

# The Defacto Gazette

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WEEKLY



DeFacto **ARTICLE**

№518

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## Governance and CORONAVIRUS

(The Vision 2050 criticism 4:  
Good governance)



**ARTICLE**

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Economist, International lawyer

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Sixty-three days after China announced COVID-19 (07/01/2020), on 10 March the first case in Mongolia was confirmed. As of today, in 120 countries of the world, 120,000 people got infected (80,000 in China), 4300 died and 67,000 recovered. Mongolia has closed its air and motorway between the cities, aimags and soums since the date the first case was confirmed and, suspended all international flights. About 500 people, including the passengers who arrived on March 2 by plane from Moscow and service workers with the French citizen who was infected COVID-19, are being searched, separated and tested for the virus. Foreign media has begun speculating that by the end of April a vaccine for Coronavirus would be found and its spread could effectively be. As with the 2003 SARS plague, Coronavirus is sure to be defeated- it is only a matter of time.

However when would we be able to overpower the corrupt-virus infested the Mongolian government? U.Khurelsukh's government stated that this will be the case in 30 years. According to *the Vision 2050*, page 249, Mongolia will by then become a state free of corruption. Nevertheless, will we endure that much corruption until then?

### GOOD GOVERNANCE

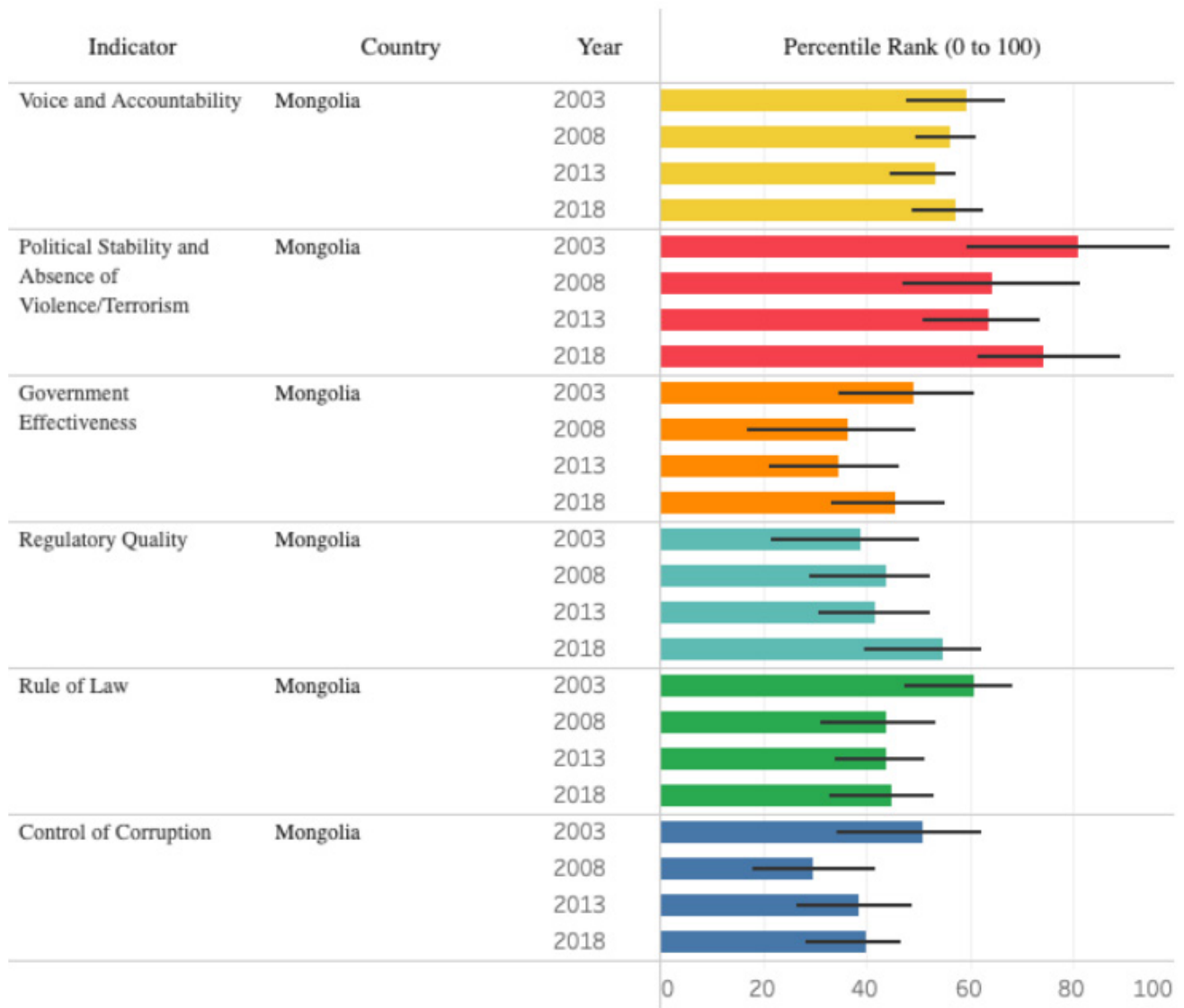
The advice that international development organizations, especially the World Bank, give to developing countries such as ours over the past 30 years, is that good governance is the key to national development. Good governance will be achieved if the decision-making process of the state and its implementation are open, transparent and accountable. The World Bank measures health of the governance of the countries by the following indicators:



- ▶ 1) the citizen’s voice and accountability
- 2) political stability and absence of terrorism and violence
- 3) the government effectiveness
- 4) the regulatory quality
- 5) the rule of law
- 6) control of corruption

Now, how well is Mongolia performing?

Fig. 1 Mongolia by global governance indicators



Source: *The World Bank*

In Mongolia, between 2003 and 2018, citizen’s voice and accountability were moderate and remained virtually unchanged, politics remained relatively stable, the regulatory quality strengthened, while the rule of law and the government effectiveness deteriorated, and control of corruption weakened.

Thus, in the next 30 years, in order to develop a good governance “a non-corrupted society that promotes human rights; with an electronic, intelligent structure, competent and ethical public service will be built”.



Table 1: The projected levels of a Good governance

| No | Criteria                     | Basic level | 2030 | 2040 | 2050 |
|----|------------------------------|-------------|------|------|------|
| 1  | The government effectiveness | 45.7        | 71.9 | 80   | 85   |
| 2  | The regulatory quality       | 54.8        | 78.2 | 80   | 85   |
| 3  | The rule of law              | 44.7        | 46.7 | 47.7 | 51.8 |
| 4  | The voice and accountability | 57.1        | 70.2 | 75.5 | 76.7 |
| 5  | Control of corruption        | 39.9        | 45.3 | 52.2 | 60   |

Source: *The Vision 2050*

But is there a specification as how to reach these high results? Aside from making decisions and implementing them, the state's, "ability to provide public services to every individual is crucial" according to political scientist Francis Fukuyama. This ability of the Mongolian state remains poor and immunity is weak.

## GOVERNANCE VIRUS

Bacteria are single-celled organisms that are massively present in organisms and help to digest and protect from other bacteria and microbes. A person falls ill when these bacteria are defeated by an infected bacterium. Bacterial infections are cured with antibiotics. The virus is much smaller than the bacterium, penetrating the human cell first, and then destroying healthy parts through reproduction. It is only defeated with the special vaccine. The vaccine has two functions: to prevent the virus from entering the cell; to stop the virus from multiplying in the cell.

Similar to bacteria, greed is given by nature in humans. When overgrown, it can quell relatively easily. And corruption, similar to viruses, invisibly attacks the body of government. It first penetrates the state, proliferates, and then destroys healthy cells.

In young democracies, corruption like a virus penetrates the politics through the democratic elections, using the power of the political party, reinforcing with money, and serves a financing partner/client and oligarch. In political terms, it is often referred to as clientelism or a trade for political power. Party-appointed officials enter the civil service before the next election, capitalize on, crave, and destroy healthy cells. To use the power of the civil service in this way is to be rent-seeking, in political terms. Since these two – clientelism and rent-seeking– are located in and originate from different places, their diagnosis and cure cannot be found within the same concept of good governance. Sadly, we Mongolians have only been talking about good governance and thus, all efforts to fight corruption did not yield results.

**Clientelism** is a deal to get power with an election. A prime example is the "60 Billion" case, or the initiative to buy votes through efforts of freeing the students of student debt or elders of their retirement debts. The basic tenets of clientelism are: "Help me and my party to win the election, and when I gain power, I will help you". That is why the politics of clientelism cannot be eliminated by the current politicians. Transparency and openness are not solutions. The only solution is the participation and struggle of citizens. Clientelist politics is not to be changed, it is to be replaced only.

**Rent-seekers** are parasites, who exploit their civil service authority through means of special permits, licenses and tenders. Using their political power, they orchestrate a shortage of supply, then make revenue from this environment. The examples include the SMEs (Small and Medium Enterprise Fund) case and many more funds, the State Bank and state-owned companies. Nevertheless, such cases can be solved through openness, transparency and accountability. The reason of the SMEs' disclosure was the transition to transparency of the registration system. Despite becoming dim, the so called "glass account" (transparency of registries) is also another solution. In the future, the outcome depends on how "glass account" relating to all licenses, permits, bids, and concessions works and whether it can store the data with blockchain.

These attacks of the corruption and virus will not be altered by Mongolians with the help of international organizations, or by the lectures of foreign scientists. The only solution is for the Mongolians to be active and conscientious in their election, to fully replace their clientele members and to speak out against them whenever they can.



*Batbold Tserenpuntsag*  
Economist, International lawyer

# WARNINGS OF HISTORY

The three Dilova Hutagt letters of 1932 to the US ambassador and of 1942 to President F.D.Roosevelt sent via Owen Lattimore, which researcher Saruul-Erdene found in the Congress library and have recently published in Mongolia, show how well the Mongolian elite of the time understood the geopolitical realities of their day and how they risked their lives to defend the national independence they had attained in 1911. More importantly, they remind us of the three foundational principles of Mongolia's eternal national interests, when he wrote: "Led by Khalkh Mongol Zasagt Khan and Jalhanz Hutagt, Mongolian religious and secular representatives have resolved to defend the self-rule right of Mongolia and got a petition to the US administration to that effect approved by Javzandamba Hutagt (Head of State) in 1920. However, in 1921 the Russian Red Army soldiers suddenly entered the capital city with some Mongolian youth and, by force, set up a red-party government, with all its affairs directed from Russia with the purpose of eliminating religion and private property, while imposing harsh legal rules, banning people's right to debate and possess arms. This manifestation of Russia's intention to swallow and incorporate Mongolia was deeply resented by Mongols, who not knowing what to do, secretly appointed me as the representative of the like-minded brave in order to seek ways of getting Mongolia freed from Russia's grip... An official of the government of Outer Mongolia was sent, in top secrecy, to order me find ways, while taking utmost care for discretion, to communicate with the USA and Great Britain about protecting Mongolian people's interests based on 3 main principles:

1. Protect the independent statehood Mongolia has achieved
2. Stop other countries' domination of Mongolia's territory
3. Prevent stationing other countries' troops or military advisors in Mongolia

As it is a dangerous assignment, I am not to letting anybody know of it and working with utmost carefulness. If Russians get wind of this, those colleagues will lose their lives and my safety will be under threat"

Indeed, these 3 aspirations were fulfilled only after the 1990 democratic revolutions, sweeping through all the

former communist countries. For the first time in over 300 years, Mongolia gained the opportunity to engage with the whole world as a sovereign country with its own independent foreign policy. With her transition to democratic governance, based on UN fundamental human rights, and a market economy, relying on private property and economic freedom, she joined humanity's mainstream development path. This has given her the chance to further expand its all-round amicable cooperation with its two neighbors, while rebalancing the historically conditioned unequal relations. The process was facilitated by the fact that the neighbors themselves were going through similar political and economic reforms. In particular, the new access to "third neighbor" countries' technology and capital allowed her to exploit its comparative advantage in mineral deposits and accelerate its economic transformation by exporting them to the vast markets of their giant neighbors. In particular, the mega projects OT and TT were of decisive significance here.

Unfortunately, these projects have in recent years gotten into a state of stagnation and resuscitation as a consequence of a dog-in-the-manger type obstruction by oligarchic rent-seeking, taken advantage by populist politicians' resource nationalism. The most pernicious manifestation of this folly has been the current attempts to criminally charge the two prime ministers, who as part of their regular official duties oversaw or directed the preparation of the related treaties or project documents in strict compliance with the country's laws and regulations. They are being declared as corrupt traitors who sold out the country to foreign interests, without legally satisfactory evidence or truly independent courts. PM S.Bayar was jailed for 2 months for preliminary investigation, *PM M.Enhsaihan's* case was rejected by the court, but a new politically- appointed prosecutor is now charging him again under a terrorism related article with potential punishment up to life imprisonment, based on the very project proposals that have been submitted by the government but have not even been discussed by the Parliament, which was to approve it. Another former prime minister Saihanbileg and the last president Elbegdorj are being also threatened with criminal charges and are, reportedly, avoiding return to the country from abroad for fear for their safety.

These developments are shocking to Mongolia's supporters who wonder if Mongolia is not just backtracking on its transition progress but is sliding into a familiar tin-pot-

dictatorship that used to be prevalent in Africa and Latin America where rule of law is trampled by the capture of judiciary. Some even wonder if there is external influence. Those who were asking why you want to recall the just-appointed ambassadors- the former prime ministers who have rare education and experience necessary to promote meaningful relationships with western countries- now are asking why appoint one's military advisor as ambassador to Russia? Would not restoring the old military cooperation and assistance make Mongolia a vassal state again, where are the enemies Mongolia would defeat with tanks and planes? They warn that the new railways running to the east via Russia would not become profitable whatever temporary subsidies are offered and the region's world war two heritage of the divided Korea and absence of a peace treaty between Russia and Japan make promotion of economic integration difficult, as evidenced by some UN project efforts over the past 30 years. The prevention of depopulation and economic development of the Far East, including efficient railway access to Vladivostok or other warmer ports has been a permanent challenge for Russia. In fact, the eastern Chinese railways re-obtained under the Yalta agreements were transferred to China free of charge, because it was continually running losses and Mao demanded huge investments, if to be managed jointly.

**What is the "terrorism" damage caused by the TT project proposal anyway? A mining operation does not have a permanent property to transfer to foreigners, it is just a question of extracting the resources and sharing in the income generated as wages, royalty or profit, all of which are larger, the longer and bigger the project is. The opportunity to benefit as much as it was proposed then, is long gone. And it is a chimera to hope for an IPO of a state-owned company that requires agreement by all citizen shareholders to decide major issues and whose profit is routinely raided by the government for distribution or financing unrelated public investments. Irrespective of what you call it, the best one can hope for now is probably some kind of bond/loan type deal collateralized by the best portions of the deposits and its true value would likely be several times less than the original proposal, and could increase the already unsustainable public debt level.**

Even if the former Prime ministers were convicted, they would be able to appeal to the international human rights institutions once domestic remedies have been exhausted. There won't be complete elements of a crime under international standards without proving corrupt payments by OT or unfair benefits obtained by Chinese companies at the expense of TT. In the end Mongolia might end up becoming a 'shithole' country where the international community regularly demands release of its political prisoners and whoever could flee persecution live abroad

as political asylum-seekers and it could not be ruled out that someday a future government would be handing a former President to the international court as a human rights violator, as Sudan is doing now.

In the meantime, Mongolia is facing today many challenges as bad as coronavirus:

1. How to accelerate the construction of the Gashuun Sukhait railway line to carry mining exports that cannot be hauled by trucks, if the virus continues
2. What to do if Mongolia has to default on its public debt because of the discontinuation of the IMF program due to the breach of the conditionalities agreed.
3. If the pastoral animal husbandry, extremely vulnerable to climate change and animal diseases, fail in the conditions of increasing global warming and germs activation.
4. How to finance the import needs, given the evaporation of FDI into mining due to the poor treatment of OT and TT projects, exploration licensing and constitutional changes affecting the sector.
5. What other sectors, if not mining, provide any hope for fulfilling the 'long-term development plans' empty dreams

What we need most to meet these challenges is national reconciliation and sanity. There are enough bitter lessons from other countries where politicians, fighting over natural resources rent, destroyed each other and ruined their countries. Every Mongolian is a patriot, but we fail to compromise and cooperate, possibly, because the appropriate rules of game have not been developed as in other countries. The pre-electionary environment is aggravating the disagreements and pushing people to abuse power. Therefore, it is called upon:

1. The Parliament to adopt a law guaranteeing that no politician be criminally charged for decisions he was involved with as part of fulfilling his official duties, however inadequate the outcomes were (this would apply to decisions of those in power now, too)
2. To stop and postpone any investigations that is alleged to be politically motivated until the elections are over
3. To resume them once truly independent courts and control mechanisms are put in place as envisaged by the recent amendments to the Constitution.
4. All lawyers are called on to actively use this opportunity to strengthen the independence of the judiciary, clean their ranks from those who fail to honour it and protect human rights in Mongolia.

*March 2020*



## DeFacto **REVIEW**

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## HOW WILL THE POLICY RATE AFFECT THE ECONOMY?

During the regular meeting of the Monetary Policy Committee on the 11th of March, a decision was made to drop policy rates to 10% and the reserve requirement ratio to 8.5%. The economy is already feeling the impact of the coronavirus quarantine and other restrictions. The service, trade and transport sectors are the hardest hit by those measures. There is also an issue of the payment of credit, in particular mortgage and rent payments. The policy changes that you are referring to are not substantial for the Mongolian economy as it is unlikely that individuals will take advantage of increased availability of loans at such uncertain times, particularly considering the high interest rates that currently stand at about 20%. There are limited options to reduce loan rates while keeping savings rates high.

The measures in question would be effective in developed countries such as Japan. Japan has budget reserves which they utilize for the provision of interest-free loans. In Italy, the payment of mortgages has been suspended and in the UK, commercial banks are decreasing mortgage rates. Germany has also pledged limitless loans for businesses. These policies would not be effective in Mongolia due to high interest rates and Mongolian banks are not in a position to suspend the collection of loan payments. This is due to the lack of small interest rate money in the country other than the Fund for the Future that will be utilized to cover the budget deficit in the near future as the Minister of Finance confirmed that budget amendment is currently not scheduled to take place.

Moreover, a number of Mongolian commercial banks were required by IMF to increase their equity capital and there is no information as to whether this has taken place in accordance with international standards. Therefore, a reduction in policy rates will not have a significant impact unless loan payments are suspended as the SME fund has done from March 1st to June 30th. Another reason these forms of measures will not be effective in Mongolia is because we had a much bigger grey market than we had anticipated. Following the enactment of the quarantine and the closure of the border, Bank of Mongolia bought

3.5 tons of gold, 10 times more than their annual purchases. This demonstrates that a significant amount of gold was crossing the border illegally and questions need to be raised to the customs officials. We had also planned on exporting 42 million tons of coal this year and we have failed to reach our anticipated exports in the first two months. The culmination of these factors suggest that the Mongolian economy will face significant challenges.

There are however two projects that the government decided to implement with one being a 13 kilometer Sky Circle Road, a two level structure consisting of four lanes in each direction. According to the Ministry for Road and Transport Development, the project may reduce traffic jams in the city by half. It will be a toll road with a 1 USD entrance toll but the 800 million USD that it is expected to cost seems excessive to most. The second project is a 61 million EUR air cable transport system originating in the Ger District in the northwest of the city and spanning 5 kilometers. Its transportation time would be 60 minutes and it is expected to transport 22,000 individuals on a daily basis. The government has reached an agreement to borrow the investment from France in the form of a discounted development loan.

These projects are receiving significant opposition from civil society as it is not encompassed in the Ulaanbaatar City Development Master Plan, which includes measures such as increasing the capacity of existing roads and the construction of a railroad diversion through the Southern mountains and Tuv aimag. This would allow the current railroad to be utilized for light trains and public transport. It is unclear how many jobs the projects will create and there is a general lack of faith in the Ministry of Road and Transport Development. Just last year, the Ministry committed to the construction of a new Darkhan-Ulaanbaatar road and demolished the existing one. Work on the new road been slow to progress leading to constant accidents on the road. Given that it was meant to be the most expensive road in the world, the Ministry has to address the concerns of the civic society and the public.

Until now, individuals coming from abroad that were quarantined were not responsible for the cost of their quarantine. However, beginning today (15.03.20) those coming in charter flights shall be responsible for the cost of their quarantine. It is therefore expected that the government will not incur any substantial costs for keeping individuals quarantined. The upcoming election on June 24th is another reason that the Healthcare sector budget is unlikely to be increased. Legislators are unlikely to decrease their pledged investment in their constituencies in an election year. It is clear that there is a need for a budget amendment but the current government is passing the responsibility for this to the new administration that will be formed following the election.

## EDUCATION LOAN FUND

The Education Loan Fund was established in 1993 as the Study Loan Fund but the Minister for Education, B.Baatarbileg recently submitted amendments to its regulations. These amendments would see individuals that graduated Higher Education Institutions (regardless of foreign or domestic) with assistance from the Education Loan fund who work in the country or represent Mongolia abroad for five years be exempt from loan repayment provided that they paid their social insurance taxes fully during the period. This has received significant opposition as pension loans were also forgiven recently.

People don't understand that just because the loans are forgiven, no one is paying for it. Everyone contributed to paying off the pension loan and the same will happen to the education loan. Since its establishment, 30,000 people got an education assistance and 70,000 individuals got education loans. Since 1997, 2,200 individuals got loans to study at prestigious Universities abroad. Currently, there are 14,000 citizens that owe a cumulative 16 billion MNT to the Education Loan Fund. Their diplomas are kept at the Ministry of Education as collateral and they utilize notarized copies of their diplomas. One of the reasons for the amendment to forgive these loans may be an attempt to alleviate this burden.

The public outcry resulting from the proposal was mainly due to the fact that a significant amount of individuals who took out loans from the Education Loan Fund are children of public officials or other prominent

families. For example, 1,893 individuals got loans to study abroad but have not repaid them as of yet with 179 of them disappearing without trace. These loans constitute a total of 4.5 million USD and this only emerged following the Small and Medium Enterprise fund scandal where legislators took extremely subsidized loans for their own businesses. Despite the public outrage, there is no one that has taken responsibility for this with some implicated legislators even standing in the upcoming elections.

If the loans are paid back in full, they will constitute further loans for the next generation but this is not happening. As the decision mostly affects graduates of domestic establishments, this raises the question of quality of education in the country. Either they simply don't want to pay the loan or their income is not sufficient to even cover their student loans. There are a lot of issues that need to be tackled but it is apparent that compared to 4 years ago, these funds are becoming much more transparent. The only way to improve the operations of the fund is for the public should be aware of who is getting the loan and who is not paying. These issues will continue to persist until the public begins to demand complete transparency of public management institutions as well as campaign financing and activity financing of political parties.

*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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