

# The Defacto Gazette

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(IN ENGLISH, JAPANESE, RUSSIAN AND MONGOLIAN)

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WEEKLY



## DeFacto **ARTICLE**

№ 498

Jargalsaikhan Dambadarjaa,  
Mongolian political and  
economic observer, columnist

### SMEs are the reflection of the development



## DeFacto **INTERVIEW**

HIROTAKA TAKEUCHI

PROFESSOR OF MANAGEMENT  
PRACTICE IN THE STRATEGY UNIT AT  
HARVARD BUSINESS SCHOOL

“I THINK MONGOLIA'S BEST  
CHANCE IS TO INVEST IN  
HUMANS AND WHEN YOU  
THINK ABOUT IT, THIS ONE OF  
THE STRENGTHS OF JAPANESE  
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Economic growth and economic development are different terminologies. Growth does not necessarily imply development, but development implies growth. British economist Paul Collier in his book “The Bottom Billion” demonstrated that growth is critical for development and proved that poverty cannot be lowered if the economy does not develop.

Even though the Mongolian economy has been growing since the 1990s, development only started in 2010 and was brought solely by the mining sector. However, the two global economic crises showed that Mongolia's economic development is unsustainable and unsecured as it depends on the mining sector alone. Despite the fact that the mining sector constitutes 80 percent of total export, compared to its total investment, a relatively small number of people, namely 58000, work in this sector.

Individually, small-medium enterprises (“SME”) have a minor impact on the economy but collectively make the largest contributions to economy and make up the largest number of workforces. SMEs are regarded as the backbone of the economy. Thus, the development of any country is reflected in the type of products or services that are supplied, the types of machinery or technologies that are used by SME, and the efficiency of SMEs. What does SME look like in Mongolia?

### CURRENT OUTLOOK OF SMEs

According to the study (D. Gan-Ochir et al., 2018) conducted by the Bank of Mongolia, there are 80,000 business entities registered with the government and 60,000 of them are classified as SMEs. SMEs are only responsible for 17 percent of the GDP, and 2.3 percent of total export but employ 900,000 people, which is 43 percent of the total workforce in Mongolia. Furthermore, Mongolian SMEs are unable to export their

products or services. Profits and opportunities of SMEs to expand their businesses depend greatly on currency rates as they purchase machinery or certain raw materials in foreign currencies and sell their goods in the domestic currency.

In Mongolia, it is a tricky business to conduct a study on SME as the numerical data on business entities, especially SMEs, is not comprehensive ▶▶

► or merely unclear. The Asian Development Bank study (Asia SME Finance Monitor 2014, p.102) revealed that 98.2 percent of total business enterprises, 97,762, had less than 50 employees in 2013. Moreover, 90.6 percent of registered enterprises are micro-enterprises that have less than 10 employees. Half of the registered Mongolian enterprises do not carry out business activities and shut down.

After 30 years, the current reality does not meet our expectations, although the development of SME has been widely discussed since the 1990s. At the beginning, the government attempted to support SME through foreign loans, domestic loans, and donations. The first law on governmental support to SME was approved only in 2007. Since then attempts were made to amend the Law on SME, but the Parliament has not approved any.

The law on SME stipulates that an SME is an enterprise with an annual turnover of less than 1,5 billion tugriks and with less than 200 employees. In fact, the definitions vary in the following sectors:

- ♦ In the industrial sector, if an enterprise has less than 20 employees and the annual turnover is below 250 million tugriks, it is classified as an SME.
- ♦ In service, if an enterprise has less than 50 employees and the annual turnover is below 1 billion tugriks, it is classified as an SME. Which enterprises of which

sector are classified as SMEs, and their customs or tax deductions, are determined in beneficial ways for legislators. Due to this uncertain classification, statistical data on SMEs cannot be generated.

The study by the Bank of Mongolia determined that two of the biggest challenges which SMEs are facing nowadays are funding and capabilities of human resources. The government has implemented gazillions of policies, spent billions of tugriks under the so-called aim to develop an SME, but recently the public discovered to whom the money was allocated. Fifty-five out of 76 members of the Parliament granted the SME Development Fund loans with a 3 percent interest rate to directly owned or indirectly related enterprises. Still, we were not able to hold them accountable and, within a year, the case is fading into oblivion. In the last 10 years, discounted loans amounting to 835 billion tugriks were granted to 7536 recipients through the fund, but no one would be shocked if most loans were granted to government officials.

Under the administration of such government, once more no one would be surprised by the fact that opportunities for workforce training are rare for SMEs. In addition, the education of particularly technical skills of our workforce is not meeting the business needs and standards. The labor productivity of a country increases when business and research are closely integrated.

## CHANGING THE OUTLOOK

In order to change our reflection in the mirror, we have no choice but to change our appearances. Supporting SMEs by developing hard and soft infrastructures is necessary for SMEs more than loans. Hard infrastructures such as roads, telecommunication, electricity play a crucial role. Also, soft infrastructures can be improved, for instance, by measuring the transaction cost. If a transaction is slow and cost is high, or even if it fails, the circulation of money will cease. For instance, on average 2,4 million tugriks are required for an SME's loan guarantee, and SMEs bear cost of 521,000 tugriks to receive discounted loans from the government and others (ERI research. 2017). Additionally, the time spent (gifts, bribes, and et cetera) in connection with contacting government bodies can be added to the cost. If the economic bodies of the state can develop as an institution, the cost of business transaction dramatically lowers.

If we look at the history of other countries SMEs take part in the product supply chain, diversify, and expand. To illustrate, several thousand SMEs were able to stand on their feet owing to big corporations in Korea and Japan. The dozens of firms that supply parts to the car manufacturer Toyota were

established, they grew and expanded around it, and it certainly has led to the creation of an independent city, Toyota.

On the contrary, in Mongolia, big corporations push smaller firms out of business. Small firms go bankrupt as they cannot compete with big corporations that own banks, agriculture, manufacture, grocery, TV, and newspaper businesses, and sell prepared foods or vehicles too. There are enterprises that have given opportunities to others, sold subsidiaries to their employees in order to fully focus on their core businesses. In Mongolia, a monopoly is being established in the liquor and cashmere sectors. Both big corporations and banks must stop entering every business and it is the perfect time to start focusing on one sector so they could expand and enter the global market. Thereby, SMEs will have opportunities to expand and consequently employment will increase which could lead to poverty reduction.

Fortunately, due to the fourth industrial revolution new opportunities begun opening up for SMEs. It is also the best time to manufacture customized

products instead of manufacturing in large scales. 3D printing technology has been implemented. As a result of the industrial revolution redistribution of manufacturing and supply is occurring. It is providing opportunities for SME to learn quickly and smarter, and to enter the global market. The government of Mongolia is facing a need to create this type of soft infrastructure. In the first few years, tax deductions or exemption can be offered to SMEs that are starting new businesses. It is essential to support and protect domestic production of goods that are imported but can be produced domestically through tax and other measures.

SMEs receive their financing from commercial banks. They mostly request for financing amounting to 10-50 million tugriks with a term of 1-5 years. The Bank of Mongolia could follow the examples of some particular countries and take measures to cut the reserve ratio requirements for SME financing so the commercial banks could cut their loan interest rates respectively.

The country develops as soon as SMEs develop and expand.



## DeFacto INTERVIEW

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

“ I THINK MONGOLIA’S BEST CHANCE IS TO INVEST IN HUMANS AND WHEN YOU THINK ABOUT IT, THIS ONE OF THE STRENGTHS OF JAPANESE COMPANIES ”

### HIROTAKA TAKEUCHI

PROFESSOR OF MANAGEMENT PRACTICE  
IN THE STRATEGY UNIT AT HARVARD  
BUSINESS SCHOOL

*Professor Takeuchi has a Bachelor’s degree from the Tokyo Christian University as well as a Master’s and PhD from the Haas Business Administration School at UC Berkeley. He is an assistant professor at Harvard, Hitotsubashi University and served as the Director of the Graduate Institute for International Corporate Strategy at Hitotsubashi University. Professor Takeuchi also consults international corporations on marketing, management and registration and also has published over 90 articles in business journals.*

**Jargal Defacto:** Please tell us a little about what you are doing here.

**Hirotaka Takeuchi:** The National University of Mongolia (NUM) invited me here for a couple of days to talk to its faculty as well as its VIPs on the macroeconomics of competitiveness (MOC) as NUM has been a consortium member of MOC for the past 11 years and its faculty come to the consortiums organized by professor Michael Porter every year. This is how I met professors from NUM and last year, they invited me to visit. Also, I have just finished writing a sequel to the Knowledge-Creating Company book called Wise Company also published by the Oxford University Press. Therefore, they also wanted me to talk about knowledge creation in practice.

**JD:** Before the turn of the century, Mongolians began to contemplate on competitiveness. We broadly used a book by Professor Michael Porter in



order to pursue this issue. Michael Porter visited Mongolia once and then sent a team of young professionals to

create a report on a few areas where Mongolia can be competitive. Which industries do you believe Mongolia has an opportunity to be competitive in?

**HT:** The fact is that when Michael Porter was here in 2008, he recommended a very strong appeal to enrich clusters here. These were primarily resource based but he urged the country to become more process oriented. I have seen the date for 2017 and not much has changed.

**JD:** This is why we are still dependent on mining, coal and copper exports to China.

**HT:** Right, but I see a great potential in tourism, for example, because of a world attraction for the nomadic culture. There is also potential in the Agri sector but there is little evidence of cluster formations in those sectors as of yet.

**JD:** According to Michael Porter, a diamond shaped distribution of factors, chances and the capacity of government to capitalize on those chances is necessary and it seems like these are all missing in Mongolia.

**HT:** The biggest missing part I believe is the related and supporting industries owing to a lack of infrastructure. In order for the diamond framework to really function, of the four factors, Mongolia is pretty strong in the input section. Another issue that Mongolia is that the government’s role is to provide a positive business environment, but this seems to be misconstrued in Mongolia with the government

seeming to make policies.

**JD:** This is true and even if the environment is created, the situation is very unpredictable due to the average government term of Mongolia at 1.5 years. Are you aware of any other country that is also dependent on commodities and has a similarly unstable government?

**HT:** If you look back, Australia was very dependent on resources but tourism has become a very attractive sector over the years and so has food manufacturing and beer so there has been a couple of cluster formations that have taken place in the last 20-30 years.

**IN ORDER TO CREATE PROSPERITY, YOU NEED TO HAVE COMPANIES TAKE THE LEAD. THE OLD MODEL FOR A RESOURCE STRONG COUNTRY IS FOR THE GOVERNMENT TO BE THE MAIN ACTOR WITH ITS ROLE BEING THE DISTRIBUTION OF WEALTH. IN THE NEW MODEL, IT IS THE COMPANIES THAT ARE THE MAIN ACTOR AND IT IS THEIR RESPONSIBILITY TO INNOVATE AND TO CREATE VALUE. THE GOVERNMENT’S ROLE IN THIS NEW MODEL IS TO SUPPORT THE BUSINESS ENVIRONMENT IN WHICH THESE COMPANIES OPERATE.**

**JD:** Australia is a similar country to ours in this regard, but one difference

is the liberalization of transportation there, but this is not the case in Mongolia with a government owned airline. What is your take on this?

**HT:** If you were thinking of creating a cluster in tourism, there is a clear need for airlines with open doors as well as restaurants and travel agencies and you would need six or seven of these institutions working together to be successful. Currently the only way to enter Mongolia is through the national airline.

**JD:** I have gone through the book several times and one of the preeminent concepts is that clusters originate from competitors working together. You provide the example of the motorbiking case in Japan leading to more price competition with their suppliers becoming less diversified. In terms of the airline, there needs to be more competition such as when the US declared an open-air policy.

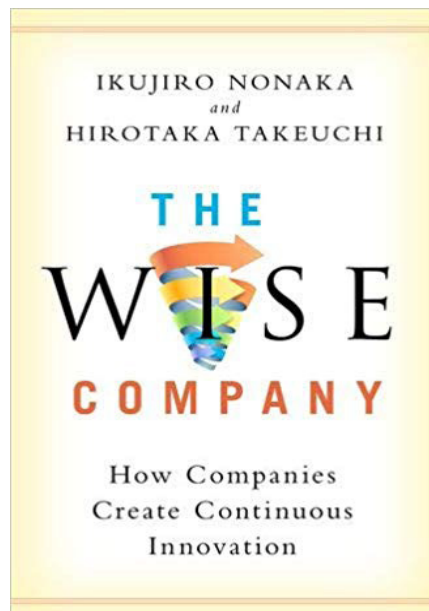
**HT:** You are right, I was responsible for the Japan section of the book and the rivalry within the 10 or so industries we selected is intense so the bottom line is that competition is good and that the more rivals there are, the more they attempt to better each other.

**JD:** On the other side, the Mongolian government still attempts to control the price for food and basic needs. What is your take on this?

**HT:** In order to create prosperity, you need to have companies take the lead. The old model for a resource strong country is for the government to be the main actor with its role being the distribution of wealth. In the new model, it is the companies that are the main actor and it is their responsibility to innovate and to create value. The government's role in this new model is to support the business environment in which these companies operate.

**JD:** Companies taking the initiative brings us to our second topic regarding Wise Companies. What are those companies about?

**HT:** The book that we just finished writing in conjunction with a Japanese colleague of mine, Ikujiro Nonaka with funding largely from the Harvard Business School will be published in September. It is focused primarily



on continuous innovation. We seek to determine which countries have continuously innovated and attempt to ascertain the factors that enabled to innovate at such a scale. The first book which I also wrote with Ikujiro Nonaka dealt with innovation from the perspective of tacit knowledge. This book deals with continuous innovation and begins with a case study of Honda.

It is a company that started out by putting a motor on bicycles and created motorcycles. They would then enter the auto industry and are now making inroads into the business jet industry. It has taken them 29 years to come up with a successful business jet and only a handful of people in the company were aware of the existence of the project. It is a good story with the company deciding not to go into Formula 1 due to costs, but they funded the jet project for almost 3 decades. It is very different from the Silicon Valley model where one person becomes rich and sells their company.

**JD:** Did Honda make any innovations to the jet?

**HT:** They put the engines on top of the wings rather than under them which was considered a big taboo. The main engineer, Mr. Fujino maintained that this would be more efficient. In terms of cars, it is a hybrid of the civic and their sports model. I have been inside the airplane and it produces a very different feeling due to its width. Because the engine is on top, there

is also space for tons more cargo. It also gains altitude at an exceptional rate and is 20% faster than any other aircraft. It costs 4-5 million USD and became the best-selling small jet within a year. Not only is it affordable, the maintenance costs of the airplane is also extremely low.

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**I THINK MONGOLIA'S BEST CHANCE IS TO INVEST IN HUMANS AND WHEN YOU THINK ABOUT IT, THIS ONE OF THE STRENGTHS OF JAPANESE COMPANIES**  
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Another company you may be familiar with is whose chairman Kazuo Inamori I believe you *interviewed*. He started off selling ceramic before moving into KDDI and telecommunications and finally sat as the chairman of Japan Airlines. He started when he was 79 and quit at 82 during which time, he managed to turn a loss run company to a profit run company.



**JD:** You have served as a global marketing strategist for companies have been doing a study in Japan on new products and the competitiveness of Japanese companies. Where can a developing country like Mongolia with a GDP of 4,000 USD per capita and vast expanses target its investments?

**HT:** I think Mongolia's best chance is to invest in humans and when you think about it, this one of the strengths of Japanese companies. I did the new product development model which we called Scrum which deals with how Japanese don't pass tasks from one team to another but rather, to use a rugby metaphor, scrum. The power

of humans, especially built around a team has been a great strength as Japanese companies were able to transform human knowledge into corporate knowledge through small groups. Japanese are very strong in tacit knowledge which is knowledge that one can't put into the computer and comes from experience, sixth senses, intuition and beliefs. I think there is quite a commonality in the beliefs that our two cultures share such as respect for people and teams. The scrum model has become an agile movement and I believe it can be domesticated into Mongolia. All Silicon Valley companies use it and that is where I think the secret sauce is.

**JAPANESE ARE VERY STRONG IN TACIT KNOWLEDGE WHICH IS KNOWLEDGE THAT ONE CAN'T PUT INTO THE COMPUTER AND COMES FROM EXPERIENCE, SIXTH SENSES, INTUITION AND BELIEFS.**

**JD:** How do current newcomers to businesses such as artificial intelligence such as blockchain, and Fin Tech match with what you are saying?

**HT:** I believe there has to be a fusion between digital and analogue. A lot of the strengths of the US and some Western companies are on the digital side. Leave it up to them to develop AI further but AlphaGo beats the GoMaster. This is not going to stop and right now, I think we are looking at how to combine this (AI) with analogue. Humans are much more attune to imagination and intuition. I believe that this is the part that Mongolia should focus on as we have the AIs, ARs and IoTs coming from the West but we can supplement it with analogue as the Nomad culture of Mongolia and the farming culture of Japan gives us tons of knowledge in the tacit field.

**JD:** I want to ask a few questions about your personal productivity. You served as an assistant professor at Harvard from 1976 to 1982. How have you been active for such a long period of time since then?

**HT:** Firstly, I have to be very grateful

to my father who told me that my mission in life was to be the bridge between Japan and the US. He put me through an international school and that is why I speak English.

**JD:** There was another Japanese, Yukichi Fukuzawa 150 years or so ago had the same mission. He was hated almost beat at times with a colleague of his even being killed. Why did your father tell you becoming this bridge was your mission?



**HT:** I think he had two inferiority complexes one being that he didn't speak English and the other one that he didn't have a graduate degree. So he says my three children are going to speak English and go to graduate school. I am grateful to him and every decision point I have come across; I would reflect on my mission. The second thing that I am grateful for is that I met extremely productive people both in Japan and the US. When I was appointed to an office at the Harvard Business School in 1976, my office was right next to Michael Porter's office. I was in the Marketing area and he was in the Strategy area. This was by chance but he would call it strategic positioning. I was there 7 years and we got to know each other very well as we would travel and go to conferences together. In 2010, he told me that I was too young to retire, come back and I taught the MOC with him.

In Japan, as an exchange student when I was an MBA student at UC Berkeley, I met Ikujiro Nonaka, the co-author of the two books, my first year. He is 11 years older than me and to me, he is a real Guru. Being able to work with these two outstanding scholars who are both academicians was very fortunate.

**FIRSTLY, I HAVE TO BE VERY GRATEFUL TO MY FATHER WHO TOLD ME THAT MY MISSION IN LIFE WAS TO BE THE BRIDGE BETWEEN JAPAN AND THE US. HE PUT ME THROUGH AN INTERNATIONAL SCHOOL AND THAT IS WHY I SPEAK ENGLISH.**

**JD:** Michael Porter looks very fit, why is this?

**HT:** He was very much of an athlete when he was younger, he played football when he was in high school, almost became a national champion in golf.

**JD:** How often do you guys play together?

**HT:** Not much, I played with him a couple of times. His ball is like a pro golfer's ball with a much greater arc than mine.

**JD:** How do you keep fit?

**HT: I THINK I WEIGH MYSELF EVERY DAY AND TRY TO STAY WITHIN THE TWO KILOS I HAVE SET. I THINK THIS IS MY SECRET AND I CAN WEAR THE SUITS I BOUGHT 20 YEARS AGO.**

**JD:** We are coming to the end of our time but I am very happy to have met you and that you are in Mongolia. I believe our academicians and faculty have much to learn. I would also like to request that you be a bridge between the US and Mongolia.

**HT:** Of course. Thank you very much.

*This interview originally aired in May 2019. It has been edited here for space and clarity.*

*You can watch the full 30-minute interview at [www.jargaldefacto.com](http://www.jargaldefacto.com)*



**Host:**  
Namsrai Tsend

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## DeFacto **REVIEW**

Every Sunday live at 7pm on MNB World television: 29th September, 2019  
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### WHAT HAPPENED TO THE PROMISE OF STATE BUDGET WITHOUT DEFICIT?

The Minister of Finance Ch.Khurelbaatar presented their budget proposal for 2020 on September 26th. He noted that the 2 trillion MNT infusion, a significantly larger sum than in years prior and that the government will not seek domestic or international bonds for the 1 trillion MNT deficit. The proposal will be approved at the end of November by the cabinet. Of the 2 trillion MNT, 600 billion is earmarked for new projects, 1 trillion for existing projects and 300 billion for concessions.

In election years, every government attempts to invest as much as possible and this investment is going to be concentrated within the first six months prior to the election. One aspect of Mongolian politics is that in practice, all Ministers are elected Members of Parliament and naturally seek investment into their own constituency.

One form of investment is Overseas Development Assurances which come in the form of low interest long term loans and others. These funds are designated towards the restoration and resurrection of theaters and museums such as the opera, drama theater and so on. During the presentation, the Minister also highlighted investment in social projects such as kindergartens, schools, dormitories, 68 culture centers, 92 hospitals as well as other projects for a total of 601 new buildings planned for 2020.

The government revenue for 2020 shall be 12.9 trillion MNT with almost 11 trillion MNT consisting of taxes. The budget expenses have also increased to 13.9 trillion, 4.2 trillion of which is designated towards pension and social care. Moreover, 2.6 trillion MNT will go towards wages.

Some potential avenues for minimizing deficits would

be to contemplate on sources of funding or to reduce state expenditure. This is almost never discussed and even a 6% growth in the economy is not enough to keep up with increases in the state budget. As with any proposed budget, we should disassemble the expenses to ascertain whether it is going to have an effect on our competitiveness and make our life better for tomorrow.

However, increases in state-owned-enterprises despite the fact that the vast majority of them operate with deficits demonstrates that this discussion rarely takes place. For example, the majority of power stations owe money to coal mines and those mines owe money to the railroad which creates a circular debt. These debts destroy the economy and severely hinder our capacity moving forward. In order to rectify issues such as these, we must get as close to free market prices for electricity as possible and reinvigorate the Ulaanbaatar Railway, a joint venture between Russia and Mongolia which always operates on a loss despite a reluctance to pay taxes and social protections.

This raises questions such as why we keep increasing state-owned-enterprises as well as taxes on private enterprises which significantly hinder their capacity to expand their operations. Of course social protections for employees should always be paid but the return of these payments for the employee is also less than ideal. We should therefore contemplate on the role of the state once again. The state is needed solely for the protection of private property, rights of people and the safety of people. Everything else can be delegated to the private sector guided by the preferences of the people.

## WILL MONETARY POLICY EVER CHANGE?

The governor of the Bank of Mongolia, N.Bayartsaikhan presented the government's monetary policy for next year alongside the budget proposal. The government aims to keep the inflation rate at around 8% which was 8.9% as of August 2019. One of the tools to normalize inflation is monetary policy guided by the policy rate of the Bank of Mongolia. This rate has stayed at 11% for the last three or so years. The inflation rate of 8% is significantly better than what it was but is still not feasible with a stable economy.

It is however worth noting that the exchange rate between MNT and USD also plays a role in inflation and this in turn dependent on the relation between our imports and exports. Despite attempts to decrease financial risks and loan interests, issues such as the US-China trade war, the declining growth rate of the Chinese economy, the risk of being placed on a financial grey list due to the lack of transparency of the financial sector. For example, Mongolian commercial banks increased their equity capital under the conditions of the IMF. However, when the IMF requested the Bank of Mongolia to ascertain the source of this new funding, most banks relied on the 2015 pardon law that stated that the payment of outstanding taxes during a given grace period shall result in the source of the funds not being scrutinized.

This is another issue related to inflation as the equity capital reflects on the loan capacity of institutions and if their source cannot be determined, it is incredibly unhealthy. An ADB report forecasted that Mongolia shall have a stable economy in the coming years but 8% inflation is simply not conducive to a stable economy. To be considered a stable economy, the inflation should be around 2-3% and there is a lot of work to be done for us

to reach those levels.

Our economy is extremely reliant on mining commodities and foreign direct investment which may be slower next year due to Oyu Tolgoi pushing back its timetable for their underground mine production schedule.

The slow growth of China will have an immediate effect on the Mongolian economy. We sell coking coal and copper which are important exports, the necessity for which can be inferred from auto sales in China. Troublingly, car production and car sales have decreased for the last 14 months in China and this will immediately impact the nature of our trade with China as well as exchange rate with CNY.

One of the main culprits of today's inflation rate is our uncompetitive economy. Because the inflation is connected to the fluctuation of the exchange rate, it is a clear indicator that we don't export enough products. In order to increase our foreign capital reserves, we should export more products whose prices are relatively stable. Increasing the credit rate will be conducive to a competitive economy which will in turn decrease inflation. This requires a decrease in the savings rate and a healthy competition between commercial banks.

However, some of our commercial banks have increased their equity capital through undisclosed sources which is unhealthy. It is now up to the Bank of Mongolia to determine the validity of the increases in equity capital and to demand new increases where necessary. Should commercial banks fail to meet these new demands, the government should take a certain amount of shares in those companies. These would all be in line with the financial stability law of the country.



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## REFINED FUEL AND AIR POLLUTION

In February 2018, the government banned the use of raw coal and promoted refined fuel to take its place as a means of reducing air pollution. Moreover, the transportation of raw coal was prohibited on the 15 of May this year and a proposal to free refined fuels from value added taxes were presented. Whether refined coal will be able to be incorporated into the lives of Mongolians shall depend on its price. There is a plant that produces coal briquettes from Tavan Tolgoi. If the value for money of these briquettes is relatively similar to that of coal, people will buy it.

One persistent problem in Mongolia is the smoke produced by the over 200,000 chimneys in the ger areas. This is the main source of air pollution in Ulaanbaatar and the residents of those areas spend 7 times more on heating than people living in apartments. However, 58% of Ulaanbaatar's workforce lives in these ger districts. Another interesting statistic is that the poverty rate in the ger districts is 38% compared to the national average



of 29%. Provided that the briquettes provide the same heat level, it will begin to be utilized widely if its price is comparable to that of coal.

When colder weather hits between 2-3 weeks, we will see if the government will crack down on the use of raw coal and whether the use of briquettes will be financially viable. If its price is not comparable to that of coal, people will probably obtain illegally produced coal from Nalaikh or Baganuur by any means necessary.

The most effective way of fighting air pollution is the establishment of affordable housing for the inhabitants of the ger district. However, Mongolian construction companies continue to build very expensive housing even for the average American. Therefore, the production of affordable housing and gearing them towards the inhabitants of the ger district is the main priority in the fight against air pollution.

*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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