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# MONGOLIAN ECONOMY

Mongolian Economy and Business Magazine

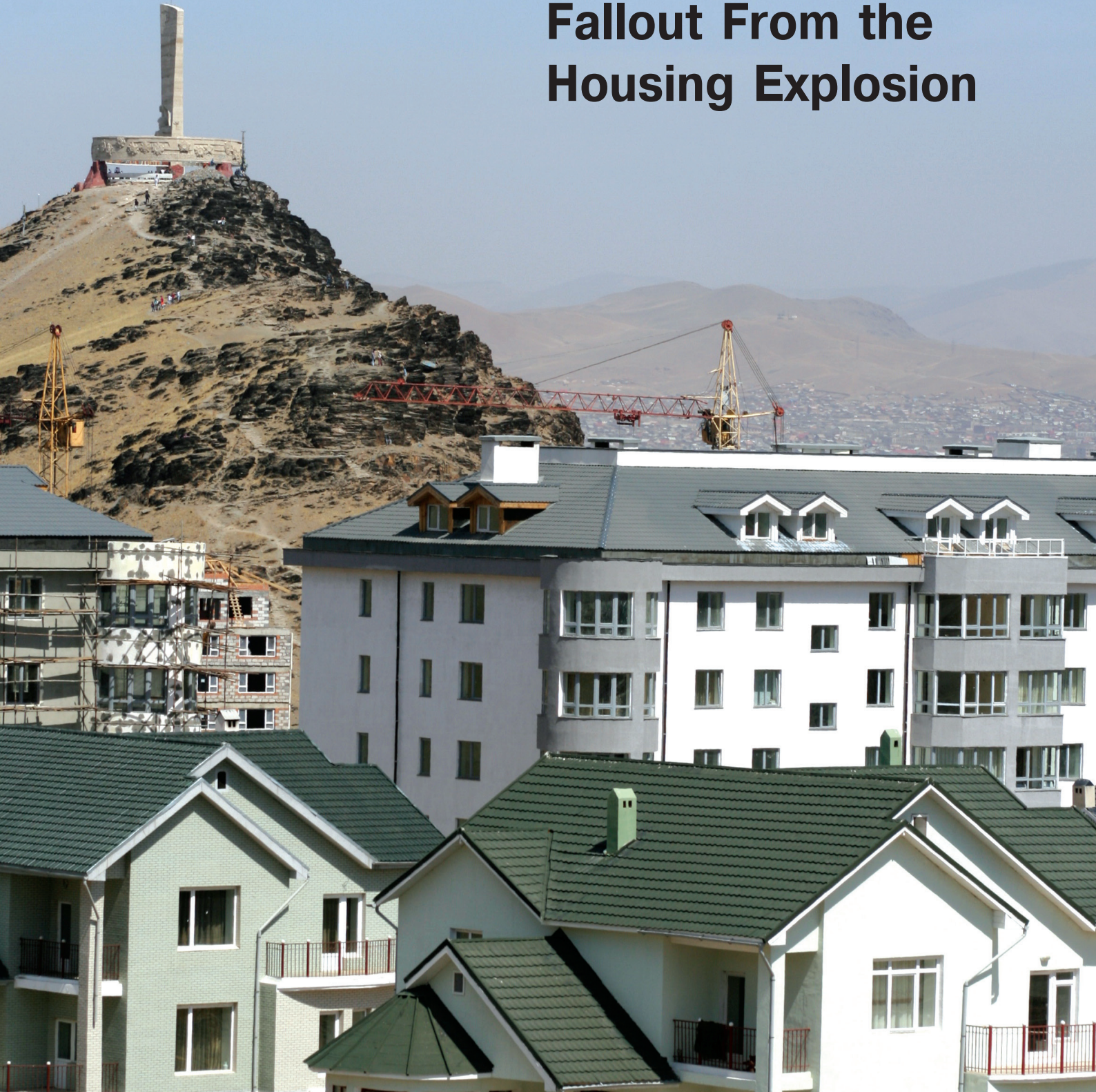
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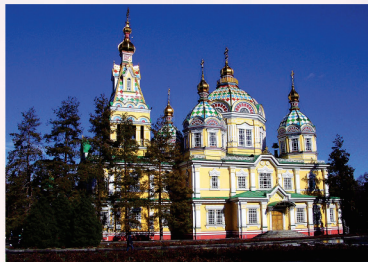
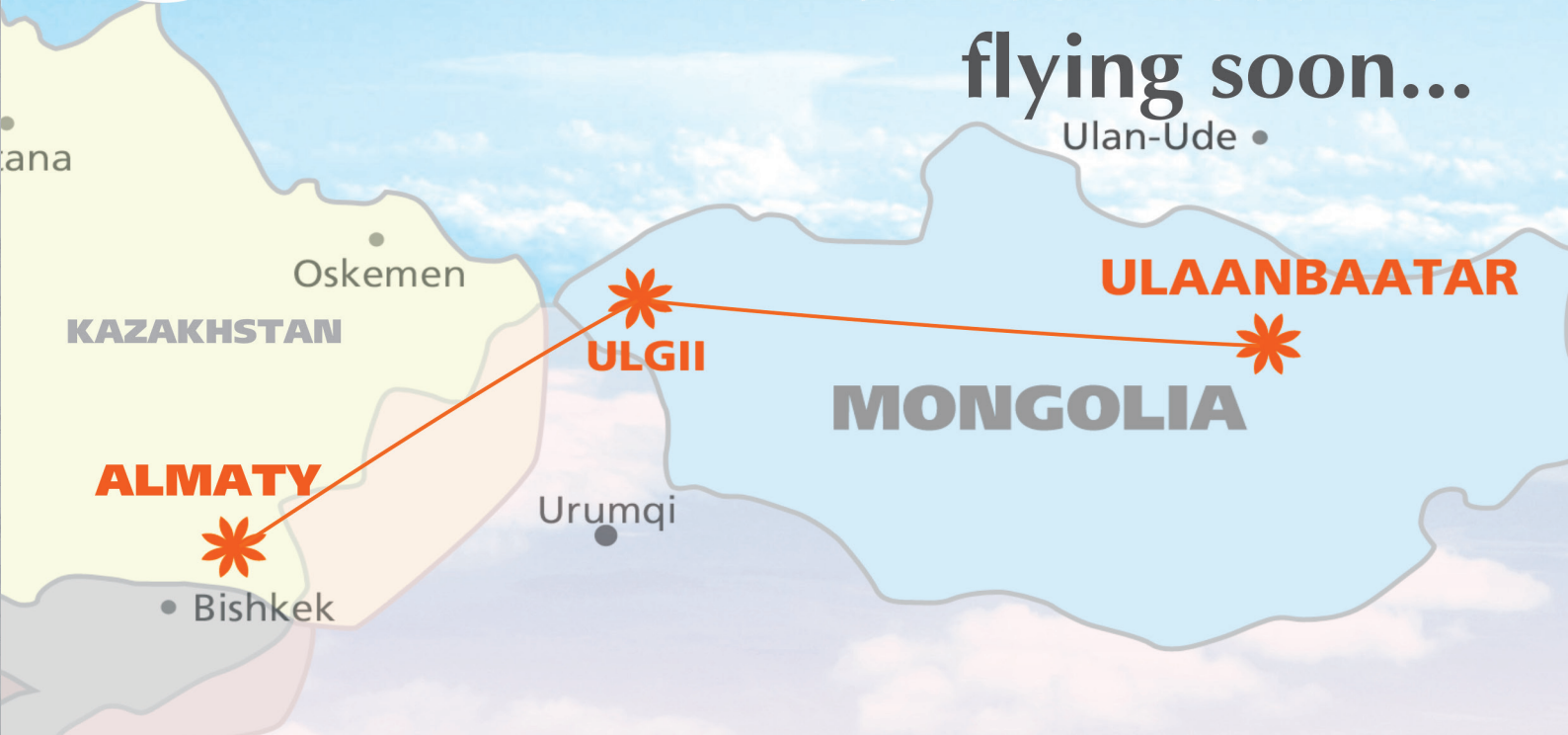


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**Unemployment:**

The number of unemployed reached 58,400 at the end of February 2012, reflecting an increase of 19,900 persons, or 51.6 percent, compared to the same period of the previous year.

In the first two months of 2012, 406,500 persons were registered as insured, of which 261,900, or 64.4 percent, were those from establishments, and 144,600, or 35.6 percent, from the government budgetary organization.

**Welfare:**

In the first two months of 2012, social welfare pensions and benefits were allocated to 53,700 persons, showing an increase of 2,500 persons, or 4.8 percent. The total amount of allocated funds increased by MNT 355.3 million, or 7 percent compared to same period of the previous year.

Of the MNT 119,000 billion distributed by the Human Development Fund to MNT 2.8 million people (with double counting) in the first two months of 2012, 98.3 percent were those receiving the cash benefit of MNT 21,000, 0.9 percent those receiving MNT 70,000, and 0.8 percent those receiving MNT 10,000.

**Health:**

In the first two months

of 2012, the number of infectious disease cases was 7,220, with an increase of 987 cases, or 15.8 percent, compared to the same period of the previous year. The increase in the number of infectious disease cases was mainly due to the increases of 52 persons, or 8.2 percent, in syphilis; 40 persons, or 6.1 percent, to trichomoniasis; 36 persons, or 5.8 percent, in varicella; 19 persons, or 0.8 percent, in viral hepatitis; and 5 persons, or 0.6 percent, in gonococcal infection. There was a decrease



of 14 persons, or 6.9 percent, to shigellosis and 23 persons, or 3.7 percent, to tuberculosis.

**Birth:**

In the first two months of 2012, 11,579 mothers delivered 11,631 children (live births), an increase of 1,320 mothers, or 12.9 percent, and 1,338 children, or 13 percent, compared to same period of the previous year. In the first two months of 2012, the national level for infant mortality increased by 15, or 7.9 percent, to 206, and mortality to children aged 15 was 38, the same level as compared to same period of the previous year.

**Banks and Finance:**

Principals in arrears at the end of February 2012 reached MNT

176.3 billion increased by MNT 102.5 billion, or 2.3 times, compared to the previous month. There was an increase of MNT 63.7 billion, or 56.6 percent, compared to the same period of the previous year. At the end of February 2012, nonperforming loans throughout the banking sector reached MNT 323.3 billion, showing a decrease of MNT 3.3 billion, or 1 percent, compared to the previous month and MNT 37.1 billion, or 10.3 percent, compared to the same period of the previous year. In February 2012, there were 19 trading days and 7.2 million shares valued at MNT 2.6 billion were traded.

**State Budget:**

In the first two months of 2012, total revenue and grants from the General Government Budget amounted to MNT 674.8 billion and total expenditures and net lending amounted to MNT 682.1 billion, representing a deficit of MNT 7.3 billion in the equilibrated balance of General Government Budget.

In the first two months of 2012, current revenue to the General Government Budget amounted to MNT 672.3 billion and current expenditure reached MNT 559.8 billion. Thus, the budget equilibrated current balance was in surplus of MNT 112.5 billion. Total expenditure and net lending of the General Government Budget increased by



MNT 212.2 billion, or 45.2 percent, to 682.1 billion compared to the same period of the previous year. This was mainly due to an increase of MNT 89.3 billion, or 4.1 times, of capital expenditure; MNT 88.6 billion, or 38.4 percent, in subsidies and transfers; and MNT 34.8 billion, or 18.1 percent, in expenditure of goods and services although there was decreases of MNT 2 billion or 33.1 percent in lending minus repayments.

In the first two months of 2012, spending amounted to MNT 118.4 billion on capital expenditure, an increase of MNT 89.3, or 4.1 times, compared to the same period of the previous year. This was mainly due to an increase of MNT 81.5 billion, or 4 times, in capital expenditure of domestic sources and MNT 7.8 MNT, or 5.4 times, in foreign financed capital expenditure compared to the same period of the previous year.

**Foreign Trade:**

In the first two months of 2012, Mongolia traded with 103 countries from all over the world and total external trade turnover reached USD 1.469 billion, of which exports made up USD 529.9 million and imports made up USD 939.3 million.

The external trade balance showed a deficit of USD 154.8 million in February 2012, compare with a deficit of USD 60.2 million in February 2011. Compared to the same period of the previous year, the deficit increased by USD 94.6 million dollars, or 2.6 times. Total external trade turnover increased by USD 437.7

million, or 42.4 percent, of which imports up by USD 323.7 million, or 52.6 percent; and an increase in exports by USD 114.1 million or, 27.4 percent, compared to the same period of the previous year.

Mineral products, natural or cultured stones, precious metal, jewelry, coins, raw and processed hides, skins, fur and articles, animal origin products, textile articles and auto, air and water transport vehicles as well as their spare parts thereof accounted for 97.7 percent of the total export value amount.

**Industry:**

In the first two months of 2012, the total industrial output increased by MNT 20.6 billion, or 7.7 percent, to MNT 287.8 (at 2005 constant prices)

compared to the same period of the previous year. The increase in the industrial output was mainly due to 1,477.3 percent increases in mining and quarrying products such as copper, with concentrate, molybdenum concentrate, zincum concentrate and crude oil and 0.1 percent to a 7.9 times increase in industrial main products from the manufacturing sector; such as alcoholic beverage, toilet paper, sawn wood, carpet, beer, milk, bakery products, bread, soft drinks, briquette, and concrete mortar.

**Transport:**



In the first two months of 2012, 553.7 tonnes of freight and 94,100 passengers (double counting) were carried by air transport. Compared to same period of the previous year, the number of carried freight increased by 301.6 tonnes, or 2.2 times; and the number of carried passengers rose by 28,400 persons, or 43.1 percent. Due to the increase in carried freight and passengers, revenue from air transport increased by MNT 4 billion, or 22.4 percent, to MNT 22.1 billion in the compared to same period of the previous year.

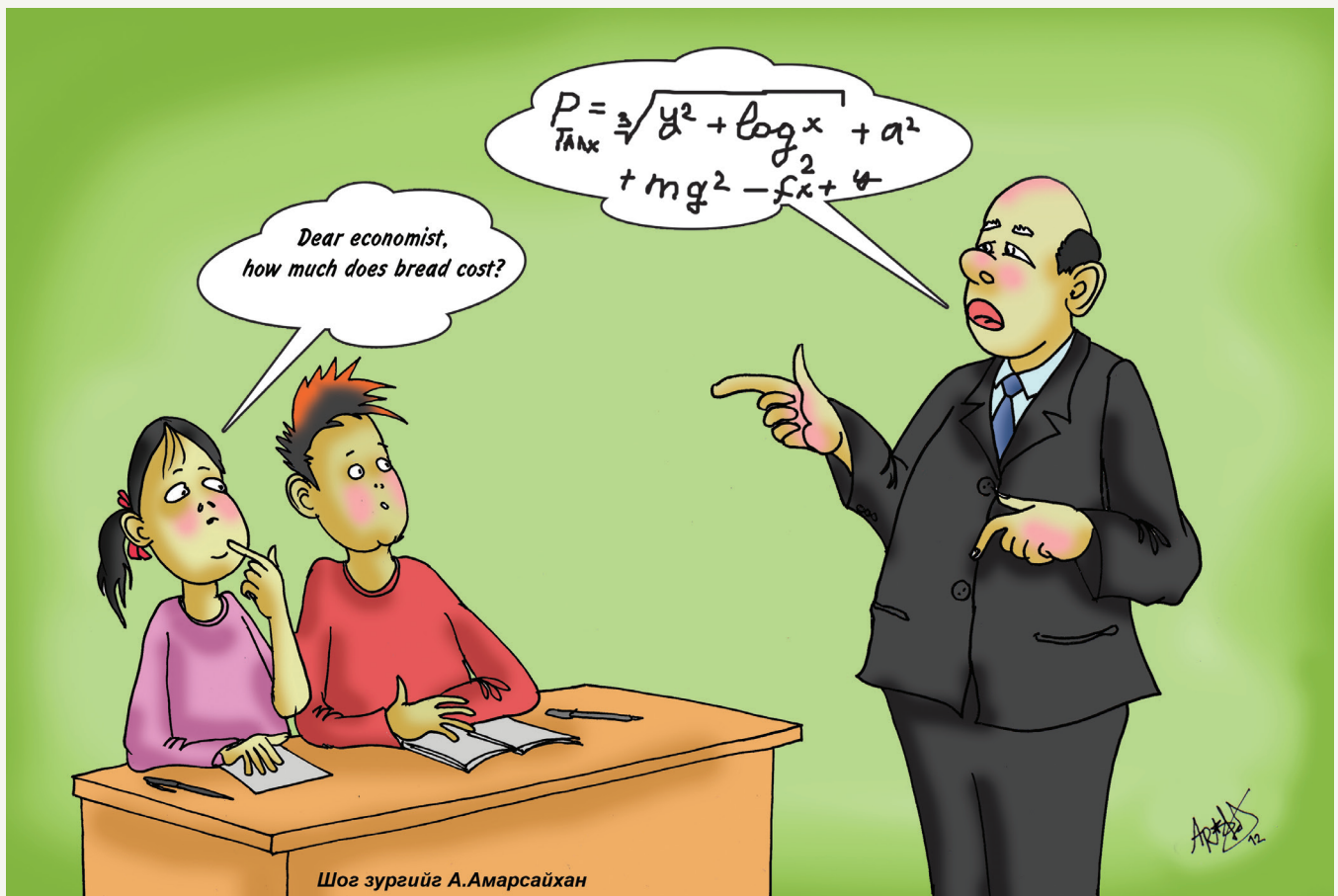
**Accident:**

In the first two months of 2012, 716 disasters and accidents occurred. As a result, 30 people died and 400 livestock

and domestic animals were lost. By the types of



disasters, 686 were fires set to possessions, eight were accidents related to artisanal mining and rock falls, five were incidences of chemical substance usage, four were river and lake accidents, three were cases of domestic animal disease. Estimated damage caused by the disasters and accidents amounted to MNT 1.9 billion. ■





Шог зургийг А.Амарсайхан

## Feature Topic

## The Bubble

By I. Otgon

Hikes to meat prices are driving inflation crazy. In order to stall inflation the Bank of Mongolia unhelpfully increased its policy interest rates and strengthened the currency policy, meaning to hold the inflation growth. A study from the National Statistical Office reveals that inflation in the country has reached 12.5 percent and 13.3 percent in the city. Apparently the central bank has failed to target inflation.

One of the few domestic products of Mongolia is meat. However, meat prices have been increasing since last winter. Currently in some markets and supermarkets a kilogram of meat costs between MNT 8,500 and MNT 9,000. It is hard to believe. For Mongolians, it is nothing new. Every spring there is talk of rising meat prices. But normally it only rises to about MNT 5,000 per kilogram. During those times people would complain about having dinners without meat or sleeping on an empty stomach. Now they are forced to buy meat at double that price.

At the beginning of the year, the price of meat products rose 29.6 percent, making the 58 percent inflation in the city. Mongolia is a land of cattle breeders. At the end of last year, Mongolia had 36.3

million livestock of which 15.6 million were breeder cattle. However, Mongolia is on the edge of starvation because it cannot properly regulate meat prices. It is hilarious and tragic at the same time. For more on this issue, read "Starving Mongolia".

Meat prices have become a major problem for Mongolians. In addition to this, sky rocketing property prices are causing pains to those who would want to participate in the 100,000 Homes programme. A study by the Master Properties real estate agency reveals that the average price of property has reached MNT 1.6 million per square metre in Ulaanbaatar. Compared with last month's price, it has increased by 1.59 percent and risen by 38.13 percent compared to February 2011.

Depending on the different factors concerning demand, this housing project is considered to be the main instigator to the bubbling prices. The National Statistical Office has conducted a survey which concluded that the increase to oil prices and food products make up the other half of inflation. Economic bubbles are growing everywhere. ■

## The 100,000 Homes Project

# Fallout From The Housing Explosion

By B. Sanjaakhand

Having a roof over their heads is probably the primary need of human beings. Most of us are able to manage to keep the pot boiling, but managing housing issues does not go as smoothly as we wish it would. One could live in a ger or rent a room. However, living this way in Mongolia's stuffy environment does not sound convenient to young people. It is just not the way they want to live. Unfortunately, many of these youngsters live in these conditions without any other choices left. They live carrying the dream of settling down in an apartment. The uncertainty of when and how shadows the realisation of their dreams.

Even if they sweat blood and work hard, they might not be able to purchase an apartment. The bubbling prices in the real estate sector are growing day by day, turning the people's dreams into ashes. The 100,000 Homes project is one example of those dreams coming to pieces. Parliament ratified the project two years ago and planned to begin the program this year. They have since decided to grant loans of up to MNT 50 million with only 6 percent annual interest. Policy makers say the credit is directed towards low and middle-income residents who have never bought an apartment before. The decision was great news to those who thought they might never make it out of the ashes of the ger districts. Though the project was ratified two years ago, its implementation has been rather slow. However, the program has become a popular topic within the media.

These 6 percent interest loans might split society in two depending on their home. The government has made many short-sighted decisions in the past. Yet the housing project has

been considered a very rational policy that would reduce air pollution. Even though its implementation is having a few ups and downs, the decision for credit was courageous. Property loans are considered to be the least risky. Thus Mongolian commercial banks have been competing for mortgages and allowing credits of up to MNT 100 million for 20 to 30 years' time. However, the number of those involved is considerably low.

Even if people wanted to apply for this credit with 15 to 24 percent interest, they would not be able to pay 40 to 50 percent of the down payment, a requirement for banks. For those who fall into the category of low or middle-income, thoughts of heading to these commercial banks is useless. The 100,000 Homes project provides another opportunity. A person who takes out a mortgage for 30 years has to pay MNT 560,000 to MNT 600,000 a month. But this project with its 6-percent interest would have monthly payments of about MNT 350,000. However, property prices have swelled up as a result of this government assistance at a time when

prices had already been growing. This project, which was originally meant to support low, middle-income citizens, has exacerbated inflation.

Real estate prices have become a headache. A February study from the Master Properties real estate company has revealed that the average cost for housing has reached MNT 1,649,191 per square metres. That is a 1.59 percent increase from the month before and 38.13 more than a year before. It is the last straw. Although progress has been made on this project, real estate prices are sky rocketing as a result. There have been several forums held during the last two months. But the inner hopes of many are covered by heavy clouds. It seems as though the 6-percent interest loans are the largest contributor to the rise in property value.

"It is not right to say that the housing project has directly influenced high prices. Actually, it is following the market", said the head of marketing at Master Properties, D. Molomjamts. "The prices range depending on where the property is located. Property prices are influenced by many factors of supply and demand."

"For example, on the demand side are subprime credit, an actively growing population, a raise in incomes, migration, changes in consumption, and even marriages and divorces play a role. On the supply side are rising construction material prices, infrastructure and the capacity of the Zamiin-Uud port influencing the prices".

Although Molomjamts absolves the government's mortgage scheme, »



▶ other happenings in the market could lead one to believe otherwise. Participants and attendants of housing exhibition said that the excessive demand related to the government's decision might have contributed to increasing prices. The credit has created massive demand on the market, which suppliers have taken advantage of. So there is the question of how the government has estimated the demands and delivery of the real estate market might influence the market when making its decision. Neither the government nor its citizens have a proper understanding of these questions.

"Next year when the housing project begins, property prices will rise. That is why many citizens have taken money from their savings to buy apartments. There was a case of a family who bought 50 apartments", said the head of the Geodesy and Cartography Authority, Ts. Gankhuu. "Secondly, people blamed oil prices for the rise. It is impossible to meet with every construction companies and tell them to drop their prices. By calculating the prices of building materials, we can assume the average price for one square metre costs MNT 750,000 to MNT 900,000. Even

adding certain profits makes costs of MNT 1.5 to MNT 1.8 million or MNT 2 million senseless".

Vice Minister of Ministry of Finance Ts. Gankhuyag said: "There is one thing to be aware of. This year incomes and retirement benefits will increase 50 percent. It will go the same for employers. Considering all this, a drop in prices probably won't happen".

Gankhuu added "In the scope of the housing project, the government ratified the list of housing for 43,000 families of over 100 developers. Over 30,000 of these 43,000 are 30 percent complete".

However, a study by Master Properties in February stated: "In terms of value, the 135 construction projects in Ulaanbaatar would make housing available to 20,000 families. Of these, 7,449 homes are ready for purchase. This makes up 36.8 percent of the total projects".

Comparing what associates of the project say and the analysis presented by researchers, there is an inconsistency of 10,000 homes. The results of this research should be taken more seriously than that of an official. Some authorities clearly do not hesitate to give incorrect facts. But the fact is

citizens need veracious information.

In February 135 projects were underway in Ulaanbaatar for completion in 2013. Price fluctuations depend on the location and number of construction projects. For example, in Khan-Uul district are 35 and Bayan-Zurkh has 39 compared to only three in the Chingeltei district. This means the Chingeltei district, the centre of the city, has the highest prices.

The goal of the 10,000 Homes projects is to have 75,000 homes built in Nisekh and Yaarmag. The new construction is meant to reduce centralisation, eliminating the differences between city and rural areas. However, the most important thing to do is stabilise prices instead of inflating the bubble any more.

Mortgage credit should not be lead to swarming demands and treasure gates.

*There are many real estate agencies such as Tenkhleg Zuuch that observe property prices, but Master Properties is the only agency with professional research team for analysis. Information on housing prices and completed buildings as compiled by Master Properties can now be found in Mongolian Economy. ■*

Survey on housing loan interests, granted at commercial banks

| Banks      | Advance payment | Interest |       | Service fee   | Application fee | Loan terms       | Maximal volume of loan               |                |
|------------|-----------------|----------|-------|---|-----------------|------------------|--------------------------------------|----------------|
|            |                 | MNT      | USD   |   |                 |                  | Ulaanbaatar                          | Region         |
| Capital    | 50.00%          | 1.30%    | 1.10% | 0.50%   | 10.000          | 120 months       | MNT 100 million or USD equivalent    |                |
|            | 40.00%          | 1.40%    | 1.20% | 0.50%   | 10.000          |                  |                                      |                |
|            | 20.00%          | 1.50%    | 1.30% | 0.50%   | 10.000          |                  |                                      |                |
| Khas       | 30.00%          | 1.80%    | 1.50% | 1.00%   | 10.000          | 240 months       | MNT 80 million or USD 100.000        | USD 40000      |
|            |                 | 2.00%    | 1.70% | 1.00%   | 10.000          |                  |                                      |                |
| Kapitron   | 30-40%          | 1.6-1.9% |       | 0.50%   | 5000            | 180 months       | MNT 150 million                      |                |
|            | 40-50%          | 1.5-1.8% |       | 0.50%   | 5000            |                  |                                      |                |
|            | Above 50%       | 1.4-1.6% |       | 0.50%   | 5000            |                  |                                      |                |
| Khaan      | 30-39%          | 1.60%    |       | 0.50%   | 15.000          | 180 months       | MNT 100 million                      | MNT 30 million |
|            | 40-49%          | 1.50%    |       | 0.50%   | 15.000          |                  |                                      |                |
|            | Above 50%       | 1.40%    |       | 0.50%   | 15.000          |                  |                                      |                |
| TDB        | 20-40%          | 1.50%    |       | 0.20%   | 10.000          | 180 months       | MNT 100 million or USD equivalent    |                |
|            | Above 41%       | 1.40%    | 1.30% | 0.20%   | 10.000          |                  |                                      |                |
| State bank | 30-50%          | 1.40%    | 1.25% | Fee for financial service 0.5 %, inclusive application and service fees |                 | 180 months       | 70 % of the housing estimation       |                |
|            | Above 50%       | 1.40%    | 1.10% |   |                 | 180 months       |                                      |                |
| Golomt     | Above 50%       | 1.50%    | 1.00% | 0.50%   | 10.000          | 180 - 240 months | MNT up to 120 million                |                |
|            | 30-49%          | 1.40%    |       | 0.50%   |                 |                  |                                      |                |
| Savings    | 30%             | 1.80%    |       | 0.50%   | 10.000          | 120 months       | MNT up to 100 million in Ulaanbaatar |                |
|            | Above 31%       | 2.00%    |       | 0.50%   |                 |                  |                                      |                |

## Prices

## Housing Market Information

*Mongolian Economy* presents the market rates for housing in February this year in collaboration with the Master Properties real estate agency. While most housing market information can be found online at Barilga.mn and TenkhlegZuuch.mn, Master Properties has a professional

research team that releases surveys quarterly for underlining analyses. The company has expanded with a new department specialising in the housing survey in addition to training to their researchers with professional enhancement programmes in Singapore.

Price survey of the projects, implemented in Ulaanbaatar

/MNT/

|              | Bayanzurkh district |                  | Khan-uul district |                  | Sukhbaatar district |                  | Songinokhairkhan |                  | Chingeltei district |                  | Bayangol district |                  | Ulaanbaatar |                  |
|--------------|---------------------|------------------|-------------------|------------------|---------------------|------------------|------------------|------------------|---------------------|------------------|-------------------|------------------|-------------|------------------|
|              | Flats               | Average price    | Flats             | Average price    | Flats               | Average price    | Flats            | Average price    | Flats               | Average price    | Flats             | Average price    | Flats       | Average price    |
| Under 900    | 2                   | 830,000          |                   |                  | 1                   | 583,333          | 1                | 888,000          |                     |                  |                   |                  | 4           | 1,200,000        |
| 901-1200     | 10                  | 1,132,000        | 1                 | 990,000          |                     |                  | 8                | 1,091,000        |                     |                  | 1                 | 1,200,000        | 20          | 2,000,000        |
| 1201-1700    | 20                  | 1,479,725        | 12                | 1,460,000        | 6                   | 1,433,333        | 5                | 1,410,000        |                     |                  | 29                | 1,444,517        | 72          | 1,915,806        |
| Above 1701   | 6                   | 1,983,684        | 22                | 2,272,808        | 6                   | 2,541,300        |                  |                  | 3                   | 2,333,356        | 1                 | 1,750,000        | 38          | 1,962,929        |
| <b>Total</b> | <b>38</b>           | <b>1,433,595</b> | <b>35</b>         | <b>1,879,784</b> | <b>13</b>           | <b>2,375,409</b> | <b>14</b>        | <b>1,183,800</b> | <b>3</b>            | <b>2,333,356</b> | <b>31</b>         | <b>1,446,483</b> | <b>134</b>  | <b>1,649,191</b> |

Price survey of housing projects

| MNT million     | Total | Percentage |
|-----------------|-------|------------|
| Flats under 900 | 4     | 2.99%      |
| 901-1200        | 20    | 14.93%     |
| 1201-1700       | 72    | 53.73%     |
| Above 1701      | 38    | 28.36%     |

Period of finishing housing projects

|                    | Khan-uul  | Sukhbaatar | Bayangol  | Chingeltei | Bayanzurkh | Songinokhairkhan | Total      |
|--------------------|-----------|------------|-----------|------------|------------|------------------|------------|
| Finished buildings | 14        | 3          | 9         | 1          | 19         | 3                | 49         |
| 2012-I quarter     | 5         | 2          | 11        | 1          | 3          | 2                | 24         |
| 2012-II quarter    | 4         | 5          | 6         | 1          | 9          | 5                | 30         |
| 2012-III quarter   | 3         | -          | 3         | -          | 2          | 2                | 10         |
| 2012-IV quarter    | 3         | 1          | 1         | -          | 2          | 1                | 8          |
| <b>Total</b>       | <b>35</b> | <b>13</b>  | <b>31</b> | <b>3</b>   | <b>39</b>  | <b>14</b>        | <b>135</b> |

*A total of 135 projects, implemented in Ulaanbaatar, are placed due to the period of starting to use. ▶*

## Economy

### Average price of the housing projects, implemented in Ulaanbaatar

/MNT/

| Districts        | 2011, February | 2012, January | 2012, February | Monthly changes | Annual changes |
|------------------|----------------|---------------|----------------|-----------------|----------------|
| Bayangol         | 930.000.00     | 1.401.630.43  | 1.446.483.87   | -3.20%          | 35.71%         |
| Bayanzurkh       | 987.000.00     | 1.426.263.64  | 1.433.594.98   | 0.51%           | 31.15%         |
| Chingeltei       | 1.081.000.00   | 2.400.220.00  | 2.333.356.27   | 2.79%           | 53.67%         |
| Sukhbaatar       | 924.000.00     | 2.319.345.83  | 2.375.408.89   | -2.42%          | 61.10%         |
| Songinokhairkhan | 1.010.000.00   | 1.069.750.00  | 1.183.800.00   | -10.66%         | 14.68%         |
| Khan-uul         | 1.190.000.00   | 1.941.555.44  | 1.935.046.95   | 0.34%           | 38.50%         |
| Average          | 1.020.333.33   | 1.675.809.77  | 1.649.191.33   | 1.59%           | 38.13%         |

► A February study from the Master Properties real estate company has revealed that the average cost for housing has reached MNT 1,649,191 per square metres. That is a 1.59 percent increase from the month before and 38.13 more than a year before.

### Capacity of the implemented projects

|                  | Projects   | Families     | Flats for ordering | Proportion   |
|------------------|------------|--------------|--------------------|--------------|
| Khan-uul         | 35         | 4791         | 2378               | 49.6%        |
| Sukhbaatar       | 13         | 794          | 299                | 37.7%        |
| Bayangol         | 31         | 3341         | 1470               | 44.0%        |
| Bayanzurkh       | 39         | 9510         | 2530               | 26.6%        |
| Chingeltei       | 3          | 62           | 19                 | 30.6%        |
| Songinokhairkhan | 14         | 1768         | 753                | 42.6%        |
| <b>Total</b>     | <b>135</b> | <b>20266</b> | <b>7449</b>        | <b>36.8%</b> |

A total of 135 housing projects are being implemented for 20 thousand families in Ulaanbaatar. Out of this number, 7449 flats can be ordered, which means that 36.8% of the total projects are ready for the order.

### Sales level of the implemented projects

|                  | Total sales        | Sales of flats that receive orders | Sales level |
|------------------|--------------------|------------------------------------|-------------|
| Bayanzurkh       | 907.455.789.006₮   | 709.641.243.346₮                   | 21.80%      |
| Songinokhiarkhan | 98.575.115.650₮    | 37.134.227.100₮                    | 62.33%      |
| Khan-uul         | 1.242.704.669.301₮ | 585.186.041.198₮                   | 52.91%      |
| Chingeltei       | 24.235.819.638₮    | 12.322.860.768₮                    | 49.15%      |
| Sukhbaatar       | 138.058.452.485₮   | 52.056.271.341₮                    | 62.29%      |
| Bayangol         | 440.767.831.743₮   | 115.090.667.105₮                   | 73.89%      |

According to the stand of February 2012, all 135 implemented projects will be sold for a sum of MNT 2.8 billion. Sales volume of all ordered flats is MNT 856 billion, the average sales of the implemented projects stands by 47%.

### Average price of the old flats

|                  | 1 room   |         |                | 2 rooms  |         |                | 3 rooms  |         |                |
|------------------|----------|---------|----------------|----------|---------|----------------|----------|---------|----------------|
|                  | Cheapest | Average | Most expensive | Cheapest | Average | Most expensive | Cheapest | Average | Most expensive |
| Bayangol         | 39.60    | 54.44   | 62.00          | 59.94    | 76.81   | 89.20          | 78.90    | 94.64   | 107.60         |
| Sukhbaatar       | 48.90    | 58.57   | 64.80          | 66.80    | 79.41   | 89.80          | 87.40    | 100.30  | 108.00         |
| Khan-uul         | 43.67    | 48.42   | 51.33          | 61.33    | 67.77   | 83.00          | 70.33    | 74.83   | 79.33          |
| Chingeltei       | 58.67    | 63.67   | 68.67          | 69.33    | 77.67   | 86.00          | 90.00    | 98.33   | 106.67         |
| Bayanzurkh       | 38.25    | 50.14   | 57.50          | 65.00    | 78.18   | 90.75          | 76.50    | 91.23   | 101.25         |
| Songinokhiarkhan | 31.88    | 41.99   | 47.63          | 53.25    | 58.73   | 69.50          | 59.50    | 67.60   | 77.50          |



Caricature by A. Amarsaikhan

### Critical Issue

## Starving Mongolia

By B. Bayartogtokh

Mongolia is a cattle-breeding country, and Mongolians are proud of that fact. The number of domestic livestock reached 36 million last year, which resulted in a top-ten ranking for Mongolia's cattle per capita. However, this cattle-breeding country is on the edge of starvation. The purchasing power of the nation falls as a monster called inflation comes alive and food becomes more expensive. Meat prices are now considered to be the worst burden to household incomes.

Meat, the favourite dish of Mongolians, is emptying the pockets of the people as they struggle to put food on the table. In addition, it plays a major role in the escalation of inflation. The increase in meat prices is nothing

new to Mongolians. It has become more like a tradition, especially during the spring and on national holidays. This issue will never vanish, even if the number of livestock reached 40 million. But this year's meat prices have set a record in Ulaanbaatar.

Meat prices at the Khuchit Shonkhor market on 22 March are up to MNT 8,500 per kilogram of beef, MNT 8,200 per kilogram of mutton, and MNT 6,000 per kilogram of goat meat. Beef with the bone cost MNT 6,500 to MNT 7,200 per kilogram. The prices for meat with bones were MNT 1,000 to MNT 1,300 cheaper than boneless. The most expensive meat prices from previous springs are now what goat meat, the cheapest on the market, costs (In previous years

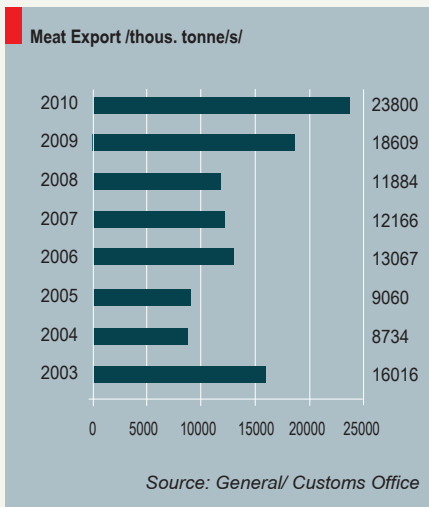
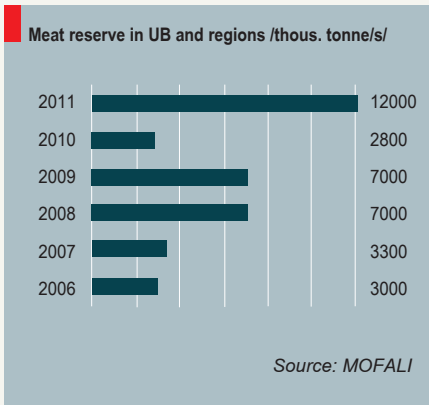
beef cost a maximum of MNT 6,000 a kilogram).

Mutton prices had never surpassed MNT 5,000 before, but today the average price for meat has reached MNT 8,500. Khuchit Shonkhor is a wholesale centre for meat sales, so the prices are relatively cheaper. All of the groceries stores in the city buy their meat supply from this market. If these downtown markets buy a kilogram of meat for MNT 8,500, obviously they would add MNT 300-500, or even MNT 1,000, per kilogram.

Buying a kilogram of meat for MNT 9,000 is outrageous for a nation with 36 million livestock. In addition to these 36 million cattle, the government invests billions in preparing meat reserves each year. Last year 12,000 ▶

► tonnes of meat was added to the reserves. However, it did nothing to hinder escalating prices. This is not the way a market should be organized. The unseen influence threatening the market should be found. The Ministry of Food, Agriculture and Light Industry predicts the population of livestock will grow to 50 million by the end of this year. Although the growing number of livestock sounds good, the price increase is discouraging to Mongolians.

As the elections near, meat prices have become the talk of the town. Talking about the prices, politicians find it a good opportunity to promote themselves to the masses. This winter 5,000 tonnes of the 12,000 tonnes of reserve meat were supplied. In order to keep prices cheap during the Tsagaan Sar season, expanded trade was organised in each district of the city. When the reserves were depleted by 5,000 tonnes the government ordered the preparation of an additional 10,000 tonnes of meat reserves as spring is typically a time for high prices. The decision was just as much a surprise



to those who know the complexity of herding as those who are clueless on the matter.

It is unclear where they will get such a large quantity of meat when the snow has not even melted yet. The preparation of additional meat reserves obviously cannot be done at the herder campsite. To enforce the government's decision, rural authorities have to act effectively. There are reports that somehow the first 1,000 tonnes has arrived in Khuvsgul Aimag, but there are no signs of meat prices stabilising.

General Director of Makh Market company T. Sodnomdarjaa said that meat consumption rises on average by 3,000 tonnes every year. The increase to the city's population surely means an increase in meat consumption. Rising incomes might contribute as well. Dealers have the tendency to inflate prices, taking advantage of expensive oil prices. But how is it possible to inflate meat price as high as MNT 9,000? Ulaanbaatar's citizens consume about 300 tonnes of meat each day. Three years ago the numbers fluctuated

around 120 to 200 tonnes, compared to today's 200 to 300 tonnes.

**Increasing Price Recessing Export**

Additions to the supply of reserve meat have been partially halted for several reasons. Delivering companies have said that meat has fallen below the average (MNT 3,150), and amounting to profit loss. They also added that the remaining 7,000 tonnes of reserved meat would barely be enough to provide for 20 percent of the citizens. The executive director of the National Meat Committee, M. Lkhachinbal, said the situation is similar to dripping a spoonful of milk into 100 litres of water.

"Our member companies have had a loss of MNT 500 per kilogram for reserved meat. Thus, they have decided not to participate. There are too many of those who seek profits from the meat business. There isn't any policy on the prices from the state. China-financed dealers are inflating meat prices and creating a shortage on purpose, which results in sudden price escalation". ►►



► The sale of domestically prepared meat reserves has been suspended for now. At the Khuchit Shonkhor market 12.5 kilograms of packaged meat was sold at one station for MNT 4,700 a kilogram. At the next table, unpackaged goat was more expensive with prices of up to MNT 6,000, although stations selling whole meat were cheaper at MNT 4,300 a kilogram. Still, why are these packaged goods cheaper?

“Chinese brands used to dominate Mongolia’s raw material market in the leather, cashmere and wool sectors”, said meat salesperson Ts. Tumurbat. “Now they have started to underpin the meat trade. I bought this specially packaged goat meat from a Mongolian woman. People buy it because it is cheaper than the others.

“Actually, these bagged meats are meant for export. They are prepared by a Chinese company in Emeelt. The government has banned meat export until 1 July, a decision related to domestic price growth. That is why companies have started to sell reserve meats”.

### Infamous Reserves

Meat reserves have always had a bad name. There is a general consensus that the quality is not very good. That has not changed since the sale of reserved meats this winter either. Many benefitted from the cheap meat but the deriding has not let up even a bit.

“Reserved meat is being sold, but people like me can’t buy it”, said Sh. Sodnomjamts, an elderly man from the Songinokhairkhan district. “It would have been good if these meats were first sold to old people, who have low incomes. It seems that the wealthy ones can buy them through their acquaintances”.

Although he had MNT 10,000 when he went to Khuchit Shonkhor, it was not enough to afford any beef. So he bought goat meat, which was the cheapest.

“I can’t go home with nothing”, he said, “At least I could buy one kilogram of goat meat for MNT 6,000. A kilogram of meat means warm food for two nights”.

Although Mongolia is a rich country, weak infrastructure prevents meat from rural regions to be sold in the city. Herders, used to voluntarily bring cattle to sell, but now none are willing to come to the city from the remote provinces because they have been pushed out of the market by prohibitive regulations. If dealers are able to procure a little meat, they sell it at an expensive price. The government couldn’t find any better solution than meat reserves.

Clearly a government policy on meat prices is missing. Loans from China have been discussed to be used for the development of meat production. Additionally factories, logistics and infrastructure must be developed.

“Just like the Wheat Fund, a meat fund must be established”, said the executive director of the National Meat Production Committee M. Lkhachinbal. “Companies must sign a contract with the fund and be paid beforehand. Otherwise, the way the reserved meats are prepared is thrashing producers”.

“Chicken, fish and rabbit farming must be developed. A united policy must contribute to the development of meat production”, said the president of the National Food, Agriculture Association R. Munkhbat. He added “Meat production goes through five to six cycles before reaching consumers. The price ends up being ridiculously high”.

A January study on meat prices from the Fair Competition Regulatory Authority concluded, “Market competition for the meat market is unfair and government regulation is amiss”. A professor at the Institute of Economic Studies, at the National University of Mongolia, Kh. Tsevelmaa, mentioned in her report “Precautions For Meat Resource Development” that failures in meat production has resulted in a 40 to 50 percent drop to the supply of meat for domestic and international trade.

The country has no shortage of meat. Not yet. But a long-term, effective policy is needed. It is not as if the government is trying to figure out solutions for building petroleum refineries that have limited raw material.

Cattle-rich Mongolia must not be a meat-starving nation. ■

## Jingles in a Herder's Campsite

By B. Altai

Snow still covered the hills of Gurvan Khudgiin Nuruu, as we heading towards the winter settlement of B. Ulamsaikhan's family in Undurshireet Soum, Tuv Aimag. The mountains and hills alongside the road flickered with melting snow.

Some herders have already settled in their spring quarters. As we neared our destination in the Zuungodgor region, there were signs of a mild spring. The clean air was refreshing. The jingles from the cattle seemed very intimate and close. A flock of cows, just released from the range, was grazing nearby.

The sounds of young lambs and goats playing resounded joyful. A red Chinese motorcycle and a minivan stood outside their home, along with a solar panel and satellite dish. While a herd of sheep ate grass around the east end of the winter settlement, a horse circled around the hitching post. There was a lot of snow this winter, and the family had met spring graciously.

### Sleep Late, Rise Early

The housemaster, Ulamsaikhan, is 30 years old. It has been over twenty years since he first began herding cattle. At the looks of the cleanliness of the herd enclosure and their home, all the family members seemed to be very hard-working people. As I sat drinking tea, we talked about the character of the region. The family has three daughters. The eldest daughter, U. Namuutsetseg, will graduate high school this year and the youngest will attend pre-school. The second oldest daughter, U. Bertsetseg, is in the seventh grade and studies in the city with her older sister. Their four-year-old daughter Khongorzul grew up

herding and has a strong character. The family calls her Khongoroo the lamb keeper. Since it is a school holiday, all the members of the family have gathered at home.

The weather has been cold and windy the last few days, but now it is calm. Taking advantage of the nice weather, Ulamsaikhan went out to comb the fur of some goats and to separate the young lambs from the young goats. Their sheep have started to bear their off-springs. The house master proudly told about how his goats had delivered twins. Ulamsaikhan's brother B. Tsengelsaikhan and his family have moved into the same winter settlement.

Tsengelsaikhan and his wife Davaadolgor easily comb ten goats a day. Last year, they sold one kilogram of cashmere for MNT 67,000 and made over MNT 2 million. One goat delivers approximately 300 grams of cashmere. Male goats can deliver up to one kilogram. When asked about a herder's philosophy, Tsengelsaikhan replied, "Sleep early and wake up early".

A herder's duties are endless: First they clean the herd's enclosure, comb the goats, and then feed the young cattle. After spring comes summer, with even more work to do.

"Though the summer is less hard, we constantly have to look over the herd because animal theft has become a major problem in the countryside", said Tsengelsaikhan, "Nowadays mobile phones are a necessity, but for thieves these phones have become the main target for robbery".

### Warmth in Zuungozgor winter settlement

These hard working herders have been taught by their parents. Their



father J. Baljinnyam and mother Sh. Chuluuntsetseg became herders when cattle was privatized in the early 1990s. Baljinnyam, who has herded cattle for twenty years, stays in the city during the winter and passes the summer at his children's summer home. Chuluuntsetseg came from the city at the same time we did. This time her husband Baljinnyam didn't accompany her.

"We come back soon after the children are in their spring home. We will take milk and make dairy products then. It is nice out here in the ►►



Photo by E.Zorigt

► countryside”.

“In the spring cattle are usually exhausted”, said Tsengelsaikhan, interrupting our conversation as he entered the ger. He added, “We will trim the horses’ manes if the cold winds leave. Herders from the west used to settle in this area but their migration has lessened.

The Gurvan Khudgiin Nuur is a region where many horse herders settle for encampment. When the weather is cold, other herders nearby gather in this area too. During the summer herders settle near the main

road so they have easy access to the town. They sell sour milk, curds and airag.

We discussed how household enterprises are useful to a nation’s development as well as the monthly allowance from the Human Development Fund. Ulamsaikhan’s family collects the allowance right away each month. The family use it to save for the education of their three children.

“Apparently, there are many who rely on the 21,000 monthly allowance for their livelihoods”, said

Chuluuntsetseg.

Herders have access to television, refrigerators and washing machines through solar panels. They even use mobile phones to look for their lost cattle.

Meat dealers often complain herders sell meat at too-high prices, but herders tell it differently.

“Currently a whole sheep costs around MNT 85,000 to MNT 90,000. But during Tsagaan Sar it costs double or triple that amount in the city, I heard. It doesn’t really match real prices. If more expensive prices really ►►

► contributed to the lives of herders, we would have rather decent lives out here”.

These young herders do not rely only on their cattle. They try other things as well, such as growing sea buckthorn and vegetables for summer harvests. Ulamsaikhan and his wife Baigalmaa make boots to provide all the shoes their family needs. Baigalmaa won the “Most Reliable Affiliate” golden medal for her milk and diaries products at a recent event in Tuv Aimag. Ulamsaikhan’s brother Tsengelsaikhan added that herders are forced to buy MNT 2,500 for a litre of A-80 petroleum and MNT 3,000 for a litre of diesel because Undurshireet Soum often does not have frequent access to fuel.

In this encampment, with the jingling sounds of young cattle, spring is starting rather brightly. ■



B. Ulamsaikhan and his family



## Bonds

# Mongolia Springs onto the Debt Scene

By Terrence Edwards

When the time for the Tavan Tolgoi public offering finally arrives, it may value at only a fraction of its full potential. Coal is not very useful to anyone underground. After excavation, it is worth a bit more, but it still needs refinement afterward. Then of course is the challenge of getting it to the customers. The bottleneck in the coal industry comes down to infrastructure. Mongolia currently lacks the refinement equipment, rail lines, and resources at the Mongolia-Chinese border to sell coal as quickly as it is produced. Last year Erdenes-Tavan Tolgoi produced approximately one million tonnes of coal but could only sell about half of that to vendors in China. Until Erdenes-Tavan Tolgoi can extract, process and deliver its product itself, the value will be stunted.

At the Coal Mongolia 2012 Conference, Mongolian Mining Corporation said it was all ready to begin the first phase of expansion to the rail network in Mongolia, with a line heading south to the Chinese border point and construction is expected for completion by 2017. The second phase heads east towards Dornod and is to be led by the government, but it is less certain when that project will finish.

Financing for these projects has been a major issue, but the government seems to have it figured out through the sale of sovereign debt. The Development Bank of Mongolia recently released its USD 580 billion 5.25 to 6 percent Euronote bonds. The bonds sold out within hour with orders exceeding original offering 11 times at USD 6.5 billion. As the largest scheme for the sale of debt ever attempted by the nation, and the first ever internationally, this sale will serve as a precedent for

Mongolia's ability to do business and go a long way to help further the cause for development.

## I Owe You

One of the challenges the coordinators of this project faced was the fact that many Mongolians are simply unfamiliar with bonds. Share trading has become an increasingly more important aspect to the health of the private sector in Mongolia and the Erdenes-Tavan Tolgoi offering has made every Mongolian citizen a share holder. Yet, equity is quite a different beast from debt. Share trading might most closely resemble that of the horse. Trading stocks is a fast and exhilarating game, but there is always the risk a rider might get thrown off. Bond trading is perhaps more akin to that of the camel. It's slow, steady, and reliable. However, as anyone who has ever herded camels can tell you, these creatures can be a tad unpredictable, and even ornery.

"A bond is like an IOU, I take your money today, and pay you back later", explained Howard Lambert, head of investment banking at ING Bank, one

of the banks that participated on the bond offering. "The difference between [trading] debt and equity is more about strategy than value".

When the government first ordered the development bank to issue bonds to fund the expansion of the country's railroad network last year, it had very different ideas in mind than what it got. Government wanted to sell bonds domestically. But this offering will list internationally on the securities market in Singapore.

The government tried to sell bonds domestically last summer when the Ministry of Finance released a MNT 300 billion bond offering. The bonds were to finance the cashmere sector with MNT 100 billion, another MNT 50 billion for the wool industry, and MNT 150 billion for investment into small-medium businesses. Originally announced in June, the bonds were sold every Tuesday from 9 August through to the end of October. Unfortunately the government only managed to sell about half of all bonds.

While it is tempting to compare this latest sale of bonds to last summer's apparent failure, Lambert dismissed the idea, saying the differences were stark.

"The two are completely incomparable. That was trading a local currency compared to what we're doing now with a hard currency". He added later that it is difficult to compare a local and hard currency offering side-by-side. The fact that this latest deal is been developed for international »



► distribution only compounds the differences.

### Nuts and Bolts

There are a few points to this offering that might cause confusion to those less familiar with the market. The channel the development bank has taken has a misleading name, the Euro Medium Term Note, as the bonds are actually denominated in U.S. dollars rather than euros. These are not technically sovereign bonds either because they are issued by the Development Bank of Mongolia rather than the Ministry of Finance, explained L. Bolormaa, the bank's first deputy chief executive officer. Calling the bonds "quasi-sovereign" she said that the bonds "can be viewed as a sovereign bond," and are both tax free and weighted 0 percent, just as a sovereign bond would.

They are also "government-guaranteed", she said, which binds the bonds to the reputation of the Mongolian government. Mongolia currently has a rating of "BB-" from Standard and Poor's Rating Services and a "B1" from Moody's Investors Service, making its bonds so-called "junk bonds". This is not to say that its bonds are worth any less; quite the contrary. The rating means that Mongolia cannot be trusted to repay its debt as well as a nation such as Germany, which has a "AAA" credit rating. A lack of transparency in the banking and financial sectors, fiscal problems within government, and the economy's dependence on commodities all factor into the rating. A lower rating means a country has to offer something more to attract investors: a higher interest rate.

Getting the green light for the Euronote programme took a bit of convincing. Last summer, the then-head of the bank's representative managing council, Ch. Khashchuluun, was removed from his office, leaving the media abuzz. Reports in local media said Parliament removed him because he could not do what he had been asked. At the time the bank had been pushing for an international sale, but government took the hardline that the sale should be domestic

Bolormaa speculated that the change in leadership had more to

do with Khashchuluun's background, than any upset between him and Parliament. Khashchuluun has since moved on to the National Development and Innovation Committee (NDIC), a think tank with development aims in mind. She said taking a chairman from the Ministry of Finance meant having someone with a deeper understanding of development banking that could push for their objectives, such as an offering on an international market.

"They only way [government] would give us this permission is if they understood the issue", said Bolormaa.

"We made a clear case that it has to be on the international market".

The next step for ING and other associated banks was to market the offering. Lambert said ING is the only bank to have led bond issues for Mongolian borrowers, having worked with Trade and Development Bank of Mongolia. Working with the Development bank was a "natural progression", he said. Prior to the sale Lambert and his team already had a list of companies they knew were interested in Mongolian assets they could pull from and target. ►

## A Crash Course in the Debt Market

Howard Lambert of ING Bank warned that bond trading is a very different game from stock trading, and an expert in one field might not do so well trading in the other. Both have their advantages and disadvantages, but many economists would argue that bonds are more reliable and produce greater returns in the long run. For one, they are certainly safer, as bond holders rank senior over share holders in the capital structure of an enterprise (companies often sell debt as well as equity). If an enterprise goes insolvent or declares bankruptcy, debt owners are paid out to first.

The three most important factors to a bond are the coupon, yield and price. The coupon is the interest, getting its name from a time when buying a bond meant a trader would receive a physical receipt called a coupon that he would turn in to collect on his investment. While the coupon and the payment down the road on maturity are static, the price can

change with market conditions. The yield represents the return payment of the moment for the trader and moves inversely to the market price.

Putting it simply, the yield is the coupon divided by the price. Usually, there are many other factors to consider over a bond's lifetime until maturity, making the yield a difficult figure to calculate. Although the interest rate is fixed, the price is not and the yield moves with the price. When the interest rate and the yield are the same, investors say it is at par (parity). Because the yield follows the market, when the price goes up the yield goes down, as the investor paid less for the same return as new investors who buy the same yet now pricier bond.

The bonds sold through the Singapore market are intended for large institutions, so individual traders will not get their chance to buy one for themselves just yet. However, as Mongolia becomes more financially savvy and more accustomed to bond sales, that day may soon come.

|                              | Total cost | 2012   | % in portfolio |
|------------------------------|------------|--------|----------------|
| Road Construction            | 845.74     | 375.84 | 29.0%          |
| Road Designing               | 11.06      | 6.30   | 0.5%           |
| 100,000 Housing Construction | 132.70     | 37.65  | 2.9%           |
| 6% Mortgage Loan Fund        | 200.00     | 200.00 | 15.4%          |
| Engineering Utility          | 108.60     | 57.36  | 4.4%           |
| Railway                      | 521.00     | 521.00 | 40.1%          |
| Sainshand Industrial Park    | 40.00      | 40.00  | 3.1%           |
| Public-Private Partnership   | 60.00      | 60.00  | 4.6%           |

## ► Keep Development Chugging

Success to an offering such as this depends on investors confidence in Mongolia, and that they are not too strapped from the eurozone debt crisis and other global economic troubles. Market conditions play a heavy role. Last summer, for example, following Standard and Poor's downgrade of the U.S. credit rating from "AAA" to "AA+" and when the European debt crisis had reached a head Asian bonds were hot. Asian sovereign bonds looked like a safe investment compared with falling company share prices, the roller coaster ride gold futures were taking, and the shakiness of the U.S. dollar and euro.

For Mongolia this bond offering provides some much needed exposure on the global market. Bolormaa hopes that the successful offering will result in repeat investors and attract new ones. Although the offering is not a true sovereign bond, Bolormaa pointed out that many countries such as South Korea or India have released their first bonds in the same way.

"Our equivalents will be the Philippines, Vietnam, etcetera", said Bolormaa. "We must always differentiate between the first issuance and the preconditions. It's like when you have good credit, it doesn't matter what your income is because you have paid again and again."

One of the reasons the development bank chose this particular programme was because of the flexibility it allowed for further bond sales. If the scope of the railway project expands or the government finds it necessary to gather more funds, it can do so through the Euronote's offering memorandum, a handbook that explains the ins and outs of the debt programme. The bank can upscale the offering from USD 600 million to USD 800 million, or even USD 1 billion. The bank can also release bonds with shorter or longer periods before maturity.

The project will go a long way to help a number of mining firms by providing the infrastructure they need to transport their coal and minerals. The beauty, however, is that this bond offering also allows foreign investment to directly fund development of the country rather than indirectly as happens when buying shares of mining firms. Bolormaa was upbeat about the prospects for this current debt offering and was confident her organisation could sell more if larger projects came along further down the road.

"This year is starting off quite positive", she said, "especially for emerging markets bonds." ■

## Young Global Leaders

# Marketing for Humanity

By Kh. Khulan

**K**ate Roberts' story shows how some significant changes can lead one to great results.

Kate Roberts was named as a member of the Young Global Leaders by the World Economic Forum in Davos in 2007. She founded both YouthAIDS, a global education and prevention initiative that aims to stop the spread of HIV and AIDS, and Five & Alive, two campaigns sponsored by Population Services International (PSI), where Roberts acts as vice president of corporate marketing and communications. The campaign is an initiative aimed at raising funds and awareness under the umbrella of PSI's child survival programmes in over 30 countries.

Roberts graduated from the Southport University of Art and Technology. She began the campaign during her work in Romania. During that time Roberts went on holiday to South Africa for three weeks and saw a devastating picture of poverty and AIDS infection among young people. A new idea was born under the African Sun. She thought to apply her marketing strategies she used in Romania for other countries around the world and launched the YouthAIDS programme in 2001.

Roberts' marketing strategy is to cooperate with celebrities from the arts, sports, and fashion world. The concert Staying Alive was partnered with MTV and broadcasted in 170 countries. Her concept kicked-off at MTV Staying Alive in 2002 and continues today. International stars Alicia Keys, Usher, and P. Diddy promoted messages about risks to HIV and prevention for the global youth.

Mongolian Economy met with Roberts during her visit with the Young Global Leaders in Mongolia in 2011, and talked about AIDS.



Kate Roberts in Terej. Photo by E. Zorigt

She said that the issue had been very trendy for a long time but has left the attention of the media and people think it has gone away. But it is not. It is creeping back worldwide, especially in developing countries.

Roberts also warned that development of the mining industry in Mongolia can lead to the spread of HIV. According to a statement by the National Center for Infectious Diseases, there are 106 people with AIDS in Mongolia. Roberts thinks having such a small population means the threat of infection could be especially disastrous for the country. People with HIV need to use condoms correctly if they are going to be sexually active, but abstinence is the best for them, Roberts said, because it is the only way to keep them and others healthy for sure.

"I lived in Russia for four years. When I first arrived, I saw a lot of Russia, but then when I came to the countryside I realized that it was not Russia. The country is stunning; your culture is rich. I think you have an opportunity with tourism. You need to promote it in the West for people to come here".

"We need to get investment here and keep the population healthy. You have to educate your population on the risks of HIV and prevention. You can have a healthy and strong nation that is able to work and contribute to the growth that the country really needs".

Roberts is one of Vogue's 100 Women, and works on the Global Health Advisory Board. ■



Businessman

## The Next Generation of Executives

**Newcom Group apparently has a tradition of identifying and appointing strong young leaders who received high quality education from abroad. As the chief executive officer of the group, you are a continuation of this tradition. What are your thoughts on this?**

Mongolia is developing rapidly.

Behind this rapid growth there is the business and the business leader. Our purpose today is to discuss competitiveness, which is closely associated with the business sector. Being competitive means creating business standards that are competitive internationally. Thus, only those who know international

*This issue of "Mongolian Economy" features the chief executive officer of Newcom Group, B. Byambasaikhan, as the guest in our Businessmen section.*

*Byambasaikhan is one of Mongolia's young businessmen in the public spotlight, trained and educated both in Mongolia and overseas, who has seen the world and has a lot in stock to share on development and prosperity. After graduating from George Washington University, Byambasaikhan has lived and worked in the United States and Asia for more than a decade and returned to Mongolia in 2010.*

*He is a project financier with broad experience in financing and managing private and public sector projects in infrastructure investments. From 2004 to 2010 he worked at the Asian Development Bank as an investment specialist in energy, where he took part in financing projects in development for countries such as Kazakhstan, Pakistan, Uzbekistan and Tajikistan. During that time, he initiated a program that introduced information about clean energy. B. Byambasaikhan is the Energy Advisor to the President of Mongolia, a board member of the Mongolian Development Bank, a board member of the Business Council of Mongolia, and fulfills several elected duties.*

business standards and who have experience with those standards can succeed in today's business sector. You all know how the market was 20 years ago; everything was starting as a brand new thing. But today, not only has local market competitiveness increased, we are also facing the need to increase our operations ►►

regionally as well as globally. If one cannot expand operations and increase competitiveness, it means their business will lose its growth. This is why well-educated, energetic and experienced young people are moving into the business sector. In other words, it is our duty to contribute our knowledge, education and experience to the development of our country.

**It is really praiseworthy that Newcom Group is developing an environmentally friendly business while many other companies are getting into the mining sector. Clean and high technologies have become the identity of Newcom Group.**

The fundamental basis of the Mongolian economy is the people of this country. This means that the Mongolian people are facing new challenges. Our company gives high priority to the development of our people. Mobicom, one of our subsidiaries, is a good example of a company which has stood on its feet because of the knowledge and ability of its Mongolian engineers. Mobicom aims to bring the most valuable and necessary services to its customers. Thus, Mongolians are now using the same high technology being used in developed countries through their mobile phones. No matter where they are in Mongolia, people are provided with the ability to connect to and greet one another, whenever or wherever they are. Today, Mongolia is the highest-ranking regional competitor in the communications sector. In addition, our airline transportation company, Eznis Airways, is focusing on starting international flights as soon as possible and has begun cooperating with the Japanese airline, ANA. If the agreements between the two countries are signed, we will import bigger planes and begin international flights to Japan, Korea, several cities of China and Kazakhstan.

Construction work in the clean energy sector is our biggest recent accomplishment. We bridge distances and connect people. We are proud of the work that is being accomplished through high and clean technology. In other words, we are proud of our environmentally friendly business.

**The Salkhit wind farm is a recent good example of a clean energy project and its financing has just**

**been established. Generally, how much financing is necessary for a project as big as this?**

The 50 megawatt Salkhit wind farm is a brand new concept in our energy sector. Adapting this new technology to the situation in Mongolia is in and of itself an important feat. The project will cost MNT 165 trillion, which is a comparatively high cost for an energy resource project. We will be supplying the energy generated to the central regional electricity grid. All the energy companies in Mongolia are currently state owned; our project will pioneer the entry of the private corporation into this sector. This is one of the reasons this project is so special.

**Solving the financing issue is not an easy task under any circumstances, and wind energy, being the first of its kind in Mongolia must not have made it any easier. I guess you had to overcome a lot of obstacles and difficulties?**

Finding financing is indeed not an easy task. But in this case, there were several mitigating factors. First, the Renewable Energy Law of 2007 supports investors in renewable energy by regulating the prices. Second, our government aims to supply 20 percent of our energy with renewable energy. This high-level support has given us the basis to cooperate with the government, the European Bank for Reconstruction and Development, General Electric, the Millennium Challenge Account, and FMO—the Netherland state bank that supports private organizations. This cooperation enabled us to finance the Salkhit wind farm project successfully in every way.

**There are a lot of expectations that this wind farm project will define the trend of renewable energy development in Mongolia. How is the government supporting this effort?**

Mongolia's development and its new trend—green growth—was discussed as a solution, at the Mongolian Economic Forum this year. The discussion focused on the fact that our country is an energy heaven, which is why renewable energy can become a leader in this sector, not only in Mongolia, but also in the Asian region. We agreed that we will support the renewable energy sector, to make it happen. Our new goal for

the next 10 years is to become the leader of Asia's energy sector. It is easy to define a goal, but not as easy to make it happen. The first step was important; we started the Salkhit wind farm development project and this has demonstrated to investors the enormous investment potential of Mongolia's energy sector. This was a mutually cooperative effort between the public and private sectors; the government has supported us legally and on other regulatory issues.

**Transportation is a big issue in our country. It is especially difficult to transport huge parts like wind turbines and wings. How are you handling the situation?**

Development projects require good planning. It is important to have the transportation, construction and other infrastructural needs well-organized and calculated in advance. Transportation and logistics is indeed the biggest risk we encounter when doing business in Mongolia. The main reason for the problem is the roads. Mongolia is still constructing its roads. It is true that we are facing difficulties in transporting turbines weighing 70 tonnes and wings weighing 40 tonnes. These huge parts are being imported in May.

We have built a high voltage line that is 28 kilometres high with our own resources. Also we have solved the problem of how and where to transfer the electricity, and how to sell it, which were the most difficult issues. Our operations are located on mountains; this is why we solved the road issues first. As soon as the soil defrosts we will start the construction phase. Our preparations have been going on since 2007. We have found the financing. Now only the construction phase is left.

**How much will wind energy cost?**

The pricing is regulated by law. Electricity generated by the wind farms will be supplied to the network at the regulated price of eight to 9.5 cents. This pricing is a major form of support extended by the government to the private investors. For instance, in Europe wind energy is sold at an average fixed rate of 15 cents.

**Newcom Group is also planning to carry out a major wind energy project in the Gobi desert, correct?**

Yes. The Gobi region is the ▶

► greatest source of wind in Mongolia. In addition, the region has a low population density, which provides ideal conditions for building a large scale wind farm. This wind energy will supply mining sites and other industries located in the vicinity. Our specialists are in the process of conducting extensive research, including a feasibility study. We should develop a renewable energy market not only for Mongolia but also for the region.

**The accident at Japan's Fukushima Daiichi nuclear power plant rang an alarm bell around the world. Japan has officially announced that it is reconsidering its energy policy, and expressed an interest in working with Mongolia to develop clean energy. How does Newcom Group plan to work with the Japanese in the renewable energy sector?**

The Fukushima accident on 11 March 2011 made an enormous impact around the world. As a result, Japan has pledged to make clean energy a key component to its development. This is a tremendous opportunity for our country. Japan is one of the most populated countries in the world, with limited land resources; thus, building solar and-or wind energy farms presents many challenges for them. The closest clean energy source for Japan is our Gobi region, so it is of the utmost importance that we skillfully leverage this opportunity. Building on the friendly relations and rich history between our two countries we can create new markets and opportunities.

Recently I participated in an international conference organized by the Japanese Renewable Energy Foundation. At the conference, which focused on the country's future policy on renewable energy, the Japanese put forward a long term goal to develop clean energy. Their confidence in the safety of atomic energy, especially in times of natural disasters, has been shattered. Thus, Japan has committed to decreasing their reliance on atomic plants and implement a policy to actively develop renewable energy. Germany too has recently announced a decision to eventually eliminate nuclear energy from their country.

Newcom has held talks with the Japanese to cooperate on supplying the Asian market with solar and wind



energy. Newcom Group and Softbank Corporation, the third largest company in Japan, have jointly established Clean Energy Asia LLC. Clean Energy Asia will study and explore Mongolia's renewable energy potential as well as the possibility of supplying the Asian market with clean energy.

**Is the availability of skilled workers a challenge in the renewable energy sector?**

Successfully introducing a new technology in a country is inconceivable without skilled human capital. Our company works closely with the biggest local universities, namely the Mongolian National State University

and the Mongolian University of Science and Technology. One of the main objectives of this cooperation is to communicate to Mongolia's youth the message that there is high demand for successful graduates in renewable energy. The first graduates in this field have already started their careers with our company. Another advantage of renewable energy is that it's an inexhaustible resource; thus, new jobs are being constantly created. In addition, as the sector develops, it will bring high-tech production to our country. Adopting new technological know-how is the foundation for building a renewable energy production plant. ►►

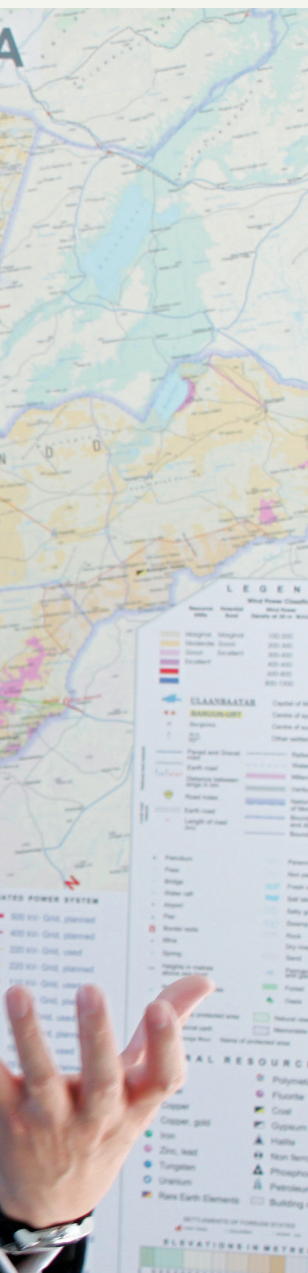


Photo By E. Zorigt

- ▶ This will naturally lead to creation of a lot of new jobs in Mongolia.

**Newcom Group has entered a tender for Central Heating Plant No. 5. How is the venture progressing?**

Central Heating Plant No. 5 is a critically important project for Ulaanbaatar's heating and power supply network. It is becoming increasingly challenging to meet today's ever-increasing energy needs with the current level of energy production, which is at capacity. Central Heating Plant No. 5 is an effective large scale project which underscores the need to utilize technology that is 40 to 60 percent cleaner compared to

those of existing coal burning power plants. An international tender has been announced and our company is competing in the tender jointly with International Power GDF Suez of Europe, Sojitz of Japan and POSCO Energy of Korea. These are all internationally recognized firms with expertise in power plant investment and management.

**Is the current business environment in Mongolia favorable for adopting clean technology?**

Let us make our dreams our goals. Our most immediate and biggest dream is to live happily and comfortably in our home country. It is important that we know how this dream will be achieved. In my opinion, it is primarily contingent on competitiveness. In order to be globally competitive it is critical to introduce high-tech technology in Mongolia and we Mongolians need to be knowledgeable and skilled in employing these new technologies. This, in turn, creates the need to learn from foreign specialists and experts. There is no need to reinvent the wheel; rather, when new technologies and practices are adopted, they should be customized for the local environment. If this is accomplished, problems such as scarce skilled human capital and challenges in the business environment will solve themselves. In the coming 20 years, large-scale construction projects will be implemented in Mongolia. The success of these projects largely depends on competent engineers. Thus, engineering is poised to become the most highly sought after and reimbursed profession in the country.

**The government has started talking about developing a green economy. As a board member of the non-government organization Green Economic Growth, please provide our readers with a bit of information about this venture.**

A Green economy essentially means being competitive. The reason I keep underscoring competitiveness is because it's the single most important factor in successfully engaging with international markets. The competitiveness of any country boils down to its individuals. Thus, Mongolia needs to invest in and develop its citizens. Today the world is shifting from a brown economy to a green economy, i.e. replacing its reliance on

coal with clean and renewable energy. Our country has set a goal to be the renewable energy leader in the Asian region. This is a very ambitious goal, and to realize it we must initially take small steps. There are many stepping stones such as developing human capital, introducing new technologies, and building production plants, to name a few. In addition, another obstacle that exists in our society is an 'understanding gap.' For instance, the State expresses a matter in a certain way but businesses respond with something else. This problem exists in all sectors including academia, civil society movements, and etcetera. In my opinion, it stems from being unable to correctly determine a correct and clear goal. An understanding gap results in a major waste of time and money, including the loss of potential profit for Mongolia. Thus, there needs to be a unified goal and to achieve it we must utilize clean technology. On a final note, we should all approach our work, and our lives, with personal responsibility and integrity.

**Please tell us about the corporate social responsibility beliefs at Newcom Group.**

A wide range of issues can be addressed by corporations that are socially responsible. In the case of Newcom Group, producing clean energy and extending that value to our customers is one form of corporate social responsibility. Moreover, adhering to the highest levels of integrity and ethics and environmentally friendly operations is another way of being socially responsible. We believe that it is our social responsibility to employ healthy and clean principles of operation and to introduce environmentally friendly technologies in the process of value creation.

**Newcom Group has over 2,000 employees. As a young businessman leading this large family, what is your main principle?**

My principle is to have a well-defined goal and follow through on my responsibility to meet that goal. I believe each individual should have a dream and the aspiration to make it a reality. Let's say I'm building a house. If I neglect my responsibility, mislaying a brick, that house will come down some day. Therefore, my main principle is to work responsibly toward a goal. ■

## Environment

# How Oyu Tolgoi Solved Its Water Issue

By B. Bayartogtokh

Mining could not develop without water, and the economy would not move forward without mining. In whose interest is politicising this cause that burdens Mongolia's economic development as elections approach. Surely it is not the wish of Mongolians that hurry towards development.

Water is invaluable; it is the most precious treasure. Water is important to a country's development and its economy. Sustainable and guaranteed development depends on water. Thus, it is a global effort to solve the water issue and launch new techniques and technology prior to removing the natural resources from the dry Gobi. The methods for recycling waste water are becoming highly advanced. Yet, the Law on Grey water still hasn't been approved. Singapore considers its own similar law its most useful.

We live in the 21st century, at time when we can discuss the water issue in a reasonable way and on a national level. Drinking water reserves cannot grow by politicising the issue. Water is essential to the mining sector, which fuels development and contributes greatly to the economy. Yet, water is necessary for the eternal existence of the country.

How did Oyu Tolgoi solve its water issue? Tavan Tolgoi faces the same dilemma. The Oyu Tolgoi concentrator will be able to process up to 100,000 tonnes of ore a day, requiring 696 litres of water per second. Its developers are aiming to make Oyu Tolgoi one of the most water-efficient mines in the world, reusing 80 to 90 percent of its waste water. Since 2002 survey work on water reserves has been conducted, uncovering two groundwater reserves located 150 to 400 metres below the surface. The hydro-geological survey estimates the water reserves at Gunii Khooloi to be 6.8 billion cubic meters. The company proudly states that less than 20 percent of that reserve will be used for its mining activity over the next 40 years, and the rest will remain for the next generation. It should



be noted that Gunii Khooloi holds salt water and can be only used for industrial purposes, not for human consumption. This is not an issue that concerns only the next four years after the elections, the next 40, 40,000 or four million years. The developers of the huge Oyu Tolgoi project have promised to be responsible toward the environment by reusing waste water. It is our duty to demand this responsibility from them, and the state must control it.

Take a look at what the experts think of this great construction project in the Gobi.

### J. Dalai, Director of the Water Center:

Tavan Tolgoi plans to use water from places such as Naimant Valley, Balgasiin Ulaan Lake, Zairmagtai, Guramsan Khooloi, Borzon Khooloi, Tavan Aldiin Gobi, Mandal-Ovoo, Mandakh Bumbat, and Oortsog Khadan Us. A total of 84 percent of the water used by Oyu Tolgoi will be recycled, and only 16 percent will be »



- taken from the Gunii Khooloi. The water used at Gunii Khooloi will amount to 75,168 cubic metres a day, or 870 litres a second. However Oyu Tolgoi will use 696 litres per second, or around 60,000 cubic meters water daily as well. An experienced Australian company has carried out a detailed water survey as per the request of our water agency. It is not necessary to follow only one direction and upset the locals. There are enough water reserves.

**L. Janchivdorj, Ph. D., Chief of Water Reserves and Water Use at the Academy of Science's Geo-Ecological Institute:**

Several deposits similar to Oyu Tolgoi could be uncovered in the Gobi. I would say there are not enough water reserves to provide for new deposits. The government has issued 497 special licenses for Umnugobi Aimag, 502 for Dornogobi Aimag, and 3,004 for Gobisumber Aimag. Many challenges are being confronted to develop the strategic mines. Many other

countries address this issue by creating many hundreds of thousands of water complexes, using it to produce electricity. In order to run the mines in Mongolia's desert, and set up industrial complexes, the possibilities for the water reserves possibilities and their structures should be worked out first.

**Z. Batbayar, Deputy Director of the Water Authority:**

Today we talk about Mongolia's dependence of the mining industry, and the mining development to the Gobi. Mining will be developed based on water, only where water is available can mines be developed. Therefore, the water issues of every mining project should be considered separately. Oyu Tolgoi's water provisions are sufficient, according to current documents. But if we consider all the deposits at Tavan Tolgoi and Gashuun Sukhait together, then exploration cannot be conducted in their full capacities.

The water authority will first consider the water needs of the population, and after that we can think about the water provisions of mining operations. In other words, before we can use water for mining, the citizens' water needs must first be managed. If the water consumption of a mining project negatively affects a population's water supply, then its operations will be prohibited. Secondly, the water planned for consumption should be planned for [ahead of time]. What is more important today, water or mining? The answer is always water. Thus, it is time to make these plans, which have been discussed for many years, into a reality.

It is completely possible to solve the water issue for mining operations by collecting the flood waters from big rivers. As for Oyu Tolgoi, water reserves at Gunii Khooloi have found. That can supply the needs of only Oyu Tolgoi, meaning that water can be used for industrial purposes. Tavan Tolgoi hasn't reached a solution for its water usage. They will use drinking water. Water reserves set aside for the use at Tavan Tolgoi will be determined this year by the state budget. The numbers compiled by two surveys are different, thus the final numbers will be processed this year. ■

## More than Legal Advice

By Kh. Khulan

*Mongolian Economy met with Stephen Tricks during his third business trip to Mongolia. Stephen Tricks is an English lawyer educated at Oxford University and cooperates with the Mongolian law firm Khan Lex Advocates. Stephen has been a partner at the international law firm Clyde & Co since 1986. His practice is focused on international trade, shipping and insurance. He also handles major disputes on international trade and joint ventures.*



### Describe your law firm and your work briefly?

Clyde & Co was founded in 1933 in London. It started as a small firm of two people. Our first international office was opened in Hong Kong in 1981. Now we have about 1,300 lawyers.

It is now my third visit to Mongolia in the last 12 months. Each time I come, I am very happy to meet more people, to see the country, and to see how fast and how well Mongolia is developing. But I think it is also very important that we understand that Mongolia has a long history and a well established culture.

My specialty in legal work has been in international trade, shipping and insurance. In particular, my work includes anything that has to do with oil, gas, mining, and the sale of goods, as well as all aspects of transport and many aspects of insurance. We are concentrating on helping clients doing business, not just in the UK but all

around the world. It is a pleasure to be here in Mongolia. It is a new venture for Clyde & Co to be here.

But in terms of being able to develop our work and to help our clients, we are very keen to understand first what the clients need, and how their businesses operate. We believe that as lawyers it is very important not just to know the law but to understand the client's business. One major aspect of our work is getting close to clients, understanding their business, and giving advice that is not just legal advice but also commercially effective to clients.

### What kind of changes in Mongolia do you see happening?

I think in terms of negative changes, one has to say that traffic seems to be worse each time I come. I have learnt to walk from one side of UB to the other because it is quicker than taking a car. But on the positive side, we see that the government, its agencies, and private companies in Mongolia are very keen to develop business,

the infrastructure of the country, and to ensure that the wealth which is generated through the new mining projects is properly distributed to the people, and that the country as a whole can benefit. I also had the pleasure when I was here in May 2011 of seeing some of the countryside. We drove out into the grass plains, saw the cattle, and stayed in a ger overnight, which was very interesting for me.

### How do you manage your day? When does your workday start?

In my day, I probably don't start until after nine o'clock because I live outside of London. And I travel into London by train each day. But I will work until half past eight to nine o'clock sometimes in the evening. It is interesting that it can be different every time I come into the office. I never quite know what is going to happen each day. Some days I am in court, some days I am in meetings, or working at my desk. But it is different and interesting each day. »

► I cannot say being a lawyer is always exciting. Some days there are boring tasks to be done, but the other times are good. We get to meet clients, and I also get to travel a lot. I am here in Mongolia, and also I travel throughout Central Asia and Africa doing work with development agencies, such as the European Bank for Reconstruction and Development (EBRD) and other clients.

**What are the main tasks the legal industry faces?**

Primarily our task is to service our clients and to ensure that their business runs smoothly. And if the client has a problem with his business, maybe a contract is going wrong or a shipment of goods has been delayed. Maybe there is a new mine that needs to be developed, but there is an issue whether the government will give the license or not. These are the sort of issues we need to understand. These are the clients' problems, but we have to help the client manage them.

And I think if we can show, as we hope we do, that we understand the business and country of a client, we are able to give much more effective advice, and we can be much more useful to our clients than simply being able to explain the law. There is also, of course with any business, the need to manage one's own affairs. We are a large business and managing the expectations and aspirations of the employees is important.

**What would you advise to young law graduates?**

I think for young graduates it is important to see the benefits of a legal career, but also the tasks or hurdles which have to be completed to overcome before developing one's legal practice. First of all is the basic knowledge of law, and then understanding how the law works.

One needs to know the legal structure of one's own country and the basic laws. But also one needs to be willing to work with clients. There are a number of different areas of law in which one can practice. It is important that one is comfortable in that environment. Some people prefer to work with families, others in government legal services, and some prefer working in the commercial sector. But ultimately, the satisfaction of working as a lawyer

comes from being able to see if the client benefits from one's advice.

If one has a dispute, then he has to go to court, and it is always a pleasure to win that case for the client. But sometimes it is in a client's best interest not to have to fight a legal argument all the way through to a trial. One has to keep the client's interest at the front at all times.

**You have successfully handled one of the largest recent commercial disputes in the High Court in London. Would you tell us about that case?**

The action to which you are referring to was a very big claim against my client. But it also involved many other related disputes, with actions of different jurisdictions. We had legal proceedings in London, in the British Virgin Islands (in the Caribbean), Switzerland, and in Moscow. All these proceedings arose because of one dispute which involved the production of aluminium in one of the Central Asian states. The issue was over the contractual rights to supply raw material to an aluminium smelter and the control of the aluminium which was produced by the smelter. The case lasted for approximately three and half years, and I am pleased to say in the end we were able to achieve satisfactory results for our client.

**How much preparation is needed on documents for a trial?**

Preparation means understanding all the issues in the case, collecting all the relevant documentation so that one can see how the problem arose, and learning what the issues are and how properly they have been identified. Then one can set down the issues in a written form which we call the pleadings. Next one is able to obtain from the client and indeed from the opposition all the documents which are relevant to the issue.

One needs to be able to get the witness statements from the client to see the witness statements of the opposition, and ultimately sometimes we need experts to give advice on specific technical issues. So there is a lot of information to be understood, before one goes to court. I think 90 percent of the work is done before going court. If one hasn't done the preparation properly, it is almost impossible to win the

case.

**How can you know if a witness's statement is wrong?**

I can sometimes see a witness statement is wrong because the statement doesn't match the documents. Perhaps the witness has omitted a relevant point in the statement. One needs to be able to identify where the gap in the statement is and then have the witness cross-examined in court. The judge can then make a decision whether the witness is stating the whole truth or not.

**How important is it to take a pragmatic view in your work?**

It is important to take a pragmatic view. The client's interest in commercial terms is to ensure that the business is able to continue to make a profit. If one is able to reach a solution which works for the client and indeed works sometimes for the opposition, the case can come to a settlement that is much better for both parties than spending a lot of time with lawyers and being in court.

**What principles do you apply to your work in Mongolia?**

In terms of business environment and activities here, we have clients active in mining, insurance, and the financial services sector. One is applying the same principles that one would be if working in the UK. It is important to put the client's needs first to try and understand the business in Mongolia, but also to understand the nature of the Mongolian economy and society. This is to understand what solutions are practicable, and what solutions are accepted both by the client and by the counterparty of any transaction.

**Is there anything else you would like to inform to our readers?**

Clyde & Co is looking forward to developing a relationship with Khan Lex Advocates in Mongolia. We have entered into an association between Clyde & Co and Khan Lex Advocates which we hope will give clients in Mongolia and outside of Mongolia the advantage of being able to receive advice from good Mongolian and English lawyers. Together we believe that we can provide a very effective level of advice for Mongolian government agencies and Mongolian private commercial clients. The future is looking very bright for Mongolia. ■



## NewsWire Highlights:

*NewsWire is a weekly news feed sponsored by the Business Council of Mongolia. Each week, NewsWire delivers breaking and significant news from local and international news sources for Mongolian and foreign audiences alike. The following are news highlights from March:*

### BUSINESS

#### MITSUI SIGNS COOPERATION AGREEMENT WITH E-TT

Japan's Mitsui & Co. Ltd. has made steps toward cooperation with Erdenes-Tavan Tolgoi LLC (E-TT) that could eventually lead to a purchasing agreement.

Prime Minister S. Batbold met with M. Ijima, president of Mitsui this week. Batbold said that Mongolia is working on ensuring the participation of Japanese firms in the Tavan Tolgoi project.

"Japanese companies expressed their will to cooperate in big projects such as to build a railway," said S. Batbold.

After Batbold's meeting was a signing ceremony for a memorandum of cooperation between Mitsui and E-TT. Mitsui suggested it could build a power station and steel factory in Mongolia. The memorandum also opens the possibility that it might purchase its coal from Tavan Tolgoi. Currently the firm purchases its coal from Chinese companies.

*Source: News.mn*

#### CLEAN ENERGY ASIA TO EXPORT ENERGY TO JAPAN

The negative sentiment towards nuclear energy in Japan stemming from the Fukushima nuclear plant has it interested in importing energy produced from renewable sources in Mongolia. Newcom LLC is leading the movement toward renewable energy with its Salkhit wind farm.

To deliver the energy to Japan, Mongolia would need to install a high voltage network that could be placed under the ocean. Byambasuren mentioned an underwater glass-cable transmitter network that already exists and allows Mongolia to connect with the United States' Internet network.

Newcom would sell its energy through its subsidiary Clean Energy Asia with its partner, Japan's Softbank Corp. Funding will come 70 percent from the Bank of Holland and the European bank of Reconstruction and Development (EBRD). The executive said that the question of financing the wind farm, due to begin operations this fall, has been fully resolved.

*Source: Udiin Sonin*

### ECONOMICS

#### MONGOLIA CLEARS WORLD BANK'S HOOP FOR IBRD LOAN

The World Bank has opted to declare Mongolia creditworthy for its International Bank for Reconstruction and Development (IBRD) lending.

"As Mongolia's development needs remain great, the government is seeking to access new sources of financing to accelerate critical investments," said Mongolia's Finance Minister D. Khayankhyarvaa.

The World Bank Group makes IBRD financing available to middle-income and creditworthy poorer countries to promote sustainable, equitable and job-creating growth, reduce poverty and address issues of regional and global importance. Mongolia will continue to qualify for concessional financing from the International Development Association (IDA), the World Bank fund for the poorest, during a transition period.

"Without our financial and analytical support, Mongolia has been able to achieve some excellent results—bringing water to the ger areas of Ulaanbaatar, helping set up mobile phone services across the country, and establishing more transparent and effective public management systems," said Klaus Rohland, World Bank country director for China and Mongolia. "We are confident that they will continue to make good use of IBRD resources."

*Source: World Bank*

#### BIG OPENING FOR MONGOLIA'S ENTRANCE INTO INTERNATIONAL DEBT MARKETS

It was only a matter of time before Mongolia sought to leverage its position as the latest global financial hotspot in order to raise funds on the international bond markets and underpin its go-to investment status. And that was just what happened in recent days as both Mongolian Mining Corp. (MMC) and the Development Bank of Mongolia (DBM) tapped fixed-income investors with benchmark-sized issues.

In total, the landmark MMC offering attracted over USD 4.5 billion of orders from over 330 accounts.

The euphoric reception of MMC's pioneering corporate issue mirrored the frenzied buying that surrounded the USD 589 million, 5.75 percent, March 2017 bond issued by the Development Bank of Mongolia on 14 March. DBM's offering attracted a total of USD 6.6 billion of orders. The State-guaranteed DBM, established in 2010, is a government-controlled development bank that sees itself as a poster child for the Mongolian economy, which grew by 17.3 percent in real terms in 2011. That rampant growth was fueled by its position of a prime supplier of basic commodities to China, which enabled it to attract a record USD 3.8 billion in foreign direct investment (FDI) in 2011.

According to Dosbergen Musaeu, chief economist at investment bank Eurasia Capital, the DBM will have to pull from the international debt markets again and become a frequent issuer to finance infrastructure projects.

*Source: Business News Europe*

### POLITICS

#### MONGOLIA TO ENTER FTA NEGOTIATIONS WITH JAPAN

Leaders of Japan and Mongolia said Monday they will begin negotiating for the fast-growing north Asian nation's first bilateral free trade agreement (FTA).

Prime Minister S. Batbold and his Japanese counterpart Yoshihiko Noda agreed that the two countries will boost cooperation in the development of natural resources and infrastructure, according to a joint announcement released after their meeting in Tokyo.

Batbold, who is on a six day visit to Japan from Saturday, told Noda that Mongolia will ensure Japanese companies' participation in developing the Tavan Tolgoi coal mine in the south Gobi Desert.

The Japanese government believes that Mongolia is increasingly vital also in terms of diplomatic and security policies. Japan and Mongolia mark this year the 40th anniversary of the establishment of diplomatic ties.

The two countries had aimed to enter FTA talks a year ago, but efforts stalled as the government led by Noda's predecessor, Nato Kan, was thrown into turmoil after the catastrophic earthquake and tsunami that hit the country's northeastern region and triggered the world's worst nuclear crisis in a quarter century. Japan, one of the major donors for Mongolia, also said it will provide a total of about JPY 2.74 billion in aid to help the emerging country's development.

*Source: Mainichi Daily Times* ■

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