



DEVELOPMENT
BANK OF MONGOLIA



PPP MARKET AND RECENT DEVELOPMENT OF MONGOLIA

2018 APN CONFERENCE

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DEVELOPMENT CONTEXT OF MONGOLIA



MONGOLIA - At a glance

TERRITORY



1.56 MILLION SQ.KM

GDP/ GDP GROWTH



USD 11.5 BILLION
5.9%

NATIONAL ROAD MILEAGE



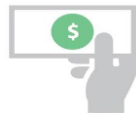
10.6K KM/102.6K KM

POPULATION



3.17 MILLION

GDP PER CAPITA



USD 3,640

NATIONAL RAILWAY LINE



1,815 KM

URBAN POPULATION



72%

UNEMPLOYMENT RATE



7.3%

ACCESS TO ELECTRICITY



81.8%

ADULT LITERACY



98.3%

CREDIT RATINGS

MOODY'S FitchRatings

B3
STABLE

B
STABLE

LIVESTOCK



66.3 MILLION

- The democratic reform took place in Mongolia in 1991 and it moved from a central planning economy to a market economy.
- Since 2000, GDP growth has been high averaging 7% per year and pushing Mongolia to the ranks of middle-income countries in 2011.
- The private sector currently generates about 80% of the GDP and 70% of the total employment.
- Since 2006, FDI has surged following the discovery of vast new mineral deposits of copper, coal, and gold.
- The mining sector accounts for about 20% of GDP and 80% of exports making the economy vulnerable to global commodity prices and economic cycles of trading partners.
- Agriculture, which accounts for 1/3 of total employment, is a pivotal sector of Mongolia. The livestock sub-sector comprises over 80% of agricultural output.
- Rapid urbanization is overwhelming available infrastructure and reduces the quality of urban life.
- Landlocked position and poor infrastructure makes transport costs high and Mongolia's exports uncompetitive.

Source: World bank, IMF, ADB



MONGOLIA - At a glance

MINERAL WEALTH



- **Copper:** 61 million tons
- **World ranking:** 4th



- **Rare earth elements:** 3 million tons
- **World ranking:** 6th



- **Iron:** 1.8 billion tons



- **Gold:** 2,500 tons

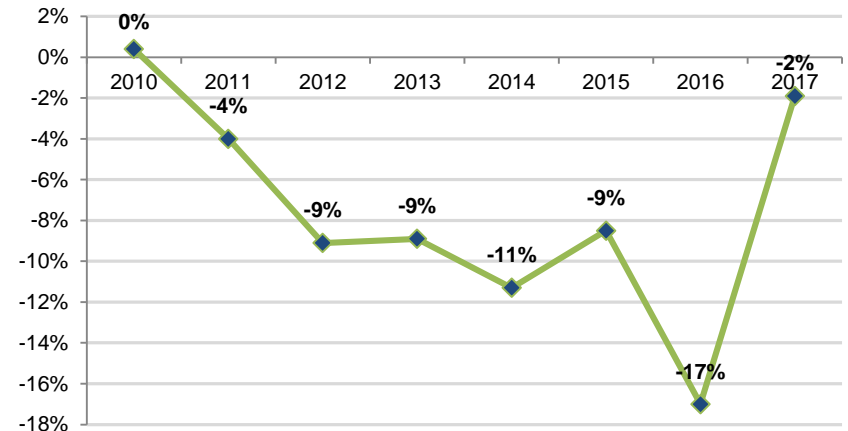
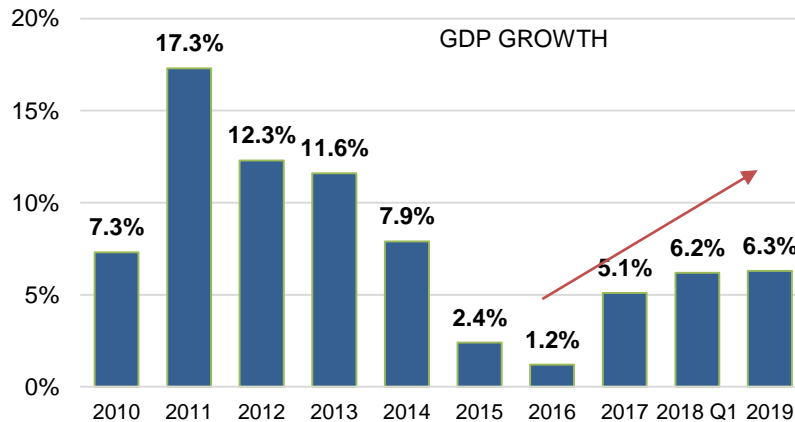


- **Coal:** 38.5 billion tons
- **World ranking:** 6th

USD 1-3 TRILLION

ECONOMIC SITUATION /recovering/

MONGOLIA IS IMPLEMENTING IMF PROGRAM, WHICH AIMS AT STABILIZING THE ECONOMY, RESTORING DEBT SUSTAINABILITY, AND IMPROVING FISCAL AND MONETARY MANAGEMENT.



- GDP growth has fallen from 17.3% in 2011 to 1.2% in 2016, due to a worsening external environment characterized by plummeting FDI and falling commodity prices.
- This has undermined macroeconomic stability, with the balance of payments coming under pressure, public finances deteriorating significantly.

Source: MRAM annual report, minerals.usgs.gov, IMF, ADB



MONGOLIA - At a glance

INFRASTRUCTURE NEEDS

- THE CURRENT STATE OF INFRASTRUCTURE IN MONGOLIA IS INADEQUATE TO MEET THE NEEDS OF ECONOMIC DEVELOPMENT, DRIVEN BY THE POTENTIAL FOR EXPLOITING MONGOLIA'S SUBSTANTIAL MINERAL RESERVES, AND THE DEMANDS OF INCREASING THE SOCIAL AND ECONOMIC WELFARE OF ITS POPULATION.



GLOBAL COMPETITIVENESS REPORT
INFRASTRUCTURE QUALITY

108
OUT OF 137



LOGISTIC PERFORMANCE INDEX

129
OUT OF 167



RAILWAY PROJECTS

USD
5.8 BILLION



ENERGY SECTOR PROJECTS

USD
2.2 BILLION



EDUCATION FACILITIES

USD
0.7 BILLION

- SUBSTANTIAL PUBLIC AND PRIVATE INVESTMENT IN INFRASTRUCTURE AND OTHER PUBLIC SERVICES IS NEEDED TO SUPPORT ECONOMIC GROWTH, DIVERSIFY THE ECONOMY, AND CREATE JOBS.

Source: World bank, WEF, MECS, in-house analysis

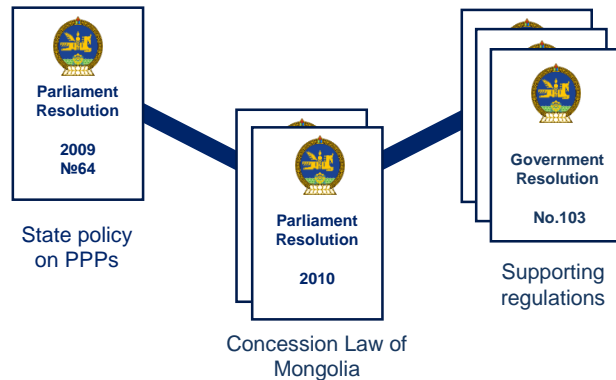


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PPP MARKET AND RECENT DEVELOPMENT

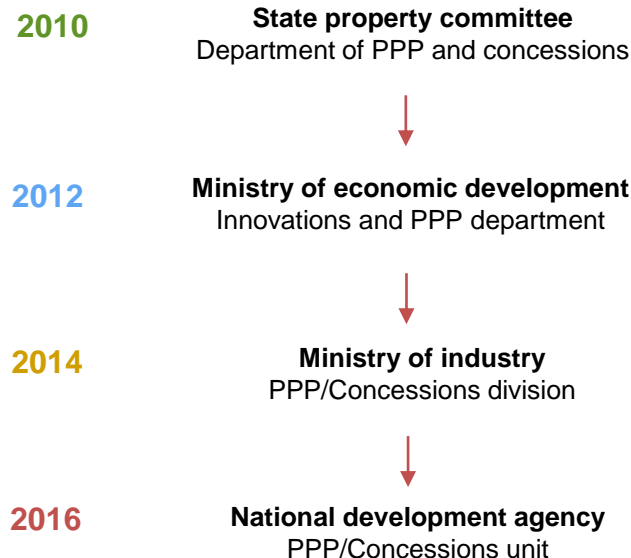
Legal and institutional framework for PPPs

LEGAL STRUCTURE



- **Parliament Resolution No.64 of 2009:** State policy on PPPs defines PPPs in the Mongolian context, identifies the types of projects that are eligible to be procured as PPPs, and designates State property committee as the agency responsible for implementing the policy.
- **Concession Law of Mongolia of 2010:** It mandates how PPP arrangements should be identified, procured, and awarded, and defines the respective roles and responsibilities of public and private sector parties.
- **Government Resolution No. 103 of 2012:** Procedures on granting a concession through a tender process govern the selection of the PPP private partner.

GOVERNING BODY



CONCESSION TYPES

73% OF THE SIGNED AGREEMENTS ARE BUILD-TRANSFER

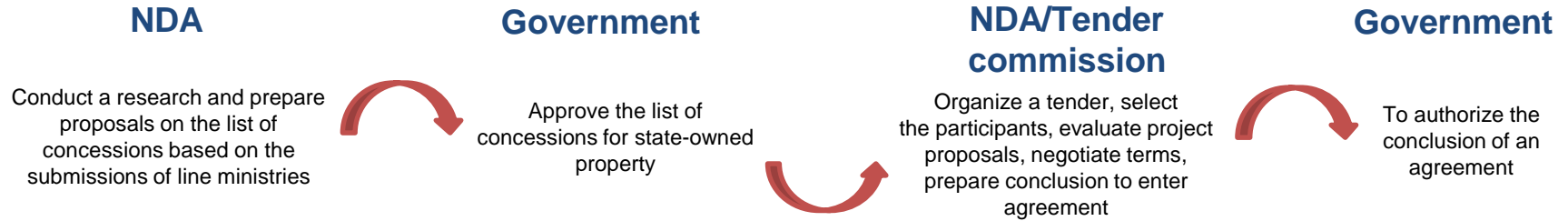
- Build-Transfer
- Build-Operate-Transfer
- Build-Own-Operate
- Build-Own-Operate-Transfer
- Build-Lease-Transfer
- Design-Build-Finance-Operate
- Renovate-Operate-Transfer



Due to worsening economic and fiscal conditions, the Government of Mongolia has decided to stop granting or signing BT concessions, which are to be repaid by the state/local budget until 2018.

Performance of PPPs

GRANTING CONCESSION



LIST OF CONCESSIONS

- IN 2010, THE GOVERNMENT APPROVED THE LIST OF **121** CONCESSION PROJECTS, WHICH WAS AMENDED AND REDUCED TO **51** PROJECTS IN 2013.
- AS OF SEPTEMBER 31, 2018, **180** PROJECTS ARE ON THE CONCESSION LIST, **55** OF WHICH HAVE BEEN SIGNED.
- 32 PROJECTS HAVE BEEN FINISHED OR STARTED ITS CONSTRUCTION.

Sectors	Signed agreements	Authorized agreements	Build-Transfer /BT/	Build-Operate-Transfer and other
Infrastructure and Construction	10	2	5	7
Road and Transportation	16	0	12	4
Energy	8	2	4	6
Health	1	0	0	1
Education	18	26	40	4
Railway	1	0	0	1
Communication	1	0	1	0
TOTAL	55	30	62	23

Examples of PPP projects



DARKHAN MINING AND METALLURGICAL COMPLEX

- **GENERAL INFORMATION:**

The complex project aims to increase current capacity of steel making, substitute imports of steel and produce value added new products.

- **Phase 1 - Completed 100%:** Started to operate deposits of Tumurtei (230m tonnes), Khust uul (12.6m tonnes), increasing extraction capacity in Tumurtolgoi deposit (25m tonnes), building concentration plant.
- **Phase 2 - Planned:** Renewal of the current steel plant, capacity enrichment, new DRI plant, steel plant.

- **COMPLETED:**

- **Wet concentration plant:** 1 million ton annual capacity, built in 2014.
- **Dry concentration factory:** Started to operate with capacity of 250 ton/h and 500 ton/h in 2015 in Tumurtolgoi and 750 ton/h in Tumurtei.
- **Steel Balls Replication Plant:** Built with capacity to produce 25,000 tons annually in January 2017.
- The construction of the 33.4 km 1520 mm gauge railway and loading terminal from Tumurtei deposit to Khandgait station has been completed.

- **CONCESSION TYPE:** Renovate-Build-Operate-Transfer

- **CONCESSION TERM:** 30 years

- **TOTAL FINANCING:** USD 700 million

- **CONCESSIONAIRE:** QSC LLC

- **LOCATION:** Darkhan, Darkhan-Uul province



EG RIVER HYDRO POWER PLANT PRELIMINARY INFRASTRUCTURE

- **GENERAL INFORMATION:**

- The project's goal is to build preliminary infrastructure necessary for the construction of the hydro power plant.

- Decrease air pollution and carbon monoxide emissions supporting sustainable green development.
- Develop sustainable regime of Central Energy System, reduce dependency on energy import.

- **CONCESSION TYPE:** Build-Transfer

- **CONCESSION TERM:** 5 years

- **TOTAL FINANCING:** USD 98 million

- **CONCESSIONAIRE:** China Gejuba Group

- **LOCATION:** 71 km away from Erdenet, Bulgan province, Khutag-Undur soum



BOGDKHAN RAILWAY PROJECT

- **GENERAL INFORMATION:**

- 117 km railway to ease the transportation of freights on the network and save cost and time.

- The existing railway network passing through UB city is congestive and its high speed limit is lower due to the twisted nature of the railroad.

- **CONCESSION TYPE:** Design-Build-Operate-Transfer

- **TOTAL FINANCING:** USD 500 million

- **CONCESSIONAIRE:** Authorized, not signed

- **LOCATION:** Tuv Aimag, Mandal-Bagakhngai sum

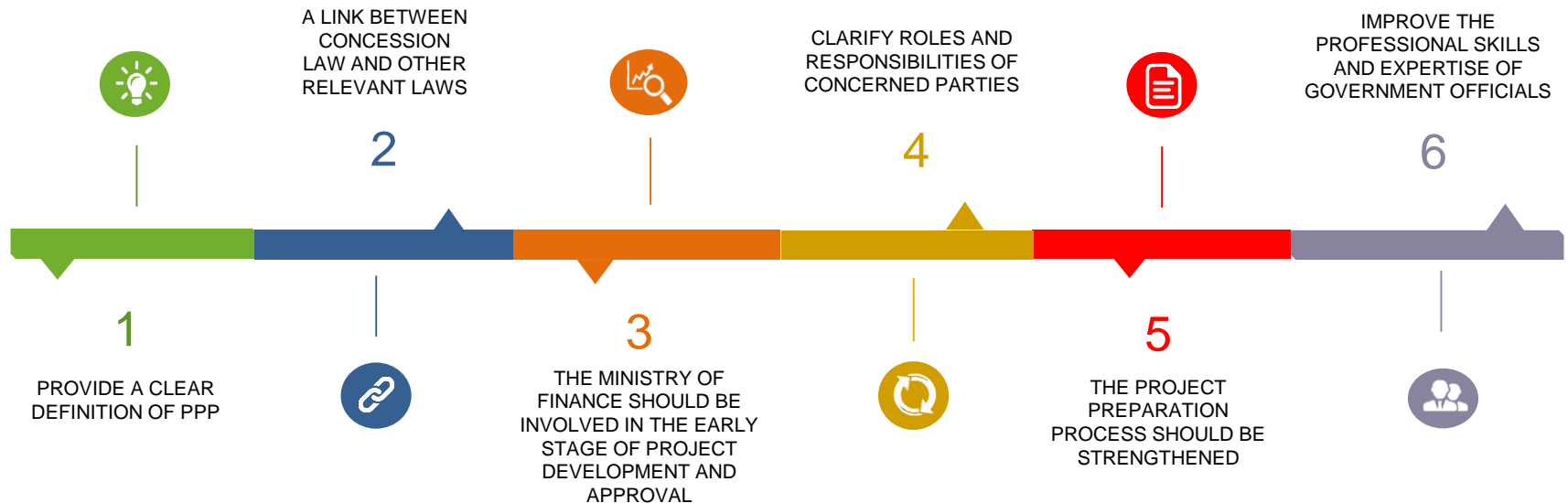
Key challenges and areas for improvement

KEY CHALLENGES

- 1 POLITICAL COMMITMENT TO PPPS REMAINS STRONG.
/SELECTION BY WAY OF POLITICAL HAGGLING AND POST SELECTION JUSTIFICATION HAVE BEEN MORE THE NORM/
- 2 KEY PLAYERS IN THE PUBLIC SECTOR LACK THE CAPACITY TO MANAGE COMPLEX PPP PROJECTS.
- 3 COOPERATION AMONG RELEVANT MINISTRIES AND GOVERNMENT AGENCIES IS LACKING.
/FREQUENT CHANGE IN GOVERNMENT POLICIES ON CONCESSIONS AND THE FOCAL AGENCY/
- 4 DIRECT AND INDIRECT PROJECT RISKS ARE VERY HIGH FOR PPP PROJECTS IN MONGOLIA.
- 5 LEGAL FRAMEWORK DOES NOT PROVIDE RISK ALLOCATION, LINKS TO PUBLIC INVESTMENT PLANNING, PUBLIC FINANCIAL MANAGEMENT, OR THE ASSESSMENT OF FISCAL RISK.

CLOSING

AREAS FOR IMPROVEMENT





3

DBM ASSET MANAGEMENT

About the company

BRIEF INTRODUCTION

- A WHOLLY OWNED SUBSIDIARY OF THE DEVELOPMENT BANK OF MONGOLIA ESTABLISHED IN ACCORDANCE WITH GOVERNMENT RESOLUTION No.135 AND DBM BOD RESOLUTION NO.66 OF 2017.
- DEDICATED TOWARDS INVESTING IN LARGE SCALE ECONOMIC GROWTH PROJECTS THROUGH INVESTMENT FUNDS.

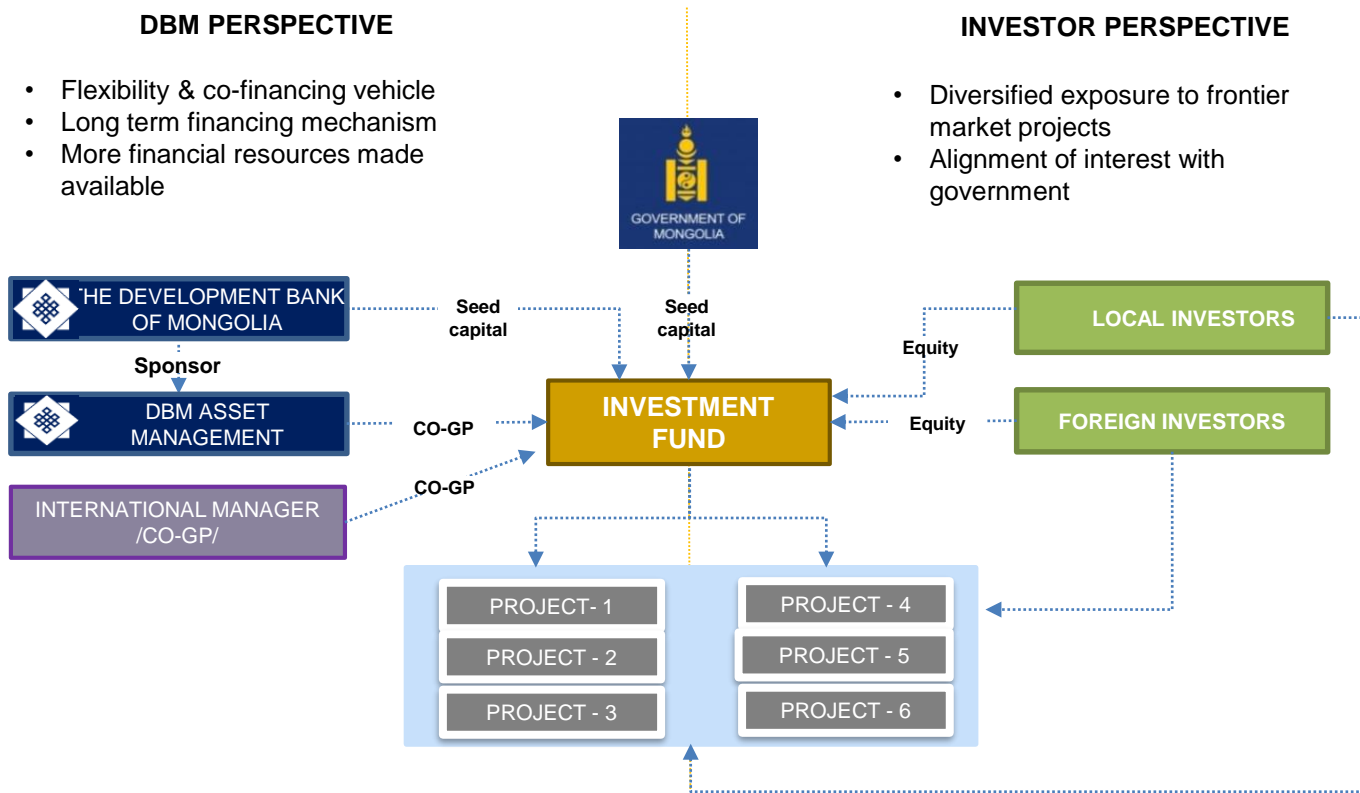


DBM PERSPECTIVE

- Flexibility & co-financing vehicle
- Long term financing mechanism
- More financial resources made available

INVESTOR PERSPECTIVE

- Diversified exposure to frontier market projects
- Alignment of interest with government



Investment funds



NATIONAL STRATEGIC INVESTMENT FUND

MAIN GOALS:

- To introduce flexible financing mechanism: Equity & Convertible Bond;
- Finance projects in its early stage /project development/

FUND MANAGEMENT:

- A sole GP - DBM ASSET MANAGEMENT

COMMITMENTS:

- DBM has committed **100 million USD** as an initial investment

INVESTMENT SECTORS:

- Mainly: Mining & Infrastructure.

DOMICILE:

- Domiciled in Mongolia
- The NSIF was registered by the FRC resolution No.188 dated May 23, 2018.
- NSIF will start its operations at the end of 2018.



INFRASTRUCTURE AND MINING FUND

MAIN GOALS:

- To finance large scale projects and increase competitiveness

FUND MANAGEMENT:

- Co-manage with an internationally recognized experienced asset manager /co-GP/

FUND SIZE:

- Target size 1.5 billion USD in tranches

INVESTMENT SECTORS:

- Infrastructure: Energy & Transportation
- Mining

DOMICILE & STRUCTURE:

- Open to having the fund domiciled in investor preferred regulatory environment.
- In discussion with several investment banks and placement agents on engagement: identification of project pipeline, fund structuring, market sounding, adjustment, soliciting investment.



ECO-DISTRICT & AFFORDABLE HOUSING FUND /EDAF/

- The company has been working closely with the ADB and Municipality of Ulaanbaatar on the implementation of the “Ulaanbaatar Green Affordable Housing and Resilient Urban Renewal Project”, which is a large scale redevelopment project that will deliver 10'000 housing units and redevelop 100 hectares of ger areas into Eco-districts.

MAIN GOALS:

- To provide funding for developers on the supply side and green mortgages for households on the demand side in the establishment of eco-districts.

FUND MANAGEMENT:

- A sole GP - DBM ASSET MANAGEMENT SC LLC

FUND SIZE:

- The fund has currently secured commitments from the Green Climate Fund.

DOMICILE:

- EDAF will be domiciled in Mongolia.
- It is planned to begin operations mid 2019.

**THANK YOU FOR YOUR
ATTENTION!**

Development Bank of Mongolia
DBM Asset Management Company
www.dbm.mn