Challenging Country – Mongolia
Presented by Mr. S. Demberel, Chairman & CEO, MNCCI
May 14, 2008
Mongolian National Chamber of Commerce and Industry

The main representative body of Mongolian Business Community

“Challenging Country - Mongolia”
Sambuu DEMBEREL
Chairman & CEO, MNCCI
Mongolia country basic facts

- Landlocked country located in Central Asia, between Russia and China
- 2.6 million people, 70% of the whole population is under 35 years old
- 1.564 million sq.km /larger than the territories of Britain, France, Germany and Italy combined/
- Capital: Ulaanbaatar city with population over 1 million
- 40 millions heads of livestock
- Democratic country, parliamentary system
Mongolia: Country basic facts

- Located in Central Asia, between Russia and China
- 2.6 million people, 70% of the population is under 35 years old
- 1.564 million sq.km /larger than the territories of Britain, France, Germany and Italy combined/
- Capital: Ulaanbaatar city with population of 700,000
GDP growth 2003-2007

9.9% growth in 2007

2008-2009 forecast

GDP per capita - 450USD (2004)
GDP per capita 1480USD (2007)

Export share to GDP – 48 percent
Import share to GDP - 52 percent
Mongolia: Country basic facts

- Sharp, continental climate with 4 seasons a year
- The official language is Mongolian
- 40 million of livestock
- Religion: Tibetan Buddhism with elements of Shamanism
- Currency unit: Tugrug, MNT 1165=US$1 (as of May 2008)
- Adult literacy rate: 97.8%
Economy

At the end of 2007,
- GDP reached to 3.2 bln tugrug, (appx 2.8 million US)
- GDP per capita- 1051 USD,
- GDP growth-8.4%,
Trade

- Member of WTO since 1997
- Trade turnover over 4 bln USD in 2007 for the first time
- No import limitation
- 5 percent tax for all imported goods
- No export taxes except few items
Mongolia Global and Regional Trade Priorities

- WTO member since 1997
- WTO trade policy review 2005: Accession commitments implementation “Beyond the commitments”
- Towards new, better trade and economic environment
- Real economic growth in
  2004-10.4%
  2005-6.2%
  2006-8.4%
Mongolia Global and Regional Trade Priorities

- Landlocked Developing Country (LLDC)
- Main export commodities: textile and mining products
- Import is mainly comprised of consumer goods, foodstuffs
- Need for a regional economic integration
Mongolia Global and Regional Trade Priorities

Bilateral arrangements with major trading partners:

- Russia - Good neighboring traditional partnership since 2000
- China - Good neighboring partnership based on mutual trust since 2003
- USA - Comprehensive cooperation partnership since 2004
- South Korea - Friendly neighbor partnership since 2006
- Japan - Comprehensive cooperation partnership since 1996
Foreign trade of Mongolia

- Total foreign trade turnover equaled to 4,006.3 million US $ in 2007, of which
  - Exports comprised 1,888.9 million US $
  - Imports comprised 2,117.3 million US $
- The total external trade balance was a deficit of 228.3 million US $
Foreign Trade Turnover 1990-2007

Foreign trade turnover 1990-2007, mln $

- Total turnover
- Export
- Import
Major export countries in 2007

- American continent: 13%
- European countries: 9%
- Asian countries: 78%
Major import countries in 2007

- European countries: 46%
- Asian countries: 49%
- Others: 5%
Ingredients for a Good Investment
Climate

- stable exchange rates
- steady economic growth
- privatized infrastructure services
- high literacy rates
- extensive access to the Internet
- liberalized trade

- stable and transparent political institutions and procedures.
Foreign Direct Investment

- Mining & exploration: 48.4%
- Trade, catering: 17.7%
- Light industry: 4.9%
- Banking: 4.9%
- Construction: 3.2%
- Raw material processing: 3.0%
- Others: 10.7%
Foreign Direct Investment

- China: 46.64%
- Other countries: 20.65%
- Canada: 13.74%
- South Korea: 6.69%
- USA: 4.9%
- Japan: 4.26%
- Russia: 3.12%

1432 companies
143.6 Million USD from Korea
### Registered FDI into Mongolia by sectors /South Korea/

<table>
<thead>
<tr>
<th>No.</th>
<th>Sectors</th>
<th>%</th>
<th>Total</th>
<th>1990-2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Others</td>
<td>30,13</td>
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<td>4</td>
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<td>6,57</td>
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<td>Light industry</td>
<td>4,68</td>
<td>6,719,40</td>
<td>6,719,40</td>
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<td>6</td>
<td>Transportation</td>
<td>4,01</td>
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<td>5,757,10</td>
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<td>7</td>
<td>Construction, production of construction materials</td>
<td>3,22</td>
<td>4,623,52</td>
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<td>Education, culture, science, printing</td>
<td>1,72</td>
<td>2,465,25</td>
<td>2,426,26</td>
<td>7,99</td>
<td>15,00</td>
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</tbody>
</table>

*Registered FDI into Mongolia by registered FDI into Mongolia in 1000 USD.*
<table>
<thead>
<tr>
<th></th>
<th>Activity</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
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<tr>
<td>10</td>
<td>Souvenir, jewelry</td>
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<td>1,41</td>
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<td>Furniture, wooden production</td>
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<td>13</td>
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<td>Energy</td>
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<td>405,213</td>
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<td></td>
<td>Total</td>
<td>100,0</td>
<td>143,610,79</td>
<td>85,180,149</td>
<td>19,004,49</td>
<td>16,434,78</td>
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</table>
## Number of registered FDI companies in Mongolia by sectors

<table>
<thead>
<tr>
<th>No.</th>
<th>Sectors</th>
<th>%</th>
<th>Total</th>
<th>1990-2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
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<tbody>
<tr>
<td>1</td>
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<td>193</td>
<td>115</td>
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<td>6</td>
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<td>7</td>
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<td>1.82</td>
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<td>12</td>
<td>6</td>
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<td>8</td>
<td>Construction, production of construction materials</td>
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<td>1</td>
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<td>9</td>
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<td>1</td>
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<td>Weight</td>
<td>Emission</td>
<td>Water</td>
<td>Electricity</td>
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<td>11</td>
<td>Public service</td>
<td>0.91</td>
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<td>12</td>
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<td>1</td>
<td>100.0</td>
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<td>12</td>
<td>Agriculture, agro and animal husbandry</td>
<td>0.77</td>
<td>11</td>
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<td>110.0</td>
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<td>13</td>
<td>Furniture, wooden production</td>
<td>0.70</td>
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<td>1</td>
<td>1</td>
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<tr>
<td>14</td>
<td>Food production</td>
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<td>9</td>
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<td>99.0</td>
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<td>15</td>
<td>Production of home appliances</td>
<td>0.28</td>
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<td>191.0</td>
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<td>2</td>
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<td>191.0</td>
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<td>0.28</td>
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<td></td>
<td>123.0</td>
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<td>Processing of animal origin raw materials</td>
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<td>123.0</td>
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<td>Energy</td>
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<td>1</td>
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<td>110.0</td>
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<tr>
<td>20</td>
<td>Production of electronics</td>
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<td>1</td>
<td></td>
<td></td>
<td>110.0</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>100.0</td>
<td>1432</td>
<td>623</td>
<td>203</td>
<td>274</td>
<td>332</td>
</tr>
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</table>
Mongolian banking system assets have grown at a very fast pace over the past 3 years.

In 2007 the banking system loan growth over a one year period ending September 2007 was 65.9 percent.

- Non-Performing Loan ratio has declined significantly (3.7 percent as end September 2007)
# Mongolia’s Ranks

<table>
<thead>
<tr>
<th>Ease of...</th>
<th>2006 rank</th>
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</thead>
<tbody>
<tr>
<td>Doing Business</td>
<td>45</td>
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<tr>
<td>Starting a Business</td>
<td>55</td>
</tr>
<tr>
<td>Dealing with Licenses</td>
<td>34</td>
</tr>
<tr>
<td>Employing Workers</td>
<td>61</td>
</tr>
<tr>
<td>Registering Property</td>
<td>17</td>
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<tr>
<td>Getting Credit</td>
<td>65</td>
</tr>
<tr>
<td>Protecting Investors</td>
<td>19</td>
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<tr>
<td>Paying Taxes</td>
<td>56</td>
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<tr>
<td>Trading Across Borders</td>
<td>162</td>
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<tr>
<td>Enforcing Contracts</td>
<td>41</td>
</tr>
</tbody>
</table>

Source: Doing Business, 2007
Credit Ratings

- **Moody’s and Fitch Ratings**
  long-term foreign currency and local currency rating **B+** to Mongolia

- Several Banks in Mongolia have been rated by above agencies
Investment Climate

- Liberal investment regime
- Any sector of economy is open for investment
- Establish 100% foreign owned or JVC
- Lowest corporate income tax 10%, 25% in the region
- Personal income tax, value added tax 10%
Challenges ahead

- Economic growth due to high commodity prices on world market.
- Mongolia’s recent economic growth has not been directly driven by the mining sector but by agriculture and services sector value added.
- Mongolia is becoming increasingly vulnerable to fluctuations in world mineral prices.
Challenges ahead

- distribute gains from mineral development with the need to control inflation and encourage investment in the wider economy

- Significant investment is required in physical infrastructure to help develop new sources of growth,
Challenges ahead

- High cost of capital (need to tap into regional capital markets)
- Need a better financial intermediation
- Economic diversification needed
- Major mining projects are awaiting Government decision since 2004
Infrastructure projects

- “Coal” program of Mongolia (CTL, CTG and deeper processing of coal)
- Power plants (potential export of electricity to China)
- Railroad (second railroad connecting Russia and China, major mining sites)
- Highways (Millenium Road, Asian Highway Network)
- New airport (Funded by Japanese Government)
National Development Policy Strategy

- **2007-2015**
  - bring annual economic growth at 14 % on average GDP per capita 5000 usd
  - Increase mineral resource extraction
  - establish foundations of knowledge based economy

- **2015-2021**
  - keep the average economic growth at not less than 12 %, GDP per capita 12-15,000 usd
  - slow down the extraction during 2016-2021 but enhance finished products’ industry.
Conclusions

- Korea with its tremendous economic growth will have significant impact on development of the Mongolian mining industry in foreseeable future.

- Improvement of foreign and domestic economic environment of our country in recent years from one side, and increase of minerals demand in the world market in other side creates favorable conditions for Mongolia, which is rich of natural resources.
Poverty Reduction
Through Private Sector Development

Key Project Proposals
Introduction

• About the MNCCI
• The Current Situation Facing the Private Sector
• MNCCI’s Project Development Philosophy
• Overview of Key Proposals
• Question Session
About the MNCCI
The Mongolian National Chamber of Commerce & Industry

• Mongolia’s premier business advocacy and representative organization, established in 1960
• Branches in 17 Aimag
• Over 1700 members, representing over 70% of Mongolia’s GDP
• Convenes 25 Business Sector Councils
Project Development Philosophy

• Project proposals were developed from feedback received through:
  • MNCCI’s 25 business sector councils,
  • Key private sector representatives including the CEO’s club

• The projects were then thoroughly researched and international case studies and best practices were considered in their design

• All projects have been designed with sustainability in mind
Overview of Key Proposals
The areas, where the private sector needs the technical assistance (1/2)

- **Trade and transport facilitation and development**
  - “Transit Mongolia” institutional and human resource capacity building
  - 72 to EU: Promoting Exports to the EU
  - Promoting the bar-coding and logistics system in supply chain in Mongolia
  - Non-traditional, new export development and financing scheme

- **SME and industrial development**
  - Improving SME Productivity and Profitability via E-Capacity Building
  - Development of organic agriculture and farming
  - Micro and SME alternative financing and guarantee scheme development
  - Promotion of rural and district level SME incubation services

- **Legal and regulatory areas**
  - International Commercial Law and Arbitration Development in Mongolia
  - Promoting Intellectual Property Rights to SMEs
  - Development of Business Advocacy and PPP Dialogue in Mongolia
  - Collateral law development for SME
The areas, where the private sector needs the technical assistance (1/2)

- **Financial sector**
  - Mongolian Insurance Sector Development
  - Promotion of Credit Rating and Credit Information Services
  - Green Credit Guarantee scheme development
  - Alternative financing development for rural industrialization

- **Sustainable development pillar - environmental protection**
  - Waste water treatment improvement and water efficiency principles expansion
  - Promotion of cleaner production and technology, energy efficiency incentive mechanism

- **Corporate Social Responsibility and Good governance**
  - Promoting CSR in Mongolia
  - Development of Good Corporate Governance Practices in Mongolia
  - Development of capital market
**Vision**

- Improving the national institutional and human resources capacity to create a favorable transport and trade facilitation environment

**Key Objectives**

- Enhancing the national human resources and key institutional capacity for the development of efficient trade and transport in Mongolia as it moves towards becoming a regional trade transit hub.
- Enhancing the current policy environment to allow for better policies which would support and nurture the growth of trade and the transport industry.
- Contribute to the revision of Mongolia’s legal environment on transport and logistics to be in line with international standards
- Strengthen the capacity of the National body on Transport and Trade Facilitation

**Rationale**

- Project will benefit by providing increased transit transport cargo flow which would increase Mongolia's exports of services of transport and logistics in the supply chain

**Implementing Agencies**

- Transport and Trade Logistics Council of MNCCI, Mongolian National Committee on Trade and Transport Facilitation, MONPRO Committee
## International Commercial Law and Arbitration Development in Mongolia

### Vision
- Promoting world class arbitration and alternate dispute resolution processes in Mongolia while increasing the understanding, application and awareness of international standards and international private law.

### Key Objectives
- Increased understanding, applicability and awareness of international private law (IPL)
- Enhanced capacity of legal personal for handling IPL cases
- Improved skills of arbitrators to ensure they meet international standards
- Strengthen alternate dispute resolution (ADR) procedures and infrastructure
- Increased public awareness of ADR and enhanced capacity of ADR arbitrators

### Rationale
- Need for world class arbitration capacity to improve investment environment & need for understanding and application of international corporate law to improve the business environment

### Implementing Agencies
- MNCCI, MNAC, Ministry of Justice and Home Affairs
## Vision
- Increasing Mongolia’s exports to the European Union taking advantage of the preferences allocated under the EU Generalized System of Preferences (GSP+) in order to decrease the foreign trade deficit and increase economic growth.

## Key Objectives
- Mongolian businesses are able to capitalize on export opportunities to the EU and thus enter new European markets or grow their exports to the EU
- Mongolian businesses understand the requirements of exporting to the EU market
- Growth in Mongolian exports to the EU and a resulting diversification in the export base

## Rationale
- Diversification of export base, increasing non-traditional, non-mineral exports

## Implementing Agencies
- Export Development Council, MNCCI-Foreign Trade Documentation Department, MIT
<table>
<thead>
<tr>
<th>Vision</th>
<th>The effective use and adoption of international intellectual property (IP) rights among small to medium businesses in Mongolia, ensuring the protection of their IP and their adherence to international IP standards</th>
</tr>
</thead>
</table>
| Key Objectives | SMEs develop a greater understanding of their rights and obligations under international IP law and encouraged to become more innovative and develop higher quality products  
• Reduced levels of piracy and IP infringements by SMEs  
• Local MNCCI branch chambers to act as regional centers providing IP advice  
• Increased volume of applications of patents |
| Rationale | Better IP rights enforcement offers incentives for SMEs to innovate. Increased Franchising in Mongolia allowing a new way for businesses to grow. Reductions to fraudulent goods being produced breaching IP laws.  
• New legal framework for franchising business is established. New ways and opportunities for job creation and poverty reduction are created. |
| Implementing Agencies | MNCCI, Franchising Development Council, WIPO |
### Vision
- To assist in the creation of a more transparent and efficient Government, with less bureaucracy, red tape and administrative burdens especially in relation to policies impacting on private sector development, through creating regular mechanisms for the business community to contribute to the development of policy and legal documents which may affect them.

### Key Objectives
- Improved cross-communication between the public & private sectors and an improved framework for promoting dialogue between the Government and the private sector on the development and review of policy relating to the private sector.
- Increased understanding of the benefits of private sector dialogue and engagement in the policy development and review process, and understanding of internationally standard methods for facilitating such dialogue for ministry staff and key government bureaucrats.

### Rationale
- Many government and private sector policies are currently being developed without the consultation of the private sector, and many regulations are inefficient and non-conducive to business. As a result Mongolia is ranked among the most inefficient regulated economies by international organizations estimations.

### Implementing Agencies
- MNCCI, Industry associations, CEO's club
## Promoting CSR in Mongolia

### Vision
- Mongolian enterprises, including Small to Medium Enterprises, engage in socially responsible practices leading to large social benefits to the communities they operate in, and large benefits back to the enterprises with more loyal customers.

### Key Objectives
- Wide understanding and awareness of CSR, its benefits and how to implement it within the business community
- Acceptance of the benefits of CSR within the business community and the creation of tangible plans to make activities socially responsible
- Creation of a sustainable support network to promote and recognize CSR practices within businesses
- Increase in the number of enterprises engaged in CSR practices and supporting community development project

### Rationale
- Making Mongolian businesses more socially responsible will improve their international competitiveness and their efficiency while also bringing many community and social benefits.

### Implementing Agencies
- MNCCI, CSR Council, MONEF, Industry Associations
### Vision
- The introduction and promotion of the full range of the GS1 global logistics management system in Mongolia and the establishment of a national body for sustainably administering the GS1 system resulting in a highly efficient trading & logistics system for the private sector compliant with international standards.

### Key Objectives
- Strengthening the MNCCI and building the capacity of its staff to enable it to serve as the key institution for the promotion and administration of the GS1 system in Mongolia
- Establishment of a key centre within the MNCCI to provide tailored advise to businesses including SMEs on the GS1 system
- Promotion of the benefits of the GS1 system to businesses around Mongolia
- Consult with key government agencies to ensure a favorable legal environment

### Rationale
- Increased supply chain efficiency could bring about cost savings to consumers, increase efficiency for businesses. The GS1 system could also assist in opening up more international trade opportunities for Mongolian businesses.

### Implementing Agencies
- MNCCI, GS1 Society of Mongolia, Ministry of Industry and Trade, Retail and Service Council & Associations
### Vision
- Helping the Insurance Sector to thrive in a developing market economy through building capacity for participants in the insurance industry ranging from insurance providers to insurance regulators.

### Key Objectives
- Strengthening the capacity of key insurance organizations through strategic advisory services, courses and planning assistance
- Establishment of an insurance institute to train the broader insurance sector professionals
- Strengthen insurance regulatory framework working with the Insurance Department of the Financial Regulatory Committee (FRC) through capacity building, training, consulting and technical assistance to its staff,

### Rationale
- The Mongolian Insurance industry is poorly developed. An efficient insurance market is vital for the development of a nation.

### Implementing Agencies
- MNCCI, Human Links Consulting, Ministry of Finance, Financial Regulatory Committee
Promotion of Credit Rating and Credit Information Services in Mongolia

**Vision**
- Mongolia’s capital and financial markets have readily available and accurate information on credit worthiness, and credit ratings provided through a Mongolian Credit Rating Agency (MOCRA) operating in line with international standards with a skilled team of staff.

**Key Objectives**
- Building the capacity of the Mongolian Credit Rating agency (MOCRA) to allow it to expand its work and bring it up to international best case practice.
- An improved and efficient investment environment with world class credit ratings services, credit information systems, debt rating information and accurate data readily available.
- To establish a database on credit information and to introduce credit information services to Mongolian financial markets.

**Rationale**
- An effective and accurate credit ratings and information service is needed to facilitate any efficient financial and investment market. This is vital for maintaining efficient markets and for attracting capital and encouraging investment and for maintaining stability within the financial markets.

**Implementing Agencies**
- MNCCI-Economic and Business Analysis Center, MOCRA-Mongolian Credit Rating Agency.
## Improving SME Productivity and Profitability to E-Capacity Building

<table>
<thead>
<tr>
<th>Vision</th>
<th>Significant gains to efficiency, productivity and profitability for Mongolian businesses through the adoption of e-business technologies and systems</th>
</tr>
</thead>
</table>
| Key Objectives | Increased awareness of e-business possibilities, technology and benefits  
Increased capacity, skills and capability within the Mongolian private sector for implementing and using information technology, and e-business applications to boost efficiency, productivity and profitability, and to reach a broader range of customers  
To ensure that the appropriate infrastructure exists for Small and Medium Sized Enterprises (SMEs) to adopt e-business practices |
| Rationale | Significant benefits and cost savings could be achieved by SMEs and passed to consumers through E-enablement. This project will also broaden the markets that Mongolian SMEs operate in and allow them to build further international connections. |
| Implementing Agencies | MNCCI, Business and Investment Support Center, MIT, associations, IT Council of MNCCI |
# Development of Good Corporate Governance Practices in Mongolia

**Vision**
- Mongolian enterprises exhibit international best practices in corporate governance and organizational arrangements, adhering to laws and the justice system resulting in increased investment flows and a more prudent corporate sector

**Key Objectives**
- Establish favorable legal environment in support of corporate governance;
- Encourage the adoption of good corporate governance practices by recognizing and rewarding companies with good practices and informing the public about these companies;
- Increased awareness and understanding on the importance of corporate governance and how to implement international best case practice principles within companies in Mongolia;
- Assist Mongolian companies to moving towards international best case practices in corporate governance;

**Rationale**
- Good corporate Governance practices are vital for a strong investment environment and vital for stability, and long term performance. Such practices also benefit the societies in which companies operate in including their employees.

**Implementing Agencies**
- MNCCI, the Stock Exchange, the Financial Regulatory Committee, Ministry of Finance, Mongolian Securities
# Promotion of Sustainable (Cleaner) Production in Mongolia

| **Vision** | To promote sustainable production (i.e. development of less polluting and more resource efficient (energy, water, raw materials) products |
| **Key Objectives** | Building awareness on cleaner production especially with SMEs  
Development of capacity and skills for cleaner production assessment and implementation  
Promotion of CSR and OH&S practices  
The dissemination of information regarding cleaner production and environmental management system through implementation of certain demonstration projects and development of CP-EE assessment Guide.  
Set up of Green Information Database Network for sustainability |
| **Rationale** | Ensuring that businesses adopt sustainable practices is a key need for ensuring that negative social externalities are minimized and that businesses have higher quality production techniques. |
| **Implementing Agencies** | Cleaner Production & Energy Efficiency Center, MNCCI |
### Vision
- Increasing the food security of Mongolia’s rural areas while also building their capacity to be a world class bio and eco, organic food producer, leading to developing export markets and increasing incomes

### Key Objectives
- Increase Mongolia’s stock and potential in the world bio eco product market
- Enhance advanced new technology transfer to domestic producers
- Brand building of bio eco, organic products

### Rationale
- Over half of Mongolia’s population live in rural areas and encouraging their food security together with assisting them to build export markets could greatly assist in improving rural livelihoods.

### Implementing Agencies
- MNCCI, Bio and Eco products council, Food Association
## Green Credit Guarantee Fund

### Vision
- To increase the awareness and use of environmentally friendly, cleaner production and energy efficient technologies in Mongolia through the provision of credit guarantee and cheaper financing incentives through the Green Credit Guarantee Fund.

### Key Objectives
- To introduce energy efficiency and cleaner production principles for Mongolian business community
- To promote sustainable development by providing cheap loan source and credit guarantee service
- To build business awareness on maintaining ecologically clean world and improve quality of life of people

### Rationale
- Pollution and energy waste are among some of the largest negative externalities from industrial development and the provision of education and financing incentives for cleaner technologies could help combat these externalities in a sustainable manner.

### Implementing Agencies
- Cleaner Production & Energy Efficiency Center, MNCCI, Green Credit Guarantee Fund
The Establishment of an SME Development Center

**Vision**

- Economic growth and job creation through supporting the development of a vibrant SME sector in both urban and rural areas through the creation of an SME development centre capable of providing tailored advice to SMEs on business development needs. The centers will also provide a range of special SME and Vocational training courses.

**Key Objectives**

- Poverty reduction in rural areas and in Ulaanbaatar through the creation of more jobs through SME development
- Establishment of a SME development centre with skilled staff who could provide direct advice to SMEs on their development while coordinating programs to assist in capacity building for SMEs
- Making courses on business management issues available to a broad audience of businesses and opening new opportunities for vocational training courses to address the need for new skills and labor.

**Rationale**

- SMEs are vital for the economy and many SME entrepreneurs do not have the skills and knowledge to operate in the formal economy or grow their businesses and employ more people. Also there is a shortage of vocational skills which go to foreign worker and which needs to be addressed.

**Implementing Agencies**

- Business Investment and Support Center, MNCCI, MIT
Technological innovation for the Khargia wastewater plant

<table>
<thead>
<tr>
<th>Vision</th>
<th>• The goal of the project is to protect “TUUL” river and to meet national ecological standards by renovation the “Khargia” wastewater treatment plant.</th>
</tr>
</thead>
</table>
| Key Objectives | • Assessment of current situation of the Khargia and technology needs.  
• Improving the capacity of “Khargia” waste water treatment plant to meeting national standard by introducing state-of-art waste water treatment technologies in tannery sector.  
• Building up “environment friendly” investment environment in Khargia area. |
| Rationale | • The current wastewater plant is believed to be contributing heavy pollution to the vital Tuul river system while also not working towards its full capacity thus having serious impacts on nearby tanneries and the environment. |
| Implementing Agencies | • Cleaner Production & Energy Efficiency Center, MNCCI |
Reviewing the current situation for the mineral sector in Mongolia and future’s tendency

Presenter Mr. J.Bilegsaikhan

Director of Mining Department of the Mineral Resources and Petroleum Authority of Mongolia
CONTENT

• Mineral sector impact on Mongolian economy and Geological survey in Mongolia

• Investment and production of petroleum sector in Mongolia and future tendency

• Promising projects and future tendency of Mining sector in Mongolia

• Investment and Legal environment in the mineral sector of Mongolia
Mineral sector impact on Mongolia’s economy and geological survey in Mongolia
The numbers of companies and employees operating actively in mining sector

- Number of companies
- Number of employees

Year: 2001 - 2007

- Companies: 117, 124, 31900, 129, 134, 139, 162
- Employees: 15135, 16394, 33500, 39800, 41900, 42400
Exploration budget, 1998-2007
Thousand.USD
In 2005, the amount of exploration budget in Mongolia has increased from 98.4 mil.USD to 127.2 mil.USD.

In 2007, the amount of exploration budget in Mongolia has increased to 280.2 mil.USD and not listed at Top ten countries.
Investment and production of petroleum sector in Mongolia and future tendency
Investment in petroleum exploration and production
Petroleum Exploration Blocks - 2004

SOCO TAMSAG MONGOL LLC
Production Sharing Contract block

Dongsheng Petroleum Mongolia
Production Sharing Contracts block

Open block
Crude Oil Production Tendency (2006 - 2015)
**Legal Environment**

- CUSTOMS TAXES = 0
- VALUE ADDED TAXES = 0
- INCOME TAXES = 0

**Exploration Terms**

- Exploration period: 5+2+2+5
- Production period: 20+5+5
Promising projects and future tendency of mining sector in Mongolia
<table>
<thead>
<tr>
<th>No.</th>
<th>Name of projects</th>
<th>Owner of project</th>
<th>Technical and economical basic criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Location</td>
</tr>
<tr>
<td>1</td>
<td>Coal open cast of Nariin Sukhait</td>
<td>Mongolyn alt (MAK) Co., Ltd</td>
<td>South gobi aimag, Gurvan Tes soum</td>
</tr>
<tr>
<td>2</td>
<td>Iron ore deposit of Bayangol</td>
<td>Boldtumur Yeroo Gol Co., Ltd</td>
<td>Selenge aimag, Yeroo soum</td>
</tr>
<tr>
<td>3</td>
<td>Coal open cast of Ovoot Tolgoi</td>
<td>Southgobi Sands Co., Ltd</td>
<td>Southgobi aimag, Gurvan Tes soum</td>
</tr>
<tr>
<td>4</td>
<td>Iron ore deposit of Tumurtein Gol</td>
<td>Erdes Group Co., Ltd</td>
<td>Selenge aimag, Khuder soum</td>
</tr>
<tr>
<td>5</td>
<td>Open pit of the hard rock gold deposit Gatsuurt</td>
<td>Centerra Gold Inc.</td>
<td>Selenge aimag, Mandal soum</td>
</tr>
<tr>
<td>6</td>
<td>Coal open cast of the Takhilt part of the Tugrug nuur deposit</td>
<td>Tugrug nuuryn energy Co., Ltd</td>
<td>Tuv aimag, Bayanjargalan soum</td>
</tr>
</tbody>
</table>
Bigger deposits and Projects of the world scale

- **OUY TOLGOI**: 32 Million tons of copper, 1000 tons of gold
- **TSAGAAN SUBRAGA**: 44,400 tons of copper
- **ASGAT**: 1271.2 tons, Silver reserve of C2 grade
- **Phosphor deposit of Burenkhaan**: 162.56 Million tons of phosphorit ore of A, B, C1 grades
- **Mardai**: 1104 tons of C1+C2 grade
- **Shivee-Ovoo**: 564.1 Million tons of A+B+C1 grades
- **TAVAN TOLGOI**: 7.0 Billion tons of coal
- **ASGAT**: 1271.2 tons, Silver reserve of C2 grade
Volume of the coal production /Million tons/

- Tavan Tolgoi coal mine
- Togrog nur and Takhilt coal mine
- Ovoot Tolgoi coal mine
- Narin Sukhbat coal mine
- by capacity until 2007

Years: 1990 to 2020
Explanation: The project Oyu Tolgoi is estimated to start its active production activity since 2010 and in the years 2013-2017 the production volume will be relatively high because of the parallel exploitation of the South and North Hugo deposits.
Explanation: The project Oyu Tolgoi is estimated to start its active production activity since 2010 and in the years 2013-2017 the production volume will be relatively high because of the parallel exploitation of the South and North Hugo deposits.
### Projected Production Costs at Potential New Copper Mines

<table>
<thead>
<tr>
<th>#</th>
<th>Project</th>
<th>Owner(s)</th>
<th>Location</th>
<th>Copper in reserves &amp; resources (mt)</th>
<th>Copper production capacity (mt/y)</th>
<th>Projected startup Date</th>
<th>Projected cash costs (US$/lb)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Oyu Tolgoi</td>
<td>Ivanhoe Mines 66% Gov’t of Mongolia 34%</td>
<td>Mongolia</td>
<td>30,515,000</td>
<td>400,000</td>
<td>2010</td>
<td>$0.64</td>
</tr>
<tr>
<td>2</td>
<td>Tenke Fungurume</td>
<td>Freeport-McMoRan 57.75% Lundin Mining 24.75% Gecamines 17.5%</td>
<td>DR Congo</td>
<td>13,963,000</td>
<td>115,000</td>
<td>2008 4Q</td>
<td>($0.19)</td>
</tr>
<tr>
<td>3</td>
<td>Tampakan</td>
<td>Xstrata 62.5% Indophil Resources 37.5%</td>
<td>Philippines</td>
<td>11,654,000</td>
<td>210,000</td>
<td>2011</td>
<td>$0.70</td>
</tr>
<tr>
<td>4</td>
<td>Salobo</td>
<td>CVRD</td>
<td>Brazil</td>
<td>11,283,000</td>
<td>100,000</td>
<td>2010 2Q</td>
<td>$0.47</td>
</tr>
<tr>
<td>5</td>
<td>Toromocho</td>
<td>Aluminum Corp of China</td>
<td>Peru</td>
<td>10,024,000</td>
<td>272,788</td>
<td>2009</td>
<td>$0.51</td>
</tr>
<tr>
<td>6</td>
<td>Lumwana</td>
<td>Equinox Minerals</td>
<td>Zambia</td>
<td>8,808,000</td>
<td>122,000</td>
<td>2008 2Q</td>
<td>$0.86</td>
</tr>
<tr>
<td>7</td>
<td>Rio Blanco</td>
<td>Monterrico Metals</td>
<td>Peru</td>
<td>7,106,000</td>
<td>191,000</td>
<td>2011</td>
<td>$0.41</td>
</tr>
<tr>
<td>8</td>
<td>Quellaveco</td>
<td>Anglo American 80.5% International Finance 19.5%</td>
<td>Peru</td>
<td>6,826,000</td>
<td>200,000</td>
<td>2012</td>
<td>$0.55</td>
</tr>
<tr>
<td>9</td>
<td>Galore Creek</td>
<td>NovaGold 50% Teck Cominco 50%</td>
<td>Canada</td>
<td>6,703,000</td>
<td>195,954</td>
<td>2012 2Q</td>
<td>$0.38</td>
</tr>
<tr>
<td>10</td>
<td>Agua Rica</td>
<td>Northern Orion</td>
<td>Argentina</td>
<td>5,867,000</td>
<td>136,000</td>
<td>2010</td>
<td>($0.73)</td>
</tr>
<tr>
<td>11</td>
<td>Petaquilla</td>
<td>Inmet 48% Teck Cominco 26% Petaquilla Copper 26%</td>
<td>Panama</td>
<td>5,373,000</td>
<td>100,000</td>
<td>2011</td>
<td>$0.76</td>
</tr>
<tr>
<td></td>
<td><strong>Totals/Average</strong></td>
<td></td>
<td></td>
<td>151,540,200</td>
<td>3,315,614</td>
<td></td>
<td><strong>$0.46</strong></td>
</tr>
</tbody>
</table>

Source: MEG’s MineSearch database.
Explanation: The project Oyu Tolgoi is estimated to start its active production activity since 2010 and in the years 2013-2017 the production volume will be relatively high because of the parallel exploitation of the South and North Hugo deposits.
Investment and Legal environment in the mineral sector of Mongolia
## TAXES APPLICABLE TO MINING OPERATIONS

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>CORP. INCOME TAX</td>
<td>15% / 40%</td>
<td>15% / 30%</td>
<td>15% / 25%</td>
<td></td>
</tr>
<tr>
<td>VALUE ADDED TAX (VAT) ON IMPORTED MINING EQUIPMENT</td>
<td>15%</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROYALTY</td>
<td>2.5%</td>
<td>2.5% / 5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROYALTY FOR PLACER GOLD PRODUCTION</td>
<td>2.5%</td>
<td>7.5%</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>VALUE ADDED TAX ON GOLD PRODUCTION</td>
<td>15%</td>
<td>0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
In 2006 the Mongolian parliament passed a law on excess profits tax (windfall tax).

The windfall tax is imposed on gold when its Mongol bank price exceeds 500 USD/ounce and on copper above a LME-price of 2600 USD/t.

A tax rate of 68% applies to revenues that exceed above-mentioned price levels.
AMENDMENTS OF THE NEW MINING LAW IN 2006

- Strengthened issues on environmental protection and rehabilitation
- Extended rights of local administrative bodies
- License holders duties are increased
- Mining licenses are granted in two different ways:
  - First come first serve basis on new exploration areas
  - Tender bidding on other areas
AMENDMENTS OF THE NEW MINING LAW IN 2006

Classification of Mineral deposits:
- Deposits of strategic importance
- Deposits of conventional mineral
- Deposits of common mineral

Governments Participation and Guarantee:
- The state may participate up to 50% jointly with a private legal person in exploitation of a mineral deposit of strategic importance where state funded exploration was used to determine proven reserves.
- The state may own up to 34% of shares of the investment made by a license holder of a mineral deposit of strategic importance where proven reserves were determined through funding sources other than the State budget.
LICENSE

- Period of validity of exploration licenses shall be 9 years. /3+3+3/
- Pre-mine development operation /in 3 years under agreements/
- Periods of validity of mining licenses shall be years. /30+20+20…/
- Minimum exploration expenditure. / 0.0, 0.5, 1.0, 1.5 $/ha /
- Limited license transferring and mortgaging. Added an item stating that licenses can not be used for trading.
Royalty

- Royalties for domestically sold coal or other conventional mineral resources are equal to 2.5% of sales revenue
- Royalty for minerals other than specified above shall be 5.0% of sales revenue

**Distribution of License fees:**
- 50% into the State budget
- 25% into the budget of the aimag or capital city
- 25% into the budget of the soum or district

**Distribution of Royalty revenues:**
- 70% into the State budget
- 20% into the budget of the aimag or capital city
- 10% into the budget of the soum or district
Korean companies operating in Mongolian mining sector

<table>
<thead>
<tr>
<th>Type of license holder</th>
<th>License holders</th>
<th>Type of license</th>
<th>License holders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joint ventured</td>
<td>38</td>
<td>Mining license</td>
<td>14</td>
</tr>
<tr>
<td>100% foreign investment</td>
<td>21</td>
<td>Exploration license</td>
<td>45</td>
</tr>
<tr>
<td>Total</td>
<td>59</td>
<td>Total</td>
<td>59</td>
</tr>
</tbody>
</table>

Korean companies exploring and mining in such mineral production - Construction, coal, fluorspar, gold and copper
World’s bigger companies which have opened in Mongolia their representative offices

- Centerra Gold 2001
- VALE/CVRD/ 2004
- BHP Billiton 2005
- Rio Tinto 2005
- Mitsui 2005
- Mitsubishi 2005
- Peabody 2007
- Jindal Steel 2008
- Archelor Mittal 2008
THANK YOU FOR YOUR ATTENTION
DEVELOPING INDUSTRIAL PARKS IN MONGOLIA
Presentation Plan

- Introduction
- Policy of Government for establishing Industrial Parks
- Locations and Directions for establishing Industrial Parks
Introduction
Manufacturing Industry overview

- Cashmere and wool Industry
- Textile Industry
- Leather Industry
Cashmere and wool industry

- Annual production of cashmere 4 thousand ton, 20 thousand of sheep, camel and other wool,
- Mongolia- second biggest producer of cashmere
- Industry produces 8% of GDP
- 30% of total export
Textile Industry

- More than 100 enterprises operating in the sector
- 12% of total workforce working in Textile Industry
- Industry producing 5.3% of GDP
- 16% of total export
Leather Industry

- Annual production 8.4 million raw skins and hides
  - 4.4 million sheep skin
  - 2.2 million of goat
  - 0.6 million cow hides
- Leather Industry producing 1.3% of GDP
- 8.6% of total export
Government Policy

- Ensure favorable legal business environment
- Create more jobs
- Promote export, SME and competitiveness
- Tax concession, incentives
Government Policy

- Land fees exemption during plant construction and technological upgrade process
- Concessional land fees for certain period after starting activities
- Immovable property tax exemption for certain period for enterprises producing export oriented products
- Import duties and VAT exemption payable for raw materials, equipments and their parts imported for production of export oriented products
Location of Industrial Parks
### SWOT analyses

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weakness</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Solid raw material supply</td>
<td>- Bad raw material supply management</td>
</tr>
<tr>
<td>- Near to the Russian and Chinese market</td>
<td>- Protection to ban the export of raw material is insufficient and not efficient</td>
</tr>
<tr>
<td></td>
<td>- Most of cashmere producers run the first–stage processing operations.</td>
</tr>
<tr>
<td></td>
<td>- Final export products have 50-55% import taxes when exported to the Chinese and Russian market</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Beneficiary of GSP schemes, Japan, EU</td>
<td>- Lack of advanced and modern technology</td>
</tr>
<tr>
<td>- Shift to a fair Export and Import Tax System within the China and Russia to open 2 big potential market (Mongolia has only 5% of tax on the final products coming from China and Russia)</td>
<td>- Negative trade balance because no final product export (With Russia 80%, China 85% if not account the copper and gold export)</td>
</tr>
<tr>
<td></td>
<td>- Substitution product import are not regulated (no taxes, damping products)</td>
</tr>
</tbody>
</table>
Investment Climate

- Liberal investment regime
- Non-discriminatory national treatment to foreign investors
- Any sector of economy is open for investment
- Establish 100% foreign owned or JVC
- Lowest corporate tax level 10%, 25% in the region
- Personal income tax, value added tax 10%
Thank you for attention
Contents

- Mongolia 소개
- G Project 개요
- Concept and Significance
- Proposed Scope
- Proposed Timetable
“활용 가능한 자원과 기회 존재” → 적합한 실행 전략 운영

□ 지정학적 남북으로 중국 및 러시아, 동서로 중앙아시아 및 유럽의 길목
□ 신규 부지 확보 가능성 및 공기업 민영화 진행 혹은 진행 예정
□ 금융산업 분야 진행 단계상 초기로 여러 분야 기회 상존
□ 건설경기 호황으로 여러 종류의 아파트 단지 건축 중
□ 에너지 및 관련 기반 산업이 추가적인 사업 진출 Motivation 제공 가능
□ 대규모 영농가능 토지 사용권 획득 가능하며 점진적으로 사유화 진행 예정
□ 겨울이 길고, 춥고, 인구가 적음이 우리에게 주는 유익
□ 기업 이미지 및 사회적 책임을 함께 고민하는 기업이 성공 가능성 높음
GEEP Project

- 사업명: 신재생에너지를 이용한 사막녹화 사업 (Green Eco-Energy Park)
- 부지 면적: 3,300,000 m²
- 부지 위치: 몽골 울란바타르시 인근 라라이크구
- 사업목적: 신재생에너지 Park와 시범조림지를 조성하여 몽골의 사막화 방지를 위한 시범단지를 조성하고 향후 한-몽 협력과 세계적인 사막화 방지 시범단지로 발전시킴

- 추진계획:
  1st Phase: 에너지파크, 묘목장, 저수지, 시범조림, 관리동
    May. 2007 – Apr. 2009 (2 years)
  2nd Phase: 수목원, 국제협력단지, 대규모 조림, 하우스타운
    May. 2009 – Apr. 2047 (38 years)
신재생에너지로 사막화 방지를 위한 사막화 방지를 위한 단지 조감도

사업지역: 몽골 울란바타르시

면적: 3,300,000 m²

GEEP Project
사업부지 사업부지
나란 복합발전 실증단지
풍력 3 kW + 태양광 5 kW
울란바타르 할라이코

그린벨트 예정지

GEEP Project

<나란 북합발전 실증단지>
풍력 3 kW + 태양광 5 kW

Mongolia

DAESUNG GROUP
몽골의 사막화

- 몽골 국토의 41.3% (남한의 7배) 고비사막과 불모지 (유엔환경계획(UNEP))
- 몽골 국토의 90% 이상 사막화 진행 중이며, 최근 30년 동안 목초지 69,000 km2 감소
  하고 식물종의 75%가 멸종 (삼성경영연구소)
- 1990년대 이후 발생일수, 강도, 횟수 등이 급격히 증가
몽골 사막화 원인

- 무분별한 벌목과 방목(경제적 어려움 극복 차원)
- 몇 차례 대형 산불(환경과 생활기반 악화)
- 척박한 토양관리 및 물 관리(연간 강수량 250mm)
- 인구의 수도 집중화와 경제적 빈곤, 영하 30~40° 의 겨울로 연료 공급 문제를 해결하기 위한 산림벌채로 사막화 확대
Concept and Significance

- Electric Supply for Small Village or Public Building
- Combat against Desertification
- Mitigating DSS
- Mitigating the effects of CC
- CDM Credit

Water Solution
Hybrid System for Naran Soum

- 8 kW (AC Type)
  - PV 5 kW + Wind 3 kW

- Electric Supply for Small Village or Public Building

- School
- Govern’t Office
- Power Cable for Community Hall
- Power Cable for Hospital

2003~2005년 설치 시스템

DAESUNG GROUP
2003~2005년 설치 시스템

태양광 가로등
- 사양: PV 100 W
- 장소: 연료 에너지부 광장 6개소

태양광 분수대
- 사양: PV 300 W
- 장소: 연료 에너지부 광장 1개소
Proposed Scope

Phase 1: May 2007 to April 2009

- Construct a renewable energy park, plantation, nursery farm and reservoir in the suburb of Ulaanbaatar in the area of 3.3 million square meter.
- Various flora will be tested under the controlled condition.
- About 10 candidate sites for further implementation within Mongolian steppe as well as inner Mongolia in China will be studied and selected.
- Economic sustainability should be achieved by the way of innovative and strategic implementation

Phase 2: May 2009 to Nov. 2010

- Chinese and Mongolian government cooperation is vital for the candidate site lease.
- Financial support should be sought from a variety of sources including international organization, public, and private sectors.
Future Expansion Plan

- 1 단계: 내몽골, Ulaanbaatar, Mongolia, one location per each area
- 2 단계: Mongolia, Gobi Desert, Inner Mongolia (10 locations)
Proposed Timetable

1. 단지 조성
   - 울타리작업 및 단지
   - 관정작업

2. 신재생에너지 파크
   - 태양광시스템
   - Pumping 시스템
   - 식수
   - Workshop
   - Report

3. Candidate Site 연구
   - Forum
   - Site 방문
   - Negotiations

4. Phase 2 :
   - Additional Sites
   - Outer Region Study
태양광 풍력 복합발전 시스템

100kW 풍력 + 30kWp 태양광 복합발전시스템

풍력 · 태양광 복합발전 시스템은 햇빛과 바람이라는 사막지역 특유의 기상조건을 최대한 활용하는 청정 환경 친화적이면서 지속 가능한 에너지 공급 시스템

100kW Wind
(50kW * 2)

30 kWp Solar Photovoltaic

Asynchronous Generator

DC/AC Inverter

AC BUS

Power Conditioning System

Load

Grid Connect

태양광 풍력 복합발전 시스템은 햇빛과 바람이라는 사막지역 특유의 기상조건을 최대한 활용하는 청정 환경 친화적이면서 지속 가능한 에너지 공급 시스템
태양광 풍력 복합발전 시스템

지하수 펌핑 시스템

- Wind : 10kW × 3 개소
- Solar : 80kW × 1 개소
- Pump : 5.5kW × 3 개소

30kW Wind + 80kW Solar

DAESUNG GROUP
조감도
신재생 에너지 파크
수목원

유실수
선인장
활동수림
조각공원
저수조
침엽수림
분수광장
잔디광장
화훼단지
수목원
묘목장
대성그룹 몽골지사장

김 종철(polakim68@korea.com)
976-9119-1107(몽골)
070-7870-4092(인터넷폰)
010-2746-0836(한국)