

# The Defacto Gazette

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

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WEEKLY



DeFacto **ARTICLE**

№501

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

## ENERGY SECTOR WITHOUT FUEL

DeFacto **REVIEW**

### ➤ MONGOLIA IN "GREY LIST"

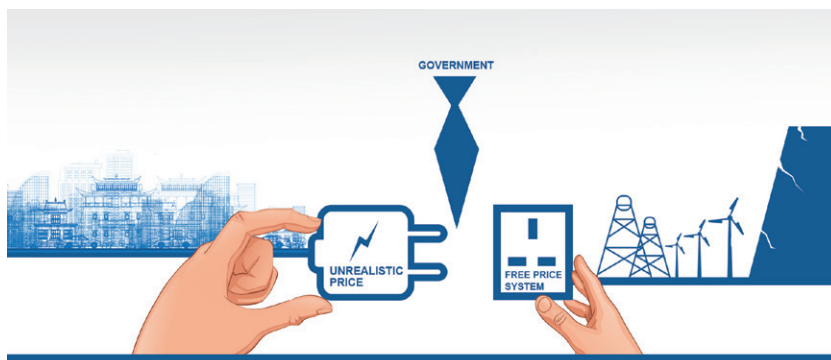
The annual meeting of the Financial Action Task Force (FATF), an independent intergovernmental organization against money laundering and terrorism financing was held in Paris from 13–18 October.

### ➤ POLITICAL CLIENTELISM OF MONGOLIA

### ➤ COMPARATIVE ANALYSIS OF INSTITUTIONAL ENVIRONMENTS OF NON-GOVERNMENTAL ORGANIZATIONS IN MONGOLIA, HUNGARY, AND POLAND

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Development without electricity does not exist. In Mongolia, 15% of the total population is living without electricity, 70% is living with an outdoor wooden toilet, and one third is living in poverty.

The underlying reasons are energy shortage and its unreliable supply. Instead of holding an extensive discussion and remedying the situation, the Mongolian public has wasted 20 years by dividing and running into battles from election to election, believing in empty promises of politicians, and psyching out along with those politicians.

Mongolia is unable to provide the entire population with sufficient and reliable energy, yet it has abundant sources of energy such as coal, sun, and wind. Despite the energy shortage, the authorities began fooling us by claiming that Mongolia will supply electricity to the Asian continent. In reality, the energy policy without fuel is concealed behind such claim.

## ENERGY SUPPLY AND TARIFFS

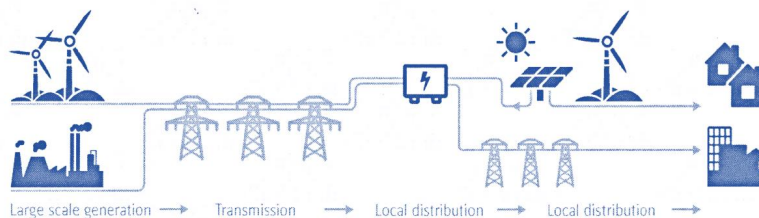
The energy sector was partly unbundled, racing with the new century. Ever since, the past events have shown that the Mongolian energy sector is profitable for the government, but harmful for the people. The vertically integrated structure of the energy sector was unbundled. In accordance with international practice the generation, transmission, distribution of power was separated and converted to state-owned stock companies. Following the amendment of the Law on Energy in 2001, the Energy Regulatory Agency was established. Ten years later, due to a new amendment, the Agency was renamed to Energy Regulatory Commission. The primary goal of the Commission is to issue licenses to operate in the energy sector, to review and approve the tariffs between the license holder and consumer, to provide equal protection of their rights, and to create necessary conditions for fair competition. The question arises how 20 years later the energy sector remains outdated, operating with a deficit and with no efficiency as if it were an ownerless property.



- ▶ In the previous year, energy consumption was 8.3 billion kWh (Kilowatt hour) in Mongolia. If we break down the supply, the energy production and imports constituted 80% and 20% respectively. It discloses the fact that Mongolia does not have an energy storage. The age of existing five power plants and the transmission-distribution lines is between 32 to 57 years and 30-60 years respectively. Regardless, during winter peak hours power plants are operated strenuously at their full capacities.

The government is not troubled with enhancing the capacity and efficiency of coal mines, power and heating plants. Consequently, 52,166 enterprises, 633,071 households are facing the risk of a power cut or of freezing if there is be a minor incident at the plants.

The core reason lies in unrealistic prices and tariffs: The price of electricity is 22% lower than its cost, whereas the price of heating is 2-3 times lower than the cost. For instance, the government offered a discount amounting to 62.7 billion tugriks and in households, the electricity price was 0.32-3.0 times lower than the cost last year. In 2005, the electricity and heating



bills constituted 15% of household income and in 2018, the percentage was at 6.2 %. The provider in a four-member household pays on average 302 tugriks for electricity, 500 tugriks for riding a bus, and 820 tugriks for cell phone use in a day. The business electricity bill is 4 times lower compared to other countries.

As the bills showed considerably lower amounts than the actual costs for many years, unpaid invoices and debts are accumulated between power plants and coal mines. Moreover, they both became outdated and are not able to secure investments, parts, and tools on time. By the third quarter of 2017, the Baganuur Coal Mining had a debt collection and invoice factoring amounting respectively to 142 billion tugriks and 8.9 billion tugriks. The Shivee-Ovoo Coal Mine has debt and invoice amounting to 103 billion tugriks and 5.8 billion

tugriks respectively. Recently, both companies begged the cabinet to cover their deficits through the government budget immediately, so they could carry out winter preparations. As profits are entirely ignored, an interest to increase the cost is dominating in the energy sector.

Fifteen hundred people are working in the fourth cogeneration plant whereas 10 times less people work in western plants with similar capacity. The mining license of "Baganuur" LC was "given" to "Altain Gyant" LLC in 2012, and recently was transferred to "Erdenes Mongol" LLC. "Altain Gyant" acquired 49% of "Erdenet Mining Corporation" through public money. However, it was revealed that the shares were acquired by Ts. Purevtuvshin, an owner of company called "Mongolian Coal" with close affiliations to "Mongolian Copper Corporation".

## **NECESSITY TO SET FREE PRICE SYSTEM AND SELL THE SHARES**

Not only vertical, but also horizontal unbundling is necessary in order to avoid risks in the energy sector and to fully and reliably meet energy demand of the population. Especially, it is crucial to encourage the formation of several new plants and distributors to invest in electric transmission companies, increase the capacity, and to improve the quality.

Hence, making it essential to set a price with profit margin of 10% after cost deduction, and measure performance of the mines and power plants by its profits. Furthermore,

a cost monitoring system can be established by selling 51% of shares of all energy companies on the stock exchange with a condition that a buyer cannot purchase more than 5% of the shares.

It is straightforward that investors and new players only enter into profitable sectors. Even though numerous licenses to build new power plants exist, other plants than Oyu Tolgoi's Tavan Tolgoi cannot be implemented at the moment. A clear example is the 5th power plant which has been in discussion for 20 years, and while the footings were

installed 10 times, yet the project has not come to light. The government authorities and the companies they are connected to, attempt to involve in projects with available investors and investments in the energy sector. As a result, whenever the government was replaced, the political parties cross swords and eventually the project died out.

Let's learn from our bitter experience and transition to market evaluation so we can fuel the energy sector and economy.

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## DeFacto **REVIEW**

Every Sunday live at 7pm on MNB World television: 20th October, 2019

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### MONGOLIA IN “GREY LIST”

The annual meeting of the Financial Action Task Force (FATF), an independent intergovernmental organization against money laundering and terrorism financing was held in Paris from 13–18 October. It was announced during this meeting that Mongolia has officially been put in the “Grey List” and this marks the second time the country has been grey listed with the first instance coming in 2013. FATF was created during the G7 summit to combat money laundering and terrorism financing in 1989. It currently has 39 member states and while Mongolia is not a member of FATF itself, it is a part of the Asia-Pacific Group, its regional structure which it joined in 2004. As a member state, Mongolia is looking into implementing the 40 recommendations that the organization provided mostly dealing with the establishment of a comprehensive action plan to combat money laundering.

In September 2017, the “Anti-money laundering and counterterrorist financing measures Mongolia mutual evaluation *report*” was published and is available on the website of the Asia-Pacific Group. However, the lack of a Mongolian version of the report meant that there was little exposure of the report in Mongolia until recently.

The report determined that Mongolia is vulnerable to a range of money laundering threats, high risk for predicate offences such as fraud, environmental crimes, tax evasion and corruption. It also determined that Mongolia was exposed to moderate threats of drug crimes such as smuggling, organized crime, crimes against the banking regulations, theft and burglary as well as risks from foreign proceeds. It would go on to state that the proceeds from those predicate crimes are being laundered in Mongolia and abroad.

Within Mongolia, they are mainly utilized to purchase real estate, vehicles and other consumer goods. In the case of corruption bank accounts of family members are utilized to receive funds which are then diverted to foreign and offshore accounts. Some of these funds return to Mongolia but cooperation and coordination on the proliferation of financing in Mongolia is absent. Through



the significant efforts of the current government only 5 of the 40 proposals are yet to be implemented. In addition to this, the outcome report outlines 11 measures 3 of which are yet to be implemented.

It is worth noting that there are two types of lists. The “Black List” consists of Iran and North Korea and any financial relationship with them are prohibited under threat of sanction. As far as “Grey List” countries are concerned, FATF advises its relevant partners including AAA companies and international banks to conduct their due diligence in their risk assessment when dealing with them. This may result in delays with money entering and leaving Mongolia as the source of those funds would need to be verified.

The three remaining outcome reports measures involve the monitoring of financial institutions, inaction over doubtful transactions and impunity for corruption with nothing coming of arrests in the rare event that they are carried out. The Mongolian judicial system lacks the power to bring individuals to justice. Only the systematic resolution of those three measures shall see Mongolia be removed from the “Grey List” and this will take time. One of the biggest impediments to this is that the relevant national agencies such as the police, anti-corruption agency and the judiciary don’t coordinate in any meaningful manner. However political will and a commitment to resolving the inherent issues will allow Mongolia to implement at least some of the measures outlined in the outcome report by the next FATF meeting most likely in March.

## POLITICAL CLIENTELISM OF MONGOLIA

The author of “From Totalitarianism to Defective Democracy,” Michal Klima visited Mongolia and presented a lecture. In the book, Klima contemplates on an aspect of politics in post-communist countries in that people seeking to further their own wealth gain power, thereby contributing to the creation of a clientelism system. It seems that Mongolia is operating under the same concept as with most post-communist countries where privatization of previously state-owned enterprises happened. In the Czech Republic, those with access to information within the judiciary, security apparatus, political structure and in other areas benefited the most. However, their indiscretions were eventually brought to light as the Czech Republic boasts a much robust and vibrant civic society than in Mongolia.

Within these realities, political parties which are meant to serve as a bridge between government and society became a bridge between government and these newly wealthy individuals, their clients. Francis Fukuyama once stated that the two forms of corruption are rent-seeking and the clientelism approach. Klima is now convinced that non-transparent systems such as Russia and China are reinforcing those systems.

In broad strokes, Mongolia underwent the same process as with the Czech Republic at a different scale given the disparity between our economies. With a smaller scale of the economy, there was less concentration of funds at the hands of individuals with our wealth being distributed to a wider circle of individuals. Clientelism in Mongolia is still extremely strong and it is helped by the secrecy surrounding political party financing. It is alleged that the ruling party generated 60 billion MNT from the sale of top government positions.

State-owned-enterprises are constantly increasing in number with regulations regarding them being loosened at the same rate. This greatly contributes to the clientelist system with the majority of them operating with losses which are covered from the budget. In reali-



ty, those companies are party owned companies with a fight raging among the ruling elite over those companies. Another difference between Mongolia and Czech Republic is that our discussions rarely result in concrete action being implemented.

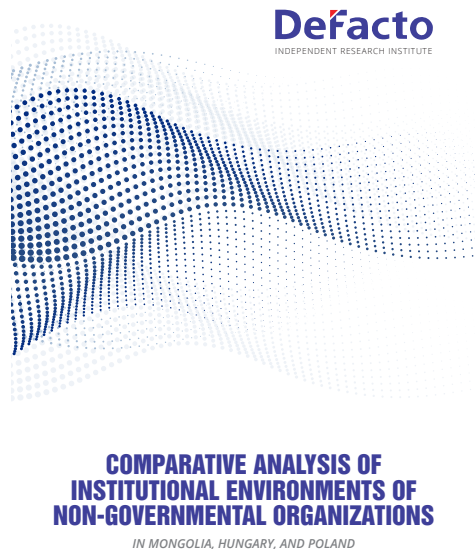
Former Prime Minister Altankhuyag alleged that former President Elbegdorj received significant amount of kickbacks from Erdenet corporation which were then spent in casinos. Despite this, there is an eerie silence from the relevant agencies such as the judiciary and the anti-corruption agency. Through their silence, they are dividing society and facilitating political disenfranchisement.

Growth of a vibrant civic society is the only measure to combat this in a democratic society. Klima claims that this civic society is more established in the Czech Republic allowing them to address the issues more effectively than most. We are fortunately living in a free society where our governments can change every election cycle to the establishment of a vibrant civic society that demands an end to the clientelist system is a responsibility of Mongolians.

## COMPARATIVE ANALYSIS OF INSTITUTIONAL ENVIRONMENTS OF NON-GOVERNMENTAL ORGANIZATIONS IN MONGOLIA, HUNGARY, AND POLAND

*The Defacto Institute* carried out a comparative analysis into the institutional environments of NGO's in Mongolia, Hungary and Poland, finding that in young democracies, foreign funding of NGO's is essential. With Mongolia looking to follow the paths of Hungary and Poland, we conducted the study to determine potential consequences. We have had legislation on NGO's since 1997 and after 22 years, the Ministry of Justice and Internal Affairs are presenting a new law that would allow them to more closely control the financing of NGO's.

It is difficult to determine how many NGO's operate within Mongolia as the registration and tax information is constantly changing. According to the Ministry of Justice, there are religious organizations with external funding operating under the guise of NGO's. However, this issue can be regulated by the Law on Religions or other legislation. We had a good conversation with Members of Parliament Byambatsogt and Munkh-Orgil as well as representatives from a number of NGOs on the proposed legislation. The half day discussion



concluded with the agreement that the policy involving NGO's needs to be approved prior to the legislation.

There is an organization called Civicus that looks into the operations of NGOs and their report in 2018 classified Mongolia as a country with limited NGO freedoms. It came to this decision given the weakness of citizen activeness and the lack of impact on policy. Mongolian NGO's have traditionally been funded by international organizations such as the ADB, World Bank, Asia Foundation and others but the current proposal put forward is to establish a 9-member Civic Society Support Council consisting of 5 Ministry appointees and 4 NGO appointees.

It is claimed that this council will finance NGOs and that foreign funding will be limited but this will have a very negative impact on a young democracy like Mongolia. Government financing of NGO's would mean that the government would obtain a significant amount of influence over the operations of NGO's. It will also create avenues for corruption as all funds distributed by the government are taxpayer money and it is difficult to keep any such process apolitical.

*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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✉ editor1@jargaldefacto.com  
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