



Chris Melville
Founding Partner at Melville Erdenedalai
LLP, Registered foreign lawyer (England)

ARTICLE

THE INVESTMENT CLIMATE

As we head into the first week of September, conference season is upon us, with a number of investor-related events taking place in the space of just 5 days, including traditional annual events such as Coal Mongolia, Discover Mongolia and the IWFCI Global Women's Trade Summit.

“All in all, a crazily busy week, but before the storm breaks it may be worthwhile looking at some key areas where investment has been active, where significant investment is required, and reflecting on the state of investor

confidence in Mongolia as an investment destination.”

Following the IMF bailout in 2017, the economy as a whole is performing well it seems largely off the back of improved or at least consistent commodity prices. Coal exports are certainly better with both Erdenes Tavan Tolgoi and Hong Kong listed MMC reporting improved results, and are an important driver for export revenues. Current projections show an expected GDP growth of between 6-7 per cent in 2018.

BUOYANT ENERGY SECTOR

A significant amount of activity has been seen in the renewable energy sector which has continued to be very active over the past 18 months. A number of new projects have been developed, including the 55MW Sainshand Wind Park during the course of this year requiring over USD 100 million investment from partners ENGIE, Ferrostaal, EBRD, European Investment Bank and the Danish Climate Investment Fund. This project is expected to come online towards the end of 2018. This followed on from the commencement of operations in late 2017 at the 50 MW Tsetsii Wind Farm, supported by Clean Energy Asia, a joint venture between Newcom and Softbank Energy, with financing from EBRD and JICA.

The solar power sector has also been highly active, with a number of projects closing successfully or under development and construction. These included Sharp Corporation and Shoji Shigemitsu's 10MW solar plant in Darkhan, completed in 2016; a second solar power plant developed by Sharp and Shigemitsu of 15 MW in Zamyn-Uud; and a 30 MW solar plant at Sainshand

backed by a loan from the EBRD and FMO, the Dutch Development Bank. A number of other projects are currently under consideration, all of them sponsored or supported by private sector players.

One caveat to this is that the capacity for renewable energy in Mongolia may be drawing to a close. The electricity grid infrastructure is ageing and according to the World Bank, sections of the grid see up to 25% distribution losses, with infrastructure upgrades required in order to bring further renewable projects online. If Mongolia is to participate in a form of Asian Super Grid, a project that has been discussed for many years, these infrastructure upgrades will be vital.

A number of other areas in the energy sector are being actively explored, including long term projects to develop coal bed methane natural gas production, as a cleaner fuel. This may also have the benefit over time of reducing the serious levels of winter pollution that plague Ulaanbaatar for three months of the year. ►►

► NEED FOR URBAN INFRASTRUCTURE

As urbanisation inexorably impacts Ulaanbaatar city, there is a lot that can and needs to be done around urban infrastructure.

This ranges from water management projects, to developing a distribution hub for imports and exports.

Developing a logistics and warehouse centre to improve distribution systems for import and export of goods is an increasingly important area for development. Combined with the new Ulaanbaatar International Airport there is significant potential for synergies in this sector, which would help to resolve bottlenecks in product distribution and potentially lower prices to the end consumer.

As regards water management, another key issue

for Ulaanbaatar, in 2018 the Millennium Challenge Corporation approved a USD 350 million compact to move forward with a Water Supply Project, which would involve construction of new groundwater wells downstream from Ulaanbaatar, a state-of-the-art water purification plant, construction of a new freshwater recycling plant and pipelines to provide high-quality treated freshwater, and policy and technical assistance support. MCC estimates that these projects will increase the supply of water to Ulaanbaatar by more than 80 percent.

These are some of the highlights of mainly private sector development projects over the past year and looking to future economic growth. What about the public sector and government-driven projects?

WHERE ARE THE MAJOR PROJECTS?

One area that has been disappointing since the 2016 election is in the sphere of so-called major projects. None of the major, largely energy and mining related, projects that have been on the radar over the past five years, such as CHP-5, Egiin Gol Hydropower Plant, TTPP, the development of TT itself and the railway network.

There is not a lot of time left for this government to develop projects of this nature which typically take several years to come online. That said, there are some encouraging signs with recent moves to seek a listing for ETT and cabinet decisions last month to move forward with the Gashuunsukhait border railway.

INVESTOR CONCERNS

While two of the conferences next week will be heavily focused on the mining sector, this of course remains the locomotive of the economy, and it will be interesting to hear the views of investors on the current climate. There are undoubtedly many issues, from pressure on Oyu Tolgoi, which foreign investors treat as a barometer of the government's attitude to FDI, to ninja miners, visa problems, ongoing licence suspensions and difficulties in dealing with soum and aimag level local government in moving projects forward. An additional concern is the fact that elections in 2020 are not far away, and politicisation of existing projects will become an issue.

“ *My own take on the FDI climate is that things are clearly improving in certain areas, such as banking and finance (including interest in cryptocurrency and derivatives transactions), renewable energy and broader long-term energy solutions.* ”

Mining remains a mixed bag, given the recent negative experiences of a number of foreign investors, however investors are always looking for opportunities to develop Mongolia's mineral resources and interest is likely to continue to grow as the commodities market has improved.

Policymakers need to recognise that Mongolia is always competing with other developing countries such as those in Latin America and elsewhere in Asia. This should be front of mind when creating a coherent longer-term strategy for the nation's development that does not focus on short-term wins.

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