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WEEKLY

The DeFacto Gazette

INFORMING | INSPIRING | EMPOWERING

A WEEKLY GLOBAL, NATIONAL, INDEPENDENT, ANALYTICAL NEWSPAPER COVERING THE POLITICS AND ECONOMICS OF MONGOLIA

Thursday, 2019.09.12 №10 (110)

(IN ENGLISH, JAPANESE, RUSSIAN AND MONGOLIAN)

www.jargaldefacto.com





№ 496

JARGALSAIKHAN Dambadarjaa

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WEALTH FUND IN 2050

Currently, Mongolians are at odds with each other over the constitutional amendments. Especially heated, are the debates over questions as to the property rights of natural resources, and whether it should be in sole ownership. The legislators have been discussing whether natural resources should be “public” (people’s) or “state property”. During the working group meetings, both sides, the Parliament and the President,

have settled to combine the two terms so that the wording reads as “state and public property” for now.

Irrespective of ownership, the management and development plans of the land, its entrails, the forests, water, fauna, flora, and other natural resources, must ultimately be brought to the table as well. Even if only for the legislators who need to determine how Mongolian’s wealth fund will look like in 30 years.

CLASSIFICATION OF SOVEREIGN WEALTH FUNDS

The State of Kuwait, an oil-rich country, established the world’s first sovereign wealth fund in 1953. Several dozens of countries with abundant natural resources have set up sovereign wealth funds (SWFs) which play a crucial role in their economy, and its investments have been dramatically increasing. In 2018, the Sovereign Wealth Fund Assets Under Management totalled *US\$7.6 trillion*. To bring this into perspective, the Norway Government Pension Fund Global is the largest SWF with total assets amounting to US\$1.1 trillion.

The sovereign wealth funds are classified into five categories based on their objectives. In fact, most countries have created wealth funds with multiple objectives.

Table 1. Category and Objectives of Sovereign Wealth Funds

Category	Objective
Stabilization Fund	To insulate the budget and to avoid the risks from economic recessions and price volatility of raw materials
Savings Fund	To share wealth deriving from natural resources fairly across generations by diversifying the financial assets
Development Fund	To ensure socio-economic development, namely the infrastructure of the country
Pension Reserve Fund	To guarantee increasing retirement expenditures in future
Reserve Investment Fund	To invest reserves in long term assets to reduce the costs of holding reserves

IMF, “Sovereign Wealth Funds: Aspects of Governance Structures and Investment Management”, 2013

While on the one hand, the constitutions of China, Kazakhstan, South Korea, Qatar, Saudi Arabia, and Chili stipulate that natural resources are the property of the State, on the other, the constitutions of the United States, Australia, Canada, Sweden, Finland, New Zealand, Austria, France, India, Singapore, Japan, Bostwana, and Norway do not provide any provision on the ownership of natural resources. »

- ▶ For instance, in Norway, instead of providing a constitutional provision on ownership of natural resources, Act 29 November 1996 No.72 relating to petroleum activities stipulates that “The Norwegian State has the proprietary right to subsea petroleum deposits and the exclusive right to resource management”. It is noteworthy that Article 112 of the Norwegian Constitution states “Natural resources shall be managed on the basis of comprehensive long-term considerations which will safeguard this right for future generations as well.”

NORWEGIAN WEALTH FUND

In 1990, the Norway Government Pension Fund was established in order to properly manage natural resources based on long term considerations under Government Pension Fund Act (“the Act”) adopted by the Norwegian Parliament. The Act stipulates that the Ministry of Finance is responsible for the management of the Fund and entitled to issue necessary provisions to implement the Act. In accordance with the Act, the Ministry of Finance has granted Norges Bank the right to

manage the Fund under the management mandate and make investment decisions independently of the Ministry of Finance. The Norges Bank is under obligation to restrict the equity portfolio to 60% and fixed income to 40%, to carry transparent management, to consistently provide quarterly and yearly reports. Moreover, the relationship between the Ministry of Finance and the Norges Bank is specified clearly within the management mandate.

MONGOLIAN WEALTH FUND

Nowadays, the mining sector constitutes one-quarter of the Mongolian economy and 85% of the total export. Therefore, a combination of stabilization and saving funds should be established to fairly distribute revenues originating from natural resources.

Mineral resources are not created by human beings but formed naturally, hence each citizen is entitled a share from revenues deriving from natural resources. However, it must be pointed out that the enterprises and investors who bear the financial risks of exploration, production, distribution of natural resources should receive their shares before citizens can receive a certain amount of the share through the government budget.

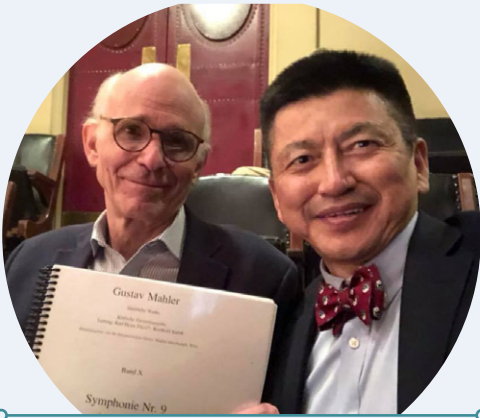
The income to Norway Pension Fund Global consists of revenues originating from petroleum activities (total petroleum revenues after subtraction of government investment and costs related to the sector) which are transferred from the central government budget. The

total revenues include: total tax revenues and royalties from petroleum activities; tax on carbon dioxide and nitrogen oxides emissions due to petroleum activities; revenues from production licenses and interest from shares owned by the State. The Fund's net cash flow consists of returns from the investments of the respective year. The fund can be transferred to cover the budget deficit or support the expansionary fiscal policy only with the parliamentary approval.

A creation of a sovereign wealth fund is essential in the distribution of income derived from natural resources in Mongolia. Furthermore, the Mongolian government should follow the best practices of the Norwegian wealth fund and preferably avoid the political influence by making the fund management and operations independent from any public body. The more independent the fund, the more productive it will become.

2019.09.05 ■

For interviews in Mongolian, English and Russian, visit <http://jargaldefacto.com/category/8>



Jargalsaikhan and Dr. Churchill together at a rehearsal of the Boston Philharmonic Orchestra in Boston in March 2018. (My friend Mark Churchill says "music keeps you younger")

MARK CHURCHILL

Dean Emeritus of Preparatory and Continuing Education, Cello Faculty, New England Conservatory

I ALSO THINK ART AND MUSIC ARE WONDERFUL VEHICLES FOR EDUCATING THE HUMAN BEING

Mark Churchill is an accomplished cellist and music conductor, as well as renowned music educator. He has served as Associate Conductor of the Boston Ballet; is the founding director of El Sistema USA; and holds the position of Dean Emeritus at the New England Conservatory.

Defacto: Good evening. Thank you for being a guest on the program.

MC: It's a great pleasure to be here.

Defacto: What is your mission here in Mongolia?

MC: My mission is to help develop the ballet—to contribute to the artistic energy and capacity of your wonderful ballet company and orchestra, and do what I can to help.

Defacto: What kind of performances have you been doing?

MC: Well, we just had a performance of Swan Lake two days ago. I had just arrived a few days before, so it was a very intensive preparation time. But, of course, your beautiful company of ballet dancers and orchestra have performed Swan Lake many times. We added some solos, some principles from South America, Asia, the United States. And South Africa to join with the Mongolian state ballet company and make a kind of international connection.

Defacto: Was there anything new introduced that had not been done in Mongolia?

MC: Artistic interpretation is always very personal. So, as the conductor, I have to manage everyone's

individual contributions.

Defacto: Your musicians were all Mongolians. How many were there?

MC: About 65 in the orchestra. It's the State Opera and Ballet Orchestra, an excellent orchestra, very dedicated, hard-working, and well-trained.

Defacto: Was it difficult for them to tune to the international performers?

MC: It's a little bit challenging, but they did very well after only a few rehearsals. But Swan Lake was perhaps the greatest classical ballet that was ever done. Many of the players and dancers learned either directly from Russian teachers and artists or from their Mongolian teacher who themselves studied in Russia. So they have a very established way of performing this work.

Defacto: What brought you to Mongolia in the first place?

MC: That has everything to do with *Altankhuyag*, who came to Boston four years ago. I'm the associate conductor of the Boston Ballet, and he joined the Boston Ballet Company. Quickly, I saw in him a young man of tremendous talent, great determination, and fantastic discipline, but also something bigger:

a kind of vision, a kind of energy about wanting to contribute—ambition, in the best sense. I said, “This young man is really going to make a difference in the world”.

I got to know him and his beautiful family soon after he came to Boston. We were able to help his family with some practical things. And his beautiful daughter was friends with my daughter.

The important thing is that when Altankhuyag dances with the Boston Ballet, it’s always something unique. Of course he has great charisma and talent. But also, in terms of interpretation, he really brings something very personal to his dancing.

We have very few Mongolians in Boston—maybe 12-15 families. So we are not so familiar with Mongolia. But Altankhuyag and his family are like a walking public relations campaign for Mongolia because they are so respected and loved by everybody around them that they make us think about Mongolia. And four years ago I asked, “Altan, when can I go to Mongolia?” And so we are here because of his commitment to contributing to the development of not only Mongolia’s ballet but its art in general.

In developing countries—you yourself said Mongolia was a developing country; I think all countries are developing—when someone is able to become an international figure in whatever profession, they don’t always keep a connection back to their homeland. I feel it’s very important to give back, to acknowledge where you came from, what supported your development.

It’s well known that Altan grew up in the countryside. As a child, he started out as a folk dancer, like his father. So he comes from the land, really. Later he was trained in Ulaanbaatar by the Soviet School of ballet. He was obviously very talented and started getting recognized. So although he has since gone out from Mongolia, he remains very connected, and you can see it in the way he relates to his colleagues, his relatives, his friends. We went to the countryside yesterday, and we were riding horses and camels and eating in gers. And you can see that there is a very strong basis of humanity there. For me, it’s very, very moving, and that’s why I feel privileged

to support that vision.

Defacto: You have been educating young people all around the world through music. Tell us about more about this. And what is the most remarkable thing that you felt you have accomplished in this regard?

MC: I believe that music and art are about two things, principally. The first is community—that is, bringing people together in a healthy, positive community, be it local, national, or international. I also think art and music are wonderful vehicles for educating the human being. In music, we have a very intricate balance of four aspects of what the human being is about. We have the intellectual, the emotional, the physical, and even the spiritual/transcendent. In classical music, in particular, because of the physical discipline required, it’s really like a sport. Because of the intellectual development and knowledge that it takes to understand the intricacies of music, especially great music like Tchaikovsky and Mahler and Mozart, you really have to study, to tax your brain. It’s also very much about the heart and emotion. It’s beyond words; it’s transcendent.

Of course, we as people are not divided up into sections: the emotions, the mind, the body. More and more, we know that it’s all together. And yet, most of our education divides things: we have our physical education and our intellectual education (we don’t have much emotional/community education). By the way, there’s also a fifth aspect, which is our social development; music encourages us to relate and connect with people. Art integrates all of these, which is how we are as people. So the value for young people to study art and be exposed to art is in and of itself a great pleasure, but it also provides benefits for any other profession. In the United States, we observe that most medical people have backgrounds with strong musical influences. For example, we have an orchestra in Boston comprised of musicians from the medical community (people jokingly say it’s harder to join that orchestra than to get into Harvard Medical School).

Defacto: Would you agree that exposure to music and musical education reduces aggression and violent tendencies in young people?

MC: Oh, I fully agree. Young people who are involved with music are so absorbed, and they have such good relationships through the music, that I have seen few problematic children involved with music. In fact, I can tell you a story of something that began 35 years ago, in Venezuela, which we now call El Sistema. A great visionary, a man by the name of José Antonio Abreu who was a fine musician, an economist, and a government minister—a man of tremendous capacity—said that music is the best way to address the poverty of our country. He began this system in Venezuela that now has over 400,000 children studying music six days a week, maybe 20-30 hours per week, and playing in youth orchestras around the country. This system is being imitated all over the world as an after-school program.

Some of these musicians have grown into accomplished world musicians. The leading conductor in the world, Gustavo Dudamel, the conductor of the Los Angeles Philharmonic who conducts all over the world, is from Venezuela. But alumni of El Sistema include doctors, lawyers, government officials. In Venezuela, over 75% of medical students are graduates of this music program. So it's not just about making musicians.

A beautiful thing that Dr. Abreu talks about is to address poverty, one must focus on developing an

“affluence of the spirit”—in other words, a sense of self-value, a sense of possibility and hope.

Some years ago, I developed what is called El Sistema USA in order to bring this concept to the United States. We are doing pretty well; we have about 40-50 programs now throughout the United States, and it's growing. The El Sistema model is also very popular now in South Korea. The Korean government is committing \$50 million to being El Sistema programs for Korean children.

But why are they doing this? After all, Korea does not have the levels of poverty that Latin America has. They said, “Well, we feel that our education is doing a very good job educating the intellects of young people. But we are not doing very much with the emotion, with the socialization, of the children. And we feel that this is a great answer to add those things to our education system”. So we will see what happens.

This interview originally aired in August 2011. It has been edited here for space and clarity.

You can watch the full 30-minute interview at www.jargaldefacto.com



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Every Sunday live at 7pm on MNB World television: 8th September, 2019

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NON-PERFORMING LOANS OF THE DEVELOPMENT BANK REACHES 1.3 TRILLION MNT

The bad loans of the Development bank established in 2011 to implement Mongolia's development policy has reached 1.3 trillion MNT. The Chief of the Cabinet Secretariat of the Government of Mongolia, Oyun-Erdene delivered a list of the companies who have failed to repay their loans to the General Prosecutor. Currently the total asset of the Development Bank is 4.2 trillion MNT consisting of 1.1 trillion MNT and a 3.1 trillion MNT liability. The total non-quality loans reach 292 billion MNT despite a loan portfolio of bank is 2.5 trillion MNT and a risk fund is 336 billion MNT. This constitutes 10.4% of all loans which is extremely high. Mr. G.Amartuvshin, the new CEO of the bank, it will fund development projects above 20 billion MNT or its equivalent in hard currency. If the bank is to embark on this venture, it should seek to retrieve at least a portion of their bad loans.

Looking at the list of companies with bad loans, 6 names stand out with the total of their unpaid loans equating to 1.3 trillion MNT:

1. Erel company
2. Khutul cement factory in Darkhan
3. TOSK home mortgage company
4. Mongol dry milk company
5. QSC
6. Capital bank

Capital Bank recently declared bankruptcy and is set to sell its assets but it is unlikely the Development Bank will receive any payments from them. Interestingly, Khutul cement factory which took out a loan of 161 billion MNT and QSC that took out a loan of 187 billion MNT are both owned by the same individual, the head of the Trade and Development Bank. A judicial case into the matter is currently pending and allegations have emerged that these funds were utilized to purchase the Russian shares of Erdenet mine.

WHO WILL REPAY THE 40 MILLION USD PAID TO STANDARD BANK

A second letter to the General Prosecutor from Mr. Oyun-Erdene involved the Just Group loan from Standard Bank being repaid from the risk fund of Erdenet factory. The General Director of Erdenet factory Kh.Badamsuren and Deputy Minister Enkhtuvshin also confirmed the 40 million USD payment to Standard Bank. The legal case involving Erdenet continues to be dragged out with the



Erel, a previously state-owned company involved in producing materials for and assembling temporary houses borrowed approximately 100 billion MNT directly and indirectly from the Development Bank. Following the privatization of the company by Mr.Erdenebat, Former Prime Minister Altankhuyag's government entered into an agreement to purchase 5000 sq. meters of housing and 1500 sq. meters in office space on an annual basis. The company has failed to deliver on any of this agreement and is currently in a situation where their product is inviable to be placed on the market. This demonstrates the extent to which the Development Bank was politicized following its inception but it does seem that the situation has gotten better.

According to legislation governing the Development bank, the government is responsible for securing the normal operations and the liquidity of the bank should it be unable to collect on its loans. Mr. Oyun-Erdene referred the situation to the General Prosecutor as Mongolian legislation holds for the Prosecutor-General representing the government should the interests of the public be at stake. It is worth noting that this has never taken place in the history of Mongolia.

counsel for the company requesting month by month extensions to the trial date and it seems possible now that the case may simply run out its statute of limitations.

Erdenet was forced to repay the 40 million USD through a decision by a London Arbitration Court as they served as a guarantor for Mr. Batkhuyag of Just Group should the company default on loans. While Just Group

was a significant company with petrol distribution chains throughout the country, 8 meat-processing plants and a savings bank. While we know that the savings bank was ceased and incorporated into the State bank, there is no clarity surrounding the status of their other holdings or who owns them.

This incident provides a clear indication of the corruption that mars Mongolia's state-owned enterprises with politicians appointing individuals from their party's inner circle to the administration of those companies. It is however, the Mongolian public that pays for the incompetence of these companies as the losses with which the vast majority of those companies operate are covered from the government budget. Given this situation it is understandable why the prevailing sentiment in Mongolia is that tackling the corruption within state-owned enterprises would see the corruption situation in Mongolia significantly improve.

There was even guarded optimism on this from over the last three years with Prime Minister Khurelsukh seemingly willing to tackle this issue at all costs but incidents such as court cases being dragged out until the statute of limitations expires, Erdenet shares being bought by a private company using public funds, public companies serving as guarantors for private companies and paying their debt following their default paint a bleak future of the immediate future. Corruption thrives in a country without an effective judicial system. This is clearly the case for Mongolia as no high-level corruption case was brought forward to the judiciary. There are promises that these issues will be addressed by the amendments to the constitution but if yesterday's parliamentary discussions are any indication, those amendments may never happen.

WAS MONGOLIA LACKING INITIATIVE DURING PRESIDENT PUTIN'S VISIT

President Putin made his fourth visit to Mongolia on Tuesday and while some have claimed that the Mongolian side lacked initiative during discussions due to key issues such as petroleum and energy and railroad not being addressed, 10 documents including a Comprehensive Strategic Partnership Agreement was signed. Mongolia now has strategic partnership agreements with our two neighbors Russia and China, India, Japan and the USA. A comprehensive strategic partnership exists with Russia and China with President Battulga set to visit India and Japan in the near future to reinforce our partnership.

The previous agreement between President P.Ochirbat and President Boris Yeltsin outlasted its 20-year lifespan but the other four agreements are effective in perpetuity and will hopefully help us in solving key issues such as Mongolia's railway. Russia has been promising to fix the railway for 10 years but no concrete action has taken place leading to it becoming the oldest and most backward railroad in the world still operated by a diesel locomotive. It also operates a single-track system with

completely worn out wooden pillows. This combined to an incident where a cargo wagon derailed.

Another issue worth looking into is Russian fuel imports which constitute 90% of our trade turnover with Russia. Russia currently has a monopoly on fuel imports into Mongolia and recently refused a joint venture proposal involving a Mongolian refinery currently being built. Moreover, Mongolia intends to be heavily involved in the North-East energy network with 3 North-Eastern Asian developed countries needing more power. China, Mongolia and Russia have the capacity to provide solar and wind power with one of the agreements signed during the visit covering the issue. Should China also enter into this agreement, an electrical grid network would supply energy from Mongolia to Japan and South Korea. An agreement on the issue was expected to be reached in Vladivostok last week but the President of South Korea failed to attend the meeting due to trade tensions with Japan.

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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