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Friday, 2020.01.31 №4 (129)

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**

№512

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Mongolian political and
economic observer, columnist

FRANCHISING

NEW OPPORTUNITIES



ARTICLE

Batsukh Galsan
Chairman of the Board of
Directors of Oyu Tolgoi LLC

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NEW LANDMARK

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These days, entrepreneurs around the world are turning to franchising. It is a business in which third party retail owners (franchisee) buy the rights to present internationally renowned brands and introduce products and services into local markets which turns out to be a comparatively secure and cost-effective way of doing business. Reducing the risk allows for a stable business development, hence allowing economic growth. Moreover, it is an excellent chance to branch out without making debts and additional investments. Apart from providing the opportunity to branch out, franchisors also advance the required investment. Thus, franchising presents a marvelous chance for growing your business using someone else's capital.

Essentially, franchising allows customers to use familiar products and services of international standards in every part of the world. Franchisors decrease the risks of a business expansion and are obliged only to oversee and adjust the know-how and standards of their brand. On the other hand, a franchisee eliminates risks by relying not only on reputation of the trademark, but also on its experience and achievements. The franchising business is based on effective cooperation between the franchisee and the franchisor and only when the whole business is running successfully, both sides receive the profit. ➤



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INTERNATIONALLY

▶ Nowadays, in times of globalisation, the franchise business is one major engine of economic growth for most countries. In 2016, the franchise business accounted for 10% of the total private sector in the US, the largest economy in the world. With \$1.2 trillion, 7.4% of the GDP came from franchise business.

New Zealand, with a population close to ours (4.7 million), is the world leader in franchising per capita. As of 2017, there are 631 different franchises for 37000 businesses,

with a total of 124000 people employed. The trade turnover in this sector has grown from \$15 billion to \$27.6 billion within five years, accounting for 11% of the GDP.

The basic model of franchising is to test a business idea in one of the world's markets and duplicate the proven standard in another market. In the Middle Ages, royals and noblemen granted a right to certain individuals or groups to collect taxes and build roads; the French called these rights *franche*.

THE MONGOLIAN PRIVATE SECTOR

As our economy grows, more and more trade and service outlets with foreign brand names and labels are emerging. In the Mongolian society, which is relatively open and quick to adapt to new things, and with two-thirds of the population under the age of 35, the number of international franchises recently increased. Especially, since the introduction of the fast food chain KFC, Mongolians have gained a better understanding of this concept. Franchising successfully penetrates the Mongolian market, meeting the needs of the young population and influencing their lifestyle. For instance, the Korean retail store CU (formerly Family Mart's branch in Japan) has opened 55 branches in Ulaanbaatar in just one year, brought a fresh approach to the retail industry. In partnership with small grocery store owners, CU will offer franchise programs over the next three years, aiming to add

300 branches, create 3000 workplace and modern services. Our small and medium businesses also have the opportunity to sell their products not only in CU Mongolia, but also in its international branches. This is a golden chance for any manufacturer to export their products to the international markets.

Other countries' experience illustrates that working with world-renowned brands allows to raise funds and get loans easier because their operations and market are already respected and transparent. Furthermore, it opens up the opportunity for the franchisee to get business advises and grow along with the franchisor. Franchising will bring real economic value as our small and medium entrepreneurs mitigate their risks and thus, achieve sustainable growth.

IN THE NON-PROFIT SECTOR

Recently, the concept of social franchising has been widely discussed. This is a franchise for international lending, assistance and volunteerism. For instance, the non-profit organization World Health Partners, established in 2008, has successfully introduced social franchising in India and provides medical services to low-income families.

The goal of social franchising is not to gain profit but to help more people, especially locally, to solve specific social problems. Social franchising will enable the non-profit organizations in Ulaanbaatar in their pursuit to reach out to a wider community in the countryside.

In order to accomplish this, we need implementable legal regulations that enable franchising opportunities to operate with less risk. Countries around the world also provide specific laws based on and in compliance with free competition,

international trade, investment, and other business-related laws for governing franchise relations. Although this type of regulation is to be found in the Mongolian civil law, it does not cover regulations on franchising, especially not the aforementioned social franchising.

From an investor's point of view, franchising is an opportunity to running a business with a considerable income and consistent profit due to the reduced risk. As franchising develops, the competition in the Mongolian retail industry will intensify, as the service quality improves, and eventually the customers will benefit from this in all aspects. By enabling the retail industry to use the franchising concept to its full potential, the Mongolian free market will reach the next level of development.

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Batsukh Galsan

Chairman of the Board of
Directors of Oyu Tolgoi LLC

ARTICLE

Oyu Tolgoi's NEW LANDMARK

Towards the end of last year, an important event took place to turn over a new leaf in the history of modern mining industry in Mongolia. It was the completion of Production Shaft, one of the key infrastructure facilities of the Oyu Tolgoi Underground Project, with its headframe tower rising to the sky. Looking over the Khanbogd's vast plain, two distinct landmarks catch eyes. First and foremost is the Sun blessed Mt. Khanbogd, proudly commending. This sacred mountain, created by God, contains the best of minerals, human history, culture and legends. God only knows how and when it was created and what it took. Not far away from the sacred mount is the Oyu Tolgoi's new landmark – catching eyes and rising high – created by human intelligence and hard work. It looks mesmerizing, especially at dawn and dusk. May I ask for your forgiveness for daring to compare these two "creations". But, it is said that things don't just happen by accidents.

This magnificent tower is the first of its kind in the Southern Gobi Desert, embodying the modern mining industry technology and standard. A road to such achievement wasn't smooth. If not stopped in 2013, shortly after its start, its construction could have been completed in 2016. Misunderstanding and distrust between stakeholders resulted in such stop and a bitter lesson. But, a decision to resume underground development in 2016 now resulted in successful completion of this facility.

Such a complex facility, comprising the best designs, engineering solutions and equipment in the world has been accomplished by our national engineers, technicians and workers, something that everyone should be proud of. Construction of Production Shaft – from restart of sinking through to equipping – has taken three years and four months. Close to 50 national companies and 2,500 people worked safely for approximately 2.6 million hours to complete this facility – an outstanding achievement by any means – admit experts.

These numbers prove an emergence of world-class occupational health and safety standard and safety culture in the underground and surface construction and devel-



opment in Mongolia. Skilled and experienced expats have played an important role in this development. Mongolian engineers, technicians and builders, who have completed this massive, yet delicate task, have acquired knowledge and skills to work on underground development projects anywhere in the world, according to experts. I'm hopeful that the time will come when such intangible assets, emerging in the heart of the Gobi Desert, understood and acknowledged they have more value over money and things alike.

Let me share a few details on this magnificent facility. Construction of this new landmark has required 7.8 thousand cubic meters of dry cement, all of which were sourced from MonCement and MAK Cement, a simple example of Oyu Tolgoi's national procurement policy to support local content over cheaper import products. Likewise, 4.8 million tonnes of metal structures, 15.4 thousand meters of metal pipes and 317.5 thousand meters of cables were used.

This vertical structure stretches 1284 m below ground and 96 m above ground, with a diameter of 10 m. Total height of this facility is 1.3 km, equivalent to 15 of Shanggri-La Ulaanbaatar towers – 14 below ground and 1 above ground. From this point of view, one can compare this landmark to Khanbogd Mountain, in a sense that both of the landmarks are living and functioning structures, deep rooted to the mother earth.

Production Shaft has two hoists, one for service and one

for production. Service hoist has a double-deck cage to transport 300 people at a time and travel 1.3 km distance in 2.5-minutes time at a speed of 10 m/s. In comparison, elevators of Shangri-La Ulaanbaatar tower travel at a speed of 3 m/s.

Production hoist has two skips, each to hoist 60 tonnes of ore and travel at a maximum speed of 16.4 m/s. It is the largest friction hoist system in the world. Invented in 1877 by a German engineer Frederick Koepe, friction hoist is the most common type of hoist used in underground mining and is referred to as Koepe hoist. The production hoist, installed at Oyu Tolgoi underground mine, uses two of the world's largest Koepe winders. They are 6.7 m in diameter and weigh about 56 tonnes. Another vital part of the system are 32 kilometers of steel wire ropes, equal to the distance between Amgalan suburb bus terminal and Chinggis Khaan International Airport in Ulaanbaatar.

Commissioning of the Production Shaft enables additional crews, materials and equipment to be transported and operate underground, accelerating and improving both safety and productivity of the underground development. Moreover, it will enable transportation of ore, which is to be extracted from the underground mine, to the surface. To date, all transportation needs of the underground development had been handled by Service Shaft alone, which has a cage for 60 people only. Thus, from now on, underground development has a "spare horse", which will ensure increased reliability, speed and productivity. A traveler with a spare horse will travel longer.

In addition, Mid Ventilation Shaft is already operational and two more ventilation shafts are currently under construction. Oyu Tolgoi will have five shafts in total to support life-of-mine operations. Formerly, these shafts were simply numbered, i.e. Shaft 1, Shaft 2, and so on – a typical problem of a pioneer. In consultation with the Former President P.Ochirbat, Sc.D. B.Laikhansuren, Sc.D. Ch.Tegshsaikhan, Consulting Engineer N.Alгаа, and Head of National Council on Language Policy, Linguist N.Narangerel, we introduced a new naming convention, renaming the underground mine shafts in regard to their functions, i.e. Service Shaft, Production Shaft, South Ventilation Shaft, Mid Ventilation Shaft and North Ventilation Shaft. As two heads are better than one, the new naming convention is much better, I hope. The shafts, along with other infrastructure facilities will spring up one after another as planned in the coming years.

Oyu Tolgoi Mine Complex, including Open Pit and Underground Mines, associated infrastructure facilities, accommodations, employee wellbeing, sport and recreation facilities are under development in accordance with comprehensive plans, which form parts of the company's 10-year development strategy, approved in 2018. As part of the plan, "Mazaalai" Food Processing and Service Center, Khanbogd - Oyu Tolgoi paved road, "Chandmani" Under-

ground Operation and Service Center, and Central Heating Plant Expansion have been commissioned to operation to date. The strategic plan includes expansion and transformation of Khanbogd soum into a modern town, where small and medium enterprises to be developed and 60-70 percent of the permanent employees to be hired from.

The Democratic Revolution brought us a free market economy and opened a door to foreign investment and technology from third-neighbor countries. Oyu Tolgoi is a result of extensive investment from third-neighbors and is a pioneering mega project in Mongolia. Pioneers face challenges. But, Oyu Tolgoi family, known as strong, well-educated, hardworking and highly-disciplined miners, who strive for safety, is quietly working day and night, no matter what the natural and social weather, to create value to the local community and to make Khanbogd an example of good fame and bright future. What is worth doing at all is worth doing well.

The future of Umnugobi is in the hands of the new generation born and raised there. The three millionth citizen of Mongolia was born there, and I believe it wasn't a coincidence. The four millionth citizen of Mongolia might be born in Khanbogd as well. They are to develop the country and make Mongolia known to the world better. Then and there, the Gobi will be known to the world with its prosperity, not with dinosaur fossil. Such a dream will bring a free-trade zone, Mongolia-China manufacturing, trade and tourism centers, and geo parks based on dinosaur, flora & fauna heritages in the heart of Galba Gobi, which will welcome youngsters from Ulaanbaatar, the provinces of Bayan-Ulgii and Sukhbaatar, one after another, by bullet train, as well as tourists from Tokyo, Seoul, Shanghai and Beijing, "pouring down" at the Khanbumbat Airport, next to Oyu Tolgoi, to rejoice. Oyu Tolgoi will play a part to make this dream come true, which will depend on long-term well-directed policy and well-advised cooperation by and between the shareholders.

Mount Khanbogd is believed to have its own deity in the form of a charming woman wearing a green silk dress and riding a white camel, according to the belief of the local people. The new landmark, manifested herein will hopefully please and win the favor of the deity, since Oyu Tolgoi as a whole was born in Khanbogd, to bring the Umnugobi region to the 21st century development. Only time will show Oyu Tolgoi's true contribution to the development of the Gobi Desert, as a famous Latin phrase goes "Tempus consilium dabet" or "Time will show". The humble writer's intention is not to add fuel to any debate, but to mention the facts.

It makes one feel pleased to hear that the locals are taking as a good omen, for these two "creations", one by God and another by Homo sapiens, standing in neighborhood.

January 06, 2020



DeFacto **REVIEW**

Every Sunday live at 7pm on MNB World television: 26th January, 2020
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Host:
Namsrai Tsend

Commentator:
Jargal Dambadarjaa

CORRUPTION PERCEPTION INDEX OF MONGOLIA 2019

Transparency International presented the Corruption Perception Index 2019 which suggests that two-thirds of the countries across the world took a step back in their fight against corruption in 2019 with even some developed countries among those who failed to make progress. Mongolia was given a score of 35 ranking it 106 out of 180 countries.

The Corruption Perception Index is based upon 13 indicators, each of which makes an independent analysis into their areas of domain. A ranking of 0 within the index reflects rampant corruption while a ranking of 100 represents the complete absence of corruption and two-thirds of the 180 countries were ranked under 50. These even include G7 countries such as Canada, USA, France and a UK which took a step back in their fight against corruption.

According to the index, money in politics and political party financing are some of the main reasons for such a downward trend. Countries scoring over 70 all had a clear legal system for political party financing and those regulations were non-existent or very weak in countries scoring below 35, including Mongolia. 60% of countries that made progress in the index since 2012 made noticeable efforts to regulate campaign financing and donation. In countries that dropped in the index, such as Mongolia which dropped 13 places, political, social and business decisions are made with minimal input from the public and relevant stakeholders.

Over the last 5 years, Mongolia scored between 36 – 39 in the index and our best performance came in 2018 when we were ranked 93rd. Corruption in Mongolia is being reflected in the economy with the benefits of the economy failing to reach each household. The value of the Mongolian tugrik is depreciating and poverty is on the rise leading many to seek better opportunities in countries like Korea. It is also affecting Foreign Direct Investment and the quality of business conditions in the country.

There are 9 indicators which contribute to Mongolia's ranking in the Corruption Perception Index. The World Bank Country Policy and Institutional Assessment 2019 points at lack of transparency, accountability and the strength of executive power in the country for the ranking. Decision makers are not being held responsible for their decisions and there is limited access to public information for the media and civic society with rampant conflict of interests within power structures also emerging.

Another issue of note is the World Economic Forum whose Executive Opinion Survey 2019 stated that there are unhealthy external influences over public procurement and the judiciary. The Bertelsmann Foundation Transformation Index which pointed out the impunity with which influential people operate and the little public outcry for the phenomenon. Also, the World Justice Project is developing a Rule of Law Index based on 53 questions across domains such as public officers using their jobs to further their own interests.

SOURCES



	2016	2017	2018	2019
World Bank Country Policy and Institutional Assessment	47	43	43	35 (2)↓
World Economic Forum Executive Opinion Survey	38	30	31	28 (3)↓
Global Insight Country Risk Ratings	47	35	47	47
Bertelsmann Foundation Transformation Index	36	41	41	37 (4)↓
IMD World Competitiveness Center World Competitiveness Yearbook Executive Opinion Survey	35	33	30	28 (2)↓
World Justice Project Rule of Law Index Expert Survey 2017 - 2018	38	36	36	36
The PRS Group International Country Risk Guide 2017	32	32	32	35 (3)↑
Varieties of Democracy (V-Dem) 2017	34	35	33	31 (2)↓
Economist Intelligence Unit Country Risk Service 2017	37	37	37	37

Transparency International developed a number of recommendations for Mongolia and pointed at a lack of independence of public institutions such as auditing entities, courts and law enforcement. This leads to corruption cases disappearing with no punishment. Some of the recommendations include a strengthening of the

Independent Authority Against Corruption, transparency of public procurement, and a comprehensive set of recommendations on State-Owned Enterprises which unfortunately keep increasing. Increased transparency of budget expenditure and a special court for corruption were also recommended alongside a merit-based system of appointing public officials, stimulating youth involvement in the fight against corruption and making the media, civic society more active on these issues. Implementing these recommendations will further the fight against corruption but this will require time and leadership.

HOW IS THE COMPETITIVE CAPACITY OF THE PROVINCES?

The Economic Policy and Competitiveness Research Center presented the 2019 Competitiveness Capacity Research of Aimag on Wednesday with Orkhon aimag leading all aimags and Bulgan aimag coming last. It is good that we are comparing aimags by competitiveness with the research being carried out annually for the last 8 years. At the very least, it forces provincial administrators to reflect on the impact of a given decision before implementing it. This ranking is also taken seriously in the provinces with individuals going to the Economic Research Center to plead their case for ranking higher in the report.

The ranking is based on indicators pertaining to economic capacity, efficiency of governance, business profit and infrastructure. These areas don't paint a full picture of the competitiveness of provinces but it is a good attempt to gain an indication of where an aimag places. The best performing aimag is provided with a ranking of 100 and the remaining provinces are ranked on a curve in relation to it. Umnugovi ranks first in economic power, Sukhbaatar ranks first in efficiency of governance, Darkhan-uul leads in business profit and Orkhon leads in infrastructure. The average score of the provinces went down by two and infrastructure was the only indicator that demonstrated an increase.

Economic freedom is an essential component of increased opportunities and a good standard of living in any society. Whether economic freedom exists in different aimags is a separate issue but it boils down to property rights, freedom of contract and Rule of Law. Mongolia got its political freedom 30 years ago and is now seeking economic freedom which would constitute more free market regulation rather than state regulation.

Inability of the aimags to be competitive is a key issue that ultimately leads to individuals leaving the aimags to Ulaanbaatar. This has led to half of the country living in Ulaanbaatar and extremely bad traffic jams and a massive influx of old cars. Therefore, increasing economic freedom in the aimags is essential and the main vehicle for achieving it is the enactment of regulations that keep a certain percentage of collected taxes within the aimag. Once they have a certain amount of prerogative over their taxes, aimags can then issue municipal bonds, with individuals buying bonds being exempt from aimag taxes. This is a universally accepted mechanism for generating funds for social needs.

If we take roads for example, country-wide roads, aimag roads and soum roads should possess unique signs rather than a single set for all. Our cement factories also provide opportunities for infrastructure such as roads and buildings. Fixing the mining royalties system to ensure that a certain amount of royalties return to the aimags will stimulate local development and limit local opposition to mining and mining exploration which is detrimental to a country such as ours. The government also should not engage in activities that de-incentivizes Foreign Direct Investment such as when they suspended the provision of exploration licenses. Finally, making property rights stronger in order to allow for easier turnover needs to take place for aimags to become more competitive.

Competitiveness capacity index of 2019

1. Orkhon	100	12. Tuv	67.71
2. Umnugovi	97.85	13. Bayan-Ulgii	60.12
3. Dornogovi	94.53	14. Khovd	59.76
4. Darkhan-Uul	94.02	15. Khuvsgul	57.24
5. Dornod	87.14	16. Zavkhan	54.63
6. Govisumber	80.81	17. Bayankhongor	48.24
7. Sukhbaatar	73.07	18. Dundgovi	46.59
8. Uvurkhangai	71.84	19. Govi-Altai	46.18
9. Uvs	71.65	20. Arkhangai	39.11
10. Selenge	71.42	21. Bulgan	37.35
11. Khentii	70.53		

SENSATION OF “ELEG BUTEN MONGOL” CAMPAIGN

The “Eleg Buten Mongol” campaign against liver disease began in 2017. Within the framework of the project, laboratories receiving subsidies from the Health Insurance Fund for Hepatitis B and Hepatitis C diagnosis were inspected. 15 out of the 28 laboratories did not meet the requirements to carry out operations.

The program itself sounds good as a lot of people are afflicted with the viruses. These recent developments are a clear example of how Mongolia's public funds are used. The Health Insurance Fund is utilized for these operations when we have a dedicated fund for disease prevention in the country. On the other hand, it demonstrates the corruption that mares the system as each laboratory gets 120,000 MNT from the Health Insurance Fund per patient. According to some sources, the results of 90,000 analyses could be wrong but it is disputed by the Ministry of Health.

It would have been possible to inspect the laboratories before providing government subsidies but this was not carried out. Individuals close to the program received kickbacks for providing subsidies to unqualified labs. The list of qualified and unqualified labs has already been published on Mongolian websites. The Health Insurance Fund is not meant to be used for such national programs. According to Parliament Member A.Undraa, this is a big problem given that the Health Prevention Fund designed to operate such programs already exists. However, the government decided to utilize the Health Insurance Fund which has more resources despite the fact that it is still insufficient to cover its core operations.



Another interesting aspect is that as the Health Insurance Fund operates under the auspices of the Ministry of Health, in essence, the health providers ended up paying for those services and this is simply unacceptable. It is hard to hold any public official accountable for the negative impact on people's life and living conditions.

Firstly, individuals should check whether they were diagnosed in one of the unqualified laboratories and need to be diagnosed again if they had. Secondly, in the implementation of such large-scale projects, Mongolian unions need to be involved in order to limit the prerogative of corrupt companies seeking to make a profit. Thirdly, the Health Insurance Fund needs to be removed from the auspices of the Ministry of Health. Finally, civic society engagement in decision making and monitoring implementation is essential to proper governance. The Mongolian government is attempting to enact a troubling legislation limiting the scope of civic society.

*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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