



CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

We wish to inform you of our plan to amend the Millennium Challenge Compact with the Government of Mongolia, signed on October 22, 2007. The amended Compact will allow, among other things, for the addition of the road and energy and environment projects. The additional modifications will become effective on or after 15 days from the date of this notification.

If you or your staff would like further information on the Compact additions, please contact Ellona Fritschie (for the Senate) or Erin Kolodjeski (for the House of Representatives) at (202) 521-3850. This notification is being sent to the Congress on December 11, 2009.

Sincerely,

James Mazarella
Vice President (Acting)
Congressional and Public Affairs

Enclosure:
As stated

**MILLENNIUM CHALLENGE CORPORATION
CONGRESSIONAL NOTIFICATION**

December 11, 2009

This is to advise that the Millennium Challenge Corporation (“MCC”) has made a determination to modify through amendment the existing approximately \$285 million, five-year Millennium Challenge Compact between the United States of America, acting through MCC, and the Government of Mongolia (the *Compact*), substantially revising the Compact projects.

On December 9, 2009, the Board of Directors of MCC approved a significant modification to the Compact. MCC intends to cause this modification to become effective on or after 15 days from the date of this notification. The modification of the Compact will allow for the addition of the road and energy and environment projects. The existing obligation of funds for the new projects outlined in the accompanying report, as well the funding for expanding the existing projects, occurred on September 17, 2008. Congress was notified of MCC’s intent to obligate pursuant to Section 605 of the Millennium Challenge Act of 2003 (the “Act”) up to US\$280,722,013 on September 12, 2007. At this time, MCC is not deobligating any funds, although MCC may do so in the future.

A written report containing a detailed summary of the new projects are attached.

**REPORT ON
MODIFICATION TO THE MILLENNIUM CHALLENGE COMPACT
BETWEEN
THE UNITED STATES OF AMERICA, ACTING THROUGH
THE MILLENNIUM CHALLENGE CORPORATION,
AND
THE GOVERNMENT OF MONGOLIA**

The Board of Directors of the Millennium Challenge Corporation (*MCC*) has approved a modification to the existing approximately \$285 million, five-year Millennium Challenge Compact between the United States of America, acting through MCC, and the Government of Mongolia (the *Compact*). MCC intends to cause this modification to become effective on or after 15 days from date hereof.

Background

On October 22, 2007, MCC signed the Compact comprised of four projects: (i) improving the rail system (\$188.38 million); (ii) upgrading vocational teaching standards and facilities (\$25.51 million); (iii) improving property registration and land management in the rangelands (\$23.06 million); and (iv) improving identification and treatment of non-contagious diseases (\$17.03 million). On September 17, 2008, the Compact entered into force; its five-year term expires on September 16, 2013.

On April 27, 2009, the Government of Mongolia (*GOM*) notified MCC that it would not be able to proceed with implementation of the rail project and requested that MCC consider re-allocating the approximately \$188 million previously committed to the rail project to both expansion of the remaining projects relating to health, vocational education and property rights and addition of certain new projects in the fields of road transport, and energy and the environment.

MCC evaluated the GOM's proposals for both the new projects and the expansion projects against the following investment criteria:

- (i) relevance of the proposed project to constraints to Mongolia's economic growth and poverty reduction;
- (ii) priority of the proposed project, as set by the GOM;
- (iii) potential of the proposed project to meet the standard MCC investment criteria (including environmental, social, economic, and beneficiary considerations);
- (iv) likelihood of successful implementation of the proposed projects within the limited remaining term of the compact;
- (v) opportunities for donor collaboration; and
- (vi) innovativeness, where appropriate.

Summary of new projects

The modification of the Compact will allow for the addition of the road and energy and environment projects as well as permit the expansion of the health, property rights, and education projects remaining in the Compact.

North-South Road Project

While not addressing precisely the same issues as the original rail project, the North-South road project is focused on the same critical corridor using a different mode of transportation, one that arguably plays an even more important role in intra-Mongolia personal and commercial traffic. Funding has run short for the existing North-South corridor roads project, in part because other donors have shifted their funds from roads to budget support to assist the GOM during the global financial crisis.

The North-South road project has two primary components, the largest component of which is built around initial design and construction done by the Asian Development Bank and the Government of Korea, and is intended to improve critical transportation links both between Mongolia and other countries, and within Mongolia.

Key design and feasibility work has been completed and MCC has the opportunity to pursue an important project within a tighter timeframe than would have been possible were MCC to start from scratch.

Energy and Environment Project

The energy and environment project is focused on energy efficiency, air quality, and alternative energy – critical issues for Mongolia. During the long and harsh winters from October to April, air quality severely deteriorates in Ulaanbaatar where the vast majority of the country's population lives. Poor air quality, which disproportionately impacts on the poor, affects economic growth in various ways, including negatively impacting individual productivity, personal and public health expenditure, and the attractiveness of Ulaanbaatar for investment. A significant factor in the deterioration of air quality is the heavy use of poor quality traditional fuels, both in the national grid and, by the city's poorest residents, for heating and cooking. The result is production of air pollutants at levels from two to ten times the international standards.

In collaboration with other donors, the energy and environment project will support the introduction of wind energy into the national grid and create a facility to fund the introduction of cleaner, more efficient energy technologies.

The wind power electricity component is intended to integrate a renewable energy source into the national grid via Mongolia's first commercial wind farm. The MCC project is part of a broader wind farm project being supported by the European Bank for Reconstruction and Development and the International Finance Corporation. The proposed MCC support includes a limited operational subsidy to the state-owned transmission company to smooth the cost differential as wind power is brought into the national grid, critical infrastructure upgrades necessary to physically link wind energy to the distribution system, and technical assistance for

the establishment of a renewable energy fund. This wind activity as a whole is designed to deliver renewable energy to end-users, from generation, to transmission, to distribution, and is premised on the argument that the commercial investment will not take place or will be substantially delayed without MCC funding.

The introduction of cleaner, more efficient energy technologies will be done through an "Energy Efficiency Innovation" facility. It will provide consumer subsidies for the purchase of energy efficient products and homes which are generally more expensive than products currently on the market utilizing traditional technologies and fuels. This activity builds on a range of smaller scale projects on energy efficiency and pollution reduction carried out by, *inter alia*, the Asian Development Bank, the United Nations Development Program, the World Bank, GTZ (the German aid agency), as well as the Japanese and Korean aid programs. The funds will be available only for the purchase of products and homes determined to meet a set standard or otherwise demonstrate superior efficiency, reduced emissions and cost-effectiveness over previous models. Examples of products that could be supported include stoves or ancillary stove appliances, insulation, mortgage assistance for new energy efficient low-income housing, heat only or low pressure boilers, solar thermal heating, and refurbishment of pre-cast panel buildings.

The energy and environment project is expected to have long-term direct and indirect effects on poverty reduction and economic growth due to the potential for long-term cost savings and lower individual and government expenditures on pollution-related health issues; the potential for greater productivity in a less polluted environment; and the prospect that scarce government funds can go to economic growth priorities rather than to problems arising from pollution.

Scope

MCC proposes to reallocate approximately \$188.4 million from the canceled rail project to the expansion of existing projects (\$49.2 million); new projects (\$127.0 million); and program administration and monitoring and evaluation (\$4.6 million). Approximately \$7.5 million is not allocated to a specific project and is intended as contingency funding.