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WEEKLY



DeFacto **ARTICLE**

№502

Jargalsaikhan Dambadarjaa,
Mongolian political and
economic observer, columnist

GREY COURT



DeFacto **INTERVIEW**

WENCESLAO BUNGE

Visiting scholar, Member of the
international advisory board of
Harvard University's Center for
International Affairs (CFIA)

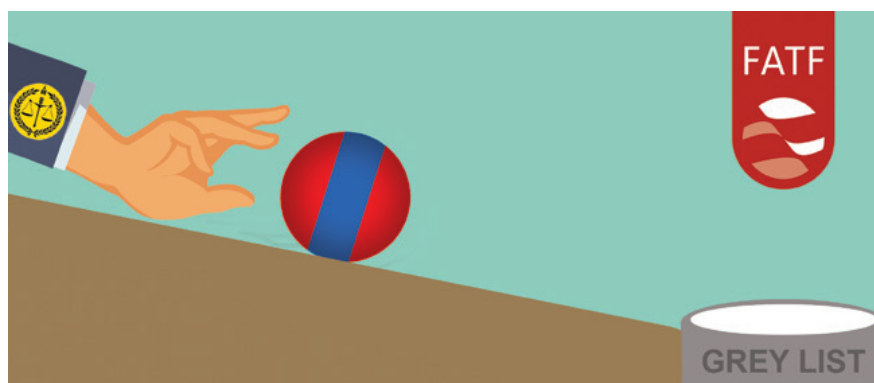
“ IF WE DON'T HAVE
HONORABLE LEADERS
WITH SOUND VALUES,
THE SITUATION MAY
NOT CHANGE EVEN IN A
HUNDRED YEARS ”

IV PAGE

DeFacto **REVIEW**

- WILL UNIVERSITIES BE INTEGRATED
- WHO WILL BE HELD ACCOUNTABLE FOR GREY LIST?
- INVESTMENT ENVIRONMENT: STABILITY

VI PAGE



The Financial Action Task Force (FATF) held its annual meeting in Paris between 13-18 October 2019 and officially announced that Mongolia, Iceland, and Zimbabwe have been added to its grey list. The FATF publishes reports on recommended measures (40 recommendations) in combating money laundering and terrorist financing, and evaluates the progress (11 criteria) of its members. According to the Mutual Evaluation Report of 2017, Mongolia has not complied with 5 recommendations, thus the progress (in 4 criteria) was regarded as insufficient. This result was mentioned in my previous article called *“Grey Government”*.

The inter-governmental organization issues the following two lists. Former is the black list, a list of countries deserves the utmost attention, and the latter is grey list, a list of countries that are under observation. Financial activities with countries on the grey list are not prohibited, but the FATF provides guidance on risk assessment. As a result, banks that provide global financial services, financial institutions, and investors pay careful attention to countries on the grey list and thereby limit activities at own will.

GROUNDS FOR GREY

Ch. Khurelbaatar, a Minister of Finance, pointed out that “The Law on Pardon most significantly bred the inaction to admit and fix the wrong policy, wrong action...” The Minister of Justice and Internal Affairs, Ts. Nyamdorj, stated “The draft law on transparency was proposed and rejected in January 2015. Afterward, the draft law was forcefully approved during the Naadam festival.”

The Law of Mongolia on Promotion of Economic Transparency, a law on pardon, was in force from August 7, 2015 to February 20, 2016. According to this law, when a person registers his or her undeclared properties (cash, real estate, etc.) and pays the taxes, the source will not be questioned, a ▶▶

► criminal charge will not be filed, the person will not be held responsible, and information regarding the property will not be disclosed. In the course of this law, 8794 Mongolian citizens, 448 stateless people, 25,000 enterprises declared properties amounting to 33.3 trillion tugriks, an amount larger than the Mongolian economy in a year.

In 2017, the APG (The Asia/Pacific Group) of FATF designated an external independent expert to Mongolia to carry out an evaluation on money laundering. The evaluation report provided clear recommendations on what to focus on and fix. Unfortunately, Mongolia was added to the grey list as the government failed to fully comply with the recommendations.

The *report* pointed out that Mongolia is exposed to money laundering vulnerability (p. 15). Fraud, environmental crimes, tax evasion, and corruption are at a high

DYSFUNCTIONAL COURT

The Mongolian court is incapable of resolving cases concerning money laundering. Many cases are investigated and many officials in high-ranking positions, such as the two former Prime ministers, former Minister of Finance, executives of state-owned companies, and the owner of the largest bank, were arrested. The above-mentioned report indicated that Mongolia lacks cooperation between the executive branch, courts, and the police agency. In short, the mechanism to enforce justice is not functioning properly, thus justice is not established.

The Independent Authority Against Corruption (IAAC) of Mongolia did submit a request to transfer several hundred cases, which it has investigated, to a

risk of money laundering whereas, drug offenses, smuggling, organized crimes, crimes against banking regulations, theft and burglary are regarded to be moderate risk.



The income generated from crimes similar to the above-mentioned crimes is laundered in Mongolia

prosecutor, and yet only a handful of cases are brought to court. So far, the prosecution has not released a public report on other cases brought to the prosecutor. The court trials of most cases are postponed for bizarre reasons. Subsequently, the cases get closed as the period of limitation for enforcement expires. Such strange practice has been put in place. This illustrates that the judicial system is serving corrupted officials instead of justice. The Mongolian prosecution and judicial system got into the hands of a few corrupted officials, as a result money laundering has spread to a degree that it cannot be solved domestically. Therefore, the FATF added Mongolia to its grey list.

The Mongolians are emigrating as they run out of choices when

or abroad. Domestically, the illegal income is used to purchase real estate, car/machinery, and high-class consumer products.

Furthermore, the money is laundered in the construction industry through legal persons. The bribes are mainly received through bank accounts of family members, and then transferred to foreign banks, offshore accounts, and other financial institutions. In certain cases, the money is transferred back to Mongolia via the banking system, and it was noted that the Mongolian banking sector is the most vulnerable to money laundering.

It is not a coincidence that an external financial auditing firm examined the Mongolian commercial banks, as the IMF demanded, to see if they involve in illegal activities to increase their equity capital. The bank of Mongolia is expected to shortly set forth the reason to the public.

ordinary citizens grow poorer, and the corrupted grow richer by misappropriating public properties. Until which point can citizens bear it? The damages resulting of corruption are paid by citizens who place their faith in the upcoming elections. However, authorities have regularly amended the law on election in their favor. The parliamentarians have been putting their heads together to make favorable amendments to the Constitution of Mongolia for a year, distracting public attention to dysfunctional courts, and counting down the days until the election in 2020.

In truth, it means that the Mongolian court was added to the grey list.

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WENCESLAO BUNGE

Visiting scholar, Member of the international advisory board of Harvard University's Center for International Affairs (CFIA)

“ IF WE DON'T HAVE HONORABLE LEADERS WITH SOUND VALUES, THE SITUATION MAY NOT CHANGE EVEN IN A HUNDRED YEARS ”

Wenceslao Bunge is a consultant at the Center for International Affairs at Harvard University and a member of its Board of Directors. He also serves as a researcher at the David Rockefeller Center for Latin American Studies. Moreover, he was a World Bank consultant, the Director of Accounts Receivables and a Board Member at McDonnell Douglas Corporation as well as a Director and Board Member at Vinos Argentinos S.A.

Jargal Defacto: Hello Wenceslao, please tell us about your visit to Mongolia this time

Wenceslao Bunge: My visit has two parts if you want to put it like that. I came with an individual with 30 years of experience in the meat business. He began his career as a butcher at his father's shop and was at one point assaulted at gunpoint. He moved his family to another province of Argentina with nothing more than his truck and he has a thriving business in Entre Rios.

JD: We will come back to this issue but what is the second reason for your visit?

WB: I wanted to introduce the Atlas of Economic Complexity and the importance of it at the Harvard Kennedy School at this moment.

JD: Let us go into economic complexity. Can you introduce the work of your department, Growth lab?

WB: The Growth lab works on the Atlas of Economic Complexity. The term was coined by Ricardo Hausmann who was nominated for a Nobel prize in economics. It refers to

every aspect and circumstance surrounding anything. For example, if we are talking about a gun, we would look into who designed it, what pen was used to design it, the factory and whether it is on public or private land, whether the road leading to the factory is a dirt or paved. This eventually boils down to three sources of capital: cash, human capital and infrastructure such as roads and factories.

JD: There are many factors in economics such as power of production, means of production and it seems that you are consolidating them and dividing it into parts. What does this achieve?

WB: The University and lab signed an agreement with the city of Buenos Aires and it will serve as our capital. We are looking into how Buenos Aires will look like in 20 years and in order to do so, we have to divide it into many parts to delve into the economic complexities and this is why we call it an atlas. In some sense, Mongolia is to Russia what Argentina is to America. This relationship can be studied to determine what will happen in Mongolia and Asia

in the next 20 years.

JD: This is very important to Mongolia as politicians only think of the immediate future and we are suffering from this short-sightedness. Looking 20 years ahead would be extremely useful so how you think it can realistically be done in Mongolia.

WB: Let me just give you an example of my time in Boston during my studies. The democratic and republican parties agreed to regarding the downsizing of bridges and roads coming into Boston. After 20 years, if you go to Boston today, only one of seven bridges remain with the rest being replaced with underground roads. Whenever politicians are in power, they have to work towards the betterment of human beings.

JD: You were involved in the Falklands conflict with your American counterparts seeking a resolution in a non-official capacity. Please tell us more about this.

WB: I met with many shadow ministers of the opposition and am talking with the islanders on all issues other than sovereignty.

Politicians fight over sovereignty but I believe human beings are more important. We are talking about the future of the islanders, British and Argentinians. Through this, we found at least 7 bridges on arts, culture and sports. For instance, a rugby team went to play against the islanders some years ago. There are currently 3,500 residents, 2,000 British military personnel and one frigate on the island. There are only 19 Argentinians and retirees from the UK, New Zealand, Australia, Canada on the island.

JD: This is a good model for overlooking existing conflicts and approaching the humanitarian side.

WB: Exactly, 50 years from now we will no longer be here but we can still talk about the future of human beings while we are here.

JD: You have spent a significant amount of time in the US and are now playing an important role in the public diplomacy between Argentina and US. We view Argentina as a country with a dynamic agriculture sector which once boasted a thriving meat industry. What is the secret?

WB: The cities had services that were capable of engaging in the future. We are looking into this from the Growth lab but going back to the first purpose of my visit, I believe Mongolia is similar to Argentina in its capacity to feed its people.

JD: What is the population of Argentina?

WB: Argentina has a population of 47 million and is the 7th largest country in the world. We

have 50 million cattle and it is worth noting that the agriculture industry subsidizes other sectors of our economy. Even our successful auto manufacturing industry is subsidized from the agriculture sector. It is worth noting that the US places no import taxes on our meats.

If we look at the city of Buenos Aires, 65% of its taxes originate from a direct tax on gambling. People that make minimal money gamble and rarely make any money out of it as the casino always has an edge.

JD: What is the population of Buenos Aires?

WB: There are 2.7 million people that live in Buenos Aires but 5 million people commute from the suburbs to on a daily basis and utilize social services such as hospitals and schools which are better staffed and equipped than in the countryside.

JD: How will the Growth lab partnership change Buenos Aires?

WB: We told them to eliminate the casinos but as the casinos are on the river, they are not under the jurisdiction of Buenos Aires but the navy.

JD: Many migrants to the US are being stopped on the Mexican border. As a Latin American with significant exposure to the US, how do you see this being resolved?

WB: We need a paradigm which unfortunately don't exist today. In modern times, the only paradigm was Obama whom I met at University. I met him when he was just a manager of the law school magazine when

he was 22 and he was the same honorable individual immersed in values. If we don't have honorable leaders with sound values, the situation may not change even in a hundred years.

If we look at Turkey however, Erdogan lost an election for the first time, signifying a shift in values. If we look at my friend in the meat business adversity took his family to another city after the assault. Looking at his daughter that his fiancé wanted to abort, he was steadfast in keeping her and she is a university student now. It is all about values.

JD: Based on this, how do you believe that America managed to become the preeminent country in the world?

WB: This is a good question as I am registered as a Democrat but I don't share their current policies. On the other end, you have an entrepreneur that is attempting to live up to his campaign promises which mainstream politicians usually detract from as soon as the election is over. I think he may even win a second term and some of the stories the Democrats are disseminating about him are not true.

JD: This is a good place to end the interview and I was delighted to learn from your background and what you have seen.

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

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



DeFacto **REVIEW**

Every Sunday live at 7pm on MNB World television: 27th October, 2019
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Namsrai Tsend

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Naranbat Nasanbat

WILL UNIVERSITIES BE INTEGRATED

The “Ways to improve higher education” forum was held at the Government Palace on Tuesday with the Minister of Education, Culture, Science and Sports, Mr. Yo.Baatarbileg giving a presentation on the concept of the establishment of research universities. Participants of the forum discussed the development of research universities and the integration of public universities. This integration process should have probably been initiated a decade ago when the then Minister of Education was Yo.Otgonbayar when he attempted to consolidate Ulaanbaatar University with the National University of Mongolia.

Education should be transparent and accessible, dynamic and flexible, should conduct research within the framework of accepted standards, train researchers, disseminate research and be on the forefront of innovation by creating favorable conditions for the training of professional staff. In 2018, the government of Mongolia adopted a program called “Formation of a Research Institute” and proposed to implement the program between 2019-2023. Within the framework the following goals were articulated:

1. Creation of new research standards and assessment criteria
2. Improving administration efficiency
3. Establishment of a long-term financial flow and financial leverage
4. Development of a science and innovation complex
5. Development of an ecosystem of partnership of scientists and investors

It differs from regular universities in that it would serve as a think tank of the Mongolian education sector. Looking at the statistics, Mongolia, a small country of 3.2 mil-

lion people has 94 universities. Given that the quality of these universities leaves much to be desired, the formation of a research university was simply a matter of time.

Consolidation of the public universities will involve the integration of existing management and financial resources in order to improve the quality of education. This will in turn allow Mongolian students and graduates to be competitive in a global society. If we look at the current Mongolian education sector, it reminds us of the situation in the 17th or 18th century where innovation in the sector was unwelcome. We are living in the 21st century, so education needs to adapt to contemporary needs, economy and technology.

We need to clearly understand that the root of Mongolian independence and competitiveness is rooted in the education system. Without a comprehensive and quality education system, we will never be able to compete in the global market. It is also worth noting that the purpose of the education simple is to guide students to discovering their virtues and abilities that will allow them to become productive members of society.

If we look at the Web of Science, a reputable portal, in 2014, there were only 27 Mongolian scientific publications submitted to them. This number has reached 480 publications in 2019 which demonstrates that the basic building blocks of the education system and potential is there but that there is no system for further developing them. With leading Mongolian educators seeking employment abroad, it is worth noting that brain drain mostly affects developing countries. Slowing this exodus of Mongolian educators and specialists requires a holistic approach with attention being paid to socio-economic issues, domestic issues and conditions for professional growth with each of these issues having their own backgrounds and facets.

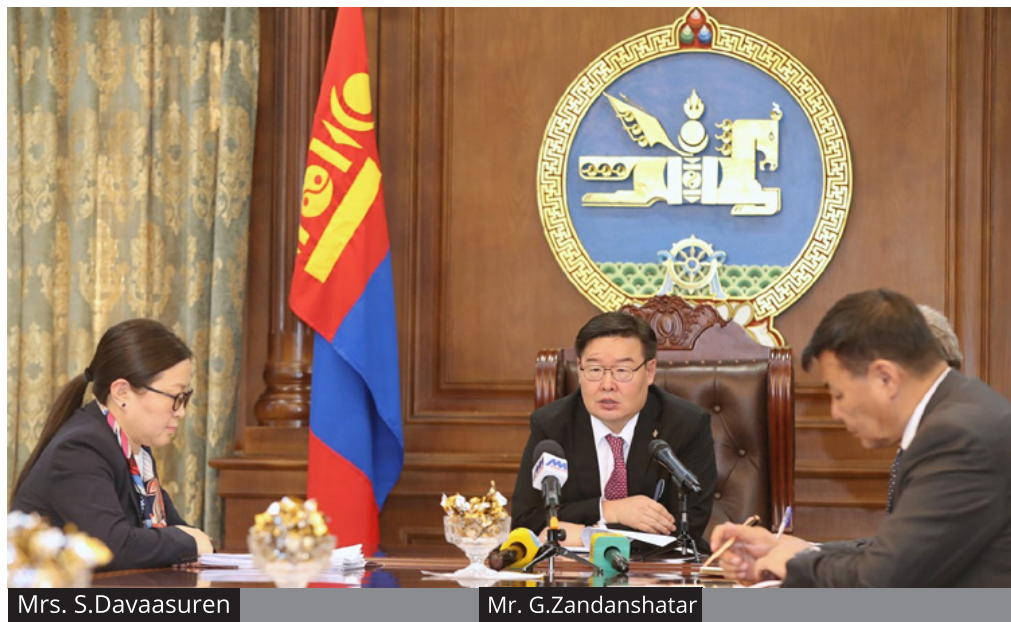
WHO WILL BE HELD ACCOUNTABLE FOR GREY LIST?

Mongolia was grey listed by the Financial Action Task Force (FATF) on the 18th of October. In the wake of this, Speaker of Parliament, Mr. G.Zandanshatar met with the Chair of the Financial Regulatory Commission (FRC) Mrs. S.Davaasuren to notify her that the individuals in the FRC and the Bank of Mongolia responsible for this should be held accountable. These institutions should receive some level of accountability as they are professional institutions in charge of monetary policy.

It is however worth understanding that they are not the sole institutional bodies that are responsible for the grey listing. The main culprit is the internal systemic crisis and we warned of the potential for being grey listed but no one really paid attention. Whether we like it or not, we need to understand that those issues need to be eradicated in order for us to leave the grey list. The head of the Bank of Mongolia stated their willingness to bear responsibility for the grey list but that there was also an international component to the issue with complaints being filed by foreign mining companies.

Therefore, it seems that there are two components to the grey listing with one being the domestic systemic crisis but it seems that international investors are seeking to utilize this opportunity to discipline Mongolian politicians. Politicians, the head of the Bank of Mongolia and the FRC are all partially to blame but there is little that they can do in the face of such systematic failure. The resignation of these officials will have little impact unless the new administration of these bodies can put forward a viable and professional plan of action and a willingness from politicians to change themselves. Currently we are looking for scapegoats when we need to be blaming the system and understand that we need to change it.

The root of these issues however is undoubtedly



Mrs. S.Davaasuren

Mr. G.Zandanshatar

corruption. The FATF even stated that corruption is no longer an internal issue of Mongolia. Changing corrupt officials and judges needs the involvement of everyone. With some claiming that we are overreacting about the grey listing, I would say that there are attempts to politicize the issue rather than overreact.

Being grey listed is a significant issue and international financial organizations are simply requesting that Mongolia present a viable solution and approach to change the current economic situation as Mongolia is no longer a small country with minimal involvement in the world economy. Mr. Klecheski, the US ambassador to Mongolia stated that he would like Mongolia to maintain financial and political discipline prior to the June election. Given that politicians want to keep the status quo, it is essential that the public serve as a watchdog and demand change.

The international aspect of the grey listing stems from the fact that Mongolia is being punished for having financial dealings with North Korea and Iran. International mining companies have been lobbying the Mongolian government to act responsibly and calling on them to stick to their promises.

INVESTMENT ENVIRONMENT: STABILITY

The Bank of Mongolia organized the Investment Environment: Stability conference on the 95th anniversary of the Mongolian banking sector on the 22nd of October.

As a foreign investor, the two indicators that you would look at when investing are predictability and political stability. Mongolia is unattractive on both those metrics and it has reached the limit of its economic growth without a significant shift in attitude. Therefore, diversification and change in ourselves are essential with this being the main message from FATF. When a country is not stable or predictable, no one will invest. On the other hand, if a country is predictable and working in accordance with accepted international standards, investments will come in throughout all sectors.

The effects of the Investment Environment: Stability conference are yet to be seen but it seems that we have been holding an excessive number of forums with no concrete results. It has come to the point where we are well aware of the issues and its solutions but no one is implementing those solutions. The creation of a predictable society where everyone including foreign investors feel comfortable investing and living can only be achieved through a systematic approach beginning in kindergarten and moving onto employers and employees. We need a predictable society whereby everyone from an hourly worker to high level politicians are accountable for their actions.

Being placed in the grey list is a subtle nudge that it is time for Mongolia to change and grow up as it is now a



part of the global economy. There have been some improvements in the investment climate with new people coming in. As I stated previously, the younger generation are very different from us as we grew up in an ownership economy and the younger generation is moving towards a shared economy. It is more essential than ever to share experiences and successes with others. After 30 years of democracy and free market, it is now time to change or we will fall far behind other developing nations. Mongolia has a great potential and we want to be at the forefront of developing nations. Methodically addressing systemic failures is essential for us to move forward. Whether or not individuals are interested in politics, they will need to act on their desire to change their environment.

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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