

Mongolian infrastructure market revived

Thomas Blott

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Mongolia in the second quarter of 2011 boasted the world's fastest growing economy, when it achieved a 17.3% increase in year-on-year GDP. The country seemed the most exciting emerging infrastructure market in Asia.

Mongolia has since closed just one true project financing – the \$122 million financing for the [Salkhit wind](#) project in 2012.

But recent developments suggest that opportunities are nearing. In May 2015 the [Underground Mine Development and Financing Plan](#) was signed for the \$5.4 billion underground expansion of the Oyu Tolgoi mine.

This was followed up by the [signing of a power purchase agreement \(PPA\)](#) for the CHP5 project on 29 July 2015. The agreement has gone comparatively unnoticed, but the deal could provide a template for international project financings in Mongolia.

CHP5

The sponsors of the roughly \$1.5 billion CHP5 have begun focusing on financing after the signing of the PPA, and the June 2015 signing of the [concession agreement](#).

Multilaterals and export credit agencies (ECAs) are expected to feature heavily, but international banks – for the first time in Mongolian project finance – are also due to participate.

Crédit Agricole, HSBC, MUFG and SMBC have all been mandated to lend, *IJGlobal* understands. They will be joined by several development banks and ECAs, including the European Bank for Reconstruction and Development (EBRD), the Asian Development Bank (ADB), Japan Bank for International Cooperation (JBIC), Nippon Export and Investment Insurance (Nexi), and Korea Trade Insurance Corporation (K-Sure).

CHP5 is the first project procured under Mongolia's 2010 PPP framework. The project was awarded to a consortium comprising Engie (formerly GDF Suez), Sojitz Corporation and POSCO Energy following a competitive bidding process. CHP5 is expected to generate 415MW of power and 587MW of steam.

Oyu Tolgoi

Oyu Tolgoi has garnered far more media interest than CHP5 – understandably so.

Once the underground expansion is complete, Oyu Tolgoi is expected to boost Mongolia's economy by one-third. It will help diminish the country's reliance on coal exports, and increase the country's access to hard currency. Such access would help Mongolia, which today faces balance-of-payments that are dragging down growth.

The sponsors of Oyu Tolgoi – Rio Tinto (66%) through its ownership of Turquoise Hill, and the government of Mongolia

(34%) – signed the Underground Development and Financing Plan after two years of negotiations over taxes and the share of mine revenues. The plan clarifies the principles of the investment agreed in 2009 and establishes a framework for Rio Tinto to proceed with a project financing.

“The situation was unclear up until April where nobody could move the conversation forward and of course commence on the permitting, conclude the feasibility study or take any of the other necessary steps to bring the deal to close,” says Matthieu Le Blan, head of the EBRD’s Mongolia office. “Suddenly the two parties were able to reach an agreement that was to their mutual benefit, and they are now effectively working towards a common objective.”

Rio Tinto is optimistic that it will sign on the Oyu Tolgoi financing by year-end 2015.

The sponsor’s financial advisers, BNP Paribas and Standard Chartered, [received commitments](#) for the \$4.2 billion project financing before the project stalled. Once the Multilateral Investment Guarantee Agency (Miga) has confirmed its participation as guarantor of the financing – as is expected – commercial lenders should quickly refresh their commitments.

Not so fast

Oyu Tolgoi is a landmark project unlikely to be duplicated in size and scope.

Mongolia has a relatively small population, and its resource wealth suggests that it resembles Brunei or Qatar, not large mature infrastructure markets. The country’s power requirements are also modest – the 49.6MW Salkhit project, for instance, accounts for 5.4% of the country’s generation mix.

But after years of stalling, Mongolia is finally progressing on its most vital projects.

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