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REDUCING POVERTY THROUGH GROWTH

Transcript

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Millennium Challenge Corporation hosts a public outreach event on Mongolia

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Minister of Trade and Industry,
Mongolia

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Ms. Enkhtuya,
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National Council for Mongolia's MCA Account

Remarks

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MCLEAN: Good afternoon, everyone. My name is Matt McLean. I'm currently chief of staff at the Millennium Challenge Corporation, and now acting vice president for congressional public affairs.

Welcome to our event here to spotlight the Mongolia Compact of \$285 million between the Millennium Challenge Corporation and Mongolia.

Mongolia marks our fifteenth compact that countries have successfully developed and signed with the Millennium Challenge Corporation. In just 3.5 years, MCC has committed over \$5 billion to fight poverty in Africa, Latin America, Eurasia and the Pacific. And while Mongolia is our fifteenth compact, it is the first to be signed by President Bush -- yesterday in the Roosevelt Room, just outside the Oval Office at the White House -- which we're very proud of.

I might add, I'm particularly and personally pleased to see the Mongolia Compact signed yesterday. I had the opportunity to go out to Ulaanbaatar and visit with the MCC team in July of 2006, in the early stages. And I really fell in love with the country. I was able to sneak out for an extra day that was the -- I think it was the 800th anniversary celebration of Genghis Kahn, which there is a great celebration out in the countryside, and it was terrific to be there.

But congratulations to Mongolia, and also to Mongolia and the MCC teams for working through the process to get us to today, with a signed compact of \$285 million.

Let me outline how we will proceed today. First, we will hear from the MCC's CEO, Ambassador John Danilovich. We will then be pleased to hear from Mongolia's minister of industry and trade, Minister Davaadorj. And we'll take a few questions at that time.

We'd like to also welcome some other members of the Mongolian delegation. Mr. Daandaag (ph), who is the chairman of the standing committee on government affairs of the parliament of Mongolia, and the head of the Mongolia-USA Parliamentary Caucus. And also, Mr. Waambaat (ph), who is a member of the Mongolian parliament. So, welcome also.

These remarks will be followed by a panel presentation, and we'll proceed to that point.

Proceedings today will be taped, and they'll be available for viewing on the MCC Web site.

And with that, I would like to introduce and ask to come for his remarks, our CEO of Millennium Challenge Corporation, Ambassador John Danilovich.

DANILOVICH: Thank you very much, Matt. And welcome, everyone, to the MCC headquarters here in Washington.

It's a terrific turnout. We're very impressed and very pleased that you could spend some of your afternoon with us today to discuss our partnership with Mongolia.

It's an honor to be joined by Mongolia's minister for trade and industry, Mr. Davaadorj, and distinguished members of the Mongolian delegation.

The Millennium Challenge Corporation is very proud to partner with the people and the government of Mongolia, to make the promise of poverty reduction and economic growth a reality. The MCC Mongolia Compact—worth nearly \$285 million, which we signed yesterday at the White House—reflects that partnership and reflects a common vision for progress and development.

When Congress created the Millennium Challenge Corporation in January of 2004, it tasked us with doing exactly the kind of work we are doing in our partnership with Mongolia. Congress gave us one mission. And with Congress' support with sufficient funding, we will continue to fulfill that mission; namely, to reduce poverty through economic growth, and to do so in partnership with those countries committed to good governance, to investment in the health and education of their people, and to promoting economic freedom.

To-date, the MCC has awarded nearly \$5 billion in signed compacts with 15 countries in Africa, Central America, Eurasia and the Pacific. Our partner countries must own and lead their development efforts. They must consult with their citizens to identify the greatest barriers to poverty reduction and economic growth. They must develop their proposal for overcoming these constraints, and then implement their proposal to deliver tangible results in the lives of the poor.

The MCC Mongolia Compact is an outstanding product of this process, which Mongolia has embraced with extensive input from its citizens. Today's panel will go into greater detail. But I would like to highlight the four key components of the Mongolia MCC Compact, and how they send a crystal-clear message that the business and investment climate in Mongolia is swiftly improving and worthy of the private sector's attention.

First, the compact with Mongolia provides \$188 million to improve the efficiency and capacity of the railway system. Mongolia's rail system is the transportation backbone of the country, contributing more to GDP than it does in any other country. The rail system moves 97 percent of the ton-kilometers of freight transport in Mongolia.

Updating the current system -- which is seriously hamstrung by antiquated infrastructure, equipment and practices -- will generate economic growth, (inaudible) to (ph) poverty reduction and sustainable development. Modernizing the rail sector will open up new opportunities for domestic and foreign trade and investment, and create new jobs.

Second, the compact allocates more than \$22 million to improve the ability of Mongolians to register and obtain clear title to their land. Through property ownership, investments in home improvement, business activities and agricultural productivity will increase, leading to higher incomes for the poor.

It will also facilitate access to credit, since the poor can use their land as a secure source of collateral, which will strengthen local financial markets.

Third, the compact invests about \$26 million in vocational education to serve the demands of modern, private sector-led economy. The compact will translate career training into income-earning jobs for Mongolians, especially the young, the unemployed and the marginally employed. With these vocational skills, Mongolians will be equipped to compete in the modern, market-driven economy.

And fourth, the compact provides more than \$17 million to help extend the productive years of the Mongolian work force through life-saving health initiatives. Poor health caused by non-communicable diseases and injuries, including cardiovascular disease, diabetes, cancers and injury-induced trauma -- all of which are on the rise in Mongolia -- negatively impacts profitability and productivity. Disease screening, detection, prevention and management will improve public health. Good health is vital to the productivity of the individual Mongolians and the Mongolian economy as a whole.

We expect the rail and health projects will have an economy-wide impact in Mongolia, and some 1.5 million Mongolians will directly benefit from the health, vocational educational and property rights components of this compact.

As a whole, these strategic projects unleash the potential of critical human, institutional and physical resources that are key to Mongolia's efforts to broaden and deepen and sustain its economic development. In these ways, the lives of the poor will improve. In these ways, Mongolia can use its MCC partnership to signal to the private sector, both domestic and international, that the opportunities for investment and trade will be increasing. This will help stimulate homegrown entrepreneurship, small business develop and increase trade.

I invite the business community to look carefully at MCC investments in Mongolia and use them for complementary or parallel investments of your own. This is the best way to build upon the economic reforms Mongolia has already embraced to establish an open, market-based economy. This is the best way to further economic opportunities created through trade.

This is the best way to help Mongolia, like all MCC partner countries, transition from dependence on foreign assistance to the independence of sustainable, investment-driven development.

MCC assistance lays the groundwork for private enterprise. And when private enterprise takes root and thrives, it becomes the true engine fueling poverty reduction and sustainable economic growth.

This is good for the future of Mongolia and the prosperity of Mongolians, and this is exactly why the Millennium Challenge Corporation welcomes partnering with the private sector of Mongolia and with other partner countries worldwide.

It is now my pleasure to introduce Mongolia's minister of industry and trade, Mr. Davaadorj. Before serving his country in his current capacity, the minister began his career as a professor and has worked in the private sector, including for a Mongolian-German joint venture.

Mr. Minister, please? Thank you.

(APPLAUSE)

DAVAADORJ: Thank you.

Your Excellency, Ambassador -- Your Excellency, Ambassador Danilovich, ladies and gentlemen, first of all I would like to extend my sincere gratitude on behalf of the people of Mongolia to the Millennium Challenge Corporation and each (ph) board of directors for their support and assistance to be provided throughout the implementation of the compact which has been signed by the presidents of our two countries.

In the past 15 years, Mongolia has struggled to implement fundamental changes in its economic system to become an open, dynamic, market economy. As a result of (inaudible) funds (ph), positive indicators have begun to emerge. The economy grew 7 percent in 2005, and 8.4 percent in 2006 in real terms.

Inflation stood at 4.6 percent at the end of 2006. The private sector accounted for around 80 (ph) percent of GDP in 2006. Foreign direct investment to Mongolia has been constantly increasing in the past few years, and it saw a four-fold increase compared to 2000 by the end of 2006. Trade accounts for 25 to 30 percent of GDP.

Since 1990, more than 6,000 foreign investors and investment companies from 93 countries have been registered and successfully operating in Mongolia. Investors from China, Canada, South Korea, USA, Japan and Russia are leading in the amount of investment. The leading sector in terms of foreign direct investment are mining, raw material processing, construction and banking.

Ladies and gentlemen, since Mongolia's succession to the WTO in 1997, we have substantially liberalized our trade and investment regimes. Mongolia imposes uniform 5 percent duties on all imported goods, and it doesn't impose export taxes, except for certain raw materials of particular importance to domestic industries, such as (inaudible), cashmere, iron, copper, aluminum, (inaudible) and wood.

Our country doesn't impose voluntary (ph) product (ph) measures (ph) such as import prohibition and licensing requirements, except for those international permitted ones.

Like many developing and least developed countries, we will export primarily commodities such as minerals and agricultural products. Those account for about 60 percent of total export. However, the government policy that it will support investments that export not raw materials, such as ores and concentrates, but (inaudible) processing and produce (inaudible) products.

Some Mongolian export items enjoy preferential tariffs under the (inaudible) of the USA and Europe, Canada and Japan. That is (inaudible).

The country need (ph) of (ph) firms (ph) to improve their competitiveness by expanding into new markets, reducing costs in the extraction (ph) of (ph) natural resources and strategic resource (ph). (inaudible) ongoing trade liberalization and overall globalization projects provide strong incentives for further foreign direct investment to developing countries.

Intense competitive pressure in many industries are leading (ph) firms to explore new ways of improving their competitiveness. Higher prices for commodities have further stimulated foreign direct investment to countries that are rich in natural resources, have liberal and open economy with young and educated work force.

I firmly believe that Mongolia could be such a place for those who are exploring those new ways to improving the competitiveness in today's rapidly globalizing world.

Mongolia has large mineral resources, and, thus, great potential for the development of the geology mining sector in Mongolia. Recent favorable world price on minerals have been (inaudible) impacting the (inaudible) of mining (inaudible) in Mongolia, attracting more investment into this sector.

Mongolia possesses a large mineral potential. Currently, over 6,000 mineral deposits and occurrences of 80 types of minerals have been discovered. Exploration has expanded year by year, leading to a number of new discoveries of copper, coal, gold, uranium and other types (ph) of minerals.

Mineral production accounts for almost 70 percent of industrial output, 50 (ph) percent of foreign direct investment, and 60 percent of Mongolia's export earning.

Presently (ph), (inaudible) draw on minerals, while (inaudible) to create a favorable legal basis for better and effective use of minerals to support processing industry, which produces more value-added products.

(inaudible) a new definition of strategic deposits in the foreign investments, investing in the strategic deposits may conclude an investment agreement with the government of Mongolia that will be a legal (ph) basis (ph) for investors in running several business activities in the long-term.

Currently, more than 25 foreign and joint ventures are performing exploration and mining activities in Mongolia.

The parliament has approved a list of 15 strategically important deposits, according to the amended law. A working group appointed by the government of Mongolia has started (ph) (inaudible) deliberation to the parliament, investment agreements with regard to two deposits -- oil (ph) (inaudible), copper deposit and (inaudible) coking coal deposit. The (inaudible) of those other deposits are to make an enormous contribution in the economic development of Mongolia.

Foreign direct investment in the mining sector is expected to grow in the near future, as exploration results have exceeded expectation in certain areas. (inaudible) of transport and other investment in infrastructure will aid the integration of Mongolia's growing mining industry, with (ph) rapidly growing Chinese market. And thus, it could also be of particular interest to investors.

In order to support the economic growth and to create a more business-friendly environment, the latest tax reforms of the 15th of January this year lowered (ph) the general tax levels, including the corporate income and federated (ph) taxes by 5 percent and vowed (ph) to make a tax credit deductible (ph) base.

In addition to mining and quarrying (ph), the construction and communication sectors are attracting (inaudible) attention. Apart from this sector, there are other sectors with enormous potential to attract investments, such as the agri-food industry, light and heat (ph) industry, infrastructure and tourism, which were approved by the government in the list of priority sectors in 2006.

For instance, in the manufacturing sector, the production of environment-friendly (inaudible) fuel (ph), iron ore, iron products, pipe (ph), wire (ph), coal, gas and coke, (inaudible) other (ph) (inaudible) products, to name a few.

Ladies and gentlemen, let me briefly inform you on U.S. investment in Mongolia.

As of the end of 2006, over 150 joint ventures in (inaudible) companies have been operating in Mongolia. Fortunately (ph), United States is at the first place by foreign direct investment, and only (ph) the fifth in terms of the number of foreign investment enterprises in Mongolia.

Geological prospecting and mining sector is leading with its investment volume accounting for 29 percent of the total U.S. investment. Banking and financing sector is 13 percent, processing of animal originated raw materials is 8 percent, light industrial sector is 5 (ph) percent (ph).

The United States and Mongolia signed the trade and investment framework agreement in 2004, with the aim to develop and expand our bilateral trade and investment cooperation. And within this framework, our (inaudible) government bodies hold annual (ph) meetings on (inaudible) of trade and investment related issues.

Since last year, the Export-Import Bank of the United States helped in providing its services (inaudible) transactions in the public and private sectors in Mongolia, which creates an excellent opportunity for U.S. businesses to expand their activities toward Mongolia.

The government of Mongolia is (inaudible) concluding an agreement for the avoidance of double taxation and the operation of fiscal evaluation (ph) with respect to taxes on income and on capital with the United States.

The (inaudible) and (inaudible) served (ph) our expansion of trade investment in (inaudible) those countries. It is important that (inaudible) Mongolian and U.S. businesses (inaudible) this issue among the decision-makers in the United States.

I would like to encourage you to look into this and other existing favorable factors I have mentioned earlier, such as (inaudible), open trade, investment returns, (inaudible) financial and banking system, availability of resources, enabling (ph) position (ph) to rapidly developing economies in Asia.

So, for the end, I would like to (inaudible) geopolitical role of Mongolia is changing. You know that Mongolia was one of the (inaudible) countries surrounded by two giant neighbors and without a seaway and very far from market centers, you know. But the situation is changing.

The market change (ph) is going to us. There are -- you know that all the Arabian world, the mountain goes not to Mohammed; Mohammed comes to the mountain. So, it seems to be the market is coming to us and has surrounded us. And we are right at the middle of the fast-growing market. And the second (ph) with the unfettered (ph) natural resources (ph), we can grow.

And I think, and I believe that, of course, every country has a chance to grow and (inaudible). But not every country has a chance to (inaudible). And this is a Mongolia which has really a chance to (inaudible).

And let us together to make huge business between Russia and China, to meet (ph) this new challenge to do one of the hugest businesses in the new century.

Thank you for your attention.

(APPLAUSE)

So, if somebody has any question.

MCLEAN: The United States has often referred to Mongolia as "the third (ph) neighbor." And so, there might be some questions. We have members of our private sector -- (inaudible) private sector and other interested organizations here. The minister is able to stay a couple of minutes longer to ask -- to answer a couple of questions, if you have them. And we have a microphone, as well.

QUESTION: Good afternoon, Mr. Minister. How are you?

My name is Max (ph). I'm with TransNet (ph). We're a transportation and logistics company based out of Seattle. I have three questions. So, I don't know which one you want to address.

The first one is, the largest part of this compact is the railway portion. And is the intent -- we have visited Mongolia a few times this past year, because we have a great interest in investing there.

We estimate that there might be a need of upwards of \$7 billion to really upgrade the entire transportation network. We understand that you have already spent \$130 million to upgrade your own transportation system, and you're getting another \$189 (ph) million from the compact with MCC.

Is the idea for you to continue to use Russian standards in your railways? Or are you going to be changing that? Are you upgrading the current system, or are you building a whole new railroad adjacent to what you now have? We understand that you have 1,100 kilometers north-south and about 250 kilometers east-west.

So, are you going to upgrade the current Russian standards? Or are you going to be converting to a new standard?

DAVAADORJ: So, thank you for your question. It is, of course, a very important question.

Of course, from the railway system, it will be depending the processes of economic planning and the implementation of the huge deposits, et cetera. Of course, this logistic and other questions are key. And therefore, we should plan very carefully this.

And, of course, the key for this success, we give primary attention to this sector, railway. Otherwise -- well, you know, to transport future amount of coal and copper to the Chinese market and to market worldwide, we need a really strong railway system.

Of course, this is a (inaudible) of our economy. And so far, we should solve this problem properly -- two ways.

We will build a second line, a parallel line, maybe in Russian standard. And secondly, we will build new railways from (inaudible) directly to the Chinese border. And it will be an international standard line -- the Chinese conduct (ph) line -- to be more operative, et cetera. And maybe it will be not (ph) a separate line. Maybe it will be a 250-kilometer, so-called cert (ph) grade (ph) line, only for mining. So, it will be -- I think it will be optimal (ph).

Of course, there will be -- should, of course, increase the possibility to transfer this rail system, that line from the Chinese-Mongolian border, you know, we should solve this problem.

You know, the experience of Poland. They have some trains that are automatically changing, changed plans, and et cetera. They (ph) would (ph), of course, very important.

And so far, in many (ph) German projects, we included most attention to the railway system, of course.

MCLEAN: (off-mike). Any other questions.

QUESTION: Greetings and congratulations on the compact. My name is Betsy Batson (ph), and I'm with Chemonics International.

I know that a part of the compact will address needs in the health sector. And I'm wondering if you could share with us a little bit your thoughts about that, and how you see it supporting your overall goals for the health sector.

DAVAADORJ: Thank you.

So, we need a few things for development, of course. The first thing is investment. Second thing is technology. Third thing is our citizens or workers, of course. We need healthy, well-educated (ph) people. So far, this is the key.

And also, the aim of development should be targeted to our nation. And so, the health sector is one of the key parts in this agreement. And not only this, with this investment we will solve this problem. We will have a (inaudible) amount income from mining sector, of course. And there will be also in this (inaudible) 2003 (ph) we invested a huge amount to this sector.

But you know that we should very properly plan and to hold macroeconomical proportion of the investment, special investment from permit (ph) (inaudible) to industrial sector should be invested. Otherwise, it will be some kind of (inaudible) decision in the economy.

MCLEAN: (off-mike)

QUESTION: Thank you. Congratulations, Mr. Minister. This is a very happy occasion.

My name is Sandra Willett-Jackson (ph), and I've had the privilege of working with many women's organizations in Mongolia, civil society being an important component, as referenced earlier.

Would you please comment on the status and the plans of the government and civil society together (inaudible)? One is your efforts to curb corruption. And secondly, the status of the tax on foreign mining companies, including Russian and Chinese companies.

DAVAADORJ: Well, could you repeat the second part of your question?

QUESTION: Yes, sir. The second part of my question is commenting on the situation of taxing foreign companies, including Russian and Chinese companies, (inaudible), Canadian and potentially U.S., in the mining sector.

DAVAADORJ: I thank you for your question.

So, you know that Mongolia is actually more or less European society. And women, ladies are playing an important role in our country, and you see them here in this room -- a lot of ladies, business ladies here, who are strong enough to lead huge companies, et cetera.

So, if a decision -- of course, we (inaudible) as I recounted before. We reduced our taxes to 10 percent, and for small companies, and 25 (ph) percent for companies which has turnover more than US\$3 million.

So, it is the smallest tax in Asia. Again, (inaudible) around. So, we reduce it VAT (ph) the compact and also, et cetera.

As for mining taxes, we are one of the countries which can attract investment, of course. But we will not separate Chinese or Russian companies. They will be as other companies, treated in the same way, et cetera.

Government, we support every investments, even as I mentioned, the investment agreement, we included in my speech. And in (ph) real (ph) law (ph), in mineral law, we included the term of investment agreement, by (ph) investment agreement.

We will grant several (ph) governmental support, serious support, from the government side to investors. And this investment, again, it will be an advantage for project, not a disadvantage. And we will grant long-term contract stability of taxation. We will grant several special permissions, like using of water in very sensitive area of Gobi, et cetera. And it will be an advantage of the project.

One of the examples where the -- if you follow (ph) it -- investment agreement in working group, these Ivanhoe Mines. And we, right after discussing and negotiations on the working group level with Ivanhoe Mines at the end of March, then stockholders of Ivanhoe Mines increases (ph) rapidly (ph) in price. It shows that our policy is right. It shows that market (ph) (inaudible) was a positive. But even the government participation in the project, even the rule (ph) of mineral law, et cetera, it shows that really we are in right way to create winning (ph) situation.

And so, I would like to express my special thanks for your interest here, and especially for my friend -- to Mr. Khurelbaatar. He's a state secretary and finance minister. He was together with me. He is a leader of the working group, this written agreement with Ivanhoe Mines. And also, he plays a key role in this agreement -- the compact agreement, et cetera.

So, thank you.

MCLEAN: Thank you, Mr. Minister.

(APPLAUSE)

MCLEAN: We'd like to thank Mr. Davaadorj and Ambassador Danilovich for their remarks, and for his willingness to take a few questions.

We'd like to move to the panel now. Unfortunately, the ambassador and the minister, their schedule did not allow them to stay for the panel.

We would like to go ahead and transition to the panel session at this time.

We'd like to introduce to the -- you can come up now.

First on our panel -- we have a three-person panel. Mr. Khurelbaatar, who is the chair of the Mongolian National Council, and who had also played a lead role in developing Mongolia's compact with MCC.

Mr. Khurelbaatar started his career as a researcher, lecturer and economist. He served as the economic policy adviser to the prime minister, and is currently the state secretary in the ministry of finance. And he received his education both in Russia and also in Australia.

Ms. Enkhtuya, to his right, is secretary general of the National Council for Mongolia's MCA account, and has played a tremendous role in the development of Mongolia's compact, as well. Ms. Enkhtuya served as a member of Mongolia's parliament from 1996 to 2000, and has a strong background in civil society development.

She is one of her country's leading democracy activists, promoting accountability and transparency, as Mongolia has made the transition to democracy and a market economy. She studied in Germany and received her master's degree from American University here in Washington, D.C. So, welcome home. Right? OK.

And finally, Jim Hallmark. He serves as MCC's country director for Mongolia. Jim previously practiced corporate and securities law with the international law firm of VLA (ph) Piper, and was the assistant general counsel in charge of developing and negotiating the compacts we've previously had with Honduras and Nicaragua. He's leveraged that experience to work with the Mongolian team to develop the compact we're here today to spotlight.

Jim has both his undergraduate and law degrees from the University of Texas, but we don't hold that against him.

But with that, we'd like to begin with a few comments from each of our panelists, and then they'll be available to answer questions. And we'll go, starting here at the left.

KHURELBAATAR: Thank you. I would like to say a few comments about our compact and about Mongolia (inaudible) here. I think many people are not familiar with Mongolia.

Yesterday, our two presidents of our countries signed compact. It was a long process. The Mongolians and MCC side (inaudible) extent (ph) our (inaudible) working on developing this compact. And some people, just to repeat, (inaudible) that why it took so long for signing until today. Actually, we had two reasons to delay it.

The first reason is (inaudible) we wait, (inaudible) system we don't know.

(LAUGHTER)

So, actually, after a few years, we cannot (ph) translate (ph) in (ph) '85 (ph).

Second reason is that every year we wait, the more Americans came to Mongolia, and they learned about Mongolia more. And now, in this year, start and many other (inaudible) it cannot really be expressed on Mongolia.

So, for those two reasons, we actually delayed this process with (ph) intention (ph). So, we actually -- we actually -- and I in a winning (ph) situation with MCCA (ph).

Now, I think after signing, we are very happy. Here (ph) our thanks from MCC. And also, we have the Mongolian people who worked on this project, on this compact, really hard. And we are quite happy that at the end we have signed this compact.

I think with these \$285 million, the Mongolians will benefit more. However, it provides opportunity to the people who are sitting in this room. It means that it will provide opportunity for businesspeople. And I hope that starting from today, that many Americans will invest in Mongolia, work together with Mongolian investors to develop our relationship, and that the end, Mongolians will win. And also, of course, the investors will also benefit from this. And I think this is just the start.

Now, I would just to say this (ph) (inaudible) why (ph) we had certain goals for our projects. And many people, including the minister explained a lot about Mongolia. So, why it is important for Mongolia.

Mongolia is a landlocked country, and the contribution of the railway to our GDP is very high. And Mongolians are dependent on the railway. So, without improving it, it cannot build up our mines, it cannot build up other businesses. So, before development, we need to improve our infrastructure.

The last few years, Mongolia's growth is (ph) around 9 percent every year. So I think the railways really became a (inaudible) to our development. That's why we included a (inaudible) in our proposal. And I'm glad that (inaudible) imaging (ph). This was looked at very carefully and (inaudible). And I'm quite happy.

The second project is vocational education. As (inaudible) position (ph) of the secretary (ph), I have met (ph) many investors from abroad. And they talk -- there's some investors who are working among (inaudible)

that will tell them that Mongolians are good at learning. They're quick at the learning. But however, Mongolia needs quite a good system to provide vocational education. And this compact is going to address this issue. And also I'm glad this is the second part of the project among this compact.

Of course, the health sector is -- in order to do a lot (ph), you need the healthy people in the government (ph) (inaudible), in the private sector (inaudible), and among government institutions -- in all areas where we need healthy. Not only physically, but mentally, have the people to (inaudible). So, this is a big project of interest, this issue.

The last one is, since the transition from planned economy to market economy, the Mongolians started to have some property. And without proper system of the registration of their properties, there are those people who cannot rightly (ph) live (ph) part of the market economy. So, that's why we had chosen this for project. If you have detailed questions, I will answer, details (ph) of my (inaudible).

Thank you.

(APPLAUSE)

ENKHTUYA: Hello. I am so excited to be here today, after waiting for so long for this compact signing event. And I appreciate all of your interest. And thank you very much for that.

So, I was introduced having -- somebody having NGO background. So, I would rather address the NGO communities here. And I think it's very complementary to our business interest, so, business community.

MCC provided us a very unique opportunity to develop country-owned project. And we followed founding principle of MCC, that (ph) is (ph) generally (ph). So, we are very, very proud that we were challenged (ph), and we too very seriously this effort. And then, in fact, Mongolia was seen as one of the exemplary countries in the sense of participator approach.

And then if you think it was done for such a wide-scale project -- which is very unique for Mongolia, first we did that -- we must be all excited more, having approached this day and signing this compact.

I would like to explain a little bit about the process. So, MCC requirement to have country ownership was challenging issue for us. So, we really come out with something which Mongolians desperately needed. And we did that through nationwide consultation.

So, we first approached our general public, asking them questions regarding what is in their mind, underlining concerns (ph) for our development.

So, after identifying areas for intervention, we also consulted with our sector-wide experts. It was very important to involve stakeholders. So, I think, through participation, this process had very unique credibility.

And as some of you here know that foreign aid was always very (ph) (inaudible), especially in the past, people started to criticize how able (ph) (inaudible) were, and how projects was developed. So, we did (ph) address this issue, and I think also quite successfully, by bringing all stakeholders for each sector into the compact development process.

And then, as Ambassador Danilovich reminded us, there was another very important and very (inaudible) requirement from MCC. We have to come out with a very -- with solution of our problem which makes economic sense.

So, after identifying areas of intervention, after identifying our problems, we make their (inaudible) of economic rate of return aspiration (ph).

So, I guess to give an example, everyone is excited about rail today. But we had several infrastructure projects, like roads, (inaudible) heating (ph) infrastructure, utility infrastructure. And after making economic rate of return (inaudible), there was rail come out as project with highest rate of -- highest economic rate of return.

So, all these exercise of development of these projects, I think had very big impact how public policy should be developed. So, this participatory development of project boosted also (inaudible) forum (ph) of the government. So, we revisited and reshaped government agenda in each of these areas.

Maybe I should leave Jim some time to talk. But let me say a few words about women's (ph) NGO and their role, maybe implementation (ph), because a lady asked about their role in project development. And I think more than 200 people enrolled in project development, and is something very interesting. And then, we had very strong National Council.

And I am happy to see one of the National Council members. Oh, he left already. So, I (inaudible) head of the Chamber of Commerce. He was National Council member. And National Council -- 23 member National Council, a very, very strong body to support us. And Chairman Khurelbaatar was heading the National Council.

I think women's NGO representative at the National Council played a very, very important role, not only bringing beneficiary's perspective, but also playing as a (inaudible) insight (ph) National Council, which was very, very important. And then, as the minister of trade and industry explained to you, that we have economic growth, I have to say, if growth was not benefiting all of Mongolians. So, this kind of exercise makes growth more equitable and more fair.

So, Mongolian government paid attention and wants that growth will benefit all of its citizens, because we were criticized, that gap between poor and rich in Mongolia is growing. So, that was one of the problems we identified at the ending (ph) stage of compact development and another issue also.

During the implementation, we envision to have this participation, consultation and monitoring. So, there is a formalized mechanism how to do that in compact itself. And it's stakeholders committee, which was connected (ph) by (inaudible) and private sector himself (ph). So, we were not involved in that. And developed (ph) (inaudible) recommendation to MCA board which will be established very soon.

So, I think this participatory approach and involvement of beneficiaries and all stakeholders makes this process transparent. So, government accountability and transparency issue was one of the problems we were facing, and we are trying to solve that through this kind of approach. It was quite a challenge for us.

And today, I would like to thank MCC for giving us this opportunity, and then challenging us to do our job, and then to become more confident that we can do that. And not only that, we can do that right.

I would like to add one more thing. I think public policy impact has yet to be recognized. But although we even (inaudible) started implementation, we already had big change. So, we have reform package for each of these projects.

And then thank you everyone who supported in our work, especially MCC. Thank you very much for challenging us, for supporting us. And then, I think that was one of the big (ph) events (ph) to boost U.S.-Mongolian relationship. And I am happy that development project, we can -- that kind of boost (ph). Thank you.

(APPLAUSE)

HALLMARK: Hello. I'll keep my comments brief, so that we can move to the questions and answers.

I'd like to focus on the very specifics of the projects themselves, give you a feel about exactly what we're going to be investing in.

On the rail project, as you know, it's \$188 million. The project itself is designed to do two things: address the critical constraints to economic growth by improving the capacity and efficiency of the rail system -- which, as you've heard, is the economic backbone of the economy; and secondly, to promote competition, transparency and commercialization of the rail sector, so that the sector itself can attract the additional capital that it needs to fully modernize the rail system.

Specifically what we're going to be doing in the rail system, what we're going to be investing in, are three items, the first of which is, we will -- the Mongolians will be setting up a new government-owned, but contractor-operated company, which you'll see in the compact, as we call it a LeaseCo (ph) -- a leasing company.

This leasing company will own key assets that the rail system needs in order to improve its efficiency and capacity. Those key assets are power, locomotives, wagons, capacity, signaling equipment, and also some equipment to improve the track, and the -- basically the track.

The LeaseCo (ph) -- this leasing company -- will own all of these assets and will lease them on commercial terms to those (inaudible) and companies that would need these assets on the rail sector, including the existing rail company, which is known as MTZ.

The second project is the property rights project. Currently, there is a functioning property rights registration system in Mongolia. It was set up a couple of years ago. It is functioning; however, there is a need for streamlining the system to make it run a bit more efficiently.

And so, the first thing that we're going to be doing is really focusing our investment on improving the efficiency of that existing system, and have it better coordinate with some of other donor-funded activities. Like the ADB as a cadastral project that this will tie into.

The second component of the property rights project is focused on the peri-urban range lands that surround the major cities in Mongolia. And right now, there's been a tremendous amount of urbanization influx of rural Mongolians who are moving into the urban areas in Mongolia. And a lot of these rural Mongolians are settling on the outskirts of the urban centers in Mongolia -- with their animals -- and there's been a significant amount of degradation of the rangeland.

And so, the second piece of the property rights project will be focused on setting up a leasehold regime in these areas, with the herding community there, and also providing key economic instruments such as wells, fences, and the like, so that the herding communities can better manage the rangeland and get more productivity out of the land.

The third project is a vocational education project. And really, at a 30,000-foot level, what we're really focused on is focusing, or getting the vocational education system to be much more responsive to the demands of the market.

What does that mean? We're going to be strengthening the institutional framework needed to support a demand-driven vocational education system; define industry-led skills training standards for occupations, and translate those standards into a modern vocational education curriculum, supported by new instructional materials and equipment; develop 30 new career preparation tracks and improve teacher training and professional development.

We'll also be completing the linkage between public training and the private sector by creating a career guidance and labor market information system.

And the fourth project that will be focused on is a health project. And this is actually a pretty interesting project. I understand that it's very unique, in the sense that, in Mongolia what's going on -- and in many -- in countries all over the world, including the U.S. -- Mongolia has rapidly increasing rates of non-communicable diseases and injuries, including cardiovascular disease, diabetes, cancers and injury-induced trauma.

And really -- and what's happening in Mongolia right now is, their health system is really focused on a treatment-based approach to these non-communicable diseases -- NCDs, if you will, NCDIs with injuries.

And what we're trying to do with our investment is really focus on behavior changing -- is changing behaviors, moving the timeline much back from just treatment, when these NCDs are well advanced, but trying to promote behavioral change, so that either to prevent these diseases, or to catch them at the early stages and developing protocols and ways to address those diseases much earlier on.

There's been a lot of questions about how this program will be implemented. The Mongolians will be implementing this themselves. They will be like MCC countries. They will set up an accountable entity. In this case it would be called MCA Mongolia.

It's a Mongolian legal entity. It'll have two components to it. It'll have a board of directors composed of both Mongolian government officials and members from the private sector and civil society. They will be the ones that are principally accountable for the success or failure of the program.

And reporting to them and who will be focused on the day-to-day implementation or management of the implementation will be a technical secretariat composed of a chief executive officer and 11 officers under the CEO.

There's been advertisements that have just started for those 12 officers of MCA Mongolia, and that will be progressing for the next month or so. And we hope to have those officers in place by the end of the year.

Also, a lot of people have been asking about how procurements will be handled and financial management will be handled. We are in the process of completing a procurement process that's been going on for about seven or eight months.

There'll be an outside professional, a private firm that will handle all procurements under the program, and there will be an outside firm -- a private firm -- that will be handling all of the financial management of the firm, as well. So, this procurement agent and fiscal agent should be in place within a month or so.

So, with that, I'll open it up to questions for the panel.

MCLEAN: Right. Thank you, Jim. We're in the home stretch here. We do have a few minutes for some questions. If you have a question, we have a microphone.

Also, if you could state who you are, your name and your organization, and particularly if you need to direct a question to a particular member of the panel.

You want to start over here? Anyone? Go ahead, in the back.

QUESTION: My name is Keith Watson (ph). I've with VEGO (ph), which is a consortium of volunteer, pro bono lawyers and businesspeople.

And I have a question, I think for Jim, but perhaps for all on the panel.

And that is, how well developed is the commercial court and legal system in terms of addressing commercial disputes? And is training in this area and professional development in this area one of the aspects that will be addressed by the grant or by any other source?

HALLMARK: Let me quickly address that, and then I'll probably turn that over to Enkhtuya and Khurelbaatar to address, as well.

The short answer is, the grant money under the compact, there's not grant money that's specifically focused on improving the court system or the functioning of that.

Having said that, there will be -- on the property rights system -- there will be focused on improving the property rights similar to a UCC-1 type system. Other legal -- of course, there's a lot of legislative policy reform in all of the projects. Other pieces of that -- let me think.

There's certainly the property rights piece of this. Oh, also on the peri-urban piece of this, on the land management, there will be certainly laws put into place about how leases will be distributed and (inaudible) will be handled, specifically in that area.

But with respect to the general court system in Mongolia, no, that's not a specific focus of this (inaudible).

Do you have anything to add to that?

ENKHTUYA: We don't have very specific issue about that in our compact. But I just want to say that USAID implemented a very large project of legal reform in Mongolia. And you could ask from them if they would provide some information.

KHURELBAATAR: Yes, I'm sorry. I would just make one more comment. In this compact (inaudible) is certifying (ph) within the framework of Mongolia's law, except (ph) the (inaudible) guidelines. We are a part in work plan (inaudible) guidelines. But these situations (ph) all (ph) (inaudible) society (ph) to Mongolian (inaudible).

QUESTION: Hi. It's me again, Max (ph) from TransNet (ph).

My question is: Can a foreign transportation company get involved directly or in partnership with a Mongolian company in handling coal exports from Mongolia?

KHURELBAATAR: It's a general question, nothing to do with (inaudible).

QUESTION: (off-mike)

KHURELBAATAR: I think we need Gamble's (ph) assistance. But I would like to answer how the (inaudible) regulatory Gamble (ph) (inaudible).

The (inaudible), there are many freight companies, actually (ph), operating in Mongolia. They can be Mongolian or joint ventures. We can talk to them, and then I think those companies can handle the transportation.

However, the rail transportation will become Mongolian railway, (inaudible) only the company we have in Mongolia.

GAMBLE (ph): Good evening, everybody.

Just to be short, you can work in Mongolia in the (inaudible) transportation market. There are only several kinds of requirements. You should have several equipments or facilities to have some opportunity to operate the freight forwarding operations, et cetera. You should be registered in the Mongolian market to have some opportunity to pay some taxes, according to the law.

And also, just a few weeks ago, Mongolian parliament has already adopted a new railway transportation law. And according to which, any private, including domestic and foreign companies, has full opportunity to operate in the Mongolian railway sector (inaudible).

QUESTION: If I may just as a follow-up on that. I want to make sure I understood what the minister was saying about the rail project.

You have 1,100 (inaudible) north-south, and 239 (inaudible) north (ph) east that are on Russian standards. It's single lane. So, are you building another rail adjacent to it that would be on Russian standards, and then a new one for the Gobi Dessert on international standards? Is that the idea?

HALLMARK: Shortly, the focus is no. The focus of the MCC-funded rail project is to provide key assets that the rail sector currently needs in order to improve its efficiency and capacity.

That means that there is one -- on the north -- on the 100 square kilometers of north-south rail, we are not doing anything on that. We're not upgrading that track, other than providing track equipment that could be used to upgrade that track.

What we will be funding, among other things, is locomotives, wagons, signaling equipment, track equipment, that would enable longer, heavier trains to be run on the single track, and thereby increasing the capacity and efficiency of that single track.

Now, I'll defer to Mr. Gamble (ph), then to Mr. Khurelbaatar, about there may be some other plans outside of MCC to do some track construction or rehabilitation.

QUESTION: Now, with this private enterprise what will be running this on a LeaseCo (ph) basis, will that private enterprise then be running the whole thing, aside from what they bring in? Or only what they bring into their (ph) (inaudible)?

You were explaining that the MCC portion of the project would be -- of the rail operation -- would be to improve capacity and efficiency, and that it would be government owned by private...

HALLMARK: Contractor operated.

QUESTION: ... contractor operated.

Is he only -- is the private contractor only operating what they bring in, or what they invest in that's paid for by the MCC? Or will you be for the entire railroad?

HALLMARK: No, no, no. It will -- that private company that -- whoever wins that bid process, they will be simply managing the LeaseCo (ph) and the assets that are within the LeaseCo, the leasing of those equipment out to other shippers (ph). We will not be -- there's another company, as you know -- MTZ, the state-owned company. This private company will not be managing that company. It'll be only managing the leasing company that will be established under the compact.

QUESTION: And it would handle the wagons and the locomotives.

HALLMARK: That's right.

QUESTION: And would they bring cranes in at the borders, so that you can lift more than just the 50 tons it currently has?

HALLMARK: No, the -- no, we're not financing cranes. We're just financing locomotives, wagons, signaling equipment and some equipment for improving -- for making track improvements.

There may be -- there's actually some cranes that exist on the border. And there may be some need for additional cranes. But our funding will not be used for cranes.

QUESTION: Well, maybe it is a discussion...

HALLMARK: Yes. And you may want to talk to Mr. Gamble (ph) about that.

QUESTION: Thank you.

GAMBLE (ph): As Mr. Jim Hallmark explained, MCC compact provides only rolling stock and several equipments, just to improve the existing railway system.

Besides all this MCC compact, we are going to modernize the entire railway system, and the feasibility study on the construction of the second track is already finished. And within this financial year we are going to present it to the cabinet. And the cabinet will make some official decision what kind of gauge, where the correct route should go, and how it would be operated by 100 percent Mongolian new company.

Besides all this upgrading of this existing most (ph) (inaudible) corridor, we are going to make additional network in Gobi area, in eastern part of Mongolia, where new branch lines should connect the newly developing minings with this existing corridor, and also providing some opportunity to send some minerals directly to China.

And mainly this new networks, mainly this horizontal line, would be international gauge standards and (ph) in (ph) Chinese.

All this programs or projects would be financed by private or some other sources. And if things would go on properly, or what's (ph) next (ph), we will political election. If everything would go OK (ph) in (inaudible) next spring, the construction process would be started, and they could (inaudible) also big explosion of railway sector development would be there.

QUESTION: Hi. Kevin Pression (ph) from MONIT (ph) International.

Do you have an idea then of when the implementation of these various components should start? And also, in terms of the different components, will they be further broken down for competitive procurement? Or will there be one vocational education procurement, one property rights procurement, and so on?

HALLMARK: As to timing, I think the idea is between -- I described -- there's an implementation framework that first needs to be built up in all of our -- in every MCC country -- this MCA Mongolia entity that I described. And then getting the procurement agent, physical (ph) agent in place, and the various project implementation units that will actually do the day-to-day management, and then putting out various, in terms of reference for the various contractors out to bid.

From a timeline, timing standpoint, what we're focused on, the current plan is, between now and the next nine months, we want to be focused on building that entire implementation framework. It means, again, traveling (ph) (inaudible) seeing (ph) Mongolia, getting a procurement fiscal (ph) agent in place, starting the

procurements for the major contractors for the initial, major contracts that need to be in place at the end of that nine-month period.

So, in July of 2008, that's when we hope to get these major contractors, the procurements on those in place. And those guys would be ready to begin. And we're hoping that we can start entry in the force (ph), which starts the five-year clock, in July of 2008.

So, from here until mid-2008, we're just focused on getting everything that needs to be in place, so that we will be ready, so that when we want to start the five-year clock, we'll be ready to go.

So, the answer on the procurements, we hope to start the procurements for the major contractors January, February, March. That's what we're looking at.

MCLEAN: You have a question in the middle?

QUESTION: I am Stefano Ghielmetti with Trimble Navigation. I have a question regarding the property rights project.

Is there any funding set aside to improve the geodetic infrastructure network and for survey, land survey components?

HALLMARK: There is -- yes. A lot of what we're going to be doing is -- there's been a fair amount of work that had been done by some of the other donors. ADB, for example, has done a fair amount of -- they've put together an information system. And I think they've been doing a fair amount of mapping.

We will not necessarily be -- we're not going to be doing anything that duplicates what any other donor is doing. We just want to connect up with what they are doing.

To the extent that there are areas where we need to fill in whatever has not been done, yes, we'll be providing equipment and streamlining the procedures and processes in the registration system to do that.

But on mapping, I think there's been -- I think that there has been a significant amount of mapping that has already been done.

I'll let you -- you want to talk a little bit about that? Yes, there's a -- she (ph) indicates that there is a fair amount of mapping that's already been done.

MCLEAN: We have one last question.

QUESTION: My name is Alma (ph) (inaudible), and I'm with the services group, international consulting firm based in Arlington. So I would like to ask about the evaluation of and monitoring of the MCC compact and its (inaudible) projects.

Do you have an existing (inaudible) management plan, a measurement (ph) plan? How are you going to handle the management of (inaudible)?

HALLMARK: I would like to turn that question over to (off-mike)...

(UNKNOWN): Thank you. So I worked on the monitoring and evaluation plan for Mongolia.

One of the people that's being hired in this process of hiring the secretariat is an M&E director. So, that person is going to lay out a lot more of the detail right now.

So, in a lot of ways, they'll (inaudible) in charge of the monitoring in general. And that includes sort of the day-to-day outfits (ph) that are being generated, one of the projects getting done. They're also going to monitor some higher level things about what (ph) are the outcomes of the project, are they achieving those.

They're going to put together the system in terms of database and resources. They'll be in charge of that. They may contract people to do pieces of that, but fundamentally, they'll be the entity in charge.

The MCC is also rather unique, in that we put a large focus on conducting evaluations with very solid counterfactuals. Evaluations are ideally, where possible, of research quality. And so, MCC will directly, will hire a firm to oversee that where (ph) a (ph) typical (inaudible).

MCLEAN: All right. Unfortunately our time has expired, and we'll have to conclude this session.

First of all, I want to thank you for coming out. It's a terrific crowd here today. It shows a great deal of interest, not only in what MCC is doing in Mongolia, but what is going on in Mongolia itself.

Just a couple of concluding comments. MCC, as I mentioned before, has \$5 billion committed to investments around the world in 15 different countries so far. And the message that we're trying to give today is that MCC is open for business. Our partner countries are open for business. And particularly today, we want to highlight that Mongolia is open for business. So, come take a closer look at what we're doing at MCC and in our partner countries, and again, especially in Mongolia.

And that concludes our session. And there will be a transcript and also the video on our Web site at MCC.gov. Thank you very, very much for coming.

(APPLAUSE)

END