



EPRC MONTHLY NEWSLETTER

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Ministry organizes weekend retreat with private banks to address housing finance issues

The Ministry of Construction and Urban Development (MCUD), with project assistance, organized a round table discussion on "Housing finance: Modalities of cooperation between the private and public sectors" on May 13. The housing finance retreat was an important step in opening a dialogue on how best the public and private sector can work together to develop primary and secondary mortgage markets and to support an efficient and affordable housing finance market for middle and lower income families in Mongolia.



Minister J. Narantsatsralt and Governor of Mongol Bank, O. Chuluunbat attended the retreat along with their staff and representatives from the National Housing Center, National Council for the Millennium Challenge Corporation (MCC), the Asian Development Bank (ADB) project management unit for their mortgage lending project, and nine commercial banks.

The Ministry of Construction and Urban Development (MCUD), the Bank of Mongolia and Trade and Development Bank (TDB) made presentations on the roles of government, the central bank and the private sector in the development of the housing market and the financial system that supports it. International housing finance consultant, Mr. Claude Bovet, who was brought back by the commercial banks to provide professional consulting services for the establishment of a Housing Finance Corporation (HFC), made a presentation on the principal recommendations of the housing finance report prepared in November 2005 and the role of the HFC.

Minister Narantsatsralt's solid endorsement of the Housing Finance Corporation and Governor Chuluunbat's reaffirmation of Mongol Bank's role as a last resort liquidity

provider for mortgage-backed bonds resonated with private sector bankers. Minister Narantsatsralt urged to get started and do it now without waiting for everything to be ready and perfect as the process can be fine tuned once it starts.

Although the current constraints do not necessarily conducive to the development of a full-fledged self-sustaining mortgage finance system, the participants in the retreat came to a common understanding that:

1. The private sector should move ahead with the establishment of the HFC to extend the primary housing market and lay the groundwork for the secondary market. The HFC can be started with a simple structure and few staff and its first operation can be that of a "swap" securitization
2. MCUD, Mongol Bank and commercial banks should cooperate on addressing the legal, regulatory and institutional issues necessary to promote an enabling legal environment that supports the development of the mortgage market, including the drafting and alignment of the package of mortgage laws with the Mongolian Constitution and the Civil Code.
3. An ongoing forum between the public and private sector is important to identify partnership initiatives to support affordable housing solutions for lower and middle income families.



4. The MCUD's National Housing Center would concentrate on its role as a policy coordinator and facilitator in the housing, land development and construction sectors. The activities of the National Housing Center must be closely coordinated with the activities of the Housing Finance Corporation and geared towards the establishment of an efficient and transparent system to provide market participants with accurate and up-to-date information on the housing market.
5. The Bank of Mongolia would play three major roles in the housing market those of a minority shareholder in the HFC, a "market maker" providing liquidity for HFC

bonds and an enabler by lowering the reserve and capital weighting requirements applicable to HFC bonds.

6. MCUD would work closely with the project on the development of a government subsidy system based on transparent and well-publicized eligibility requirements, implemented through the private sector, to provide affordable housing to lower and medium income people.

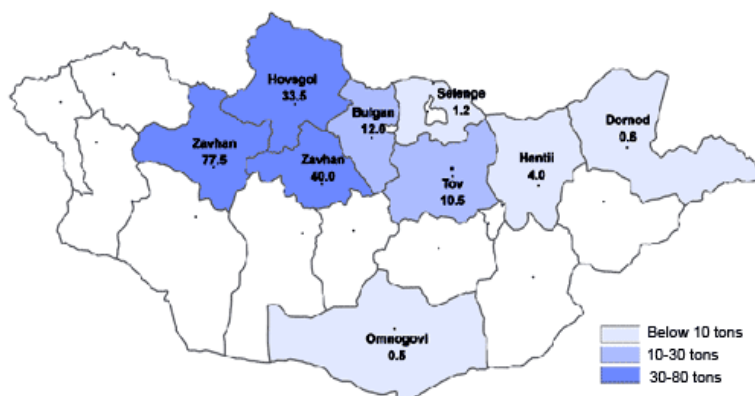
During the next quarter, members of the working group for the establishment of the housing finance corporation (HFC)—nine commercial banks and Mongol Bank—will focus on the development the business proposal to submit to their respective boards and establishment of the corporation. The initial “swap” securitization of mortgages will provide banks with better term matching of their assets and liabilities and introduce further liquidity for onward mortgage lending as Mongol Bank will reduce current reserve requirements of one-hundred percent for mortgage lending to twenty percent for mortgage-backed bonds.

Similarly, over the next quarter, the Ministry with project assistance will focus on improving the legal framework for non-judiciary mortgage foreclosure as an initial step in reducing lenders’ risk and, consequently, the interest rate premium that all borrowers must pay in the form of higher interest rates.

Searching new markets for Mongolian wild blueberries

Two Japanese buyers, Dr. Junichi Uno of the General Institute Co., Ltd, and Mr. Etsuo Nagashima, representing Lingzhi General Institute Co Ltd and Pacific Trading Co., Ltd (a subsidiary of Kikkoman Corporation), arrived in Mongolia on 29 April to explore export possibilities for Mongolian wild blueberry jams to Japan and to visit the crop producing areas of the Khuvsgul aimag.

In Japan, blueberries and blueberry preserves are in high demand and outsell all the other ‘soft’ fruits. They are believed to have therapeutic properties and are known to the Japanese as the ‘vision’ berry. International exports marketing expert, Mr. Jim Krigbaum organized the seven-day visit as part of EPRC’s ‘Routes to Markets’ program that is designed to facilitate Mongolian producers and exporters in identifying and penetrating new target export markets.



In Mongolia around 180 hectares produce an estimated 320 tons of uncultivated blueberries each year. Berries mainly grow in Zavkhan, Khuvsgul and Bulgan aimags. Currently

only about 50 tons or 15.5% is harvested to be processed into final products, such as jams, juices and liqueurs.

Logistic difficulties to bring the berries to market are cited as the main reason why much of the berries crop goes unharvested. While in Khuvsgol the Japanese visited a particularly abundant area around the mountain “Sagsgar uul” located 20 km from Khatgal at the southern tip of the lake. The Japanese buyers witnessed first hand the wild berry shrubs, many of which still had hanging fruit attached, and preserved under the snow.

Two companies, *Batsarai* and *Beneduct*, produce the two leading Mongolian jam brands, accounting for over 90% of all blueberry production; most of this production is sold in the domestic market. The Japanese buyers had several extensive meetings with both companies, studying the supply chain in some detail from harvesting through to processing and bottling. Berries are harvested by herdsman in the local areas and their sale supplements their traditional income generated from cashmere, meat, leather and dairy products.



The *Batsarai* company processes fresh berries in mobile processing units which are positioned in high-yield areas throughout Khuvsgol during the harvest in late July through August. In these two months the company needs to harvest and process enough berries to satisfy the annual demand.

Beneduct has a small scale processing plant in Ulaanbaatar and produces jams, juice and liquors from wild berries. They maintain steady production throughout the year by freezing the blueberries as they come in from various collection points in different aimags. Dr. Uno and Mr. Nagashima toured the plant and observed all stages of the production process including extraction, cooking, bottling and labeling.

On returning to Japan and presenting their findings on wild Mongolian blueberries to distribution companies, the buyers identified an immediate demand for 50,000 bottles (500gm) of jam, requiring around 13 tons of fresh berries. Mongolian companies will now need to implement enhanced quality control to ensure that they can meet the strict hygiene, sanitary, and health standards that Japanese consumers demand. They will also need to consider upgrading their technology to take advantage of the new target export market opportunities. Over the next quarter the project will

continue to work with the companies to prepare them for their first adventures in international trade.

Peace Corps and EPRC team up to develop virtual presence of Mongolian regional tourist sites

According to surveys conducted by the World Tourism Organization, 84% of all travelers in the developed world refer to the World Wide Web for information before deciding on a destination for their next holiday. In the summer of 2005 EPRC, working closely with the US Peace Corps, piloted a program to develop web sites for Mongolia's 'tourism' aimags and take advantage of the growing use of the internet as a travel planning tool.



In Khentii and Uvurhangai, Peace Corps volunteers enlisted the help of community groups to conduct a 'tourism inventory' in their respective aimags. The teams physically surveyed tourism attractions of the aimags, facilities, and recreational opportunities, spending between ten and fifteen days exploring the aimags by jeep, horse, and on foot. On their return to base, they constructed individual websites based on the audits and placed them on the web. In the spring of this year, a third aimag, Bayan-Ulgii, joined the pilot program, intending to be ready for the celebrations of the 800th anniversary of Mongolian statehood this summer. The three pilot projects have proven to be so popular with aimag communities and site visitors that EPRC decided to expand these pilots into a full program with the ambitious aim of adding a further seven aimags during the summer of 2006.

On 11 May, fourteen Peace Corps volunteers from all corners of Mongolia assembled in Ulaanbaatar to attend a training workshop that the project hosted. The workshop was based on the experiences of the pilot aimags and focused on how to develop the websites as a marketing tool for community-based tourism. The group, five women and nine men, represented the seven potential new aimag websites; Zavkhan, Arkhangai, Orkhon, Selenge, Tuv, Sukhbaatar, and Dornod.

Indraa Bold, EPRC program coordinator, with Adrian Mummey and Josh Gardner, Peace Corp Volunteers from Khentii and Bayan-Ulgii, respectively, led the workshop. They briefed the group on the basic preparation for the survey, what information to look for, what equipment would be required, and how much provisions to take for their field trips. They explained how the volunteers should plan their work in view of the short tourism season, how they should involve the local administrations and communities, and how to build up trust with aimag residents by carefully spelling out the benefits of the initiative, and improving living standards through increased tourism traffic.

The seven new aimag websites will be completed by end of 2006 and join the already existing Khentii, Uvurhangai, and Bayan-Ulgii websites.

Readers can visit: www.khentii.net or www.ovorhangai.net to see examples of the aimag tourism websites.

'Summer Ger Camp on Finance and Economics' scheduled for to start in late July

With major funding from USAID and from local partners, the Institute of Finance and Economics and the National Statistics Office (NSO), among others, the project will offer an intensive two-week, full immersion "Summer Ger Camp on Finance and Economics" during 24 July through 4 August at the Secret History of the Mongols Ger Camp at 111 km northwest of Ulaanbaatar.

Taught by international experts, the objectives of the finance and economics retreat are to:

- Diffuse knowledge and use of modern principles of finance and economics as well as contemporary quantitative analysis techniques in Mongolia
- Develop skills in and promote use of quantitative analysis to support economic policy and financial decisions
- Increase the supply of young professional Mongolians in the private and public sector trained in these techniques

Details of the course, curricula, eligibility criteria for participants, venue, and application forms can be found on line at: <http://www.eprc-chemonics.biz/suminst/>

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