



# EPRC MONTHLY NEWSLETTER

**AUGUST-SEPTEMBER 2009**

## Mongolian Mortgage Corporation issues MNT 10 billion bond: first of its kind in Mongolia

On 18 September 2009, the Mongolian Mortgage Corporation (MIK) registered a MNT 25 billion bond with the Financial Regulatory Commission (FRC) in Mongolia and on the same day MNT 10 billion of the bond was fully subscribed. The initial bond investors include MIK's shareholding commercial banks, Trade and Development Bank (TDB), Capitron Bank and Xac Bank.

establish a Housing Finance Institution – later to be officially named the Mongolian Mortgage Corporation (MIK) – and appointed a Working Group to work on preparatory issues and to determine the activities of the proposed institution, its organization and funding issues until MIK was capitalized and a Board of Directors and management team were installed.

On 4 September 2006 ten commercial banks (the original nine plus Ulaanbaatar City Bank) and the BoM signed the Founding Agreement for the second-tier mortgage company, which is now commonly known by its Mongolian acronym, MIK. EPRC had been working with the commercial banks and BoM as an advisor to establish the institution. The banks and BoM each contributed MNT 1 million to provide MIK's initial total capitalization of MNT 11 million with all banks and the BoM having equal shares in the company,

As specified in the Founding Agreement, the core activity of the new institution would be to lay the groundwork for secondary mortgage market development; and raise medium to long-term funds both through the sale of its securities or as a direct borrower itself. The company would also collaborate with the Government on legal, regulatory and institutional issues necessary to promote the development of the primary and secondary mortgage markets; standardize underwriting policies and documentation for issuance of loans on the primary mortgage market; conduct open market activities to support its core activities; provide services on securities; and effect foreclosure of mortgaged items.



The proceeds of the bond were immediately used to purchase a similar amount in mortgages from the three banks in back-to-back transactions. This transaction is the culmination of four years of collaboration between the Mongolian banking community, USAID and MIK and represents the first issue of a fully registered tradable medium-term bond in Mongolia. This is a major step in the development of Mongolia's capital markets which will eventually create longer term sources of funds and liquidity to finance home construction and ownership at more affordable rates.

At the request of the Office of the Prime Minister, in September 2005, EPRC conducted a study in the housing finance sector and issued recommendations for development of the primary and secondary mortgage markets, implementation of the Government's "40,000 Housing Units" program including access to housing finance for low-income residents and the establishment of a second-tier housing finance institution to support the development of the secondary mortgage market in Mongolia.

Based on this recommendation and other previous work, EPRC assisted in organizing three working meetings with commercial banks and the Bank of Mongolia (BoM) and as a result, on 30 March 2006 nine commercial banks (Khan, Anod, Golomt, Mongol Post, Trade and Development, XacBank, Zoos, Capitron and Capital) signed a Memorandum of Understanding (MoU) to



After the signing of the Founding Agreement and during MIK's initial phase as a company, the project provided continuous technical and advisory assistance to MIK and seconded a senior Mongolian professional staff member as interim Chief Executive Officer to guide the development of underwriting policies and procedures, standard mortgage documentation, procedures for portfolio management and for issuance of mortgage-backed securities. The project brought two international experts to provide

technical assistance to the BoM and MIK. An internationally recognized expert on securitization transactions acted as the Securitization Advisor to the BoM. An investment banker and former senior officer of Fannie Mae acted as an Advisor for MIK and worked with interim management and the Board of Directors to finalize the corporate structure, composition, duties and responsibilities of the committees.

After obtaining legal registration on 14 November 2006, MIK opened its first offices and registered its domain name as [www.mik.mn](http://www.mik.mn). On 20 June 2007, shareholders held a special meeting and unanimously approved further capitalization of MIK in the amount of MNT 2.2 billion and issued a call for capital, which was fully subscribed by the existing shareholders. On 4 September 2007 a ceremony was held where MIK's Chairman of the Board presented shareholders with certificates verifying their increased shareholding.



As a result of MIK's increased capitalization and with EPRC guidance, MIK completed its initial transaction, purchasing a portfolio of qualifying mortgages from XacBank on 5 November 2007 in the amount of USD 1,033,898.04 representing the first agreement in the secondary mortgage market in Mongolia. Over the next 19 months, MIK followed this historic transaction with the acquisition of five more portfolios, bringing its total mortgage purchases to the equivalent of MNT 4.1 billion prior to the 18 September 2009 purchase of MNT 10 billion.

From the time of the acquisition of its first mortgages in November 2007, MIK has been able to operate profitably while developing its capacity to evaluate, purchase and manage an increasingly larger portfolio. The registration of this MNT 25 billion bond positions MIK to provide much needed liquidity to Mongolian mortgage markets while helping to develop the Mongolian capital market by providing an attractive opportunity for investors to participate in the success of Mongolia's first second tier mortgage company.

## Joomla! Day Mongolia 2009 and national release of Joomla! 1.5

In collaboration with the Cabinet Secretariat of the Government of Mongolia and the Information, Communication Technology and

Post Authority (ICTPA), EPRC sponsored *Joomla! Day* Mongolia on 29-30 September 2009. *Joomla! Day* Mongolia represents the culmination of over two years of work, with the support of the ICTPA and the Cabinet Secretariat, to develop a 100 percent Mongolian open-source content management system (CMS), which has provided Mongolian users from government, business, civil society and individuals with a user-friendly, affordable way to communicate important information over the internet to Mongolians.

A content management system is software that keeps track of every piece of content on a website. Content can be simple text, photos, music, video, documents, or just about anything you can think of. A major advantage of using a CMS is that it requires almost no technical skill or knowledge to manage, enabling Mongolians from all backgrounds with different expertise to maximize the internet's information and communication technology.



*Joomla!* is an award-winning CMS, which enables users to build, manage and maintain Web sites and powerful online applications. Many aspects have made *Joomla!* the most popular CMS software available, due to its ease of use, ability to extend its functions and best of all, since *Joomla!* is an open-source solution, it is freely available to everyone.

Since the launch of the initial *Joomla! 1.0 Mongolian version* in 2007, more than 200 Government of Mongolia (GoM) websites have switched to *Joomla!*. This has enabled the GoM to communicate more effectively with citizens, providing better access to important information. In addition to the GoM, over 13,200 other Mongolian websites have adopted *Joomla! Mongolia*. The finalization of the *Joomla! 1.5 Mongolian edition* represents major improvements over the previous *Joomla! 1.0 Mongolian* and *Joomla! 1.1 Mongolian* versions as it is 100 percent Mongolian language and enables broader use of the CMS by Mongolians resulting in increased information available in Mongolian on the internet.

The popularity of *Joomla!* based websites in Mongolia is attributable to the Cabinet Secretariat's support for its adoption by GoM agencies and to ICTPA's and EPRC's continuous support, updating, and promotion of *Joomla! Mongolia*.

The *Joomla! Day* event attracted 143 participants on the first day and 102 on the second. Attendees were from various, GoM agencies, academic institutions, non-governmental organizations and private sector companies, including Mongolian National University, Tour Mongolia Co, Ltd., School of Information Technology and Telecommunications, Elecom LLC, Aptech World Wide Mongolia, Ministry of Health, Health Sciences University of Mongolia, Engineersoft Co., Ltd., the Press Institute, the Institute of Finance and Economics and many others.

National *Joomla! Day* events are the biggest *Joomla!* event for *Joomla!* communities globally. Throughout 2009, *Joomla! Day* events have been held in 21 countries around the world, for example USA, UK, Germany, France, Thailand, Australia, Canada, India, Italy, New Zealand, Philippines and Turkey.



*Joomla! Day Mongolia 2009* marked the official release of *Joomla! 1.5 Mongolian edition* and provided an opportunity for *Joomla!* users to meet, learn together and share ideas and experiences about the uses and innovative applications of the software. The event began with an opening speech from Ms. Dolgor, GoM Minister and Cabinet Secretariat and included keynote speeches from M. Ryan Ozimek, a member of *Joomla!*'s USA-based Core team and Mr. Fernando Bertoli, EPRC Chief of Party. In addition to training workshops and discussion, *Joomla! Day Mongolia* featured a presentation and demonstration of the new *Joomla! 1.5 Mongolian edition CMS* by Altansukh Tumenjargal, EPRC IT Specialist.

*Joomla! 1.5 Mongolian edition* can be downloaded from the Mongolian Translation team website at: <http://www.n20.mn>. The Mongolian Translation team consists of voluntary community members, students and programmers who freely devote their time and efforts to create better IT solutions for Mongolians. EPRC will continue to support ongoing updates to new *Joomla!* editions and trainings for GoM web administrators to improve public access to information and proper disclosure standards.

## Customs risk management program started

Within the context of implementation of a Single Electronic Window for Foreign Trade Facilitation (SEW), the ongoing Asian Development Bank project of customs modernization and as a first step towards an integrated border control and inspections, the Mongolian Customs General Administration (MCGA) requested EPRC assistance to implement a customs risk management (CRM) system. EPRC has been assisting with the development of a SEW and as part of this effort has been working during the last year with the General Agency for Specialized Inspection (GASI) with the computerization of their Zamyn Uud border inspection

offices. EPRC has helped GASI with the installation and deployment of a local area network (LAN) that will eventually allow the GASI Zamyn Uud border inspection office to move away from a manual system and access the MCGA GAMAS system.

Through the introduction of CRM, MCGA intends to find a better balance between control and trade facilitation and move away from the current 100 percent inspection of consignments to perform these only on consignments so identified by a system of risk profiles. To that effect, MCGA recently created and assigned initial staff to a Risk Management Unit (RMU).

With assistance from Mr. Jorge Montoya, an international customs expert, the project began assistance to MCGA with the establishment of its RMU and development of a staged and practical management plan to introduce risk management. On 3 September 2009, MCGA held an internal workshop to discuss findings of the initial institutional assessment and action plans to implement a CRM program.



The workshop consisted of two sessions. The first session was designed to explain CRM implementation cycles and the roles of respective MCGA departments throughout the cycle as well as roles and functions of regional and district customs branches and customs brokers. The session focused on the five major elements necessary for implementation of CRM, including: investigation, profiling, criteria identification, analysis and feedback, and selectivity. Such implementation will require continuous effort from all stakeholders, including all MCGA departments, private traders and brokers and inspectors from the General Agency for Specialized Inspection and should proceed from simple models that can be further refined as experience and testing proceeds.

The second session aimed to transfer technical skills through the implementation of practical, hands-on activities. For the activities, RMU used data and information from its ongoing investigations, to determine and assign appropriate risk levels to various companies, products, different border or entry points and other relevant, potential risks. Based on these risk data, profiles for specific companies, products, entry points, criteria can then be developed and tested to enable customs inspection selectivity. The workshop included discussion of technical issues with RMU and IT staff and development of case work to develop profiles, criteria, update and evaluate investigation results and estimate the probabilities of risk for given shipments.

Fourteen participants attended the first session, including directors of the RMU, Control Division, Finance and Economic Affairs Division, the IT Center, the Statistical Division and senior inspectors. The second session was specifically designed for officers from the RMU and IT Center.

At MGCA's request, Mr. Montoya is scheduled to return in October to assist with the RM implementation plan, work with customs staff to improve risk profiling, investigation and analysis. The project will also assist MGCA develop a program to bring brokers in compliance with current Mongolian customs laws and international norms.

## Corporate sponsorships for the Mongolian Corporate Governance Development Center

Since the inception of the Mongolian Corporate Governance Center (MCGDC) on 2 June 2009, over fifty professional members and ten institutional members have joined. Through collaboration with EPRC, the MCGDC was able to obtain corporate sponsorships from KhanBank, Mobicom Corporation and Energy Resource LLC with each company donating USD 5,000. Sponsor donations contribute to MCGDC's sustainability by covering initial working capital needs for operational expenses, further development of customized programs for client companies and operational related costs for fee-based consultant services. MCGDC member consultants will offer specialized training programs and corporate governance assessments for sponsoring companies. EPRC/USAID has agreed to match corporate donations up to USD 25,000.

## Assessment of banking legal framework completed

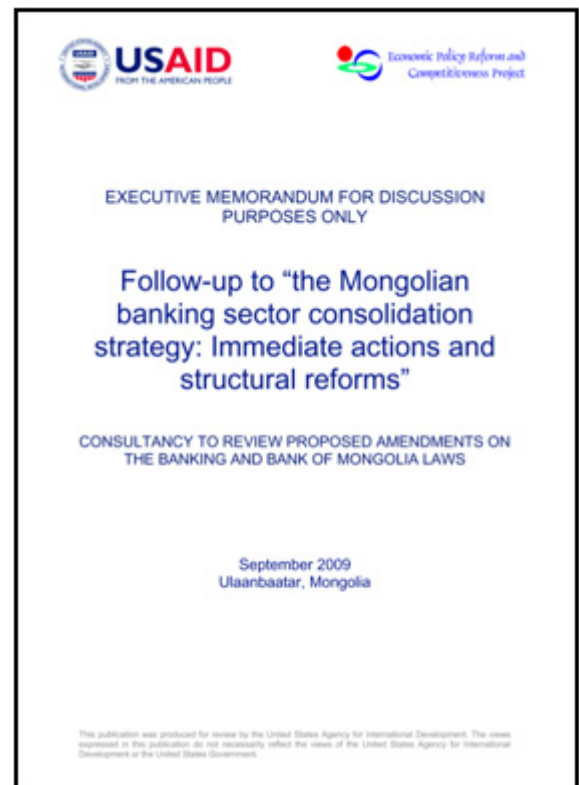
In September 2009, at the request of the Bank of Mongolia (BoM), and with assistance from international expert Mr. Roberto Toso, the project completed a review of the current Banking Law, Central Bank Law and proposed draft amendments in the context of international best practices. The review of the Banking Law was based on the basic elements of the *Basel Core Principles for Effective Banking Supervision* (September 1997) and the country's performance relative to these standards.

A well conceived regulatory framework should primarily allow bank supervisors to distinguish between symptoms and causes of bank problems. Moreover, a banking law should also guide bank supervisors to identify and tackle problems at an early stage before they become severe. Banking laws should unequivocally mandate that supervisors take prompt actions based on the principles of speed, cost efficiency, flexibility, consistency, transparency, cooperation, and avoidance of moral hazard.

Recommendations to strengthen and improve Mongolia's Banking Law within this context include provisions for:

- Adoption of a more comprehensive definition of "related parties transactions" and more stringent regulations on related-party's transactions to reduce the risks of abuses and conflicts of interests that arise from banks' exposure to related parties
- Enforcement of regulatory compliance
- Raising of minimum capital requirements
- Regulation of banks' mergers and acquisitions
- Greater transparency and information disclosure

- Strengthened consolidated supervision
- Clarification of extrajudicial and judicial insolvency regime as applied to bank receivership
- Requirement of an independent professional in the boards of directors of banks.



The review of the Central Bank of Mongolia Law was based on the principle that the Law should primarily support BoM's autonomy and accountability aimed at strengthening monetary policy and securing price and financial sector stability. In order to achieve these objectives, the recommendations included:

- Restrictions of granting credit to banks
- Prohibition or severe restriction of granting credit to the government in order to strengthen BoM's autonomy to conduct monetary policy
- Institutionalization of a "Work-Out Unit" in the BoM and at the highest level of authority
- More explicit provisions regarding coordination of fiscal and monetary policy
- Provisions for improved transparency, communication and accountability.

Beyond reforming and enacting the Banking and BoM Law amendments, a stronger banking system in Mongolia will require a proper market infrastructure. Recommendations for improving the supporting market and legal infrastructure included:

- Continued support for the establishment of a private sector-led credit information bureau for which EPRC has been providing technical assistance on the legal and institutional framework
- Developing and proposing enabling legislation and regulations to establish a well-defined deposit insurance system to maintain confidence in the banking system while avoiding moral hazard
- Continue work to achieve standardization of loan underwriting and loan documentation practices throughout the banking system to reduce transaction costs, information asymmetries and the "agency problem"-or conflicts of interest.

The BoM is currently reviewing the recommendations and draft amendments and it is expected that proposed amendments will be up for discussion in the fall 2009 Parliamentary session.

## Broadcast of *Hot Topix* program, 'Zamyn Uud: Gateway of Development'

The third program of the *Hot Topix* TV series, 'Zamyn Uud: Gateway of Development' broadcasted three times on both UBS and MNTV from August 19 – 22. This program was designed to increase public awareness about the logistics issues in Zamyn Uud, Mongolia's southern border port with China, and the impact of these issues on Mongolia's economy and development.

EPRC is producing the *Hot Topix* TV series to provide the Mongolian public with easy-to-understand information on topics of interest and importance to Mongolia's economic development. Each program is of 10-12 minutes in length and focuses on one salient issue using an array of media to convey essential information including interviews, graphs, hosts, animation, live footage and others.

Mongolia ranks at 156 out of 181 countries with respect to the ability to facilitate trade across borders. This is quite significant for a country that imports 70 percent of its essential foods, 80 percent of industry goods and 100 percent of equipment, machinery and fuel and petroleum products. 60 to 70 percent of overall imported goods enter the country through Mongolia's southern border with China in Zamyn Uud.

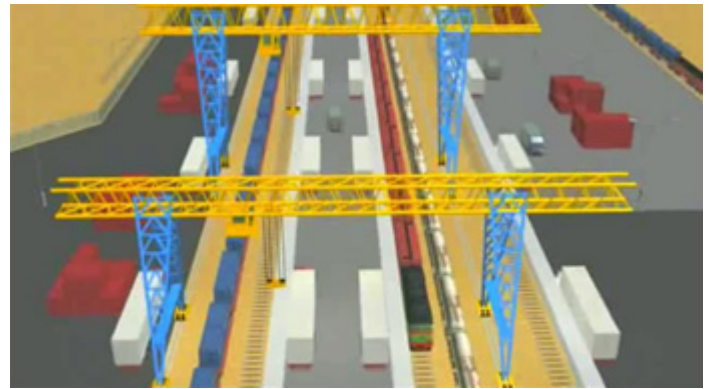


Google maps image of congestion in Zamyn Uud Summer 2008

The program focused on the inadequate facilities for customs clearance and inspections, the insufficient and obsolete road-to-rail transshipment infrastructure and poor access. These factors create a major bottleneck in the flow of goods through Zamyn Uud, causing major delays for goods to move from Zamyn Uud to the rest of the country. Given the large percentage of imports entering Mongolia through this border, such infrastructure-related inefficiencies impact the cost of doing business for traders and freight forwarders and contribute to increased cost of goods.

After describing the challenges at the Zamyn Uud border, the program explained the GoM's efforts to improve the situation, including harmonization of customs and inspections IT systems and a plan to expand the customs and inspections yards for a smooth flow of traffic and adequate space for proper clearances. Finally, the program explained the vision for a potential Public-

Private-Partnership (PPP) to develop a new road-to-rail transshipment facility in Zamyn-Uud to enable a faster, cost-effective flow of goods.



Digital image of vision for updated road-to-rail transshipment facility proposed to be developed with a PPP mechanism.

A flash video version of the full 'Zamyn Uud: Gateway of Development' program and other *Hot Topix* programs can be found on the EPRC project website (<http://www.eprc-chemonics.biz/index.php/documents/multimedia/21-multimedia.html>).

## EPRC, IFC and Mongolian Corporate Governance Development Center cooperation

After several meetings between EPRC, the International Finance Corporation (IFC) and MCGDC, it was agreed that IFC shall extend its assistance to the MCGDC through trainings for local professionals and support MCGDC with the development and publication of corporate governance material, such as translations of Global Corporate Governance Forum documents, OECD publications and other research and publications by international universities into Mongolian. From 23-25 September 2009, MCGDC, with assistance from IFC, conducted three-day training workshops for local professionals on how to complete a corporate governance assessment and implement board evaluation methodologies based on global best practices. IFC and EPRC will cooperate closely with MCGDC to offer assistance to Mongolian institutions in capacity building and skills development programs, as well as technical assistance in knowledge management, research and training programs.

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