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MONGOLIA BUSINESS PLUS INITIATIVE

**QUARTERLY PERFORMANCE REPORT
JULY – SEPTEMBER 2011**

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ABBREVIATIONS

APS	Annual Program Statement
AWP	Annual Work Plan
BPI	Business Plus Initiative
CGDC	Corporate Governance Development Center
COP	Chief of Party
FRC	Financial Regulatory Committee
FSVC	Financial Service Volunteer Corporation
LODP	Loan officer development program
M&E	Monitoring and Evaluation
MOJ	Ministry of Justice
MSE	Mongolian Stock Exchange
OSF	Open Society Forum
PMP	Project Monitoring Plan
QMCE	Quality Management Center of Excellence
SOW	Scope of Work
SPC	State Property Committee
TPI	The Press Institute
USAID	United States Agency for International Development
USG	United States Government

EXECUTIVE SUMMARY

The Business Plus Initiative has made substantial progress toward its Year 1 work plan objectives during its first quarter of operations. The significant results achieved during the reporting period include completion or continuation of activities begun under the predecessor project, EPRC, notably a successful pilot test in UB port of the Risk Management system developed for the Customs Administration under EPRC. In addition, BPI achieved milestones in new activities, such as completion of draft laws dealing with bankruptcy, investment funds, and central securities depository. The project also established the framework for private sector activities, including preparation of a draft Annual Program Statement for the grant programs, and a strategy document for the Quality Management activities in this component.

Activities in progress during the quarter also included development of 14 advanced courses under Parts 3 and 4 of Banking and Finance Academy's professional capacity building and certification program for bank loan officers and financial sector professionals.

In the next quarter, BPI plans to conduct the following activities, among others:

- advance the draft laws toward introduction to Parliament;
- develop a Virtual Data Room (VDR) to supporting tendered transactions managed by the State Property Committee (SPC) PPP unit;
- publicize and initiate activities under the grants program;
- publicize and initiate training activities in the Quality Management program;
- establish a Corporate Governance portal for the FRC;
- complete the BFA course development and deliver trainings.

SECTION I: BACKGROUND

The Business Plus Initiative is a five-year project designed to support an enhanced role for the private sector in Mongolia's economic growth. The project began in June 2011 against a backdrop of rapid mineral-driven economic growth, a government budget deficit of 10 percent of GDP, inflation approaching 15 percent annually, and unemployment of 35 percent of the labor force. While some forecasts show GDP and per capita income doubling or even tripling within the next 5 years, it is clear that large segments of the population will not share in the benefits of this rapid growth and may actually suffer in the near-to-mid-term as the cost of living gets higher.

BPI's design takes a pragmatic approach to promotion of more equitable and sustainable, private-sector led economic growth and good governance. The project seeks to complement and support the Government of Mongolia's (GOM) strategy to advance the following objectives:

- Improved implementation of business enabling policies
- Strengthened private sector capacity and competitiveness
- Increased financial sector capacity and enabling environment.

SECTION II: QUARTER PROGRESS

A. Introduction

This section details results achieved by BPI during the reporting quarter or planned for the next quarter.

B. Work plan implementation

During the month of July, BPI developed a draft work plan, which was then discussed and refined at a three-day workshop conducted in UB during July 29-31, and attended by USAID Mongolia staff. Based on the results of the workshop, BPI finalized and submitted the work plan for Mission review on August 5.

B1. Component 1: Implementation of business enabling policies improved

Result 1: Risk Management Implemented in Customs Administration

To increase its international trade flows and improve economic efficiency and growth, Mongolian Customs has been engaged in a multi-year effort to decrease the amount of time required to release goods at border crossings. An important element is to focus inspection resources on the highest risk shipments, and allow most low risk shipments to cross through a “green channel” without inspection. The Customs Administration has been aggressively implementing the risk management model that was previously defined under EPRC funding. BPI fielded risk management expert Jorge Montoya to pilot test the new system in the Ulanbator rail port. The system test proved successful. After some minor system fixes, full implementation of risk management in all ports is expected in the next few weeks.

Result 1.4: Public-private dialogue broadened: EJC roundtables to improve journalists’ education on economic and financial issues

BPI has been working with the Press Institute (TPI) and Economics Journalist Club (EJC) to design and schedule the training programs for EJC members. Through discussions with TPI and EJC members, BPI identified the club members’ interest in learning about shares with relation to the government plan to distribute 1.5 billion shares of Erdenes-Tavan Tolgoi company to citizens. See the section on Component 3, Result 3.3 for more details.

B2. Component 2: Private sector capacity and competitiveness strengthened

The impetus of assistance associated with quarterly Component 2 operations was focused on the start-up of activities to support three defined strategic areas identified in the year 1 BPI Work Plan. Targeted areas under Component 2 are relatively new in comparison to other project activity areas that continued pursuant to closure of predecessor project EPRC, as well implemented by Chemonics International.

The intended results governing year 1 Component 2 operations include *1) Increase in Foreign and Domestic private sector investment; 2) Strengthening Business Associations’ capacity and effectiveness; and 3) Establishment and expansion of Partnerships for Business Enhancement and Innovation.*

The below listed Result areas outline brief introductions to each targeted area, but as well introduce some process-related information in addition to actual deliverables and impact realized over the duration of this quarter.

Result 1: Foreign and Domestic Private Sector Investment Increased

Both supply and quality of infrastructure are critical to facilitate enterprise development, improve competitiveness, and spur economic growth in key regions of Mongolia. The passage of the Mongolia Concessions Law in 2010, along with key supporting resolutions governing the country's Public Private Partnerships (PPPs) program, have set in place a framework under which national and municipal level infrastructure development transactions could be identified, selected and supported, and openly tendered to draw in foreign and domestic private resources and investment.

At present, various donors are providing assistance to the GOM within the PPP space; to complement this assistance, BPI has pledged development of a Virtual Data Room (VDR), a tool which will prove essential to supporting actual tendered transactions as managed by the State Property Committee (SPC) PPP unit. The Scope of Work (SOW) for this STTA assignment was drafted, finalized and submitted during the quarter. BPI awaits word on relevant approvals by USAID so as to initiate the work.

Additionally, so as to coordinate and collaborate effectively amongst donors in the Partnership space, BPI took efforts during the quarter in re-establishing a Donor Coordination Council (DCC), the focus of which is to share information and knowledge, as well as identify areas of joint collaborative PPP assistance earmarked toward the Government. The inception meeting of the DCC is scheduled for early during the second quarter.

Result 2: Business Associations' Capacity Strengthened

Throughout the developing world, business associations are well known for positive impact and change that they offer and represent toward their membership base. Associations serve as a venue in which to introduce and drive efficiencies amongst member companies, serve to promote and advocate on behalf of members, enable networking amongst similar industry participants, etc.

With its given mission, BPI has been mandated to affect change at an enterprise level throughout the private sector of Mongolia through provision of assistance to professional business associations. To gauge capacity and begin to understand the needs of business associations operating in Mongolia, BPI surveyed 30+ associations in Ulaanbaatar during the quarter. With these interests in mind, the BPI grants team drafted a first iteration of the Annual Program Statement (APS) which will govern year 1 protocol of the BPI grants program.

Result 3: Develop and Introduce Quality Assurance Program

Mongolia's economic growth is forecast to accelerate substantially in the next five years. Present year growth already exceeds 10%; this rapid development is placing substantial strains on the operational capabilities of Mongolian public and private enterprises due to the severe shortage of qualified / experienced managers and trained, skilled workers.

During this quarter, BPI contracted an STTA expert to devise and implement a Pilot training program based around Quality Management and Food Safety/Hygiene principles. Extensive efforts have been undergone in relation to establishing a framework for this pilot, which is set to begin in January 2012.

The vision is two-fold following the successful implementation of the Pilot: 1) address and satisfy demand for high caliber quality management and food safety workers, managers and auditors, and 2) that the pilot program will transition to a private sector driven and led Quality Management Center of Excellence (QMCE).

B3. Component 3: Financial sector capacity and enabling environment improved

USAID's successes in policy reform, financial institution strengthening, and market instrument development in Mongolia have helped to form the foundations of a sustainable financial system in Mongolia. BPI year one programs in financial sector will address priority challenges, including;

- improved financial sector supervision and regulation;
- new non-bank financial instruments;
- NBFI development and strengthening of transparency;

The lack of the above are the major impediment towards accessing financial resources and corporate governance for most Mongolian firms, and financial sector institutions.

BPI engaged the Government of Mongolia and its relevant agencies in collaboration with relevant private sector entities in order to ensure the implementation of critical reforms. These reforms will help towards improving efficiency of the financial markets, with the long-term result of accelerating private sector-led economic growth. The focus will be on creating an adequate financial market infrastructure and effective regulations enforced by a decisive, capable and independent regulator. In implementing the workplan, BPI collaborates with the FRC, BOM, Ministry of Justice (MOJ), Ministry of Finance, MSE, London Stock Exchange Group (LSEG), CGDC, the private sector, and other donors in achieving the intended results.

Result 1: FRC Capacity Building

The Financial Regulatory Commission (FRC) is a relatively young government agency (est. 2006) responsible for regulating the Non-Bank Financial Institutions in Mongolia. The FRC needs assistance in strengthening its capacity to draft new laws and regulations in order to create the enabling environment for the financial markets to attract investment capital for private sector firms. An important mandate for FRC is to ensure that all private and public sector firms are governed according to global best practices in corporate leadership.

Currently, FRC has approximately 250 listed companies, 50 insurance companies, and 400 micro lending institutions under its jurisdiction. One major issue is the lack of transparency and weak corporate governance at the majority of listed firms. This impedes the price discovery mechanism and causes the stock prices to be depressed; which then prevents the listed stocks from performing at their full potential capacity. Thus the listed companies are unable to attract new financial capital for their growth needs and the country remains largely dependent upon bank loans for their investments; causing mismatch between the loan maturity and the economic life of the assets. In addition, FRC must help improve transparency in the markets by creating the enabling environment so as to protect investors' rights.

Corporate Governance involves a set of relationships and networks among a company's *management*, its *board of directors*, its *shareholders* and *stakeholders*. Good corporate governance practice ensures the shareholders a fair rate of return. Without proper guidance and regulations, non-bank financial institutions such as insurance, leasing and micro finance

institutions will face challenges to develop and become viable in providing the much needed equity capital for all firms.

USAID assistance is necessary in a number of ways to build institutional capacity for FRC to effectively regulate the financial markets and improve corporate governance. BPI has begun working with FRC to build capacity of the newly established Corporate Governance (CG) unit in FRC to be able to implement the Mongolian Government's corporate governance strategy.

The BPI project provided assistance in devising a Corporate Governance Rating system at FRC that will reflect the improvements in corporate governance at listed companies over time and report the outcome through the FRC CG Portal to the investing public. This is the initial step and it will be expanded in time to banks and insurance companies as well as non-listed companies for which FRC plans to continue monitoring Corporate Governance.

Result 2: Draft bankruptcy law

A viable bankruptcy law that helps creditors enforce their rights as well as provides a mechanism for restructuring heavily indebted companies is an essential element of a strong enabling environment for financial markets. The Ministry of Justice requested assistance from BPI to finalize a new draft bankruptcy law to replace the existing 1997 law which is considered inadequate in a number of important areas. BPI brought in a U.S. bankruptcy judge and a bankruptcy attorney to work with the MoJ and the bankruptcy working group to strengthen the draft so that it can be introduced into Parliament by the end of 2011. The new law will also improve transparency and corporate governance.

Result 3: Draft investment fund law and the draft central depository law (2 laws) delivered

The technical assistance provided to the Financial Regulatory Commission (FRC) by the Project includes the design and drafting of a Law on Investment Funds and after the law is enacted, provide some implementing regulations, guidance to the FRC staff on supervising implementation of the law, and material for increasing public awareness. In this regard consultations were held with officials and staff of the FRC, the Bank of Mongolia, the Mongolian Stock Exchange, and several commercial bankers and investment bankers. A presentation was made at a workshop organized by the FRC on the design of a new investment funds law, where there was agreement with our recommended approach for a new draft law.

The major benefits of investment funds for capital market development are both offensive and defensive. Professionally managed investments are the best way for the average middle class investor to invest in the capital markets and participate in Mongolia's economic growth. Investment funds can also help avoid financial scandals and discrediting of stock exchange investment provided that the investment fund law and related securities law are well designed and implemented. There are eight key areas for an investment fund law: (1) Eligible sponsors; (2) Legal form of funds; (3) Segregation of investment fund and investors' assets from sponsors' and portfolio managers' assets; (4) Conduct of business rules for transparency and fair treatment of investors; (5) Disclosure of financial and operations information to investors; (6) Eligible assets for investment fund investment; (7) Rules to prevent exploitation of conflicts of interest by sponsors and portfolio managers; and, (8) Regulation and supervision of investment funds.

For Mongolia there are two main issues. For the legal form, a new legal entity designated as an "investment fund" is recommended. Establishing the investment fund instead of a new

company will help reduce the operational expenses that would otherwise be incurred in complying with corporate formalities. That, in return would reduce the expected yield to investors. The availability of investible assets for the near term in Mongolia is problematic. There is an insufficient number and volume of liquid equity securities listed on the Mongolian Stock Exchange and there is no real market in the few listed corporate bonds. There are government bonds that could be bought by investment funds, but this would have a more limited benefit to the economy than corporate finance.

There are attractive investment opportunities in non-listed companies. However, the interest of such companies in having investments from investment funds and the liquidity of such investments are not apparent. Investment funds should be permitted to invest some portion of their assets in equity and fixed income securities listed on major foreign stock exchanges but this would have limited benefit for the Mongolian economy.

The Draft Investment Fund Law and the accompanying Draft Central Securities Depository Law have been submitted to the FRC. The chairman of the FRC anticipates that the new investment fund law will be enacted in the fall of 2012. The first investment funds would be organized in 2013, at which time it should be feasible for a few funds to commence operations. Towards the end of this decade, there should be much more scope for investment fund activity.

Result 3.3: Corporate governance and transparency improved: Public education programs to educate citizens on shares of publicly-traded companies distributed to citizens

BPI started discussions with various stakeholders, including the Corporate Governance Development Center (CDGC), Mongolian Stock Exchange (MSE), State Property Committee (SPC), Financial Regulatory Committee (FRC) to design the public education campaign to educate general public on shares from publicly traded companies. The Government of Mongolia announced in December 2010 to distribute 1.5 billion shares, which is 10% of total shares, of the state-owned company, Erdenes-Tavan Tolgoi. Mongolian citizens, born before January 1, 2011, are eligible to receive these shares distributed free of charge. BPI, through discussions with the stakeholders, designed a series of training for Economics Journalism Club (EJC) members and developed the agenda for the first training session scheduled in the next quarter. BPI's counterparts in this effort are CGDC and EJC.

Result 4: Banking and Finance Academy Loan Officer Development Program Part 3 and 4 Modules

The Banking and Finance Academy was established under the EPRC project to design, develop and deliver professional capacity building and certification programs for bank loan officers and financial sector professionals with the support of the privately owned Mongolian banks. Due to time and budget limitations under that project, only 11 modules under Parts 1 and 2 of the program were completed. At this time, the Project has begun developing the 14 advanced courses under the Parts 3 and 4 to bring to the total of 25 courses. Modules 24 and 25 were completed by the BPI finance team, but some additional work continues (new case development, readings etc.). The remaining 12 modules will be completed and a TOT will be delivered by December 2011.

Next quarter results

B1. Component 1: Implementation of business enabling policies improved

Planned Activity 1: Continuous Improvement of Customs in Risk Management

BPI will continue to monitor implementation of risk management in Customs during 2012 and provide incremental assistance as requested. We will also conduct a public outreach campaign for Customs, focusing specifically on the Risk Management program.

Planned activity 1.4: Public-private dialogue broadened: EJC roundtables to improve journalists' education on economic and financial issues.

BPI and TPI will organize a kick-off workshop for EJC members in October to introduce BPI activities with TPI and plan and strategize the club activities. It is important to identify topics in economic and financial issues of interest to the EJC members to ensure the success of the activity. We plan to organize intensive roundtable discussions from October 2011 through February/March 2012, as most of the EJC members may get distracted from club activities because of their heavy involvement in election campaigns for the parliament election expected in June 2012.

C2. Component 2: Private sector capacity and competitiveness strengthened

The given areas in which Component 2 will focus during the second quarter stem directly from assistance earmarked during quarter 1. Assistance to stakeholders in the area of PPPs, Business Associations, and Partnerships promoting Business Enhancement will continue, with direct impact and results expected. The following outlines a roadmap and explanation of anticipated results during quarter 2.

Planned Activity 1: Establishment of PPP Virtual Data Room (VDR) and “Best Practices” Data Room

BPI drafted a Scope of Work to govern STTA assistance to the State Property Committee PPP unit to address the establishment of a Virtual Data Room. Over the course of the next quarter, it is foreseen that an initial requirements analysis will be performed by this recruited STTA Advisor, which will then enable BPI's IT team to work with SPC website administrators in the creation of this Data Room. Populating and managing the Data Room will be the direct responsibility of the PPP unit.

Planned Activity 2: Establishment of the PPP Donor Coordination Council (DCC)

Efforts were already made by BPI in formalizing the re-establishment of a Donor Coordination Council (DCC) to support PPP programmatic assistance in Mongolia. During the second quarter, an inception meeting of the primary donor stakeholders will transpire, as will identification and implementation of collaborative and value-added activities which will 1) build institutional capacities and capabilities of national and municipal PPP units, and 2) drive PPP transactions affiliated with infrastructure development.

Planned Activity 3: PPP Training and Capacity Building

The national and municipal PPP units lack real capacity, as well as understanding of best practices affiliated with PPP transactions. Additionally, other select stakeholders including non-government organizations and private sector businesses lack understanding of the Mongolia PPP program, methodology governing such, and effective ways to participate.

BPI envisions identifying, developing and introducing trainings at both the national and municipal levels to bridge informational/awareness gaps. Perhaps via the inception meeting of the DCC, realization of opportunities on training initiatives will be identified and reached.

Planned Activity 4: Introduce BPI grants program to support Association Development component

The intended purpose of BPI's Association Development component is to raise capabilities and capacities of business associations in direct response to needs of membership. As a tool with which to support associations, BPI will introduce grant programmatic assistance to support introduction and enhancement of association membership services/offers. An Annual Programs Statement (APS) will serve as the set framework in which to accomplish this task.

During the second quarter, BPI will formulate consensus and finalize the APS with USAID. An open forum event will take place, whereby invited associations will be introduced to the BPI grants program and Association Development component. That given event will also allow BPI to offer a Best Practices type training affiliated with proposal preparation and development. Lastly, it is foreseen that a first tranche of grants will be realized by end of second quarter.

Planned Activity 5: Inception of Quality Assurance Pilot Program

Leading into quarter 2, BPI will finalize a strategy document laying out the framework of the Quality Assurance pilot training program. This framework will introduce the concept, curriculum, and costing of the given pilot, in addition to plans for the longer-term sustainability of the initiative. It will as well identify timeframes affiliated with development and implementation of the pilot, foreseen to encompass at minimum 200 trainees across various areas of quality assurance.

Pilot trainings may begin by end of quarter 2. However, it is more likely that the BPI pilot will start in early stages of quarter 3.

Linked to the longer-term sustainability of this program will be the establishment and operation of a Quality Management Center of Excellence (QMCE). BPI will endeavor to introduce and locate leadership and financial support to sustain an independent entity that is private sector driven moving forward (much like the Corporate Governance Development Center (CGDC) and/or Banking and Finance Academy (BFA)).

C3. Component 3: Financial sector capacity and enabling environment improved

BPI will implement the next part of the approved Workplan under three KRAs: (1) KRA 3.1 Financial sector regulatory institutions capacity strengthened; (2) KRA 3.2 NBF Financing and Investment Products Increased; (3) KRA 3.3 Corporate Governance and Transparency Improved. The plan include eight activities towards this end.

Planned Activity 1: Banking and Finance Academy capacity building

Upon the completion of the 25 module course materials to be developed for the flagship Loan Officer Training Program (LODP), one remaining issue is the successful launching of the LODP and delivery quality of the trainings. BFA trainers will need support during this period

and will then be able to continue its programs with minimal support from USAID. The Project proposes to work with the local trainers during the future training deliveries until confidence is gained and brand image of BFA is unquestionable to ensure sustainability.

Planned Activity 2: CGDC Association and technical capacity building

CGDC has been in existence since 2009, and has been successfully delivering the directors training courses developed with USAID assistance. CGDC has its weaknesses, and one of them is over-reliance on international donor institutions for support. It must develop complete sustainability as a membership-based association and to continue designing and delivering quality courses as the market demands. In addition, while it has gained recognition as a training institution, CGDC must also be recognized as a consultancy organization that supports its members. CGDC has been tasked by the GoM to help implement the recently approved corporate governance strategic program. For this, CGDC requires significant support to build capacity as a corporate governance consulting organization providing board evaluations, performance management, and working with FRC to implement a corporate governance rating program. Project will help deliver these capacity-building support programs, including trainings, technical assistance to design, develop and deliver corporate governance scoring and board performance evaluation and monitoring programs.

Planned Activity 3: FRC capacity building

FRC is the Mongolian government agency tasked to implement the GoM corporate governance strategy. It currently lacks the capacity to foresee the needs of the markets for enabling and prudential regulations in implementing companies laws, and the corporate governance code. Especially, the newly established CG unit is understaffed and institutional capacity building is required to set up this department and recruit the necessary capable professionals and administrative personnel, and train them at CGDC programs. BPI will provide technical assistance mostly using local talent to support the effectiveness of this unit.

Planned Activity 4: Regulations for Insurance

Mongolian Non-bank Financial Institutions are just beginning to develop. In particular, insurance demand increases as the economic growth of the nation also increases demand for casualty and life insurance products. FRC is in charge of this sector and it requires assistance in the drafting and implementation of regulations in mandatory drivers' insurance programs, as well other casualty insurance products and life insurance products. BPI proposes to assist FRC in this priority.

Planned Activity 5: FinA Integration and CG portal development

The Project will assist FRC in its efforts to integrate its oversight and supervision function in listed companies, non-bank financial institutions and insurance sector companies to improve its IT data bases and corporate governance portal. As a result of the BPI assistance, FRC will be able to put all its supervision functions in a single unit there by reducing risk and increasing surveillance efficiency. In addition, FinA is a system by which all listed companies and others under the FRC jurisdiction will be able to upload their financial statements in a structured format, thereby increasing efficiencies in disclosure and effective oversight. The corporate governance portal will allow the investors to access corporate governance information about listed companies especially on issues such as board procedures of each company, minority rights protection, stakeholders, transparency and disclosure, and in general help create an enabling environment in gaining information. Improving transparency is a crucial aspect of improving corporate governance. This ought to be a short program that will dovetail with the previous assistance provided to FRC.

Planned Activity 6: Implementation of CG strategy

BPI will assist FRC in advancing the CG strategy of the GoM through support in development of a CG code for SOEs, insurance companies, and boost the capacity of FRC to extend its jurisdiction to improve CG practices in closely held family firms. In addition, working together with the CGDC, BPI will help FRC to develop an effective Corporate Governance Rating System to provide CG scoring for all listed companies and make this information available on its CG Portal.

Planned Activity 7: Directors training programs for Private Sector and SOE Boards and Exec Management

BPI will work closely with the FRC and CGDC to deliver 4 directors training programs to private company executives and board members, and to the SOE directors. These courses have already been developed and have been delivered earlier. BPI's role will be to provide minimal support to the Mongolian trainers in the delivery of the training programs and to develop cases, and the like.

Planned Activity 8: Legal and regulatory drafting and technical support

In addition to the Bankruptcy, Investment Fund and Central Securities Depository Laws and the Insurance regulations, BPI will provide assistance as needed to FRC to strengthen its regulatory capacity.

Planned Activity 8: Public education programs to educate citizens on shares of publicly-traded companies distributed to citizens

Under the umbrella topic of corporate governance, BPI, in coordination with the stakeholders, will organize series of roundtables for the EJC members, on issues including shares, shareholders' and minority shareholders' rights, trading shares, governance of state-owned enterprises, among others. The first roundtable discussion is scheduled in October with guest speakers from the CGDC and MSE.

BPI will expand the public education campaign beyond the EJC training series and run extensive outreach program using multi-media means. In addition to the government stakeholders, BPI will attempt to include private sector – broker firms in the public education programs.

SECTION III: PROJECT MANAGEMENT AND ADMINISTRATION

A. Introduction

This section summarizes significant project management and administration activities, problems encountered and actions taken to solve them, and main activities scheduled for completion during the next quarter. Annex A contains a list of long-term local project staff and short-term expatriate and local technical assignments.

B. Significant project management and administration activities

During the quarter under review, project management and administration activities focused on project start-up, implementation of the Year 1 work plan, and recruitment of new personnel. Key actions and activities completed include:

- Developed AWP and PMP for Year 1
- Moved to a new office building at Express Tower after restructuring the office space to meet the staffing and project needs
- Set up the field office accounting system
- Set up M&E system
- Negotiation of SOWs and subcontract with local subcontractors, including the Press Institute, Open Society Forum, and FSVC
- Subcontract negotiation with Bodhi to support the BFA in developing training modules for LODP
- Started procurement for office furniture and IT equipment
- Formalized the hiring of a number of EPRC staff and initiated recruitment of candidates to fill vacant local long-term positions

All long-term key personnel were at post and short-term assignments started smoothly.

C. Personnel

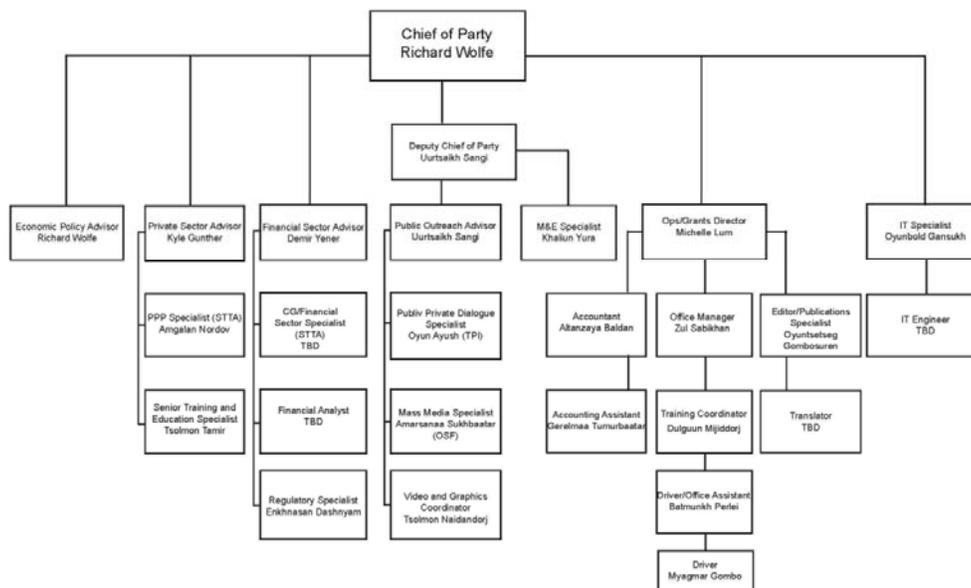
C1. Long-term expatriate personnel

There were no changes in key personnel during the quarter.

C2. Long-term local personnel

Exhibit A-1 in Annex A provides a summary status of local staff as of the end of the reporting period. The organizational chart of the project as of the end of the quarter appears as Exhibit III-1.

Exhibit III-1: BPI organization chart for Jul-Sep QPR



C3. Deployment of short-term technical assistance

Deployment of short-term expatriate proceeded according to work plan schedule during the quarter. Fourteen project-related short-term technical assignments were completed or initiated during the quarter. Exhibit A-2 in Annex A provides details about the purpose of these assignments and dates of arrival and departure, as relevant.

D. Status of subcontracts

We initiated the drafting and negotiation of SOW and subcontracts with local subcontractors, including Human Fortis, TPI, and OSF, and US-based subcontractor, Financial Services Volunteer Corporation. The subcontracts are expected to be finalized and signed in the coming quarter.

F. Problems encountered and remedial actions

Finding an office space took longer than expected due to affordability, available space that meets the project requirements. Recruiting suitable and qualified candidates for vacant positions has been a problem since the start-up. Given the labor market situations and higher salary expectations driven by private sector, especially by mining companies, the project has been encountering difficulties. For instance, we had to post vacancy announcements three times for translator with reasons that we could not find a qualified candidate and when we did, we could not negotiate salary for the second recruitment efforts.

G. Project and contract management actions expected for the next quarter

Project and contract management actions expected to be completed during the next quarter include the following:

- Finalization and signing of all subcontracts with four institutions
- Prepare for USAID portfolio review scheduled in late October 2011
- Complete procurement for office furniture and IT equipment
- Operations and Grants Director, Ms. Munkhzul Janchiv will return from maternity leave
- Recruitment for five full-time vacant long-term professional positions
- Perform any and all other contract management and project support functions as required in the annual work plan and as needs emerge.

ANNEX A: LONG-TERM LOCAL PERSONNEL AND EXPATRIATE SHORT-TERM ASSIGNMENTS

**Exhibit A-1: Local long-term project staff as of the end of July – September 2011
quarter**

Employee name	Position	Start date	End date
<i>Professional Staff</i>			
Uurtsaikh Sangi	Deputy chief of party	Jun 20, 2011	
Altanzaya Baldan	Accountant	Jun 20, 2011	
Enkhnasan Dashnyam	Regulatory specialist	Jul 28, 2011	
Tsolmon Tamir	Senior training and education specialist	Jul 28, 2011	
Tsolmon Naidandorj	Video and graphics coordinator	Jul 28, 2011	
Dulguun Mijiddorj	Training coordinator	Aug 22, 2011	
<i>Support Staff</i>			
Batmunkh Batsuren	Driver/Messenger	Jun 20, 2011	Aug 31, 2011
Zul Sabikhan	Administrative Assistant	Jun 20, 2011	
Khaliun Yura	Project Administrator	Jul 27, 2011	
Oyuntsetseg Gombosuren	Editor/Publications Specialist	Jul 28, 2011	
Batmunkh Perlii	Driver/Messenger	Aug 22, 2011	
Myagmar Gombo	Driver Messenger	Sep 12, 2011	
<i>Subcontractors</i>			
Amarsanaa Sukhbaatar	Mass media specialist	Jul 27, 2011	
Oyun Adilbish	Public private dialogue specialist	Jul 27, 2011	

Exhibit A-2: Short-term technical assignments during the July – September 2011 quarter

Name	Purpose of assignment	Date of arrival	Date of departure
Megan O'Neil	Project start-up	Jun 20, 2011	Jul 1, 2011
Michelle Cassal	Development of grant's manual and procedures	Jun 28, 2011	Jul 30, 2011
Langdon Miller	Project start-up and AWP	Jul 14, 2011	Aug 3, 2011
Alphonse Bigirimana	Development of PMP	Jul 26, 2011	Aug 6, 2011
Fernando Bertoli	Assistance on AWP and introduce BPI team to key counterparts	Jul 28, 2011	Aug 20, 2011
Henry Schiffman	Assistance to FRC and MOF on drafting legislation on investment funds and custodian	Sep 15, 2011	Sep 20, 2011
Barrie Evans	Development of the strategy for quality assurance program and organize ISO and HACCP training programs	Aug 15, 2011	Feb 28, 2012
Sonia Ferrer	Setting up field office accounting system	Sep 11, 2011	Sep 20, 2011
Upekha Weerasinghe	Loan officers development program for BFA	Sep 11, 2011	Oct 8, 2011
Michael Palmer	Drafting bankruptcy legislation	Sep 10, 2011	Sep 22, 2011
Michelle Lum	Assistance on project operations, training, and communications	Sep 11, 2011	Dec 15, 2011
Charles Case	Drafting bankruptcy legislation	Sep 19, 2011	Sep 30, 2011
Alicia Ann Imbody	PMP implementation and training	Sep 22, 2011	Oct 1, 2011
Jorge Montoya	Review of risk management selectivity component update and design for customs	Sep 25, 2011	Oct 8, 2011

ANNEX B: PERFORMANCE MONITORING PLAN

Exhibit B-1: Performance monitoring plan

Indicator number	Indicator Description	Baseline	Due next	Current Target	Actuals	Change Since Startup	% Target Met	Milestones
Project Objective: Role for private sector in Mongolia's economic growth enhanced								
A	Percentage change in employment in non-mining sectors		Sep-12	110%	#DIV/0!	#DIV/0!	#DIV/0!	
B	Percentage change in company gross output in non-mining sectors		Sep-12	105%	#DIV/0!	#DIV/0!	#DIV/0!	
PIR 1: Implementation of business enabling policies improved								
1.1	Percentage change in number of new business registrations in non-mining sectors		Sep-12	105%	#DIV/0!	#DIV/0!	#DIV/0!	
KRA 1.1: Government capacity to implement economic policies and programs increased								
1.1.1	Number of government agency staff trained in various topics related to implementation of economic policies	0	Jan-12	50	17	17	0.34	
1.1.2	Number of legal, regulatory, or institutional actions taken to improve implementation or compliance with existing business enabling environment policies with project assistance	0	Jan-12	3	0	0	0	
1.1.3	Number of tools and administrative procedures created or improved to enhance implementation of economic policies	0	Oct-11	3	0	0	0	
KRA 1.2: Trade capacity strengthened								
1.2.1	Change in number of procedures required to trade goods across borders as a result of project assistance	16	Sep-12	14	0	-16	0	
1.2.2	Percentage Change in average cost for trading goods across borders	4405	Sep-12	90%	#DIV/0!	#DIV/0!	#DIV/0!	
KRA 1.3: Licensing, standards, and inspections streamlined and enforced								
1.3.1	Change in number of procedures required to register a business and /or obtain a license	7	Sep-12	5	0	-7	0	
1.3.2	Change in average number of days required to register a business and/or obtain a license	13	Sep-12	11	0	-13	0	
KRA 1.4: Public-private dialogue broadened								
1.4.1	Number of public-private dialogue mechanisms utilized as a result of project assistance	0	Jan-12	4	0	0	0	
1.4.2	Number of EJC roundtables held to improve journalists' education on economic and financial issues	0	Jan-12	20	0	0	0	
PIR 2: Private sector capacity and competitiveness strengthened								
2.1	Change in percentage of public and private sector partners supported by the project who have increased efficiencies of their businesses and/or operations	0	Sep-12	25%	#DIV/0!	#DIV/0!	#DIV/0!	
KRA 2.1: Foreign and domestic private sector investment increased								
2.1.1	Number of PPPs facilitated by BPI	0	Sep-12	3	0	0	0	
2.1.2	Number of public and private counterparts trained in PPP processes and best practices	0	Jan-12	50	0	0	0	
KRA 2.2: Business associations' capacity strengthened								
2.2.1	Number of business associations mature/viable in the competency areas strengthened as a result of project assistance	0	Sep-12	5	#DIV/0!	#DIV/0!	#DIV/0!	
2.2.2	Percentage change in number of new business association members as a result of project assistance		1-Jan	110%	0	0	0	
KRA 2.3: Partnerships for business enhancement and innovation expanded								
2.3.1	Number of quality management auditors trained for international certification	0	Jan-12	30	0	0	0	
2.3.2	Number of GDAs facilitated by BPI	0	Jan-12	1	0	0	0	

Exhibit B-1: Performance monitoring plan

PIR 3: Financial sector capacity and enabling environment improved								
3.1	Percentage Change in value of total assets (including credits) of NBFIs assisted by BPI		Sep-12	105%	#DIV/0!	#DIV/0!	#DIV/0!	
3.2	Change in average Mongolia CGRI scores		Sep-12	0.5	0	0	0	
KRA 3.1: Financial sector regulatory institutions capacity strengthened								
3.1.1	Number of institutions under FRC jurisdiction that have adopted internationally recognized financial sector standards as a result of project assistance	0	Jan-12	50	0	0	0	
3.1.2	Number of non-bank financial sector supervisors trained with project assistance	0	Jan-12	20	0	0	0	
3.1.3	Number of laws and regulations drafted or revised to strengthen the NBFIs regulatory framework	0	Oct-11	10	5	5	0.5	
KRA 3.2: NBFIs Financing and investment products increased								
3.2.1	Number of financial sector professionals trained according to international standards by BFA	0	Jan-12	160	0	0	0	
3.2.2	Number of new or adapted non-bank financial products developed with project assistance	0	Oct-11	4	0	0	0	
KRA 3.3: Corporate governance and transparency improved								
3.3.1	Number of new companies participating in CGRI assessments	0	Jan-12	40	0	0	0	
3.3.2	Number of corporate executives and directors trained by CGDC with project assistance in new Mongolian corporate governance programs	0	Jan-12	100	0	0	0	
3.3.3	Number of public education programs held to educate citizens on shares of publicly traded companies distributed to citizens	0	Oct-11	8	0	0	0	