



EPRC MONTHLY NEWSLETTER

APRIL 2008

Findings of pre-feasibility study on Zamiin Uud logistics facility presented



On 22 April at an extended meeting of the National Committee on Trade and Transport Facilitation (NCTTF) that included representatives of the private sector and international community, the project presented the findings of a pre-feasibility analysis of logistics facilities in Zamiin Uud. Michael Bennett, an international logistics expert led the project study team.

The findings focused on the border clearance facilities at Zamiin Uud where Customs and the State Specialized Inspection Agency (SSIA) perform inspections and a proposed new road-to-rail logistics facility.

Current conditions

Mongolia's major gateway, its "dry port" is choking, judging from a survey of 550 lorry drivers that the project conducted during 14-19 April. The average waiting times were:

- 23.5 hours for inspection of lorries with non-uniform loads
- 28.2 hours for uniform loads to be scanned
- 135 hours for non-uniform loads of lorries to be transferred to rail
- 34.2 hours for lorries queuing in China waiting to get to the Zamiin Uud border crossing point.

Although April is not "high season" for traffic in Zamiin Uud, the aggregate costs of these queues are enormous. They create a propitious environment for product supply shortages, price speculation, and informal payments that put additional pressure on prices already rising according to world trends.

In summary, the inadequacy of logistics facilities infrastructure in Zamiin Uud is constraining the supply of goods and thus

contributing to inflationary pressures on the Mongolian economy, coinciding with increased aggregate demand and high liquidity.



Customs and inspections clearance facilities at Zamiin Uud
Facilities and the area are inadequate to support current traffic and projected growth of the economy. They are also one of the constraints for Mongolia's ambitions to become a competitive transit corridor between China and Europe as proposed in the "Transit Mongolia" national project.

Exhibit 1 shows a satellite image of the current customs and inspections area in Zamiin Uud.

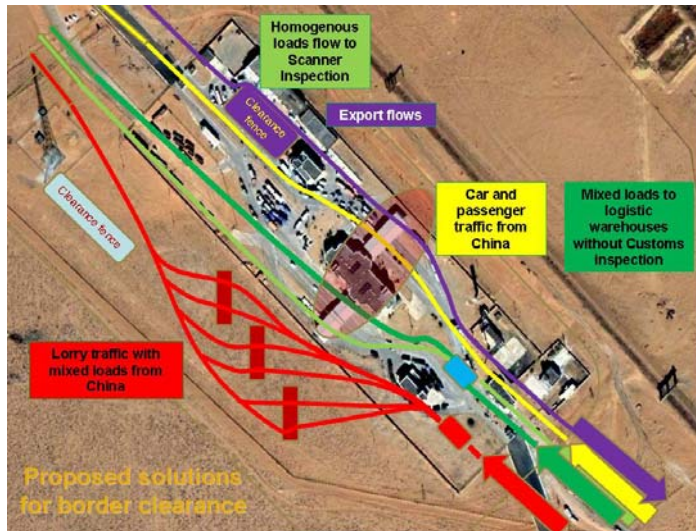
Exhibit 1: Current customs and inspections area in Zamiin Uud (satellite image)



The physical improvement plan presented in Exhibit 2 seeks to:

- Expand the area for inspections to facilitate inspections and lorry circulation
- Segregate passenger from freight traffic
- Segregate freight traffic by type of load: uniform loads to proceed directly to a scanner; non-uniform loads proceed to the inspections area.

Exhibit 2: Proposed solutions for border clearance in Zamiin Uud



At an indicative investment cost of \$2.5m to expand the customs and inspections area and assuming an average daily cost of operations of \$37 per lorry and a \$7 daily average cost of inventory, the Economic Internal Rate of Return (EIRR)—benefits to the economy as a whole—are conservatively estimated to be over 200%.

The project has been assisting the Mongolian Customs General Administration (MCGA), as a lead agency to re-structure these facilities, and the State Specialized Inspection Agency (SSIA). Current plans include the developing of drawings for the new layout of the area and construction specifications. The MCGA will issue the tender and supervise construction of the civil works.

New road-to-rail trans-shipment facilities

There is also a clear need for new road-to-rail trans-shipment facilities, once goods are cleared and inspected at the border. This will require a new site of at least 200 hectares to allow for long-term development.

As the location of the proposed new road-to-rail facilities will change the “center of gravity” of Zamiin Uud, it is recommended that:

- A 400 hectare plot be reserved and that a master plan on land use and zoning be prepared in parallel with the development of the new facilities
- A moratorium be placed on granting land rights for non-residential purposes in Zamiin Uud until completion of the physical plan for the new road-to-rail trans-shipment facilities and a land use plan is in place for land around the proposed new facilities.

These recommendations will allow for proper planning and estimation of financing for needed municipal infrastructure and the design of a transparent system for assigning land rights to generate municipal revenues. Erlian municipality, across the border in China, for example, is partnering with the private sector to develop and urbanize new lands. The private sector develops

the land and pays back to the municipality a portion of the proceeds once a plot is sold.

Donor and multilateral representatives attending the meeting expressed potential interest in assisting with Zamiin Uud’s master plan. Through its cross-border trade facilitation project, the Asian Development Bank could assist Zamiin Uud with the development of its master plan.

Exhibit 3: Proposed stages of new road-to-rail logistics facilities in Zamiin Uud

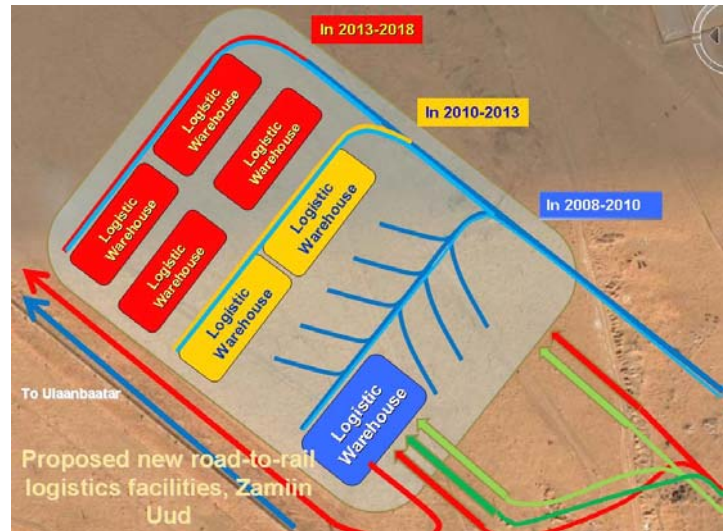


Exhibit 3 shows the concept and indicative phases for the development of proposed new road-to-rail trans-shipment facilities.

Pending more detailed feasibility analyses that the project will support, current indicative projected cost of the facilities when completed is estimated at \$120m. The estimated cost of the first stage to make the facilities operational, exclusive of logistics warehouses, is around \$5m.

The potential Public-Private Partnership

The proposed logistics and road-to-rail trans-shipment facility project is extensive (ultimately absorbing +/-170 hectares), multi-faceted (rail; road; storage/distribution/value-added), and costly. Furthermore, it contains elements of public policy and regulation (allocation of land and resources; economic and regional development; customs bonded activities) along with a range of purely commercial opportunities (both support to existing core businesses as well as new self-contained business ventures) assuming costs, particularly start-up costs, can be contained.

The mixture of perspectives and of stakeholder objectives inherent in such an initiative suggest that successful implementation of this project may best be accomplished through a Public-Private Partnership (PPP). If all stakeholders collaborate and cooperate, each can achieve its own ends while the project output can be optimized.

In such a PPP structure—perhaps a special purpose vehicle under current Mongolian legislation—would involve: the public sector through the municipality (land), the Ulaanbaatar Railways (UBTZ) and the Mongolian Railways. The private sector would be involved through freight forwarding companies and potentially a foreign strategic investor and operator. Mongolian freight forwarding companies have expressed willingness to invest in such a partnership under these conditions. The project will continue to assist stakeholders to make this vision a reality.

Journalists visit Darkhan Combined Heat Plant

On 25 April, eleven journalists from Daily News, Zuunii medee, Ulaanbaatar times, Niigmiin toil, Ardchilal, Mongoliin medee, Business news, MONTSAME, and one national and two FM radio stations visited the Darkhan Combined Heating and Power plant (CHP) to get first-hand information from its officials on current conditions, operations, and future plans to upgrade and rehabilitate the plant. Mr. G. Tuyakhuu, Deputy Director and Chief Engineer, Mr. B. Amsarvaa, Head, Engineering Department and Mr. Ts. Uuganbayar, Head, Financial Department, were on hand to brief journalists and answer their questions.



The 48 MW Darkhan CHP delivers 19% of Mongolia's energy needs. In continuous operation since its commissioning over forty years ago, the plant generates heat and power for Darkhan city and the entire Darkhan–Selenge region. Darkhan is Mongolia's second largest city and the region has rich mineral resources, extensive farming, and metals industries.

Officials and staff of the plant focused on three issues of critical importance: rehabilitation and maintenance problems, the financial deficit of the company and coal supply problems. These issues are inextricably intertwined because revenues are not enough to cover ever-increasing costs. Plant personnel added that the plant has not been collecting enough revenue to cover all of its necessary costs and that the main reason for the deficit is due to government setting of energy prices. Tariff increases can provide relief to the financial condition of the company.

However, the news is not all bad. Recently the plant agreed to (and Parliament ratified) a soft loan from Germany to procure and install a new turbine generator that will provide additional electricity more efficiently. Using state budget funding and some of its own funds, the plant has already completed rehabilitation and modernization of one boiler and will complete rehabilitation of a second in July 2008. These additions and renovations will improve plant efficiency, reduce the amount of coal needed and reduce environmental impacts. Expansion and rehabilitation of the heating system are also underway.

The plant also faces serious coal supply issues. The Sharyn Gol coal mine (located about 70 km from the plant) has been providing coal to the plant but recently threatened yet another coal price increase. This would worsen Darkhan CHP financial conditions. In addition, deterioration of mining conditions at the Sharyn Gol coal mine has reduced coal supply and the plant now has to procure coal from the Baganuur coal mine, located over 350 km from the plant. As the boilers of the plant are designed to use coal from Sharyn Gol, technical issues have surfaced regarding, for instance, the efficiency of the boilers and increased fuel consumption rates.

Queried about plant safety, officials stated that the plant has an excellent safety and health record. In spite of this, low salary levels of employees are causing defections to the metals industry where salaries are much higher.

The visit to the Darkhan CHP is part of the public education campaign on energy issues that the Ministry of Fuel and Energy (MoFE) and the Energy Regulatory Authority (ERA) launched last summer with project support. Following the visit, fifteen media outlets delivered programs on the Darkhan CHP, including articles on print media, news coverage on TV and radio.

Tourism industry meets to discuss MNTO initiatives to promote Mongolia as a destination



On 4 April, 2008 the Mongolia National Tourism Organization (MNTO) NGO made a presentation to the tourism industry and its members on work done and future activities to promote Mongolia as a destination in the North American and European markets. Forty-five entities, representing, tour operators, hotels, ger camps, guides, tourism NGOs, and the Ministry of Roads, Transport, and Tourism attended the event hosted by the Brauhaus restaurant.

MNTO presented its current initiatives, including:

- A partnership to produce the 600 page book Mongolia: Travel Companion and Guide with Odyssey
- Organization of familiarization trips for North American press media and tour operators
- Advertisement placement with the National Geographic "Adventure" magazine.

Participants discussed the MNTO initiatives, expressed their support, and willingness to participate. The venue hosts, the Brauhaus restaurant, used the opportunity to introduce its range of packed meals to industry participants.

State Inspection Agency begins automation of Zamiin Uud border control to prepare for the Single Electronic Window

IT specialists from the Specialized State Inspection Agency (SSIA) and the project worked with staff of the Zamiin Uud SSIA border control offices during 15-20 April to assist with the initial deployment of their IT stations and network. Automation of these

offices at Mongolia's gateway is a main component of the agency's plan in preparation for its participation in the Single Electronic Window (SEW).

The major objectives of this first stage of the SSIA IT



improvement plan developed with project assistance were to assist the Zamiin Uud SSIA office with the:

- Installation and deployment of a basic local-area network (LAN)
- Assessment of IT skills of SSIA personnel and training needs requirements
- Conduct an initial survey of hardware and software (operating system and applications)
- Preparations for the implementation of the SEW by developing a staged implementation plan for automation of the office and its connectivity to the Customs' GAMAS system.

The joint SSIA-EPRC IT assessment team completed the assignment and prepared an assessment report on its findings. Main recommendations of the assessment included, *inter alia*, the following:

- Re-structure the LAN cabling in the Zamiin-Uud SSIA office and set up a simple file server to host essential templates of Excel spreadsheets to standardize general office operations
- Based on the file server, deploy an instant messaging solution over the LAN for quick communication among officers as well as between the laboratory & office that are located far apart
- Procure, install, and maintain a robust antivirus protection for all PC stations
- For the time being and until staff gain greater network management skills, segregate computers with critical data from Internet connectivity to prevent virus infections that could result in the loss of crucial data.
- Revise and standardize Excel spreadsheets for SSIA office use in Zamiin-Uud and other border points
- Develop and implement a simple database to capture the Excel-based data
- Implement a phased training plan to develop staff IT skills in network management and security
- Procure UPS (Uninterruptible Power Supply) and power stabilizers for all office computers to provide power fluctuation protection and battery backup in case of power outages

During the second stage of implementation of the IT plan, SSIA IT staff, with assistance from the project, will assist with the deployment and administration of a simple file server and conduct a series of hands-on IT training workshops for office staff. Such assistance will support the SSIA Zamiin Uud automation efforts and expedite its connectivity to the Customs' GAMAS system in preparation for the establishment of the SEW.

This Newsletter is a monthly electronic publication of EPRC project activities. Comments, suggestions, and requests for inclusion or deletion from our mailing list can be forwarded to: Editor, EPRC Newsletter, by e-mail fbertoli@eprc-chemonics.biz or fax: (976-11) 32 78 25.