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Jargalsaikhan Dambadarjaa,
Mongolian political and economic observer, columnist

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Travel notes from
OTGONTENGER





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JARGALSAIKHAN DambadarjaaFor weekly articles,
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Travel notes from **OTGONTENGER**

Last week I traveled to Zavkhan aimag to climb Otgontenger, the highest peak in the Khangai Mountains, from its northwest side. The peak sits at an elevation of 4,031 meters above sea level, boasting snow caps to its south and a cliff to the north.

Following the state protection of nearly 1,000 square kilometers of land surrounding Otgontenger, people have not settled down or herded their livestock there. So the landscape looks beautiful and untouched.

“When we traveled 100 kilometers to the southeast of Uliastai and climbed Mount Dayan, we could not

help feeling enthralled looking at a captivating view of Otgontenger in the distance under a clear blue sky.”

Zavkhan aimag showcases beautiful nature with a perfect mix of Khangai and Govi, which is the reason why there are many tourists not only from abroad but also from other parts of Mongolia. The territorial area of Zavkhan is nearly the same as Austria's – 82,500 square kilometers, and a total of 80,000 people live in the province. I wanted to share some thoughts and observations I reflected on while traveling on the road to Zavkhan.

ROAD AT ZAGASTAI MOUNTAIN PASS

A herder who is spending the summer nearby the lake of Terkhiin Tsagaan in Tariat soum of Arkhangai aimag said that he now believes roads actually bring development with them. He and his family have found good income this year as they have been catering for travelers from Ulaanbaatar. These travelers have come in great numbers this year, given that a newly paved road has been commissioned.

However, it is a different scene over in Uliastai, the center of Zavkhan province. People there have been waiting for the promised development for many years. The paved road from Ulaanbaatar runs nearly 1,000 kilometers and has actually reached Tosontsengel soum of Zavkhan aimag. But the roadwork is still not finished, which forces travelers to drive on a bumpy dirt road for 30 kilometers. Then you suddenly get back on the paved road and drive on a smooth surface for 100 kilometers passing by Telmen

soum. But then once again it is the end of the paved road when you get to Zagastai mountain pass.

It is approximately 67 kilometers from Zagastai to Uliastai, but it is such a challenging trip on the dirt road that tests skills and resilience of both drivers and the vehicles they are driving. The journey is full of steep and sudden turns and countless bumps of varying sizes and impacts. We drove for two hours in the night to finish the journey. Later we learned that many companies have been selected over the years to build a paved road here. When the government was replaced one time, the loan from the Development Bank was suspended and an expectation was created that the funding would come from the public budget. But it never did, and the roadwork was postponed for several years. It was only last month when a resolution was reached to get funding from a loan

▶ from China Eximbank, and the work would be completed by a Chinese company.

“ *But still, if the 2019 public budget allocates 2.5 billion MNT into this work, the road can be completed in 2020.* ”

The people of Zavkhan are counting the days for the road to be completed in 2010 and for the development it is expected to bring. If the road had been built ten years

ago as it was planned from the beginning, the overall labor productivity would have been reinvigorated and so would have been the business environment and tourism industry.

Zavkhan's roads are a clear example of how the government has been cutting the budget for roads when they had to spend one fourth of budget revenue to make interest payments that came from the poorly estimated loans they raised.

BOGD RIVER POWER STATION LIGHTING ZAVKHAN



Zavkhan used to get their electricity from diesel generators for limited periods because there was no

continuous supply of electric power. In 1994, Mongolian engineers built a hydroelectric power station at the bank of Bogd River, which has a fast flow. In 2005, the power station was upgraded with financial aid from Germany. Since then Uliastai has an uninterrupted supply of electricity in the summer and gets power from the Taishir power station in the winter.

The Bogd River power station is located 36 kilometers to the southeast of Uliastai and has a capacity of 2 megawatts. It draws the water from 2.5 kilometers in several channels and uses the natural flow to fill up a pool on a hill. Two big pipes are placed on the side of this hill and connect with a turbine that produces electric power. The water flowing from a height of 17 meters in the east of this hill has become a manmade waterfall that has its own beauty.

This is one of Mongolia's 11 hydroelectric power stations that use the fast flow of water found naturally in rivers. It was evident that Zavkhan has a vast potential to develop electric power, manufacturing, and the tourism industry if they play their cards right.

TSENKHER'S HOT SPRING AND ITS UNREGULATED CAMPS

From Ulaanbaatar we drove 480 kilometers on dirt road and another 30 kilometers on dirt road to get to the famous Tsenkher's hot spring. In terms of its temperature, Tsenkher's hot spring is the second hottest in Mongolia, only behind Shargaljuut, and has a flow rate of 10 liters per second. The water from this hot spring contains

elements of hydrogen, sulfate, and flint, which is said to have soothing powers that help the human body, health, stress, and diabetes.

Tsenkher's hot spring has at least five recreational camps – Tsenkher jiguur, Shiveet mankhan, Duut resort, Khangai ▶▶

resort, and Altan nutag – sitting beside each other. They all have a channel from the source of hot spring and fill up their own small pools every morning and release the water every evening. You cannot find accommodation in these camps unless you make a reservation well ahead. In total, together they can accommodate nearly 500 people a night. However, it looks like they have not quite found an effective way of working together to improve the environment, roads, and public areas.

“ When you have 500 people spending the night and one hundred cars being parked in the premises,

it means you are a settlement. We could see that nature and the environment there were deteriorating unless they do some proper planning and build paved roads, proper parking spaces, and resolve fresh water and sewage pipelines. ”

It is time to develop and implement legal regulations that require registration of countryside camps and resorts at aimag level, and to make sure that tax income stays with the local soum government so that they can spend the money on improving infrastructure.

► ‘PENGUINS’

We saw many different birds on our 1,000-kilometer journey from Ulaanbaatar to Uliastai. However, the biggest and most curious ones were the ‘penguins’ who sat along the road one after another.

“ People are forced to turn into ‘penguins’ because there are no public restroom facilities. ”

We could have built dozens of pit stops that have restrooms and serve snacks and coffee, when the road was first built. A standard on how to build such facilities was even passed in 2005 under the name ‘Mandatory requirements for facilities to serve people on the road.’

Therefore, we need to start tendering out permits to build those service facilities along the road – perhaps one every 100 kilometers. This can be supported by

local governments and encourage tourism.

Besides building infrastructure, every aimag needs to create its own unique brand. If all aimags develop their own tour programs that are based their own folklore, heritage, and culture, we have a great opportunity to develop tourism, which will in turn help local people and businesses economically. This could then eventually reverse the migration from the countryside to Ulaanbaatar.

“ Development follows roads. It is time to start planning wisely, encourage people’s involvement, and give the aimags economic freedom. ”

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ADB'S ECO-DISTRICTS

ADB recently approved an \$80 million loan to help transform the ger areas in Ulaanbaatar into affordable, eco-districts.

Presenter: How successful do you think this project will be?

Defacto: I hope this time that this project will succeed because it's run by ADB, which will enforce better public governance. This was unfortunately not the case when the project was implemented by the state or state-owned companies in Mongolia. The target, for the first time, is affordable housing, which unfortunately was not the case during the past 10 years of construction boom. They are planning on building 20 eco-districts in different areas, the whereabouts of which have not yet been announced. A total of 570 million USD will be needed for this project of which 80 million USD is a soft loan from ADB with an additional 95 million USD loan and 50 million USD from the Green Climate Fund (GCF) headquartered in Korea and a 3 million USD sector grant for the project. The loan to the project is expected to leverage around 300 million USD more in investments from developers, commercial banks and beneficiaries.

Another element of the project is the voluntary land swapping. Households owning or renting a plot of land within the proposed eco-districts can choose to exchange their lands for access to a housing unit in the eco-district through land and asset swaps, rent-to-own schemes, or affordable rental arrangements.

Presenter: What is our current mortgage program?

Defacto: Around 100,000 people got apartments from the mortgage program and the total balance of this subsidized mortgages loans are about 4.2 trillion MNT. However, this does not meet the demand of the people living in ger districts, which is a major source of carbon dioxide that leads to increased levels of pollution, especially in the winters. The current subsidized mortgage program at 8% was mostly designed to sell expensive apartments by construction companies and banks who financed those projects. When banks issue their own mortgage, from its own sources, they charge an interest rate of 16% but the government issues 8%, with the difference being



paid from taxpayers' money. So, this program did not work well; however, the housing demand is so high. For instance, 90% of those who got the subsidized mortgage loan, they bought apartments which were less than 80 sq. meters. This big chunk of demand is there, first of all, and secondly, there are almost 92.6 thousand people who got the mortgage; however, 65% of those people have a family income per month of less than 2 million MNT. This is part of the reason why people look for small sized, cheaper apartments and this ADB project is really meeting that demand and setting new standards for affordable housing.

Presenter: What should we expect from the transfer of loans from Bank of Mongolia to the government?

Defacto: From the beginning, this program was subsidized by the state. Now slowly, the assets on the balance sheet are being transferred to the state balance sheet. From January 1st of next year, all taxpayers will pay the difference of that discounted mortgage loan and the government also promised to continue this program so they cannot cut it. However, they cannot provide more than 300 billion MNT for this program, which is already 4.2 trillion MNT, as I said before. So, a project like ADB is setting good standards by allowing people to swap their land for housing which will likely have urban planning and other services.

There is still one problem remaining in Mongolia, which is land registration – who owns, possesses and uses – there is no clear government inventory of this. Without the people knowing whose particular land it is, things cannot progress. For example, Mongolian government decision-makers were giving land permits under the table to limited connected individuals. A good example is our south Bogd

Mountain, which has been sold piece by piece. Under these circumstances, any housing projects will either be expensive or come with a lot of strings attached to it. Until Mongolians unite to demand for government transparency on our land registration and land ownership, these issues around housing will persist despite the number of housing units built.

340 THOUSAND TONNES OF COAL MISSING

After a formal investigation, it was discovered the 340 thousand tonnes of coal had been taken from Tavan Tolgoi.

Presenter: What is exactly happening here?

Defacto: During the investigation headed by the Minister of Finance, they found out that during the last four years from 2013 to 2017, the General Authority for Border Protection recorded 849 thousand trucks passing across the border; while the General Customs Office recorded 814 thousand trucks. So the question is now how come there is a difference of 35 thousand trucks between the numbers recorded by two government agencies? Do we have any control over the border and why is there a discrepancy of thousands of trucks?

Following this investigation, they also found out that there are several companies on the Tavan Tolgoi deposit – Erdenes Tavan Tolgoi, the state-owned company as well as a smaller company called the local Tavan Tolgoi, which is also a public company since 1994. 51% of which is owned by Southgobi aimag and 49% by various individuals, the largest of which is Ajnai Corporation. That corporation belongs to former Minister of Defense, former Parliament Member D.Bat-Erdene and it turns out that this corporation has a subsidiary company called Tavan Tolgoi Trans, a transport company. They are also the exclusive transporter of the coal from the local Tavan Tolgoi deposit. Now it turns out that they have 35 thousand trucks unregistered. So now the question is what happened and how could it happen, why the border control is giving different information than customs. How capable is the Mongolian government to run the country? Hopefully, we'll get more information and answers soon.

Presenter: Supposedly, Tavan Tolgoi has been operating without a work plan for 6 years, how is this possible?

Defacto: How can a mining company work without a work plan, which is supposed to be given by each mining company to the government and environmental agency. The work plan provide a clear, long-term outline of the environmental damages inflicted and expected production levels and such. Somehow they have gone six years without that plan, so what does this mean? This means that they can dig any part of the mine, without consideration of future impacts. They have even been producing coal from other companies' land, which is what the dispute is about. Erdenes Tavan Tolgoi said that we are missing coal from the area that belongs to our license and as the two lands are adjacent and working without a work plan, the local Tavan Tolgoi has been digging anywhere. Where is the standard, where is the enforcement agency? It is too much and we should not allow these things to progress further.

Upon visiting the website of this company, and as it's a public company, there should be information published quarterly; however, there was no information about 2017 production and no report about its public shareholders, other than two large shareholders. So where is this FRC, the Financial Regulatory Commission, what are they doing, are they doing their jobs, protecting the interests of the minor shareholders? It's not just this company, in general, the information about all public companies is not fully available.

CHINESE FOREIGN MINISTER VISITS

Foreign Minister of China and State Councilor Wang Yi paid Mongolia a state visit last week from August 23rd to 25th. During the visit, there were discussions to strengthen the partnership between China and Mongolia and issues on regional and border cooperation.

Presenter: The Minister met with governors of Western provinces, what is the significance of this?

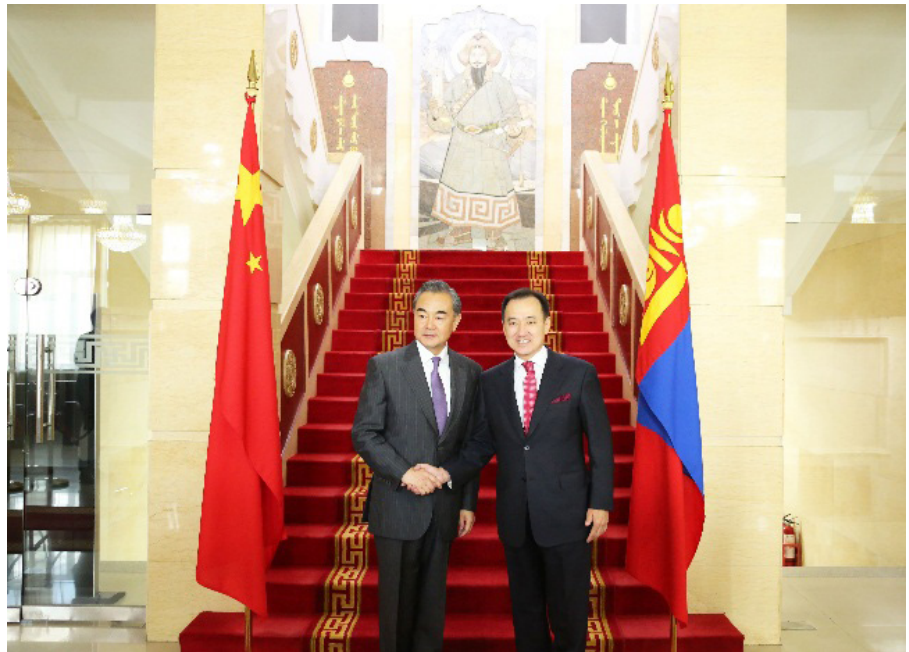
Defacto: Let's first see the bigger picture, why Mr. Wang Yi was visiting Western parts of Mongolia and meeting with these governors. He is not only the Minister of Foreign Affairs but is also a State Councilor. State Councilors are nine powerful decision makers in China and he was elected last March.

In that capacity, he has to follow what the two countries have agreed upon – like, the soft loan of 1 billion USD from China and a large chunk of this soft loan, around 300 million USD was to waste processing plants. There was an opening ceremony of the plants which the Prime Minister Khurelsukh and Mr. Wang Yi attended. Another thing he did during his visit, he visited the special lane at the Chinggis Khaan International Airport which is for enhancing customs clearance facilitation under the Belt and Road Initiative. This shows how Mongolia is paying special attention to this Belt and Road Initiative. A third part of his visit was to the construction site of the Mongolian Children with Disabilities Development Centre Project, which is under Chinese financing.

Back to this five aimags, there are a lot of issues existing there in terms of cross border trading, which is why they met.

Presenter: As you just mentioned, part of the visit was to these five Western provinces, do you know what was discussion between the Minister and the five governors?

Defacto: First of all, Mongolia is almost 100% economically dependent upon China. On trade with China, Mongolia foreign trade turnover was around 10 billion USD last year and 6.8 billion USD is due to China. Our trade with China has a positive balance; while our trade with Russia is very much negative. As we buy from Russia over 1.5 billion USD worth of fuel and gasoline while selling very little to them such as agricultural products like cashmere and such.



The Mongolian economy depends on China and even more so now as we borrow from them. The western parts of Mongolia, especially, are dependent on the cross border trades with China. Our five western aimags – Uvs, Zavkhan, Bayan Ulgii, Khovd, and Govi-Altai – the total population of which is 400,000 and is closer to the Chinese border than Ulaanbaatar. The border at Bulgan soum is adjacent to the Xinjiang province of China, where they have their own problems with terrorism and such, which contributes to the increase in border security.

Due to the stringent security checks at the border, complaints were made to Ulaanbaatar, which made the Mongolian Foreign Minister invite Mr. Wang Yi to discuss the issues and inspect these provinces. Mr. Yi brought with him the deputy governor of Xinjiang and deputy Trade Minister of China, which allowed for discussion of possible resolutions as well as new trade opportunities such as the export of meat into China.

This review has been edited here for space and clarity. You can watch the full 30-minute review on the Defacto website [\[HERE\]](#).



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CONTACT US:

✉ editor1@jargaldefacto.com
☎ +976 94109342
🌐 www.defacto.mn
www.jargaldefacto.com