



# EPRC MONTHLY NEWSLETTER

**MARCH 2008**

## Journalists get first-hand exposure to heating and energy issues

**Ulaanbaatar.** On 12 March, the Ulaanbaatar Heat Network (UBHN) Company, with project assistance, hosted a workshop for journalists of eleven daily newspapers, one national radio and two television channels.

Journalists got first hand information on current conditions of the heating network, future needs with regard to the growing population and blooming construction projects in Ulaanbaatar, as well as heating tariff issues.



The UBHN transmits and distributes heat generated at power plants # 2, 3 and 4 to Ulaanbaatar city. The heat transmission capacity has almost reached its maximum capacity and will not be able to meet the growing demand for new connections to the heating network. The demand for new connections is growing at an estimated rate of 13% per annum.

Approximately 70% of the pipe system of the central network has reached or is about to reach the end of their useful life—30 years. Hence, unless fresh investment is now made in the heat distribution system and new heat-generation sources, a reliable heating supply for Ulaanbaatar will be questionable beyond 2011.

Heat losses occur not only at the supply network but at user points. Journalists learned that users contribute to heating losses through improper modifications to heating pipes, extensions built to the first floors of buildings, improper insulation of windows and doors, etc.

UBHN management answered questions from journalists about the causes of failures of heat supply in winter, connection of new buildings to the heating network, and current condition of the network. The workshop also included a site visit to the substation that supplies heat for Khan-Uul district.

**Dalanzadgad.** Thirteen journalists from eleven media traveled Dalanzadgad, South Gobi, on 28 March to become better acquainted with the operational and technical failures that have plagued the Combined Heat Plant (CHP) since the start of its operations in 2000.



Built in 2000 with a US\$ 9.3 million loan from South Korea, the Dalanzadgad CHP frequently fails, interrupting power supplies to the Dalanzadgad city and five soums of the South Gobi aimag.

Between 2000 and 2007, the plant failed 173 times due to different reasons. Designed to have two boilers, one in operation and one in reserve, the plant has started to face more severe problems since early March 2008 when both boilers were out of operation. A blinder made at the design and engineering stage that assumed coal calorific value of 5,000 kcal/kg compared with actual coal with the heating value of around 5,300-5,800 kcal/kg supplied from the Tavan Tolgoi mine resulted in degradation of the boilers caused by metal melting. Improper oversight of other equipment being installed during the construction, migration of qualified engineers and workers for better paid jobs to nearby mines, including Tavan Tolgoi coal mine and Oyu Tolgoi, and inadequately trained current workers have all contributed to the high rate of plant failure.

Journalists had an opportunity to meet and interview local citizens, including apartment dwellers, businesses and management of schools, kindergarten and hospitals to learn about their experiences and hardships during power and heat failures.

As fate would have it, journalists could also experience the consequences of power and heating failures right before Dalanzadgad had the largest snow fall and accumulation of the last few years.

The Ulaanbaatar and Dalanzadgad workshops were 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.

## Logistics facilities feasibility analysis gets underway in Zamiin Uud

Continuing project technical assistance to the National Committee on Transport and Trade Facilitation (NCTTF), a joint team from EPRC and the Customs General Administration (CGA) visited Zamiin Uud and Erlian during 21-24 March to examine the process and facilities for clearance, inspections, and trans-shipment.



### Issues and constraints:

- In name, Zamiin Uud, is Mongolia's "gateway" or "land port"; in reality and in spite of its economic and geopolitical importance it has received little attention and resources; The People's Republic of China (PRC), on the other hand, has transformed Erlian (Zamiin Uud counterpart city across the border) into a thriving hub for trade and trans-shipment to Mongolia and beyond.
- Mongolia depends on efficient handling of its imports, exports and transit revenue through its Zamiin Uud gateway.
- Constraints for the efficient handling of imports, exports, and increased revenues from transit are, in order of importance:
  1. Insufficient number of locomotives and rolling stock of the Ulaanbaatar Railways (UBTZ), an issue being addressed through other projects and outside the scope of the present analysis
  2. Inadequate road-to-rail trans-shipment facilities and management
  3. Inadequate physical facilities for border clearance.

The major strategic objective of the two interventions outlined below is to turn Zamiin Uud into a modern gateway to Mongolia and beyond. Operational objectives of the interventions are, *inter alia*, to:

1. Reduce aggregate transaction costs—i.e., improve efficiency and effectiveness—of clearing and trans-shipment of goods
2. Facilitate control and improve operational transparency.

Two specific clusters of interventions are proposed:

- Border clearance facilities at Zamiin Uud (Customs and State Specialized Inspection Agency—SSIA)
- New Road-to-Rail and Expanded Rail-to-Rail Trans-shipment Facilities.

### Border clearance facilities at Zamiin Uud

Expand the capacity and improve efficiency of GoM inspections by:

- Segregating freight from passenger traffic
- Expansion of physical facilities for inspections, with layout designed to facilitate lorry inspection and lorry circulation
- Computerization and linkage of SSIA with Customs, consistent with requirements of the Single Electronic Window (SEW) for trade facilitation project
- Implementation of risk management systems and joint customs-SSIA inspections.

Specific physical infrastructure components for the border clearance facilities include:

- New cross-border entry road reserved for lorries
- Expanded and reorganized parking/inspection area
- Rerouted traffic flow with designated lanes, including escape lanes
- Platforms for laying out and inspecting freight
- Dedicated internal road corridor to scanner facility
- Potential second weigh scale for lorries—feasibility to be determined
- Potential second lorry scanner—to be confirmed.

### New road-to-rail trans-shipment facilities

To rationalize and expand the capacity for trans-shipment of goods once these are cleared and inspected at the border, the immediate need is for new road-to-rail trans-shipment facilities. Once these begin operations, the site now being used for this purpose can be used to expand the current Rail-to-Rail trans-shipment facility.

This will require, at a minimum, the following:

- Formal reservation of a 200 hectare site for phased long-term development
- High capacity road corridor linking site to new Zamiin Uud – UB national highway
- Expandable network of rail sidings with associated loading platforms for road – rail transfers
- Full range of transfer equipment from bridge cranes to forklifts
- Efficient internal road circulation network designed for heavy lorry traffic
- Warehouses with truck load/discharge platforms (built on spec and/or built to suit).

With assistance from logistics expert, Mr. Michael Bennett, the project expects to complete a technical report in April on the main trade and transport logistics constraints at the Zamiin Uud border, recommended priority interventions (projects) to address them, and an indicative plan of action for implementation.

## National seminar held on Transit Transport Framework

On 11 March, the National Committee on Trade and Transport Facilitation (NCTTF), with project assistance, organized a national seminar on the "Regulatory Framework for Transit Transport of Mongolia." The objective of the seminar was to present a recent EPRC analysis of the Mongolian regulatory framework for transit transport, with special emphasis on the Trilateral Transit Traffic Agreement being negotiated among the Governments of the People's Republic of China, Mongolia, and the Russian Federation.

Fifty-four participants attended the seminar, including: Mr. R. Rash, Member of Parliament, Minister for Road, Transport and

Tourism, and Chairman of NCTTF, Ms. Ts. Buyandelger, Senior Officer of the Cabinet Secretariat.



Mr. S. Altangerel, Head, Law and Treaty Department, Ministry of Foreign Affairs (MoFA), Mr. D. Naranpurev, Head, Transport Division, Ministry of Roads, Transport, and Tourism (MRTT), and Mr. V. Enkhbold, Head, Trade Policy Department, Ministry of Industry and Trade (MoIT) chaired the seminar.

In addition to the GoM working group for the forthcoming trilateral negotiations, participants in attendance included officers from the Cabinet, MoFA, MRTT, MoIT, the General Customs Administration, the Border Administration Authority, the State Specialized Inspection Agency (SSIA), the Mongolian Railway Regulatory Authority (MRRA), the Ulaanbaatar Railway (UBTZ), the Mongolian National Chamber of Commerce and Industry (MNCCI), and representatives from the private sector and NGOs.

In his opening speech, Mr. R. Rash emphasized the importance of the transit transport for Mongolia and underlined that it was the first attempt for the GoM to discuss the issues with the researchers and most importantly with the key beneficiaries-businesses.

MoFA and EPRC made presentations on:

- "Regulatory Framework for Transit Transport: A Comparative analysis"
- "Current status of Transit Traffic Agreement between the Governments of the People's Republic of China, Mongolia, and the Russian Federation"
- "Does the current draft enable Mongolia to achieve its objectives?"

EPRC's presentations focused on:

- International practices in transit transport agreements to facilitate trade and transport
- Instruments that Mongolia could use given its status as a landlocked country
- Possible impacts of provisions included in the current draft agreement, and
- Some issues of consistency of some provisions with the objectives of the agreement.

During the afternoon session the participants were divided into thematic groups and worked on the comments and recommendations from the study that were gathered as recommendations to the working group.

Participants emphasized the need for careful elaboration of the draft agreement to maximize the benefits for Mongolia and the need for international expertise to assist the working group.

The project is providing assistance to the working group, NCTTF, and MoFA with drafting of the technical annexes for the proposed agreement. NCTTF and the GoM view conclusion of this agreement as a "keystone" to help develop Mongolia's competitiveness as a transit corridor between China and Europe and generate additional revenues from the service sector.

## Mongolian delegation participates in the 2008 International Tourism Boerse held in Berlin

At the request of the Ministry of Roads, Transport, and Tourism (MRTT), the Mongolia National Tourism Organization (MNTTO), with EPRC's assistance, co-organized the participation of Mongolian tourism companies in the *International Tourism Boerse* (ITB) 2008 from 4-9 March. ITB is the largest international tourism and trade fair held annually in Berlin.



Eleven Mongolian tourism industry organizations representing tour operators, the national air carrier, a national park, hotels, and a car rental company presented a joint exhibition at the fair.

In addition to preparing the ITB exhibit, the MNTTO also organized a press conference and a Mongolian cultural event which drew over twenty-five media representatives and generated interviews and coverage by major German media outlets.

## Roundtable discussion held on legal and regulatory market for secondary mortgage market

On 15 March, the Ministry of Justice and Home Affairs (MoJHA) and the Financial Regulatory Commission (FRC), with project assistance, organized a round table discussion on the "Legal and regulatory environment for secondary mortgage markets."

Objectives of the weekend roundtable were to:

- Develop a suitable legal and regulatory framework for collateralization and securitization by developing a shared understanding of the two draft laws on covered mortgage bonds and asset-backed securities

- Promote the development of the housing finance market and the capital markets
- Discuss the introduction of tradable securities known as collateralized mortgage bonds and asset-backed securities.

The retreat was an important step in opening a dialogue between the ministries and government agencies before MoJHA circulates the draft securitization laws for their review and comments.

Member of Parliament and Head of Parliamentary Working Group on Mortgage Law, Z. Enkhbold, and Chairman of the FRC, D. Bayarsaikhan, attended the retreat. Ms. Turbayar, Deputy Minister of Justice and Home Affairs, acted as moderator of the event. Participants also included Chief Executive Officers of Housing Finance Corporation (HFC) and Mongolian Mortgage Corporation (MIK), FRC staff, lawyers and legal officers from the Supreme Court and ministries.



MoJHA, FRC, EPRC and MIK made presentations on:

- The role of Government in creating a favorable legal environment for secondary mortgage markets
- Current draft laws on collateralized mortgage bonds and asset-backed securities
- Development of Mongolia's capital markets through collateralized mortgage bonds and asset-backed securities
- Role of the MIK and required legal environment.

In his opening speech, Mr. Bayarsaikhan emphasized the areas where the Government could play an enabling role to improve housing finance and develop the secondary mortgage market, including the legal and regulatory environment, housing subsidies, reform of social security and pension systems, and regulatory concessions for secondary mortgage market investors.

In his comments, Member of Parliament and Head of Parliamentary Working Group on Mortgage Law, Z. Enkhbold, emphasized the importance of these laws and called for a more careful approach due to the sub-prime crisis in the U.S.

EPRC's presentation focused on the two financial instruments—European-style covered mortgage bonds and residential mortgage-backed securities—that are commonly used for raising long-term mortgage funding from the capital markets, the similarities and differences between them, and the experience of other countries.

Ms. Dugerjav, FRC Standing Commissioner, presented the draft law on Collateralized Mortgage Bonds and the draft law on Asset-Backed Securities that are intended to create and regulate a private sector-led competitive environment for collateralization and securitization. Enactment of these laws will provide an opportunity for mortgage originators and finance companies to choose the secondary market instrument best suited for their funding needs. On the other hand, both domestic and foreign investors will have an opportunity to invest in a lucrative Mongolian mortgage market that would otherwise be difficult to access.

MoJHA emphasized the need for further amendments to other laws and regulations that are generally required for sustainable development of the secondary mortgage market and specifically in connection with the two new securitization laws.

The project has been assisting the FRC in its efforts to create a suitable legal and regulatory environment for securitization and secondary mortgage market development.

## Energy Regulatory Authority signs two additional Performance Agreements with licensee companies

In March 2008, two additional licensee companies, the Darkhan Combined Heat Plant (CHP) and Baganuur and South East Region Electricity Distribution Network (BSEREDN) negotiated and signed Performance Agreements (PAs) with the Energy Regulatory Authority (ERA). The two agreements are modeled after the successful first PA that the ERA concluded with the BSEREDN.

Key Performance Indicators (KPIs) for the PA with the Darkhan CHP include:

- Current ratio (an expression of liquidity)
- Improved average customer bill collections in a period
- Improved average payables in a period
- Net credit purchases, and
- Reliable operation of main equipment, i.e., number of failures of boilers and turbine-generator.

For BSEREDN the selected KPI's included in the PA are:

- Decrease of electricity distribution losses
- Improved total receivables,
- Payments to the Single Buyer, and
- Improved average payables in a period.

The social cost components of the licensed companies' tariff revenues are subject to financial reward or penalty resulting from measured performance on each KPI at the end of 2008. The maximum possible rewards or penalties are MNT 306.2 million and MNT 306.2 million respectively for the Darkhan CHP PA; for BSEREDN, the maximum financial rewards or penalties are MNT 145.4 million and MNT 133.3 million, respectively.

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