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ERDENEBILEGISM II MONGOLIA'S NEXT CORRUPTION EPISODE

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Erdenebilegism II



TRADE &
DEVELOPMENT BANK



ULAANBAATAR
CITY BANK

MONGOLIA'S NEXT CORRUPTION EPISODE



№ 474

JARGALSAIKHAN Dambadarjaa

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ERDENEBILEGISM II

MONGOLIA'S NEXT CORRUPTION EPISODE

Relative to size of population, our nation experiences the largest number of political dramas compared to other countries in the world. This time the thick, dark fog of MPP/DP (Mongolian People's Party and Democratic Party) hovering over Mongolia has started being

dispersed by the clashing winds of integrity and fraud. Although the winds aren't very strong, there have been some revelations. As a society, we need to link specific events in the past by their sequence, make logical connections, find the truth, and – ultimately – clean up and find a path forward.

ONE OWNER FOR TWO BANKS

Almost three years ago, I wrote a column titled [‘Erdenebilegism – A New Phenomenon in Mongolia’s Democracy’](#) about how one individual conspired with the authorities and increased his ownership interest in Ulaanbaatar City Bank by using The Bank of Mongolia’s requirement to increase statutory capital reserves as an excuse. Instead of informing the true owners (the public) of the need to increase the capital reserve, Ulaanbaatar’s mayors, M. Enkhbold, Ts. Batbayar, and G. Munkhbayar allowed Erdenebileg to own 80 per cent of the bank. Subsequently, Erdenebileg gained full ownership in 2014 when another mayor, E. Bat-Uul, gave him the remaining 20 per cent.

The history of the Trade and Development Bank (TDB)’s privatization is connected to Prime Ministers. In 2002, 76 per cent of TDB was sold for 12.3 million USD to Gerald Metals, with direct involvement from the then Prime Minister N. Enkhbayar. In 2007, these shares were purchased for 70 million USD by D. Erdenebileg, with direct involvement from the then Prime Minister M. Enkhbold. Currently Erdenebileg owns 93 per cent of TDB via four different companies registered abroad, all of which

are fully owned by him. The remaining 7 per cent is owned by Goldman Sachs (5 per cent) and by some 50 individuals who jointly own 2 per cent. TDB is currently Mongolia’s second largest commercial bank and holds 25 per cent of the total capital held by commercial banks in the country.

Both Ulaanbaatar City Bank and TDB were [given special care and attention by former mayors](#) M.Enkhbold, Ts.Batbayar, and G.Munkhbayar, all of whom are from MPP. During their time, every piece of highly valued land, including publicly owned areas and parks in the city center, was always handed over to these two banks. When MPP lost the election in 2012 and Ulaanbaatar’s new authorities hadn’t yet been set up, G. Munkhbayar carried out his last act as mayor by issuing a decree registered under the number ‘a/495’. This decree gave Ulaanbaatar City Bank the ownership of the land in front of the Ulaanbaatar Hotel, the land in front of the General Intelligence Agency building, the land in Tsedenbal’s square, and the land in the Students’ Park for “the purposes of building a multi-level car park.”

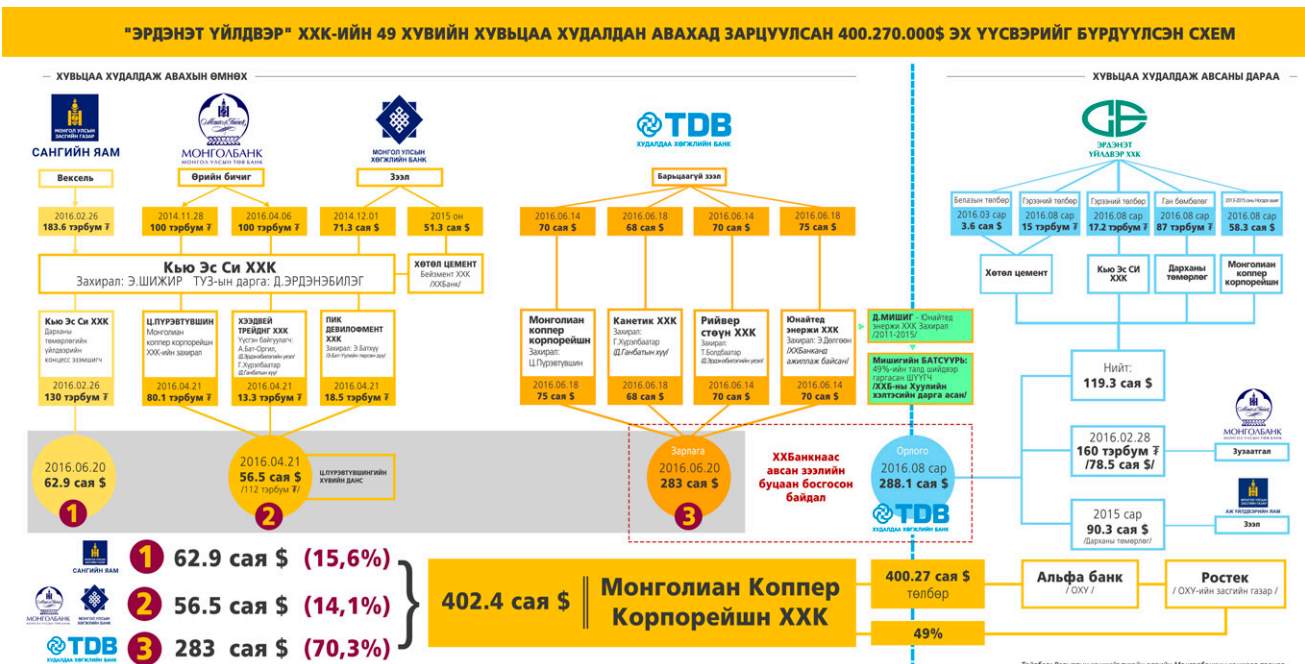
TDB demolished an iconic building in the ►►

► Children’s Library and erected a building made up of concrete and glass for 27 billion MNT. Subsequently, they sold Levels 11-12 of the building to the state-owned Development Bank of Mongolia (“DBM”) for 27 billion MNT, and Level 10 to MIK Company for 15 billion MNT. It appears that D. Erdenebileg is exceptionally talented at raising capital from state-owned organizations and selling goods and services to them.

D. Erdenebileg is also one of the financiers of both MPP and DP, who have had governing power in turn for years. Both MPP and DP keep the names of their financiers’ extremely secret. MPP and DP are the nest of corruption in Mongolia’s state and government.

ON THE WAY TO ESTABLISHING A MONOPOLY

TDB has been playing an important role in our economy. However, it was recently revealed that the TDB has been serving companies that belong to their secret owners and playing an even more important role for them. This revelation was made with the diagram below, which was presented to the parliament and describes the capital raising process for the purchase of 49 per cent of Erdenet Mining Corporation.



This diagram was disclosed by L. Oyun-Erdene, Head of the Cabinet Secretariat, when describing how the Mongolian Copper Corporation used capital that originally came from state and government sources, when they purchased 49 per cent of Erdenet and Mongolrosvetmet from Russia.

The Bank of Mongolia, and DBM. This capital was raised by a company named QSC, which is owned by D. Erdenebileg himself. The remaining 70 per cent came from TDB, who provided loans to four different companies connected to government ministers and mayors. This is how the Mongolian Copper Corporation raised the money.

A total of 400.2 million USD was required, and 30 per cent came from the Ministry of Finance,

Following their takeover of Erdenet, TDB closed the loans within the time period from March ►►

▶ August 2016, by receiving 120 million USD from Erdenet in the form of dividends from previous years, by purchasing products from the mine, and by receiving 78 million USD from Mongolbank and a 72 million USD loan from the Ministry of Finance.

Given that 49 per cent of these assets were purchased with capital that comes from the state and government, the parliament made a decision to clear up all financial liabilities and transfer the ownership interest to the state. However, the Mongolian Copper Corporation didn't accept this decision and went to court. The court proceedings have gone on for two years and still continue to this date.

The state views that TDB broke the banking law

A MAFIA SYSTEM

When corruption cases are protected by the judiciary and law enforcement institutions, it is an indication that a mafia system has been set up within the state. The government raised four disputes on the misuse of public funds, but Mongolia's judiciary and prosecutor's office have dismissed them all.

The government considers that the judges who made those decisions have a conflict of interest. Judge M. Batsuuri dismissed three disputes initiated by the government. M. Batsuuri's father is D. Mishig, who previously was the chief executive of 'United Energy', which obtained a loan of 75 million USD from TDB and transferred 70 million of it to Mongolian Copper Corporation on the same day. The government raised this to the anti-corruption agency (the Independent Agency Against Corruption – IAAC), but nothing came of it.

by granting a loan when there was no collateral and by giving a large loan to a related party. Although TDB executives were taken into custody, the court let them go, deeming the investigation illegal.

Justice Minister Ts. Nyamdorj declared that over 70 mining licenses are currently held by the two banks owned by D. Erdenebileg. These licenses include 35 licenses held by Mongolroostsvetmet alone (spanning over many aimags from the Asgat silver deposit to Bor-Undur), and 37 other mining licenses. He also added that the control over licenses also includes many other minerals deposits surrounding the Darkhan Metallurgical Plant, Erdenet, and Darkhan Selenge.

Also, the IAAC has been putting off an investigation into why the government voluntarily refused to purchase the 49 per cent, despite having financial sources for the required capital.

The state is running out of options and becoming desperate to take action. Parliament is currently convening day and night to have the issue discussed at the National Security Council, in order to make amendments to relevant laws and replace high ranking officials among the judiciary and the prosecutor's office.

Even if the individuals at the top of the judiciary, prosecutor's office, and the IAAC are replaced, when will we finally get rid of the mafia and corruption that have crippled the Mongolian state?

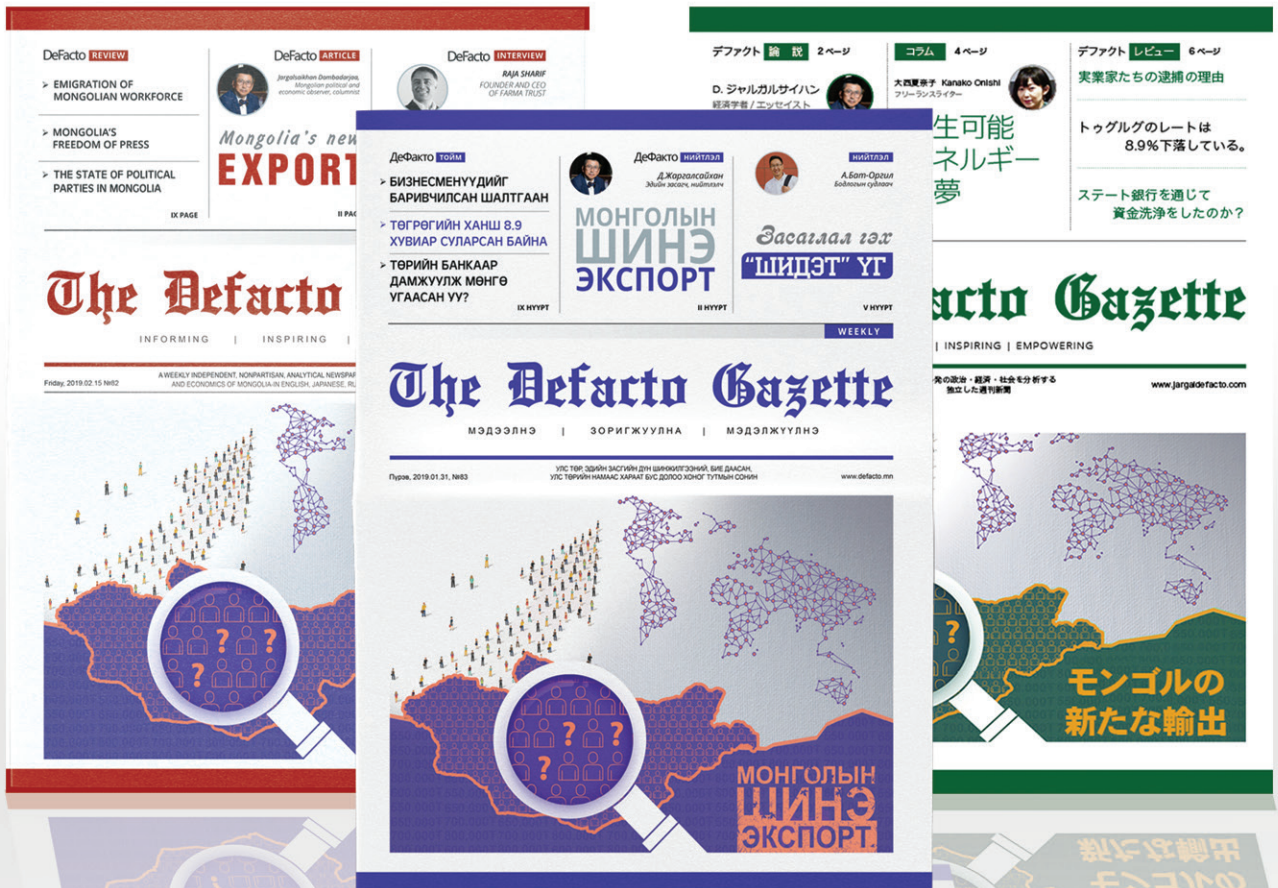
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ZORIG'S CASE OFFICIALS TORTURE: WHAT IS NEXT FOR MONGOLIA'S LAW?

Three suspects were sentenced to 24 to 25 years in prison for the 1998 murder of S. Zorig, a Parliament Minister in Mongolia back in the 90s who also led the democracy movement in the country, and was murdered in his own home. His death case remains unsolved to this day. A video of the defendants being tortured for a confession was shown at the Parliament House on March 29, for around 200 journalists, with the use of cameras prohibited. The 27-minute long video was played in the presence of Cabinet Secretariat L.Oyun-Erdene, Minister of Justice and Internal Affairs Ts. Nyamdorj, and General Intelligence Agency officials, who offered some explanations about the video.

Everyone in society now wants to see this video. Mongolian politicians are deciding whether or not the video should be made public. What's your take on this?

This video has to be shown to public in spite of those warnings by politicians, so that this horrible case of torture in prisons don't happen again in Mongolia. Let's have a bigger picture: S.Zorig was murdered in his home 20 years ago and we don't know who the murdered is and why they did it. And a recent legal case said they have found three killers but turns out they confessed under torture. So I think Mongolian democracy faces a severe test today. It's good that we don't have this capital punishment law, otherwise by that time they would have already been killed and it would be too late to correct it. The torture was happening

in the basement of a prison which is regarded to as irrelevant for keeping people. The Minister of Justice, Ts. Nyamdorj, said it was arranged by four or five prosecutors including a member in the city procurer office. It is unacceptable, and it shows how still our security enforcement agencies are against our people, like in the 1940's.

Mr. J.Byambadorj, chairman of the National Human Rights Commission, made an important statement on the confession video. What did he say, and what do you think about it?

We have three commissioners in the NHRC, Mr. J. Byambadorj is the head, who has been nominated as so for two or three times again by the Parliament. He said he received complaints from relatives of the three prisoners saying that it was wrong, that they had to confess under the torture. He was sending several letters to all related agencies including this procurer, judge, and anti-anti-corruption agency. He got a letter back from the city procurer office saying this is under strong confidentiality, so they cannot disclose it. We respect international laws above our national laws which means, in particular with this case, when people are tortured, that they have been violating simple human rights. And this guy was saying because it is a confidential case we cannot do anything. This is unacceptable. People are very discontent with this man, and now they are demanding online on social media for his resignation.

THE NEW CHALLENGE FOR MONGOLIA'S PUBLIC GOVERNANCE



During the March 27 irregular session, the Mongolian Parliament voted to amend the Law on the Legal Status of Judges and other amendments proposed by the Mongolian President, Battulga Khaltmaa. But prominent lawyers have criticized the amendments, saying that they undermine Mongolia's constitutional separation of powers between the legislative, executive, and judicial branches of the Government, threatening judicial independence in Mongolia. They were about to file an appeal with their last hope of a change, the Constitutional Court of Mongolia, and it's reported that they were collecting 1,000 signatures for a petition.

It is being said that one of the three branches of the Government was broken by these amendments made by President Kh. Battulga. What do you think of that?

First of all, these branches are broken anyways, and now they tried to fix it by these law changes, which basically says the Council of National Security, if they recommend, they can discuss

at the Parliament and they can fire these men. The Council decisions are made by the Speaker, the President himself and the Prime Minister. U. Khurelsukh (PM) had promised to fight for the interests of Mongolia and I think that is what he is doing, and now at least we found out the torture case and finally two, three officials are fired, and next it will be many more issues that have been created under this non-transparent Government. I believe after revealing this torture issue, not only replacing people, they are expected to make other decisions such as arresting officials on other cases but the prosecutor was never given permission. Now they have their own arguments that they are right so the permission might be given. I think this is just the beginning of a major shift in the democratic institutions of Mongolia which today we find to be very fragile, very young, and still a lot of speculations, a lot of corruptions, and I think we will take a step towards a better Mongolia.

POOR LAND MANAGEMENT IN ULAANBAATAR BEING REPEATED WITH THE KHUSHIG VALLEY AIRPORT?

It has been 11 years since the New Ulaanbaatar International Airport project began. It is presently under construction 52 kilometers south of Ulaanbaatar, in the Tuv Province, and it is nearly finished. The new airport is designed to have double the capacity of the current Chinggis Khaan international Airport. The construction has been financed by a Japanese concessional loan totaling USD 540 million, to be repaid over 40 years. The airport will connect to the capital through a new highway, which is nearly complete, and its construction is being funded by a Chinese loan.

Complaints that Mongolia has failed to finish the highway's construction are being currently dealt with, but what other challenges is the project facing now? And are there solutions in place?

The 32km asphalted road under Chinese money and a Chinese company, looks like a good professional and international highway, but we still need railway to be connected to this airport. Airport management will be done by the Japanese side and the contract is almost done, not yet signed, and the Prime Minister expects the airport to be open by Naadam festival (July 11), which sounds unrealistic today. However, this airport will be run by the same Japanese professionals who are running the Haneda (Tokyo) and Narita airports. We keep changing our government every two years because ministries are changed, as well as bureaucracies' change, and so plans get delayed. That is what is happening with all our projects, unfortunately. So Japanese have built the airport, the runway, on time, a year, year and a half before, and by the way we already started to pay this concessional loan



from Japan last December, because ten years have elapsed. But the airport is not yet finished, so it is to blame on our non-professional government. Anyway, the road is there probably because China was doing that, and what is missing is this contract; second issue is the aircrafts fuel, kerosene, and Russia has interest, but I think we should have even 5% dependence on China, not all on Russia, because they have a rather aggressive energy policy. The third issue is the planning of the city around the airport, and good news is that Incheon (South Korea) urban developer companies are helping us to develop that design which hopefully will make it better.

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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