

EPRC MONTHLY NEWSLETTER

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Mongolia Mortgage Corporation (MIK) completes acquisition of US\$1.1 m of mortgages

At a brief ceremony and press conference held on 5 November *MIK* and *XacBank* signed the first agreement in the secondary mortgage market in Mongolia. *MIK* agreed to purchase a portfolio of qualifying mortgages totaling US\$ 1,033,898.04.



This is the first tranche of a total target portfolio of US\$ 3,099,900 to be securitized by *MIK* in three equal tranches. The mortgage pool in the first tranche includes 139 residential mortgages issued in urban areas of Ulaanbaatar. The mortgages are denominated in US\$, carry an average interest rate of 14% tied to a 6-month US\$ LIBOR and are adjustable on a semi-annual basis.

XacBank will continue to service the mortgage portfolio. The parties will sign a servicing agreement that specifies the servicing arrangements for the warehoused and securitized mortgages, including servicing after default and recovery. Within 45 days of closing, *MIK* will perform a file-by-file due diligence of the mortgage pool to verify and satisfy itself that the purchased mortgages are all qualifying and conform to *MIK*'s Qualifying Mortgages Eligibility Criteria.

MIK plans to securitize the purchased mortgages by issuing US\$-denominated residential mortgage-backed securities (RMBS) and placing them with investors directly or through a placement agent. *MIK*'s purchase and securitization of mortgages replenishes *XacBank*'s funds for more mortgage lending and provides an innovative financial product on the capital market that opens new potential sources of finance, diversifies mortgage risks and improves balance sheet management. *MIK*'s RMBS will provide

both Mongolian and foreign investors with an opportunity to participate in the burgeoning mortgage market and obtain exceptional returns on high quality, tradable securities.

Parliament Working Group discusses options for mortgage down-payment supplements to assist with housing finance

On 20 November the project met with the joint Parliamentary Working Group (PWG) on Housing and Housing Finance to present a draft program of mortgage down-payment supplements for lower and middle income families qualified for mortgage loans through commercial banks.

The presentation was part of EPRC's efforts which began in 2005 to assist Parliament and the Government of Mongolia with the development of an equitable and manageable program to improve affordability of home loans for lower and middle income families.



MP Ochirkhuu T., Head of the Joint Parliamentary Working Group, MP Gankhuyag D., MP Damiran Ts. and MP Enkhbold Z. attended the presentation, with international housing finance expert Mr. Gabriel Nagy leading the discussion. PWG members in attendance showed a keen interest in a program of mortgage down-payment supplements to qualified low-income families and the successful experiences of Mexico, Colombia, and Chile in their use.

A well-designed and implemented program of mortgage down payment supplements can:

- Provide improved housing for qualified lower and middle income families
- Increase access to commercial finance among low income households

- Identify and target intended beneficiaries properly, avoiding subsidizing those not in need
- Improve fiscal transparency as supplements are known and included in the national budget
- Avoid favoritism as procedures for application, selection and disbursement are well known among applicants, beneficiaries and the population in general
- Help mobilize savings among lower and middle income groups
- Leverage funds from the private sector for mortgage financing at market rates thus increasing funding available for housing for lower and middle income families
- Foster a private-public partnership with complementary and collaborative roles of the public and private sectors whereby government facilitates and regulates housing finance policy while the private sector provides the funding and manages the lending risk.



After lively discussion of its application and adaptation of such a program to Mongolia, the PWG asked the project to:

- Formulate for discussion a draft national program for Mongolia of mortgage down-payment supplements to low-income families qualified for mortgage loans through commercial banks
- Develop specific recommendations for institutional and operational design for the program in Mongolia, including projected fiscal costs and alternative funding mechanisms
- Develop the implementation procedures, including the application, evaluation and disbursement procedures, and standard documentation for the program.

EPRC agreed to support the work of the PWG, complete a preliminary design as requested, and facilitate further consultations and wide public discussion of the program.

Business-Government Roundtable held on proposed Customs laws

At the request of the Customs General Administration (CGA) of Mongolia, the project and *The Tavan Bogd Group* sponsored a roundtable discussion of the draft customs laws on 21 November. Fifty-seven participants from the private sector and over twenty officials from Customs participated in the event that the project facilitated.

The purpose of the roundtable was to provide the private sector engaged in trade and customs activities with an opportunity to

review the proposed draft laws on Customs and Customs Tariff and receive feedback and suggested amendments before the draft laws are discussed in Parliament.



Participants had copies of the proposed laws distributed in advance and were divided into three separate discussion groups to provide specific suggestions for amendments. Each of the discussion groups focused on particular topics such as customs tariffs, customs documentation and control, relationships between customs and trade stakeholders including their rights and responsibilities. At the end of the separate discussions, a business spokesperson from each group presented their suggestions for amendments to the customs draft laws. Most of the comments and suggested amendments were technically very detailed but generally attempted to:

- Clarify legal and technical terms and terminology and make them consistent with international terms and terminology related to customs and trade activities
- Make articles consistent within the draft laws, as well as with other relevant existing laws, including the Law on Transportation, Law on Licensing, and other regulations
- Eliminate duplicate terms and concepts
- Seek private sector involvement and discussion roundtables when the CGA develops regulations and procedures after the draft laws are passed.

The project helped consolidate all comments in a document that was shared with all participants for their review and concurrence. After obtaining final review from participating businesses, the document will be forwarded to the CGA for consideration of the proposed amendments to the draft customs laws.

Businesses participating in the roundtable discussion were unanimous in their praise of the Customs Administration for their openness and receptivity to business concerns. They expressed their support for CGA efforts to improve its operations and transparency.

Participants also stressed that this business-government roundtable discussion should be considered as the first of a series of such events. Both the CGA and businesses are keen to continue the practice of listening to each other's concerns and expressed a commitment to work together in improving the legal framework and customs regulations to foster a business friendly environment.



Mongolian delegation attends London's World Travel Market 2007

At the request of the Ministry of Roads, Transport, and Tourism (MRTT), the *Mongolian National Tourism Organization* (MNTO) organized the participation of Mongolian tour operators at the World Travel Market 2007 held in London from 12 to 15, November. Five tour operators, the MRTT, MIAT Mongolian Airlines, the Mongolian Railway, Eznis Airways, the Kempinski Khan Palace Hotel, Sixt Rental Car, the Mongolian Tourism Association, and event organizers attended the World Travel Market 2007 as exhibitors and visitors.

The MNTO took responsibility for the stand design, pre-attendance promotion, press kit preparation, and organization of the "Mongolia Night" reception for international press and media at the Mongolian Embassy of Mongolia in the United Kingdom. More than eighty press and media representatives attended the event, savored Mongolian food, and enjoyed live cultural performances. Mr. Amit Nayak, Account Executive Key Clients with the BBC Worldwide and Ms. Karen Hoffman, Senior VP with the Bradford Group won free Familiarization trips to Mongolia for the summer of 2008.

The British tourist market generates more than 5,500 tourists and ranks as the fifth source market for Mongolian tourism. To expand these numbers, the MNTO and the delegation devoted efforts to help build the image and brand of Mongolia in the British travel market. Results of these efforts included:

- Agreement with The Bradford Group to develop a marketing campaign of Mongolia in the North American market, beginning with a press breakfast to be hosted by the MNTO



and Bradford during the New York Times Travel Show 2008 in January and a trip to Mongolia later in the year of Ms. Hoffman and selected North American press and media representatives.

- MNTO will become one of the key partners to co-organize the Land Rover G4 Challenge in 2009, after the MRTT signs the required Memorandum of Understanding.
- MNTO will co-write 550 pages of the "Mongolia Guide Book" published by the Odyssey Guides Book.
- Four tour operators renewed their contracts with their current thirty partners
- Three tour operators signed nineteen new contracts with their existing partners
- Five tour operators found sixteen new partners

- Two tour operators were able to diversify their tourist markets to include Britain, Israel, Belgium, Switzerland, Canada, and the USA.

Members of the delegation and tour operators were pleased with the results achieved, contacts made, strengthened position of Mongolia as a tourist destination and look forward to increased numbers of tourists from this market.

Energy Working Group holds its sixth meeting

The Energy Working Group (EWG) met on 15 November with attendance from Messrs. Sukhbaatar, Ministry of Fuels and Energy (MoFE), Chairman, B. Primm, USAID, Co-Chairman, Ganjuur, Energy Regulatory Authority (ERA), Bailikhuu, State Property Committee (SPC), A. Ruthenberg, Asian Development Bank (ADB), Tumentsogt, World Bank, Ms. Tuul Natsag, European Bank for Reconstruction and Development (EBRD), Ms. Gaadulam, Ministry of Finance (MoF) and Amgalan, F. Bertoli, and R. Brown from EPRC. This was the sixth monthly meeting of the EWG since MoFE and USAID agreed to hold these following the April 2007 GoM/External Partners Technical Meeting.

Major agenda items discussed at the meeting included:

1. **Public Information/Public Education (PI/PE).** Project provided an update on the campaign currently in progress and distributed a concept paper, "Issues, Facts and Opinions: TV Program Series" and explained in detail features of the proposed TV program series to make technical information more accessible to the general public. Mr. Sukhbaatar noted that the campaign is very important for the MoFE and the public and that commercialization of the sector companies must be accomplished.
2. **Coal price increases.** Mr. Sukhbaatar summarized the methodology and status of a potential coal price increases for the Sharyn Gol mine. The next meeting of MoFE Minister's Council will review Sharyn Gol's request to increase price by 3,000 togrog per ton but it is expected that any price increase approved will be less than that.
3. **Emergency preparedness.** USAID provided an update of the emergency preparedness/disaster scenario program in progress, under the auspices of the US Embassy and the Asia Pacific Center for Strategic Studies (APCSS). An advance team would arrive in UB on or about 4 December to assess emergency preparedness of a disastrous loss of district heating in Ulaanbaatar and to meet all stakeholders.
4. **Performance Agreement.** The ERA presented the current status of the Performance Agreement (PA) between the ERA and Baganuur and Southeast Electricity Distribution Company (BSEDN). Projected annual incentive payment to the licensed company for meeting or exceeding performance targets dropped from 60 million to 20 million togrog during the third quarter as bill collections declined in the summer season. Mr. Ganjuur emphasized the importance of having a successfully accomplished first PA to enable execution of similar agreements with other licensed companies. He also said PAs are a voluntary and freely negotiated process between the ERA and a licensed company.
5. **Corporate governance.** Mr. Bailikhuu noted that SPC is working to improve corporate governance of licensed companies and will submit comments on documents that EPRC prepared and submitted to SPC. He noted that it was



important to hold shareholders meetings (which is not now done) and solicited EWG members assistance on corporate governance. Mr. Bertoli stated that EPRC will provide assistance on corporate governance during 2008 to facilitate full compliance of all licensed companies with International Financial Reporting Standards (IFRS) for their 2007 year-end audited financial statements.

6. **Budget subsidies for the energy sector.** Ms. Gaadulam suggested that a written request from the EWG be sent to Mr. Erdembileg, Director of the Department of Policy and Coordination for Loans and Aid, Ministry of Finance, regarding budget subsidies to the energy sector. It was also suggested that the EWG meet with Mr. Erdembileg before the next EWG meeting.

7. **Energy Law.** MoFE distributed copies of the current Energy Law enacted in 2001 and proposed draft amendments currently being proposed. Project noted that the current draft amendment is vastly improved over previous versions, but there were issues remaining such as the authority to issue construction licenses that Mr. Balikhuu and EPRC raised, the indexation of energy prices and transfer of MoFE's full power for coal price-setting methodology to the ERA. Mr. Sukhbaatar stated that the current tariff-setting process is too wrapped up in politics and the law must be clearer. He said that there will be another draft amendment, or at least certain additional sub-articles, to be issued in January 2008. Mr. Primm stated detailed tariff issues should be addressed in implementing rules and procedures prepared by ministries

and the ERA and not in the Energy Law, which should be considered as "primary legislation". EPRC and ERA have discussed the amendment in detail and have consolidated and forwarded their recommendations for MoFE's consideration. Mr. Sukhbaatar also noted the importance of institutional coordination and consolidation of all energy resources management, currently scattered in different ministries and agencies. Mr. Primm proposed and EWG accepted a motion to invite a representative from the Ministry of Industry and Trade (MoIT) to the EWG meetings.

Outstanding action items will be included in the agenda for the next EWG meeting scheduled for January.

This Newsletter is a monthly electronic publication of EPRC project activities. Comments, suggestions, and requests for inclusion or deletion from our mailing list can be forwarded to: Editor, EPRC Newsletter, by e-mail fbertoli@eprc-chemonics.biz or fax: (976-11) 32 78 25.

