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DeFacto **ARTICLE**

*Jargalsaikhan Dambadarjaa,
Mongolian political and
economic observer, columnist*

**LETTING OUR
RESOURCES TURN
INTO TROUBLE?**

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WEEKLY

The Defacto Gazette

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A GLOBAL LOCAL, INDEPENDENT, ANALYTICAL NEWSPAPER COVERING THE POLITICS AND ECONOMICS OF MONGOLIA
(IN ENGLISH, JAPANESE, RUSSIAN AND MONGOLIAN)

Thursday, 2019.04.11 №89

www.defacto.mn





№ 475

JARGALSAIKHAN Dambadarjaa

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LETTING OUR RESOURCES TURN INTO TROUBLE?

Mining accounts for one fourth of Mongolia's economy and 85 per cent of our total exports today. However, it is increasingly looking like that we cannot effectively manage this vital economic sector of ours.

Local communities are posing a stronger opposition to mining, which has made mineral exploration and extraction much more difficult. In some cases, local governments are neglecting the decisions that come from the central government and have been acting like

a federal unit in a federal government. Hence, there is a need to determine why we're in this situation, analyse the circumstances, and come up with an effective solution to resolve issues.

We should remember that, despite having natural resources, many countries ended up suffering from a civil war and a split governance, having never been able to leverage the natural resources in the advancement of their country.

“POP [POPULIST]” EXTORTIONS

- In *Dornod aimag*, soum citizens teamed up with a group from Ulaanbaatar to oppose gold mining conducted by *Steppe Gold*. They threw core samples (from mineral exploration drills) in the river and made a big commotion.
- *Genie Oil*, a U.S. company, came to *Tuv aimag's* Erdenesant soom to implement a shale mining project. However, they were forced to leave Mongolia shortly afterwards, due to pressure from local communities and election candidates.
- After years of facing opposition and overcoming various hurdles to operate in *Dornogovi aimag*, French company *Areva* is currently working in partnership with the government through a company named *Badrakh Energy*.
- Canada's *Centerra Gold* sold their gold mining business at *Noyon Mountain* and left Mongolia, due to intense pressure from local communities, groups, and ninjas (illegal gold miners).
- Mongolian company “*MAKC*” faced a widespread smear and defamation to be able to do petroleum exploration in *Sukhbaatar aimag's* Erdenetsagaan soum.
- Mongolian company *Magnai Trade* established a product sharing agreement with the government in 2010 to do petroleum exploration activities in *Dornod aimag's* Choibalsan soum. However, due to strong protests from the aimag and soum governments as well as the MP representing the region, *Magnai Trade* has still not been able to do its first exploration

drill. Going to the court didn't help, so the company appealed. In the meantime, they've lost the prime time to exploration activities, which has magnified their business risks. This project would help Mongolia reduce its dependency on external petroleum and establish and operate our first refinery, which will always need additional petroleum.

- Due to the *Dornod aimag's* Khalkh gol soum Citizens' Representatives Khural not convening for an entire summer, a company who was building a road within the soum was forced to import gravel.

These are only a few examples of how dozens of companies are losing their time and money to navigate through various extortions from aimag and soum officials and other specialized groups who demand cash and donations. These extortion activities are taking place when the companies abide by the relevant laws, regulations, and government decisions.

On the outside, our government officials appear to be supporting foreign investment and give presentations to domestic and international audiences. But, in reality, the same politicians are fueling protests and opposition, making false promises, and encouraging aggressive groups. They are doing it on purpose to gain support and collect votes in the election. It has become a common phenomenon in Mongolia that mineral exploration and mining activities are always disrupted, and get suspended altogether if it is an election year. Local people who understand what is going on are now asking companies to postpone their drilling until after the election. ►►

▶ TWO KEY REASONS

The two key reasons why exploration and mining activities have been disrupted or suspended are 1) soums and local communities never see their share of royalty payments from mining activities on their territory, and 2) due to corruption, only a small number of people are enjoying the benefits of natural resources.

If you look at how much revenue in the public budget came from mining royalties since 2013 and how much of the revenue was allocated back to aimags and soums (via the Local Development Fund – LDF), you can understand why herders and community members, especially those who gave up their pastureland, are opposing mining.

Public budget revenue from mining royalties, and the share allocated to the LDF:
Ministry of Finance (million MNT)

	2013	2014	2015	2016	2017	2018	2019
Revenue	503	617	612	289	848	1,046	1,265
LDF	22	19	19	14	17	40	63
Other*				25			
	22	19	19	39	17	40	63
Percentage	4.4	3.1	3.1	13.5	2.0	3.8	5.0

* Mining royalty from non-mega projects

Under the relevant laws, some of the mining royalty revenue go to the Fiscal Stability Fund (after market price adjustments on key commodities), 5 per cent go to the LDF, and 65 per cent of the rest go to the Future Heritage Fund. Also, as per Clause 59.1.5 of the law on public budget, 30 per cent of the petroleum royalties go to the LDF.

It is now said that 50 per cent of the revenue from special licence on mineral exploration will start going to the LDF, commencing from 2019, and it will become 100 per cent starting from 2020. The law states that half of this payment will be allocated to the given local government and community. In Canada, 40 per cent of the revenue of this type go to the local region where the deposit is located in, and the rest go to other states in proportion to population size.

The Mongolian government is currently putting all the revenue from mining royalties in one basket and divvying it up for all aimags and governments. Therefore, people who are living right next to a mine site are getting almost nothing, while some officials have been receiving huge portions and misusing them. It is clearly demonstrated by many cases related to mineral exploration and development licences.

Government officials led by D. Amarsaikhan, who was a department head in the petroleum authority, have been stealing funds from a product sharing agreement with Petrochina Daqing Tamsag. As per the agreement, the government receives 24 per cent, but they conspired to receive 1 per cent for their own personal gain. Their crime was revealed when petroleum worth 40 million USD had gone missing from the books. The Chinese government also found out that Petrochina Daqing n Tamsag had been transferring large amounts of funds

to Hong Kong-based Sun Wang Company via their Shanghai bank account. As a result, some of their senior management were detained.

D. Amarsaikhan, who was being held in the infamous detention center 461, passed away in May 2014. The media talked about “The Anti-Corruption Agency received instructions from high above to not let D. Amarsaikhan, who had migraines and was dependent on medications, get hospitalized or receive his medications. The autopsy [reported](http://ulsturch.mn/index.php?view=article&type=item&val=16712) a fracture in his breastbone, and five broken ribs. Involved in a 50-billion-tugrugs case, he died minutes after receiving a suspicious package.” There was a lot of coverage (<http://ulsturch.mn/index.php?view=article&type=item&val=16712>) on how D. Amarsaikhan was poisoned right before he was going to reveal the truth about the huge donations he made to his political party (Mongolian People’s Party – MPP). However, the coverage went silent after some time.

In any case, Mongolians have the right to retrieve the funds that were stolen. How many more years can we tolerate the court that protects the corrupt political parties by letting only one or two individuals go to prison as token? Aimag and soum citizens must also make the same demand from the government and hold them to the law. Mongolia needs to ensure its mining and mineral resources don’t cause a trouble for us, and make sure the government is open and transparent while the people can provide scrutiny over its activities. First of all, we need to reduce the overcentralisation of the public budget, and give more power to the local governments and communities. Only then we will be able to achieve flourishing development in our wide country.

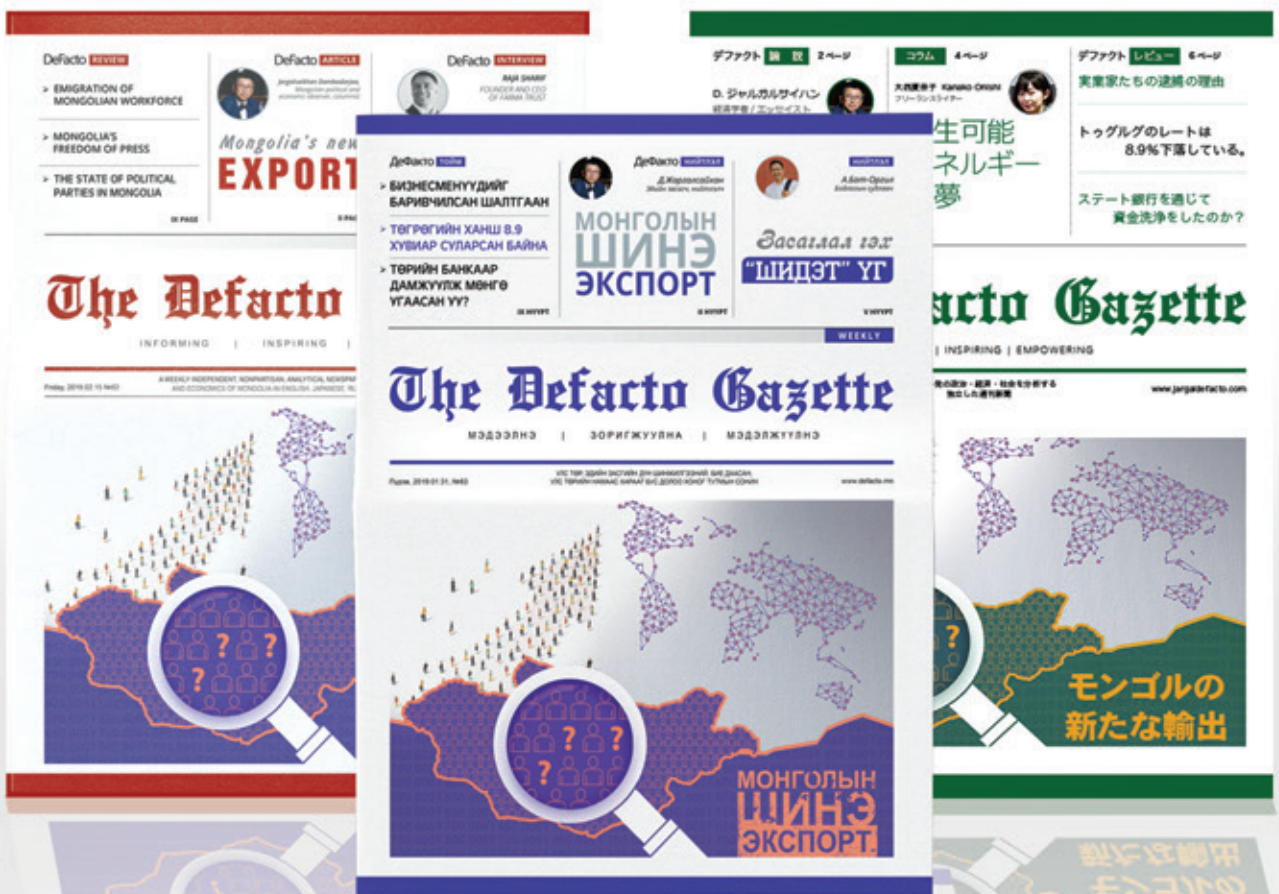
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Host:
Anand Tumurtogoo

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Jargal Dambadarjaa

CALLS FOR THE DISSOLUTION OF PARLIAMENT

The minority party held protests in Sukhbaatar square demanding the dissolution of the parliament following the beginning of the Spring session. The Speaker of Parliament promised that the implementation of the criminal code of conduct in the status of human rights and freedoms in Mongolia will be discussed in a debate. There is no hiding the fact that Mongolia has engaged in torture despite the rule of law being a pillar of any democratic society.

It was expected that the Human Rights Commission would protect the rights of prisoners, but this was not the case. Discussions are most likely taking place now on improving the efficacy of the commission. For now, the legislation on changing the leadership of the court, prosecutor's office and the court decision implementation agency. This was followed swift replacement of the leadership with one example being Mr. B.Jargalsaikhan who has worked in the General Prosecutor's office all his career unlike the previous two appointees have been political ones. Mr. B. Jargalsaikhan vowed to look into the torture in prison and prevent further instances.

The new constitutional amendment restructures the balance of powers within the President, Prime Minister and Speaker. It is also possible that the law will be annulled, bringing the situation back to square one. There are a number of issues with the constitution such as the freedom of the courts that needs to be addressed by this new parliament. I am certain this would take place, but the question is whether it takes place in this session or the next.

We have a very strong parliament with one party controlling 60 seats and it is unlikely that such consolidation of power will manifest itself in the foreseeable future. There is however a question of whether members of the current parliament have a moral right to make legislation following the mismanagement of funds that most of them were connected to. It would be a different case if the President provides political backing for amendments as he is expected to do.

However, this would signify a shift in the powers of the President who is meant to be a symbolic



figure. This has led to discussions of shortening presidential terms to one and setting the minimum age of a president at 54. Another channel of discussion is the establishment of a two-chamber parliament. This would entail establishing a second chamber of parliament consisting of a thousand or so representatives with meetings taking place once or twice a year and increasing the membership in the current parliament to 94-96.

We have a leadership crisis in the two political parties. Prime Minister U. Khurelsukh is leading the fight against corruption through changing the leadership of the courts and other enforcement agencies. It is expected that the City Prosecutor will also be replaced next week who provided significant opposition to attempts of government oversight of numerous cases. The Democratic party was also part of the changes going. For example, the individuals that were just replaced were nominated by the President who hails from the Democratic party. We can also not overlook the fact that the Democratic party in power until 2016 during whose term, many of the issues facing Mongolia today surfaced.

Mongolians are now looking towards the 2020 elections to hold the two political parties into account and public faith in them shall depend on how much reform takes place within the political parties and their integrity. For them to regain a semblance of public support, the government will look to undertake policies for the people rather than themselves although many Member of Parliament have come to terms with the fact that they will not

get reelected. They also need to complete and implement the reform of the judicial system where corrupt leaders allow for the torture of individuals.

Many corruption cases were discussed by the public as rumors with some people even being detained but with no one taken to court as a result of which the cases remain open. Due to the two political parties being so intertwined, it is difficult to penetrate the political bubble and pursue corruption cases. The Prime Minister and

the Speaker who was previously the head of the Chancellery have been attempting to make inroads into the fight against corruption.

Whatever happens next election, people expect the rule of law to be established and maintained in Mongolia. More than that, they also expect compensation for the misuse of land and property. Repayments on loans and funding for infrastructure projects should come from the people that mismanaged our funds not from the taxpayer.

MONGOL BANK MONITORING OF BANKING SECTOR

A Mongol bank report on the first quarter of the year provided some good news with inflation at 7.3% while it is 2-3% in normal economies and extensions on investment increased by 27% compared to the previous year. The country's foreign currency reserve increased from 1 billion at the end of 2016 to 3.6 billion today. The budget contained a surplus for the first time in a number of years and the balance of payments was a positive one. The average interest rate also dropped from 20% to 16.9% in the span of a year. This interest rate is very high providing a very hostile environment for private business, allowing very few businesses to survive. It however reassuring that 2018 experienced a 24% extension in credit whereas the prior year, there was a 5% shrinkage.

ADB is projecting a 6.7% growth in the Mongolian economy this year and 6.3% next year. This year also entails a 35% increase in electricity prices and 10% increase in heating this year which would stimulate economic growth in the sector. ADB reported that despite a relatively good economic outlook, more attention needs to be paid to the economic sector. The ADB considers our banking sector fragile and in fact, the 2.5 billion-dollar IMF fund from the donor countries included provisions on checking the banking assets of the country and the production of quality reports.

Mongol Bank claims that there is no need for concern following an audit of the banking sector by an independent party the report of which is yet to be made publicly available. Then, there is a need for the capitalization of Mongolian banks. The 16.9% loans are a testament to the substantial public demand for funds. We are expecting another report from Mongol Bank on the capitalization of Mongolian banks. It is claimed that this was completed last year and is awaiting an independent audit.



The report would touch on the new qualification of bad banking loans. Different classifications will be differently qualified by the fund of risk in Mongolia producing a healthier asset on this side and more infusion to owner's equity. This is the roadmap for reducing fragility in the banking sector. Following this, the pending 2.5 billion USD IMF loan will be released once the Board of Directors is satisfied that Mongolia has met the conditions for the loan.

There is some concern among the public that despite a resurging economy, it has had negligible effects on the general public. This is in part due to the 3 trillion MNT debt that Mongol Bank had in 2016. It has decreased by 1 trillion MNT following this. The losses that Mongol Bank operates under can partially be attributed it being a significant source of the state budget through its subsidized mortgage and price stabilization programs for example. The funds issued through those projects are still on the balance of Mongol Bank which can be termed as a non-traditional approach. Mongol Bank is also under significant political pressure to initiate interventions to stabilize the exchange rate of MNT and USD. While they are incapable of doing this on a large scale, they are forced to do it 50 million MNT or 100 million MNT at a time.

In terms of my perception of the economic output, we depend on the price of two commodities: copper and coal. This year, things don't look terrible so it is possible that the ADB projections could very well be accurate. In order to achieve those projections however, the state should refrain from increases in the budget or deficits. This would entail a diversion from the introduction of extrabudgetary

funds that Mongolia seems so fond of. The competitive capacity of the private sector is also an essential element of economic growth and less state regulation of prices and a shrinkage in state-owned enterprises are essential prerequisites for it. A final contributing factor to economic growth is a reduction in the corruption that is so prevalent in the country.

PEACEBOOK 2019 FORUM

I was very excited to take part in the Peacebook 2019 forum initiated by the Minister of Foreign Affairs, Mr. Tsogtbaatar because of the possibility of turning Facebook to Peacebook. It is also encouraging that the initiative came from a country small in population but prominent on Facebook. The idea is noble as communication should be creating peace and connecting us rather than dividing us. We should promote and practice religious and political tolerance all around the world. If the initiative is implemented, we will make substantial steps towards a better, peaceful and more understanding world.

I have a substantial amount of Facebook and Twitter followers and I am well aware of what it is like to receive critical comments from anonymous accounts. The best thing is to ignore them rather than attempting to control them. If you simply ignore those anonymous comments and report them as offensive, they will become irrelevant. Controlling social media like many other countries will devalue all the positives that social media provides in our everyday lives. Moreover, the positive impact significantly outweighs the negative ones.

I am not aware of a government investigation into Russian involvement into our previous elections



and we need to have very clear evidence of Russian involvement before making speculations. The US however claims that Russia is interfering in elections all over the world and that China has a particular facility from which they attack various government sites.

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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