

## Notes from Mongolia Presidential Advisory Board meeting

Davos, 24 January 2014

The inaugural meeting of the Mongolia Presidential Advisory Board was held in Davos on 24 January.

Taking part in person were:

- Tsakhiagiin Elbegdorj, President of Mongolia
- Lundeg Purevsuren, National Security and Foreign Policy Advisor to the President of Mongolia
- Larry Summers, former Secretary of the US Treasury, former President of Harvard University, Charles W. Eliot University Professor, Harvard University
- Terje Roed-Larsen, former Deputy Prime Minister of Norway, President of the International Peace Institute (IPI)

Joining via telephone were:

- Ehud Barak, former Prime Minister of Israel
- Kjell Magne Bondevik, former Prime Minister of Norway, President of the Oslo Center for Peace and Human Rights
- Jeffrey Epstein, Financier
- Kevin Rudd, former Prime Minister of Australia

The Board was supported by a Secretariat comprised of Andrea Pfanzelter, Director of the IPI Vienna Office, and Walter Kemp, IPI Director for Europe and Central Asia.

The President began by thanking all members of the Board for agreeing to take part in this initiative, and to provide the President, and by extension Mongolia, with expertise to develop his country in a sustainable, stable and democratic way.

He observed that there is a tendency for people to think of Mongolia's past (particularly Genghis Khan) rather than its future. The President underlined the country's peaceful transformation from dictatorship to democracy over the past twenty years. He noted that he wants to create a new image for his country, and to develop opportunities for the future.

Mr. Bondevik highlighted the "Scandinavian welfare model", including the comprehensive public responsibility for all facets of life, a strong role for the state in all policy areas, the active engage of civil society, strong organizations of employees and employers, and respect for the equal rights of all citizens. He underlined the safety of income (including employer-provided or public insurance), relatively low differences in income level, gender equality, and high participation rates in elections. Other elements of the Scandinavian model are: equal opportunity; social solidarity; security for all; job security; economic growth; innovation; and

flexibility to meet new challenges. He mentioned the sovereign equity fund that is saving revenue from North Sea oil and gas for future generations.

The President noted that a law on creating future/sovereign wealth fund is currently going through parliament. He said that he would arrange for the law to be translated into English and shared with interested members of the Board.

Mr. Summers commented on fiscal policies and macro-economic tools. He noted that Mongolia currently has a relatively low credit rating and that the cost of borrowing is 5% (500 basis points) higher than for the US Treasury. This suggests a perception of high risk. Therefore it is important to bring the credit spread down. He noted that investor confidence could be increased by resolving issues between Rio Tinto and the Government of Mongolia in relation to the Oyu Tolgoi mine. A solution should be found in line with international obligations and honouring contracts that have been signed. The government should make it clear that it expects others to do the same. Such a negotiated solution would improve Mongolia's credit worthiness and bring down interest costs.

In terms of the "future fund", he advised to draw on best world practices to use proceeds from commodity exports. He advised the President to invest more aggressively than some other sovereign funds, i.e. in equities and not just government debt.

Mr. Epstein noted that it is important to look at all of the country's financial structures and institutions – the sovereign wealth fund is only one part of it.

Mr. Rudd noted that Australia is a long-standing friend of Mongolia and, like Mongolia, is a big country with a small population. He recalled how a century ago Australia's economy was based on agriculture and mining. Mining is the largest pillar in Australia's economy, responsible for ten percent of the country's wealth. Managing this non-renewable resource effectively is vital for the future. He underlined the importance of diversifying the economy.

He stressed the importance of honouring contracts for the sake of the country's international reputation, particularly for attracting FDI. He noted the sometimes ruthless approach of mining companies, and underlined the importance of effective legislation. He suggested that the Mongolian government engage 2-3 experts to provide advice on best practices in the mining industry (like regulation, environmental protection).

On the issue of the pension fund in Norway, Mr. Bondevik stressed the need to resist the temptation to spend money from the sovereign equity fund for state projects, since that could overheat the economy and deplete resources for future generations.

Mr. Barak noted that he knows Mongolia well from several visits, and is familiar with its security situation and armed forces. He stressed that there is no threat of invasion from Mongolia's neighbours. Therefore, the country's limited armed forces should focus on internal security issues and making democracy safe. They should be versatile, agile and mobile and should be able to shift their centre of gravity quickly from one side of the country to the other.

Because of the large size of the country and the small size of the security services, he stressed the need for good intelligence. He also stressed the need for a quick-deployment hospital unit, i.a. for disaster response.

Concerning next steps, the President expressed his desire for expert advice on the specific issue areas. He suggested that this could be done both through meetings of the Advisory Board, as well as consultations with, and visits by, individual members of the Board.

Mr. Roed-Larsen said that IPI would develop a concept paper containing proposals on democracy, stability, social welfare, and security in Mongolia. Areas to be taken into consideration would include:

- The public profile of Mongolia;
- Mongolia's social welfare programs, to the benefit of the people;
- Mongolia's fiscal policies and macroeconomic tools, including the structure and functions of the sovereign fund and its investment portfolio;
- Mongolia's "Third Neighbors" policy and suggestions for how to further develop this cornerstone in the country's foreign policy;
- Recommendations on how to further promote democracy in Mongolia as well as regional security context, based on further development of Mongolia's democratic and human rights agenda for the people's well-being and security.

The concept paper will be produced within the next 4 months, with the aim of the development and implementation of a comprehensive and operational plan within the next 3 years.