

# MONGOLIA

## Warrior Spirit Catches Investment

As Mongolia heads toward unprecedented growth in the coming years when lucrative mining projects go into full production, we investigate the situation on the ground.

**S**ituated between two of the largest world economies, Mongolia, the resource-wealthy neighbor of China and Russia, has been roaring ahead in recent years with the warrior spirit embodied in its heritage by the formidable, empire-building Genghis Khan, to become one of the world's most promising emerging economies.

With vast natural reserves that include coal, copper, fluorite, gold, iron ore, lead, molybdenum, oil, phosphates, tin, uranium and wolfram, the vibrant country is all set to write another rich chapter in its history.

In recent years, Mongolia has enjoyed strong growth because of huge international mining projects and government spending, but, like most emerging nations, it has challenges. Many of the country's 2.8 million people live a nomadic lifestyle, with more than half of the capital of Ulaanbaatar's 1.3 million inhabitants residing on the edge of the city in traditional homesteads, without power or running water. While infrastructure in general is severely lacking across the country, which is just slightly smaller than Alaska, the government is plowing ahead with reforms that will increase internal investment.

To keep pace with urban areas that are creeping up around the mining sites and becoming fully functioning towns, the government has launched an effort to build approximately 5,600 kilometers of railway

infrastructure in three phases, as well as thousands of kilometers of new roads.

For Prime Minister Norovyn Altankhuyag, who heads the coalition government, stability and fiscal reforms are priorities, and job creation, greater transparency, and important construction projects in energy and transportation will be tackled over the next three years.

"We have managed to raise \$1.5 billion in what is known as the Chinggis Bond from international markets that will be used to strengthen Mongolia as a whole," he says. "We will be financing the areas that support the mining sector, as well as looking into ways of diversifying the economy. We are creating policies that promote both local and international investment and deal with existing projects. The Oyu Tolgoi mine, for example, which was implemented by Rio Tinto and the previous government, is experiencing some slowdowns, and we are doing our best to come up with solutions that satisfy both parties.

"Mongolia is open and willing to cooperate with foreign investors. Things have been shaky, but democracy is not always a perfect animal," Altankhuyag notes. "We are working hard to promote greater transparency, to create greater access to international lines of credit, increase liquidity in the country, and make sure it remains an all-round exciting investment destination. Mongolia is entering an extended economic boom. Now is the time to come."



With environmental and safety best practices as standard, Monroad LLC is working hard to alleviate the traffic challenges in Mongolia's busy capital.

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**Norovyn Altankhuyag**  
Prime Minister



**Chultem Ulaan**  
Minister of Finance

In a year that marks the 50th anniversary of ties between Mongolia and the U.K., the annual Mongolia Investment Summit will be held from April 16 to 18 in London, a city that, as one of the world's financial capitals, presents an

ideal opportunity for Mongolia's mining companies to raise capital and organize IPOs.

The U.K. is also seen as an important partner in Mongolia's efforts to strengthen democracy and build a market economy, with bilateral relations becoming more pragmatic in recent years. This past November, the 10th Mongolia-U.K. Round Table allowed officials and potential investors to review joint achievements and discuss future activities.

"There is a strong belief that one of the significant pillars of our bilateral relations, apart from the political ties, is going to be mature trade and economic cooperation," says Bold Luvsanvandan, minister of foreign affairs.

## Wolf Petroleum is the fastest-growing oil exploration company with the largest acreage in Mongolia

With government revenues expected to triple over the next six years as the mines go into full production, the focus is on building a sustainable economy with lines of credit open to investors.

"Our priority is to get spending under control, and with the state budget sustainability law, we should be able to accomplish this effectively," says Minister of Finance Chultem Ulaan. "Fiscal loss should not be more than 2% of GDP. The percentage of total expenditure growth rate for the year should not exceed either the percentage of GDP from non-mining activities or the average rate of GDP growth from the non-mining sector of the last 12 years. This way we should get inflation down. Last year it was 14%, which is obviously not sustainable. Greater value addition is also going to be promoted inside



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the economy. "The Chinggis Bond will support this, although most of it will go towards infrastructure development, social spending, and the government budget. Right now our infrastructure is too underdeveloped to support the rapid growth of the country," he says. "It requires major upgrades that will lay the groundwork for further economic growth."

With 512 branches, and more than 4,300 employees, Khan Bank is the largest bank in Mongolia, serving an estimated 80% of households. Seen as a bridge for foreign companies, the bank is committed to boosting access to international credit lines, while boosting transparency. Norihiko Kato, CEO of Khan Bank, provides this overview of the economic situation.

"Mongolia experienced growth of 17.5% in 2011; in 2012, we saw around 12.3% growth. We experienced very tight liquidity because the central bank increased our policy rate five times over the last two years," he says. "Local currency was tight, growth slowed, and inflation was high, around 14%. At the beginning of 2011, it was 10.6%.

"In 2011, our bank grew by 70%. Last year, our loan growth was 26%," Kato continues. "This is comfortable growth under the circumstances, and loan policies are very attractive right now.

The Chinggis Bond was a success—it was 10 times over-subscribed. But we have to tighten the seatbelt. Global investors are looking at Mongolia carefully. The government has already announced the release of another \$3.5 billion in the future. If Mongolia is to do this, we really need to grow political transparency. People need to

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**Gem Stone Island, a new pioneer in Mongolian real estate development.**

know what to expect.” Transparency is a key facet of the Khan Bank philosophy. “We are always striving for compliance,” Kato says. “Even minor violations are not tolerated. This is part of the reason investors have confidence in us. We have a very good relationship with a number of international finance agencies. We have created a more stable environment all around for growth at Khan Bank. We actually had a bond program prepared in 2008 but have never used it because we have always had access to credit.”

The bank chief sees plenty of synergy between the U.K. and Mongolia. “The U.K. market is one of the most important capital markets,” he says. “London has the capacity to fund banks and companies here, and also the experience to help us develop our techniques and financial tools. It can also support Mongolian law. Boosting relations between the countries would be an excellent way to make sure companies can finance themselves.”

As opportunities in the country have grown, the Mongolian Investment Holdings Group has blossomed from a mining consultancy, established in 1997, to a major group, with more than 20 subsidiaries, operating in the fields of life and health insurance, venture capital and asset management, construction, and mining.

“MIH is unique and well positioned to be active in sectors that are going to boom in the future,” says chairman and CEO Dugar Jargal-saikhan. “People need to remember that the democratic Mongolia is only just over 20 years old, yet it has managed to become a really hot investment destination. If you compare it with other countries that started to move to a free market economy and democracy at the same time, we are way ahead. I predict the next boom will be in renewable energy. Meanwhile, Mongolia has plenty of coal and uranium reserves, and, as with all mineral-rich countries, value-added processing rep-



**D. Bat-Ulzii**  
President, Sunday Group

resents huge scope for investment. We also provide an excellent gateway into Asia.”

In the meantime, the award-winning Sunday Group is using its significant expertise to build landmark civil and special-purpose buildings to revolutionize the landscape.

“Mongolians are nomadic people,” says D. Bat-Ulzii, president. “The whole idea of city development has only been around for 63 years. The Sunday Group has been operating and building beautiful real estate complexes for more than 20 years.

If we compare our initial process to construct building from back when we started until now, there is a huge difference in the way we build. Nowadays we are much more high-tech and have many ideas coming in from other countries. I have envisioned several big projects, but one of the biggest obstacles we face is the financing, the investment part. I would love to see the financial sector open up so that foreign banks could come to Mongolia and offer better investment conditions.”

The Sunday Group, which employs 150 qualified construction specialists, is hoping to garner around \$100 million in finance for its latest urban development project, the Mongolian Empire Complex. Celebrating Mongolia’s unique history, the result will boast multiple restaurants, a palace for official events and a magnificent heritage museum. “The main blueprint for the project will be finished in July and has already been approved by the general architect. This will be my gift to the next generation,” Bat-Ulzii says.

The group is also seeking partners for Gem Stone Island, a landmark town project that will bring “international quality to the capital, while also building business in the county,” according to Bat-Ulzii.

### A Booming Insurance Market

MIG Insurance is also enjoying exponential success. Established in 1997, the company saw the insurance sector grow by a staggering 20% last year, thanks to a compulsory motor insurance law. The third-largest insurer in Mongolia, MIG has 26 branches across the country and works closely with more than 200 insurance agencies.

“Liability insurance currently represents about half of the market premium. There are a lot of mining companies, yet only 10% of the market is concentrated in that sector,” according to Jandav Bat-Orshikh, MIG’s chairman, president, and CEO. “Most of the major mining companies have their insurance at their headquarters abroad.”

“There is a growth of liability insurance in Mongolia, and many projects are planned this year,” says vice president Ganbat Batbayar. “MIG stands out for its relations with the global insurance market. It is very easy to introduce terms and conditions of the new insurance products or import those products, and we often do. We want to tap U.K. companies and develop their products here because they have a highly



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evolved insurance sector, while we have a lot of mining, energy, and railroad projects. It would be great to work together on those projects.”

For Ard Insurance, whose strength lies in the reinsurance sector, the largest untapped area is retail. “Our premium income has grown tenfold since I joined the company in 2008,” says CEO Mrs Chulunsetseg. “The market is very small—only 0.03% of GDP—but it is becoming more attractive, and people are investing.

People now have the financial resources to buy insurance products, and the numbers are increasing day by day. The most popular policy is motor insurance, because more people are buying cars. And people are becoming wealthier, so they are thinking about risk management. I have been in the industry for 22 years, so my experience and professionalism makes my company different,” she adds. “We also have the know-how from a British company that invested in our company in 2004.”

### Delivering Infrastructure

With so many new companies springing up and delivering commodities from A to B, logistics is an ever more crucial sector. Established in 1999, Mongolian Express (Monex) is now a leading name in freight forwarding and logistics and enjoys close working relationships with more than 100 overseas partners.

Monex CEO D. Enkhbat says: “Infrastructure in the country is very underdeveloped, and we are only just beginning to connect the regions. With mining about to take off, infrastructure has to grow faster. The development bank will provide us with a considerable amount of money—\$100 million—but we need more. The Sainshand railway, which is about 400 kilometers long, requires an outlay of \$1.4 billion, while the longer railway will require around \$4 billion.



**Dongwon Chung**  
General Manager, Ramada Hotel



**D. Enkhbat**  
CEO, Mongolian Express



**Tengis Garamgaibaatar**  
CEO, Monroad

“Mining is booming, and the rail network is struggling to keep up,” he says. “We are a landlocked country, so we either export our coal through China or Russia. Our rail system is not compatible with China’s, so we are working out how to get our high-quality coking coal to Russia, where it can be sent on to Japan, Korea, and Taiwan, where the demand is huge.

“We are hoping to get funding for 400 kilometers of high-quality highway, and once this is done, we will use road trains that allow us to transport larger amounts of coal over large distances. In the meantime, we are building a docking facility where the two big mining projects can unload their products to ease the flow of business.”

Meanwhile, infrastructure company Monroad is building a main road connecting all the roads in the capital. “The city itself is very small and doesn’t have a proper road structure. It was made for a small number of people, and no one predicted it would grow so fast in the future,” says Tengis Garamgaibaatar, Monroad’s CEO. “The new roads will be important for the whole economy.

**Mongolia's Best Thermal Coal\***

\*BDSec research report, November 2012

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James Passin, Chairman

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“The government also wants to connect Ulaanbaatar with six provinces, so we have a lot of work to do. Our road system was developed using Soviet standards, but we are introducing new technologies, like cement and chip sealing, to reduce damage and preserve roads. We are very optimistic and looking forward to financial support rolling in. The bond will be useful for certain things, but we are looking for other options, such as mining and foreign companies. We have vast experience in building mining roads and are a 100% Mongolian company.”

The construction chief believes the economy will boom significantly when the new roads are built. “Our mission is to stay in the leading position,” he says. “This year will be a great year for Mongolia, and there are a lot of projects under way.”

The tourism sector is also poised to benefit from the ongoing construction projects. Dongwon Chung, general manager of the stunning Ramada Hotel in Ulaanbaatar, is working hard to build awareness.

“When people enter Mongolia on business, we make it a priority to advise them of the wealth of opportunities here,” says Chung. “The Ramada is a world-class hotel: everything is pristine and brand-new.”

### Mining the Opportunities

And finally to Mongolia’s sacred natural resources: mining and oil. Beneath the country’s vast terrain lies a wealth of potentially lucrative metal and mineral resources, including what some U.S. experts believe is as much as 4 billion to 5 billion barrels of recoverable oil. There is still much exploration to be done. Wolf Petroleum is the fastest-growing oil exploration company with the largest acreage in Mongolia.

In terms of mining, Firebird Management LLC is making a huge impact on the country’s economy by taking control of local companies and restructuring them to make them internationally competitive. James Passin, principal of Firebird, is convinced of Mongolia’s future success in these markets.

“There are two Mongolias, in a way,” he says. “The Mongolia in the international news media that is a reflection of domestic policies, and the real Mongolia on the ground where people and entities are operating. It is an interesting climate in which to play capital. If you look at GDP growth over the last four or five years, the government is able to borrow money from international markets, so the potential is definitely there. That clarity didn’t exist five or 10 years ago.

“We try to create strong and healthy Mongolian companies,” says Passin. “If you look at Sharyn Gol as an example, which is listed on the Mongolian Stock Exchange, Firebird took control of that in 2010 when the market capital was \$8 million. Three years later the company is profitable, the market capitalization has increased 10-fold, and production has tripled. That company is almost 50 years old and has a lot of baggage. It took us time, and it was difficult, but if we hadn’t gotten involved, it would probably have been liquidated.”

Passin is also chairman of Undur Tolgoi Minerals, a well-financed company about 100 kilometers from the world-famous Oyu Tolgoi mine, on approximately 9,260 hectares of land. With headquarters in Vancouver, UTM is undergoing an aggressive exploration campaign.

## “The London Summit will be an excellent opportunity to shape the understanding of Mongolia.”

*James Passin, Principal, Firebird Management LLC*

“We created UTM in order to explore copper and coal potential in the country,” says Passin. “We have more than 500 exploration projects going on, with a strong team of expatriate geologists and other professionals so we can take advantage of these resources. The economy could be so much bigger if the country was more transparent. I’m hoping that what we do with Undur Tolgoi will make people more optimistic about the opportunities.

“The London Summit will provide an excellent opportunity for me to shape the understanding of Mongolia, particularly around the current investment law,” he continues. “I want to communicate the reality of what is going on on the ground, and I am optimistic that the law will be amended by Parliament this year. Mongolia today is like Qatar was at the beginning of the 1970s oil and energy investment booms. At that time, if you had bought businesses, shares, and stocks in any of the companies, you would be sitting on a fortune today.”



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