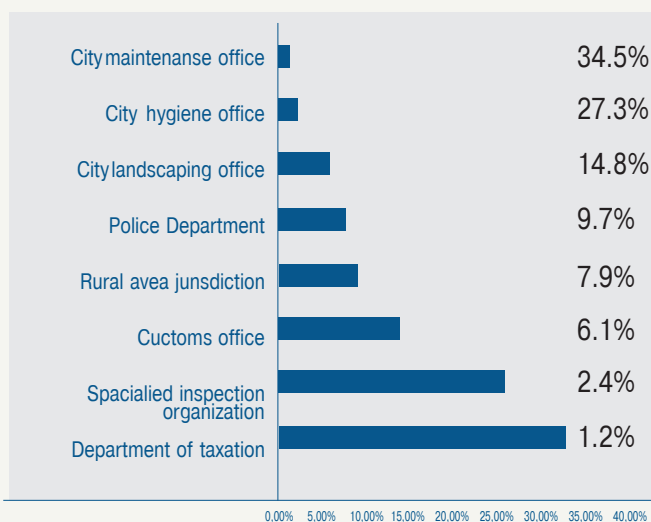
What would you choose to combat corruption? ■

Prevalence of corruption in the private sector

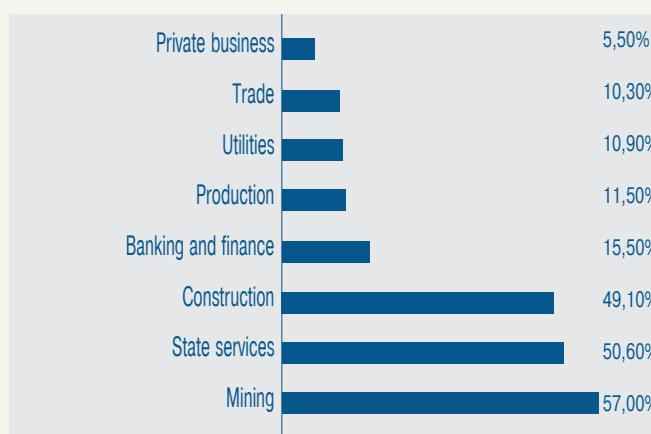


Source: USAID

Organizations that cause the most obstacles for business



The sectors most exposed to corruption



CREDIT GUARANTEE FUND

CREDIT GUARANTEE FUNDS – THE FIRST YEAR REPORT



Photo by E. Zorig

The following is an interview with Sh. Altainkhuyag, chief executive at the Credit Guarantee Fund of Mongolia, on the operation and future of the organisation and how it learns from international experiences.

The Credit Guarantee Fund was established more than a year ago, but it has been criticised for not accomplishing anything. Can you tell us about your first year of operation?

The purpose of the Credit Guarantee Fund is to provide a credit guarantee for SMEs [small-and medium-sized enterprises] lacking deposits for bank loans. The Fund is working well enough. Recently, it has started a number of activities including expansion of its operation and international cooperation.

I participated in the 26th ACSIC [Asian Credit Supplementation Institution Confederation] conference held in Busan, South Korea on November 11-15 this year. ACSIC is the largest Asian cooperative body for SMEs since its foundation in 1987. Today, ACSIC has 11 member countries with 16 member institutions.

Our request to become a member has been received positively. Our fund has also started some activities to work with funds in leading Asian economies including Japan, South Korea, Taiwan and Malaysia. We also signed the cooperation agreement with the Korea Credit Guarantee Fund. Its representatives visited Mongolia in September and October this year and shared their experiences. During their visit, they advised the following: standardisation of the methods used in credit assessment and evaluation; those approving the funds »

▶ should reach a certain professional level before making decisions; improvement of risk management; and the final source of a credit guarantee should come from banks and investors only.

We have planned to include this advice in the 2014 and 2016 business plans. We have just started some activities to introduce the credit guarantee system to rural areas in an optimal way within this year, including Zavkhan and Dornod provinces at this initial stage. We are also focusing on developing a model on how to introduce the credit guarantee fund's operation and service to Baganuur, one of the remote districts of Ulaanbaatar city.

Korea's economic growth is based on SMEs. Its government supports SMEs very well. What is your understanding of KODIT's contribution to SMEs in Korea?

There are three credit guarantee funds in Korea. The first one provides guarantees for an ordinary loan. The second one provides guarantees for start-ups including SMEs that are planning to run or are already running operations in the areas of technology and innovation. The third one provides guarantees that are focused on rural areas.

These funds assess all credit applications and independently decide whether to guarantee the loans. The fund then submits the application documents to the bank.

In Mongolia, it works in a different way. The funds provide guarantees based on documents and information received from banks. The way the fund checks the documents creates a situation in which possible risks of the credit guarantee are minimised. This method also covers a wider scope. And its cost is high and the accessibility to local areas is reduced. In Mongolia, the fund provides guarantees based on information provided by banks, but this still carries high risk. However, the cost could be lower. In the future, we will focus on combining these two methods.

There are a number of risks for Mongolia's credit guarantee fund. For example the issue of non-performing loans and financial sources depend heavily on the government. What is the fund doing to reduce risks such as these?

There is something called a deficiency in credit ethics. It's a common issue among SMEs in most countries. It refers to a default on their responsibilities to repay loans as their governments guarantee their loans. This could happen to us. But there has not been such a case so far. In order to prevent this from happening in the future, we always double-check the documents and information received from banks. We

reject any application that seems unqualified and return it to banks. Unqualified applications comprise 30 percent of total applications.

Also, finding a number of financial sources for the fund is obviously an important thing. Internationally, banks dedicate a particular portion of profits to credit guarantee funds. Providing guarantees for SMEs finally reduces the banks' risks. In this sense, it is considered reasonable to share the bank's profits with the funds. Sometimes, even the central bank shares the fund's risk.

In what country does the central bank share risks with such funds?

In South Korea, some portion of its central bank's profit must be shared with the credit guarantee fund. Also large investors volunteer investment funds.

Investors can estimate their return on investment. Is the fund a non-profit organisation? So what would be the return on investment?

Large investors and investment firms invest in the fund for social responsibility. The social impact of SMEs is very important; SMEs contribute to employment. By supporting employment, the unemployment-related social issues could be tackled.

Unemployed means no money. If there is no money, citizens lack healthcare and education. Unemployed people could lie and steal from others. Most social problems are caused by unemployment and poverty. But SMEs create jobs, which is the main instrument of reducing the unemployment rate.

When SMEs develop, it creates a favourable employment situation for those who are unqualified according to criteria by large firms, in terms of knowledge and skills. Mostly, those who are employed by SMEs are officially uneducated. SMEs train those who have no or a little work experience and create jobs for them. It means that SMEs provide career opportunities for those who are included in vulnerable group.

An advantage of the credit guarantee fund is that the way it contributes to SMEs. Investing in the fund means a contribution to dealing with poverty, the biggest social problem. Once invested in the fund, your money is not going to disappear. It is going to be increased by a particular amount. The money you invested in the fund will be used in an endless guarantee and spent on long-term social well-being.

Large investors, therefore, are likely to invest in or donate to the fund. The governments in developed economies almost do not reduce the amount of soft loan and aid. The only criterion is whether SMEs creates jobs or not. At the same time, the credit guarantee fund still provides guarantees, however, ▶▶

► it could be at a loss. SMEs are the main leverage to deal with some issues that are critical in today's society.

In Japan, any possible risk from its credit guarantee fund is reinsured by an insurance company. Would it be possible to apply this practice to Mongolia?

In Mongolia, private insurance companies lack financial capability. The government will be responsible for the re-guarantee of up to 60 percent of the fund. In the future, private insurance companies could be involved in this course.

The fund is in the hands of the government and its sources come from taxpayers. Do you think this is the right system?

International experiences show us that there are four contributors to a credit guarantee fund: a good legal environment and tax environment; a cooperation between SME development authority and the Ministry of Labour; an optimal financial system—contributions to SMEs through the fund; and fund raising from the capital market—cheap market provided by Stock Exchange.

Currently, these are the first three contributing factors in Mongolia, but, overall, issues are still in their early stages of development. Thus, stronger participation from the government is obviously required. Waiting until everything is developed in terms of a market economy would make Mongolia lag behind other countries.

The government needs to participate in the required sector. When the sector finds its shape, it will have to reduce its participation gradually. In general, there is a trend in developing countries that the government starts large-scale work. When the right time comes, the government just moves away. We also intend to develop our fund this way.

Commercial banks aim to make profit and place more stringent criteria for those asking for loans. Those businesses who meet the criteria are large manufacturers, for example. Today, the fund uses the banks to process the applications. Can the credit guarantee fund really contribute to SMEs if the criteria are too strict?

Our fund thoroughly checks every single application document that we received from banks. If necessary, we visit the applicant's workplace to get accurate information about their business. After that, we decide on whether to provide the guarantee or not. We acknowledge that things could turn problematic like you said.

Our fund focuses on expanding our service to

rural areas. Under the expansion work, one province will be selected and its fund will be jointly raised from the province jointly with the fund. By doing so, we will have the funds to be used by that province only.

Also an estimate will be made on what business would be beneficial in that aimag based on its development goal and business research of the aimag. The fund will make guarantee for those who are interested in doing that business and give them an opportunity to receive a loan from banks. In this way, the aimag would have the potential to manufacture its own products based on this advantage.

We heard that the credit guarantee fund signed the cooperation agreement with four funds from foreign countries. What were the countries and how will the fund cooperate with them?

They are Malaysia, Taiwan, South Korea and Russia. Malaysia, for instance, has some 40 years of experience that we could learn from. There is a development life cycle during the development of a credit guarantee fund. Malaysia knows a lot, including how to connect the life-cycle with its strategic policy, how to provide guarantees for a specific sector and how to organise the banks' participation during the life cycle in a more optimal way.

In Taiwan, there are numerous products that are provided by guarantee funds. Mongolia's SMEs could cooperate with the Moscow Guarantee Fund for Small Businesses. Mongolia's SMEs manufacture some products to export to Ulan-Ude, the capital city of the Republic of Buyatiya, Russia. In this case, if finance is missing in its turnover, the Credit Guarantee Fund could make some guarantees for them. On the other hand, if Russian SMEs are interested in importing the products from Mongolia and they do not have money, its fund could help them.

There is the potential to deal with the issues at the policy-making level that will contribute to SMEs, but this is something that we could do in the future. There are 15 credit ratings in Korea and the rating could be improved based on a particular criteria. If SMEs could raise their credit ratings, they will have more potential to have a long-term soft loan. Thus, there is huge competition for getting a good credit rating. In this way, the capabilities of SMEs could be improved.

Based on the above standard, we are working to have our own credit ratings for SMEs by the next year. We would need to have a very large database. We are learning from international experiences, co-operating with other funds and collecting information in order to successfully develop the credit guarantee fund in Mongolia in the future. ■

SMALL BUSINESS

NO COMPLAINTS HERE



Photo by E. Zorigt

One knitting machine is able to manufacture 200 pairs of work gloves a day

BY E. ZORIGT

A. Tsogt and his family have a small, family-run start-up for the manufacture of cotton work gloves. However, their expansion plans have had to be put on hold while they seek funds for additional materials such as yarn, knitting needles, and sewing machines.

Tsogt became one of Mongolia's newest entrepreneur after growing tired of the risks and hard labour involved in his previous mining profession. Although the challenge was great and the setbacks many, he was driven by the desire to create something for himself.

"I used to work at a gold mining company in Zaamar," he said. "Mining work is hard. It is very risky and too much."

Tsogt gathered together MNT 10 million from his savings to purchase two knitting machines to start their operations. He recalls launching their company with modest beginnings.

"We put the two machines inside a wooden barn attached to our home. Then, we started manufacturing the gloves".

Their small operation is able to manufacture 200 pairs of work gloves a day, but can be pushed to produce 800 in two days. Now their gloves can be found in building material stores for MNT 250 each.

"The gloves are better quality than the other gloves imported from China", said Tsogt's wife D. Bolormaa.

As the start-up developed into a successful operation, the couple decided to expand their business by purchasing another three knitting ma-

chines for MNT 5 million each, but lacked the funding for the purchase of additional raw materials. The main focus for of their work has become attaining loans from commercial banks. They applied for their loan, but their assets were only enough to afford them MNT 5 million out of the MNT 10 million they needed.

No Need to Complain

Desperate for the capital to further their business, they turned to their local sub-district office for help. After all, it was the local office that provided them with the small-medium enterprise (SME) training to help them reach their initial success.

"If you want to do a business, you could go to the labour department at the district office where you belong to", »

► said Tsogt. “They will provide you with some information about SMEs, how to manage your business successfully, how to get involved in loan guarantee and the opportunities of receiving soft loans. You could take a week training course on SMEs and finally get a certificate”, he said.

But even they had not ideas where to go from there. Yet, said Tsogt and his wife Bolormaa are upbeat about their they challenges facing them and refuse to let the setback turn them to blame the government that gave them their initial boost. A truly driven entrepreneur, they said, just needs make sure to find the right place where there is someone who can help.

“Previously my husband and I used to hear a lot about the lack of support from the government for SMEs”, said Bolormaa. “However, the government is already doing a lot for the citizens who want to do businesses. It seems that there are more uninformed than those denied support”.

Currently, Tsogt’s small factory earns between MNT 5 and MNT 6 million a month. Each month, MNT 460,000 is paid to the bank for loan repayment. And they are able to put some money away for expanding their business in addition to a savings for their children.

Welcome To Cyber World

Tsogt also has anxieties of becoming a taxpayer because he had heard from others that the taxes were a heavy burden. They will begin to pay taxes for the first time beginning December this year.

However, Tsogt was able to gain assurance from his mother Yo. Bilguun, who has worked many years as an accountant for a factory. She noted the tremendous difference made after the government rolled out its online tax services

“I used to queue day and night to submit financial statements to the taxation authority”, she said. “Two years ago, I needed to submit a financial statement for our own business. I queued all day and I was not able to submit it. The next day, I got there early in the morning but I was not still

able to submit until the afternoon”.

This year, however, she found that having the tax services available online saved her the hassles and cut through a lot of the bureaucracy.

“It really saves our time and is very easy to do”.

Exchange Rate

The volatility of the tugrug has been a tremendous strain on the family business, as well. Because much of the materials Tsogt uses, including yarn, needles, rubber, and plastic bags, are imported from China currency depreciations have a tremendous impact on costs.

“Increases in the exchange rate makes the prices of imported raw materials much more expensive”, said Bolormaa “Only two to three months ago we used to pay MNT 2 to 3 million for one tonne of yarn, but today we pay MNT 4 million. A box of plastic bags used to cost MNT 3,500 but now has shot up to MNT 4,800”, Bolormaa said.

The impact of currency depreciations on the price of imported goods has been felt nationwide and in many sectors of the economy. The price of an egg, for instance, has grown

from MNT 250 to MNT 400 in just a couple months. Since Tsogt’s company is only a tiny producer compared with competitors, any price increases is likely to have a dramatic effect on sales.

“We cannot increase the price of our product because the prices of imported goods from China are relatively cheaper than the price of our product”, Tsogt said

Exchange rate fluctuations have put a hole in the pockets of many small companies. Although a weak currency should be beneficial to local manufactures, as the price of domestic goods should be cheaper than the imported variety, this has not been true in Mongolia’s case because of what Tsogt calls “importers dubbed manufacturers”. That refers to all the companies that claim to be domestic producers but in reality are sourcing most of the materials from abroad only to be assembled in Mongolia.

While many will continue to criticize the failings of government, one should remember the attitude of Tsogt. If only more of the leading decision makers of the country were to keep that frame of mind, then perhaps Mongolia could make some true strides towards success. ■

PRICE

TUGRUG TUMBLE FUELS PRICE GROWTH

BY G. ORKHON

The constant price increase of consumer goods makes Mongolians feel despair in the lead up to the new year.

Today, Mongolia’s inflation rate is 10.8 percent—higher than the targeted 8 percent target of the government. Consumer spending is going down as the prices are on the rise. Mongolian Economy visited popular Ulaanbaatar ►

► markets, including Khuchit Shonkhor and Bars, to investigate first hand the price of consumer goods for the last two months. Buyers and sellers argued that the increase in prices was unexpected.

“It is now more difficult to sell products to the market rather than purchasing products from China at higher prices. The sudden increase in price is so painful. All the products were on the rise from MNT 500 to MNT 1000, on average,” said B. Enkhjargal, a saleswoman at the household goods section at Khuchit Shonkhor market.

The exchange rates for the tugrug against the US dollar and Chinese yuan have travelled above MNT 1,740 and MNT 280, respectively.

Domestically manufactured products are also increasing in price.

For some of the meals on the menu, the ingredients are sourced locally, including the meat, milk, flour and vegetables. So why was everything so much more expensive?

In 2008, a third campaign to cultivate Mongolia's land was announced. This year's harvest was hailed a success after it became clear that local producers had met domestic demand.

Yet, the price of wheat flour per kilogram at some markets, including ►►



Bumbugur market

Photo by E. Zorigt

The price of sunflower oil: (per bottle of one litre)

Type	Price			
	Khuchit Shonkhor market	Bumbugur market	Bars market	Bayanzurkh market
Sunny Gold	3500	3200	3100	3300
Klarina	3000	3000	2900	3000
Olyeka	4000	3700	3800	4000
Yanta	3000	2700	2900	3000
Simply	3500	3200	3500	3600

The price of wheat flour:

Type		Price							
		Khuchit Shonkhor market		Bumbugur market		Bars market		Bayanzurkh market	
		10 kg	25 kg	10 kg	25 kg	10 kg	25 kg	10 kg	25 kg
Ulaanbaatar	Premium grade	11000	25000	11000	25000	10000	25000	11000	25000
	First grade	7500	17500	7500	17500	7200	17000	7000	17500
	Second grade	5000	10000	5000	10000	-	10000	-	-
Altan Taria	Premium grade	11000	25000	11000	25000	10000	25000	11000	24000
	First grade	7500	17500	7500	17500	7200	17000	7000	17500
	Second grade	5000	10000	5000	10000	-	10000	-	-
Atar	Premium grade	11000	25000	-	-	10000	25000	-	24000
	First grade	7500	17500	-	-	7200	17000	7500	-
	Second grade	5000	10000	-	-	-	10000	-	-
Khurkhi	Premium grade	14000	29000	-	-	-	28000	-	-
	First grade	8500	19000	-	-	-	18000	-	-
	Second grade	5500	11000	-	-	-	10000	-	-

► Bumbohur and Bayanzurkh, increased by MNT 70 to MNT 80 in November compared with the previous month. There have also been some increases in the prices of imported flour from Russia.

At the markets, the price per egg cost between MNT 380 and MNT 400, shooting up more than MNT 100 in a month. The price for an imported egg from Russia today costs MNT 360 compared with

MNT 290 one month ago. The price for sunflower oil has also increased because it is imported.

At Khuchit Shonkhor market, the price of mutton per kilogram increased by MNT 500 from the previous month.

The following table is a comparison of the prices of consumer goods at large markets in Ulaanbaatar city: ■

The price of egg: (per piece)

Type	Price			
	Khuchit Shonkhor market	Bumbohur market	Bars market	Bayanzurkh market
Egg imported from Russia	390	390	380	400
Mongolian egg	380	380	360	380-400

The price of meat: (per kilogram)

Type	Price				
	Khuchit Shonkhor market	Bumbohur market	Bars market	Bayanzurkh market	“Баянзүрх”
Beef	Boneless	7300-9000	9500	8500-10000	8000-8500
	Bone-in-meat	7000-7200	7500	7000-7500	7500
Horse meat	Boneless	5500-5800	6500	6800	5800-9500
	Bone-in-meat	5300-5500	6500	6800	5800-7500
Mutton	Boneless	6500-7000	7000	9000	6500-7000
	Bone-in-meat	5500-6000	6500	8000	5800-6000
Goat meat	Boneless	5500	6500	6500	5800
	Bone-in-meat	4800	-	-	4500
Camel meat	Boneless	5500	-	-	5500

The price of vegetable: (per kilogram)

Type	Price			
	Khuchit Shonkhor market	Bumbohur market	Bars market	Bayanzurkh market
Mongolian potato	500-600	500-600	600	600
Mongolian carrot	1000	1000-1200	1000	1000
Mongolian onion	1500	1500	1800	2000
Chinese onion	1200	-	1200	1000
Chinese garlic	3500	-	3000	3500
Mongolian garlic	20000	-	-	15000
Mongolia turnip	1500	1500	1500	1500
Mongolian cabbage	1000	1500	1200	1500

BUDGET

THE RACE TO AMEND THE 2014 BUDGET

BY B. BAYARTOGTOKH

Mongolia is a ship that is being prepared for voyage. The ship's captain is Norovyn Altankhuyag, prime minister and leader of the government that promised to represent reform. Thus, one logical conclusion would be a difference in the budget they draft—but unfortunately that does not seem to be the case.

The aim for this year's budget was to set a benchmark for fiscal discipline, but now it is possible the 2014 budget will be amended more quickly than any budget before it—not a start that builds confidence. Economists criticise that constantly amending budgets as the year goes on is a waste of resources and could be solved by better planning.

The National Statistical Office commented in a report on the 2014 budget that the operating cost should be cut and that cuts should be made to some of the investments budgeted.

Some members of parliament, too, were disappointed about the outcome for next year's budget. However, it was they who approved it.

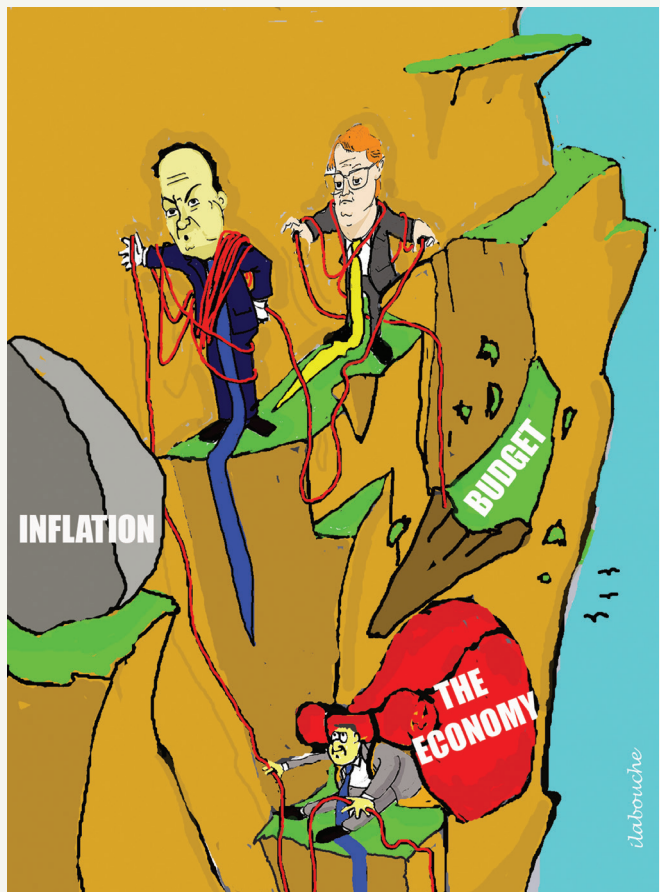
"The 2014 budget will hamper large infrastructure works. The budget is not yet perfect", said Batkhugiin Garamgaibaatar, a member of parliament and chairman of the Standing Committee on Economy.

Parliamentarian and coalition leader for the Justice Coalition Namdagijn Battserereg concluded that the 2014 budget suits the current economy, although it has suffered from a loss of MNT 2.5 trillion.

There was a lesson to learn from this year's MNT 1.2 trillion shortfall in revenue for the budget drafters. That lesson appears to be lost on lawmakers however, as the shortfall has forced the government to pre-emptively revise operating costs for next year. Parliament Speaker Zandakhugiin Enkhbold said that the 2014 budget is likely to be amended by February or March next year.

Bad Signs

Some lawmakers say that the prospects for the 2014 budget are worse than this year's. The 2014 budget has



projected earnings of MNT 4.6 trillion with spending of MNT 5.5 trillion and investment of MNT 1.1 trillion. Bonds of MNT 1.4 trillion will be sold as well as a means of recovering some of the deficit.

In most cases the Bank of Mongolia buys government bonds to finance government spending, but some economists warn this is a bad habit. Some investment projects are expecting private investment to play a large role, but the Mongolian contribution to these projects are significant and still leave Mongolia borrowing to pay for them. »

▶ The World Bank has warned that the off-budget spending via the Development Bank of Mongolia should have been included in the budget. This refers to the significant spending from the proceeds of the 2012 USD 1.5 million Chinggis Bond.

According to the semi-annual Mongolia Economic Update by the World Bank, the government has so far spent USD 700 million from the proceeds of the Chinggis bond, or 6 percent of GDP. When factoring in spending by the Development Bank's, total debt for 2013 stands at 12 percent of GDP.

"Parliament did not approve a complete and accurate budget for 2014", said Finance Minister Chultemiin Ulaan. "For instance, there is no issue in the budget that will raise funds for infrastructure work. This will hamper the potential for attracting resources for new infrastructure work next year".

Importance of Investment

Government's total debt is MNT 8.4 trillion, or 49.5 percent of GDP. Mongolian People's Party members in the State Great Khural have argued that the debt ceiling put in place by the Fiscal Stability Law—a law passed by the former People-party leading government—must be raised. It is worth noting, however, that Moody's Investor Services lauded the decision to maintain the debt ceiling, calling it a "credit positive".

This year, the government has seen a shortfall of 70 percent of funds promised for investment, which will have to come from next year's earnings by the government. Parliament has postponed the inclusion of investment costs in the budget for three months and some audits to define these figures are underway.

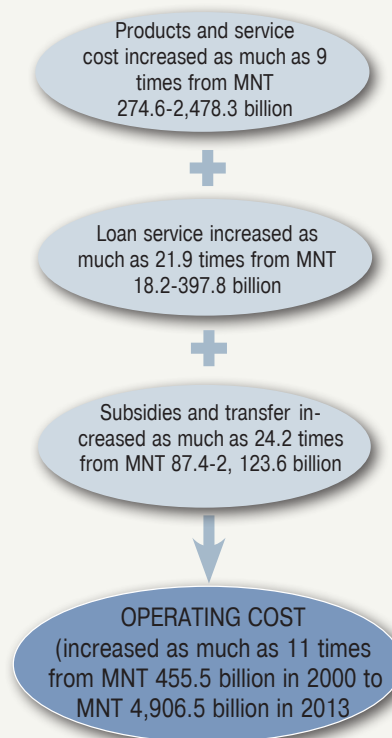
Accessories

Government costs comprised 36.6 percent of GDP in 2010 but grew to 47 percent this year. This growth is likely to be perpetual, as the government seems to lack the courage to reduce spending.

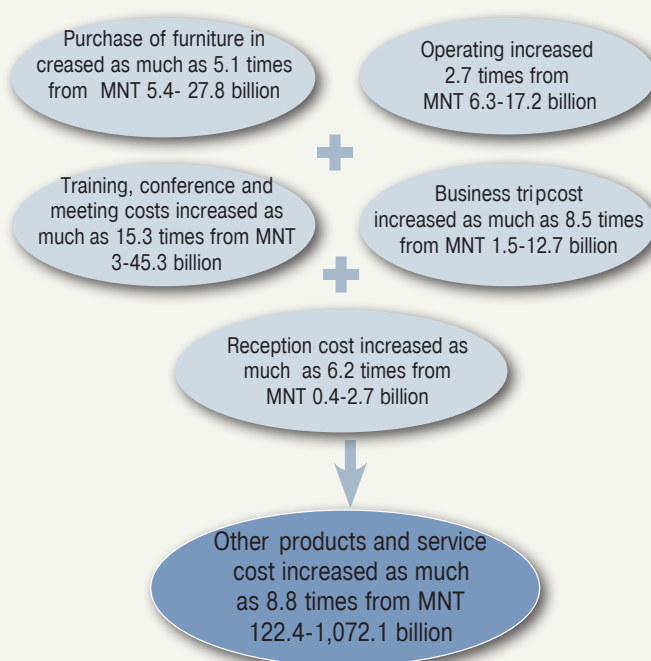
The economy is tough, so we can only guess if the government is able to generate as much as it projected. Next year's budget faces the challenges of the fluctuating currency rate of the tugrik and price growth in imported goods.

The indications are there will be turmoil for next year's budget, which looks to be continuing past practices rather than reforming the budget-making process or raising the bar. ■

2000-2013 structure of operating cost



Structure of the products and service costs (2000-2013)





OYU TOLGOI

A STRONGER MANUFACTURING SECTOR

BY B. ERDENE

The link between the development of a stronger manufacturing sector and the Oyu Tolgoi mine was the big discussion at the Metals Mongolia Conference on November 8. The conference demonstrated a shift of focus for mining-centric Mongolia; from the mining process to the manufacturing and processing industry. This would be a favourable prospect for attracting foreign investment to Mongolia and the future development of a sustainable mining sector.

The mining industry cannot be measured via the fluctuations of the US dollar alone. Advantages of foreign investment in Mongolia include new technologies and the introduction of high standards from experienced mining countries, just as Oyu Tolgoi has done.

For politicians, the mine has been at the centre of countless disputes. But Oyu Tolgoi is still the leading contributor to the Mongolian economy. Economist J. Unenbat argues economic growth would slow if the investment agreement negotiations between the government and Oyu Tolgoi were unresolved. He said that Oyu Tolgoi is the only way for Mongolia to mollify current economic troubles.

During the Metals Mongolia confer- ▶

ence, O. Sainbuyan, chief executive at state-owned Erdenes MGL, delivered a presentation on possible projects for the metallurgy industry. The company developed three programmes: Mon Zes (Mongolian Copper), Mon Alt (Mongolian Gold) and Mon Tumur (Mongolian Iron). Upon the implementation of the three programmes, the current volume of pure copper and iron production is expected to double.

Mongolia's GDP totalled MNT 17 trillion this year, or USD 10 billion, according to Naidansuren-giin Zoljargal, governor at the Bank of Mongolia. A figure he believes could have been higher, this year's growth will be 11 percent, he said, and forecasted close to 17 percent growth for next year, similar to the growth experienced in 2011.

During the Metals Mongolia conference, which takes place biannually, Oyu Tolgoi Vice President A. Munkhbat delivered a speech on "Developing a Strong Manufacturing Sector".

"We have introduced the best technology in the mining industry. And we are using it in our everyday activities. These technologies range from Komatsu trucks that have the capacity of loading 290 tonnes of ore at once, to using "block caving"—a rarely used technique by world mining companies."

The goal for Oyu Tolgoi is to make it the world's most efficient mine for water usage. Similar mines in the world use 1.27 cubic metres of water for processing a tonne of ore. But Oyu Tolgoi hopes to make use of cutting-edge technology to cut its usage to a mere 0.43 cubic metres of water per tonne.

Mongolia's mining industry has faced many setbacks, giving foreign investors little choice but to exit the market or suspend operations. Although this has stumped sector growth, there is movement being made toward further development of the mining industry. As a result, growth has been less than hoped for and some mega mining projects most important to development and economic growth have been put on ice.

Falling foreign direct investment (FDI) and export revenues have put a heavy burden on the state. That has led Mongolia to record a budget shortfall of MNT 1.5 trillion. The sometimes skewed

global perception of Mongolia has also contributed to waning FDI.

"The reduction in FDI has resulted in the substantial shrinking in the scope of industry and services", said President Tsakhaigiin Elbegdorj, at a forum aimed at creating a "development roadmap" for the country on November 15. "The shrinkage affects the revenue to fall short. When there is a shortfall in revenue, it means increased living costs in Mongolia. The state can do nothing to recover it."

Oyu Tolgoi, which exported its first batch of copper concentrate to China in July this year, will be the barometer for the nation's development.

"I hope that the time will come to reach a deal", said Craig Kinnell, chief executive of the Oyu Tolgoi mining unit, during the Mongolia Investment Summit in Hong Kong. "Success cannot necessarily be measured by acceleration alone. Our success will be measured by creating a better and stronger Oyu Tolgoi, based on our mutually faithful partnership that will overcome long-term challenges".

Randolph Koppa, president of Trade and Development Bank, during an interview with economist Dambadarjaa Jargalsaikhan on the Defacto television program estimated that Mongolia will need between MNT 55 billion and MNT 84 billion to finance the development of its mining and minerals processing industries, as well as build up the infrastructure of Ulaanbaatar and the national social welfare system. A third of those funds could come from FDI, USD 28 billion from Mongolia's own economy, USD 6 billion from bonds, USD 13 billion from international capital markets, USD 14 billion from Mongolia's commercial banks, and USD 2 billion from international donors and other financial sources.

The new Investment Law, the Securities Law to take effect next year and Oyu Tolgoi's hopefully successful negotiation could make this all possible.

The Office of the President also has a confident outlook. It expects Mongolia's economy to grow to USD 380 billion by 2050 as well as GDP per capita of USD 54,000 by then. It even aims for a 'AAA' rating for the country by every rating agency. ■



NEWSWIRE HIGHLIGHTS

NewsWire is a weekly news aggregate sponsored by the Business Council of Mongolia. Each week NewsWire delivers breaking and significant news from local and international news sources for a Mongolian and foreign audience alike. The following are news highlights from the month of November.

MONGOLIA WANTS TO RESOLVE MINE DISPUTE WITH RIO TINTO BY EARLY 2014

Mongolia hopes the USD 5 billion expansion of the giant Oyu Tolgoi copper and gold mine can start next year as it works to resolve a dispute with global miner Rio Tinto PLC, its partner on the project, a government source said.

But Rio Tinto may be reluctant to push on too quickly due to bleak market conditions, the source said, with copper prices down more than 10 percent in 2013 and expected to drop further on a flood of new supplies from South America and Africa. "Our side is committed to starting the second phase as soon as possible and we can agree on certain issues in December or January and

plan development", said the source, which is involved in Mongolia's discussions with Rio Tinto but did not want to disclose his name. Mongolia has complained about first phase costs being USD 2 billion higher than originally planned, the source said. The source said the overruns would mean it would take longer for the Mongolian government to pay back what it owes on the project, meaning that it would take longer before it started receiving dividends. He said Mongolia also continues to object to Rio Tinto's financing and management costs.

Source: Reuters

ERDENES MGL TO ESTABLISH COPPER HOLDING COMPANY, SMELTERS, SAYS CEO

State-owned mining assets holding company Erdenes MGL plans to consolidate its copper assets under a single company, said the state-appointed chief executive. Erdenes MGL will consolidate its holdings of the Oyu Tolgoi, Tsagaan Suvarga, and Erdenet Mines under the company Mon Zes, said Chief Executive Officer O. Sainbuyan. As the company

is already taking charge to lead construction projects for roads, railways, water delivery, and border ports, he said, the company will be tasked with establishing a smelter plant at either Sainshand or Erdenet. Officials are also looking at the possibility of providing smelting facilities at each of the mines. However, doing so would mean research into new technologies for Mongolia. "To build up Mongolia's smelting capabilities, we need the technology to process sulphuric acids", said Sainbuyan. "The conventional technology cannot handle this".

Sainbuyan said the company was looking into the use of solvent extracts for this, which he said is used in the United States and other Western developed nations.

Source: Zuunii Medee

PERMAFROST POSES NEW CHALLENGES FOR PP5

Permafrost at the location selected for Power Plant No. 5 will be a significant challenge as construction begins in 2015, said a Newcom LLC official.

"It is said that this land is

located at a dangerous permafrost area", said D. Gankhuyag, Newcom's director of infrastructure and energy. "Now we are discussing this problem. These challenges regarding the land have increased costs". "Now we are working to negotiate the general principles of the project with the government of Mongolia as well as the joint working group that includes the Minister of Economic Development and Ministry of Energy," said Gankhuyag.

Source: Undesnii Shuudan

ECONOMY WORLD BANK'S MONGOLIA ECONOMIC UPDATE

The Mongolian economy will likely show another double digit growth in 2013 but is exposed to downside risks, said the World Bank for its November economic update. The baseline growth forecast for 2013 has been revised to 12.5 percent from its previous forecast (13 percent) in the April Economic Update, reflecting the softer growth in China than had been previously projected in April and lower-than-expected pace of recovery in mining. Inflation remained at a single-digit level but shows growing in- ▶

▸ flationary pressure in recent months. The national headline inflation picked up to 9.4 percent in August and further to 9.9 percent in September on year-on-year basis, after a steady downward trend earlier this year.

Rising off-budget spending remains a concern as large portion of the Chinggis bond proceeds have been used to finance public investment projects outside the budget, mainly through the Development Bank of Mongolia. The monetary authorities have embarked on aggressive monetary easing programs in 2013 to offset the slowing credit growth early this year. Loose monetary policy has led to accelerating credit growth in recent months, particularly in construction and housing sectors.

The current loose economic policies are not sustainable given the mounting balance of payments pressure and will undermine macro-economic stability going forward. The downside risk will likely be exacerbated if the Mongolian economy faces growing headwinds from an unfavorable global economic environment. In light of the growing external imbalances and uncertain global environment, the growth-oriented economic policies need to be tightened toward economic stability. Fiscal policy should be further tightened and start rebuilding fiscal space and should focus more on "spending well". Monetary policy should be adjusted toward economic and financial stability. Supervision and monitoring of the banking system should be strengthened. Continuous improve-

ment of investment climate is important.

Source: World Bank

MONGOLIA TO EMBRACE ILLEGAL GOLD MINERS

The government of Mongolia signed a deal Monday with the country's gold producers association, which aims to reduce illegal extraction of the metal by reducing barriers for them to become formal miners, Xinhua reported. These miners are constantly shoved onto smaller pieces of land by mining giants, but today's announcement may soon change their faith, as the government also announced it has set up a council that will oversee the implementation of the memorandum.

Source: Mining.com

MONGOLIA TO MOVE UP FOOD CHAIN

Mongolian agricultural officials envision their organic meat and vegetables being served on Chinese dinner tables and are looking to foreign investors for help in making this a reality.

"Usually, the money coming into Mongolia is for mining. There is never much interest in the agricultural sector...

But we see great potential," Duursakh Luvsandorj, a department director at the Ministry of Industry and Agriculture, said on the sidelines of the Mongolia Investment Summit in Hong Kong.

"I see the potential but also the challenges", said Henry Lee, director of Quam Capital and co-manager of a Mongolia investment fund.

"Do they have the ability to produce and ship everything? The same infrastructure challenges that affect the mining industry also affect the agricultural industry". Upgrading the country's farming sector will require the construction of dairies, animal barns and greenhouses to help overcome the elements. In some areas, a fragile top soil means that only pastoral herding is appropriate, as overgrazing leads to soil degradation and sandstorms, making it unsuitable for large-scale animal husbandry that benefit from economies of scale. To encourage investment, the government has announced a series of incentives, including rent-free land leases and tax breaks on construction of agricultural farms and factories and on farming machinery.

Source: Southern China Morning Post

POLITICS DP REJECTS MP AMARJARGAL'S RESIGNATION REQUEST

The Democratic Party on 26 November rejected the request of MP R. Amarjargal to resign from Parliament during a meeting with the Standing Committee on State Structure.

The majority of the Standing Committee said the request was not necessary. The plenary session meeting of Parliament will hold a vote on the issue this week to decide if Amarjargal will be required to stay in Parliament. Amarjargal submitted a request to resign from Parliament to the Speaker Zandaakhuu Enkhbold on 12

November.

"Parliament must have Amarjargal. It is not only his own business," said Enkhbold. Amarjargal resigned after raising queries about who should take responsibility over the budget deficit during discussions on amending the 2013 budget.

Source: News.mn

ELBEGDORJ MAKES SOUTHEAST ASIA TOUR

President Tsakhia Elbegdorj will pay a state visit to South-eastern Asian countries from 18 to 29 November.

The president will be accompanied by Foreign Minister Luvsanvandan Bold, Mining Minister Davaajav Gankhuyag, and a business delegation as the president makes state visits to Myanmar, Vietnam, and Singapore. He will also make a trip to Hong Kong for the International Conference of Economy, where he will be a keynote speaker to deliver a speech on the business and economy of Mongolia. Elbegdorj will hold private meetings and official talks with Myanmar President U Thein Sein, Vietnam President Truong Tan Sang and Singapore President Tony Tan Keng Yam and take part in official events. This will be the first-ever visit by a Mongolian leader to Myanmar at the state level since the establishment of diplomatic relations in 1959.

Mongolia notes the state visits by Elbegdorj to the Association of Southeast Asian Nations (ASEAN) and as a participant at the East Asia Summit.

Source: Montsame ■