

DeFacto **ARTICLE**

*Jargalsaikhan Dambadarjaa,
Mongolian political and economic
observer, columnist*

CAMPAIGN FOR **DIGITAL CULTURE**



II PAGE



DeFacto **INTERVIEW**

*David Anthony Paul
Managing Director and Chair,
ASPIRE MINING LIMITED*

MY OTHER MONGOLIAN SHAREHOLDERS OWN ANOTHER 8% BRINGING THE TOTAL MONGOLIAN OWNERSHIP TO 22%

IV PAGE

DeFacto **REVIEW**

➤ TO DISSOLVE OR NOT

➤ DEMOCRATIC PARTY CAUCUS

➤ MORTGAGE LOAN FINANCING

➤ TRANSPARENCY OF GOVERNMENT DECISIONS

VII PAGE



№ 459

JARGALSAIKHAN Dambadarjaa

For weekly articles,
visit <http://jargaldefacto.com/category/23>

CAMPAIGN FOR

DIGITAL CULTURE

Humankind is currently experiencing the peak of the fourth Industrial Revolution and going through the third wave of computing. Every country is transitioning from internet-based development to data-based. As a result of this digital transition, we are seeing the formation of digital economies and societies.

Robots now possess artificial intelligence (AI) that allows them to think, learn, and make decisions. So, they can now substitute for human labor. Almost every day we seem to be reading news on cars without drivers, hotels without staff, and stores without shopkeepers. The Internet of Things (IoT) has made our life at home and in the office much more comfortable as it makes devices interconnected

through the Internet, significantly improving productivity levels.

The world's biggest cab company (Uber) doesn't own taxis, the world's largest hotel network (Airbnb) doesn't operate hotels, and the world's busiest cinema (Netflix) doesn't have movie theatres. Today Facebook is the world's largest 'nation' with a population of 2.2 billion, followed by China which has 1.4 billion people.

I've summarized here how all these changes are impacting Mongolia, and what we should be conscious of. It builds on my conclusions from the Digital Mongolia 2018 conference last week and comprises perspectives on infrastructure, access, and use.

DIGITAL INFRASTRUCTURE

Mongolia's population today stands at 3.1 million, 73 per cent of which resides in urban areas. Approximately 2.3 million people use social media, and there is a total of 4 million mobile phone owners, 2.8 million of which use mobile data.

The Communications Regulatory Commission reports that Mongolian users have generated 27.3 terabytes of data in the first half of 2018 via 3G and 4G services provided by four mobile network operators – Mobicom, Unitel, Skytel, and G-Mobile. The amount of data generated by Mongolian users has been on the rise by an average of 25 per cent every year. A total of three operators (Mobicom, Gemnet, and state-owned Information Communications Network) transfer data abroad at 140 gigabytes per second.

All this data can be stored and transferred, and

some of it is public while some is private. Therefore, it needs to be differentiated and protected. In other words, this whole industry needs constant activity aimed at ensuring data is stored safely, protecting personal data, preventing the government from using personal information without consent, resolving the infrastructure required for storing data, supporting fair competition, and so on.

Facebook has come up with an initiative (www.connectivity.fb.com) to measure how well digital infrastructure is developed by looking at how people are connected, besides assessing the physical infrastructure and facilities. Availability, affordability, and awareness are the three key factors to measure and assess the obstacles to Internet access, which is integral to making digital advancements accessible to everyone.



► INTERNET INCLUSIVENESS

There is a growing need for everyone to better understand how they can improve the quality of their livelihood by capitalizing on the opportunity and becoming a digital nation. A recently published report helps us to see how Mongolia's digital development is measured with the 3i index in comparison to other countries.

Facebook has run its 3i index (Inclusive Internet Index) for its second year in a row and ranked Mongolia at 42nd out of 86 countries. Our rank was a result of combined scores in four categories: Availability (50), Affordability (10), Relevance (38), and Readiness (72). If you break up Readiness, it comprises three subcategories: Literacy (59), Trust & Safety (86), and Policy (48).

When you try to understand why Mongolia was ranked in the last places in Trust & Safety, you will be able to see that we were ranked 71st in Privacy regulations, 85th in Trust in online privacy, 15th in Trust in government websites and apps, 82nd in Trust in non-government websites and apps, 60th in Trust in information from social media, and 81st in e-Commerce safety. It can all be analyzed at <https://theinclusiveinternet.eiu.com/>

CAMPAIGN

If we analyze and resolve our weaker areas as revealed by the 3i report, we have a great opportunity to develop apps that can not only optimize personal, day-to-day activities such as making payments and booking reservations but also can streamline government services. Estonia allows mobile phone numbers to be used as personal ID numbers



MMCG, who surveyed how Mongolians used digital platforms, reported that 1.7 million people used the Internet in 2017, and 81 per cent used social media. This percentage was doubled compared to the year before. Eighty per cent of social media users use Facebook, 75 per cent use Facebook Messenger, 39 per cent use YouTube, 18 per cent use Instagram, 17 per cent use Yahoo, 14 per cent use WeChat, 8 per cent use Twitter, 4 per cent use Viber, and another 4 per cent use Skype.

However, all these applications are being used mainly for exchanging information, reading news, and speculating over different things. Otherwise, the use of social media for business purposes, at least as a means of payment, is still at its early stages in Mongolia. In China, almost everyone is using WeChat to exchange information via text, audio, and video and to make payments. They are using the application to order food and to make taxi, hotel, and entertainment bookings. Also, they are able to make online purchases via Alipay. Even the beggars are sitting on the street with their QR code ready to be scanned for donations.

confirmed with e-signature. If we do the same, our election ballots can use mobile phones, which will save tens of billions of tugrugs. Another example is that, if the government published its SME fund information transparently on an app, the authorities would not have had the chance to steal from it.

In preparation for the 40th anniversary of the Democratic Revolution in 1959, Mongolians organized a campaign, commonly dubbed as the 'insurgence of culture', to ensure everyone learned the habit of using toothpaste, bedsheets and hand towels. We now need a similar campaign focused on digital culture.

2018.12.05 ■



**DAVID ANTHONY
PAULL**

Managing Director and Chair,
ASPIRE MINING LIMITED

MY OTHER MONGOLIAN SHAREHOLDERS OWN ANOTHER 8% BRINGING THE TOTAL MONGOLIAN OWNERSHIP TO 22%

Mr. Paull has over 25 years' experience in resource business development and industrial minerals marketing. Over the last eight years David has been the Managing Director of Aspire. David holds a Bachelor of Commerce from the University of Western Australia and a Master of Business Administration with Distinction from Cornell University New York. He is a fellow of the Financial Services Institute of Australia.

Jargal Defacto: Tell us about your mine in Mongolia

David Anthony Paull: Aspire has been operating in Mongolia for 8 years and invested the equivalent of 70 million USD into making two discoveries. One is the Ovoot coking coal project in the far east of Khuvsgul in Tsetserleg soum. This was a very large discovery with over 250 million tons in reserve of quality coking coal making it the second largest reserve in Mongolia after Tavan Tolgoi. We discovered Ovoot in 2010, 2011, and 2012 and conducted over 40 km of drilling to confirm the size and quality of it and we invested 50 million USD over the course of the project.

JD: You are a listed company. Please tell us about the history behind getting listed

DAP: We listed it on the Australian Stock Exchange and there is an acceptance of a number of exploration development companies which are able to raise money in that market for risky propositions such as exploration. When we started drilling and didn't know the size of it or how much it would cost to develop it but we believe that structurally, it could have been very large. We took the risk because we had an exploration license which says that if you take that risk and discover something of value, there is a process in place to convert the license to a mining one. The mining license we received in 2012 gave us the ability to commercialize our investment.

There has been a lot of capital raised for Mongolia in Australia to find new assets. It is worth noting that the Mongolian resource system is very similar to how we operate in Australia. All resources are owned by the government so all the people in Mongolia own all the resources underground. We have been able to add to that knowledge and to the endowment of the country.

JD: What made you believe that you could have discovered coal in the north given that most of our coal reserves are in the south?

DAP: We exploration license we acquired from a Mongolian syndicate which went on to become our shareholders. There were indications from the first four or five holes that it was interesting and that it was possibly good quality coking coal. It is pointless to look for thermal coal in this part of the world, it has to be coking coal. While you say it is quite a different field to the south, it is very close to very large coking coal basins in Russia. Coal found in the north actually shares connectivity with a coal basin in the Tuva republic and even the Kuznetsk basin a couple of hundred kilometers to the north, Russia's largest coal basin. Some of the characteristics of the coal are identical to what we have in Ovoot.

JD: What is the structure of your shareholders today?

DAP: At the moment, I have 2400 individual shareholders of which we have a number of large shareholders with my largest shareholder being the Noble Group, an international trading house who are listed in Singapore. They own about 19% of the company and I have a large Mongolian shareholder who now owns about 14% of the company. My other Mongolian shareholders own another 8% bringing the total Mongolian ownership to 22%.

JD: Tell us about the northern railway initiated by the 'One Belt One Road' forum

DAP: In order to develop the Ovoot coal, we need access to the rail as the deposits are too large to solely rely on trucking long distances and it is something we have been working on since 2013. We have a subsidiary called 'Northern Railways LLC' 80% of which is owned by Aspire and 20% by Noble. We spent a substantial amount of resources on studies and the feasibility study has just been completed. This gives us a good idea of the cost and the operating parameters surrounding it.

JD: The closest railway to Ovoot is in Darkhan. Can you talk about the distance of it to the coal basin and future plans?

DAP: The feasibility study confirmed that the distance to the railway was 547,7 km. Capital costs are around the equivalent of 1.25 billion USD so it is a very large undertaking. We have however been able to take part in the 'One Belt, One Road' initiative designed to facilitate trade between China, Russia, Mongolia and Europe. Because of the proximity of Ovoot to the republic of Tuva and their city of Kyzyl we were able to demonstrate that it is in their interests to their existing rail network. It is about 200 km from Ovoot to the Artssuuri Tsagaantolgoi border post. With an additional 300 km to the Tuva coal basins, the whole project would entail a 500 km railroad and it is the final piece to the development of Ovoot.

JD: When would the railroad connecting Erdenet to Ovoot become operational?

DAP: It requires environmental studies, land access agreements and a number of other conditions before funding can be drawn down. The final analysis on who will finance the project in addition to Aspire

also needs to be conducted. This will be a very busy railway the economics of which are very attractive. It is also important that the railway does not rely on the coal mine.

The growth in European-Chinese rail freight is exponential. Since the opening of 'One Belt, One Road' rail corridors, this growth has been doubling every year. This is due to the rail freight being far faster and direct than sea freight although it is a little more expensive. It is a very attractive and long-term industry from which Mongolia will benefit because they are a transit corridor. This will generate fees for using the railway, maintenance and rolling stock as well as other benefits. Being connected to this railroad, Mongolia can become an exporter or importer.

JD: What kind of infrastructure do you plan on incorporating at Ovoot?

DAP: All of the coal that we produce will be washed to an international specification. This means that the value of upgrading the coal will be captured in Mongolia and the government will receive royalties based on that higher value. It also means that the coal will have its own brand and benchmarks. We expect to sell a significant proportion of the coal outside of China. Mongolia and Russia are about to sign a discounted rate for Mongolian freight transiting through the Russian rail system. Those discounts are such that it makes it very competitive.

JD: What about in terms of power?

DAP: We haven't finalized how we will manage power at this point but at the smaller deposits we are actually looking at an interesting combination of solar cells and diesel powered generators which would be a legacy power station we can leave to the local government when we leave. Ovoot will be an employer of over 800 skilled professionals. The Erdenet – Ovoot railroad will also involve 600-700 people in terms of maintenance, rolling stock maintenance and operations. We will be stationing a rolling stock maintenance workshop at a sensible location along the railroad.

JD: What would be the capacity of this railway?

DAP: The railway will have a capacity of around

16 million tons but it is upgradable readily, cheaply from there. Once you have the base single line, you can improve capacity by building additional 1km long bypass loops. It is a single line so you have to make way for trains coming from the other side.

JD: Are there any issues that this new railway will create within the existing system?

DAP: We are working with working groups from UBTZ right now on their planning for increasing capacity to deal with other demands as well as the demand from Northern Railways. The benefit of Northern Railways being built here is that it provides a stepwise increase in demand for freight services so that allows for UBTZ to make a stepwise increase in capacity so that the main line goes from a capacity of 22 million tons to 35 tons.

JD: Under ideal circumstances, when will the railroad become operational?

DAP: Ideally, it is possible to start this time next year with a view that it would be built four years from there. Pertaining to the mine everything is under conceptual development.

JD: Let's look at this project from the point of view of Khuvsgul aimag and public perception?

DAP: It is hard to answer that question because I think there is a vocal minority and a quiet majority. There is an interest in further economic development in the region but it depends a lot on government transfers and we are dealing with a nonexistent resource industry there. The local community has not seen any benefits from the project because there isn't any. We have made another small 'Nuurstei' discovery 170 km from Ovoot with a 13-million-ton deposit and does not require a rail connection. "Nuurstei" can begin production next year.

JD: Does the railway cross Murun?

DAP: The railroad is not planned to cross Murun at the moment. We don't see any point in a railroad crossing the town at the moment but it is planned to come 60 km from Murun.

JD: Will your mine increase Khuvsgul's revenue?

DAP: We will look to put a percentage of our revenue into a local development fund to be used directly for the local soum and aimag. The fund will comprise of about 1% of our gross revenue. This is in top of local employment. I have seen their budget and it is tough, they don't have a lot of resources. So this will be a real stepwise change in what they will be able to do.

JD: This is in addition to social projects you will undertake?

DAP: "Nuurstei" is relatively small but valuable and it is a great training ground. This is where we will learn to walk before we run. We need competitive training to create capability within the local community. There is a technical school in Erdenet and we would like to establish a branch of that school in Murun. The best thing we can do is to provide a lasting legacy of infrastructure which increases the sustainability of existing industries there and provide capability. You are not importing workers from other provinces. Khuvsgul is very lucky that we made these discoveries because Bulgan and Zavkhan don't possess their resources.

I use Erdenet as a possibility of how Murun can develop. Erdenet has a fantastic large copper deposit operating successfully for many decades, it has the rail connectivity because of the copper deposits with other industries being built around the fact that they have a rail connection.

This interview originally aired in June, 2018. It has been edited here for space and clarity. You can watch the full 30-minute interview at www.jargaldefacto.com



TO DISSOLVE OR NOT

Mongolia lost the checks and balances within the three branches a long time ago. This has gradually brought about numerous issues that we now have to solve. Mongolia's Constitutional court was meant to detect, verify and resolve the issue in the early stages but failed to do so falling under the increasing influence of policymakers. The call for the resignation of the Speaker of the House is a reflection of the issues that the lack of checks and balances creates.

Removing the Speaker of the House would change the agenda of Parliament and the legislation discussed in it. A change in the composition of the Constitutional court and the leadership of the anti-corruption agency are also necessary. Whether the Parliament members will succeed in their endeavor remains to be seen.

The recent uncovering of the SME fund mismanagement ignited a massive public outcry and we need to know the extent of the misuse of the 27 other funds and the price stabilization program. The Prime Minister promised to delve into the issue and bring to light this mismanagement leading the four Parliament members to side with his cabinet.

The Speaker of the Parliament is under increasing pressure with the four Parliament Members presenting the resignation to him during a session of Parliament. However, the Speaker refused to step down stating that he had not broken any laws. A standoff ensued between the Speaker and a substantial part of Parliament with an influential Parliament member, Mr.Ts.Nyamdorj (MPP) also joining in the calls for the Speaker's resignation.

A boycott on Parliament meetings has been announced by those demanding the Speaker's resignation leading to Mongolia's political mechanisms coming to a standstill as Parliament would no longer meet quorum meaning all new legislations will be put on hold until the issue is resolved. The appointment of the new agriculture minister and the resignation



of two more ministers are also meant to go through Parliament in short order.

Should the Speaker prolong his resignation, Mongolia's already turbulent political situation will face new crises. A change in the Speaker would bring to discussion a number of draft legislations the current Speaker has sidelined and provide for open hearings in a number of cases including the 60 billion MNT case in which the Speaker is also involved. Mongolian politicians now have to do a lot of work and as a result of the events that recently transpired, Mongolian democracy is winning with the public becoming aware of the true identities of their politicians.

The Mongolian People's party and the Democratic Party run the country as a coalition, as a group or separately. There is a thick clout of secrecy surrounding those parties with discrete sources of financing and lack of transparency. The parties in turn implement economic policies that other countries would not consider due to the influence of their donors. "MANAN" as is the parties are often referred to, is a combination of the names of the two parties but also translates to fog. We were unable to see what was happening behind closed doors and it turned out they were misusing our funds and stealing money. You would not expect that from a democratic government.

Recently, we have begun to see two fogs, one

within each party with internal divides emerging. Both parties are currently undergoing a crisis of leadership meaning it is unlikely the political situation will become substantially better. There is also a lack

of internal oversight from party members about party financing and why politicians are becoming so affluent. Those members, by not posing those questions, are becoming a part of the corrupt system.

DEMOCRATIC PARTY CAUCUS



The charter of the Democratic party holds for the dismissal of members under certain conditions. Some interesting aspects of the charter are that members are required to take an oath to the party with their rights and obligations also clearly set out. Provision five of chapter three states that members can be dismissed in one of two circumstances. A violation of any of the chapter three provisions as well as criminal offences are grounds for expulsion.

A charter committee hears cases for expulsion and make a decision within five days. If a member goes against the directions of those superior to him within the party, they can be dismissed from the party. J. Batzandan (DP) was expelled for opposing the vote of no confidence for the U. Khurelsukh (MPP) government against the wishes of the party leadership. The party also made it clear that Mr. Lu. Bold (DP) and Mr. D. Murat (DP), who also voted against the vote of no confidence will not receive a democratic nomination in following elections. Following this, Mr. Lu. Bold (DP) resigned his membership from the party meaning that the Democratic party no longer has a caucus in Parliament.

According to our legislation, a caucus within the party should consist of at least eight members. Establishing a caucus ensures the party the Deputy Speakership of Parliament, the right to establish working units with a budget and staff, make amendments to the agenda and make nominations for positions in standing committees. These measures are designed to facilitate a functional opposition but with the Democratic party no longer possessing eight seats, they will lose those privileges.

The Democratic and People's parties both have extensive charters detailing the obligations of the party to its membership. It is worth noting however that there is no guarantee that all provisions of the charter are being implemented. They refer to the charter when it serves their interests but it is neglected in other circumstances. For example, provision 8.2.5 states that a transparent 'Democracy' fund should exist consisting of the proceeds of the party and that the use of these funds should be highly regulated. I was unable to locate any reports on the fund on the party website.

The primary purpose of legislators is to serve the interests of their constituents. Those interests should supersede any other interest or direction, including from the party leadership. Mr. Lu.Bold (DP) emulated

this when he recently resigned from the party knowing full well that his party would lose its caucus in parliament as a result.

MORTGAGE LOAN FINANCING

The mortgage financing scheme involves a 30% down payment on an apartment with a 20 year loans at 8% to cover the remaining 70%. As a result of the increase of the loan from 300 billion MNT to 500 billion MNT, 3000 more apartments will be encompassed in the scheme but there are 66,000 apartments in Ulaanbaatar alone that are ready or being completed. On the demand side, there are 180,000 families living in Ger districts with log toilets. The demand is three times higher but the homes are too expensive for them.

The main reason for this is that this mortgage program is not sustainable. We have to mention that it was started by the Central Bank who is meant to refrain from involvement in the budget but pressure from commercial banks and construction companies forced the bank to initiate the program. The announcement of the program led to a doubling of real estate prices. An 8% interest in an economy with over 20% interest is simply unsustainable and it is the taxpayer that ultimately covers the difference.

This year, the balance should have been transferred to the government but this did not take place, a clear indication that the government is unable to operate the program in its entirety from their own budget. The sharp devaluation of the MNT can be attributed to the deficit in our payment balance.

The 8% interest can't be decreased until the general banking interest rates decrease. This is not currently feasible as all banks conduct business. They possess insurance companies, construction companies, and security companies with some even owning media outlets. A new legislation to come into effect on



January 1 is meant to force banks to only facilitate financial transactions and distribute loans.

If the law is implemented, banks will be severely limited in their operations fostering more competition in the market thereby providing a catalyst for decreasing interest rates. It is also a case of improving anti-corruption efforts. The constitutional court is

silent on the SME case when it should be demanding the resignations of those involved in it.

If mortgage lending institutions have financial freedom, it is feasible to take banks out of the mortgage process. However, Ulaanbaatar and other aimags have no capacity to issue municipal bonds. If they possessed this capacity, mortgages can be distributed in a more efficient manner. For this to occur, bank interest rates should be reduced and Mongolia should eradicate corruption.



1 pm in Ulaanbaatar

TRANSPARENCY OF GOVERNMENT DECISIONS

The Asia foundation has started work on facilitating transparency of government decisions. One project is ublegal.mn where the decisions of all Ulaanbaatar public bodies are published and currently boast a database of 73,000 decisions. Another project is <http://www.shuugch-songon.mn/login> that deals with the appointment of judicial officials. Those are two wonderful websites and are essential for democracy as democratic governments need to be transparent, accountable and transparent. This is only possible when information becomes fully available.

The Communication Regulatory Commission recently held Digital Mongolia 2018 forum where the current level of infrastructure of the digital economy was discussed. While the government is in

the process of bringing its services online, there is a question of them reaching the public. This usually go through applications but the government should firstly work on ensuring information security and implement measures whereby they would not be able to use your information without permission. Comprehensive legislation is required to accomplish these tasks.

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

The Defacto Gazette

EVERY FRIDAY

Weekly print edition

The Defacto Gazette is a weekly independent, nonpartisan, analytical newspaper covering the politics and economics of Mongolia-in English, Japanese, Russian and Mongolian

Subscribe now:

12 weeks for only ₮30,000

To subscribe, please call

70078916

Visit:

<https://www.mongolpost.mn/>





JARGAL DEFACTO MOBILE APPLICATION

The Defacto Gazette

➤ MONGOLIAN

➤ ENGLISH

➤ JAPANESE



GOOGLE STORE

APP STORE



Subscribe or renew your subscription at www.jargaldefacto.com and www.defacto.mn websites.

EDITORIAL BOARD

Jargalsaikhan Dambadarjaa
Christopher Melville
Garrett Wilson

EXECUTIVE:

Editor-in-chief: Javzmaa Ganbaatar
Team: James E. Kaemmerer
Amar Batkhuu
Bilguun Otgonsuren
Munkbold Badarch

CONTACT US:

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