

The DeFacto Gazette

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A WEEKLY INDEPENDENT, NONPARTISAN, ANALYTICAL NEWSPAPER COVERING THE POLITICS AND ECONOMICS OF MONGOLIA-IN ENGLISH, JAPANESE, RUSSIAN AND MONGOLIAN

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JARGALSAIKHAN DambadarjaaFor weekly articles,
visit <http://jargaldefacto.com/category/23>

RARA AVIS

'RARA AVIS', which means 'rare bird' in Latin, is the title of a short story written by the famous Russian author Chekhov in 1886. This story depicts how an author who writes about crime goes to a police commissioner and asks him to present all types of thieves to him so he could get ideas for his novels. But when asks the commissioner to point him to a couple of decent people who do the right thing, the commissioner stands there in deep thought, scratching his head. Hence, the title of his book.

What happened in the last few days in Mongolia clearly shows that decent politicians and state officials have become 'rara avis' in our country. The stories keep coming out in the media about how our state officials have been stealing and embezzling from the Small and Medium Enterprise Development Fund, government bonds, funds collected for the Asia-Europe summit, and so on. If you look at social media, it is easy to see that people are feeling immensely frustrated and angered.

ECONOMY THAT LOST ITS WAY AMONG MPP/DP

When the Democratic Party (DP) was in power, they issued bonds with the names of Mongolian kings and acquired 3 billion USD in loans. However, the money ended up being allocated between state officials under the cover of various projects, without any trace of financial reports or calculations. Hundreds and thousands of large and small programmes were created, which included stabilizing prices by creating reserves of meat and wheat flour, supporting the construction industry, providing housing mortgages at softer rates, stabilizing the price of fuel, reducing the cost of imported goods, creating coal reserves, preparing the power sector for winter, stabilizing electricity tariffs, and reducing air pollution. The only people who got better off from these countless programmes were those who created them. These programmes were funded not by the government, but by the central bank. As a result, a grand total of 5.4 trillion MNT was paid for by taxpayers. Subsequently, public spending

increased dramatically and the government became strangled by debt while prices increased and the tugrug depreciated.

Since seizing a majority in 2016, the Mongolian People's Party (MPP) has let their party members, state officials, and their companies to steal 115 billion MNT in the last two years. This was revealed last week, much to the contempt and loathing of true SME owners. The cat was let out of the bag following an internal struggle between MPP factions. Now people are demanding investigations into another 28 similar funds.

In this way, both the MPP and DP, who have always been in power either on their own or together in a coalition, have been stealing from public funds through their factions, MPs, cabinet ministers, and other state officials. It is now easier to list what they did not steal than making an endless list of what they have robbed from the public. ►►

- ▶ Another reason why we cannot find a decent state official is that it has become hard to trust them today, not because they do not exist. Those who steal have become a common sight or the norm while those who act decently and with justice have become a rarity. The people in the higher level of our state have spent 20 years stealing and embezzling from the public budget, public tenders, bonds, various programmes, and government procurement. It has allowed mid- and low-ranking officials to ask for bribes openly and without concern.

These current circumstances of our state and government have forced the space for private business to shrink, resulting in reduced employment and increased migration abroad. Unemployment and poverty are spreading throughout our country, and our people are losing faith in the future.

However, what is happening today in Mongolia has put both a historic opportunity and a historic challenge on our table.

HISTORIC OPPORTUNITY

When it is now discovered and proven that our state officials have stolen from public funds, we, Mongolians, have a great opportunity to strengthen our state and our government as an institution. This would require the following steps as a start:

- Introduce independent, balanced oversight by clearing up the blurred lines between the duties and responsibilities of legislative, executive and judicial branches of the government through making a constitutional amendment
- Make our public governance transparent, responsible, and accountable
- Strengthen the rule of law and ensure everyone is treated equally before the law
- Give people the economic freedom that allows them to increase their income, strengthen our civil society, improve the public oversight mechanism, and turn all state-owned companies into public companies

HISTORIC CHALLENGE

A historic challenge has presented itself to Mongolia's political parties, especially the two major parties in MPP and DP and their members. The challenge revolves around:

- Start holding their party members accountable regardless of their status or power, if they stole from public funds
- Strengthen as an institution and no longer be dependent on one individual
- Introduce transparency and improve internal democracy by reforming their accountability system and political party financing scheme

If political parties cannot reform now, they will be pushed off from the political board.

2018.11.07 ■



NAIDALAA BADRAKH
Economist

ARTICLE

AN “ALTERNATE ECONOMY” *Run by Chieftains*

The term “informal economy” or “shadow economy” applies to a segment of the economy that is not registered, regulated, monitored, nor taxed, and yet manufactures, offers trade and services, and earns and spends income. It may also refer to the underground economy of robbery, corruption, illegal trades, and organized crime.

Alternatively, in Mongolia, a different type of economy led by parasite chieftains has formed, suppressing economic growth and social development. An “economy” so self-sustainable and circular, to the point that it extracts finances from the state budget and in turn has the political rights to spend the state budget. They approve laws and develop programs with the best possible humanitarian names, such as developing SMEs, supporting agriculture, innovation, for herders, locals, protecting animal husbandry, and promoting disabled people, which sound as if they’ll indisputably serve the citizens. Billions are allocated for these laws and programs in the state budget. Not only state funds, but tenders, concessional loans, bond loans, and whatever other ways to extract money from the state budget is an option for financing. This is not an underground economy; these processes are being registered, and their loans, budgets, taxes, and reports all seem like they’re running smoothly, legally, all according to the policy and regulations. Unfortunately, those funds will be distributed as loans, tenders, and grants in all stages only benefitting a few number of chieftains, ministers and political groups, without a penny going to the real owners or citizens. The allocation is done by chieftains of political groups unofficially. While the Mongolian economy belongs to 3.2 million people, this economy revolves around 10,000 (?) people, eliminating any opportunities for others to run their own business and innovate, devouring the majority of the country’s net profit and revenue.

These parasite members of the economy gain advantages by borrowing billions in interest free loans through backdoor deals, and then build their “SMEs” easily, or even just put it in their bank savings account, establish a non-banking financial institution and launder money with high interest rates, and/or earn unrealistically high profit within a short amount. Meanwhile,

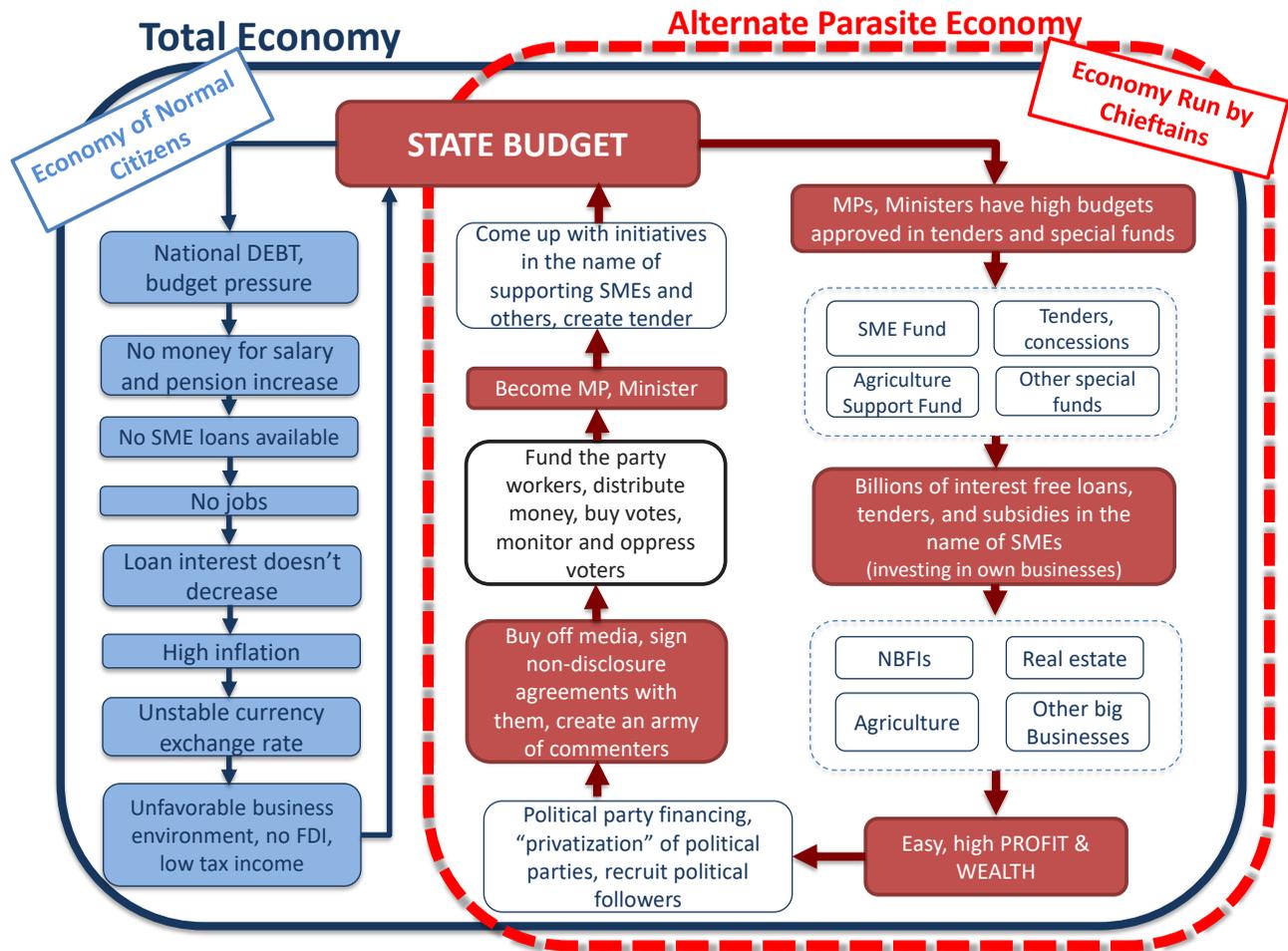
real business owners will borrow those high interest loans for their business to barely survive.

As for the “tax” and dividends, the “business owner” has no choice but to compensate these to the group which enabled the owner to get the multi-billion interest free loan. This is the real reason behind the instant expansion of some businesses, sudden construction of extravagant buildings, money laundering through real estate rents, immediate gain of wealth, and the reason land prices goes through the roof. The profit is then used to finance politics, donate to their own political party, buy off media and followers, and create an army of commenters brainwashing for their side. Whoever has the most followers, collects the most bag-holders (workers), pays them, and feeds them, are political businessmen, corporate owners, and has the most power. Gradually, one fraction of the political party or the whole party will be privatized and a private party will be formed. This is the reason why whoever can carelessly spend money in elections, why people own private television channels, and put a stop to media using a non-disclosure agreement. This is also the reason why the “political party”, despite its name, has turned into a political corporation.

Certain units such as party branch committee who work with low salaries to do the dirty work exist to fraud voters, press on their soft spot and oppress them, and distribute cash. During the election, part-time job seekers of the “we can do it” club, who allegedly distribute money and influence certain voting within certain groups, also surround the candidates. This is how political part-time jobs make up quite a bit of the labor market and income share within the Mongolian economy, and how political businessmen and corporation owners have become bosses and benefactors.

These workers do not in their conscious minds realize that they’re supporting this political network, distributing money, brainwashing the public, oppressing them, and going so low as to back-scratch these politicians, at the expense of their children’s future and their chance for a better life, all just for a small amount





of money. Even ordinary citizens in both the city and rural areas have polarized political views, dividing and arguing with their brothers and friends on behalf of the parasite chieftains that they've declared superior. They do so in hopes that after the election, they'll get their fair share, a crumb of the giant cake, that is the money to be extracted from the state budget. Many young people, in the name of doing politics, are "hired" in this political corporation. They show their loyalty to their master, become a cell, a tissue in the well-being of this parasite economy while unaware that they're destroying their own future. Political corporation owners' income and playing ground expands as individuals and businesses become poorer, their lives and businesses more challenging and burdensome. Hence, it's in the chieftains' best interest to evoke political instability, counteract new force and healthy thoughts, instigating the public against foreign and domestic investment, local, fair businessmen and wealth creators, and creating confusion and disorientation. Foreign interests interfere as well.

Thus, a country has formed inside a country, an alternative parasite economy within an economy. This economy benefits

no ordinary citizen or business, rather revolves around the "chieftains", their followers, and the election team which will distribute money for them. In other words, an economy for chieftains. Because this economy sucks the most from newly created wealth and state budget, no money is then available to increase teachers' and doctors' salaries, to build kindergartens and elementary schools, or to lend the real business owners. This is the reason jobs are not available, loan interests do not decrease, currency is unstable, businesses grow only too little no matter how hard one tries, and life does not improve.

Mongolia, and every Mongolian is being robbed of their opportunity to build, make, work, and create their future because they are seized by this parasite system and unknowingly serve it. Real change will happen not only by dethroning a few ministers and parliament members, but by eradicating this political financing structure which feeds on the state budget and ridding the state of relevant politicians. This will only be easily achievable when Mongolian people stop opposing each other politically and rather, oppose these insatiable chieftains.



MOTION TO REVOKE B. BATZORIG'S PARLIAMENTARY IMMUNITY DEFEATED

The Minister for Food, Agriculture and Light Industry who oversaw the SME fund which has been connected to widespread corruption resigned his post. However, a motion to strip his parliamentary immunity was defeated. This decision was made in fear of setting a precedent that would open the floodgates for other members of Parliament to follow suit. The vote took the form of a secret ballot and all but two members of Parliament voted in favor of Mr. Batzorig retaining his parliamentary immunity.

That the mismanagement of public property has become the norm is evident from the actions of high-level politicians. We commented last week that the SME fund case was the tip of the iceberg and true to form, information came to light last week that there are 28 similar funds that have been misused in an identical manner. Moreover, there were also misappropriation of the proceeds of the Chinggis bonds. Of particular interest was the price stabilization policies whereby the Mongol Bank effectively served as the government's budget. Approximately 4.5 trillion tugriks were utilized for this purpose.

Unless members of Parliament are stripped of their immunity, any investigation into their indiscretions would constitute little more than a comical farce. While numerous cases such as the SME one have eventually faded into obscurity, it does not await the same fate as it involves legislators misappropriating trillions of MNT from the SME, the backbone of the Mongolian economy. The case does not only encompass much needed funds being diverted from different sectors but also leads to interest rates in Mongolia remaining high.

This phenomenon is due to politicians and their inner circles creating non-banking financial institutions with the SME funds and charging extortionate rates for loans. As the Deputy Prosecutor of Mongolia is also involved in the scandal, there is no legal recourse for the misappropriation of the funds.

Additionally, when there are no repercussions in criminal



cases, they simply fade away. This has led to distrust of Mongolians in their government which lays the foundation for chaos and instability in the country. Those with resources would leave the country and those that remain would begin to instigate conflicts over insignificant issues such as where they were born or which ethnic minority they belong to. We have seen instances of this occurring in developing countries that have lost their path and Mongolia will not be an exception should we stay on this path of indiscriminate corruption.

Moreover, the Rule of Law preaches equality under the law, a concept that is absent in Mongolia. It is up to the electorate to change this trend. Many voters simply sell their votes for small sums of money. This equates to us handing over our purse to the robbers who misuse our trust.

It recently came to light that substantial money from the Livestock Protection Fund was also misappropriated by politicians. While these funds are becoming more transparent, there is still a long way to go. As these funds consist of public funds, I appeal to whistleblowers in a position to do so to reveal whatever information they are privy to in relation to the misuse of any of the 28 funds. This to me, would be their moral obligation.

There also needs more disclosure on the price stabilization policies initiated in late 2012/13 by former

Prime Minister Altankhuyag and the former Governor of the Central Bank. Despite an injection of 4.5 trillion MNT into the program, no price stabilization has taken place to date. This is normal as you cannot compete with the market.

The issue facing Mongolia is that there is irresponsible public governance with those responsible for the misuse of public funds evading any repercussions. They protect themselves through any possible means such as immunity.

Politicians will not be able elude responsibility this time as the public is becoming increasingly disillusioned with government as the prosperity of the politicians are attained at the cost of the public who struggle to obtain gainful employment. The private sector is gradually losing jobs as it is difficult to compete with the companies of ministers particularly when they operate on loans 5 times cheaper than you. This leads to an exodus of the most competent individuals to China and Korea.

AMENDMENTS TO THE LAW ON CURRENCY REGULATION

Legislators are contemplating on a number of disturbing amendments to the 1994 Law on Currency Regulation. Those discussions were initiated by the Economic Standing Committee of Parliament. Among the proposed amendments, there are a number of worrying provisions. Firstly, Mongol Bank would receive the prerogative to limit international and currency transactions should they deem necessary. The provisions also authorize the Financial Regulatory Commission can limit transactions should they deem that it will positively affect the strength of the MNT.



Moreover, the amendments would see the regulation of the flow of currency at the borders. Even more alarming is the proposal to allow Mongol Bank to carry out commercial transactions. This would entail opening checking accounts in the bank for entities involved in strategic mining deposits. These four provisions would devastate the Mongolian economy.

There would be an immediate impact on the economy should the measures pass. It is an attempt by the government to establish capital control over the flow of

currency. This will negatively affect the supply of money and it will take numerous years and a substantial amount of resources to fix those missteps. Moreover, the provisions would not only deter foreign investment but also frighten existing investors in the country. Should those investments leave the country, there would be a devastating effect on the strength of the MNT with it depreciating in value four or fivefold.

It is doubtful that the legislators are aware of the pace at which our currency would depreciate and simply printing more notes will not be enough to impact it. Their reasoning behind these amendments is that they would keep the strength of the MNT relatively stable or even strengthen it. In doing so, they failed to address the main reason behind the devaluation of the MNT. A negative trade balance is no longer the cause of the devaluation of the MNT as the deficit no longer exists. We are currently in a payment deficit meaning that the money exiting Mongolia in the form of loan repayments is significantly larger than foreign investment entering the country. This issue will continue to persist should we continue to approve budgets with deficits. Irresponsible governance is the main reason behind the devaluation of MNT and not lack of controls on financial transactions.

This form of legislation would deter most foreign investment into Mongolia and the only investor that would remain would be our southern neighbors who traditionally put forward relatively lax requirements. The amendments would also destroy the two-tier banking system of Mongolia which has been the foundation for development.

A recent example of a country attempting to implement policies proposed by the amendments is Turkey. That

attempt was short-lived however as legislators realized the harm of interfering in the economy to stabilize the strength of the lira by force. Zimbabwe has also followed the same path for an extended period of time leading to them introducing 100 trillion ZWL. That note was not even sufficient to purchase a loaf of bread. In 2015, China forgave a 40 million USD debt that Zimbabwe had taken out as they were unable to repay it. In exchange, the government

accepted the CNY as Zimbabwe's national currency.

Venezuela has also attempted to implement capital control and to regulate exchange rates. This led to an exodus of 3 million individuals from the country with another 2 million desperately attempting to leave the country. This is not the path that Mongolia should take considering that the burden will fall on the shoulders of the taxpayer.

THE DAY OF NATIONAL PRIDE

This past Thursday was National Pride Day and the anniversary of Chinggis Khaan's birth. The following Friday was converted to a weekend with the next Saturday being named a work day. Various holidays and anniversaries are celebrated with long weekends throughout the world but the decisions on holidays and transferring work days are made the prior year with everyone becoming aware of them in due course.

In Mongolia, the decision was announced the week prior to the holidays severely disrupting the conduct of business. For example, the tourism business thrives during long weekends with people travelling but this is not the case if individuals become aware of the holiday the week prior. The leadership failed to contemplate on the economic benefit of those long holidays as they are focused on damage control following the SME case. For the first time since the revolution, the majority of our legislators are involved in public theft. Funds designed to stimulate small and medium enterprise were diverted towards the families of those legislators and other public officials.

This completely tips the scales of the playing field and creates a non-competitive environment. While this constitutes a severe moral indiscretion, the same legislators are perplexed as to what their misconduct was. Some members of Parliament, vehemently refused to even ask for forgiveness. This suggests that the culture of corruption is deeply embedded in Mongolian society starting with those at the very top.

Despite the SME case, we should take pride in our Chinggis Khaan who, to a certain extent, expedited the pace of development around the world. According to



Jack Weatherford, this was accomplished by making the world a more interconnected place by establishing trade routes and through his acceptance of other cultures and religions thereby bridging Eastern and Western civilizations. However, given that he lived generations before us, at the very least, it would sound for us to be illogical to be proud of him.

Mongolians should contemplate on what they are proud of and what they have done to those less fortunate or the contributions they have made to the prosperity and development of our nation. If you can answer those questions, those are things one can be proud of. Our politicians however will most likely struggle to find answers to questions of this nature. There is also an absence of individuals under whose leadership the country achieved certain milestones. It would also make little sense to be proud of the legislators who steal our money. Therefore, every Mongolian should devote whatever resources available to them to the betterment of our country. This would create something we could be proud of.

This review has been edited here for space and clarity. You can watch the full 30-minute review on the DeFacto website [HERE](#).



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