



EPRC MONTHLY NEWSLETTER

OCTOBER - NOVEMBER 2008

Mongolia Corporate Governance Forum launched

On 8 October the project assisted the Financial Regulatory Commission, the Mongolian Stock Exchange and the Mongolian National Chamber of Commerce and Industry with the launch of the Mongolia Corporate Governance Forum.

Thirty-seven participants, including the Chief Executive Officers of large publicly traded joint-stock companies, attended the Forum which focused on current corporate governance practices and the importance of good corporate governance, transparency and disclosure for better access to finance.



The key note speaker Ms. Chudanji, CEO of Zoos Bank, discussed the corporate governance practices adopted by the bank and how compliance with them helped Zoos Bank enhance effectiveness and profitability. She related how Zoos Bank's corporate governance code emphasizes social responsibility, strong internal audit procedures, transparency, disclosure, and equitable treatment of their shareholders. With a policy of ethical management practices, Zoos bank has advanced to the forefront of the Mongolian corporate governance landscape, becoming a leading example to other businesses in the country.

Mr. Bayarsaikhan, Chairman of the Financial Regulatory Commission, discussed the impact of regulatory policies regarding corporate governance in Mongolia and FRC efforts to improve corporate governance regulations and compliance in Mongolia. With the passing of the corporate governance code of 2007, Mongolia gained a body of regulations to define and benchmark corporate governance practices.

Ms. Tsendmaa, Head of Listing and Surveillance of the Mongolia Stock Exchange, followed with a presentation on the impact of transparency and disclosure on share price behavior at the Mongolian Stock Exchange. Overall, the 380 listed securities are almost 95% controlled by large investors. Most of the stocks are not actively traded and hence a reliable price discovery is difficult to attain in this market. In her opinion the legal and regulatory environment regarding disclosure of information is inadequate. Improving transparency and disclosure in all listed companies will have major impact on price discovery on the exchange.

International corporate governance expert Dr. Demir Yener presented an assessment of current corporate governance practices in Mongolia concluding that Mongolia has a modern corporate governance code but that compliance and practices fall far short of international best practice. The priority problem areas to be addressed are:

- Inequitable treatment of minority shareholders
- Weak and ineffective boards of directors
- Inadequate transparency and disclosure.

Any course of action to remedy these deficiencies needs to:

- Develop current institutional capacity to promote and enforce corporate governance practices
- Increase the capacity of directors to understand and exercise their duties and obligations
- Increase awareness of shareholders' rights and educate the public at large on investing in a transparent and fair capital market environment.

After open and candid discussions and deliberations between the participants and the presenters, the final plenary session agreed on issuing a joint statement on future actions to promote corporate governance excellence in Mongolia. The participants also agreed to establish the Mongolia Corporate Governance Forum (MCGF) as an annual event. One measure of the success of this effort would be to see this forum become a "must attend" annual event on the calendars of leading corporate governance practitioners and reformers.

Public-Private Partnership company recommended for the Zamyn Uud Logistics Park

At the request of the Mongolian Government, the project conducted in 2008 a series of pre-feasibility studies to recommend improvements of freight traffic flows at the border and logistics in Zamyn Uud. One of the major recommendations was the establishment of a Public-Private Partnership Logistics Park Development Corporation (LPDC) to build and operate a modern import-based logistics park. EPRC made a presentation on the results of the pre-feasibility studies and the recommended PPP structure to the Prime Minister's Consultative Council on Private Sector Development and Investment, which culminated in the signing of a resolution instructing the Minister of Finance and the

State Property Commission to work with the Mongolian Freight Forwarders Association (MFFA) to form a Public-Private Partnership.



On November 7, EPRC the project made held a meeting with Mongolian freight forwarders on the proposed implementation plan for LPDC, including the timeline and the preliminary financing

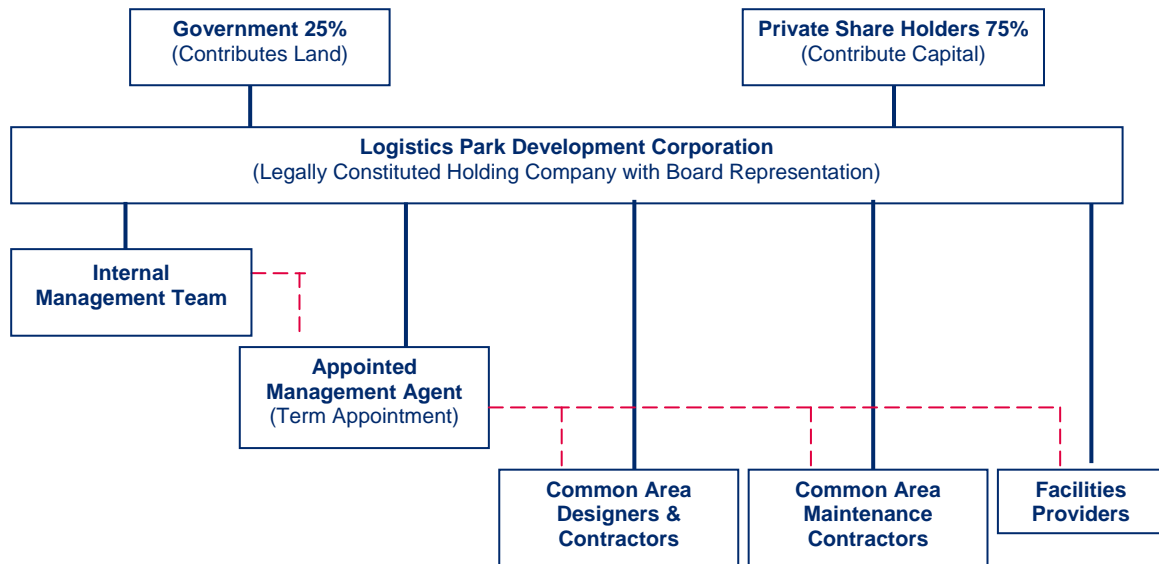
- Develop a long term master plan for a Logistics Park at Zamyn Uud including facilities for road and rail transshipment, consolidation, distribution and support services
- Develop and operate a financially viable first stage including road – rail and road–road transshipment facilities
- Carry out a short term operational efficiency improvement program for the existing UBTZ road–rail transshipment by improving roads and parking areas, increasing unitization and utilizing mechanical handling equipment

The first stage implementation plan will be the following timeline:

Q4 2008 – Organizational matters:

- Sign a Memorandum of Understanding and a Founders' Agreement between the Government of Mongolia, Mongolian Freight Forwarders Association and the private sector
- Incorporate LPDC
- Provisional funding from MFFA
- Hire project manager
- Select consultants.

Q1 – Q2 2009 – Planning new facilities:



requirements. The proposed LPDC would be a limited liability company established as a public-private partnership where the Government of Mongolia (GoM) and Mongolian private sector freight and logistics sector stakeholders have shareholdings. Under this scenario, the GoM would provide long term land use rights for the Logistics Park site in return for a shareholding of about 25%. The private sector would provide development capital.

LPDC would be a holding company with a small core staff, including a Project Manager / CEO, a financial officer and support staff. Development and operation of the site would be through a Logistics Park development and operations management contractor, appointed through a competitive tendering process under a fixed term contract.

The Logistics Park would be developed and implemented in stages. It is anticipated that the first stage of the Logistics Park could be constructed by early 2011 to include a modern road – rail transshipment yard, sites for consolidation, warehousing and value-added logistics activities and services such as fuel, repair, and food services, and motel facilities for truck drivers. The primary objectives of the first stage implementation plan are to:

- Complete a bankable feasibility study to define the Master Plan and the extent of the first stage
- Finalise the LPDC financial structure and inject private sector funding
- Select and appoint a Logistics Park management company to oversee the construction and operation of the Logistics Park on behalf of the LPDC.

Q1 – Q2 2009 – Improvements to existing facility:

- Negotiations with the Chinese authorities and Mongolian Customs to agree and enforce load unitization and to ban overloaded and dangerously loaded vehicles
- Improvements to the road access, parking areas and loading mechanization.

Q2 – Q3 2009 – LPMC start up:

- Review of the bankable feasibility study
- Contracts for design and construction of basic infrastructure and common user facilities
- Tenders for construction and operation of franchise facilities
- Operation of temporary facilities.

Q4 2009 – Q2 2011 – Completion of the first stage:

- Construction of basic infrastructure and common user facilities
- Construction of franchise facilities
- Opening of Phase 1
- Closing of temporary facilities.

Q1 – Q2 2011 – Planning for the second stage:

- Assess viability of extending phase 1 facilities
- Assess viability of relocating rail-rail transshipment.

Preliminary financing requirements are estimated at US\$300,000 to cover the cost of a bankable feasibility study and project management costs. Of these, it is proposed that MFFA finance US\$ 250,000 that will be repaid from the proceeds of capitalization, or converted to shares. The rest US\$50,000 will be an EPRC grant for co-financing the bankable feasibility study.

At the meeting of November 7, the Mongolian freight forwarders decided to sign an internal memorandum of understanding to form a working group to work until the PPP MoU is signed between the Government of Mongolia and the private sector.

ERA finalizes discussions on high level market design with energy sector companies

During November the Energy Regulatory Authority (ERA) organized a series of meetings with energy sector stakeholders to elicit comments on the "Proposed competitive electricity market design for Mongolia's Central Electricity System (CES)" prepared with project support. After extensive discussions on the high level market design and incorporation of their comments, the ERA is ready to proceed with its implementation.



Licensee companies are supportive of the proposed high-level market design, and none of the issues raised during the discussions have caused the ERA and EPRC to reconsider the proposed high-level market design. The relevant issues stakeholders raised are more concerned with detailed market design issues that will be addressed during the Market Rules and Grid Code development processes.

The proposed high-level market design can:

- Increase competition for power companies to improve the value of service to consumers
- Promote economic dispatch, reducing coal costs and pollution
- Be implemented at reasonable cost and risk
- Be the cornerstone for market reform and serve as a model for market governance documents such as the Market Rules and Grid Code, and GoM policy initiatives relating to the electricity sector.

Implementation of the 100% vesting phase of the new market, proposed for 1 January 2010, and of the competitive phase of the market proposed for 2013 or 2014 can be achieved without amendments to the Energy Law. But potential amendments to the law would enhance the ability of the GoM and the ERA to implement the new market successfully, clarify the tariff plan, and articulate roles and responsibilities of the GoM and ERA more clearly.

Mongolia – your next adventure campaign launched in international markets

Promotion of Mongolia as the next adventure travel destination under the brand *Mongolia – your next adventure* was launched at the Adventure Travel Trade Association (ATTA) World Summit in Norway on 21-25 October and at the 2008 World Travel Market Fair in London on 10-13 November.



Project tourism advisor, Ms. Indraa Bold, was a guest speaker and participant in a panel discussion of destination marketing organizations at the ATTA event. Initial discussions were held with the *Earthwatch Institute* to conduct a detailed study of bird species of Mongolia and develop ornithological tourism as one of the Western aimag tourism products and to undertake restoration of the cave paintings of Khoid Tsenheriin Agui in Khovd aimag to preserve Western Mongolia's cultural heritage. Similar discussions took place with *World Nomads* about their "Footprints" community-based projects to enhance the livelihood of rural communities through tourism initiatives.

Following the launch of the brand *Mongolia – your next adventure* at the ATTA World Summit, the project assisted the Mongolia

National Tourism Organization, the Mongolian Tourism Association, the Ministry of Nature, Environment, and Tourism (MNET), MIAT Mongolian Airlines and five private Mongolian tour operators to organize the Mongolian participation in the World Travel Market (WTM) 2008 international tourism and travel fair held in London on 10-13 November.

The project provided support to the Mongolian participants in the design and set up of the Mongolia booth, production of a promotional CD, and organization of the first Mongolian country presentation at the WTM. Project tourism advisor, Ms. Indraa Bold, moderated the country presentation which featured presentations by the Ambassador of Mongolia to the United Kingdom, the Director of Tourism of the MNET, and private sector tour operators.

The highlight of the country presentation was the keynote speech by Mr. John Man, author of *Chinggis Khan: Life, Death, and Resurrection*. EPRC support to the Mongolian participants provided them with the opportunity to renew contracts with their existing partners as well as secure new B2B partners in promoting inbound Mongolian tourism and to initiate negotiations with the Institute of Tourist Guiding on training local communities and tourism service providers in Western Mongolia as part of promoting the Western Mongolia tourism circuit.

In the coming months the brand *Mongolia – your next adventure* will be promoted by presentations at The New York Times Travel and Trade Show, the International Tourism Boerse 2009 in Berlin, and tourism conferences; placement of articles with leading travel media in key tourist markets; direct marketing campaigns, outreach to specialized tour operators and applications for certificates and tourism awards.

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.