



## CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

We wish to inform you that the Millennium Challenge Corporation intends to obligate up to \$10,500,000 to facilitate the development and implementation of a Millennium Challenge Compact with the Government of Mongolia.

The attached notification is being sent to the Congress on April 18, 2017. Obligation of funds may be incurred on or after fifteen 15 days from the date of this notification.

In addition, we have attached supplemental information that further describes the planned use of the funds.

Sincerely,

/s/

James Mazarella  
Vice President (Acting)  
Congressional and Public Affairs

Enclosures: As stated

**MILLENNIUM CHALLENGE CORPORATION  
CONGRESSIONAL NOTIFICATION**

April 18, 2017

PROGRAM:	Eligible Countries
APPROPRIATIONS CATEGORY:	Fiscal Year 2017 Program Funds
OBLIGATION AMOUNT:	\$10,500,000

Pursuant to section 7015(c) of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2016, as carried forward by the Continuing Appropriations Act, 2017, as amended, this is to advise that the Millennium Challenge Corporation (“MCC”) intends to obligate up to \$10,500,000 under section 609(g) of the Millennium Challenge Act of 2003, as amended, for the purpose of facilitating the development and implementation of a Millennium Challenge Compact (“Compact”) with the Government of Mongolia.

The funds are expected to finance activities necessary for MCC to assess the expected impact of the proposed Compact, further design activities and develop implementation strategies.

## **SUPPLEMENTAL INFORMATION – MCC Compact Development Funding Activities for Mongolia**

### **Background**

Mongolia is a landlocked country in Asia covering 1.56 million square kilometers, roughly the size of Western Europe. Mongolia's young governing institutions, rapid and unplanned urbanization, and pending water shortage in the capital city, Ulaanbaatar, have shown to be significant drivers of constrained economic growth and development. These constraints are exacerbated by the country's recent economic downturn, which is particularly acute in Ulaanbaatar, where 45 percent of the country's population lives. Within Ulaanbaatar, 58 percent of citizens reside in settlements called ger areas with limited services. These citizens also rely on extensive use of coal burning stoves, resulting in extreme air pollution. With these pressures and ongoing migration to the capital city, immediate action is needed to assist the Mongolians to meet their basic needs.

Mongolia's growth over the last decade has been driven largely by a major expansion of extractive industries, particularly copper and coal. The global decline in commodity prices slowed economic growth from a peak of 17.3 percent in 2012 to 1.0 percent in 2016. Despite a recent \$5.5 billion external financing package negotiated with the International Monetary Fund (pending its board approval in March), Mongolia's economy is expected to contract by 0.2 percent in 2017. This leaves many Mongolians, already living just above the poverty line, extremely vulnerable. According to the World Bank, about 11 percent of Mongolia's population is within 10 percent of the poverty line, leaving significant portions of the country susceptible to even small negative economic shocks.

While Mongolia is currently struggling with this severe economic downturn and very limited resources, its government has continued to show high-level support for the compact development process, including paying expenses and commissioning additional data collection when required. The government has established several expert working groups within both the Ministry of Environment as well as the city of Ulaanbaatar to be a resource for the compact development team. An additional group of nongovernmental experts also provides guidance on technical matters and a cabinet-level working group, chaired by the Foreign Minister and mayor of Ulaanbaatar, provides high-level support to the team.

### **Compact Eligibility and Constraints Analysis**

Mongolia, selected by MCC's Board of Directors in December 2014 as eligible to develop a compact, is currently on track to submit a proposal in excess of \$350 million to MCC in March 2018. Despite having an improved score on MCC's Control of Corruption indicator for the past six consecutive years, Mongolia did not pass this indicator for fiscal year 2017 because the median for all lower middle income countries improved more than Mongolia's improvement. Because of this unique situation, the Board again in December 2016 endorsed the continuation of work to develop an investment proposal with Mongolia, but noted that it expected the government to demonstrate improved performance in combatting corruption. To that end, the Mongolians have

highlighted a range of concrete anti-corruption actions it plans to take in 2017, on which MCC can track progress over the course of the year. Tracking Mongolia's progress in this regard will in turn help augment MCC's assessment of the issue. The required analysis of economic constraints identified four binding constraints to growth, which were then officially agreed to by MCC and the Mongolians, including (i) a weak and unstable macroeconomic environment, (ii) inconsistent laws and policies resulting in an unpredictable business environment, (iii) health impacts of air pollution in Ulaanbaatar, and (iv) costly access to water and sanitation in productive sectors and poor communities.

MCC and the Mongolian compact development team jointly conducted a series of analyses, which culminated in the selection of water as the focal sector for the country's compact. Within the water sector, the Mongolians are focusing compact development efforts towards preventing an imminent water shortage in the city of Ulaanbaatar through increasing bulk water supply from groundwater resources, and improving the water sector's capacity in service delivery, to better understand and reach its consumers across Ulaanbaatar, including those in the city's informal settlements, or ger areas.

The next and final phase of compact development requires funds to technically prepare the following project in order to address the water sector problems described above.

- **Increasing Bulk Water Supply with Improved Service Delivery:**

This project would increase water supply in Ulaanbaatar through the construction of several groundwater wellfields and reduce demand through development of water recycling capabilities, which would deliver high-quality treated wastewater to water intensive industries so that their demand for fresh water is significantly reduced. Ulaanbaatar is expected to face a water shortage in 2021, exacerbated by population growth, changing climate and geographic variations on water supply. In addition, this project would support targeted policy and institutional reforms designed to address the root causes of Ulaanbaatar's poor service delivery in the water sector, including operational inefficiencies; the limited planning for, and inability to reach its newest migrants; and minimal understanding of the needs of its female customers who represent the majority of household water managers.

As the project is developed and continually evaluated against MCC's investment criteria, MCC will monitor the government of Mongolia's progress on a complimentary investment to upgrade Ulaanbaatar's wastewater treatment capacity. A new treatment plant is an important and needed part of upgrading the city's water system, and could potentially be an alternate investment for MCC should the Mongolians not be able to mobilize the project in the near term. If needed, potential MCC assistance to support a new wastewater treatment plant would undergo the required due diligence and assessment against MCC's investment criteria.

### **Planned Compact Development Funding Activities**

Under Section 609(g) of the Millennium Challenge Act of 2003, as amended, MCC plans to finance activities necessary to assess the expected impact of the proposed compact, further design activities, and develop implementation strategies.

In order to assist Mongolia to further develop the proposed compact, MCC intends to fund infrastructure feasibility studies, including preliminary environmental and resettlement assessment, gender and social inclusion assessment, and preliminary designs for new groundwater wellfields and industrial wastewater reuse. In addition funds will be used to support design work for targeted reforms that will improve service delivery for new migrants, such as improved urban planning tools, and a mechanism to begin collection of sex-disaggregated data on water users.

In addition to supporting the development of these project activities, part of the compact development funding will be dedicated to establishing local counterpart capacity, including hiring recruitment firms to expedite recruitment for the accountable entity and begin staffing of key positions and basic program administration costs in order to get the accountable entity's facilities up and running quickly, assuming the compact is approved.

Funding these activities reflects MCC's commitment to preparing projects in a comprehensive manner, prior to compact signing, to reduce implementation risk and increase confidence in the economic justification, technical feasibility, and environmental performance of the proposed projects.

### **Update on and Sustainability of 2007 Mongolia Compact**

The 2007 Mongolia Compact successfully concluded on September 17, 2013. It encompassed five projects that were designed to increase the productive capacity of Mongolians—both individuals and enterprises—and unlock opportunities for growth in domestic and regional economies. By the end of the 2007 Mongolia Compact, \$268,993,805, or 94 percent, of the compact funds available were spent to increase land security, reduce impacts of noncommunicable diseases and injuries, provide enhanced vocational training, expand distribution of energy-efficient household products, and construct roads for commercial traffic. The government of Mongolia and MCC expect more than two million people to benefit over 20 years. MCC will receive a post-compact report from the government of Mongolia in spring 2017 with data on post-compact monitoring and evaluation indicators since the close of the compact.

Following the completion of the 2007 Mongolia Compact, the country sustained gains from MCC initiatives, and MCC is continuing to conduct evaluations that will help reflect these gains. MCC is conducting four evaluations on the Property Rights Project, including an evaluation on each of the urban activities and two evaluations to cover the two phases of the peri-urban land leasing activity. Beyond noncommunicable diseases and injuries, the Health Project strengthened a culture of quality and thoroughness of planning and analysis in the Health System. It also stimulated a culture of efficiency and accountability in the health sector. MCC is conducting a rigorous impact

evaluation of the Improvement of Learning Environments activity of the Vocational Education Project to measure the impact of attending the technical and vocational education and training (“TVET”) schools on students’ academic achievements, skill levels, post-graduation employment rates, and salary levels. The evaluation will also examine what characteristics of applicants predict greater academic and labor market success and is expected to be available in August 2017. The remaining TVET project activities will be evaluated in a performance evaluation, expected to be available in January 2018. Under the Energy and Environment project, the stove subsidy program reduced ambient particulate matter (“PM”) 2.5 concentrations over Ulaanbaatar attributable to heating stoves by an estimated 30 percent, with largest reductions in highly polluted areas that were more heavily targeted by the program. Participants in the stove subsidy program had 65 percent lower emissions of PM2.5 and 16 percent lower CO emissions compared to traditional stoves under typical usage conditions. The North-South Road Project sought to mitigate Mongolia’s inadequate transport infrastructure in a key segment of a critical economic corridor by constructing an all-weather road and connecting Mongolian markets to key trading partners. The improved road conditions reduced transportation costs, increased the flow of freight traffic, and established an increasingly important trade transit corridor through Mongolia. MCC is planning an evaluation of the North-South Road Project that will measure road maintenance, annual traffic, and vehicle operating costs.