

DeFacto **INTERVIEW**

TATSUYA HAMADA  
CHAIRMAN & CEO, MOBICOM  
CORPORATION



“ I EXPECT CANDY  
TO RESEMBLE  
WECHAT SIX YEARS  
FROM NOW ”

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DeFacto **ARTICLE**

Jargalsaikhan Dambadarjaa,  
Mongolian political and  
economic observer, columnist



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**WEEKLY**

# The Defacto Gazette

INFORMING | INSPIRING | EMPOWERING

A GLOBAL LOCAL, INDEPENDENT, ANALYTICAL NEWSPAPER COVERING THE POLITICS AND ECONOMICS OF MONGOLIA  
(IN ENGLISH, JAPANESE, RUSSIAN AND MONGOLIAN)

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**2019**



TAVAN  
TOLGOI IN **TORONTO**



№ 472

**JARGALSAIKHAN Dambadarjaa**

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# TAVAN TOLGOI IN TORONTO

Toronto recently hosted the annual PDAC (Prospectors and Developers Association of Canada) convention. The reputation of this association is growing every year as they have consistently enabled over 8,000 members and participants to exchange information and share best practice in responsible mining, sustainability, operations, environment, safety, and positive social impact.

The annual convention takes place every March and this year the event saw an attendance of 25,800 people and 3,500 investors from 130 countries. In addition, nearly 1,000 companies in mineral exploration, development, and logistics participated in the trade show organized as part of PDAC. Thanks to PDAC, 70 million dollars came into Toronto's economy.

This year, the Mongolian delegation was led by D. Sumiyabazar, Minister of Mining and Heavy Industry, and included representatives from the government and mining companies. A Mongolia session was organized under the name 'Mongolia@PDAC 2019', where companies listed on the Toronto, Australian, and Mongolian stock exchanges exchanged experience and answered questions from an audience of 250 people. Minister D. Sumiyabazar's key focus was around offering 30 per cent of Erdenes Tavan Tolgoi (ETT) on foreign stock exchanges. He had meetings with investors, Canadian Ministers of Mines, International Trade, and Natural Resources, and the Chilean mining minister.

## GLOBAL OUTLOOK IN MINERAL DEVELOPMENT

It was reported by the S&P Global Intelligence that the annual global exploration spends on non-ferrous metals, such as aluminum, gold, copper, and zinc, increased by four per cent to reach 10 billion USD in 2018. Half of this capital was spent on gold, and 22 per cent on copper. Gold prices, which weaken when USD appreciates, stood at 1,318 USD per ounce in the beginning of 2018 and reduced to 1,283 by the end of 2018. It is projected that the gold prices will not change significantly now. The price of copper stood at 6,173 USD a tonne at the end of 2017, and grew to 6,527 USD on the London Stock Exchange due to economic growth and supply reduction. The copper is projected to be priced at

an average of 6,824 USD in 2019.

On the other hand, exploration budgets for battery metals, including copper, lithium, and cobalt, are seeing a significant growth triggered by the increasing production of electric vehicles. In 2018, a total of 247 million USD was spent on lithium exploration, which was a 58-per-cent increase compared to the previous year. If we look at cobalt, 95 companies spent a combined amount of 110 million USD, which was a threefold increase from the exploration spend in 2017.

Meanwhile, exploration activities became stagnant in Mongolia. After a long period of issuing ►►

► exploration licenses in a highly disorganized manner, Mongolia suspended exploration licenses altogether in 2010. But it didn't take long for the licenses to start being reissued – some transparently and some secretly. Today, there are 3,074 licenses issued, 1,393 of which are exploration licenses and 1,681 are mining licenses. A geological map with a scale of 1:50,000 (1 centimeter equaling 500 meters) is mandatory requirement to conduct mining operations in Mongolia. However, only one

third of our territory has such geological maps that meet the criteria. Normally countries first obtain the knowledge of what deposits lie where on their land and then develop a plan to use the resources wisely. The 2017-2018 public budget included 13.3 billion tugrugs on exploration activities, but only 11.3 billion (5.3 million USD) was spent. International markets offer many opportunities to find investment on exploration projects that have strong prospects.

THE MINERAL RESOURCES AND PETROLEUM AUTHORITY REPORTED THAT MONGOLIA PRODUCED

50 million tonnes of coal	1.3 million tonnes of copper concentrate	20.6 tonnes of gold	109,000 thousand tonnes of fluor spar	7.7 million tonnes of iron ore	9.6 million tonnes of iron ore concentrate	5,400 tonnes molybdenum concentrate	14,200 tonnes of cathodes copper	182,000 thousand tonnes of fluor spar concentrate	88,000 tonnes of zinc concentrate
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Mining accounts for 23.6 per cent of Mongolia's GDP, 72 per cent of industrial sector, 88.5 per cent (6.2 billion USD) of exports, and 74 per cent of foreign investment. Therefore, Mongolia's development is directly dependent on its mining sector.

## ERDENES TAVAN TOLGOI'S PURSUIT OF CAPITAL

Mongolia's mining sector cannot be fathomed without coal. The low calorific value coal is used for producing electricity or heat, while the high calorific value coking coal is used in furnaces to make steel. In 2018, 88.5 per cent of Mongolia's total exports was comprised by minerals, nearly half of which (around 45 per cent) were made up by coking coal.

The Ministry of Mining and Heavy industry reported that, as of the end of 2018, Mongolia's total coal reserves reached 37.4 billion tonnes, and a total of 179 companies are conducting mining operations, holding 317 mining licenses. In 2018, Mongolia produced 50 million tonnes of coal, 36 million of which were exported. The Tavan Tolgoi deposit accounts for 7.4 billion tonnes of the total coal reserves. It is estimated that 5.1 billion tonnes of the coal in Tavan Tolgoi are coking coal, and 3 billion of which are located at Tsankhi and controlled by the state-owned Erdenes Tavan Tolgoi (ETT) company. In 2018, ETT mined 11.1 million tonnes of coal and their total sales stood at

800 million USD. On its own, ETT supplied 20 per cent of China's coking coal exports last year.

Having started mining in 2010, ETT exported 40 million tonnes of coal within eight years. They plan to double its production capacity and produce 70 million tonnes over the next four years. It is estimated that 85 per cent of their production will be coking coal. In order to double their production, ETT is planning nearly 20 large projects, including building a new railway and a new road to the Gashuun Sukhait port, increasing its exporting capacity, developing coal-processing and chemical plants, building a power plant, establishing water supply, and building a railway to Sainshand and to Khangai. These projects require an investment of 1.8 billion USD. The government is planning to raise this capital by listing ETT's 30 per cent on the international market.

ETT has a large reserve, high quality coking coal, and a great location right next to its biggest customer. Therefore, investors expect that, once the ►►

▶ necessary infrastructure is built, ETT's production will ramp up and their sales will increase. However, there are question marks around ETT's executive management being replaced far too often (due to being state-owned), and the absence of an independent board member who can represent 15 per cent of the shares already distributed to people. Also, investors recognize that a 30-per-cent share doesn't come with a lot of decision-making power.

Another area where international investors are interested in is ETT's social and environment responsibility. Tavan Tolgoi's coal is first transported on trucks to be dumped at Tsagaan Khad (located 20 kilometers from the border) before being reloaded. As a result, thousands of trucks get stuck in a huge traffic under the black dust, and it takes weeks before their turn comes to cross the border.

Drivers essentially live in their cabins during that time.

The permit to transport coal is provided by the Ministry of Road and Transport Development. Tsagaan Khad has a long line of coal trucks stuck without moving because their number exceeds the capacity at the border. Due to the politics involved, the permit to transport coal was provided to 15,000 trucks when only 3,500 would have been enough. Accidents happen on this road almost every day, many of which regrettably end up in a fatality. It is obvious that, as long as accidents happen, lives are lost, and the traffic is stuck at Tsagaan Khad, no one from either domestic or international markets would buy ETT's shares. There is a lot of work that needs to be done before we can sell ETT's shares on the Toronto stock exchange.

2019.03.13 ■

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**TATSUYA HAMADA**CHAIRMAN & CEO, MOBICOM  
CORPORATION

## I EXPECT CANDY TO RESEMBLE WECHAT SIX YEARS FROM NOW

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*Tatsuya Hamada is the CEO of Mobicom Corporation and boasts 20 years of experience with Japanese international communications company KDDI Corporation in various roles such as President, Business and Development Director, and Marketing manager. Moreover, he has also managed KDDI activities in London, Dusseldorf, Frankfurt and Brussels. Since 2016, Tatsuya Hamada has sat on the Board of Directors of Mobicom and has served as its CEO.*

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**Jargal Defacto:** As an expat, how do you like your job so far?

**Tatsuya Hamada:** Before I begin, I would like to offer my deep appreciation for having me on your program. I have been here in Mongolia for almost three years having come here on the 9th of March 2016. Compared to my first year in Mongolia, I have settled down and am now able to enjoy life and business.

**JD:** What shape is the company in currently?

**TH:** Honestly speaking, when I first came to Mongolia, the country was in the midst of an economic crisis and Mobicom was also in a hard time. However, following the economic recovery and economic trends, I would say that we have recovered momentum. We are still not completely prepared for a sudden severe obstacle but we are on the right path.

**JD:** What are your thoughts on the Mongolian telecommunications market?

**TH:** I think the Mongolian IT sector in general is in a good situation at the moment partly due to the capacity of professionals in the sector. Honestly, I don't see Mongolia as being significantly behind in the field of ICT from countries such as the US and or European ones.

**JD:** You have worked in Europe for a significant amount of time and I see noticeable developments in telecommunications every time I visit. Do you believe the same process is taking place in Mongolia?

**TH:** In terms of mobile technology, Mongolia was in a transition from 3G to 4G when I first came to the country. This is a very dynamic change in mobile data transmission and I was lucky enough to experience it. In 4G, transmission speed per user is somewhere in the range of 20 – 40 mbps based on a number of factors such as congestion, area or time. This far surpasses the transmission speed of 3G transmission.

**JD:** There is a vast improvement in the quality of life with faster transmission. There is talk now of the world moving onto a 5G transmission. How far is Mongolia from this process?

**TH:** A number of countries have begun serious discussions of implementing 5G transmission in industry. It was still in the feasibility study stage one or two years ago but countries such as Japan, China and Korea, in close proximity to Mongolia, may put 5G into practice as early as this year. Mobicom has also begun discussions of implementing 5G in Mongolia. However, there is still areas where 4G in Mongolia can develop in

daily life and in the workplace. It is only after we harness the full capacity of 4G in Mongolia, that we can take steps to incorporate 5G into Mongolian industry. We believe that implementation of 5G in Mongolia shall take place in 2-3 years.

**JD:** Do you believe the other network providers will incorporate 5G within a similar timeframe?

**TH:** I believe so, but although 5G will drastically improve transmission speed and facilitate simultaneous multiple access controls it is worth noting that it would ultimately be beyond daily consumption needs.

**JD:** How do you find market competition in Mongolia?

**TH:** My understanding of Mongolian society and culture is that it has an abundance of ability and flexibility. These attributes make it easier to introduce new technologies into the Mongolian market. However, from a business perspective, maximizing the productivity of new technologies has to be a central concern as we are investing vast sums of money and resources into developing and incorporating them into the Mongolian market.

**JD:** How many employees does Mobicom have?

**TH:** There are approximately 1,500 employees including contractors.

**JD:** What are Mobicom's contributions outside of telecommunications?

**TH:** We are consistently recognized as the "Best Taxpayer" and the Tax Authority recently joined the Ministry of Finance in applauding our VAT receipt system. This, to me, demonstrates that we are operating our business in an accurate and responsible manner.

**JD:** Where do you find the most competition in Mongolian telecommunications?

**TH:** Mobicom made the transition from 3G to 4G in 2016 but our competitors made the transition before us. Those same competitors also

developed the capacity of their 4G networks faster than us but this success proved to be motivation for us to accelerate the development of our 4G network. This form of competition is essential to the development of industry in Mongolia.

**JD:** Can you reflect on the Mobile Number Portability Legislation.

**TH:** I believe the issue of mobile number portability was brought to parliament 5 years ago. In its simplest terms, mobile number portability holds for the right of an individual to keep their existing number should they decide to change carriers. It was conceptually agreed upon but subsequent implementation efforts by telecommunication companies and regulatory bodies have not seen any success. This failure can mainly be attributed to a lack of practical guidelines in areas such as methodology and who is to assume the majority of the burden. If telecommunications carriers were to bear the costs, it would have a huge impact on our operations.

**JD:** What kind of costs would be appreciated with the project?

**TH:** Firstly, all four telecommunication carriers will have to establish a central operation center which we refer to as a clearing house. There are massive amounts of costs associated with this and there is no infrastructure in place as of yet. This infrastructure will also take time to be created and we would also need to establish who will be responsible for the information protection of individual costumers.

**JD:** What is the situation in Japan with telecommunications operators and this mobility?

**TH:** Softbank, KDDI and NTT are the three major operators in Japan and there is a new operator set to join the market this year. Mobile number portability was implemented in Japan around 7-8 years ago. If costumers are given the opportunity to change their network provider without changing their number, it would be beneficial to them. As

this is not possible in Mongolia, all four carriers are able to offer virtually identical packages as individuals would be reluctant to change operators if it means changing numbers.

**JD:** What new products is Mobicom introducing to the market?

**TH:** Most people see Mobicom as a telecommunications company but we are also looking into expanding our service portfolio based on our mobile platform. Some of those initiatives is the provision of financial technologies such as FinTech and our augmented reality service for which KDDI, our shareholder has a patent. Augmented reality would for example provide a platform for rural doctors, engineers and teachers to communicate real time with professionals in Ulaanbaatar to seek advice. One set of glasses for augmented reality costs around \$500.

**JD:** How big is KDDI?

**TH:** KDDI started off as a telecommunications operator but has gradually become a player in the value added product market of ICT. While its core business remains telecommunications, it provides a number of services to government, business and individuals. One of those services is similar to our Candy program that allows people to pay their bills and to carry out banking services.

**JD:** Can you give a brief description of how Candy works?

**TH:** Candy was established as a loyalty program for our customers. Individuals were given the opportunity to accumulate points which could later be traded for goods and services. In October of last year, Mobicom received an e-money license from the Mongol Bank which allowed us to initiate a dynamic, nationwide digital finance business based on our Candy platform. Today, we can use the Candy application to transfer money between us as well as between my bank account and my Candy account. Moreover, we are now operating with a convenience store chain that would allow products to be bought through the Candy app.

**JD:** How do you see the value of Candy five years from now?

**TH:** I can take the example of China, Japan and Korea whose markets were similar to that of Mongolia 7-10 years ago in terms of the majority of transactions being made through cash. Now, everyone in China uses mobile payment, WeChat which has also been extended overseas. Therefore, I expect Candy to resemble WeChat six years from now.

**JD:** What is your assessment of the business environment in Mongolia?

**TH:** The Mongolian industry is heavily reliant on mining at the moment. This is good as there is a large amount of mineral resources but I believe there should also be a second and third core industry following the mining sector. I see a tremendous potential for the ICT sector becoming one of those industries as there are discussions of smarter governance, cities and others all over the world. This is difficult to implement in a large market but this is where the relative small size of the Mongolian market becomes an advantage. It is easier to introduce new ideas and technologies into the market.

**JD:** Where do you see your company five years from now?

**TH:** I constantly tell my workers to not strive to make Mobicom the number 1 company in industry. In contrast, Mobicom should become a leading company and an example to others not only through performance but business ethics, business policy, human mindset and innovation.

*This interview originally aired in February, 2019.*

*It has been edited here for space and clarity.*

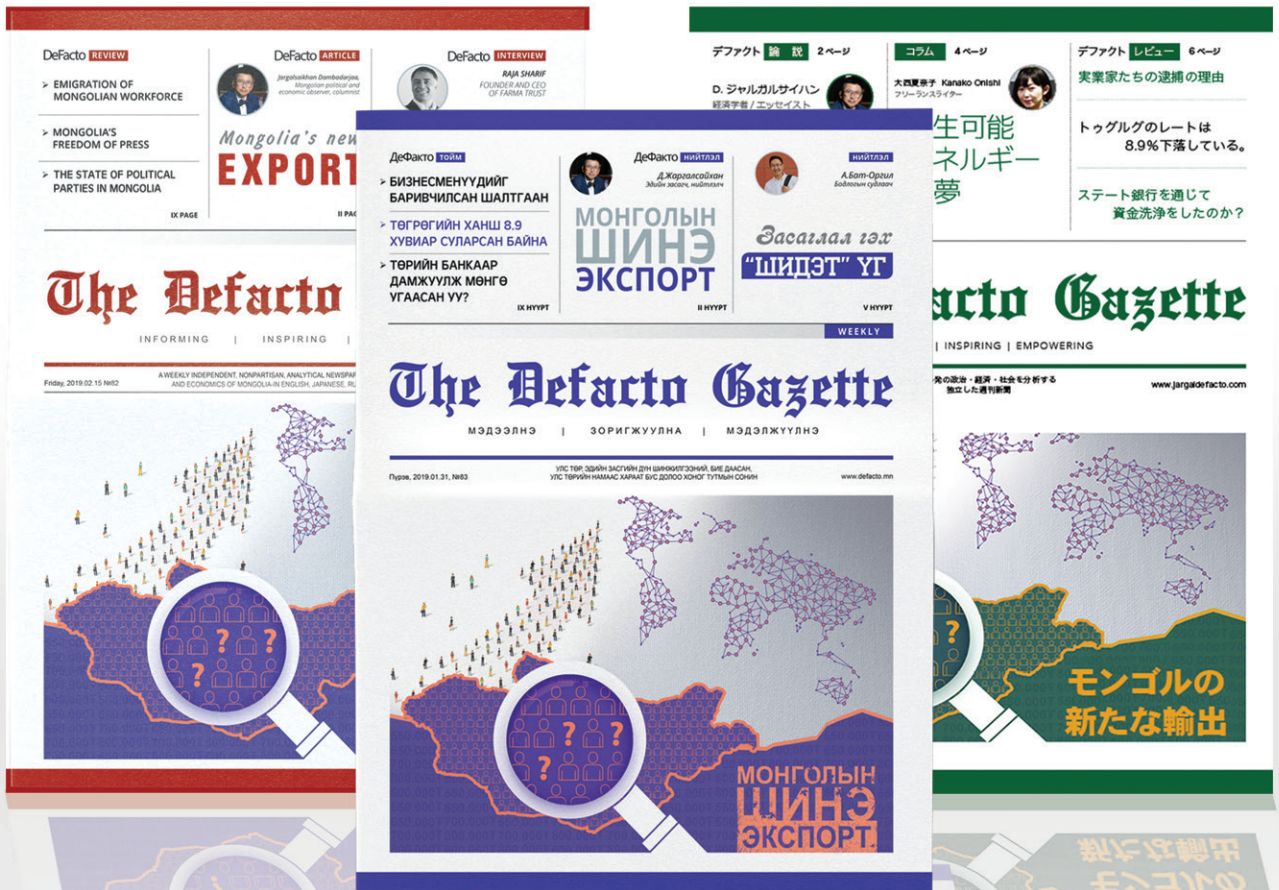
*You can watch the full 30-minute interview at [www.jargaldefacto.com](http://www.jargaldefacto.com)*

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№ 471

JARGALSAIKHAN Dambadarjaa

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# MUNICIPAL BONDS

**Due** to [the failed attempts at regional development](#), half of Mongolia's population is now living in the capital city. As ger districts continue expanding, residents are experiencing serious health consequences because of increasing air pollution from burning coal as well as soil pollution from pit toilets. Ulaanbaatar's air and soil pollution is still at disastrous levels.

It was estimated by UNICEF that Ulaanbaatar would have to spend additional 24.8 billion MNT

on diseases caused by air pollution in 2017-2025. The population of the capital city is project to reach 2.3 million in 2035. This growth will come with many challenges, which includes mitigating environmental pollution, optimizing land use, and creating jobs to help employment.

The most effective way to reduce our air and soil pollution is to have the ger district residents live in apartment units. But how do we make it happen?

## THE ONLY WAY TO REDUCE OVERCENTRALIZATION

Without improving the living conditions in rural areas, it is impossible to stop the migration from the countryside to the capital city and aimag centers. In order to improve the living conditions in the countryside, we need to build infrastructure in soums and aimag centers, and create a better business environment.

Such development will require capital, which should be raised by allocating at least one third of the taxes collected from people and businesses as well as other budget revenue and by investing more than 50 per cent of certain taxes back into people and businesses. Ulaanbaatar has 46 per cent of our total population and accounts for 70 per cent of GDP growth, thus half of tax revenue should be allocated to the city.

Regardless of where it is taking place, projects will achieve success only when the government listens

to people, discusses issues together, and reaches mutually agreed solutions. However, all taxes have been centralized in the capital city, and only a small fraction went back to local communities. In some cases, local communities are not receiving anything back. This is why our countryside is not developing and its people are on an exodus to the city.

Local governments don't have their own capital; thus they have no choice but to wait for their allocated sum from the public budget. But, if local governments start having its own tax revenue, they will be able to fund their social investments by issuing municipal bonds. This method is often used in developed countries. The bonds are also referred to us 'Muni' or 'CD (Certificates of Deposit)' in the capital market. The revenue local governments receive from their interest income is usually exempt from taxes.



## ▶ CAPITAL FOR APARTMENT UNITS AND QUALITY ASSURANCE

Even though many apartment blocks are being built in Ulaanbaatar today, most of them are proving to be too expensive for ger district residents. There is a huge gap between the prices and the purchasing power. This gap is caused by the fact that the right to develop the land is obtained secretly and usually with bribery. Technically apartments aren't supposed to be built on the land along the Tuul River and at Bogd Mountain and its passes. The only buildings that can be built in those areas are supposed to be tourist facilities. It is a hugely difficult task to provide real estate certificates to the hundreds of houses built in those areas and put them up for sale using the certificates.

The relevant laws that regulate the abovementioned land relations must be reviewed. We need to redo the urban planning for new settlement areas from the beginning, carefully plan for public areas and facilities (including schools, kindergartens, and gardens), spend local budgets on infrastructure for running water and electricity, and ensure a strong process in selecting construction companies. Municipal bonds are usually used to fund specific infrastructure projects with clear locations, names, and addresses. The quality of project implementation is overseen by insurance organizations.

Implementing this scheme requires the financier, the builder, the seller, and the owner to be separate players. Currently Mongolian construction companies do everything themselves – finding land, building, selling, and operating. This affects the overall quality of the building. Given the value of real estate grows over time, half of the taxes

collected from real estate should be spent on improving the exterior environment.

The Ulaanbaatar authorities have talked about issuing municipal bonds several times. However, the central government doesn't allow local governments to retain a part of their tax revenue and use it as collateral to issue bonds. They don't allow it because the budget authority is too centralized and the public budget is always on deficit. In September 2016, the law on debt management removed the capital city's right to issue bonds.

Japan has a similar overall structure like ours, but they have a special law that compares the revenue and expenditure ratios of public and local budgets. The mayor or the municipal leader, who has the right to manage and spend the local budget, is elected directly by residents. In 2016, Tokyo elected its first female mayor. She initiated 'Green bonds' with a maturity of 5 and 30 years to support Tokyo's green development. Subsequently, large companies, banks, and insurance businesses invested in those bonds. As such, international examples prove that it is far more effective for the local government to be accountable for projects that directly affect people's lives, e.g. social care, general education, fire safety, bridges, and roads.

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