

MONGOLIAN DEVELOPMENT BANK

By

ZORIGSAIKHAN TULGA

THESIS

Submitted to
KDI School of Public Policy and Management
in partial fulfillment of requirements
for the degree of

MASTER OF PUBLIC POLICY AND MANAGEMENT

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Professor Nam San-Woo

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I. Introduction

1.1 Background

Price fluctuations on mineral reserves products of mining industry significantly affect the economy of our country. For the last 3 years share of mining sector amounted to 65.9-69.5% of gross industrial product, then a share of processing industry amounted only to 23.7-24.7%. In future the Government of Mongolia is going to keep policy to increase the production of processing industry containing added value following the growth of the production of mining industry. Implementing investments to develop processing industries based on the high technology, promote new exports sectors and properly diversify the economic structure is essential to the Mongolian economy. This need may be met by the establishment of the Development bank. The Development bank is a national or regional financial institution having the purpose to ensure the creative investment or investment aimed at the economic development with medium and long term capital. In other words the National development bank is a financial institution with the primary goal to ensure long-term finance sources for projects directed towards common good which are out of interests of private investors.

Within the framework of regulation of economy by the state the main purpose of the Development bank is to help the Government to direct its free resources to the sectors of priority importance that could lead the economic development, make optimal and effective investments and promote the economic growth.

The international practice shows that the main market of activities of the development banks are mainly industry, infrastructure and sectors of social significance with low efficiency requiring long-term investment, transport, health care and environment.

1.2. The reasons and grounds for the selection of the subject

At present when our financial sector's total reserves and capabilities are insufficient to finance large infrastructure and industrial projects, when interest rates on loans of commercial banks are high, term is short and scope of funding is limited¹, the costs of construction of large projects infrastructure and industry, such as a copper smelter, metallurgical plant, coking chemical plant, thermal power plant, are 400-700 and more billion togrogs.

Therefore, firstly, it is needed to create a new source of funding besides the budget of Mongolia, foreign loans and grants and Government bonds;

Secondly, there is a necessity a new financial institution-the Development bank, capable to attract in a broader scope private and foreign investors for the implementation of priority projects of country development, ensure optimal their management and organization, raise their efficiency, exercise professional control over investments and raise necessary funds abroad¹.

The idea of creation of legal environment for the establishment of the Development bank is envisaged in Provision 2.1.31 of "Program of activities of the Government of Mongolia in 2008-2012" and Provision 2.2.2 of "Plan of the implementation of main directions of economic and social development of Mongolia in 2009".ⁱⁱ

1.2.1 The purpose of study

Purpose of this study is to study the experience, gains and shortages of the establishment of the international Development bank and on this basis determine a model of an optimal, properly structured Development bank in Mongolia.

¹In provision 16.1 of the Banking law it is stated that "The total of loans, other loan like other assets, guarantee and warrants to one client and associated persons shall not exceed 20% of own capital of a bank providing such services".

II. The Development bank, its nature and role in the economy

In this chapter covered the topics purpose, importance, impact on the economy, obligations and experience of establishment of the international Development bank.

2.1 Development of Bank

The Development of bank is a national or regional financial institution having the purpose to ensure the creative investment or investment aimed at the economic development with medium and long term capital.

The essence of the Development bank is to become one of cornerstones for accelerated development of Mongolia and meantime become a bank providing financial services for development for a long period with lower interest and serving as an example in the international scale.

The Development bank should be a judicial person with the state property involvement authorized to provide financial intermediate works and services to sectors included in the priority development directions defined by the Government of Mongolia, in particular supporting infrastructure and national industry and funding projects directed towards development of export-oriented industries.ⁱⁱⁱ

2.1.2 Goals of the Development bank

- Support the development of economy based on heavy industry, infrastructure and knowledge and provide priority sectors with sources of medium and long term finance

- Attract domestic and foreign funds to the economic circulation and expand cooperation with the bilateral development financial organizations
- Support sustainable development of Mongolia and strengthen its competitiveness.
- Attract investments from successful organizations recognizable in the international financial markets
- Develop mutually beneficial partnership with domestic commercial banks
- Develop cooperation with the national best large commercial entities having high importance to the economy of Mongolia
- Occupy a stable position in the national financial sector and expand its activities in the international scale
- Study the advanced experience of organizations successfully working with regard to development finance on the international scene and introduce it subject to specifics of Mongolia
- Compose sources of long-term and comparatively cheap sources of funds from international financial markets.^{iv}

In Monterrey Declaration of the UN conference of developmental finance in 2002 and in Doha Declaration of conference on in 2008 developmental finance involving representatives from more than 160 countries of the world it was broadly appealed to establish development banks-specialized investment financial institutions directed to development in order to direct foreign and domestic investments to creation, reduce poverty level of population and implement

goals of the Millenium development (challenge). In these declarations it was noted the importance of working in direction of “developing domestic stock exchanges, including the increase of sources of long-term developmental funds through multilateral, regional and national development banks” while directing financial sources towards development, the provision of assistance from international organizations to land-locked, small, poor developed and natural disaster vulnerable countries and cooperation with them.¹

2.1.3 Business specifics of Development bank

The Development bank is an independent financial institution. Commercial banks may to some extent fulfill functions of development banks, but it is impossible for them to fulfill those to full extent. The reason is that commercial banks work for profits while the activities of development banks are development-oriented.

Although the Development bank is not profit-oriented but development-oriented, in order to ensure a further normal activity it shall always provide credit services based on reasonable interests, fixed timetable and must be recoverable. High necessity projects for the economy and infrastructure not able repay loans from own sources may be financed by receiving donations from the government.

2.1.4 Form of commercial entity

The Development bank should be a judicial person with the state property involvement authorized to provide financial intermediary services to sectors included in the priority

¹ Doha declaration on financing for development 2009

development directions defined by the Government of Mongolia. The development bank may have foreign investment.^v

2.1.5 Scope of activities

Except provision of cash deposit services stated in Provision 1 of Clause 1 of Article 6 of the Banking law of Mongolia the Development bank in all other aspects of banking activities can support the development of priority sectors defined in the development policy of Mongolia, provide medium and long-term loans and other financial services aimed at encouraging industries substituting imports, increasing exports containing added value and strengthening economic competitiveness.^{vi}

2.2. Governance of the Development bank

To carry out activities of the Development at high professional level it is essential to ensure independent governance of the bank, separation from politics and transparency. Good governance of the bank is the main condition of non-repeating failures and bad performance of previous state-owned commercial banks. Therefore, to guarantee transparency and independence of the development bank it is necessary, on one hand, to attract interest and participation of international developmental financial institutions and on the other, include the representation of domestic investors and NGOs in the board of directors of the bank.

This will create conditions for proper use of the country's funds and financial reserves, development and use of a joint financial structure of private sector and state, development of partnership between the state and private sectors, finance through the Development bank investments envisaged in the program of activities of the Government, exercise control after

proper spending of foreign loans and grants, additional financial sources and execute management leadership from the very beginning.

As to human resources because the Development bank is a judicial person with state property participation to conduct commercial activities it is necessary to have highly skilled staff capable to successfully cooperate on high professional level both with foreign and domestic investors and also carry out successful activities in the market.

2.3 Economic role of the Development bank

Establishment of the Development bank in Mongolia it will become possible to take such policy steps as to accelerate economic growth, develop processing sectors, reform economic structure, strengthen competitiveness in the world markets through exploitation of mineral deposits of strategic importance and implementation large industrial projects.

Although industry and infrastructure in our country are low efficient and need long-term investments, in the financial sector there is almost no possibility to supply them with large amounts of financial sources. Though the bank loans have prevailing role in the economic development of our country, up to now the financial resources available are very scarce thus seriously limiting development of the country. As of August 31, 2009 according to the credit information fund of the Mongolbank recipients who received loans of 500,000-1,000,000 togrogs make up 99.4% of total loan recipients and a number of recipients who received loans up to 1bln. togrogs does not reach 0.1%, which evidences that commercial banks are not able to finance large projects of industry and infrastructure.

The Development bank has some specifics than commercial banks. When commercial banks are seeking for profits the Development bank is engaged in activities directed towards development of the country and its regions. Therefore the amounts of its loans are normally

larger, interest rates relatively low and repayment periods are longer, this all is advantage of the Development bank. Meantime the Development bank has no need to attract deposits from people. If the development banks can work properly they play significant role in accelerating their countries' development and growth. At present South Korea, Russia, China, Germany, Japan and other many countries established their development banks and successfully using them as an instrument of financing investments and projects and aimed at supporting economic development and accelerating regional economic growth. The China Development bank since its establishment in 1994 has successfully implemented more than 4.000 projects worth 1,6 trillion yuans in infrastructure, industry and communications and it was able to become one of leading banks not only in China but in Asia in terms of volume of incomes from supply of different banking services.^{vii}

Developed and developing countries of the world used to develop medium-term development strategies and the main reason of the intensive development of Japan, ROK, EU was their ability to make very sound economic plans and implement them.

Reasoning by transition to market economy for last 20 years Mongolia stopped to develop independently medium-term economic development strategies. For our country it is essential to have medium-term priority development plan to accelerate the country's economic development, define priority sectors, concentrate economic resources and reserves on the most important facing challenges and use them in most efficient way and establish large modern industries.

The Government is planning to define and implement in 2010-2015 development plan such priorities such as to develop mining sector through exploitation of mineral deposits, put basis of heavy industry, develop intensive agriculture, implement the policy of industrialization,

develop infrastructure, strengthen human development, protect environment and ensure sustainable development, improve governance and support private development. In connection with defining priority investment projects capable to make significant contribution into the country's development and exploitation of mineral deposits of strategic importance , large investment projects aimed at the development of infrastructure in medium-term will be financed through the Development bank.

2.4 Advantages of development banks

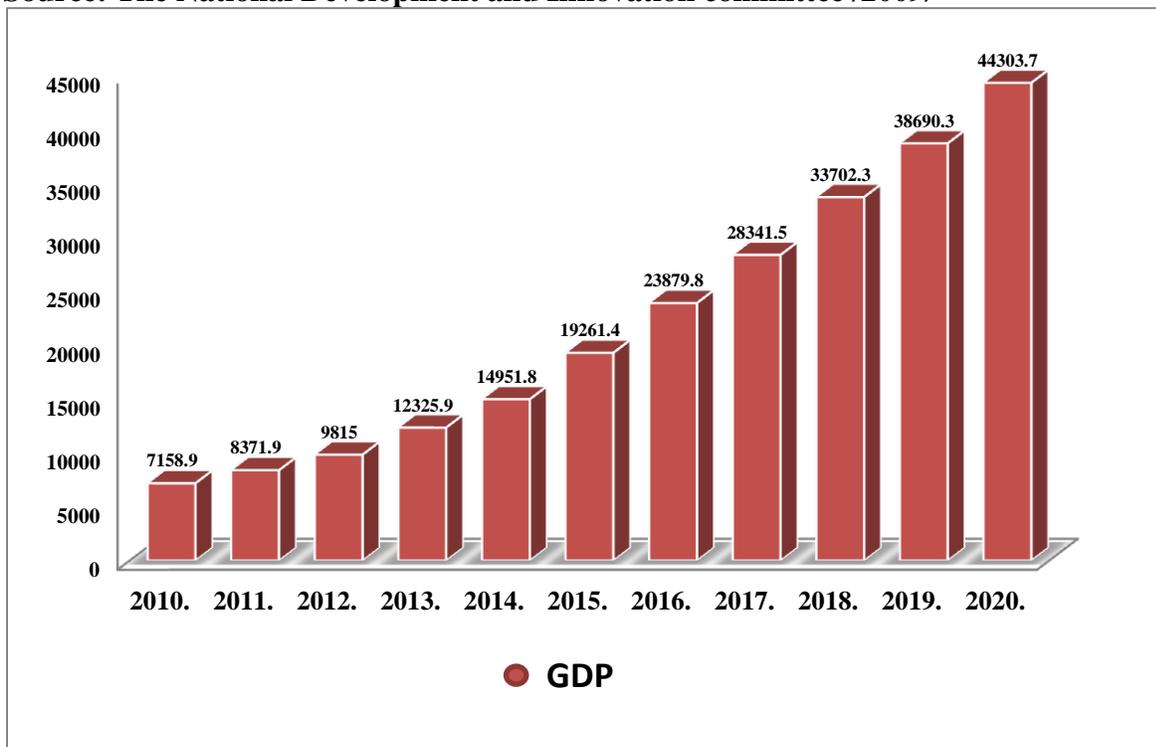
1. Development bank is an important instrument of providing investment projects of priority directions with long-term, comparatively cheap financing sources.
2. Development bank not only supplies finance to projects being considered of priority importance, but also is able to provide other types of services such as evaluation, expertise and technical assistance.
3. Create new financial services and sources necessary for development, for example the increase of total investments in the economy by issuing from the state a guarantee to private sector through the bank.
4. The establishment of development bank will expand the national banking system, exert strong impact on further growth and development of financial sector, help money supply to reach proper level and increase bank lending-one of key factors of economic development. Credits of development bank through banking system will reach the national level and increase bank financing.

5. By accelerating the development of industry and infrastructure it will increase the national competitive capacity and improve economic structure of the country.
6. By cooperating with foreign investors and raising funds abroad it will increase funds inflow. Foreign loans and grants coming in order to support domestic production will be directly sent to recipients with low interest rates.
7. It will reduce periodic economic fluctuations and stabilize economic growth, reduce economic vulnerability and improve the national economic security by converting incomes from mining sector into national savings and investments.
8. By increasing the total investment it will contribute to the implementation of Millenium development goals to accelerate economic growth and reduce poverty.
9. There will be opportunity to ensure sustainable development of urban and rural areas through support of implementation of investment projects aimed at the regional development based on the improvement of infrastructure and on regional resources and raw materials.

Today because of high interest rates on commercial banks' loans the implementation of many projects related to industry and infrastructure needed to accelerate the country's development came to standstill. The appearance of new sources of long-term finance to execute them will increase investments, create thousands of new job places thus leading to active revival of the whole economy and business activity. Amounts of loans of development bank should be related to the implementation of large projects of industry and infrastructure, be medium and long-term and interest rates should be comparatively low.

Preliminary macroeconomic indicators show that by 2020 our country's GDP might reach 44 trillion togros that means six-fold increase compared to 2010. If it is considered that in connection with exploitation of mineral resources inflow of foreign currency to Mongolia would increase then in medium term the exchange rate of togrog would strengthen. Such favorable situation in domestic economy will positively affect the national industrial development.

Source: The National Development and Innovation committee /2009/



2.5 International Experience of Establishment of Development Banks Origin of Development Bank

Beginning 19th century development banks began to be established in western Europe and USA. In 1821 Mexico established the first development bank and implemented the railroad project. There is a history that after the worldwide economic depression of 1929-1930 and financial crisis the development banks began to appear. Because of crisis foreign investments

reduced, investments of private sector contracted and economic growth began downslide which forced governments of many countries to seek ways to overcome crisis on their own by centralizing domestic resources, distribute them properly and invest in sectors of priority importance. If in some countries the governments had to buy commercial banks on the edge of bankruptcy and convert them into development banks, then some countries established commercial banks anew, centralized domestic resources in them and used them as one of instruments of overcoming crisis.

Now more than hundred development banks conduct activities under control of respective governments. More than 30 developed and developing countries such as South Korea, Russia, China, USA, Germany, Japan, India, Spain, Portugal, Kazakhstan, Brazil and Singapore have established development banks and have used them as instrument of financing large-scale projects aimed at support of economic growth and creating environment for the development of financial markets. Development banks in Germany and Japan played an important role in recovery of their economies ruined during II world war. For instance, in order to mobilize resources to recover its war-torn economy and attract investments in 1948 the German government established KFW (KFW Bankengruppe) development bank which now became one of the biggest European banks. KFW banking group consists of 5 main parts, such as KFW bank to support small and medium sized enterprises, KFW bank to cooperate with foreign countries.

Today this bank is the main partner of the German government and its basic objective is to finance certain projects which are not efficient enough but important for the state and also provide preferential loans to developing countries. In accordance with agreement between governments of Mongolia and FRG, loans provided by the German government in order to

develop export-oriented small and medium sized enterprises and support the financial sector go through KFW bank.

2.6. Countries established developments banks with successful

If after the establishment of the specialized development banks economies of Thailand, Myanmar, Czech Republic, Singapore, Japan, South Korea and other countries grew together with standards of living, meanwhile the newly established development banks in Bulgaria, Cambodia and Vietnam are beginning to play an important role in the economic development of their countries.

Worldwide the development banks taken into consideration specifics of their countries and the level of development are actively working in direction of mobilizing limited financial resources to priority directions of development and accelerating economic growth.

- The development banks of Netherlands, Austria, Kenya, Columbia, Peru, Egypt, Mali and other countries have mixed ownership
- The Japanese Development bank strongly supports high technology, innovation, ecological safety
- The Development banks of Korea, Brazil and South Africa concentrate on the industrial sector
- The development banks of Mali, Thailand and Cambodia concentrate on agriculture.

The Korea Development Bank (hereinafter KDB) was founded in 1954 in accordance with The Korea Development Bank Act for the purpose of supplying and managing major industrial capital to help develop Korean industries and the national economy. Under the current

government's policy, the bank has significantly increased its support to the high-tech and information-related industries, and to promising small and midsize enterprises. The bank also played a prominent and active role in the restructuring of the Korean corporate and financial sectors after the 1997 Asian financial crisis. ^{viii}

The Development bank of Singapore is the biggest bank of that country and provides services in markets of many Asian countries such as Hong Kong, China, Indonesia, Malaysia, India, Philippines, Taiwan, Thailand and also USA. It occupies a leading position, besides banking services, in money and finances, market and resource management, securities brokerage services, formation of funds to resolve debt problems.

The Development bank of Japan was established in 1951 and also fulfills financial functions of the Japanese regional development corporation and the Japanese environment corporation. The Development bank of Japan provides long-term loans to projects to be implemented based on the development policy and financially supports the insurance of stable economic and social development, growth of standards of living and activities to establish self-sustaining regions.

China Development bank (CDB) provides government with developmental financial services, while performing developmental financing selects first of all the projects which are aimed at strengthening the country's competitiveness and raising living standards of population. Last years it executes developmental financing connected with urban development of China, support of markets, ensuring sustainable economic and social development of China, strengthening the competitiveness in the world markets and resolving developmental issues of some provinces.

China Development bank was established in March of 1994. At present it has 32 branches and four representative offices providing services countrywide. In last 10 years it exercised control within the framework of the Chinese macroeconomic policy and continued support to the national economic development and structural reform.

It has funded projects of priority importance to the country's development, projects of infrastructure necessary for the national economy, constructions and buildings, establishment of basic and supporting industries. The development supporting financial institution-the Government's CDB besides financing the state organizations implements the developmental goal of supporting the markets. To support the Chinese economic development besides financing the project of improving the state institution it has double role to develop the financial institution.

In last 10 years CDB spent 1.6 trillion yuans on more than 4000 projects, among which loans to develop infrastructure, basic and supporting industries prevailed. A considerable part of loans were designed to implement the goal of developing coastal area of Huanhe river and northwestern region, revive old industries in the territory of northeastern China. CDB works as a bridge to connect the government with projects of priority importance for the country.

Last years CDB began to spend some part of loans to eliminate some bottlenecks causing trouble to the economic development of China, for example to develop power generation and transport system. In 2008 CDB made investments in several directions including the national oil storage, turning water from south to north, constructions of Beijing Olympic Games, the world exhibition complex in Shanghai and other. As of 2008 the amount of loans of this bank reached 1.376,6 billion yuans and loan repayment reached 99.77%. 60% of loans granted was designed for coal and electricity power and transport system.

CDB's main objective is to improve performance of the state market and successfully implement developmental financing.

The Cyprus Development bank proposes to clients financial services similar to commercial banks and provides services based on the needs of domestic and foreign corporations and investors. It proposes various types of banking products that comply to the needs and ability of clients and introduces innovations and instruments that emerged in banking system regarding the term of loan, repayment conditions, loan structure and flexibility of interest.

The Cyprus Development bank cooperates with the state and private sectors and contracts a business advisor. The advisor evaluates the position of a client, gives advice and opinion and helps to choose a financial package. It provides mostly working capital loans. It also provides leasing services with proper financing.

Gurkha Development bank of Nepal is a bank established by British and famous for transparency and fair services. This bank introduces the latest achievements into its activities and provides a financial package services that comply with the needs of clients. It competes with other financial institutions with regard to deposit and loan interest rates.

The main objective of this bank is to support retail and wholesale trade, efficiently circulate resources not involved in business circulation, optimally attract and use domestic and foreign funds to increase economic growth, create conditions for maximizing income for its shareholders, contribute to the acceleration of social development and become a reliable partner.

The Development bank of Nepal provides long and short-term loans designed for the development of industry and construction of water power stations. It also grants working capital loans directed to construction, renovation of old apartment houses and expansion of production. A considerable part of loans is designed to purchase machinery and to education.

The Development bank of South Africa (DBSA) is a leading developmental financial institution providing financial services to countries located south to Sahara desert. This bank performs three main functions, namely creditor, advisor and partner. The main objective of the bank is to encourage and support sustainable development in the region, direct to its sources of financing, knowledge and human resources.

One of the important functions of this bank is to raise standards of living, steadily reduce inequality and poverty by supporting the governments and other players in development, ensure growth and strengthen the regional economic integration by expanding the economic basis.

DBSA has inside its structure a development fund and its main goal is to maximally increase effectiveness of developmental financing, resolve problems causing barriers for urban and rural development and grant sources of financing.

The fund proposes grants, developmental loans and other financial packages. It also gives expert advice on resolution of problems of vulnerable groups of population. It gives opportunity to receive technical assistance and exchange knowledge and experience directed at support of development. One of the main goals is not only provision of credits, but organization of help to effectively use them, make optimal investments and obtain proper knowledge.

There are estimates that majority of loans of DBSA went to projects of local water supply, vaccination, transport, electricity power and communications.

Example of establishment and accomplishment of development banks in some countries of the world (Asian countries and transition economies)

| Country | Estab. year | Main macro-economic indicators at time of establishment | Achievements | Economic policies implemented besides establishment of development banks |
|---|--------------------|---|---|---|
| DB of Malaysia | 1974 | In 1974 GDP per capita was USD 1.400.00 | In 1995 GDP per capita reached USD 4.360.00 that means three-fold increase | Functions and participation of planning agency were broadened and policy aimed at the future was adopted, for example, attract foreign capital |
| DB of Hungary | 1991 | In 1991 GDP per capita was USD 4.121.00 | In 2008 GDP per capita reached USD 15.391.00 Share of industry in the whole economy increased and reached 39% | Implemented policy of support of private sector and free trade. In 2004 became a member of the EU and tied to it its policy. |
| Czech-Moravian Guarantee and Development Bank | 1992 | In 1992 GDP per capita was USD 2.903.00 | In 2000 GDP per capita increased 1.9 fold and reached USD 5.520.00 | Implemented policy of support of private sector and free trade. . In 2004 became a member of the EU and tied to it its policy. |
| China Dev. bank | 1994 | In 1994 GDP per capita was USD 469. In 1989-1992 average economic growth was 7.8% | Annual economic growth reached 8.5-9.5%. In 2006 GDP per capita reached USD 2.033 and increased 4.3 fold compared to 1994 | With establishment the Chinese development corporation the policy was directed towards attraction of direct foreign investments, expansion of economy and active monetary policy. |
| DB of Bulgaria | 2008 | In 2007 GDP per capita was USD 4.140.00 | Though annual economic growth reached 6-7% because of the world economic crisis, rates of growth | |

| | | | | |
|-------------------|------|--|---|---|
| | | | have reduced. | |
| DB of Vietnam | 2008 | In 2008 GDP per capita was USD 724.00 | In 2008 GDP per capita reached USD 880.00 and increased by 20% | Concluded Free Trade agreement with the ASEAN countries. Keeps policy to encourage direct foreign investments and support agriculture |
| DB of Japan | 1951 | Because of war the whole national economy was in ruins. In 1950 GDP per capita was about USD \$1,873.00 | In 1973 GDP per capita reached USD \$11,017.00 | Began to implement industrialization policy as well as loan program to finance investments |
| DB of South Korea | 1950 | In 1950 GDP per capita was USD \$876.00 | In 1973 GDP per capita reached USD \$2,840.00 which meant two-fold increase | The Economic planning committee, Ministry of Industry and Ministry of Finance were established in complex, Industrialization policy and Plan for development of heavy and chemical industries were developed and implemented. |
| DB of Singapore | 1968 | In 1968 average growth of GDP was 1%, GDP per capita was USD 800. A share of industry in GDP was about 14% | Average annual growth of GDP reached 10%.in 1966-1978 share of industry in GDP grew up to 24%. In 1980 GDP per capita reached USD 4.860 and increased 6.1 fold. | Established the Economic Development committee of the Government and defined development strategy. Successfully implemented policy of attraction of foreign investments and industrialization. |

Source of GDP per capita: <http://www.nationmaster.com/>

It can be seen from the above information that countries in transition like Mongolia and developing Asian countries established development banks, tied them to their development and industrialization policies and strategies and accomplished a lot.

2.7. Hypothesis

As to our country opportunities will be created to solve such facing challenges as the establishment of united power network, construction of hydropower stations, road and apartment houses construction, implementation of regional development program, strengthening of competitiveness of export products, invention of new products, stop environment degradation, creation of new jobs and forwarding technological renewal by financing only through development bank and by granting only developmental loans.

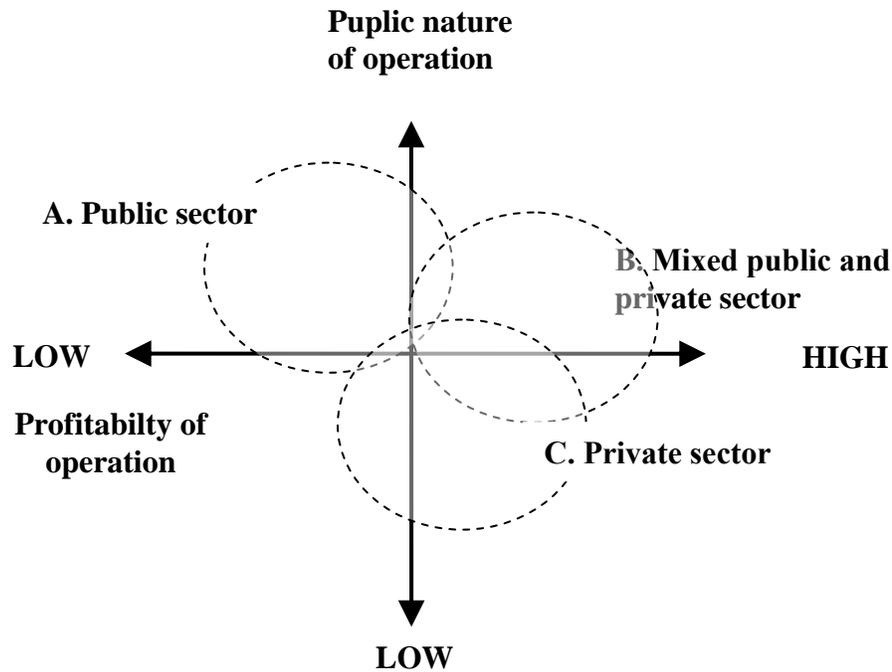
Hypothesis

To our country, establishing Development Bank by the Government and its capital assets will help Mongolia to launch several concrete steps to put major mineral deposits into economic circulation.

Inevitably, the significance of the Development bank in Mongolian economy is vast..

The Bank's key responsibility will be to provide financial service in the strategically important projects such as construction of long railway, united power network, construction of hydropower stations, road and apartment houses construction, implementation of regional development program, strengthening of competitiveness of export products, invention of new products, stop environment degradation, creation of new jobs and forwarding technological renewal by financing only through development bank and by granting only developmental loans.

Sources of funds of development banks could be formed on the basis of foreign loans and grants. Because of development bank of Mongolia will be under the Government it would be directed by the state and if such bank would be established, interest rates on loans coming from abroad would not be raised at each stage leading to lessening the interest burden on clients and in the end it will catalyze the reduction of credit interest in the country.



1. Public investment provided for the public benefit of all or most of the populace with relatively low profitability. This investment is divided into A) non-repayable public investment which is government investment financed primarily tax revenues and B-2) repayable public investment which is project with a large public element whose beneficiaries can be easily determined and targeted to pay. Repayable public investment includes “bankable” project conducted by quasi-public entity.
2. Public Private Partnership (PPP) investment

A mixed type between A) and C) that simultaneously has a high “public” element and potential profitability. This includes some types of infrastructure projects such as transportation, as well as industries that have a particularly large impact on the national

economy, these investments may require varying amounts of public assistance in order to make them bankable”.

3. Private Investment

This is an investment largely with a relatively low “public” element and high profitability. These investments are carried out by the private sector. Investment funds are provided through commercial bank loan & investment and self-finance. Some of private investment includes high policy priority projects with public element.^{ix}

Though private sector is to play a decisive role in the economy it is proved that too much chase after income and profits may take finances and market out of control. Therefore it is obvious that the state-owned development bank would help to find a correct development way.

III. Model of establishment of Development bank in Mongolia

Model of the structure and financing of the Development bank that is planned to establish in Mongolia is described in this Chapter.

3.1. Relations between the Development bank and commercial banks

Activities of Development bank should be directed towards the creation of favorable market conditions and environment with regard to sectors of economic and social importance which do not arise interest for commercial banks. The main objective of the Development bank is not income but support to the economic development of the country. The main principle of the Development bank is not competition with commercial banks in the market and their forceful exit but friendly co-existence and cooperation.

If a client has an opportunity to find large, long-term credit on more favorable terms than the development bank and is interested in commercial banks then the development bank should consider its mission completed, exit that market and look for ways of making investments in other sectors.

Depending on the scope of activities the development bank may fund a project directly or through a commercial bank. In case of indirect financing the development bank should announce an open tender among banks, select a bank capable to evaluate a concrete project and take all risks, conclude an agreement and transfer funds. In other words, it means the establishment of working relations between the development and commercial banks combining the state and private interests. It is also a new factor to emerge in the financial sector. It is common principle in the international development banking to get tax allowances. It is understandable that it arises from the main objective of its activities.

New opportunity will emerge to support the country's economic development by establishment of the development bank through formulating the above and other issues into proper legislation, which in its turn will lead to the efficient and proper centralization of domestic resources and, consequently to making correct investments into the economy.

One of specifics or limitations of the development banks is the prohibition for them to take cash deposits from citizens, neither to grant them loans. There is no such prohibition in some countries. But such prohibition should be in the circumstances of our country. The main source of funds of the development should be cash given by the Government. The bank may also issue long-term securities, attract funds from the market and receive loans from abroad.

The activities of the development banks have some specifics from commercial banks.

- While commercial banks are profit-oriented, development banks direct their activities towards the national and regional development
- Compared to commercial banks loans of development banks are normally larger, longer and their interest rates are lower, which is their advantage
- Development banks are not required to accept citizens' deposits
- The state usually grants tax allowances and credits to development banks
- If commercial banks promote their products and services to the public, development banks extend credit in sectors determined by governments

The establishment of the development bank will raise opportunity to receive through it loans from abroad under the government's guarantees. It is also possible for the development bank to issue guarantees on behalf of the government to finance priority socio-economic projects and insure such credits against commercial and political risks.

The establishment of the development bank will sharply increase volume of loans in the national financial sector, intensify business activities and create possibilities to cooperate broadly with commercial banks.

Types, directions and designations of loans of development banks will concentrate on the framework of large projects and high technology where now cannot reach commercial banks.

In cooperation with commercial banks the development bank will be able to render new financial services such as

- Finance large projects
- Provide syndicated loans
- Jointly raise funds abroad for some investment projects
- Issue warranty, give credit guarantee to private sector
- Provide joint mortgage services to citizens.

Meantime commercial banks should provide some types of services on behalf of the development bank. For instance, the development bank with small staff concentrated on a few projects may use branches of commercial banks when is working in rural areas.

3.1.1 Characters of commercial bank loans

In can be seen from the information obtained from the Mongolbank's information fund that a share of loans amounting to 500.0-1,000.0 million togrogs in the total amount of loans was only 8 percent (in terms of quantity it was amounting to only 0.04%) as of August 30, 2008 and in the result of economic crisis it fell down to 2.5 percent.

It shows insufficient ability of loan services of commercial banks to improve the economic structure, support products and services containing added value and intensify development of industrial sector.

There is no way to blame commercial banks which conduct their activities accepting considerable risk on funds raised from their clients, for not granting any long-term large loan.

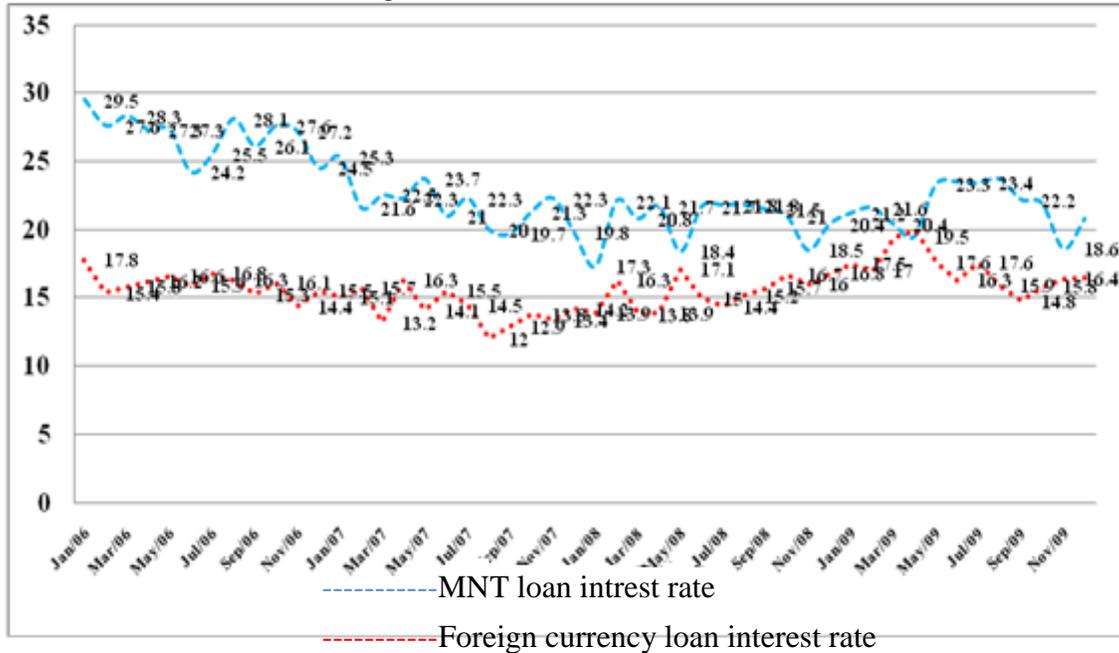
Size distribution of bank loans amounting up to 1 billion togrogs

| # | Balance of loan | Total amount of loans | Share | Number of loans | Share |
|-------|------------------|-----------------------|-------|-----------------|-------|
| 1 | 0-10 mln. | 516815 | 40,3 | 325765 | 94.5 |
| 2 | 10-50 mln. | 360955 | 28.2 | 16831 | 4.9 |
| 3 | 50-100 mln. | 79675,4 | 6.2 | 1078 | 0.3 |
| 4 | 100-200 mln. | 83682,2 | 6.5 | 553 | 0.2 |
| 5 | 200-500 mln. | 137944 | 10.8 | 417 | 0.1 |
| 6 | 500 mln. – 1blm. | 102873,6 | 8 | 145 | 0.04 |
| Total | | 1.281.945,7 | | 344.789 | |

Source: Mongolbank loans data

If we look at the level of the average interest rate for last 4 years, the average interest rate on togrog loans had been 22.75 percent and the average interest rate on foreign currency loans had been 15.67 percent. Although in recent years interest rates on credit products proposed by commercial banks are going down they remain high for commercial entities.

Average interest rates on bank loans



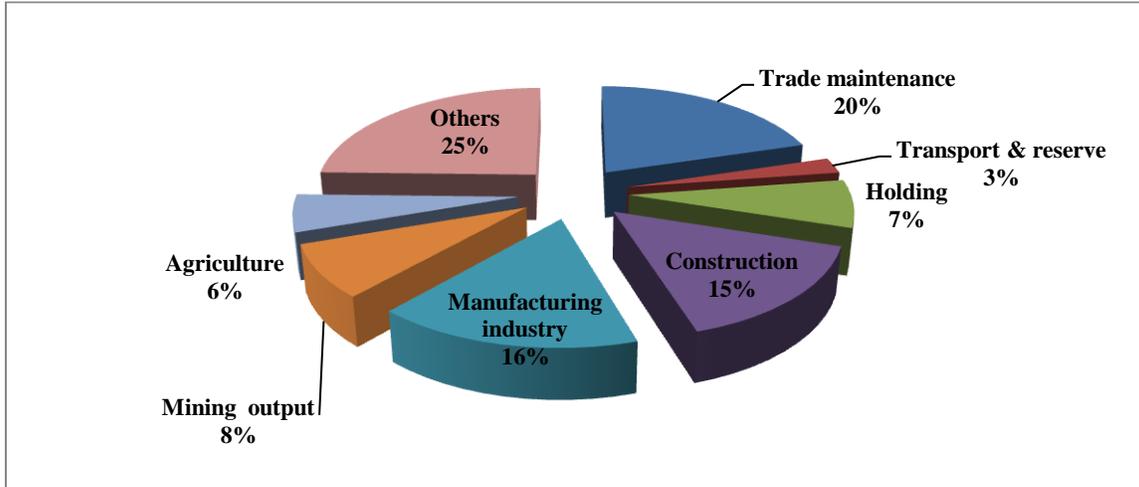
Source: Monthly bulletin, Mongolbank

As of August 2009 while a share of bank loans to trade, maintenance and repairs was 20%, then 16% came to processing industry, 8%-to mining and 15%-to construction.

To support industry, introduce modern equipment and technology and increase supply of products and services containing added value long-term loans are needed and, moreover, interest rates besides being comparatively low should bear less burden (some commercial banks are forcing their clients to pay yearly interest on a monthly basis and converting simple rate into compound rate gaining profit).

Loans services being proposed by commercial banks to commercial entities do not meet these requirements.

Industry distribution of bank loans



Source: Draft of main directions of monetary policy in 2010, Mongolbank,2009

3.2 Model of structure and organization of Development bank Structure and organization

Development bank planned to be established in Mongolia will be of mixed ownership and it is planned that 51% of its capital will be owned by the Government and remaining 49%-by domestic and foreign investors. Foreign experience shows that there might be of mixed ownership, but banks with 100% of state property prevail. As to our country there are the following reasons to be of mixed ownership

- Experience of financial institutions. There are few examples in Mongolia to successfully finance large-scale investments. Also several state-owned banks went bankrupt.
- Fixed capital. The Government is planning to [make capital contributions in the development bank 112 billion togrogs to the end of 2012. Almost the same amount will be invested by other shareholders.

- Fund-raising. One of the main sources of funds in development banks is the issuance of bonds in the international market. At present credit rating of Mongolia is BB therefore we cannot successfully issue and sell bonds without help of outside financial institution with high rating. Therefore an opportunity will emerge to sell its bonds to shareholders or issue bonds or borrow money under their guarantee with payment of small commission.
- Introduction of advanced management. In order not to repeat mistakes leading commercial banks to bankruptcy it is necessary to introduce the experienced and tested management. This will help to separate the development bank from politics and keep sound and healthy policies.
- Big financial institutions such as the International Finance Corporation do not invest in organizations where the state property prevails.

Although the development bank to be established in Mongolia will experience difficulties initially in terms of finances and investments, it may be 100% state-owned.

To experience difficulties in first years means that there is no sufficient funds to make investments in priority projects. But in the future it is possible to get finance out of income of the mining industry (through special designation funds). International practice shows that a majority of development banks are 100% under state control.

Being 100% state-owned bank

- Conditions will be created the basic term of loan to be longer Basic term means that not every project brings income immediately and it may take some time to receive profits and therefore it is important to reach clear understanding on that from the very beginning.

- National security. Although the Government will own controlling package (51% of shares) a package big enough to influence the bank's policy may become concentrated in one entity by transfer and sale of shares between shareholders. The main condition for working not for profit will be fulfilled. Though it was decided to conduct non-profit operations conditions will be created to demand by the management of development bank to finance profitable projects.
- It will not enter into sudden shortage of funds. If large investors begin to withdraw their funds because of crisis like that happened in 2008 or reason that the development bank of Mongolia fails to work efficiently and profitably the operations of the bank will come to standstill.
- Capability of domestic investors is low. Though it is said that shares of the development bank are open for sale to domestic and foreign entities and persons, capacity of domestic financial institutions to purchase and own large numbers of shares is low and limited.

3.2.1 Management and policies of the bank

- Provide loans in compliance with the Government's development policy. The Government will own a majority of shares
- Interest rate should recover fund-raising and other expenses
- Create a mechanism when a project is to be executed by the Government, but it is loss-making, then receive donation from the Government
- Have a good management team
- Cooperate with commercial banks. If the development bank raises funds from an international financial institution it can re-lend them to commercial banks in two

ways, besides dividing investment projects with commercial banks joining loan consortiums

- Get training in foreign institutions in terms of credit analysis as well as study their experience.

3.2.3 Structure of the institution

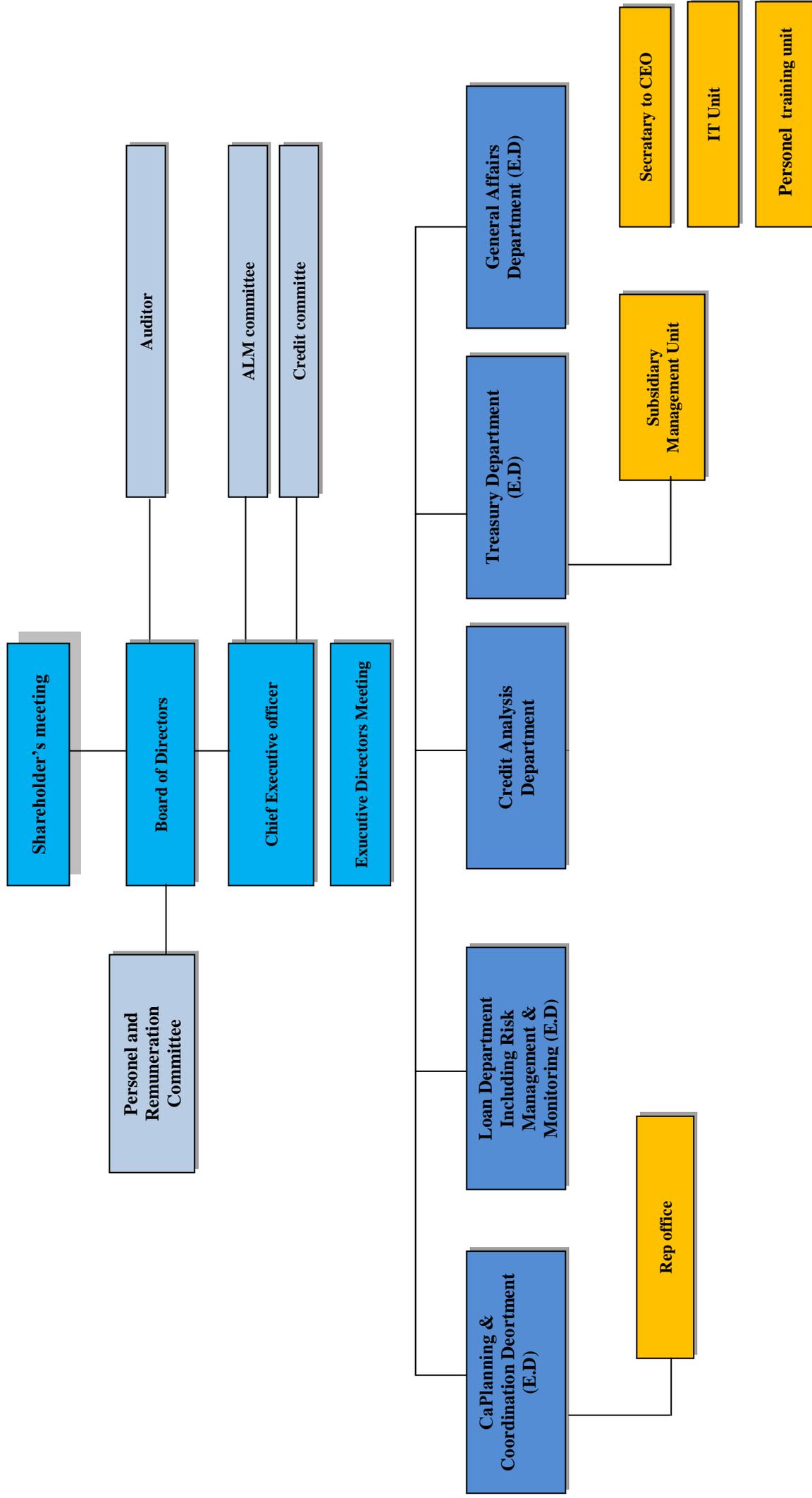
Executive management of the development bank should be performed by the international team consisting of experienced, skilled domestic and foreign professionals.

Executive management of the development bank by a mixed management team consisting of professionals with rich international experience and domestic specialists educated in developed countries will help to strengthen capability of domestic human resources.

The Development bank will have the following internal organizational units^x:

- Department of financial management, regulation of sources and statistics
- Department of investments, credit policy and planning
- Department of IT, training and research
- Department of risk assessment and management

3.2.4 Proposed Organizational Structure for the MDB



The Development bank within its internal structure will have 3 committees, namely Asset and liability management, Credit management and Risk management committees under the Executive director.

- The asset and liability management committee will study the location of assets and liabilities, their structure and fulfill the task of developing and implementing measures to ensure their proper management. The credit study and assessment committee will conduct study and assessment of projects to be implemented by the bank loan, exercise control over the course of projects under implementation, develop and implement measures to prevent risks which may arise during repayment of loans and fulfill obligations to ensure the optimal formation of the bank's loan portfolio.
- The risk management committee has the obligation to exercise control over sufficiency of measures being taken with regard to management of risks connected with bank loans, markets, convertibility, operational, legal, reputational and other risks.

3.3. Model of financing the development bank

If the development bank operates correctly it plays a significant role in accelerating development of the respective country. Scope of its operations directly depends on the size of its own capital.

Although at present possibilities and financial capabilities to provide the development bank with credit funds by the Government are low beginning 2013 it will possible to finance out of funds inflowing from the mining sector. Some domestic commercial banks may lend some funds but their investment ability is very limited.

Financial sources of the development bank include own capital budget investment, investments from special designated funds, bond financing and other income.

Non-tax revenues to be centralized in the state budget include dividends, own income of budget organizations, Mongolbank's revenue and other. For 4 years between 2006-2009 dividends totaling to 299,766 mln. togrogs had been centralized in the budget. According to average of last 4 years annually about 75 bln.togrogs of dividends were centralized in the budget and it might be possible to direct annually such amount of funds into own capital of the development bank. It is also possible to place and transfer through the development bank funds designed for industrial projects to be financed by foreign loans and grants.

USD 120 mln. out of USD 200 mln. promised by the IMF have been already spent and remaining USD 80 mln. might have been granted to the development bank in the form of investment.

It is envisaged in the Law on 2010 budget to spend in total 334.9 bln,togrogs from the Human development fund.

Estimates of revenues to be concentrated in the Human development fund up to 2020 without advance payments show the following:

3.4 Estimates of revenues of the Human development fund (in billion togrogs)

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Dividends on state ownership of mineral deposits of strategic importance | 75.1 | 73.7 | 68.2 | 78.8 | 93.1 | 93.9 | 104.5 | 285.2 | 356.0 | 370.7 |
| Royalty for use of mineral reserves | 80.0 | 92.2 | 208.1 | 235.0 | 255.7 | 306.9 | 346.2 | 406.2 | 466.2 | 526.2 |
| Revenues of the Human development fund | 155.1 | 165.9 | 276.3 | 313.8 | 348.8 | 400.9 | 450.8 | 691.5 | 822.3 | 896.9 |

In addition to these revenues to be concentrated in the Human development fund a part exceeding 5% of GDP will be transferred from the Stability fund. Estimates of 5% of GDP or maximum level of the Stability fund up to 2020 show:

Estimates of revenues of the Stability fund (in billion togrogs)

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|-----------|--------|--------|--------|---------|---------|---------|---------|---------|---------|---------|--------|
| GDP | 7158.9 | 8371.9 | 9815.0 | 12325.9 | 14951.9 | 19261.4 | 23879.8 | 28341.5 | 33702.3 | 38690.3 | 44303. |
| 5% of GDP | 357.9 | 418.5 | 490.7 | 616.2 | 747.5 | 963 | 1194 | 1417.1 | 1685.1 | 1934.5 | 2215. |

In the Law on budget stability it is stated that a particular product forming 0.05% or more of budget revenues should be named “main type of minerals”. Accordingly estimates up to 2020 how much would be this 0.05% show:

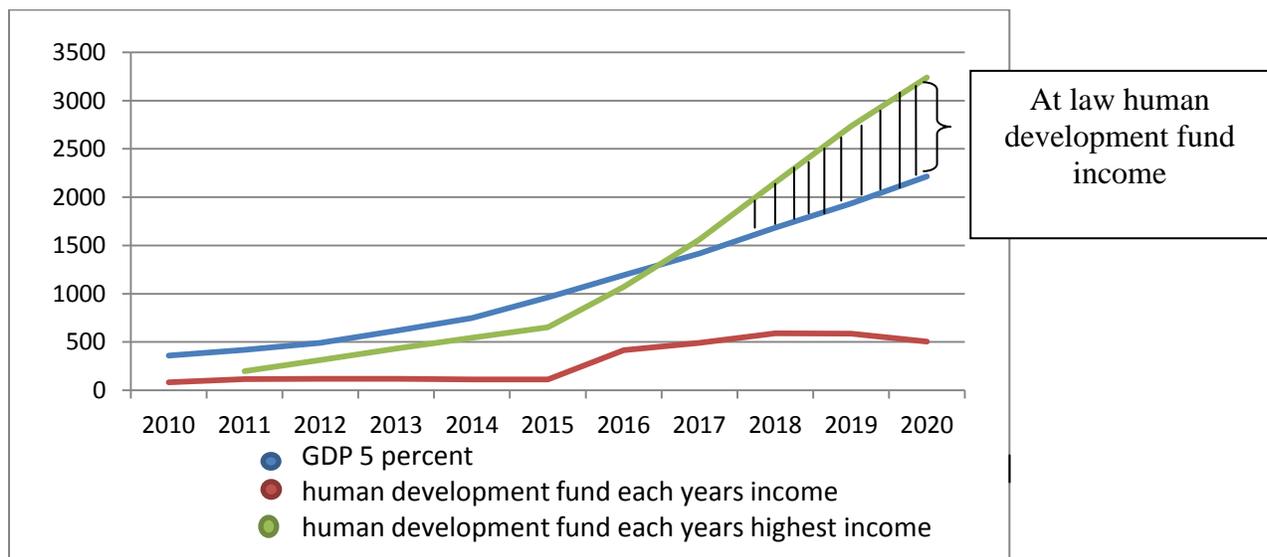
Revenues from main types of minerals (in billion togrogs)

| | 2010 budget | 2011 budget | 2012 budget | 2013 budget | 2014 budget | 2015 budget | 2016 budget | 2017 budget | 2018 budget | 2019 budget | 2020 budget |
|--------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Budget revenues | 2426.8 | 2492.7 | 2859.6 | 4132.8 | 4893.7 | 6612.4 | 7099.4 | 8451.4 | 9578.1 | 11034.4 | 12280.9 |
| 0.05% of budget revenues | 121.34 | 124.6 | 142.9 | 206.6 | 244.6 | 330.6 | 354.9 | 422.5 | 478.9 | 551.7 | 614.0 |

As of now a product which ensures 0.05% of budget revenues or approximately 120 billion togrogs is the copper concentrate of Erdenet plant and in medium –term resources are likely to be added to the Stability fund from mining of gold, coal, uranium and other main types of minerals.

If we consider the basic price to be USD 4500 including copper from Erdenet and Oyu tolgoi and future price to reach USD 6500, then estimates of revenues to the Stability fund and Human development fund show:

3.5.1 Estimates of revenues of the Human development fund (in billion togrogs)



/in billion tugriks/

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| GDP | 715 8.9 | 837 1.9 | 981 5.0 | 1232 5.9 | 1495 1.8 | 1926 1.4 | 2387 9.8 | 2834 1.5 | 3370 2.3 | 3869 0.3 | 4430 3.7 |
| 5% of GDP | 357. 9 | 418. 5 | 490. 7 | 616. 2 | 747.5 | 963 | 1194 | 1417. 1 | 1685. 1 | 1934. 5 | 2215. 2 |
| Revenues to Stability fund | 82 | 115 | 117 | 118 | 111 | 111 | 416 | 492 | 589 | 585 | 505 |
| Sum of revenues to Stability fund | | 197 | 314 | 432 | 543 | 654 | 1070 | 1562 | 2151 | 2736 | 3241 |
| Revenues to Human development fund | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 145 | 321 | 336 | 224 |

These estimates are done based only on copper income of Erdenet and Oyu tolgoi and if all revenues are included in accordance with law, then the Stability fund is likely to reach 5% of GDP earlier than 2017.

3.5.2 External sources

One of the main objectives of the development bank is to cooperate with international financial institutions and foreign investors and raise inflow of capital to implement investment projects reflected in the Government's program of activities, complex policy of national development and priority directions of development.

Because credit rating of Mongolia is BB it is impossible for a newly established development bank it is necessary to get guarantees from the first class foreign banks for high commission. It is difficult for banks and countries with lower than A, BBB+ rating to raise funds in the international bond markets.

3.5.3 Projects needing financing

The Government of Mongolia sticks to policy to increase the production of processing industry containing added value following the growth of mining production.

For instance, in 2.5.25 of the Program of activities of the Government of Mongolia for the years of 2008-2012, it is written *that in order to attract foreign and domestic investments for structural change in the state economy and for infrastructure of priority importance in 2009 it will be made public by names 10 projects each of which will require no less than USD 200 million* and in order to fulfill the promise the Government by its Resolution #320 dated 2009 approved a list of large projects to be implemented with priority.

In that list are included 26 projects, out of which 8 projects are aimed at the development of mining sector and at laying down the basis for heavy industry through the usage of mineral deposits, 10 projects are aimed at the development of infrastructure.

A list of projects to be implemented by the Government

| # | Name of Project | Approximate budget cost of the project (USD million) | Project implementation date |
|---|------------------------------------|--|-----------------------------|
| Priority direction 1. Develop the mining sector and lay down the basis of heavy industry through use of mineral deposits | | | |
| 1 | Oyu tolgoi project | 4000.0 | 2010-2015 |
| 2 | Tavan tolgoi project | 800.0 | 2010-2015 |
| 3 | Copper refinery project | 1000.0 | 2010-2015 |
| 4 | Black metallurgist complex project | 1000.0 | 2011-2016 |
| 5 | Chemical-recovery plant | 700.0 | 2010-2015 |
| 6 | Oil refinery project | 900.0 | 2011-2015 |
| 7 | Coal-sorption plant project | 1000.0 | 2010-2015 |
| 8 | Building materials plant project | 800.0 | 2010-2015 |

| Priority direction 2. Develop intensive agriculture, implement industrialization policy | | | |
|---|--|--------|-----------|
| 9 | Make livestock healthier and increase meat and milk production | 150.0 | 2010-2015 |
| 10 | Project to support irrigation farm development | 50.0 | 2010-2015 |
| 11 | Project “Products of agricultural origin and raw materials exchange” | 50.0 | 2010-2011 |
| 12 | Project “High technology industrial complex, science and production park | 400.0 | 2010-2015 |
| Priority direction 3. Development of infrastructure | | | |
| 13 | Tavantolgoi power station project | 400.0 | 2010-2015 |
| 14 | New railroads project | 800.0 | 2010-2015 |
| 15 | Project on supply of water needs of Gobi region from Orhon river | 540.0 | 2010-2015 |
| 16 | The national artificial satellite of space communications of Mongolia project | 600.0 | 2010-2015 |
| 17 | Renewal of motor roads of Ulaanbaatar city | 900.0 | 2010-2015 |
| 18 | Construction of international, national and local roads project | 1200.0 | 2010-2015 |
| 19 | Altanbulag-Ulaanbaatar-Zamyn-Uud highway project | 1200.0 | 2010-2015 |
| 20 | The fifth power station project | 300.0 | 2011-2016 |
| 21 | Supply of the population by apartments project (within the program of smokeless Ulaanbaatar) | 2100.0 | 2010-2015 |
| 22 | Project of generation of power from garbage and biomass | 200.0 | 2010-2015 |
| Priority direction 4. Streamline human development, protect environment and ensure sustainable development | | | |
| 23 | Project “IT training and production” | 100.0 | 2010-2015 |
| 24 | ‘Student campus’ project | 300.0 | 2010-2015 |
| 25 | Tourist project “Khar Horum 13 th century” | 500.0 | 2010-2015 |
| 26 | Drainage project “Eco” | 200.0 | 2010-2015 |

The source: Attachment to Resolution of the Government of Mongolia #320 dated 2009.

Resources to flow into Mongolia from the mining industry in the future

Reserves of deposits reflected in Attachment 1 of mineral deposits of strategic importance and amounts coming under the state ownership

| | Strategically important deposit | Plate | Unit | Deposited sum | price / .usd tonn/ | Total USD | Billion MNT /1\$=1400 ₮/ | State owned share | |
|-----------------|---------------------------------|-------------|--------|---------------|--------------------|--------------|--------------------------|-------------------|--------------------|
| | | | | | | | | Percent | /Billion MNT/ |
| 1 | Tavan tolgoi | coal | 6420 | mill tonn | 52,46 | 336793,2 | 471 510,5 | 100 | 471 510,5 |
| 2 | Baganuur | coal | 200 | mill tonn | 29 | 5800 | 8 120,0 | 100 | 8 120,0 |
| 3 | Shivee-ovoo | coal | 646,2 | mill tonn | 29 | 18739,8 | 26 235,7 | 100 | 26 235,7 |
| 4 | Erdenet | copper | 4 | mill tonn | 6848,18 | 27392,7 | 38 349,8 | 100 | 38 349,8 |
| 5 | Asgat | silver | 6402,6 | mill tonn | 483814,3 | 3097669345,7 | 4 336 737,1 | 50%-50% | 1 084 184,3 |
| 6 | Nariin suhait | coal | 125,5 | mill tonn | 29 | 3639,5 | 5 095,3 | 50 | 2547,7 |
| 7 | Tumurtei | Iron ore | 229 | mill tonn | 104 | 23816 | 33,3 | 100 | 33,3 |
| 8 | Tsagaan suvraga | copper | 10,64 | mill tonn | 6 848,18 | 72864,6352 | 102 010,5 | 50 | 51005,2 |
| 9 | Buren khaan | phosphorite | 192,24 | mill tonn | 80 | 15379,2 | 21 530,9 | 50 | 10765,4 |
| 10 | Tumurtein ovoo | zinc, lead | 7689,4 | mill tonn | 2156,9 | 16585266,9 | 23 219,4 | 50 | 11609,7 |
| Нийт дүн | | | | | | | | | 1 704 361,6 |

Besides based on the above provision it is possible to centralize shares under state control of 39 deposits, which may be related to the strategic deposits included in Attachment 2 of Resolution #27 of the State Great Hural of the year of 2007 in state-owned LLCs established by types of minerals or in special funds.

Reserves of deposits reflected in Attachment 2 of mineral deposits of strategic importance and amounts coming under the state ownership

| | Strategically important deposit | Plate | Unit | Deposited sum | price /USD ton/ | Total USD | Billion MNT /1\$=1400 ₮/ | State owned share | |
|----|---------------------------------|-------|-----------|---------------|-----------------|-----------|--------------------------|-------------------|-----------------------|
| | | | | | | | | Percent | Дүгнээг /Billion MNT/ |
| 1 | Ulaan-ovoo | Coal | mill tonn | 53,98 | 29 | 1 565,4 | 2191,6 | 50 | 1 095,8 |
| 2 | Uvdug hudag | Coal | mill tonn | 114,5 | 29 | 3 320,5 | 4648,7 | 100 | 4 648,7 |
| 3 | Bayanteeg | Coal | mill tonn | 29,6 | 29 | 858,4 | 1201,8 | 100 | 1 201,8 |
| 4 | Nuurst hotgot | Coal | mill tonn | 160,52 | 29 | 4 655,1 | 6517,1 | 100 | 6 517,1 |
| 5 | Khar tarvagatai | Coal | mill tonn | 25,6 | 29 | 742,4 | 1039,4 | 100 | 1 039,4 |
| 6 | Aduunchulun | Coal | mill tonn | 29,2 | 29 | 846,8 | 1185,5 | 100 | 1 185,5 |
| 7 | Tevshiin gobi | Coal | mill tonn | 587,2 | 29 | 17 028,8 | 23840,3 | 100 | 23 840,3 |
| 8 | Tal bulag | Coal | mill tonn | 81,48 | 29 | 2 362,9 | 3308,1 | 100 | 3 308,1 |
| 9 | Chandgan tal | Coal | mill tonn | 212,97 | 29 | 6 176,1 | 8646,6 | 100 | 8 646,6 |
| 10 | Huutiinhonor | Coal | mill tonn | 57,37 | 29 | 1 663,7 | 2329,2 | 50 | 1 164,6 |
| 11 | Khoot | Coal | mill tonn | 87,95 | 29 | 2 550,6 | 3570,8 | 50 | 1 785,4 |
| 12 | Nalaikh | Coal | mill tonn | 58,84 | 29 | 1 706,4 | 2388,9 | 100 | 2 388,9 |
| 13 | Alag togoo | Coal | mill tonn | 1,58 | 29 | 45,8 | 64,1 | 50 | 32,1 |
| 14 | Zeegt | Coal | mill tonn | 4,57 | 29 | 132,5 | 185,5 | 100 | 185,5 |

| | | | | | | | | | |
|-------------|-------------------------------|-------------------|-----------|--------|--------------|-------------------------|----------|-----|-------------|
| 1 5 | Mogoin gol | Coal | mill tonn | 4,06 | 29 | 117, 7 | 164,8 | 100 | 164,8 |
| 1 6 | Saikhan ovoo | Coal | mill tonn | 28,27 | 29 | 819, 8 | 1147,8 | 100 | 1 147,8 |
| 1 7 | Bargilt | iron ore | mill tonn | 31 | 104 | 3 224, 0 | 4513,6 | 100 | 4 513,6 |
| 1 8 | Tugrug nuur | coal | mill tonn | 3118 | 29 | 90 422, 0 | 126590,8 | 50 | 63 295,4 |
| 1 9 | Naran tolgoi | gold | кг | 8377,7 | 3734035 7 | 312 826 310, 0 | 438,0 | 50 | 219,0 |
| 2 0 | Tavt | gold | кг | 1647 | 3734035 7 | 61 499 568, 2 | 86,1 | 50 | 43,0 |
| 2 1 | Tumur tolgoi | iron ore | mill tonn | 21,3 | 104 | 2 215, 2 | 3101,3 | 100 | 3 101,3 |
| 2 2 2 | Bayan davaani buleg ord | tin | tonn | 755,1 | 11132,5 | 8 406 150, 8 | 11,8 | 50 | 5,9 |
| 2 3 | Ulaan uul | tin, gyantbold | tonn | 1308 | 11132,5 | 14 561 310, 0 | 20,4 | 50 | 10,2 |
| 2 4 | Chanchivlan buleg ord | tin, ГЯНТБОЛД | tonn | 732 | 16361,7 5 | 11 976 801, 0 | 16,8 | 50 | 8,4 |
| 2 5 | Tsagaan davaa | Tin | tonn | 2453 | 16361,7 5 | 40 135 372, 8 | 56,2 | 50 | 28,1 |
| | | Gyantbol d | tonn | 686 | 11132,5 | 7 636 895, 0 | 10,7 | 50 | 5,3 |
| 2 6 | Mungun undur | Silver | tonn | 1050,5 | 483814, 3 | 508 246 907, 1 | 711,5 | 50 | 355,8 |
| 2 | Khuh adar | copper | thsand.to | 46,4 | 6848,18 | 317 | 444,9 | 50 | 222,4 |

| | | | | | | | | | |
|--------------|-----------------|---------------------|-------------|--------|---------|------------|---------|------------------|---------|
| 7 | | | nn | | | 755,6 | | | |
| | | zinc | thsand.tonn | 7180 | 2156,9 | 15486542,0 | 21681,2 | 50 | 10840,6 |
| 28 | Shavriin tsaram | pyrope | thsand.tonn | 69,8 | - | | 0 | 50 | 0,0 |
| 29 | Shuden uul | daw | thsand.tonn | 3501,4 | - | | 0 | 50 | 0,0 |
| 30 | Shiree Uul | gypsum | thsand.tonn | 4450,7 | - | | 0 | 50 | 0,0 |
| 31 | Uvdug khudag | bovey coal | mill tonn | 168,2 | 29 | 4877,8 | 6828,9 | 100 | 6828,9 |
| 32 | Tsaidam nuur | bovey coal | mill tonn | 1764,8 | 29 | 51179,2 | 71650,9 | 100 | 71650,9 |
| 33 | Tsagaan tsav | zeolite | mill tonn | 4,8 | - | | | 50 | 0,0 |
| 34 | Mankhan Uul | phosphorite | mill tonn | 9,69 | 80 | 775,2 | 1085,3 | 50 | 542,6 |
| 35 | Ongilog nuur | phosphorite | mill tonn | 609,76 | 80 | 48780,8 | 68293,1 | 50 | 34146,6 |
| 36 | Luugiin nuur | Rare-earth elements | tonn | 3,7 | - | | | 50 | 0,0 |
| 37 | Khongor | spar | thsand.tonn | 244,5 | 97,5 | 23838,8 | 33,4 | 100 | 33,4 |
| 38 | Ulaan | zinc | thsand.tonn | 418,6 | 2156,9 | 902878,3 | 1264,0 | 50 | 632,0 |
| | | lead | thsand.tonn | 738,4 | 2123,68 | 1568125,3 | 2195,4 | 50 | 1097,7 |
| 39 | Tsaa | zinc | thsand.tonn | 186,4 | 2156,9 | 402046,2 | 562,9 | 50 | 281,4 |
| | | lead | thsand.tonn | 245,8 | 2123,68 | 522000,5 | 730,8 | 50 | 365,4 |
| Total | | | | | | | | 256 580,3 | |

IV. Conclusions

For developing countries and transition economies it is necessary to have development banks. In these countries there are sectors needing priority development. Development banks worldwide complying with specifics of their countries and level of development are actively working in direction of concentrating limited financial resources in priority directions and accelerating economic growth.

From here we can see that if we want to advance together with the world development it is very important to establish the development bank of Mongolia.

In recent years investment projects under implementation by the Government have been bringing bad results there have been constructed many hospitals without heating, schools without electricity and constructions without running water because of weak control system the approved budget and envisaged term could not coincide. Because of that deviousness and corruption penetrate in bidding operations and there is growing number of cases when works to be done are postponed or forced to stop. Therefore it is essentially necessary to have the development bank- a financial institution capable to independently control after performance and implementation of investment projects.

I consider that mixed ownership of development bank to be established in Mongolia, 51% by the government and 49% by foreign and domestic investors, has its shortcomings. There is an option to establish development bank with mixed ownership with an agreement to recall shares and take it under 100% state ownership when its structure and organization are streamlined.

Being 100% state-owned will create the following conditions:

- Basic term will be longer. Basic term means that not every project brings income immediately and it may take some time to receive profits and therefore it is important to reach clear understanding on that from the very beginning.
- National security. Although the Government will own controlling package (51% of shares) a package big enough to influence the bank's policy may become concentrated in one entity by transfer and sale of shares between shareholders.
- The main condition for working not for profit will be fulfilled. Though it was decided to conduct non-profit operations conditions will be created to demand by the management of development bank to finance profitable projects.
- It will not enter into sudden shortage of funds. If large investors begin to withdraw their funds because of crisis like that happened in 2008 or reason that the development bank of Mongolia fails to work efficiently and profitably the operations of the bank will come to standstill.
- Capability of domestic investors is low. Though it is said that shares of the development bank are open for sale to domestic and foreign entities and persons, capacity of domestic financial institutions to purchase and own large numbers of shares is low and limited.

International practice shows that in most cases development banks are 100% state-owned. Although in early years it is impossible for our country to make simultaneous investments in high priority projects it is feasible to finance them out of income to come in future. And though credit rating of Mongolia is BB, but the Government should agree with donor countries, attract their investments and get guarantees. Singapore and Philippines managed to receive 95%

guarantees from the Development bank of Japan and raise considerable funds through bonds. In order to successfully raise funds in the external market the Government of Mongolia has to make important steps.

In future income from the mining industry shall become a source of creation instead of being spent only on consumption and not to cause devaluation, Inflation and depreciation. Because, on the other hand, too much investment in its turn may cause overheating in the economy it is necessary to conduct correct investment policy and take into consideration economic absorption ability.

The development bank must stay away from politics. Political orders to appoint the management of development bank based party membership or from certain political and business mixed groups do not bring good and it is necessary prohibit by law for the State Great Hural and Government to participate in routine work of the bank such as exertion of pressure to fund risky projects, force to grant loans, influence establishment of interest rate and etc. It is advisable to create such legal environment where the government and development bank could communicate only within established legal framework

Although the Mongolbank would exercise direct control over operations of the development bank it should have obligation to deliver to the Mongolbank all types of information regarding its activities, follow common rules and guidelines in effect with regard to accounting, foreign exchange and monetary policies. But not always common criteria, indicators and norms approved for exercising control over operations of commercial banks could be used for the development bank, so necessity arises to develop indicators and norms suitable for the development bank.

Because the development bank in accordance with state policy is an institution to finance investment projects, the country's development policy and strategic plan should become the basis of the bank's business plan. The development bank is an important instrument of implementing the country's strategic development policy and must be tightly connected with the budget of Mongolia.

I consider it proper to organize these connections in the following manner:

1. Projects to be financed by the development bank should be chosen first of all among infrastructure, industry, education-innovation and high technology projects approved by the government and included in priority development directions.
2. After the establishment of the development bank it is very important for strengthening financial capacity of the development bank to constantly increase its own capital by a certain percent of investments of the Development fund of Mongolia.
3. After the establishment of the development bank it would be possible to transfer to it some investments used to be financed from the state budget. Thus amounts of investments envisaged in the program of activities of the government, priority directions of development and main directions of socio-economic development of the country would not be limited by the budget's sufficiency and opportunity will emerge to finance projects of infrastructure and industry from the development bank.
4. It is appropriate, when giving policy finance errands and directions to the development bank to distribute also profitable projects because it will have positive impact on the bank's further development and financial position. It includes infrastructure based on the mining industry, heavy industry, financing of the state share of some projects of

infrastructure to be implemented in line with state-private sector partnership, high technology, large industrial projects of processing sector.

5. I think that it would be appropriate to give to the development bank first of all shares of creation of mining sector to be financed by the state. It will allow appearance of loans based on real resources of our country in assets of the development bank and create favorable environment for attraction of funds from abroad.

By establishing the development bank it will become possible to reduce investment load, use more efficiently foreign loans and grants, decrease stages and expenses, increase return of state investments and properly execute control and monitoring of investments.

Together with increase of resources of special funds it will become possible to purchase bonds and shares of the development bank and through the development bank make investments aimed at creation and get return not only in economic, but social sector.

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