

**AMENDMENT**

**TO**

**MILLENNIUM CHALLENGE COMPACT**

**BETWEEN**

**THE UNITED STATES OF AMERICA**

**ACTING THROUGH**

**THE MILLENNIUM CHALLENGE CORPORATION**

**AND**

**THE GOVERNMENT OF MONGOLIA**

## AMENDMENT TO MILLENNIUM CHALLENGE COMPACT

This AMENDMENT TO MILLENNIUM CHALLENGE COMPACT (this “*Amendment*”) is made between the United States of America, acting through the Millennium Challenge Corporation, a United States government corporation (“*MCC*”), and the Government of Mongolia (the “*Government*”) (each referred to herein individually as a “*Party*” and collectively, as the “*Parties*”). All capitalized terms used in this Amendment that are not otherwise defined herein have the meanings given to such terms in the Compact (as defined below).

### RECITALS

WHEREAS, the Parties entered into that certain Millennium Challenge Compact between the United States of America, acting through MCC, and the Government, on October 22, 2007 (the “*Compact*”), which entered into force on September 17, 2008, pursuant to which MCC grants to the Government, subject to the terms and conditions of the Compact, MCC Funding in an amount not to exceed Two Hundred Eighty-Four Million Nine Hundred Eleven Thousand Three Hundred and Sixty-Three United States Dollars (US\$284,911,363) for a program to reduce poverty through economic growth in Mongolia (the “*Program*”);

WHEREAS, the Government notified MCC on April 27, 2009 that it wishes to restructure the Compact by (i) adding two new projects, the first concerning the reduction of transportation costs along sections of the critical north-south road corridor traversing Mongolia from its northern border with the Russian Federation to China in the south (the “*North-South Road Project*”) and the second concerning the reduction of urban air pollution in Ulaanbaatar (the capital of Mongolia) (the “*Energy and Environment Project*”), to the Program and defining related Project Objectives (as defined in the Compact), (ii) terminating the Rail Project (as defined in the Compact) and eliminating its related Project Objective, (iii) expanding the scope of the Property Rights Project, the Vocational Education Project and the Health Project (each as defined in the Compact) and revising their corresponding Project Objectives accordingly, and (v) reallocating MCC Funding as required to support the amended Project Objectives (collectively, the “*Program Restructuring*”);

WHEREAS, in an effort to memorialize the Program Restructuring, the Parties hereby desire to amend certain aspects of the Compact and its Annexes without changing the overall value or term of the Compact.

NOW, THEREFORE, the Parties hereby agree as follows:

### AMENDMENTS

#### **1. Amendment to Section 1.2.**

Section 1.2 (*Project Objectives*) of the Compact shall be amended by deleting clause (a) thereof and relabeling the remaining clauses appropriately. In addition, the following new clauses are added at the end:

“(d) to reduce the transportation costs along sections of the critical north-south road corridor traversing Mongolia from its northern border with the Russian Federation to China in the south; and

(e) to reduce urban air pollution in Ulaanbaatar (the capital of Mongolia) by increasing the adoption of energy efficient products and homes in the *ger* districts, and supporting the development of renewable energy.”

**2. Amendment to Section 2.2.**

Section 2.2 (*Compact Implementation Funding*) of the Compact is amended by:

(a) deleting clause (ii) from Section 2.2(a)(ii) and replacing it with the following:

“(ii) procurement and start-up activities for key contractors, including but not limited to (1) consultants for each of the Health, Property Rights and Vocational Education Projects, and (2) hiring certain staff for the implementing entities;”

(b) deleting clause (iv) of Section 2.2(a) in its entirety and renumbering the remaining clauses appropriately; and

(c) deleting from clause (v) of Section 2.2(a) the phrase “and Rail Project outside project management firm.”

**3. Amendment to Annex I.**

Annex I (*Summary of Program*) of the Compact shall be amended by deleting such Annex I in its entirety and replacing it with the substitute Annex I attached hereto as Exhibit A.

**4. Amendment to Annex II.**

Annex II (*Summary of Multi-Year Financial Plan*) of the Compact shall be amended by deleting such Annex II in its entirety and replacing it with the substitute Annex II attached hereto as Exhibit B.

**5. Amendment to Annex III.**

Annex III (*Summary of Monitoring and Evaluation Plan*) of the Compact shall be amended by deleting such Annex III in its entirety and replacing it with the substitute Annex III attached hereto as Exhibit C.

**6. Amendment to Annex IV.**

Annex IV (*Definitions*) of the Compact shall be amended by deleting such Annex IV in its entirety and replacing it with the substitute Annex IV attached hereto as Exhibit D.

## GENERAL PROVISIONS

### 7. Further Assurances.

Each Party hereby agrees to execute and deliver any and all such further documents and take any and all such other action as may be reasonably necessary or appropriate to carry out the intent and purpose of this Amendment.

### 8. Effect of this Amendment.

From and after the Amendment Entry into Force Date (as defined below), the Compact and this Amendment shall be read together and construed as one document, and each reference in the Compact to the “Compact,” “hereunder,” “hereof” or words of like import referring to the Compact, and each reference to the “Compact,” “thereunder,” “thereof” or words of like import in any Supplemental Agreement or in any other document or instrument delivered pursuant to the Compact or any Supplemental Agreement, shall mean and be construed as a reference to the Compact, as amended by this Amendment.

### 9. Limitations.

Except as expressly amended by this Amendment, all of the provisions of the Compact remain unchanged and in full force and effect.

### 10. Amendment Entry into Force Date.

This Amendment shall enter into force on the date of the last letter in an exchange of letters between the Principal Representatives of each Party confirming that each Party has completed its domestic requirements for entry into force of this Amendment (including as set forth in Paragraph 11) and that all conditions set forth in Paragraph 12 have been satisfied by the Government and MCC (the “*Amendment Entry into Force Date*”).

### 11. Domestic Requirements.

The Government shall take all steps necessary to ensure that (a) this Amendment and all of the provisions of this Amendment are valid and binding and are in full force and effect in Mongolia, (b) this Amendment and any other agreement entered into in connection with this Amendment to which the Government and MCC are parties will be given the status of an international agreement, and (c) no laws of Mongolia (other than the constitution of Mongolia), whether now or hereafter in effect, will take precedence or prevail over the terms of this Amendment or the Compact as amended hereby.

### 12. Condition Precedent to Amendment Entry into Force Date.

As a condition precedent to the Amendment Entry into Force Date, the Government shall deliver a certificate signed and dated by the Principal Representative of the Government, or such other duly authorized representative of the Government acceptable to MCC, that:

- (a) certifies that the Government has completed all steps required under Paragraph 11 above;

(b) attaches a legal opinion from the Minister of Justice and Internal Affairs of Mongolia (or such other competent person acceptable to MCC) in form and substance satisfactory to MCC; and

(c) attaches complete, certified copies of all decrees, legislation, regulations or other governmental documents relating to its domestic requirements for this Amendment to enter into force and the satisfaction of Paragraph 11, which documents MCC may post on its website or otherwise make publicly available.

**13. Governing Law.**

The Parties acknowledge and agree that this Amendment is an international agreement entered into for the purpose of amending the Compact and as such will be interpreted in a manner consistent with the Compact and will be governed by the principles of international law.

**14. Provisional Application.**

Upon signature of this Amendment, the Parties will provisionally apply this Amendment until the Amendment Entry into Force Date.

**SIGNATURE PAGE FOLLOWS ON THE NEXT PAGE**

**IN WITNESS WHEREOF**, the undersigned, duly authorized by their respective governments, have signed this Amendment to be dated the later of the dates indicated below their signatures and this Amendment shall enter into force in accordance with Paragraph 10.

MILLENNIUM CHALLENGE  
CORPORATION, ON BEHALF OF THE  
UNITED STATES OF AMERICA

THE GOVERNMENT OF MONGOLIA

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By: \_\_\_\_\_  
Name: Frances Reid  
Title: Acting Vice President for Compact  
Implementation (Principal Representative of  
MCC under the Compact)  
22 January 2010

Date: \_\_\_\_\_

By: \_\_\_\_\_  
Name: Mr. S. Bayartsogt  
Title: Minister of Finance (Principal  
Representative of the Government under the  
Compact)  
21 January 2010

Date: \_\_\_\_\_

**EXHIBIT A**  
**ANNEX I (SUMMARY OF PROGRAM)**

## ANNEX I

### SUMMARY OF PROGRAM

#### A. PROGRAM OVERVIEW

This Annex I to the Compact summarizes the Program that MCC Funding will support in Mongolia during the Compact Term.

##### 1. Background.

Mongolia is landlocked between Russia and China, with approximately 2.6 million inhabitants in a territory of 1.56 million square kilometers. Nearly half of the population is concentrated in Ulaanbaatar, its capital, approximately 60 percent is located along the main rail and road transport corridor running north and south between Russia and China, and the remainder is largely dispersed throughout the country. Mongolia's aging transport infrastructure and weak institutions are a significant constraint to economic growth and development, particularly given the pressures of the country's abrupt transition to a market economy, the collapse of financial support from Russia, and the rapid urbanization of what traditionally has been a highly dispersed rural herding society. The Program is intended to release the potential of certain critical interlocking human, institutional, and physical resources that factor centrally in Mongolia's efforts to broaden and deepen economic development. The Program is expected to have a significant direct impact on individuals living in poverty, and significant indirect and ancillary benefits by creating new economic opportunities and increasing the capacity of individuals and groups to participate fully in and benefit from economic growth.

##### 2. Program.

The Program consists of the Property Rights Project, the Vocational Education Project, the Health Project, the North-South Road Project, and the Energy and Environment Project, as further described below (each, a "**Project**").

The Parties may agree to modify or eliminate any Project, or to create a new project, in writing signed by the Principal Representative of each Party without amending this Compact; *provided, however*, that any such modification or elimination of a Project, or creation of a new project, shall not cause the amount of MCC Funding to exceed the aggregate amount specified in Section 2.1 of this Compact, cause the Government's responsibilities or contribution of resources to be less than specified in this Compact, or extend the Compact Term.

##### 3. Consultative Process.

In order to develop a proposal for MCC Funding, the Government conducted a consultative process with the private sector and civil society that involved broad participation of the general public. The public was asked to identify the primary constraints to economic growth in Mongolia, as well as potential uses of MCC Funding to remove such constraints. Thereafter, Mongolia's National Council consulted Mongolia's national development plan and poverty reduction strategy papers and conducted additional targeted consultations with sector experts and stakeholders in order to shape the results of the public consultation into a proposal for MCC Funding. The Program consists of Projects designed to address the primary constraints to economic growth in Mongolia identified in these consultations.

#### **4. Proposals.**

MCA-Mongolia will arrange procurement of goods, works and services, as appropriate, to implement all Projects under the Compact. MCA-Mongolia will engage a Procurement Agent who will act on its behalf to manage the acquisition of such goods, works and services. All procurements shall be conducted in accordance with the MCC Program Procurement Guidelines.

#### **5. Environmental and Social Oversight, Monitoring and Capacity Building.**

To ensure that environmental and social safeguards and mitigation measures are implemented for the Program by MCA-Mongolia, MCC Funding will be used to engage an environmental and social oversight consultant to enhance the capacity of MCA-Mongolia. This consultant will also work to enhance the capacity of the Ministry of Nature and Environment to enforce and implement the Government's environmental laws and regulations, to train staff, and identify whether additional staff are needed, to carry out effective environmental oversight and monitoring of the implementation of the Program.

### **B. PROPERTY RIGHTS PROJECT**

#### **1. Background.**

A steady stream of poor rural Mongolians are abandoning traditional nomadic herding practices and migrating to the cities in search of better lives. The bulk of these migrants are moving to Mongolia's three biggest cities – Ulaanbaatar, Erdenet and Darkhan – where they either settle in suburban “*ger* areas” or peri-urban rangeland areas. Mongolian law gives *ger* area residents the right to obtain ownership to the land upon which they live. However, the complexity and expense of the ownership process make it difficult for these people to become owners in fact and thus capture the full benefits of ownership. In peri-urban rangelands, Mongolia's tradition of open access pasture use, combined with the influx of migrants' herds, has led to overgrazing and triggered interest in new land-use regimes that will encourage investment, improved land use and higher agricultural productivity. The Property Rights Project is expected to improve the accuracy and accessibility of the formal system for recognizing and transferring land rights and for issuing fully marketable private land titles to *ger* area residents. In addition, the Property Rights Project will introduce a system of leasing peri-urban rangelands to herder groups in lieu of open access, and provide key infrastructure and training so that they can improve livestock management, productivity and, ultimately, farm income.

#### **2. Project.**

The Property Rights Project consists of the following activities (each, a “***Project Activity***”):

- (a) Improvement of the Land Privatization and Registration System Activity.

MCC Funding will be used to improve the formal system of privatizing and registering land rights. Specifically, MCC Funding will support:

- (i) a commission of stakeholders and technical experts to study the obstacles that affect the ability of Mongolian citizens to privatize and register land efficiently and cost-effectively, to make recommendations on how to reduce such obstacles, and to work with

Government agencies, the State Great Khural (Parliament), and non-government specialists and interest groups to substantially implement the recommendations;

(ii) upgrade of the geospatial infrastructure necessary for accurate land parcel mapping, including provision of Continually Operating Reference Stations (CORS), supply of Global Positioning System (GPS) equipment to regional land offices, and training on the use of each;

(iii) capacity building for land offices, including creation and support of land market specialist positions to help citizens resolve issues related to land privatization and registration, and training of land office staff in land law, land mapping, use of satellite imagery, and processing of applications for privatization of *ger* area land plots;

(iv) upgrade of the State Registry's central office space, information technology platform and business processes, establishment of offices in at least four districts of Ulaanbaatar, and similar upgrades of State Registry offices in eight regional or *aimag* centers around the country; and

(v) identification and management of environmental, social, health and safety impacts associated with implementation of this Project Activity, consistent with Section 2.6(c) of the Compact and the World Bank's Operational Policy on Involuntary Resettlement (OP 4.12).

(b) Privatization & Registration of Ger Area Land Plots Activity.

MCC Funding will be used to privatize and register approximately 75,000 land plots in the *ger* areas of Ulaanbaatar and eight regional or *aimag* centers. Specifically, MCC Funding will support:

(i) provision of fully privatized and registered ownership rights to the land plots of low and middle income households;

(ii) identification of main utility corridors;

(iii) mapping of public land areas (parks, schools, public buildings, etc.) within the *ger* areas; and

(iv) identification and management of environmental, social, health and safety impacts associated with implementation of this Project Activity, consistent with Section 2.6(c) of the Compact and the World Bank's Operational Policy on Involuntary Resettlement (OP 4.12).

(c) Peri-Urban Land Leasing Activity.

MCC Funding will be used to identify and lease approximately 465 serviced tracts of rangeland to herder groups in the peri-urban areas of Choibalsan, Darkhan, Erdenet, Kharkhorin and Ulaanbaatar. Specifically MCC Funding will support:

(i) production of maps for each peri-urban area showing the location of herders, the lands they use, and identifying suitable leasing sites;

(ii) installation of wells, supplying of seeds for fodder crops, and supplying of materials for construction of fences and animal shelters on the suitable leasing sites;

(iii) selection of herder groups to receive leases to the tracts of rangeland (including wells, fences and animal shelters) through a public, transparent and fair process. These herder groups will sign lease contracts that include a requirement to make land use payments covering the private good component of the well, fence and animal shelter investment;

(iv) training of herder groups to improve their skills in range management, herd productivity, and business and marketing, including stock density management, monitoring rangeland carrying capacity, well operation and maintenance, capturing precipitation run-off, fodder/feed storage techniques, and business and marketing plans. Also, local land and agricultural officials will receive training on their related responsibilities; and

(v) identification and management of environmental, social, health and safety impacts associated with the implementation of this Project Activity, consistent with Section 2.6(c) of the Compact and the World Bank's Operational Policy on Involuntary Resettlement (OP 4.12).

### **3. Beneficiaries.**

Approximately 75,000 households are expected to gain marketable title to their land plots in *ger* areas as a result of the Property Rights Project. People who are able to use a more accurate and user-friendly registration system to document property purchases, sales and other economic transactions will benefit as well. Similarly, since banks will have better information about prospective borrowers, commercial lending should increase and borrowing costs should decrease. Some 465 herder groups (representing approximately 1,550 households) are expected to lease peri-urban rangelands, engage in better livestock production practices, and subsequently increase their incomes.

### **4. Donor Coordination.**

The Property Rights Project builds upon a variety of other donor's efforts. Most notably, the Property Rights Project makes use of the results of ADB's "Cadastral Survey and Land Registration Project" that has mapped many land parcels slated for privatization and currently is developing a land information system to which the State Registry will supply information on legal rights to land. Moreover, the design of the Peri-Urban Land Leasing Activity is informed by, among others, past efforts of the United Nations Development Programme and the World Bank, and complements an ongoing project being implemented by the Government, the Japan International Cooperation Agency and the Food and Agriculture Organization to improve efficiencies in the dairy system.

### **5. USAID.**

The Property Rights Project has drawn heavily from the experience of USAID's "GER Initiative" that is implementing a variety of economic development efforts in the *ger* areas of Mongolia's cities. In addition, lessons learned from USAID's "Gobi Initiative," focused on enterprise development and improved incomes of families in and around the Gobi region, will inform the final design of the Peri-Urban Land Leasing Activity. Furthermore, the Government

expects to work with USAID as appropriate to identify potential opportunities for coordination with respect to the Property Rights Project.

## **6. Sustainability.**

As conditions precedent to certain Disbursements, the Government will be required to provide additional office space, and additional office sites, to the State Registry. The upgraded State Registry is expected to generate increased revenues to be used to support itself. A plan to ensure the sustainability of the State Registry will be produced and implemented so that Mongolia will have a secure system for recognizing and protecting real property rights over the long term. In addition, the various institutional reforms that the Property Rights Project should facilitate will make future privatizations easier. Regarding the Peri-Urban Land Leasing Activity, annual land lease payments to the Government are expected to support improved land management, extension and other services needed by the herder groups, and plans will be developed for management and maintenance of wells and other rangeland infrastructure supplied by the Property Rights Project. Related Disbursements will depend upon the prior development, with relevant stakeholder input, of selection criteria for herder groups that are eligible for leases under the Peri-Urban Land Leasing Activity.

In order to ensure the environmental and social sustainability of the Property Rights Project as a whole, MCA-Mongolia will engage in regular public consultations through which various stakeholders (including women and other vulnerable groups) will have the opportunity to participate in the development and implementation of the Property Rights Project. In addition, a framework environmental assessment (that includes a social assessment) and an EMP will be completed prior to the commencement of (a) any upgrade of the various offices under the Improvement of the Land Privatization and Registration System Activity and (b) any construction activity under the Peri-Urban Land Leasing Activity.

## **C. VOCATIONAL EDUCATION PROJECT**

### **1. Background.**

Mongolia's vocational education system has not evolved to serve the demands of a modern, upskilled and private-sector led labor market and economy. The capacity of this system to deliver relevant, practical and hands-on instructional programs, teach core technical skills, support vocational skills development and provide critical labor information is weak. Training equipment and tools are limited and outdated, and instructors are ill-prepared to deliver modern instructional programs. Essential public-private partnerships to ensure that students receive high quality, demand-driven education and training are largely absent. Credentialing systems are substandard or simply out-of-date. As a result, Mongolia imports skilled labor from other markets, leaving high rates of unemployment among unskilled Mongolians, especially youth. The Vocational Education Project is designed to address this problem, specifically seeking to increase the wages of poor Mongolians by improving their technical skills and productivity to meet labor market demand in key industries (including, among others, construction trades, road construction, mining and mining operations, electronic trades, mechanical trades, transport and nursing and allied health). This will be done by (a) strengthening the policy and operational framework needed to support a demand-driven vocational education and training system, (b) developing, defining and selecting national occupational standards and standardization of competencies for careers, trades and jobs and translate these occupational and skill standards into

modern vocational education and training courses of study supported by new training packages, instructional materials and equipment, (c) conducting and improving teacher training and the professional development of instructors and senior administrators, (d) installation of a Labor Market Information System with connectivity to a national career guidance system and (e) the improvement of learning environments in selected TVET colleges and vocational training centers.

## **2. Activities.**

The Vocational Education Project consists of the following activities (each, a “*Project Activity*”):

(a) Reforms to TVET Policy and Operational Framework Activity.

MCC Funding will be used to strengthen the policy and an operational framework, to create an efficient governance and standard-setting mechanism, and to secure private sector participation for technical and vocational education and training (“*TVET*”). Specifically, MCC Funding will support:

(i) legal and regulatory reforms that will create and allow the implementation of demand-driven TVET;

(ii) establishment and support of the National Council for Vocational Education and Training (“*NCVET*”) to enable it to respond to labor market needs, to rationalize public funding, set occupational and skill standards, and to coordinate quality assurance processes and formal TVET course certification and accreditation; and

(iii) a range of activity to acquaint members of the State Great Khural (Parliament), senior government officers and TVET Directors with understandings of how modern TVET systems operate.

(b) Creation of Skills Standards and Competency System Activity.

MCC Funding will be used to identify, install and operationalize occupational and skills standards and a competency-based training system, including standardization of competencies and competency-based assessment underpinned by nationally approved units of competency, modules and courses. These innovations in TVET centers and institutes will be put in place by means of an integrated approach linking each Project Activity. Specifically, MCC Funding will support:

(i) establishment of national occupational standards for short-term and long-term career training fields based on vocational skills development in priority trades and careers;

(ii) development of new and modern training packages, courses of study, and instructional materials for short-term and long-term career training fields;

(iii) development of a competency-based assessment and credentialing system to support new national occupational standards which will support an upgraded, modernized, practical and responsive TVET system;

(iv) improvement of the capacity of regional methodological centers to create and distribute materials and training resources to instructors in all types of TVET institutes and centers including TVET branches of national universities; and

(v) strengthen linkages between in-service and pre-service vocational education and technical teacher training programs and improve the sustainability of a re-developed TVET teacher training system.

(c) Competency-Based Training System Activity.

MCC Funding will be used to implement a new competency-based training system including competency-based assessment in TVET school, colleges and training centers including TVET branches of Universities of Technology. Specifically, MCC Funding will support:

(i) professional training of approximately 1,500 TVET instructors and administrators in Mongolia's 65 TVET training centers consisting of some 45 credible Vocational Training and Production Centers ("*VPTC*") under the Ministry of Education, Culture and Science and a range of work development centers under the Ministry of Social Welfare and Labor including six regional methodological centers;

(ii) provision of equipment and instructional materials essential to the delivery of new training packages and courses of study being developed for short-term and long-term career training path fields as part of the development of national occupational and competency standards; and

(iii) identification and management of environmental, social, health and safety impacts associated with the implementation of this Activity, consistent with Section 2.6(c) of the Compact and the World Bank's Operational Policy on Involuntary Resettlement (OP 4.12).

(d) Career Guidance and Labor Market Information Systems ("*LMIS*") Development Activity.

MCC Funding will be used to assist in the installation of a LMIS including the procurement of IT equipment and the related software. This activity will also provide career guidance and employment information services to Mongolians linked to the LMIS. Specifically, MCC Funding will support:

(i) installation of employment information services in six regional methodological centers;

(ii) establishment of a career guidance service and web-based career information system across a range of VTPCs and work development centers; and

(iii) with the assistance of the Ministry of Social Welfare and Labor, installation and operation of the LMIS and professional support to staff within the government's Labor Exchange Bureau.

(e) Improvement of Learning Environments Activity.

MCC Funding will be used to selectively upgrade and modernize up to fifteen VTTPCs including three VTTPCs that will be upgraded and strengthened to “Center of Excellence” status, as determined in consultation with MCC. Specifically, MCC Funding will support:

- (i) a screening and auditing exercise to ensure the fair and equitable selection process of eligible VTTPCs;
- (ii) installation of a national TVET building and classroom audit task force to conduct the screening, auditing and selection process;
- (iii) provision of new equipment, tools and instructional technologies to the selected VTTPCs;
- (iv) upgrading of selected learning environments to support new equipment and allied training packages;
- (v) support the professional training of staff and students to protect the use and maintenance of equipment; and
- (vi) identification and management of environmental, social, health and safety impacts associated with the implementation of this activity, consistent with Section 2.6(c) of the Compact and the World Bank’s Operational Policy on Involuntary Resettlement (OP 4.12).

### **3. Beneficiaries.**

The Vocational Education Project is expected to almost double the enrollment of long term students in approximately 45 VTTPCs from the current enrollment of approximately 24,700 students to more than 50,000 students. Enrollment in short-term training courses is also expected to significantly increase as a result of the Project. The Vocational Education Project will improve the quality of, and expand access to, TVET. Over the next 20 years, the Vocational Education Project is expected to improve the wage and employment prospects of approximately 170,000 TVET graduates including substantial numbers of service technicians, and, enhance the career paths of many thousands of Mongolians already employed in the construction trades, road construction, mining operations and nursing and allied health industries. For these graduates, improved training is anticipated to lead to a starting wage on average 5-10 percent greater than current starting wages.

### **4. Donor Coordination, Role of the Private Sector and Civil Society.**

The Project will be implemented in coordination with several on-going projects by other donor partners, including ADB’s Third, Fourth and Fifth “Education Development Projects” that seek, among other goals, to reform the TVET system, a project funded by the Japan Fund for Poverty Reduction for the promotion of non-formal construction worker skills training for vulnerable youth and poor adults, Gesellschaft für Technische Zusammenarbeit’s “Urban Development, Construction Sector and VET Promotion Program,” as well as projects on small and medium enterprises promotion. The Project will seek robust industry engagement with both foreign and Mongolian firms active in the industry growth areas of construction, mining and mine operations, food processing and road construction. Early progress in public-private partnerships will be built on through an expected period of robust development of learning networks

involving selected VTPCs linked to regional methodological centers and other VTPCs as well as private industry itself.

## **5. USAID.**

Currently, USAID does not fund projects addressing the reform of the vocational education and training system. However, the Government will seek future opportunities to collaborate with USAID on vocational education system issues if such funding is made available.

## **6. Sustainability.**

To ensure the sustainability of the Vocational Education Project, the Parties have agreed to the policy, legal and regulatory reforms outlined in paragraph 7 below, which are expected to improve VTPC income-generating capacity which, in turn, is expected to lead to increased funding support for several TVET institutes. To ensure the environmental and social sustainability of the Vocational Education Project as a whole, the Government shall cause MCA-Mongolia to engage in on-going public consultations with various stakeholders (including women, out-of-school youth, peri-urban households and other vulnerable groups) to participate in the development and implementation of the Vocational Education Project. The Project will aim to complement vocational skills development and the setting of occupational standards in other Compact activity including skills development in the Health and Property Rights Projects. In addition, MCA-Mongolia will be required to develop a framework EMP, including health and safety guidelines for use in the TVET institutes in the program.

## **7. Policy, Legal and Regulatory Reforms.**

(a) Prior to Disbursements for any activity other than the four (4) sub-activities listed below, MCA-Mongolia has developed, satisfactory to MCC, a legal and policy framework to support a modern, labor market driven TVET system, including:

(i) establishment of NCVET, with half of the members representing, and selected by, the private and non-governmental sectors, and with the other half of the members representing the public sector, as appointed by applicable law;

(ii) fostering revenue generation and entrepreneurial capacities through, for example, the sale of products and services provided by vocational education institutes;

(iii) harmonizing all public funding for the TVET sector; and

(iv) passage of legislation to maintain or increase the level of funding for the TVET sector as of the date the Compact is signed each year during the Compact period.

(b) The Government shall ensure that no TVET institution benefiting from MCC Funding is privatized during the Compact term, either in whole or in part, without MCC's prior written approval of the terms and conditions of such privatization.

## **D. HEALTH PROJECT**

### **1. Background.**

Mongolia has rapidly increasing rates of NCDIs, including cardiovascular disease, diabetes, cancers and injury-induced trauma. Mongolia's mortality and morbidity rates from cardiovascular disease and cancers greatly exceed those of Western countries and now represent the major cause of death and disability, particularly in younger age groups (*i.e.*, 35 to 59 years of age). Trauma response and emergency medicine are under-developed. At the same time, current NCDI programs in Mongolia are treatment-based, with inadequate attention to cost-effective NCDI prevention, early detection, where relevant, and disease management. This has a negative impact on the productivity of the labor force, which is disproportionately affected by NCDIs, and is a significant drain on scarce public health investments. The Health Project focuses on extending the productive years and productivity of the labor force by reducing the incidence and severity of NCDIs such as cancer, cardiovascular disease, diabetes and preventable accidents and trauma, and reducing and refocusing total health expenditure.

### **2. Project.**

The Health Project consists of the following activities (each, a "***Project Activity***"):

(a) NCDI Capacity Building Activity.

MCC Funding will be used to ensure that the program is built on the best international experience with NCDI. Specifically, MCC Funding will support:

- (i) establishment of senior NCDI advisory boards and expert panels;
- (ii) assessment of current NCDI practices, personnel, equipment and supplies, and review of relevant protocols, guidelines, and job descriptions for NCDI detection, management and treatment;
- (iii) *aimag* and district support for building NCDI capacities and implementing NCDI activities;
- (iv) provision of mammography machines, vehicles and other NCDI equipment and supplies;
- (v) improved data collection on cancer, stroke and accidents;
- (vi) improved capacities in the non-government organization sector and private work places to address and reduce NCDIs;
- (vii) improved outreach to youth and school-aged children to understand healthy life choices;
- (viii) testing the impact of the Health Project using total quality assurance practices; and

(ix) finalization of baseline data and indicators for monitoring and evaluation of the Health Project.

(b) NCDI Prevention Activity.

MCC Funding will be used to reduce factors for NCDIs through such behavior change communications as public awareness campaigns and education outreach. Specifically, MCC Funding will support:

(i) development of national and regional NCDI communications campaigns, such as mass media, health fairs, work sites and mobile units promoting healthy lifestyles; and

(ii) development and implementation of interventions to promote behavior change among youth and high risk individuals to prevent NCDIs.

(c) NCDI Early Detection Activity.

MCC Funding will be used to mobilize client demand for screening, introduce modern cost-effective procedures, and provide key equipment. Specifically, MCC Funding will support:

(i) implementation of new national NCDI screening procedures;

(ii) national implementation of improved cervical cancer screening methodologies for women aged 35 - 50;

(iii) program trial for the human papilloma virus (HPV) vaccine against cervical cancer to determine costs of delivery and to assist the Government in developing a national HPV vaccine policy and implementation strategy;

(iv) improvement of breast cancer detection methodologies; and

(v) identification and management of environmental, social, health, and safety impacts associated with the implementation of this activity, consistent with Section 2.6(c) of the Compact.

(d) NCDI Management Activity.

MCC Funding will be used to improve the protocols and update training for medical professionals. Specifically, MCC Funding will support:

(i) development of community-based disease management program and systems;

(ii) national implementation of new public health NCDI management services; and

(iii) implementation of intensified heart attack, stroke and accident response services in selected sites.

### **3. Beneficiaries.**

The Health Project targets all 21 *aimags* (provinces) and approximately 95 percent of the Mongolian adult population for community-level communications for behavioral change, early detection and disease management activities. This will lead to extended productive years and productivity of the labor force and decreased health expenditures by households on NCDIs. Specifically, the beneficiaries are expected to include approximately the 43 to 45 percent of the adult population aged 35-59 nationwide who has developed or has multiple risk factors for developing cardiovascular diseases, cerebra-vascular diseases or diabetes. Women represent 45 percent of this high risk population. The Project has an additional focus on women's health – aiming to reduce deaths among women nationwide from cervical and breast cancers through early detection and appropriate follow-up care and assessment of the feasibility of a national HPV vaccine program. During the Compact, ten percent of girls aged 9-14 will be targeted over two years for outreach by the HPV vaccine to determine vaccine acceptability and program costs for delivery to school-aged girls. Cervical cancers in the vaccinated group are projected to be reduced by 60-70 percent during the lifetime of these girls. Presuming the program results in a national HPV immunization policy, future national incidence of cervical cancer will be greatly reduced as the vaccinated girls age. Other beneficiaries include youth who will benefit from changes in school curriculum and mass education campaigns targeted at reduced smoking, reduced alcohol usage, and improved diet and physical activity among school-aged children, and healthcare professionals who will receive specially-designed NCDI training that will improve their capacity to respond to client wellness needs.

### **4. Donor Coordination; Role of Private Sector and Civil Society.**

The Health Project will complement the activities of other donors in the health sector, including ADB, Japanese International Corps of Welfare Services and the World Health Organization (“*WHO*”) that, once having focused on child health and communicable diseases in the past, are increasingly including general support for NCDIs in their programs. Specifically, the Health Project will build upon WHO's laboratory specimen transport system and ADB's physician training, as well as the University of Toronto's research on cervical cancer diagnosis.

While the majority of care within Mongolia for chronic NCDIs (including cancers and cardiovascular diseases) takes place in the public sector, the nascent private sector for health care is growing. For this reason, consultations have taken place with a private hospital association and various physician groups in the design of the Health Project. Civil society's role is expected to be vital as community-level mobilization and motivation for behavioral changes are explored and implemented under the Health Project. The Project also expects to engage international and domestic non-government organizations, academic institutions and research bodies in multi-sectoral efforts to reduce NCDIs. In addition, given the target age-groups, work-place programs will be emphasized in NCDI outreach and early detection programs.

### **5. USAID.**

Currently USAID does not fund any health-related projects in Mongolia. However, the Government will seek future opportunities to collaborate with USAID on NCDI issues if health funding is made available.

## **6. Sustainability.**

In order to enhance sustainability, the Health Project includes the NCDI Capacity Building Activity from its start-up phase. Since changing attitudes and practices of health providers and managers is a critical component to the Health Project's success, the NCDI Capacity Building Activity is expected to build conviction among the Mongolian medical practitioners and clients of the effectiveness of the new interventions under the Health Project. The Health Project initiates preventive and promotive health services requiring additional funding and recurrent costs (including funding for client medications and procedures for the very poor). The Government will commit to financing these additional costs as further described in paragraph 7 below.

In order to ensure the environmental and social sustainability of the Health Project as a whole, the Government will cause MCA-Mongolia to engage in on-going public consultations in which various stakeholders in the Health Project (including women and other vulnerable groups) are given the opportunity to participate during the implementation of the Health Project. In addition, during the development and implementation of the Health Project, a plan for safe and proper use of diagnostic equipment will be developed and used. A framework EMP will be developed for addressing health and safety issues and for assessing compliance with existing waste management regulations in all project related services and facilities. The EMP will include procedures for support of remedial actions to insure compliance with the MCC Environmental Guidelines, environmental regulations and access needs for all potential beneficiaries.

## **7. Policy, Legal and Regulatory Reforms.**

The implementation by the Government of the policy, legal and regulatory reforms described below, satisfactory to MCC, shall be conditions precedent to certain Disbursements.

(a) The Government shall have committed to funding the recurrent costs of the NCDI program following the expiration of the Compact Term.

(b) The Government shall have committed to taking necessary steps to ensure that the recurrent costs for screening and disease management activities for low-income people are covered by the Government following the expiration of the Compact Term.

## **E. NORTH-SOUTH ROAD PROJECT**

### **1. Background.**

A critical north-south economic corridor for Mongolia parallels the main railway line from the Russian border in the north at Altanbulag to the Chinese border in the south at Zamiin Uud. Across its approximately 1000 km length, approximately 60 percent of Mongolia's 2.6 million population resides, including its two largest cities - Ulaanbaatar (the capital) and Darkhan. Within this area, in the absence of a major paved road spanning the length of the corridor, the railway has been the only major continuous transportation mode able to connect population and commercial centers, as well as serve as a means of facilitating regional trade connecting Mongolia, Russia, and China.

The importance of the road sector within this corridor, however, has been increasingly recognized. Since 1995, the Government, with funding assistance of ADB, has undertaken a

systematic effort to develop a fully-paved all-weather road from Altanbulag to Zamiin Uud. In 2004, a 176.4 km portion of this proposed road was covered by parallel co-financing from the Government of South Korea for construction of the section from Choir to Sainshand, but this portion was unable to be completed at that time.

Thus, the Government's first priority for the North-South Road Project is the completion of the 176.4 km Choir-Sainshand road section. In addition to this section, the Government has identified the Ulaanbaatar-Nalaikh road and Bayanzurkh bridge as critical transport infrastructure requiring construction and rehabilitation.

## **2. Project.**

The North-South Road Project consists of the following activities (each, a "*Project Activity*"):

### **(a) Choir-Sainshand Road Activity.**

MCC Funding will be used to construct an all-weather road from Choir to Sainshand. Specifically, MCC Funding will support:

- (i) Construction of the 176.4 km road section between Choir and the 35<sup>th</sup> railway crossing outside of Sainshand;
- (ii) Environmental mitigation measures recommended by the already completed environmental and social impact assessment, as may be appropriate;
- (iii) Signage and other safety improvements;
- (iv) Supervision of construction activities; and
- (v) Compensation, if needed, for any individuals, residences and businesses affected by the construction of the Choir-Sainshand road consistent with Section 2.6(c) of the Compact and the World Bank's Operational Policy on Involuntary Resettlement (OP 4.12).

### **(b) Bayanzurkh Bridge and Road Activity.**

MCC Funding will be used to rehabilitate the existing Bayanzurkh bridge, construct a new bridge near the existing Bayanzurkh bridge, and rehabilitate the road from Ulaanbaatar to Nalaikh. Specifically, MCC Funding will support:

- (i) Environmental impact assessment, and design;
- (ii) Rehabilitation of the existing Bayanzurkh bridge;
- (iii) Construction of a new bridge near the existing Bayanzurkh bridge;
- (iv) Rehabilitation of the road from Ulaanbaatar to Nalaikh;
- (v) Environmental mitigation measures, as may be appropriate;
- (vi) Signage and other safety improvements;

(vii) Supervision of construction activities; and

(viii) Compensation for any individuals, residences and businesses affected by the above rehabilitation and construction actions consistent with Section 2.6(c) of the Compact and the World Bank's Operational Policy on Involuntary Resettlement (OP 4.12).

(c) Technical Assistance Activity.

MCC Funding will be used to provide technical assistance to improve road maintenance. Specifically, MCC Funding will support:

(i) Capacity building in the Government's Department of Roads;

(ii) Improvements in the operation of state-owned enterprises involved in roads maintenance to ensure long-term viability and quality of their work; and

(iii) Introduction of policies, procedures and practices that will encourage private sector participation in road maintenance.

### **3. Beneficiaries.**

For the North-South Road Project, the analysis calculated numbers of potential beneficiaries using regional population numbers and estimates of road users that have origins and destinations outside the segments concerned. Ordinarily, the standard practice at MCC is to consider the population within a catchment area along the road as the basis for estimating road beneficiaries. This practice is difficult to apply given the geography of Mongolia and how the population is dispersed within that landscape. From the earlier feasibility study of the Choir-Sainshand road it was estimated that approximately one third of road user benefits would be retained within the region of the road. Estimates were made of numbers of road beneficiaries residing elsewhere in the country.

For the Choir-Sainshand Road Activity, the number of local beneficiaries was estimated at approximately 95,300 people. Beneficiaries located elsewhere in Mongolia were estimated at 58,500. The preliminary estimate of total beneficiaries is therefore 168,900. These figures refer to outcomes in 20 years time. The number of affected households is only roughly estimated based on an average of 4.3 members to a household. As not all road users among the estimated number of outside beneficiaries include entire households, the total number of households estimated at 35,800 is likely to be an underestimate.

Similarly for the road from Ulaanbaater to Nalaikh, the number of total beneficiaries is estimated at 222,700: 116,500 local, primarily in the vicinity of Nalaikh, and 106,200 elsewhere in Mongolia. As a preliminary estimate, the number of affected households may exceed 51,800.

It is likely that some of the 'outside' beneficiaries of the Choir-Sainshand Road Activity and the road from Ulaanbaatar to Nalaikh overlap as they fall on the same north-south route. The size of this likely possible overlap has not been determined.

Given the possible growth of traffic across the bridge, for the Bayanzurkh bridge improvement, the number of beneficiaries was based on the number of estimated passenger-road users. The

number of beneficiaries is estimated at 166,800. These beneficiaries can be considered as coinciding entirely with those identified for the road from Ulaanbaatar to Nalaikh.

#### **4. Donor Coordination.**

MCC has been coordinating with ADB on the North-South Road Project, particularly on the priority Choir-Sainshand Road Activity. ADB has completed a feasibility study and detailed design, but has not completed construction on the road due to a funding shortfall from the Government of Korea. With MCC Funding for this section, ADB shall support the construction of the additional section from Sainshand to Zamiin Uud at the Chinese border, thus completing the north-south corridor. ADB has been engaged in developing the road sector in Mongolia since 1993 (when it funded a Road Master Plan and Feasibility Study).

Also, ADB and the Government have undertaken extensive HIV/AIDS public education and awareness along the road corridor that will benefit the implementation of safeguards required by MCC. ADB has also provided assistance to improve road safety, which MCC will continue through incorporation of appropriate measures in detailed designs and through technical assistance for road maintenance, as the maintenance companies also have a safety and emergency response role.

#### **5. USAID.**

While USAID has provided technical assistance on transport/logistical infrastructure in southern Mongolia, to which this Project indirectly builds upon, currently, USAID does not fund projects addressing the rehabilitation or construction of roads. However, the Government will seek future opportunities to collaborate with USAID on road construction or rehabilitation issues if such funding is made available.

#### **6. Sustainability.**

Sustainability for this Project depends on the Government's continued commitment to road maintenance. The Government has dramatically increased maintenance budgets over the past several years.

Road maintenance and expansion of the road network are funded through the Road Fund of Mongolia (the "**Road Fund**") with the assistance of ADB. Current sources of investment to the Road Fund include the Government budget, tax revenues from import of gasoline and diesel fuel, motor vehicle annual taxes, traffic violation fine revenue, roads toll revenue and international loans and grants. Allocation of the Road Fund is under the authorization of the Minister for Roads, Transportation, Construction and Urban Development with approval by the State Great Khural (Parliament). If the Road Fund does not have an adequate amount of funding, additional funding is allocated from the Government central budget to the Road Fund.

To ensure the sustainability of the North-South Road Project, the Parties have agreed to the covenants outlined in paragraph 7 below, regarding the Government's commitment to the Road Fund. Finally, in light of the possible negative direct, induced, and transboundary impacts of the North-South Road Project (including: anticipated increases in extractive industries; illegal timber extraction originating from northern Mongolia and eastern Russia; and illegal trafficking in

persons), the completion of an environmental and social impact assessment (that includes an EMP) will be a condition precedent to certain Disbursements.

## **7. Policy, Legal, Regulatory and Other Reforms; Covenants.**

As an ongoing covenant, the Government will continue to affirm its commitment to the Road Fund by demonstrating a yearly increase in the amount committed to the Road Fund from the amount committed during the prior fiscal year, taking into account inflation and maintenance needs of existing, improved and newly constructed roads, in an amount at least sufficient to provide ongoing maintenance for the roads and bridges constructed and rehabilitated under the North-South Road Project. In addition, the Government will also implement its annual maintenance plan while providing evidence that the amount budgeted for the Road Fund for the previous fiscal year has been expended for the intended purpose, in a manner satisfactory to MCC.

Furthermore, the Government will ensure that those sections of the local labor laws, including the Law on Foreign Subjects and the Law on Export and Import of Workforce and Experts, which require a certain number of workers to be Mongolian, shall not apply to the procurements related to the North-South Road Project.

## **F. ENERGY AND ENVIRONMENT PROJECT**

### **1. Background.**

Mongolia has an extremely harsh winter climate with an eight-month heating season. Midwinter (late December and early January) daytime temperatures are  $-10^{\circ}\text{C}$  to  $-30^{\circ}\text{C}$ , and can drop to as low as  $-40^{\circ}\text{C}$  at night. Ulaanbaatar, where nearly half of the population lives, is the coldest capital city in the world. There is severe winter air pollution in Ulaanbaatar, which is a major cause of serious respiratory problems among urban residents. Those especially at risk include the poor, undernourished, very young and very old, and people with preexisting respiratory disease and other ill health. An estimated 90 percent of Ulaanbaatar air pollution comes from *ger* areas, which tend to include lower income households, and is caused by burning raw coal for space heating in inefficient stoves to heat minimally insulated traditional *gers* and small homes.

The office of the Mayor of Ulaanbaatar reports that 154,500 families (664,391 people) were living in the *ger* areas in 2008. Of these, 66,538 families are living in *gers* and 85,016 families are living in small houses. About five tons of coal and 4.3 cubic of wood are consumed annually for heating a *ger*. *Ger* households spend MNT 1000-2000 (US\$1.0-US\$2.0) daily to purchase fuel.

The objective of the Energy and Environment Project is to reduce urban air pollution in Ulaanbaatar by increasing the adoption of energy efficient products and homes in the *ger* districts, and supporting the development of renewable energy. Three second order objectives are: (1) savings from reduced fuel consumption; (2) savings from reduced health costs; and (3) savings from increased productivity.

## 2. Project.

The Energy and Environment Project consists of the following activities (each, a “*Project Activity*”):

(a) Millennium Challenge Energy Efficiency Innovation Facility (the “MCEEIF”).

MCC Funding will be used to identify energy efficient technologies, evaluate and make consumers aware of their benefits, and make available financial incentives so that such technologies can be quickly adopted. Specifically, MCC Funding will support:

(i) consumer subsidies for the purchase of energy efficient products and homes certified as meeting a set standard and/or otherwise demonstrating a superior efficiency over previous models; and

(ii) technical assistance.

(b) Wind Activity.

MCC Funding will assist in the development and production of the first commercial wind-powered electricity generation facility in Mongolia. Specifically, MCC Funding will support:

(i) an operating subsidy to be paid to CRETN to temporarily smooth the difference between the estimated cost of power from the wind farm and the estimated cost of power to be paid by consumers by the end of 2011;

(ii) an upgrade to the nearest CRETN substation, upgrade to the dispatching system software at the National Dispatching Center (the “NDC”) in Ulaanbaatar to accommodate power from variable sources, and a 22km fiber optic cable between the substation and the NDC to connect the substation to the dispatching system (together, the “*Network Upgrades*”); and

(iii) support for renewable energy sustainability by providing technical assistance for the establishment of the Renewable Energy Fund, pursuant to the Renewable Energy Law.

(c) Public Awareness Activity.

MCC Funding will support a broad and comprehensive public awareness campaign, which will increase consumer awareness of: renewable energy; energy efficiency; timeliness and availability of subsidies; and the identity of participating partners.

## 3. Beneficiaries.

The Energy and Environment Project is expected to benefit approximately 485,000 people in Ulaanbaatar by 2029. The MCEEIF is expected to reduce air pollution by aiding the adoption of more energy efficient technologies by the residents of Ulaanbaatar. Although the total benefits of the Project ultimately will be determined by which technologies are implemented, MCC currently estimates that 23,000 people will benefit from improved health outcomes resulting from the reduced air pollution in 2020. The more efficient technologies are expected to lead to

fuel cost savings for an additional 457,000 people. For the Wind Activity, the electricity generated by the wind farm is expected to displace an equivalent amount of power generated from coal power plants, thereby curbing greenhouse gas emissions, local air pollution and respiratory disease. An expected 5,000 people will benefit from improved health outcomes in 2029. The reduction in brownouts resulting from the improved electrical dispatching system will reduce costs and improve productivity for businesses in Ulaanbaatar.

#### **4. Donor Coordination.**

The Energy and Environment Project builds upon a number of different pilot programs and several ongoing donor programs for reduction of air pollution in Ulaanbaatar. For example, the United Nations Development Programme and ADB have supported the production and distribution of *ger* insulation blankets. The United Nations Development Programme has developed a building energy efficiency program, which has, among other activities, established energy efficiency centers which perform regular energy audits and publish a book of energy efficient home designs. The Japanese International Cooperation Agency has focused on research concerning the efficiency of heat only boilers and the European Bank for Reconstruction and Development has focused on an operational framework for fuel substitution. The World Bank has taken the lead on coordinating the sector and has, together with Gesellschaft für Technische Zusammenarbeit, done some smaller projects on improving household stove efficiency and distribution. Since the global financial crisis, much of the funding planned in this area has been diverted to budget support. The MCEEIF aims to build upon all of the work these agencies have undertaken to date and to scale up for greater positive impact.

A National Coordinating Committee (“NCC”), chaired by the Minister of Mineral Resources and Energy, has been established to oversee and coordinate the Government’s and donor programs in air pollution reduction.

The European Bank for Reconstruction and Development is, together with the International Finance Corporation, planning to provide debt and equity for the development and construction of the wind farm supported by the Wind Activity.

#### **5. USAID.**

USAID’s Economic Policy Reform and Competitiveness program has supported energy sector reform in Mongolia. This program supports Mongolia’s effort to develop and implement a transparent, market-oriented regulatory environment to promote a competitive and efficient delivery of energy services to consumers; commercial practices in energy generation and distribution; and an attractive environment for foreign and domestic private investment.

#### **6. Sustainability.**

Fundamentally, the subsidies offered through the MCEEIF are intended to accelerate adoption of energy efficient technologies at the household level. It is believed that shortly after the introductory period of use by the consumer, savings will be realized. The Government may consider continued support to the program from the Clean Air Fund, in addition to the support contemplated for fuel subsidies therefrom in an effort to continue incentivizing the adoption of new energy efficient technologies.

ADB's technical assistance provides for permanent stove standard setting, testing, and certification processes which are planned to continue after the Compact.

For the Wind Activity, the operating subsidy is meant to provide a temporary transition to the higher end user tariffs which reflect the full cost of electricity generated from the wind farm. Beyond the term of the Compact, the Government will fund its obligations to the wind farm through higher end user tariffs.

Software and infrastructure upgrades at NDC and at the Nalaikh substation are meant to have a 20 year life matching that of the wind farm. CRETN and NDC will maintain the substation and software upgrades.

## **7. Policy, Legal, Regulatory and Other Reforms; Covenants.**

The implementation by the Government of the following policy, legal, regulatory and other reforms described below, satisfactory to MCC, shall be conditions precedent to certain Disbursements:

- (a) With regards to the disbursement of the subsidy component of the MCEEIF:
  - (i) Establishment of an independent product testing, certification, and subsidy setting process;
  - (ii) Establishment of a process for the evaluation and approval of additional products to be subsidized;
  - (iii) Completion of agreements between MCA-Mongolia and banks and/or other implementers, in support of a particular product or home to be subsidized;
  - (iv) Completion of a form of consumer participation agreement, in support of a particular product or home to be subsidized; and
  - (v) For a particular product or home, design and delivery of at least a three-month public awareness campaign addressing the benefits of energy efficiency, the availability and amount of subsidies, and the identity of the participating partners.
- (b) With regards to the disbursement of the subsidy component of the Wind Activity:
  - (i) Evidence of signed European Bank for Reconstruction and Development project loan agreement;
  - (ii) Evidence that available power from the wind farm will be purchased on a take or pay, or equivalent basis, as outlined in the power purchase agreement for the wind farm;
  - (iii) A plan for increasing electricity tariffs that will eliminate the need for subsidies by 2015, including an initial increase to take place at the time the power purchase agreement for the wind farm begins and a second increase the following year;
  - (iv) Mechanical completion of the wind farm, fiber optic cable, substation and dispatching system upgrades;

- (v) Completed testing of and training on, new dispatching system; and
- (vi) Development of a plan for the maintenance and funding thereof of the Network Upgrades.

## **G. IMPLEMENTATION**

The implementation framework and the plan for ensuring adequate governance, oversight, management, monitoring and evaluation and fiscal accountability for the use of MCC Funding is summarized below. MCC and the Government shall enter into the Program Implementation Agreement, and any other agreements in furtherance of this Compact, all of which, together with this Compact, shall set out certain rights, responsibilities, duties and other terms relating to the implementation of the Program.

### **1. MCC.**

MCC shall take all appropriate actions to carry out each of its responsibilities in connection with this Compact and the Program Implementation Agreement, including the exercise of its approval rights in connection with the implementation of this Compact and the Program.

### **2. Governance.**

(a) Establishment of MCA-Mongolia. Under this Compact, the Government hereby establishes an independent legal entity empowered to carry out the Government's obligations and to implement the Program under this Compact and the Program Implementation Agreement ("*MCA-Mongolia*"). The Government shall ensure that MCA-Mongolia takes all appropriate actions to implement the Program, including the performance of the rights and responsibilities designated to it by the Government pursuant to this Compact and the Program Implementation Agreement. In addition, operations of MCA-Mongolia shall be subject to any other limitations MCC may require from time to time.

(i) Board of Directors. MCA-Mongolia shall be governed by a board of directors (the "*Board*") that will have final decision making authority over the implementation of the Program. As of the date hereof, the Board shall consist of:

- (1) eleven voting members:
  - (A) Prime Minister, as chairman of the Board;
  - (B) Minister of Finance;
  - (C) Minister of Roads, Transportation, Construction and Urban Development;
  - (D) Minister of Education, Culture and Science;
  - (E) Minister of Health;
  - (F) Minister of Mineral Resources and Energy;
  - (G) Minister of Social Welfare and Labour;

- (H) Minister and Chairman of the Government Secretariat
  - (I) one representative selected by the private sector;
  - (J) two representatives selected by civil society; and
- (2) nine non-voting members:
- (A) MCC observer;
  - (B) MCA-Mongolia chief executive officer;
  - (C) MCA-Mongolia general counsel;
  - (D) State Secretary from Ministry of Environment and Tourism;
  - (E) State Secretary from Ministry of Food and Agriculture;
  - (F) one representative selected from the private sector who will be, after his/her term as non-voting member, the voting member from the private sector; and
  - (G) three representatives selected from civil society, of which, one will be an environmental observer and two will become, after their terms as non-voting members, voting members.

(ii) Technical Secretariat. A technical secretariat (the “*Technical Secretariat*”) shall support the Board in the implementation of the Program. A chief executive officer will manage the day-to-day activities of MCA-Mongolia and will be supported by: (1) a chief operating officer; (2) a chief financial officer; (3) a general counsel; (4) a procurement officer; (5) an environmental and social assessment officer; (6) a monitoring and evaluation officer; (7) a communications officer; (8) a peri-urban rangeland director; (9) an urban property rights director; (10) a vocational education project director; (11) a health director; (12) a roads director; and (13) an energy and environment project director, and such other officers as may be agreed upon by the Government and MCC. The officers shall be supported by appropriate administrative personnel.

(iii) Ethics Disclosures. All voting members of the Board and the officers of the Technical Secretariat set forth in clause (ii) above shall be required to provide, in advance of assuming their respective positions and annually at such times as are required by Mongolia’s Anti-Corruption Law, the financial and other disclosures required by such law. This obligation shall apply whether or not such law would, absent this provision, require such disclosure.

(b) Designation of MCA-Mongolia. The Government hereby designates MCA-Mongolia to implement all of the Government’s obligations and to exercise all of the rights of the Government under this Compact and the Program Implementation Agreement. The Government acknowledges that such a designation does not relieve the Government of any of its

obligations and rights under this Compact and the Program Implementation Agreement, for which the Government retains full responsibility.

(c) MCA-Mongolia Operations. The day-to-day operations of MCA-Mongolia shall be governed by MCA-Mongolia's bylaws, certificate of registration and internal regulations, which shall address, among other things, terms and conditions of employment at MCA-Mongolia.

(d) Nature of MCA-Mongolia. The Government acknowledges that:

(i) MCA-Mongolia is neither a Mongolian "government entity" nor a Mongolian "non-governmental entity" under the laws of Mongolia, and, as such, the laws of Mongolia regulating Mongolian government and non-governmental entities do not apply to MCA-Mongolia; and

(ii) as an independent legal entity established by the Government, any and all obligations of MCA-Mongolia in connection with this Compact are binding on the Government and may be carried out by the Government in the furtherance of the Compact.

(e) Stakeholders' Committee. The Government shall ensure a stakeholders committee (the "*Stakeholders' Committee*") is formed and approved by MCC, to continue the consultative process throughout the implementation of the Program by having the Stakeholders' Committee provide recommendations to the Board and the Technical Secretariat regarding issues, concerns and inputs arising from the implementation of the Program. Private sector members of the Stakeholders' Committee will be selected initially by private sector members of the National Council, and civil society members will be selected initially by the civil society members of the National Council.

(f) Effectiveness. This paragraph 2 of Part G of Annex I of the Compact shall be in effect from the date of execution of this Compact by the Parties without regard to the requirements for entry into force provided in Section 7.3 of the Compact.

### **3. Banking Services, Fiscal Management and Procurement.**

(a) The Government shall ensure that a bank (the "*Bank*") is appointed, and the Permitted Accounts are established and banking services provided, in accordance with the terms of this Compact and the Program Implementation Agreement. The Bank will provide a broad range of banking services required by MCA-Mongolia to implement the Program. The Government shall take all appropriate actions to ensure that the Bank performs these services in accordance with the terms of this Compact, the Program Implementation Agreement and any other agreements to which the Bank is a party. The Government shall set out the roles and responsibilities of the Bank in one or more agreements to be entered into between MCA-Mongolia and the Bank.

(b) The Government shall ensure that a fiscal agent (the "*Fiscal Agent*") is appointed in accordance with the terms of this Compact and the Program Implementation Agreement. The Fiscal Agent will provide a broad range of financial management services required by MCA-Mongolia to implement the Program. The Government shall take all appropriate actions to ensure that the Fiscal Agent performs these services in accordance with the terms of this Compact, the Program Implementation Agreement and any other agreements to which the Fiscal

Agent is a party and that all accounting in connection with the Program is in accordance with IAS. The Government shall set out the roles and responsibilities of the Fiscal Agent in one or more agreements to be entered into between MCA-Mongolia and the Fiscal Agent.

(c) The Government shall ensure that a procurement agent (the “*Procurement Agent*”) is appointed in accordance with the terms of this Compact and the Program Implementation Agreement. The Procurement Agent will provide specified procurement activities required by MCA-Mongolia to implement the Program. The Government shall take all appropriate actions to ensure that the Procurement Agent performs these services in accordance with the terms of this Compact, the Program Implementation Agreement and any other agreements to which the Procurement Agent is a party and in accordance with the MCC Program Procurement Guidelines. The Government shall set out the roles and responsibilities of the Procurement Agent in one or more agreements to be entered into between MCA-Mongolia and the Procurement Agent.

#### **4. Project Implementation.**

Except as otherwise agreed between the Parties, the Program will be implemented as follows:

(a) For the Property Rights Project, the Improvement of the Land Privatization and Registration System Activity and the Privatization & Registration of Ger Area Land Plots Activity will be implemented by a project implementation unit housed within the Ministry of Roads, Transport, Construction and Urban Development. The Peri-Urban Land Leasing Activity will be implemented by a project implementation unit housed within the Ministry of Food, Agriculture and Light Industry.

(b) The Vocational Education Project will be implemented by a program implementation unit housed within the Ministry of Education, Culture and Science.

(c) The Health Project will be implemented by a program implementation unit housed within the Ministry of Health.

(d) The North-South Road Project will be implemented by MCA-Mongolia, assisted by a Project Management and Construction Supervision Consultant. A Department of Roads staff person will be seconded to MCA-Mongolia to assist in project and contract administration.

(e) The Energy and Environment Project will be implemented by MCA-Mongolia.

(f) Each relevant project implementation unit housed within a ministry of the Government will function in accordance with the applicable terms of the Program Implementation Agreement. The terms and conditions of employment, including remuneration and grounds for renewal or dismissal, shall be according to the terms of the applicable employment agreements and the labor policies specific to such project implementation unit. The staff of each such project implementation unit will be selected competitively without discrimination based on nationality or gender.

**EXHIBIT B**  
**ANNEX II (SUMMARY OF MULTI-YEAR FINANCIAL PLAN)**

**ANNEX II**  
**SUMMARY OF MULTI-YEAR FINANCIAL PLAN**

This Annex II to the Compact summarizes the multi-year financial plan for the Program.

**1. General.**

The multi-year financial plan summary below sets forth the estimated annual contribution of MCC Funding for administration, monitoring and evaluation, and implementation of the Program. The Government's contribution of resources will consist of "in-kind" and other contributions or amounts required to satisfy effectively the requirements of Section 2.5(a) of this Compact. In accordance with the Program Implementation Agreement, the Government shall develop and adopt, on a quarterly basis, a detailed financial plan, approved by MCC, setting forth annual and quarterly funding requirements for the Program, projected both on a commitment and cash requirement basis.

**2. Modifications.**

To preserve flexibility, the Parties may by written agreement (or as otherwise provided in the Program Implementation Agreement), without amending this Compact, change the designations and allocations of funds among the Projects, the Project Activities, or any component under Program administration or monitoring and evaluation, or between a Project identified as of entry into force of the Compact and a new project; *provided, however*, that any such change (a) is consistent with the Compact Goal, and Project Objectives, and the Program Implementation Agreement, (b) does not materially adversely affect the applicable Project or any component under Program administration or monitoring and evaluation, (c) does not cause the amount of MCC Funding to exceed the aggregate amount specified in Section 2.1 of this Compact, and (d) does not cause the Government's obligations or responsibilities or overall contribution of resources to be less than specified in Section 2.5(a) of this Compact.

## MULTI-YEAR FINANCIAL PLAN SUMMARY<sup>1</sup>

PROJECT	CIF	Year 1	Year 2	Year 3	Year 4	Year 5	TOTAL
<b>1. Rail Project</b>							
(a) Rail Sector Technical Assistance Activity	0	369,560					369,560
(b) LeaseCo Establishment Activity	0	0					0
(c) LeaseCo Operation Activity	0	0					0
(d) Project Administration Costs (RPM)	0	0					0
<b>Sub-Total</b>	<b>0</b>	<b>369,560</b>					<b>369,560</b>
<b>2. Property Rights Project</b>							
(a) Land Registration System Activity	0	1,650,375	4,971,458	3,812,250	2,592,430	223,100	13,249,613
(b) Privatization of Ger Area Land Plots Activity	0	(198,750)	457,813	625,313	510,314	510,314	1,905,004
(c) Peri-Urban Land Leasing Activity	0	1,017,500	2,923,375	5,989,325	373,125	318,125	10,621,450
(d) Project Administration Costs	53,030	493,270	405,836	402,651	414,259	407,273	2,176,319
<b>Sub-Total</b>	<b>53,030</b>	<b>2,962,395</b>	<b>8,758,482</b>	<b>10,829,539</b>	<b>3,890,128</b>	<b>1,458,812</b>	<b>27,952,386</b>
<b>3. Vocational Education Project</b>							
(a) TVET National Framework Activity	0	1,000,000	0	0	0	0	1,000,000
(b) Creation of Skills Standards and Competencies Activity	0	(20,000)	7,700,000	1,250,000	500,000	250,000	9,680,000
(c) Competency-Based Training System Implementation Activity	0	0	0	8,300,000	5,500,000	500,000	14,300,000
(d) Career Guidance System Activity	0	0	1,050,000	700,000	50,000	50,000	1,850,000
(e) Improvement of Learning Environments Activity			500,000	4,500,000	10,200,000	3,000,000	18,200,000
(f) Project Administration Costs	44,692	425,708	566,998	466,518	476,371	582,569	2,562,856
<b>Sub-Total</b>	<b>44,692</b>	<b>1,405,708</b>	<b>9,816,998</b>	<b>15,216,518</b>	<b>16,726,371</b>	<b>4,382,569</b>	<b>47,592,856</b>
<b>4. Health Project</b>							
(a) NCDI Capacity Building Activity	14,040	335,960	6,539,241	5,255,423	2,415,710	1,559,744	16,120,119
(b) NCDI Prevention Activity	0	400,000	1,556,490	2,171,490	2,271,490	1,503,573	7,903,042
(c) NCDI Early Detection Activity	0	500,000	1,250,476	1,560,851	1,892,116	1,004,051	6,207,492
(d) NCDI Management Activity	0	800,000	900,000	2,770,000	1,330,000	173,000	5,973,000
(e) Project Administration Costs	58,792	268,708	629,980	636,501	643,250	636,235	2,873,466
<b>Sub-Total</b>	<b>72,832</b>	<b>2,304,668</b>	<b>10,876,186</b>	<b>12,394,265</b>	<b>8,552,565</b>	<b>4,876,603</b>	<b>39,077,119</b>
<b>5. North-South Road Project</b>							
(a) Choir-Sainshand Road Activity			10,000,000	15,000,000	15,000,000	5,050,000	45,050,000
(b) Bayanzurkh Bridge and Nalaikh Road Activity			2,000,000	8,000,000	10,000,000	5,100,000	25,100,000
(c) Project Management and Supervision Consultants			1,666,667	2,500,000	416,667	416,667	5,000,000
(d) Road Maintenance Improvement Technical Assistance			300,000	1,500,000	1,200,000	0	3,000,000
(e) Bridge Design and Nalaikh Road Supervision			300,000	450,000	75,000	75,000	900,000
(f) Project Administration Costs			175,000	175,000	175,000	175,000	700,000
<b>Sub-Total</b>			<b>14,441,667</b>	<b>27,625,000</b>	<b>26,866,667</b>	<b>10,816,667</b>	<b>79,750,000</b>
<b>6. Energy and Environment Project</b>							
(a) Millennium Challenge Energy Efficiency Innovation Facility			1,000,000	10,000,000	10,000,000	10,300,000	31,300,000
(b) Wind			1,400,000	1,400,000	3,800,000	3,800,000	10,400,000
(c) Public Awareness			500,000	1,000,000	1,000,000	500,000	3,000,000
(d) Project Administration Costs			400,000	800,000	800,000	500,000	2,500,000
<b>Sub-Total</b>			<b>3,300,000</b>	<b>13,200,000</b>	<b>15,600,000</b>	<b>15,100,000</b>	<b>47,200,000</b>
<b>7. Monitoring and Evaluation</b>							
Monitoring and Evaluation	1,580	601,020	650,167	1,207,883	1,528,600	4,211,400	8,200,650
<b>Sub-Total</b>	<b>1,580</b>	<b>601,020</b>	<b>650,167</b>	<b>1,207,883</b>	<b>1,528,600</b>	<b>4,211,400</b>	<b>8,200,650</b>
<b>8. Program Administration and Audits</b>							
(a) Program Administration (MCA-M)	(123,196)	2,541,862	1,518,864	1,422,695	1,267,358	1,276,086	7,903,669
(b) Fiscal Agent	1,797,989	1,342,011	1,340,000	1,340,000	1,340,000	1,340,000	8,500,000
(c) Procurement Agent	918,000	2,082,000	1,300,000	1,200,000	1,000,000	1,000,000	7,500,000
(d) Audit	0	390,000	376,250	376,250	376,250	419,250	1,938,000
(e) Environment & Social Oversight Consultant	0	840,000	385,000	269,500	110,000	110,000	1,714,500
<b>Sub-Total</b>	<b>2,592,793</b>	<b>7,195,873</b>	<b>4,920,114</b>	<b>4,608,445</b>	<b>4,093,608</b>	<b>4,145,336</b>	<b>27,556,169</b>
<b>9. Contingency</b>							
Contingency			1,081,893	1,442,525	2,524,418	2,163,787	7,212,623
<b>Sub-Total</b>			<b>1,081,893</b>	<b>1,442,525</b>	<b>2,524,418</b>	<b>2,163,787</b>	<b>7,212,623</b>
<b>Total Estimated MCC Contribution</b>	<b>2,764,927</b>	<b>14,839,224</b>	<b>53,845,507</b>	<b>86,524,174</b>	<b>79,782,358</b>	<b>47,155,173</b>	<b>284,911,363</b>

<sup>1</sup> The above incorporates approved adjustments among activities or projects in Years 1 and 2, and unused portions of CIF funds rolled into Year 1. Any negative numbers are the result of such adjustments and do not reflect contributions of the Government.

**EXHIBIT C**  
**ANNEX III (SUMMARY OF MONITORING AND EVALUATION PLAN)**

## ANNEX III

### SUMMARY OF MONITORING AND EVALUATION PLAN

This Annex III to the Compact summarizes the components of the plan to measure and evaluate progress toward achievement of the Compact Goal and the Project Objectives (the “*M&E Plan*”).

#### 1. Overview.

MCC and the Government shall formulate and agree to, and the Government shall implement or cause to be implemented, the M&E Plan that specifies (a) how progress toward the Compact Goal, Project Objectives and the intermediate results of each Project and Project Activity set forth in this Annex III (“*Outcomes*”) will be monitored (“*Monitoring Component*”), (b) a methodology, process and timeline for the evaluation of planned, ongoing, or completed Projects and Project Activities to determine their efficiency, effectiveness, impact and sustainability (“*Evaluation Component*”) and (c) other components of the M&E Plan described below.

Information regarding the Program’s performance, including the M&E Plan, and any amendments or modifications thereto, as well as periodically generated reports, shall be made publicly available on MCA-Mongolia’s website and elsewhere. The Compact Goal, Project Objectives and Outcomes can be summarized as follows:

Compact Goal	Project Objectives
Poverty Reduction through Economic Growth	<p><b>NS Road Project Objective:</b> More efficient transport for trade and access to services  <b>Outcomes:</b> (1) Increased Traffic, (2) Decreased travel times, (3) Decreased vehicle operating costs, and (4) Decreased road roughness</p>
	<p><b>Property Rights Project Objective:</b> Increase the security and capitalization of land assets held by lower-income Mongolians, and increase peri-urban herder productivity and incomes  <b>Outcomes:</b> (1) Increased land right formalization and (2) optimized peri-urban rangeland carrying capacity and range management</p>
	<p><b>Vocational Education Project Objective:</b> Increase employment and income among unemployed and underemployed Mongolians  <b>Outcome:</b> Improved quality and relevance of TVET System</p>
	<p><b>Health Project Objective:</b> Reduce the risk and incidence of premature death and disability from NCDs  <b>Outcomes:</b> (1) Improved National and Local response to NCD, (2) Increased understanding of NCDI prevention, and (3) Increased availability of sound NCDI services</p>
	<p><b>Energy and Environment Project Objective:</b> Increased wealth and productivity through greater fuel use efficiency and decreasing health costs from air pollution in Ulaanbaatar.  <b>Outcomes:</b> (1) Reduced incidence of respiratory-related morbidity, (2) Reduced fuel consumption, (3) Increased energy efficiency, (4) Substitution of wind power for additional coal-fired power generation capacity, (5) improved power quality.</p>

## 2. Monitoring Component.

To monitor the progress toward the achievement of the Compact Goal, Project Objectives and Outcomes, the Monitoring Component of the M&E Plan shall identify (a) the Indicators, (b) the persons responsible, the timeline, and the instrument for collecting data and reporting on each Indicator to MCA-Mongolia, and (c) the method by which the reported data will be validated.

(a) **Indicators.** The M&E Plan shall measure the impacts of the Program using objective and reliable information (“**Indicators**”). Each Indicator shall have one or more expected values that specify the expected results and time for the impacts to be achieved (“**Target**”). The M&E Plan shall measure and report on Indicators at four levels. First, the Indicators at the Compact Goal level (“**Goal Indicator**”) shall measure the impact of the overall Program and each Project. Second, the Indicators at the Project Objectives level (“**Objective Indicator**”) shall measure the final results of each of the Projects, including impacts on the intended beneficiaries identified in Annex I (collectively, the “**Beneficiaries**”). Third, Indicators at the intermediate level (“**Outcome Indicator**”) shall measure the results achieved under each of the Project Activities and will provide an early measure of the likely impact under each of the Projects. A fourth level of Indicators (“**Output Indicator**”) shall be included in the M&E Plan to measure the direct outputs of Project Activities. Indicators shall be disaggregated by sex, income level and age, to the extent practicable. Subject to prior written approval from MCC, MCA-Mongolia may add Indicators or modify the Targets of existing Indicators.

Indicators: Property Rights Project (Improvement of Land Privatization and Registration System Activity & Privatization & Registration of Ger Area Land Plots Activity)				
Objective-level result	Objective Indicator	Definition of Indicator	Baseline	Year 5 Target
Increased capitalization of land assets	Immovable property value of <i>hashaa</i> plots (2007 US\$/sq. meter)	Average sales price of <i>hashaa</i> plot per square meter in Ulaanbaatar	7.28	8.23
		Average sales price of <i>hashaa</i> plot per square meter in target communities outside Ulaanbaatar <sup>2</sup>	2.44	2.62
	Households accessing bank credit	Number of <i>hashaa</i> plot owners in Ulaanbaatar who are using their <i>hashaa</i> plots as collateral. <sup>3</sup>	6,400	23,400
Output-level result	Output Indicator	Definition of Indicator	Baseline	Year 5 Target
Increased land right formalization	<i>Hashaa</i> plots directly registered by the Property Rights Project	Cumulative number of <i>hashaa</i> plots registered by contractors of MCA-Mongolia	0	75,000

<sup>2</sup> Average figure of 2.44 US\$/sq meter represents 4 out of 8 non-Ulaanbaatar communities; the baseline will be completed under the Compact.

<sup>3</sup> Baseline of 6,400 owners currently using their plots as collateral will be substantiated and possibly revised during Year 1 of the Compact. If the baseline is revised, the target will be modified proportionally.

<b>Indicators: Property Rights Project (Peri-Urban Land Leasing Activity)</b>				
<b>Objective-level result</b>	<b>Objective Indicator</b>	<b>Definition of Indicator</b>	<b>Baseline</b>	<b>Year 5 Target</b>
Increased herder household income	Income of herder households on long-term lease land	Total income of herder households on long term leased land	TBD	TBD
Increased peri-urban herder productivity	Herd mortality rate	Annual mortality rate of cattle	5.7	4.6
	Liters of milk per cow	Annual average liters of milk per cow on semi-intensive project farms	260	967
		Annual average liters of milk per cow on intensive project farms	260	1,950
<b>Outcome-level result</b>	<b>Outcome Indicator</b>	<b>Definition of Indicator</b>	<b>Baseline</b>	<b>Year 5 Target</b>
Optimize peri-urban rangeland carry capacity and range management	Number of herder groups adopting intensive farm management techniques	Number of settlements meeting the following criteria: (i) sheep units per 100 ha of pasture is +/- 20% of recommended carrying capacity for intensive farm, (ii) livestock is predominately (75%+) cows, and (iii) hay stored at beginning of winter season is at least 180 days of dairy herd requirement.	0	46
	Number of herder groups adopting semi-intensive farm management techniques	Number of settlements meeting the following criteria: (i) sheep units per 100 ha of pasture is +/- 20% of recommended carrying capacity for semi-intensive farm, and (ii) hay stored at beginning of winter season is at least 30 days of dairy herd requirement.	0	419

<b>Indicators: Vocational Education Project</b>				
<b>Objective-level result</b>	<b>Objective Indicator</b>	<b>Definition of Indicator</b>	<b>Baseline</b>	<b>Year 5 Target</b>
Increased Income	Annual salary (2007 US\$)	Average annual salary of employed graduates who completed new curriculum one year after graduation (targets are set using a percentage increase over Year 3 level when a new baseline will be taken) <sup>4</sup>	1,237	1,336
Increased Employment	Rate of employment	Employment rate of graduates who completed new curriculum one year after graduation (targets are set using a percentage increase over Year 3 level when a new baseline will be taken) <sup>5</sup>	71%	75%
<b>Outcome-level result</b>	<b>Outcome Indicator</b>	<b>Definition of Indicator</b>	<b>Baseline</b>	<b>Year 5 Target</b>
Improved quality and relevancy of TVET system	Non-governmental funding of vocational education	Percentage of non-governmental funding out of all funding for the Ministry of Education, Culture and Science and the Ministry of Social Welfare and Labour vocational education institutions.	1%	15%
	Students completing newly designed long-term programs	Number of students who successfully receive certification from newly designed long-term programs (annual)	0	10,600
	Certified vocational education teachers	Percent of total teaching staff successfully completing the certification exam.	0%	80%
<b>Output-level result</b>	<b>Output Indicator</b>	<b>Definition of Indicator</b>	<b>Baseline</b>	<b>Year 5 Target</b>
Improved quality and relevance of TVET system	Percent of active teachers receiving certification training	Percent of active teachers receiving certification training regardless of pass/fail status	0%	100%

<sup>4</sup> Target is a weighted average for all students. Wages are expected to increase by 9% and 3% for employed graduates of regional methodological centers and other VTE schools respectively.

<sup>5</sup> Target is a weighted average for all students. Employment is expected to increase by 5% and 1% for graduates of regional methodological centers and other VTE schools respectively.

Indicators: North-South Road Project				
Objective-level result	Objective Indicator	Definition of Indicator	Baseline	Year 5 Target
More efficient transport for trade and access to services	Annual Average Daily Traffic	Average number of vehicles per day, over different times (day and night) and over different seasons to arrive at an annualized daily average. (Weighted average across two separate sections, Ulaanbaatar-Nalaih and Choir-Sainshand/ 35th RW Crossing.)	625	1782
	Vehicle operating cost savings	The VOCs are calculated from a composite of vehicle use costs prices ( <i>e.g.</i> , parts, wear and tear, fuel consumption, etc.) that are a function of road conditions, to obtain a cost per km to the driver. This is multiplied by traffic volume for total savings.	TBD	TBD
	Travel Time	Total time to drive from Ulaanbaatar to Zamiin-Uud (including non-project sections). It is considered in terms of passenger hours during working and nonworking time, and cargo holding hours	13 hours, 50 min	8 hours, 20 min
Outcome-level result	Outcome Indicator	Definition of Indicator	Baseline	Year 5 Target
Decreased International Roughness Index (IRI)	Decreased International Roughness Index (IRI)	Measure of the roughness of the road surface, in meters height per kilometer of distance traveled. IRI is a proxy for vehicle operating costs. (Weighted average across two separate sections.)	11.0	2.0

Indicators: Health Project				
Objective-level result	Objective/Outcome Indicator	Definition of Indicator	Baseline	Year 5 Target
Reduced risk and incidence of premature death and disability from NCDs	Increased productive years of workforce	Disability adjusted life-years (DALY) related to NCDs	TBD	TBD
	Increased productive years of workforce	Increased life expectancy (mean, at birth)	67.2	67.4
	Mortality due to traffic road injuries reduced	Number of road deaths in UB	562	495
	Treatment of diabetes increased	Percent of cases of diabetes treated by medication or life-style advice ( <i>e.g.</i> healthy diet)	TBD	TBD
	Treatment of hypertension increased	Percent of cases of hypertension treated by medication or life-style advice ( <i>e.g.</i> healthy diet)	TBD	TBD

The M&E Plan will also include specific indicators demonstrating knowledge, attitudes, and practice regarding NCDI risk factor reduction among target demographics. These indicators will capture the Outcome of “Increased Awareness of NCDIs.” These indicators will be determined during Year 2 as studies on the best intervention strategies are concluded.

Indicators: Energy and Environment Project				
Objective-level result	Objective Indicator	Definition of Indicator	Baseline	Year 5 Target
Increased wealth and productivity	Decreased fuel use	Household average annual fuel use. Measurement TBD	TBD	TBD
	Decreasing health costs from air pollution in Ulaanbaatar.	Annual health costs related to ambient air. Measurement TBD	TBD	TBD
Outcome-level result	Outcome Indicator	Definition of Indicator	Baseline	Year 5 Target
Decreased incidence of respiratory-related morbidity	TBD	TBD	TBD	TBD
Reduced fuel consumption	Increased energy efficiency	Fuel consumption per unit of energy, average across target user groups	TBD	TBD
	Reduced fuel consumption	TBD	TBD	TBD
Improved power quality	Estimated power loss	TBD	TBD	TBD
Increase in capacity from cleaner power generation	TBD	TBD	0	TBD

(b) Data Collection and Reporting. The M&E Plan shall establish guidelines for data collection and a reporting framework, including a schedule of Program reporting and responsible persons. The Technical Secretariat of MCA-Mongolia shall conduct regular assessments of Program performance to inform the Board of MCA-Mongolia and MCC of progress under the Program and to alert them of any problems. These assessments shall report the actual results compared to the Targets on the Indicators referenced in the Monitoring Component, explain deviations between these actual results and Targets, and in general, serve as a management tool for implementation of the Program. MCA-Mongolia shall deliver any data or reports received by MCA-Mongolia promptly to MCC along with any other related documents, as specified in the M&E Plan or as may be requested from time to time by MCC.

(c) Data Quality Reviews. As determined in the M&E Plan or as otherwise requested by MCC, the quality of the data gathered through the M&E Plan shall be reviewed to ensure that data reported are as reliable, timely and valid as resources allow. The objective of any data quality review shall be to verify the quality and the consistency of performance data, across different implementation units and reporting institutions. Such data quality reviews shall also serve to identify where consistent levels of quality are not possible, given in-country capacity or other constraints. MCA-Mongolia shall enter into an agreement, in a form acceptable to MCC, with the reviewer to fulfill the provisions set forth in paragraph 1 of this Annex III and this clause (c).

### 3. Evaluation Component.

Projects shall be evaluated on the extent to which the interventions contribute to the Compact goals. The Evaluation Component of the M&E Plan shall contain methodologies, processes and timelines for collecting and analyzing data in order to assess planned, ongoing, or completed Project activities to determine their efficiency, effectiveness, impact and sustainability. The evaluations should use state-of-the-art methods for addressing selection bias. The Government shall implement, or cause to be implemented, surveys to collect longitudinal data on both Beneficiary and non-Beneficiary households. The Evaluation Component shall contain plans for Final Evaluations and Ad Hoc Evaluations.

(a) Final Evaluation. Either MCC or MCA-Mongolia shall engage one or more independent evaluators to conduct final evaluations of projects (“*Final Evaluation*”). The

evaluation methodology, timeline, data collection, and analysis requirements shall be finalized and detailed in the M&E Plan. The Final Evaluations shall at a minimum (i) estimate quantitatively and in a statistically valid way, the causal relationship between the Compact Goals (to the extent possible), the Project Objectives and Outcomes; (ii) determine if and analyze the reasons why the Compact Goals, Project Objectives and Outcomes were or were not achieved; and (iii) assess the overlapping benefits of the Projects.

(b) Ad Hoc Evaluations or Special Studies. Either MCC or MCA-Mongolia may request ad hoc or interim evaluations or special studies of Projects, Project Activities, or the Program as a whole prior to the expiration of the Compact Term (each, an “*Ad Hoc Evaluation*”). If MCA-Mongolia engages an evaluator for an Ad Hoc Evaluation, the evaluator shall be an externally contracted independent source selected by MCA-Mongolia, subject to the prior written approval of MCC, following a tender in accordance with the MCC Program Procurement Guidelines, and otherwise in accordance with any relevant Implementation Letter, the Program Implementation Agreement or any other related agreement or arrangement. If MCA-Mongolia requires an ad hoc independent evaluation or special study at the request of the Government for any reason, including for the purpose of contesting an MCC determination with respect to a Project or Project Activity or seeking funding from other donors, no MCC Funding or MCA-Mongolia resources may be applied to such evaluation or special study without MCC’s prior written approval.

#### **4. Other Components of the M&E Plan.**

In addition to the Monitoring Components and the Evaluation Components, the M&E Plan shall include the following components for the Program, Projects and Project Activities, including, where appropriate, roles and responsibilities of the relevant parties and Providers:

(a) Costs. A detailed annual budget estimate for all components of the M&E Plan.

(b) Assumptions and Risks. Any assumptions and risks external to the Program that underlie the accomplishment of the Project Objectives and Outcomes; *provided* that such assumptions and risks will not excuse performance of the Parties, unless otherwise expressly agreed to in writing by the Parties.

#### **5. Implementation of the M&E Plan.**

(a) Approval and Implementation. The approval and implementation of the M&E Plan, as amended from time to time, will be in accordance with the Annex I, this Annex III, the Program Implementation Agreement and any other related agreement or arrangement.

(b) Stakeholders’ Committee. The completed portions of the M&E Plan shall be presented to the Stakeholders’ Committee at its initial meeting, and any amendments or modifications to and any additional components of the M&E Plan shall be presented to the Stakeholders’ Committee at its appropriate subsequent meetings. The Stakeholders’ Committee shall have the opportunity to present its suggestions to the M&E Plan, which the Board of MCA-Mongolia will take into consideration in its review of any amendments to the M&E Plan during the Compact Term.

(c) Disbursement Conditions. A condition to each Disbursement shall be satisfactory progress on the M&E Plan for the relevant Project or Project Activity, and substantial

compliance with the M&E Plan, including any reporting requirements. In addition, for certain activities, collection of baseline data may be a condition precedent for specified Disbursements.

(d) Modifications. Notwithstanding anything to the contrary contained in this Compact, including the requirements of this Annex III, the Parties may modify or amend the M&E Plan or any component thereof, including those elements described herein, without amending this Compact; *provided, however*, that any such modification or amendment of the M&E Plan shall be reviewed by the Stakeholders' Committee and has been approved by MCC in writing and is otherwise consistent with the requirements of this Compact, the Project Objectives, the Program Implementation Agreement and any other related agreement or arrangement.

**EXHIBIT D**  
**ANNEX IV (DEFINITIONS)**

## ANNEX IV DEFINITIONS

***Ad Hoc Evaluation** has the meaning provided in paragraph 3(b) of Annex III.*

***ADB** means the Asian Development Bank.*

***Audit Guidelines** has the meaning provided in Section 3.8(a).*

***Bank** has the meaning provided in paragraph 3(a) of Part G of Annex I.*

***Beneficiaries** has the meaning provided in paragraph 2(a) of Annex III.*

***Board** has the meaning provided in paragraph 2(a)(i) of Part G of Annex I.*

***Compact** has the meaning provided in the Preamble.*

***Compact Goal** has the meaning provided in Section 1.1.*

***Compact Implementation Funding** has the meaning provided in Section 2.2(a).*

***Compact Records** has the meaning provided in Section 3.7(a).*

***Compact Term** has the meaning provided in Section 7.4.*

***Covered Provider** has the meaning provided in Section 3.7(c).*

***CRETN** means the national transmission company of Mongolia.*

***Disbursement** has the meaning provided in Section 2.3.*

***EMP** means an environmental management plan.*

***Energy and Environment Project** means the Project described in Part F of Annex I.*

***Evaluation Component** has the meaning provided in paragraph 1 of Annex III.*

***Final Evaluation** has the meaning provided in paragraph 3(a) of Annex III.*

***Fiscal Agent** has the meaning provided in paragraph 3(b) of Part G of Annex I.*

***Goal Indicator** has the meaning provided in paragraph 2(a) of Annex III.*

***Government** has the meaning provided in the Preamble.*

***Health Project** means the Project described in Part D of Annex I.*

***IAS** means the standards issued by the International Accounting Standards Board and include International Accounting Standards, International Financial Reporting Standards and interpretations of each.*

***Implementation Letter** has the meaning provided in Section 3.5.*

***Indicators** has the meaning provided in paragraph 2(a) of Annex III.*

***Inspector General** has the meaning provided in Section 3.8(a).*

***LMIS** has the meaning provided in paragraph 2(d) of Part C of Annex I.*

***M&E Plan** has the meaning provided in Annex III.*

***MCA-Mongolia** has the meaning provided in paragraph 2(a) of Part G of Annex I.*

***MCC** has the meaning provided in the Preamble.*

**MCC Environmental Guidelines** has the meaning provided in Section 2.6(c).

**MCC Funding** has the meaning provided in Section 2.1.

**MCC Indemnified Party** has the meaning provided in Section 6.7.

**MCC Program Procurement Guidelines** has the meaning provided in Section 3.6.

**MCC Website** has the meaning provided in Section 2.6.

**MCEEIF** has the meaning provided in paragraph 2(a) of Part F of Annex I.

**Monitoring Component** has the meaning provided in paragraph 1 of Annex III.

**National Council** means the MCA National Council that was established by the Government, with high-level representation from the Government, civil society and the private sector to develop a proposal for MCC assistance to Mongolia.

**NCC** has the meaning provided in paragraph 4 of Part F of Annex I.

**NCDI** has the meaning provided in Section 1.2(d).

**NCVET** has the meaning provided in paragraph 2(a)(ii) of Part C of Annex I.

**NDC** has the meaning provided in paragraph 2(b)(ii) of Part F of Annex I.

**Network Upgrades** has the meaning provided in paragraph 2(b)(ii) of Part F of Annex I.

**North-South Road Project** means the Project described in Part E of Annex I.

**Objective Indicator** has the meaning provided in paragraph 2(a) of Annex III.

**Outcome Indicator** has the meaning provided in paragraph 2(a) of Annex III.

**Outcomes** has the meaning provided in paragraph 1 of Annex III.

**Output Indicator** has the meaning provided in paragraph 2(a) of Annex III.

**Parties** has the meaning provided in the Preamble.

**Permitted Account** has the meaning provided in Section 2.3.

**Principal Representative** has the meaning provided in Section 4.2.

**Procurement Agent** has the meaning provided in paragraph 3(c) of Part G of Annex I.

**Program** has the meaning provided in the Preamble.

**Program Implementation Agreement** has the meaning provided in Section 3.1.

**Project** has the meaning provided in paragraph 2 of Part A of Annex I.

**Project Activity** means the various activities to be undertaken in the implementation of particular Projects, including:

- with respect to the Property Rights Project, the:
  - **Improvement of the Land Privatization and Registration System Activity,**
  - **Privatization & Registration of Ger Area Land Plots Activity, and**
  - **Peri-Urban Land Leasing Activity;**
- with respect to the Vocational Education Project, the:
  - **Reforms to TVET Policy and Operational Framework Activity,**
  - **Creation of Skills Standards and Competencies System Activity,**
  - **Competency-Based Training System Activity,**

- **Career Guidance and Labor Market Information Systems Activity, and**
- **Improvement of Learning Environments Activity;**
- *with respect to the Health Project, the:*
  - **NCDI Capacity Building Activity,**
  - **NCDI Prevention Activity,**
  - **NCDI Early Detection Activity, and**
  - **NCDI Management Activity;**
- *with respect to the North-South Road Project, the:*
  - **Choir-Sainshand Road Activity,**
  - **Bayanzurkh Bridge and Road Activity, and**
  - **Technical Assistance Activity; and**
- *with respect to the Environment and Energy Project, the:*
  - **Millennium Challenge Energy Efficiency Innovation Facility,**
  - **Wind Activity, and**
  - **Public Awareness Activity.**

**Project Objective** has the meaning provided in Section 1.2.

**Property Rights Project** mean the Project described in Part B of Annex I.

**Provider** has the meaning provided in Section 3.7(c).

**Road Fund** has the meaning provided in paragraph 6 of Part E of Annex I.

**Stakeholders' Committee** has the meaning provided in paragraph 2(e) of Part G of Annex I.

**Target** has the meaning provided in paragraph 2(a) of Annex III.

**Taxes** has the meaning provided in Section 2.7(a).

**Technical Secretariat** has the meaning provided in paragraph 2(a)(ii) of Part G of Annex I.

**TVET** has the meaning provided in paragraph 2(a) of Part C of Annex I.

**Vocational Education Project** means the Project described in Part C of Annex I.

**VPTC** has the meaning provided in paragraph 2(c)(i) of Part C of Annex I.

**WHO** has the meaning provided in paragraph 4 of Part D of Annex I.