

DIG DEEPER

# MONGOLIAN ECONOMY

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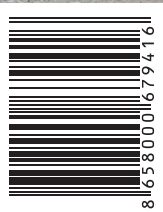
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**D. Jargalsaikhan**  
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**L. Byambaa**  
**Mongolia's economic outlook for 2015**

The global economy sputtered to 2014's end with slightly less

economic growth than predicted at the year's outset. Though the US economy has revived and continues its trending rise, developing countries, Russia, China, and Europe. - **en/p/7240**

## OYU TOLGOI



has signed a "Cooperation Agreement" with South Gobi province and its soums Khanbogd, Manlai, Bayan-Ovoo and Dalanzadgad on April 22. The agreement will work in the frame of the Minerals law and the Oyu Tolgoi investment agreement. Alongside this, a "development fund" will be established in South Gobi province and Oyu Tolgoi has made a USD five million per year commitment to the fund. Discussed over a period of two years, the agreement has a 30-year term and has the possibility for extension. It is estimated that USD 150 million worth of investments will be made in South Gobi province during the life of the agreement. Oyu Tolgoi has spent USD 457 million on domestic procurement, which accounts for 77 percent of their total expenses.

## Land allocation

Starting last year, lands have been allocated via the internet, and the Ulaanbaatar Property Relations Agency has announced that the third phase of e-land allocation will start beginning May 1. Citizens can register for the following 11 locations during the third phase.

1. Shijir valley, Songinokhairkhan district
2. Shijir mountain, Songinokhairkhan district
3. Uliastai pass, Bayanzurkh district
4. Bogd pass, Bayanzurkh district
5. Ulaan ovoot, Khan-Uul district
6. Ulaan ovoot, Khan-Uul district
7. Nisekh town, Nalaikh district
8. Bulagtai, Baganuur district
9. 2nd corner of Khangai valley, Bagakhangai district
10. 2nd corner of Tarian bulag, Baganuur district
11. 1st corner of Khangai valley, Bagakhangai district

The first phase of e-ownership registration was held last year, and the

second phase started in January 2015, with a total of 24,766 city citizens become land owners through this program.

## Banking and Finance



Since the establishment of a two-tier banking system in Mongolia, economic capacity, customers, depositors, savings, borrowers' financial demand and banks' risk bearing abilities are taken into account when raising capital requirements. Increasing the minimum gives an opportunity to improve a bank's ability to withstand systemic risks and ability to self-finance large borrowers' financial needs. The deadline to comply with the new regulation varies with each bank deadline depending on their economic conditions, payment capacities, operational characteristics and competitiveness in the system, with the final deadline being December 31, 2017. In other words, whether the minimum capital requirements will need to be changed again will be discussed after that date.

## SMART CITY



As advanced technological products are being used globally, Ulaanbaatar is also planning to implement programs to be a smarter city. This year's budget for the smart city program has been determined: five projects are going to be completed totaling MNT 2.8 billion this year. An evaluation committee to select the project managers will be established by the city mayor's decree and will organise the procurements in

accordance with the relevant laws and regulations.

## Manufacturing



During the regular sessions of the government, the government is aiming to provide MNT 100 billion in loans to cashmere processing plants' floating capital funds in order to increase the export of cashmere products. By providing floating capital, 1670 tonnes of raw cashmere will be added to the currently reserved 3000 tonnes of cashmere. Eight hundred and sixty four tonnes of combed cashmere can be prepared and exported from the additional raw cashmere. It is estimated that MNT 54 billion in additional revenues can be earned by exporting USD 77.5 million or MNT 154 billion worth of combed cashmeres. Currently, 130 small, medium and large factories are operating in the cashmere processing industry and manufacturing an output of MNT 700 billion; MNT 600 billion worth of productions turn exported.

## WORLD NEWS

## SOLAR PANEL COMPETITIVENESS



An important reason fossil fuels are still widely used for energy is because solar power could not compete price-wise. In places such as the US and UK, government tax incentives subsidised the purchase of solar panels by homeowners. This may no longer need to be the case for consumers to consider going solar. According to the US Energy Information Administration, the cost of

generating energy from coal in the US is on average USD 147 per megawatt, compared solar power at USD 130 per megawatt and natural gas at USD 128 per megawatt. This is even more useful news to places stricken by droughts such as California and parts of Brazil, whose ability to produce hydroelectric power has been hampered recently. Some electric companies even have programs where a homeowner's electricity generated in excess can be fed into the grid, with the company buying the electricity from the homeowner at a certain rate. Another advantage of power produced closer to home is that a bit of the energy generated at a centralised power plant is lost as it is transmitted through power lines. All these things make the time frame for a full return on investment much shorter than before. Solar power can now compete with traditional sources of energy head-to-head in the home energy market.

## YUAN TO LOOSEN UP



China is set to relax the rules of its Qualified Foreign Institutional Investors (QFII) programme in an effort to make the yuan more flexible and convertible. The QFII programme is one of the widest gateways into the RMB-denominated market in China, with investors having the opportunity to invest inland. The changes, which are being reviewed the Chinese State Council and should be approved without delay, would allow foreign investors with deep pockets such as UBS, Nomura Securities, Goldman Sachs and Citigroup to take out capital on a daily basis, as opposed to the previous rule restricting flows to once per week. Despite the scheme having a maximum quota of USD 150 billion, only half is utilised, with the sum of companies' quotas currently sitting at USD 72 billion. Part of the reason was because of the once per week limit on capital going in or out. We can expect more investment through this program now that there is daily liquidity in the market. Launched in 2002 with a quota

of USD 30 billion, the QFII programme quota was increased to USD 80 billion in 2012, and in 2013, this limit was again raised to the current USD 150 billion. This comes at a time when China is pushing to get the yuan in the IMF's basket of reserve currencies alongside the dollar, euro, yen and pound.

## GREEK MINISTER BERATED



Just one day after writing a piece saying that the current measures are an "austerity trap" designed through "backward induction," Greece's Finance Minister Yanis Varoufakis found himself on the receiving end of heated words. During a meeting of EU finance ministers in Riga, Latvia, Varoufakis was scolded as being an amateur and a time-waster, which prompted Angela Merkel and the Prime Minister of Greece, Alexis Tsipras, to call for calm. Greece must start paying civil servants and pensioners in early May. One week later it must also begin repaying IMF loans. With the terms of any emergency funding at a deadlock, some countries' ministers called for a backup plan, an idea which resonated with some, but was vehemently suppressed by the EU Economic Commissioner Pierre Moscovici and Varoufakis. The idea of a Plan B would imply that there is a real risk of a Greek default and exit from the 19-nation Eurozone. No such rules exist for when a nation is to exit the union as it is unprecedented, but the current situation in Greece and the EU has many worried. This also comes at a time when the Eurosceptic movement in place like the United Kingdom are at an all time. Prime Minister David Cameron has stated that he would be willing to hold a referendum in 2017 regarding whether the UK would remain part of the EU should his Conservative Party be successful in the upcoming election and he remain in Buckingham Palace. It seems the only thing that could be agreed on is the fact that the gap between ministers in coming to a deal may be wide, but not unbridgeable.

## TRANS-PACIFIC PARTNERSHIP



The enormous and complex Trans-Pacific Partnership (TPP) has two of the world's most renowned economists butting heads. In his New York Times blog, Paul Krugman stated he is "puzzled" by Gregory Mankiw's article pontificating on the benefits of international trade and comparative advantage, which was also published two days earlier in the NY Times. There are few people in the world who can truly say that they understand this massive agreement. The main point of contention seems to lie not in the trade aspect, but in the dispute-settlement and in the intellectual property aspects, and everyone wants a piece of the action. Big Pharma wants to make it more difficult to introduce generics of their brand-name drugs; Hollywood wants copyright protection for the duration of an author's life plus 70 years; environmental groups want stronger environmental protection. However, this massive agreement has drawn criticism from a wide variety of groups ranging from the AFL-CIO to the Electronic Frontier Foundation and even from some free trade groups. Though proponents of the agreement say this will create more solid global economic rules, an argument which has merit, others such as Krugman think the importance of the deal is exaggerated, but at the same time say that it has draconian intellectual property aspects. Many others have criticised the deliberation process of the potential international agreement, stating it needs to be more transparent and representative. Details first came to light in 2013, when WikiLeaks published the secret negotiated draft text. ■



Photo by B. Byamba-Ochir

### Urban Planning

## Issues to be decided in the near future

G.Orkhon

*-We invited the Chairman of the City Council, D.Battulga, for an interview*

***-You have been visiting the ger district quite a bit recently. How is the redevelopment process going?***

-The city council approved the redevelopment regulations near the end of January 2013. At first, this project was announced for 12 locations, and the initially selected project handlers were provided with licences in May of that year. It has been exactly two years since then. Currently, 32 companies are operating on 77 construction projects at 24 ger district locations, meaning developmental activities are taking place on 1,500 hectares of land. As of today, over 1,000 households have cleared their lands. Last year, around 680 residential apartments were completed, and this year, about 2,500 are planned to be built. The city has provided a certain amount of capital with the support of the government and resolved infrastructure issues on most of the locations. The

companies which have recently entered the redevelopment project are concerned about the infrastructure issues and are bringing these issues to the city administration. As for us, we are facing a need to solve the investment issues after these companies submit their technical specifications and construction schemes. We will work diligently to resolve these issues in the near future. In addition, once in a while disputes over lands occur. We have met the citizens who are involved in the redevelopment project. Citizens and companies should always share information and maintain constant communication after signing a contract. People are waiting for their new, comfortable apartments to be completed. People get disconcerted if companies do not complete their apartments in the time planned. Hence, the city administration sees the need to organise information exchange activities between the citizens and enterprises.

***-The city administration is talking about improving the city's***

***infrastructure and piping quite a lot lately. However, large-scale investment is needed for this undertaking. What kind of measures is the city taking?***

-In recent years, the city has provided about MNT 40 billion and the government about MNT 80 billion of funding. This year, we are planning to provide over MNT 40 billion for the development of Ulaanbaatar. However, this amount is insufficient for the infrastructure goals and an additional funding of MNT 60 billion is required. Therefore, we are requesting support from the government in reaching that amount.

***-Is this amount only for the infrastructure improvement works?***

-Indeed, only for the the infrastructure improvement works. Basically, the city administration is responsible for the funding of infrastructure, kindergartens and schools. Clearing the lands and constructing the buildings are the companies' responsibilities.

***-There is a good amount of citizen***

**involvement in the ger district redevelopment project. What do you think about the residents participating in the city's development?**

-This redevelopment project is fully decided by the residents' vote. We announce the locations of the ger district redevelopment project. The Ulaanbaatar General Planning Authority announces the project tasks and assignments. The companies that want to participate in the project present their own projects to the residents living in the area. After that, we choose the project executors through a vote by the residents. The parliament has approved the Urban Development Program of Ulaanbaatar City until 2030 in March 2014. The city should develop according to this general plan. To encourage people's involvement in the projects, we take residents of an area's votes regarding building on publicly owned lands. We will permit companies to do construction if the citizens agree to it. If people vote against it, we will go by their will. We are working in accordance with the general plan as we should.

**- Usually it is the elders that go to a district's public meetings. What are you doing to get more young people involved?**

-Currently, 90 out of the 150 khoroos in the capital have an established civil chamber, but even though we try to discuss and hear people's opinions during the public meetings, people's participation is inadequate. There is no need to sugar-coat it. People are only participating in things that interest them. Therefore, we decided to establish

people's representatives in order to for them to speak on behalf of the others. However, participation is lacking when we try to get the general public opinion. With that being the case, we are talking about altering the current methods to meet people's expectation. This will be a major change regarding citizen involvement. We must bring up the subjects young people would be interested in and get their opinions. Young people are starting to come together by forming a club and giving their proposals to us. We will develop this further.

**- What was the main things achieved by the City Council in recent years? What works are planned for the near future?**

-Sometimes people ask, "Has the city council existed before?" In the past, it was difficult to grasp whether the city council existed or not, because we met once or twice a year behind closed doors. During the meetings, the city council only discussed things like the budget and land management. However, the current city council is working in accordance with the bylaws of a standard city council. In other words, the city council approves the mayor's agenda and monitors its implementation. We develop projects for major issues facing the city and oversee their execution. We are an organisation that approves the common rules and regulations implemented on the territory of the capital city. These are the duties we have been carrying out since 2012. I would not say that the city council has constant operations or that it always assembles and meets. However,

overall it has become an organisation with a clear function. The city council has become more active in addressing issues and hearing people's thoughts and opinions. I think this is our biggest achievement. We are addressing the city's major issues such as the housing program and land clearing process. We will continue to work within the legal framework and step up our efforts.

- The city is planning to expand. Two districts' statuses have been changed to that of a city. What are the significance and results we should expect from this?

-The city status issues should be reflected within the constitutional changes. As such, we established Nalaikh and Baganuur as a city and approved its regulations according to the law. A city is an embodiment of a people. A city must discuss its own issues internally and decide matters for itself. We must ensure opportunities for these new cities, and it can be said that the foundation has been set. A specific legal framework may need to be modified further on. City taxation and economic self-sustenance must be ensured. We will implement all of these further down the road. The seed has been planted. A few years later, these cities will develop and maybe more cities will emerge.

**- You said that a city with no regulations is same as a country with no law. Where are we today in making Ulaanbaatar a city with its own regulations?**

-The world's major cities have their own regulations. Ulaanbaatar has been going without its own regulations until now. We are working hard to establish a regulatory framework for the city. The regulations have been developed; the working group has been established. During a meeting with the working group, I said that the city regulations have to be admitted to the city council as soon possible. Ulaanbaatar will become more like a real city by having its own regulations. The right to swing my fist ends where the other man's nose begins applies in a real city. One person's right to do something ends when it impedes on another person's rights. Therefore, certain aspects of city life should be governed by regulations. It has been basically a year since we started developing these sorts of regulations. Thus, we expect it will be submitted to and approved by the city council in the near future. ■



D.Battulga meets with the ger district redevelopment program's project leaders

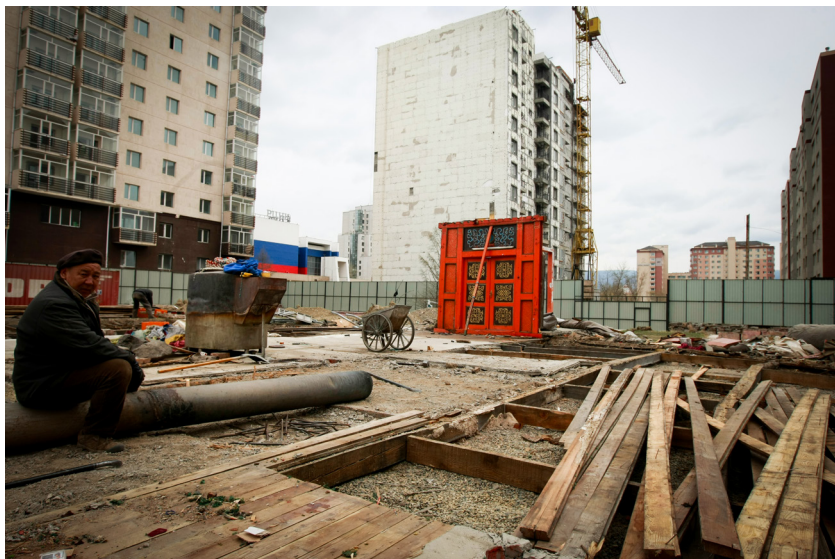


Photo by B.Byamba-Ochir

## Wanting a comfortable future

G.Orkhon

Last year, 500 residential housing construction projects were completed under a redevelopment project which seeks to address problems such as air pollution and exhaust emissions from fireplaces. About 16 thousand ger plots were included in the redevelopment program.

The first apartment completed under the ger district redevelopment programme was a 168-household apartment building with service businesses on the first two floors in khoroo-6, Songinokhairkhan district. Prior to construction, 13 entities were on the land of this apartment. In other words, it had the same number of service establishments on it. One of them is L.Batjargal, who cleared his land and lives happily in his apartment, where he also runs his business. L.Batjargal owned 500 square metres of land with a 117-square-metre cafeteria before clearing his land for the redevelopment program. Now he runs an 80-square-metre restaurant on the first floor of the 168-household apartment, and with his remaining floor area credit, also got a spot in a shopping market on the second floor. Batjargal's family previously lived in an old five-story apartment in khoroo-6 of Songinokhairkhan district, but courtesy of the "Ger district redevelopment" project, his family bought a 58-square-metre one bedroom apartment at a discounted price of one MNT 1.1 million per square metre. Batjargal said, "This has been such a huge change for our family. My wife and kids are totally

satisfied. Even for business, the work environment and satisfaction from work is nice. In the past, we used portable water and heating to run the cafeteria and had to take turns guarding it at night. Nowadays everything has changed." He led the community representatives during the redevelopment construction process. In the tripartite agreement, the residents who cleared their lands, led by Batjargal, proposed to monitor the construction contractor Begburd LLC and the city authority during the construction, taking active parts in it. Not only they did managed to monitor the construction process, but they have also partaken in the construction work earning some wages and salaries. Batjargal said "We fully supervised the construction process. I feel good because we know what's behind this wall and what it's made of." As for the residents of the 168-household apartment, a bit more than 20 percent of the residents came from the countryside, and from khoroo-6 of Songinokhairkhan district came the same amount; the rest consist of by the city's young families.

The participation, initiative and unity of citizens are essential for the redevelopment of the ger district area. Both officials and citizens are saying that this project would not go on if the citizens do not want it. Batjargal said, "Involving many households also means many different viewpoints. Therefore, citizens must make right choices when selecting their representatives. Representatives

must put the interest of the people first. We did exactly this. As a result, now we're living in a comfortable, modern apartment." The tripartite agreement must benefit all the parties. When this happens, construction work happens.

According to the ger district redevelopment project leaders, the citizens want to clear their lands and live in apartments. The Director of Begdburd LLC, Ya.Ganbaatar said, "Many people are asking when our apartments will be completed and saying that they're ready to buy apartments if there's any sort of support from banks or city administration." He said that the city administration regulations are supporting the construction market, however added, "The current economic situation is preventing the implementation of the project. The lending criteria of the eight percent loans have become stricter because of this. Commercial banks need to align their lending criteria with the current economic climate." The project leader of Baganat District B.Ulziitsetseg said, "Commercial banks reduced their lending to construction firms, and so ability to borrow is lacking. As the consequence, companies are facing problems of building by using their own assets. Even though the city administration has been talking about resolving investment issues regarding cooperating with foreign organisations, there are still many companies that have not resolved their investment issues." Private sector firms executing the redevelopment project are facing issues such as these. However, the city administration is resolving the infrastructure and land issues within the framework of the project. The city administration will finance the infrastructure blueprint and piping in accordance with the redevelopment regulations approved by the city administration. The Head of the Office for Ger District Development Sh.Gankhuyag said that the city is supportive of issuing regulations on the sale of apartments in order to ensure project implementation.

Private firms are financing the actual clearing of land and construction from their own pockets. Furthermore, they are covering the accommodation of citizens who cleared their land until they settle in their new apartment. Sh.Gankhuyag said, "The city budget is MNT 15 billion. We're planning and executing constructions of schools, kindergartens and green areas under the redevelopment project. For example, we have 30 hectares of land that will be revamped in Ulaankhuan

in Bayanzurkh district. Construction projects are going up on five of the thirty hectares. The same amount of area is being devoted to building roads, and the rest will become green areas. Having all the above will create a pleasant atmosphere, and in turn, competitiveness and saleability will increase. He who plans better sells better. The capital needs a proper housing plan." The city officials are stressing that ger district redevelopment is a huge project which will improve the city's economic circulation and the livelihood of residents. The city administration officials are saying that this project will put the ger district residents in better economic capacity. Elaborating on how this will be accomplished, Sh.Gankhuyag said, "This project holds significance as it will put lands to good use. Land prices

have soared. Jobs will be created. Complementary businesses involving windows and doors will also gain from this." This year, more than 2,000 residential complexes will be completed under the redevelopment project. For example, Asar Urgoo LLC will execute projects on 41 locations and work on building a 360-household apartment in khoroo-9 and a 1,000-household apartment in khoroo-7 of Chingeltei district. As for Baganat Urgoo LLC, they will implement their project on 30.3 hectares of land to establish Baganat District, in which 4.7 hectares will be used for construction building and 16 hectares for green areas. Baganat District is planned to have a 5,000-household apartment, two schools with a capacity of 960 students and three kindergartens with a capacity of 240 children. Currently, the company has

signed a tripartite agreement with 234 out of 280 residents in khoroo-8 and 16 of Bayanzurkh district. One hundred and twenty families have fully cleared their lands and around 1,000 apartments have already been constructed. The project leader of Baganat District B.Ulziitsetseg said, "People are very positive because the first 140 apartments are already in operation. Ninety families who cleared their lands will settle into their apartments in mid-May."

On the one hand, people are optimistic about the ger district redevelopment project. On the other hand, people also wish that this project would not become politicised. The day when every ger district resident lives in a comfortable, warm and modern apartment is nearing. ■

## Investment

# As long as faith and devotion are there

## B.Uuriintuya

Next year, over 2,000 families will have the opportunity not to be burning coal and carrying water during winter. The city administration's initiative to replace gers with apartments has become possible with the involvement of the private sector. Nearly 300 families who cleared their lands for the ger district housing program are now living happily in their new apartments. About 60 percent of the city's population lives in ger districts. These districts are expanding year by year. The ger district redevelopment program has started to take actions to limit this expansion, and the residents' attitudes toward the project are positive for now. However, people who are still living in ger districts are asking when their turns will arrive.

The country's current economic situation is not all too well. In addition, everyone, even the President, is saying that investment matters have become onerous. In such circumstances, the city administration is bearing the difficult task of asking for a financial support for the ger district housing program. However, they did not get discouraged. They are striving to move forward, driven by the people's desire. The embodiment of this devotion is the public-private partnership. The main reason why the project is still alive is because the private sector is devoting their heart and soul in this historic project to improve the city's

living conditions. Even so, the private enterprises who are participating in the project said that they are facing plenty of hindrances during the process. Specifically, the project proponents said that legal issues are the most difficult problems they face. The Head of the Ger District Redevelopment Association, Ts.Erdembayar said, "The city's infrastructure constraints are creating a problem for the investors and project proponents. Such things should be regulated by norms. Today, some of the construction norms and standards are outdated." The Head of the Office for Ger District Development, Sh.Gankhuyag said, "Ger district redevelopment regulations, land ownership laws and draft laws on the redevelopment of the city play major roles in the implementation of the redevelopment goals. We hope that the draft law on the redevelopment of the city gets approved. Infrastructure constraints have negative impacts on investment. There are issues regarding heating, electricity and water supplies. The city administration must regulate the incomprehensible issues caused by the infrastructure constraints. Infrastructure issues must be solved if we want to attract investment." According to the Deputy Mayor of Ulaanbaatar for Investment Affairs, S.Ochirbat, adjustments have not been made to the Land Law, which private entities have been long waiting

for, even to this day. According to him, the law was discussed by the parliament for a long time without coming to any decisions. He also said, "Previously, land permissions were granted after waiting for a full year but now they're being granted in one quarter. The new land law has been admitted to parliament. A working group has been established to tackle it."

The city administration is trying to help the cooperating private enterprises as much as possible, even though there are many issues to be discussed regarding the law. For example, infrastructure blueprints, overall financing and financing of pipe and sewerage systems are being resolved in accordance with the redevelopment regulations approved by the city administration. Fourteen percent of the city's total ger districts' territory, or 16,109 units on 1,506.1 hectares of land in eight districts and 37 khoros, are involved in the project. Accordingly, MNT 18.5 billion from the 2015 city budget is planned to be allocated to investment in engineering and infrastructure. The city and private sector are cooperating to resolve construction and construction-related issues. They have a lot of work to do. They will go through investment and financing adversity. However, these issues can be solved as long as faith and devotion are there. ■

## Three questions

# Thoughts on redevelopment

*Mongolian Economy magazine asked three questions from prominent figures working for companies involved in ger district redevelopment projects.*

## *Ch.Mungunsukh /Executive Director of Hera Properties/*



### ***-On which locations is your company carrying out a redevelopment project?***

-Our company is carrying out a project on a total of 38 hectares of land in khoroo 5, 6 and 7 in Songinokhairkhan district. This is the location where the new municipal building is being constructed. Nearly 5,000 apartments, offices, shopping centres, schools, kindergartens

and hospitals will be built in this district in accordance with the general plan. Last fall, a 168-household apartment with a service centre was completed under the project. This year, construction work has started on five housing projects totalling 320 households.

### ***-What issues are encountered during project execution? How can they be resolved?***

-This is a huge project worth USD 200 million. The construction alone will take five to six years. There are number of issues such as the legal environment, access to infrastructure, investment and market conditions. It is necessary to cooperate with investors to complete the project in a proper time frame. However, investors require government guarantees and collateral in order to cooperate.

### ***-How do you see the future of***

### ***Mongolia's construction industry?***

-I think that the construction and real estate markets should be one of the key sectors in the economy. The quality of participants in sectors such as construction, construction manufacturing, professional laboratories and equipment supplies are developing, and also professional realtors and research institutions have been established. However, our sector's operations and construction demand are directly related to the macroeconomic situation. As for Ulaanbaatar, demand for infrastructure supplies is high. However, this unmet demand will gain purchasing capacity if the economy and financial instruments improve. I for one have faith in the future of the industry. However, the government needs to support and regulate the construction industry.

## *G.Boldbaatar /Director of Magma Od LLC/*



### ***-On which locations is your company carrying out a redevelopment project?***

-Our company is implementing a project on 4.5 hectares of land in khoroo 2 in Bayanzurkh district and in areas of Dari Ekh ger district. We are working to build the 461-household "Dari Ekh" residential complex with about 80 percent consisting of comfortable, modern residential apartments and the remaining 20 percent consisting of areas

for service establishments. For this year, we will begin construction work on two apartments for 144 households, two private residential houses and the town's infrastructure and sewerage engineering. According to the plan, these should be completed in the first quarter of 2016.

### ***-What issues are encountered during the execution of the project? How can they be resolved?***

-There's a saying which goes, «There are two sides to every coin.» It is obvious that there would be difficulties during the project process. There are many issues that everyone is well aware of, such as the economic hardship, the state and city budgets, people's income levels, housing sales, construction industry investment, bank lending, statements by politicians and people's attitudes towards the project. As for me, I think the statements by politicians and citizens' attitudes are the key issues. Politicians'

negative statements about the project can influence people's opinions and affect the implementation of the project.

### ***-How do you see the future of Mongolia's construction industry?***

-I have been working in the construction industry for 26 years. During this period, Mongolia has transitioned to the market system, and because of this, many new changes are being introduced thanks to advanced technology, materials and foreign experts coming here to work. I think Mongolia's construction industry fully has the capability and external factors to grow. Development is deeply related to professional staffing. A system that trains the staff and protects their labour market must be established. The development of construction engineers will spearhead the development of the industry.

### **S.Sod-Erdene/Executive Director of Standard Properties LLC/**



**-On which locations is your company carrying out a redevelopment project?**

-Our company is implementing a redevelopment project on 26.2 hectares of land in khoroo 1, 2 and 20 in Songinokhairkhan district. We were selected as the project proponent in January of last year and started making agreements with land owners and enterprises. By doing this, we received the residents' blessings to implement the project and got the official licence in May of the same year. We have gotten our partial plans and infrastructure network blueprints approved. We will build a complex district which has residential apartment for 2,700 households, two schools, each having a capacity for 960 students, two kindergartens for 250 children and a hospital with a capacity to serve 120 patients. In

addition, we will build establishments on five hectares of land dedicated to the small and medium-sized enterprises with the purpose of creating jobs. This year, we have started construction on two residential apartments for 260 households. According to the plan, these apartments will be completed in December of this year. They will be top notch apartments with integrated parking lots and service areas. We have commenced the infrastructure work to connect the heating, water, sewage and electricity sources alongside the construction work.

**-What issues are encountered during the execution of the project? How can they be resolved?**

-Basically, the city's redevelopment project is considered a large-scale project internationally. It indicates the city's or country's development progress. As such, a lot of time and money are required. The most important thing is to let the people understand the project and establish a positive image in eyes of the public. There is a possibility to complete the project quickly if the government, citizens and companies unite. Three factors influencing this are: political and economic stability, citizens' ability to adapt to changes and project proponents'

financial capabilities. The ways to resolve these are also obvious. First, the government must: provide support at every stage of the project; expedite the handling of legal matters; and ensure the stability of the economy by incentivising demand for housing. Secondly, citizens need correct information and knowledge regarding the positive effects coming out of the project. Thirdly, companies' financial capital, loan and tax exemption issues should be emphasised.

**-How do you see the future of Mongolia's construction industry?**

-Every country has its construction industry's growth periods. This is related to the country's increases in economic capacity and demand. As for Mongolia, these two conditions have been created. The demand is there because our city's housing issues are increasing day by day. Today, 60 percent of the city population lives in ger districts, and many buildings have gotten old. The other factor is that our country's economic capacity is increasing due to the mining industry's revenues. Therefore, I believe that construction, infrastructure and road construction are in a growth phase. This situation will continue for another 10 years.

### **O.Batsaikhan/Executive Director of Baganat Urgoo LLC/**



**-On which locations is your company carrying out a redevelopment project?**

-We are implementing a project on 30.3 hectares of land at khoroo 8 and 16 in Bayanzurkh district. Of the total 280 households that must clear their lands, 140 have already done so. More than 90 families who cleared their lands will move into their apartments. We are working to complete the second 144-household apartment in the fourth quarter of this year. Infrastructure access lines, electricity, heat and water issues are all completely resolved. As for us, we are constructing an infrastructure access sewerage line with a tunnel system that meets international standards. We have

placed over 650 metres of sewerage lines, and an additional 250 metres will be constructed this year. Also, we requested to build one kindergarten building this year under this redevelopment. I think our request will be granted.

**-What issues are encountered during the execution of the project? How can they be resolved?**

-First, the legal environment needs to be reformed, which means that the rules and regulations must become more concise. There is also the issue of competitiveness. Companies are clearing lands and building infrastructure access lines from their own pockets. On the flip side, the state is building new districts on places where the lands are already cleared and infrastructure access lines have been already built. Of course, there will be a difference in time and cost between state and private projects because of this. Although the partnership between companies and the city administration is at a good level, a similar connection between the national government and city administration is sorely lacking. The next issue is the

inefficiency, or rather, infrastructure restrictions. The redevelopment projects could have taller buildings, but heat and power supply capabilities cannot keep up. To do this, greywater and solar energy technologies should be introduced. However, it does not comply with the current standard. The last issue is that project proponents do not have loan and investment guarantees. Companies are buying and clearing the lands by themselves, but we cannot even own it. This means that it is not possible to pledge the land to banks. On top of all this, banks have raised interest rates and made borrowing criteria stricter due to the fledgling economy.

**-How do you see the future of Mongolia's construction industry?**

-I think the industry's future is bright. Large-scale developments are underway in the capital city, where half of the population lives. Therefore, today's issues are going to be solved gradually. Today's economic situation is merely a temporary setback. ■

Market

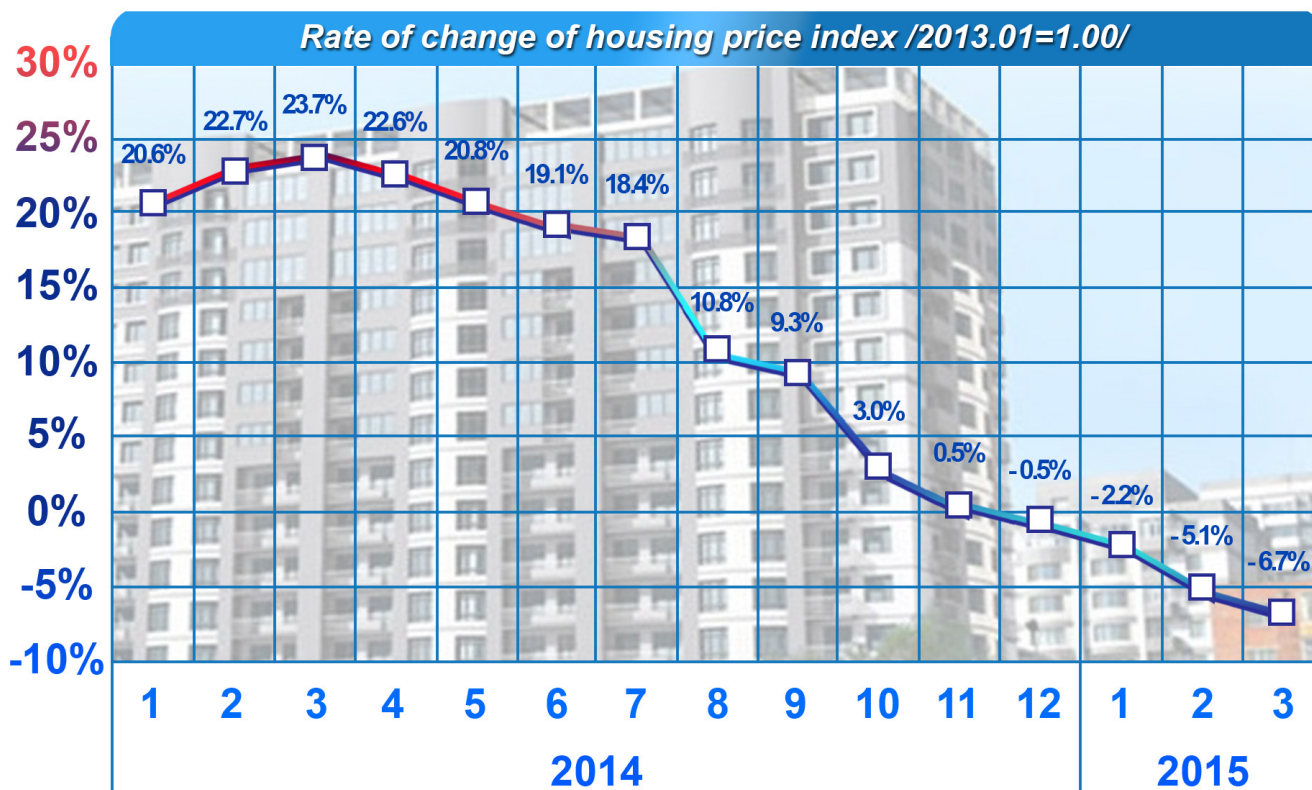
# Housing prices

G.Tushee

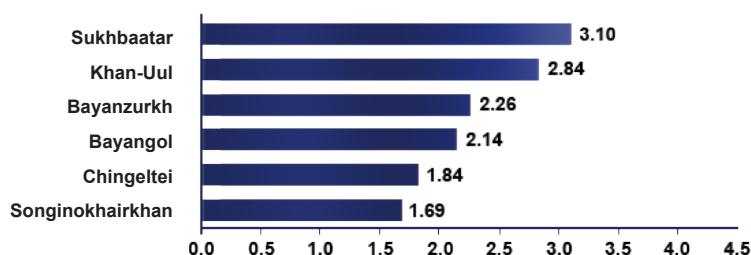
The Bank of Mongolia (BoM) introduced in March of 2015 the housing price index. The housing price index was prepared by Tenkhleg Zuuch at the request of the BoM. The study includes price information on 4,408 new and old apartments which were supplied to the

immovable property market in March of this year. Using January 2013 as the base period, the housing price index shows an increase of 17.3 percent as of March of this year. This is an increase of 0.05 percent from the previous month. However, since January of this year,

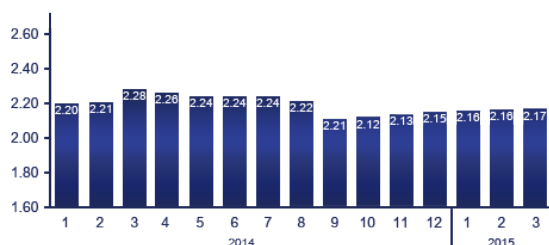
prices have decreased by 1.35 percent, and in comparison with the same period last year, prices have decreased by 6.7 percent. It shows that the housing price index in Ulaanbaatar has continuously decreased over the last 7 months.



Average price per square metre of new apartments /MNT millions/



The price per square meter of new apartments in Sukhbaatar district recorded the highest average of MNT 3.1 million, while the lowest average was MNT 1.7 million in Songinokhairkhan district.



Housing prices are stabilizing in the market, but were slightly higher than the previous month because of new high cost apartments supplied in March.

As of March 2015, the average price per square meter of new apartments is MNT 2.2 million, a 4.8 percent decrease compared to the same period the previous year.

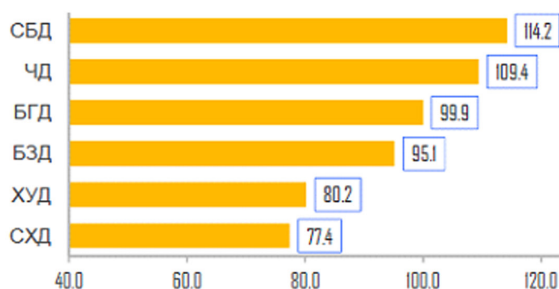
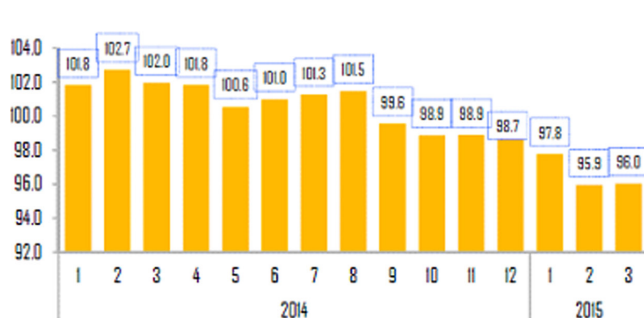
## Total price of old apartments (MNT millions), by district

	0BR	1BR	2BR		0BR	1BR	2BR
<b>Bayangol district</b>				<b>Sukhbaatar district</b>			
3rd Khoroolol	64.3	95.6	126.6	11th Khoroolol	70.0	121.0	159.5
4th Khoroolol	70.7	111.1	123.6	7th Khoroolol	59.5	96.8	130.4
10th Khoroolol	59.3	87.1	123.5	5th Khoroolol	77.0	126.7	181.4
Train station	69.0	103.0	135.5	220 myangat	75.0	118.2	157.5
Sunny bridge	74.5	102.9	147.9	50 myangat	68.0	126.1	180.0
-	-	-	-	Embassy Khoroolol	69.6	107.1	175.0
Average	67.6	100.0	131.4	Average	69.8	116.0	164.0
<b>Khan-Uul district</b>				<b>Chingeltei district</b>			
19th Khoroolol	74.1	100.1	134.8	Baga toiruu	85.0	112.9	157.2
120 myangat	82.3	135.3	178.6	40 myangat	84.4	137.0	173.9
Nisekh	46.4	76.6	87.9	6th Khoroolol	77.4	100.9	162.5
Zaisan	87.1	129.3	209.7	-	-	-	-
Average	72.5	110.3	152.8	Average	82.2	116.9	164.5
<b>Songinokhairkhan district</b>				<b>Bayanzurkh district</b>			
1st Khoroolol	71.6	91.2	116.7	15th Khoroolol	64.2	98.2	130.9
21st Khoroolol	52.8	65.7	92.3	13th Khoroolol	69.4	102.6	156.0
5 Shar	45.7	64.5	83.0	16th Khoroolol	48.0	77.5	124.4
KhMK	46.0	56.8	85.7	12th Khoroolol	71.0	106.2	127.5
Average	54.0	69.6	94.4	Average	63.2	96.1	134.7

Source: Master Properties, LLC

As of March 2015, the average price of an old one-bedroom apartment was MNT 96 million, which is a 5.8 percent decrease compared to the same period the previous year.

The average prices of old one-bedroom apartments, by district /MNT million/



The highest average price of a one-bedroom apartment is MNT 114.2 million in Sukhbaatar district, and the lowest is MNT 77.4 million in Songinokhairkhan district.

According to the study conducted by the researchers at Master Properties, LLC, a total of 43,962 apartments from 229 construction projects are being sold in Bayanzurkh, Khan-Uul, Sukhbaatar, Songinokhairkhan, Chingeltei, Bayangol and Nalaikh districts as of March 31, 2015. Of these, 210 projects are for 43,476 residential apartments, and 19 projects are for 486 residential houses. As for the completion of construction projects, 39.9 percent or 17.6 thousand apartments are already in operation, and 26.6 thousand apartments are slated to enter operation after this month.

## Study on housing projects, district and price interval aggregation /MNT millions/

Price interval	Under 1,800		1,801 – 2,800		Above 2,801		Total	
	Number of projects	Average price	Number of projects	Average price	Number of projects	Average price	Number of projects	Average price
Bayangol	3	1800.0	27	2187.8	-	-	30	2164.5
Bayanzurkh	22	1678.2	56	2273.9	8	3218.7	86	2254.6
Nalaikh	5	1270.6	-	-	-	-	5	1270.6
Sukhbaatar	6	1504.6	7	2144.6	4	4764.7	17	2675.4
Songinokhairkhan	18	1526.2	7	2009.5	-	-	25	1599.1
Khan-Uul	12	1593.4	24	2240.2	26	3976.9	62	2590.2
Chingeltei	4	1225.0	1	2450.0	-	-	5	1518.4
Ulaanbaatar	70	1482.8	121	2228.9	38	3900.2	229	2277.2

Currently, the average price per square meter of a standard residential apartment is MNT 2.27 million, and MNT 2.23 million for a house. With the exception of Nalaikh where prices remain stable, average housing prices have decreased in all districts. ■



### Opportunity

## Will the mortgage loans stop?

Ts.Elbegsaikhan

This question has been raised since the eight percent interest mortgage program was implemented two years ago. The answer has always been "It will continue without stopping."

From time to time there were rumours among the public that banks refused to grant mortgage loans. According to banks, this rumour may have started because some people did not meet loan requirements and misunderstood this to mean the loans have stopped. As a matter of fact, banks have the right to temporarily suspend or limit the lending based on their calculations of financial statements as they are the lenders bearing risk. This does not mean the broader system has stopped. It can be seen from Bank of Mongolia reports that banks have been providing mortgage loans continuously. As of February of this year, borrowers' total unpaid balance on banks' mortgage loans was just shy of MNT three trillion, and the total number of borrowers reached 68,126. We can see from the facts that this number is indeed increasing.

At first, City Council approved the "Ulaanbaatar housing fund regulation on supporting civil servants with housing down payments" on March 16. According to the regulation, the city's civil servants will be exempt from half of the down payment. However, there are certain criteria stating that the civil servant wanting down payment support has to: have worked at the state organisation for at least three years; be likely to continue working at the organisation in the future; meet the criteria of their bank or financial institution; be able to pay 50 percent of the down payment (25 percent of the total cost); and have a support letter from the civil servants' employer. Approximately 30 thousand civil servants work in the capital.

In addition, there are criteria for houses and apartments that this regulation covers. Specifically, the houses and apartments must be built in the context of the ger district redevelopment program, have flexible pricing and should give an opportunity to targeted groups. "Civil servants who work

in Songinokhairkhan district will have an opportunity to buy an apartment from Songinokhairkhan district," explained Sh.Gankhuyag, Head of the Office for Ger District Development.

The government announced in early April that there is a possibility to reduce the down payment to 10 percent and that it intends to make it so. In doing so, the government will not raise the risks for banks by giving a government guarantee on 20 percent of the down payment. They are contemplating funding the guarantee with bonds. However, the decision has not yet been made because the Ministry of Construction and Urban Development must develop relevant regulations and present them to parliament. The minister of the organisation, D.Tsogtbaatar explained, "The government guarantee for a mortgage down payment and the increase of floor area for covered apartments will be the way out of economic hardships. As of today, many construction companies have built apartments using a bank loan. However, the construction sector has stagnated

because of the tough economic situation and low demand."

When asked whether the previous allowances for civil servants will still be valid if the regulation gets approved, Sh.Gankhuyag said, "If the regulation gets approved by the government, the regulation for city officials will still be valid and they will get the 50 percent discount on their down payment."

The most important underpinning is the source of mortgage loans. Mongolia is using the experiences of other countries' real estate secured loan programs. Government securities with real estate as collateral, guarantees and insurance on loan risks have all had a significant impact on the economic development of many countries. The Bank of Mongolia is working to develop a secondary real estate market and stabilise the loan financing by these standards. In other words, they will raise funds by issuing bonds and securities backed by mortgage loan repayments. In turn

these funds will continuously finance the mortgage loans.

This "Mortgage financing sustainable systems program" is helping finance about 70 percent of the current mortgage loans. The Mongolian Mortgage Corporation plays a major role, issuing mortgage-backed securities on foreign and domestic markets to establish a long term credit system. Currently, they have issued four mortgage-backed securities totalling MNT 1.3 trillion. The Executive Director of Mongolian Mortgage Corporation, D.Gantugs said that 36 thousand households are involved in it.

Mortgage loans are the safest loans. Every person sets a priority on housing which is their validation for livelihood. It can even be proven using data. As of February, overdue loans accounted for 2.6 percent of the total mortgage loans' unpaid balance, and the non-performing loan rate is only at 0.5 percent. In such a situation, buying mortgage-backed securities should be considered one of

the least risky options.

However, fear of economic crisis lingers. In particular, the beginning of the global economic crisis of 2008 cascaded from US secondary market bubbles. People want to know what the guarantees this will not occur in Mongolia are. According to experts at the Bank of Mongolia, the United States' mistake was they zeroed the down payment. Thus, perhaps irrationally exuberant demand increased, causing the US housing bubble. On top of that, the non-performing loan rate got too high because borrowers did not bear any risk.

However, borrowers pay a 30 percent down payment in Mongolia, which gives them terms of risk. This incentivises borrowers not to spend their hard earned pennies in vain. As a whole, mortgage loans have not only provided thousands with a home, but they also play a crucial role in the economy.

#### Mortgage loan reports

Year	Month	Unpaid balance (million MNT)	Amount owed to	Average term of new loans (months)	Average annual interest rate on loans in that month (%)	Total borrowe rs	Borrowed from
			Housing Mortgage Program				Housing Mortgage Program
2013	1	856,633.6		149.1	17	29,683	
	2	873,666.4		156.1	16.8	29,946	
	3	903,557.5		158.6	15.7	30,419	
	4	944,516.8		155.4	15.8	31,412	
	5	986,182.2		147.8	16.6	32,247	
	6	1,032,156.7	276,328.4	168.3	12.9	33,028	9,670
	7	1,273,003.6	553,346.9	202.4	9.2	37,751	17,202
	8	1,461,753.4	781,483.2	207.6	8.9	40,596	21,832
	9	1,611,383.8	943,976.7	206	9.1	42,968	24,851
	10	1,750,781.6	1,076,924.5	193.9	9.6	45,138	27,302
	11	1,834,042.7	1,155,409.2	192.8	9.7	46,482	28,749
	12	1,938,945.3	1,248,633.8	192.8	9.9	48,320	30,600
2014	1	2,021,424.9	1,324,898.9	194.4	9.8	49,731	32,190
	2	2,121,802.6	1,382,084.1	193.2	9.9	53,611	33,346
	3	2,193,368.6	1,451,938.1	190.7	9.9	54,787	34,632
	4	2,280,503.5	1,538,506.8	192.1	9.8	56,137	36,081
	5	2,365,349.5	1,618,127.2	189.3	10	57,579	37,488
	6	2,440,007.1	1,684,583.9	182.3	10.5	58,793	38,659
	7	2,492,105.2	1,728,222.8	187.9	10.7	59,756	39,507
	8	2,553,827.2	1,780,078.3	186.7	10.5	60,851	40,405
	9	2,619,161.1	1,833,494.0	185.9	10.6	62,017	41,390
	10	2,703,792.6	1,903,636.6	189.3	10.4	63,652	42,772
	11	2,762,633.1	1,954,247.6	194.5	10.3	64,577	43,621
	12	2,844,612.6	2,027,859.2	200.1	9.9	66,334	45,283
2015	1	2,898,836.5	2,073,000.1	195.9	10.2	67,233	46,134
	2	2,949,222.0	2,121,445.2	198.6	9.7	68,126	47,108
	3	3,015,640.6	2,196,901.0	197.7	9.2	69,269	48,512



Photo by B.Byamba-Ochir

UB Investment Forum 2015

## A partnership for development has just begun

**B.Uuriintuya**

During the Ulaanbaatar Investment 2015 business forum, the Mayor of Ulaanbaatar E.Bat-Uul addressed the private sector representatives gathered in the main hall of the Central Cultural Palace, and said, "People who pay my salary have gathered here." He has confirmed that his words were not a joke and said, "We would like to express our gratitude to the private sector, which has shown they can thrive on their own."

The plenary session of the business forum continued until noon at the Central Cultural Palace. The Ulaanbaatar Investment 2015 forum started with an opening speech by the Head of the City Representative Council, D.Battulga. He said he is pleased to be able to work with the private sector and noted that any country's development starts from the development of the private sector.

Thus, the mayor titled his speech "The capital will not develop without the participation of private entities." During his speech, Mayor E.Bat-Uul said that he is confident the strategic plan for the development of the capital city until 2030 will be approved by the parliament and fulfilled in accordance with the Ulaanbaatar development policy. According to him, the city administration must cooperate in order to materialise the works reflected on paper, because it is estimated that MNT 25.4 trillion worth of investments is required to fully implement the development program. The city cannot accumulate such an amount of large capital assets alone. Therefore, cooperation and mutual understanding with wealth creators are essential to the opportunity for development. E.Bat-Uul said, "Public-private partnerships

should be equal. We must depart from the Soviet era administration mentality." Specifically, the city will work according to private sector initiatives instead of an administrative "regime" to develop Ulaanbaatar in the future.

The city administration is working to make Ulaanbaatar the best place to live. For example, the municipality is developing the "General Development Plan for Ulaanbaatar city until 2020" and "Development tendencies until 2030" to allow us to breathe clean air, to reduce the traffic congestion and to make the roads safer. In this context, the President of the Ulaanbaatar Chamber of Commerce (UBCC), J.Od, presented his speech titled "Capital city – private enterprise partnerships." In his speech, he mentioned how this kind of partnership develops internationally and

said that the first and most important step toward partnership is each party being well prepared, as well as the parties being able to clearly determine how to participate and collaborate on projects. In addition, J.Od highlighted that public-private partnerships mostly materialise in the redevelopment sector according to international standards. He also briefly presented research about 10 basic principles of successful public-private partnerships by the Urban Land Institute, which has more than 26 thousand members.

Following his speech, others presented on topics such as “Economic development strategy of Ulaanbaatar,” “Capital city housing program,” “Private entities’ initiatives,” “Investment projects and programs,” and “Procurement and glass tender.” UBCC Director-General O.Amartuvshin’s “Private entities’ initiatives” especially caught the most attention of these speeches. He illustrated examples of many initiatives, goals and projects that can materialise if the opportunity were given to the private sector. In his speech, O.Amartuvshin presented possible alternatives to developing Bogd Mountain’s tourist attraction areas. Specifically, he stressed that the city’s tourism development depends on projects such as “Ulaanbaatar Khaan City” and “Tuul Bogd” and said that these projects should be implemented based on the development of Hoshig Valley International Airport, Tsonjinboldog, Terelj and Mairca eco city. According to him, these projects need substantial investment to materialise, but the final results will leave even more value than the numbers alone. However, he reminded attendees that the implementation of and investment for these projects heavily depend on pending issues such as a favorable legal environment, banking sector reforms and independent international arbitration.

Following the speeches, the Open Discussion on City Development Policy and Planning was held. The Mayor of Ulaanbaatar, State Secretary of the Ministry of Construction and Urban Development, Resident Representative of the Asian Development Bank, Robert Schoellhammer, President of the Ulaanbaatar Chamber of Commerce, J.Od, and the Chamber’s Director-General O.Amartuvshin participated in the open discussion. During the discussion, Robert Schoellhammer said, “It has been said that Mongolia’s economy is slowing, but interest in

investing in Ulaanbaatar remains strong. The current situation is very different from 20 years ago. Major global organisations such as Sumitomo have established operations in Mongolia, specifically in Ulaanbaatar. There are great investment opportunities. However, utilizing them properly is crucial.” He added, “Mongolia’s private sector capacity has improved. Government regulation is needed for the development of the city. The ADB is ready to work with all its capacity in this respect.”

The highlight of the Ulaanbaatar Investment 2015 forum was undoubtedly the signing ceremony of the Declaration of Partnership. This document providing the basis for public-private cooperation without discrimination was ratified by the signature of the Mayor of Ulaanbaatar, E.Bat-Uul, and the President of the UBCC, J.Od, and will be the foundation for implementing various projects, programs and goals as stated in the agreement.

The plenary session of the forum was closed by the children’s chorus representing our future generation. However, the end of plenary session does not mean the end of the partnership, but rather the partnership for development has just begun.

Sub-meetings of Ulaanbaatar Investment 2015 continued into the latter half of the day at the Blue Sky tower. During the sub-meetings, sector representatives gave detailed information on important topics which were briefly mentioned during the plenary session. The public and private sector representatives’ number was equal as it was obvious from their discussions regarding issues impeding the city’s development. The crowd was buzzing in the “Apartments and construction” and “International Financial Center, arbitration” sub-meetings, which were definitely the hottest topics of the six sub-meetings held at the Blue Sky tower. General Director of the Economic Development Agency of Ulaanbaatar, E.Temuulin, served as the moderator of the “International Financial Center, arbitration” panel. Influential guests such as the CEO of the Mongolian Stock Exchange, director of the Bank of Mongolia and the Charge d’Affaires of the UK Embassy visited and shared their thoughts on what concrete steps should be taken in order to develop Ulaanbaatar as a regional financial center.

Housing is one of the most pressing issues of our city. Therefore, the municipality and the private sector are

discussing what actions to take regarding this matter. In this context, several redevelopments, housing projects and programs were discussed during the “Apartments and constructions” sub-meeting. During the panel discussion, redevelopment projects were presented in detail as the Director of Ger Area Development Agency, Ts.Erdembayar, gave a presentation on “Investment of Redevelopment Programs.” He said, “Issues and violations arise for investors and project developers regarding the limits of Ulaanbaatar infrastructure. It should be regulated according to standards, and our norms and standards are outdated today. It is prohibited to construct buildings taller than 12 stories when investors want to build tall buildings. It is time to look back on these issues.” Deputy Mayor of the city in charge of investment and urban development, S.Ochirbat, reasoned regarding the issue, “A project to reform construction standards was developed, but it is still not going forward. There was an effort, but permission on acceptable minimum must be determined first. We pleaded from relevant government officials to determine the acceptable minimum.” During the sub-meeting, private sector representatives were pointedly reminding people that government support and clear rules are needed to introduce redevelopment, new technologies for infrastructure sector and better practice.

While discussions to find a solution were going on in this hall, procurement opportunities in Ulaanbaatar and its related projects were introduced in other halls. Director of the City Procurement Office, Yu.Idertsogt, presented investment plans and activities planned for 2015; Head of the Planning and Research Division of the City General Planning Authority, T.Ganzorig, and Head of Concessions for Public-Private Partnership Innovation Division of Urban Economic Development Authority, B.Ganbat, presented city planning and concession projects.

Relevant officials assembled for a full day to develop the city. Issues are not going to be resolved by just one assembly. The aforementioned issues can only to be solved after several discussions, talks, consultations and quite a few years of partnership. Thus, rather than asking for direct results, a time to start all the discussed works should be given to the municipality. Don’t rush, but believe in the public and the private sector, and just give them some space. ■



**Small, medium enterprises**

*Shoes made in Mongolia will be sold on the international market*

## Before entering large markets

G.Orkhon

While participating in the Ulaanbaatar Investment 2015 forum, the Director of Best Shoes LLC, B.Tuvdennyam said, "Today, our company has signed a contract to export 200 shoes to the Netherlands." It is evident from his words that Mongolia has the opportunity to compete internationally and build a standard industry in the country. Like him, many entrepreneurs were saying that they have already started selling their products globally during the "National Symposium of Small and Medium-sized Enterprises" held last month. Clearly these small and medium-sized enterprises (SMEs) constituting 70 percent of the total GDP have their eyes on the global market.

It has been said that the government, especially the newly established Ministry of Industry, will support export and import substitution and industrialization through policy. Currently, SMEs make up only 0.7 percent of the country's total exports. Therefore, Head of Small and Medium Industry Policy Regulation Agency in

Ministry of Industry, G.Bilguun, said they must prepare SMEs' export capacity. The Ministry of Industry will put emphasis on financing projects that will introduce new, innovative technologies and support output and production for exporting. The government is planning to finance SMEs with MNT 70 billion worth of low-interest loans.

More than 80 percent, or 50,600 people, of the entrepreneurs are engaged in SMEs. Most of them are concentrated in the capital. Thus, entrepreneurs said we must pay attention to the labor force and human resources first, in order to develop this sector and to expand the market. They also said our country's labor force development system is not up to par. As a result, there is a shortage of professionals and experts in the marketplace. Therefore, there is a need to train these subpar professionals and experts in conjunction with relevant organisations. At the moment, private sector participation in the economy, an essential aspect of developing

the current labor force and meeting demand, is at 60 percent. On the other hand, university and college professors were saying during the forum that entrepreneurs should provide students with an opportunity to practice and gain experience.

### WE LACK STATE SUPPORT

The majority of the SMEs are engaged in wool, cashmere, textiles, woodwork, leather and food production. They stated that there are many issues when putting goods manufactured in Ulaanbaatar on the international market, as well as hindrances in doing business domestically.

**T.Otgonbayar /General Director of TACO, LLC/:**

-Mongolian companies kneel down at small sign of economic volatility. The social insurance tax needs to be reduced. Promising small and large businesses should be supported. The tax base must be expanded legally. We

need to computerise the employment process. Manufacturing is associated with the labor force. Public policy should target to those who want work. Please establish a labor training center. As for infrastructure, our country has linked faraway provinces with the city by paved roads, so it's easier to transport goods to and from the city now. So now, we need to introduce better postal services.

The government needs to think about how to transform herders to manufactures, we need to make them agriculturally cooperative. Land issues remain a problem for manufacturing. We can't acquire land, even when willing to pay for it. There is no support at all. The private sector participates in international trade fairs at their own expense. We simply lack state support.

**Ch.Ganbat /General Director of Gazar Shim, LLC/:**

-Since transitioning to a market economy, the food industry has been the most successful industry, that is, until now. Our country doesn't have a laboratory that analyses the internal components of imported products. It's common for results to differ when analysed in Mongolia as opposed to being analysed abroad. We have a lot of potential to export our products. However domestic analyses of products and goods are not meeting international standards. Therefore, the government should support testing and analysis centers. Russia has stated that they're ready to buy our products if we meet their analysis requirements. Mongolia needs to be recognised as a global organic and natural food manufacturer, so the government needs to emphasise this and provide support. It is difficult for us manufacturers to meet international standards and certifications all on our own. Therefore, we lack state support. Manufacturing will not develop without innovation. In fact, every sector must make an innovation in order to raise Mongolia's level of competitiveness. There are entrepreneurs who can establish an industrial or infrastructure park without any state financing.

**B.Tuvdennyam /Director of Best Shoes, LLC/:**

-We took an MNT two billion loan via Chinggis bonds. Leather processing factories like "DarkhanNekhii" want to give their raw materials to us and put their finished products into foreign markets. We're very optimistic about the economic partnership agreement with Japan. In the past, we exported handbags to Japan. In doing so, we exported our products

through retail because the customs duty was uncertain. Now we believe an opportunity for us is here. We have a positive opinion on high cost imported goods, because people would not want to buy expensive poor quality goods. The government needs to support manufacturing for domestic demands by a policy, rather than yearning for exports.

Entrepreneurs are facing issues such as these when doing business. In the past month, representatives of SMEs voiced their opinions to relevant officials at several meetings and conferences. Head of Small and Medium Industry Policy Regulation Agency of the Ministry of Industry, G.Bilguun, said that the Ministry of Industry is emphasizing the development of business clusters. Furthermore, the Minister of Industry, D.Erdenebat, stressed that "the government will cooperate with the private sector and academic institutions to develop a program to support innovative projects initiated by the youth." The Minister of Industry has signed a contract to develop an industrial park with the relevant authorities in Erdenet and Darkhan. G.Bilguun said that it is also possible to establish the much needed industrial parks in Ulaanbaatar and develop this sector.

### EMPHASIS ON RESULTS

Enterprises operating in the capital and its employees are the largest investors in the development of the city. Deputy Mayor of Labor and Social Protection Affairs of Ulaanbaatar, Ts.Buyandalai, said that the private sector is the largest sector investing in Ulaanbaatar. He said, "It's the government and city administration's responsibility to support the enterprises engaged in manufacturing. We have allocated a MNT 15.2 billion fund for it in the budget. MNT 100 million worth of funding will be provided to every khoroo of the capital. The new policy of the city administration affords each khoroo the right to choose who gets the loans." In order to make Ulaanbaatar a city with greater economic capacity, current social issues need to be resolved. According to Ts.Buyandalai, economic capacity can be improved by increasing the citizens' average salary. Therefore, it is good to support the enterprises that provide jobs.

There are several organisations that support the development of SMEs, one of them being the city owned "Small and Medium Enterprises Development Agency." The Head of SMEDA,

B.Odgerel, said, "We're emphasizing the providing of loans from Small and Medium Enterprises Fund to manufacturers without any setback. We granted MNT five billion last year. As for this year, MNT one billion has come into the fund at the moment. This year, MNT one billion is placed in the Guaranteed Credit Fund. Banks receive the financing project and send us the collateral verification results. As a result, we finance acceptable projects." As of today, the Small and Medium Enterprises Development Fund has granted more than MNT 3.9 billion loans to a total of 41 enterprises including 13 dairy farming and four pig farming enterprises. B.Odgerel said that the city is focusing more on enterprises which have potential, even though very few enterprises are being afforded loans. Currently, the agency has a financing of MNT 15 billion that will be lent to small business owners. There are also the government and Development Bank loans. Thus, it can be seen that there is a relatively large number of borrowing options. However, the question is how the entrepreneurs are going to be involved in these loans.

Small and medium-sized enterprises encounter many obstacles during development. It is inefficient to limit this sector to solely the domestic market demand. Experts briefly stated that we are not thinking about to whom and for what our production is intended. SMEs should study the global market and market demand, instead of manufacturing based on their personal interests. During Ulaanbaatar Investment 2015 forum under the theme "Partnership for Development," professor L.Oyuntsetseg talked about how a certain Japanese professor's dog was resting on a felt mat with a picture of Genghis Khan on it. It is an example of how we are not thinking about the products we are manufacturing today. In other words, knowledge-based manufacturing is lacking.

Experts stressed that public-private partnerships must solve SMEs' issues together. An opportunity to develop small and medium-sized enterprises should be presented if government shares the burdens of entrepreneurs and solve their issues together. At the same time, the experiences of highly developed countries can also help us to resolve the issues we are facing today. ■

## The beginning of international arbitration

A.Burenjargal



The discussion about developing Ulaanbaatar to become a regional financial hub was highly emphasised during last month's Ulaanbaatar Investment 2015 forum. Attendees were reminded that infrastructure, social and capital market development issues are important. However, most of the attending representatives agreed that the main foundation of these changes depend on the consistency of the legal environment.

Several important steps need to be taken in order to become a financial hub in the near future. One of them is to establish an internationally recognised arbitration institution, because it has become common to resolve investment and business related disputes between countries through arbitration. In recent years, many international business disputes have been resolved through arbitration due to advantages over domestic courts. The Ulaanbaatar Chamber of Commerce (UBCC) is aiming to establish an arbitration unit in order to expand the business sector's reliance on it. The issue of establishing international arbitration was discussed during the Ulaanbaatar Investment 2015 forum. The supervisor of the working group drawing up the bylaws at the UBCC, Ts.Munkh-Orgil said, "The chamber's rules and regulations on arbitration are almost ready to be processed. Operations will gradually catch up. However, it's going to take much longer for the chamber's arbitration unit to reach the international level. We can't reach this goal in the next 20 to 30 years. For now, investors will seek internationally recognised arbitration courts in Hong

Kong, Stockholm or Paris, rather than seeking us. However, it's our future goal to be internationally recognised and for this arbitrator to become the beginning of the city's arbitration which operates independently and fairly." Officials consider the first step to making companies operating in Ulaanbaatar seek arbitration at the UBCC is to resolve their disputes. Though it has full rights to handle arbitration, to do so, arbitrators must be approved and relevant laws need to be developed. According to the committee creating the regulations, the arbitration arm of the UBCC will officially approve their rules on May 1st, and this unit will be able to carry out permanent as well as temporary operations.

Arbitration has distinctive features from judicial proceedings as arbitration allows the parties to choose arbitrators with appropriate degrees of expertise. It can be cheaper, and in most legal systems, there are very limited avenues for appealing an arbitral award. On top of this, information regarding arbitral proceedings and arbitral awards are generally not disseminated to the public. Currently in our country, the Mongolian International and National Arbitration Centre at the Mongolian Chamber of Commerce and Industry is operating in this field. The Mayor of Ulaanbaatar, E.Bat-Uul said, "We will support and cooperate on the establishment of an arbitration unit at the UBCC." He added, "Foreign countries will welcome in many ways the usage of arbitration to resolve business sector cases and disputes." Issues regarding arbitration were raised during the "Dispute Resolution Professional Organs (courts

and arbitration) and its Business Relationships" panel of the Mongolia Economic Forum 2015. Specifically, it was discussed how our country's dispute resolution organisations are still not specialised during this panel. Arbitration in Mongolia still has not developed significantly, even though the law on arbitration was last revised in 2003. Lawyer Ts.Munkh-Orgil stressed that information and knowledge about arbitration must be more widely spread. The development of a country's judicial system is taken into consideration when determining its legal environment for business. Entrepreneurs are not interested in going the litigation route due to the heavy caseloads, many steps and various formalities. In addition, investors consider economic conditions, a stable tax environment and a healthy judicial and arbitral environment as the main criteria when deciding whether to invest in a country. Therefore, the development of arbitration is regarded as one of the keys to incentivising and attracting investment. During the Mongolia Economic Forum, Member of Parliament Kh.Temuujin said, "The judicial sector will develop in many ways by creating fair competition with arbitrators." He also stressed the importance of establishing specialised courts such as arbitration and civil courts. Mongolia is a signatory to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, and in 1995, arbitration decisions made within Mongolia became enforceable in the 170 or so states and territories that have ratified the convention, with those states' awards also being enforceable in Mongolia. ■



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The Quality Supplier Development Center (QSDC) is a business development organization founded by private sector representatives and supported by the U.S Agency for International Development (USAID) funded Business Plus Initiative project. The primary objective of QSDC is to increase the competitiveness of Mongolian companies, enabling firms to overcome barriers to increasing sales and meeting the growing demand through its technical and financial assistance.

QSDC's Supplier Development Program serves both:

- large companies, who are seeking to develop their supplier portfolio (in size and quality) and;
- SMEs, who are in need for direct technical and financial assistance to grow their businesses.

**Supplier Development Program**

**Quality Management Program**

QSDC provides technical and financial solutions to Mongolian SMEs in order to:

- Increase production capacity;
- Introduce quality improvements and standardization, including acquisition of international certifications such as ISO and HACCP;
- Acquire and adopt new technologies;
- Develop new products or services;

QSDC offers demand-driven trainings in quality assurance areas. We provide following internationally certified trainings of the Chartered Institute of Environmental Health (CIEH) in Mongolia:

- Food Safety and Hazard Analysis and Critical Control Point – HACCP;
- Health and Safety in the Workplace.

Additionally QSDC provides Six Sigma – Green Belt Training in cooperation with our partner organization.

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## "6 SIGMA GREEN BELT" TRAINING

THE QUALITY SUPPLIER DEVELOPMENT CENTER (QSDC),  
IN PARTNERSHIP WITH WAGNER ASIA EQUIPMENT LLC,

is organizing 3-day **SIX SIGMA GREEN BELT TRAINING** course (MAY 11-13, 2015)

delivered by Black Belt instructors that teach and prepare professionals to apply the principles, practices, and techniques of Six Sigma in order to accomplish breakthrough quality and process improvements within their organizations. The Six Sigma methodology is a disciplined, data-driven approach and methodology for eliminating defects in any process from manufacturing to transactional and from product to service used extensively by top Fortune 500 companies such as General Electric and Motorola.

QSDC is a business development organization, founded by private sector companies and the USAID's Business Plus Initiative project. For more information about QSDC visit [www.qsdc.mn](http://www.qsdc.mn)

FOR REGISTRATION DETAILS:

Training date: May 11-13, 2015  
Registration email: [dulguun@qsdc.mn](mailto:dulguun@qsdc.mn)  
Phone: (11)-321375; 99172787  
Deadline for Registration: May 8, 2015

Training fee: **450.000 MNT**

**20%** discount for people who paid before May 4th , 2015

**20%** discount for companies to train 3 or more employees

**50%** discount for companies to train 8 or more employees