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Business Plus Initiative
USAID funded project implemented by Chemonics International

QUARTERLY PERFORMANCE REPORT (July-September 2013)

October 2013
Ulaanbaatar, Mongolia

Mongolia continues to improve conditions for local business development through easing its doing business requirements



Ulaanbaatar, Mongolia. With the construction sector coming to a stand still for six months out of the year due to freezing temperatures, improving the processes to dealing with construction permits and providing new electricity connections are vital elements for business development in the rapidly changing landscape of Ulaanbaatar city.

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ABBREVIATIONS AND ACRONYMS

BPI	Business Plus Initiative
CGA	Customs General Administration
CGDC	Corporate Governance Development Center
CSC	Citizen Service Center
DS	Development Solutions
EBRD	European Bank for Reconstruction and Development
EJC	Economic Journalists Club
ELC	Economic and Legal Consultancy
ERC	Energy Regulatory Commission
GASI	General Authority for Special Inspection
GASR	General Authority of State Registration
GDT	General Department of Taxation
GIZ	German Agency for International Cooperation
GOM	Government of Mongolia
HACCP	Hazard Analysis and Critical Control Point
IFC	International Finance Corporation
IMRI	Integrated Mineral Resource Initiative
IT	Information Technology
KRA	Key Result Area
MCUD	Ministry of Construction and Urban Development
MMCI	Mongolian Management Consultant's Institute
MNCCI	Mongolian National Chamber of Commerce and Industry
MOF	Ministry of Finance
MOU	Memorandum of Understanding
OCRS	Online Company Registration System
OSF	Open Society Forum
OSS	One-Stop Shop
PCA	Post Clearance Audit
PIR	Project Intermediate Result
PMCG	Policy Management and Consulting Group
PMP	Project Monitoring Plan
QSDC	Quality Supplier Development Center
SME	Small and Medium Enterprises
TAB	Trading Across Borders
TDB	Trade Development Bank
TOT	Training-of-Trainers
TPI	The Press Institute of Mongolia
TRS	Time and Release Study
UBEDN	Ulaanbaatar Electrical Distribution Network
UBM	Ulaanbaatar Municipality
USAID	United States Agency for International Development
FOG	Fixed Obligation Grant
TAF	Technical Assistance Fund

TABLE OF CONTENTS

ABBREVIATIONS AND ACRONYMS	i
TABLE OF CONTENTS.....	ii
EXECUTIVE SUMMARY	iii
A. Significant Accomplishments	iv
B. Salient Programmatic Trends and Ongoing Performance Constraints.....	vi
SECTION I: WORK PLAN IMPLEMENTATION	1
A. Introduction.....	1
B. Work Plan Framework.....	1
C. Work plan implementation.	2
PIR 1: Business enabling environment, governance, and country competitiveness policies and practices improved	2
PIR 2: Private sector capacity and competitiveness strengthened.....	7
PIR 3: National dialogue on business enabling environment, governance, and competitiveness strengthened	11
D. BPI Activities by the Numbers.....	13
E. Next Steps for the Coming Quarter.....	14
PIR 1: Business enabling environment, governance, and country competitiveness policies and practices improved	14
PIR 2: Private sector capacity and competitiveness strengthened.....	15
PIR 3: National dialogue on business enabling environment, governance, and competitiveness strengthened	16
SECTION II: PROJECT MANAGEMENT AND ADMINISTRATION.....	19
A. Significant project management and administration activities	19
B. Personnel	19
B1. Long-term expatriate personnel.....	19
B2. Long-term local personnel.....	19
B3. Deployment of short-term technical assistance.....	19
C. Status of subcontracts and grants	20
D. Project and contract management actions expected for the next quarter	20
ANNEX A: Long-tem local personnel and expatriate short-term assignments	22
ANNEX B: PERFORMANCE INDICATORS, BASELINE, AND TARGETS FOR ANNUAL WORK PLAN-3	Error! Bookmark not defined.

EXECUTIVE SUMMARY

The USAID-funded Mongolia Business Plus Initiative (BPI) project supports the Government of Mongolia's (GOM) reform efforts to establish an enabling business environment conducive to diversified economic growth and create improved economic opportunities for the people of Mongolia. The BPI project is ensuring the participation of Mongolia's private sector in a structured and productive dialogue with government so that business enabling environment reforms are adequately informed by the private sector appropriately address bottlenecks to country competitiveness. Over the reporting period, the BPI project continues to be recognized as the main partner to the GOM and Mongolian private sector in fostering these reforms.

The past quarter marked the conclusion of the "Year 1 Reform Road Map", which was adopted by the GOM with BPI assistance and was based on private sector reform priorities identified through two business roundtables. The reform road map addressed regulatory bottlenecks in six of the ten areas covered by the World Bank Doing Business report. BPI provided assistance in five areas, including starting a business, dealing with construction permits, getting electricity, paying taxes and trading across borders. The GOM also worked on improving the registering property indicator. While there was significant effort on the GOM's part to improve business enabling environment in all six areas, the 2014 *Doing Business* report recognized improvements only in the first three reform areas: starting a business (+11 positions), dealing with construction permits (+25 positions) and getting electricity (+7 positions). Overall, Mongolia improved four positions, moving from 80th to 76th out of 189 economies. The Doing Business team estimates important savings to the private sector due to a reduction in the cost associated with each of the three recognized reforms. Accordingly, improvements in the starting a business area resulted in a reduction of 0.5% of per capita income per application; while improvements in the dealing with construction permit area resulted in a reduction in the associated costs of 21.4% of per capita

income per application. Finally, improvements in the getting electricity area resulted in a reduction in cost per application of 6.5% of income per capita. Table 1, right, presents the total benefits to date of the implemented reforms undertaken by the GOM, with support from the private sector and technical assistance by the BPI project, as recognized by the Doing Business 2014 report. During the March through September 2013 period private sector savings due to these three reforms amount to a total of 4.9 billion MNT, close to \$2.9 million USD.

During the last quarter, the BPI project intensified its support to Quality Supplier Development Center (QSDC) within its private sector competitiveness component. In preparation for the Technical Assistance Fund (TAF) grant to QSDC, the project worked closely with QSDC to create a pipeline of SDPs with suppliers, who upon implementation of SDPs and receipt of assistance from QSDC will meet requirements of lead buyers. In addition, QSDC worked to develop its training program for the upcoming reporting period. Further, BPI and QSDC completed the recruitment process for the remaining QSDC technical positions. With the recruitment of a local Executive Director, and a local

Table 1. Benefits of BPI Supported Reforms

Doing Business Indicator Area	Cumulative Benefits (MNT)
Starting A Business	2,630,131,200
Dealing with Construction Permits	1,326,647,632
Getting Electricity	901,582,760
Total in MNT	4,858,361,592
Total in USD	\$2,857,860

training specialist, together with the incorporation of a new expatriate Private Sector Advisor, the BPI project is now in position to accelerate the achievement of results through both the Quality Assurance Training and the Supplier Development components of QSDC.

A. Significant Accomplishments

This section of the quarterly progress report describes key activities and significant accomplishments organized by project intermediate result (PIR).

PIR 1: Business enabling environment, governance, and country competitiveness policies and practices improved:

Throughout this reporting period, the GOM continued to make significant progress with technical support from USAID’s BPI project to improve the country’s business enabling environment. Building on existing relationships with the GOM and relationships with new government authorities, BPI focused on four reform areas and provided deep and dynamic support to the ministries and agencies involved in each reform. Tangible results of the GOM’s reform efforts are already visible in several areas:

General Department of Taxation (GDT) launched new e-filing system. GDT introduced an e-filing system in 2007 and has been accepting Corporate Income Tax (CIT), Value Added Tax (VAT) and Personal Income Tax (PIT) filings electronically since. However, inconsistency in e-filing practices and a lack of e-payment options for taxpayers prevented the Doing Business team from considering the benefits of that e-filing system in its ranking calculations.



Above, process map for the new GDT e-filing system.

In September 2013, GDT launched its new e-filing system, which incorporates technical recommendations from BPI assistance in tax IT Architecture. The new system, developed by a local IT company contracted by GDT, enables taxpayers to file *all* taxes electronically, register online, obtain various online services, and share information electronically with GDT. Covering the 19 tax types stated in the General Tax Law, the e-filing system supports 72 types of tax returns; permits 29 different attachments to the returns; allows e-payment; provides taxpayers online access to their tax payment history; and

enables secure e-communication with GDT. The new e-filing system allows taxpayers to print tax compliance e-certificates and full tax returns, each with bar codes. These print-outs are often required by taxpayers as documents for other business transactions. Previously, taxpayers would need to visit a GDT office in order to obtain copies. Taxpayers will benefit from the new system by instantly receiving information regarding the status of their tax return and tax debt from GDT, registering online as a taxpayer, communicating online with tax administration, and e-filing with a digital signature.

During the reporting quarter, GDT finalized testing of the new system and initiated a training program for tax inspectors and taxpayers with BPI support. The system is completely new for all staff and taxpayers. Therefore, GDT needs to implement an

intensive public awareness campaign, trainings throughout the country, and distribution of pamphlets if the system is to be used and administered properly. GDT and BPI will continue to cooperate in the implementation of the training program both in Ulaanbaatar and the countryside as well as the implementation of an awareness campaign over the next quarter. The system, which is already operational for the Large Taxpayers' Office, the Capital City Tax Office, Songinokhairkhan District Tax Office, and Darkhan-Uul Province Tax Office, will be fully operational throughout the entire country starting from January 2014.

Earlier in the year, BPI identified the tax compliance certificates as a significant bottleneck given the frequency of their use and number of visits to the GDT office required for businesses to obtain the certificates. As such, the BPI project recommended that the Information Technology, Post and Telecommunication Authority (ITPTA) include this service in the government services vending machine program. During the reporting period, GDT reached an agreement with ITPTA to allow taxpayers to obtain tax compliance certificates from any of the available government services vending machines in Ulaanbaatar and the capital cities of the various provinces.

Introducing e-payment options. GDT and Golomt bank introduced e-payment as an option for payment for all taxpayers beginning July 17, 2013. Utilization of the e-payment option is expected to result in significant time and cost savings to taxpayers, who can check the status of their tax payment and pay taxes using internet banking. The challenge was how to increase utilization of e-payment. BPI continues to support GDT in expanding the number of commercial banks providing e-payment solutions in collaboration with GDT. BPI will procure the service of a local IT firm to develop an expanded e-payment module and will provide selected hardware support for the new system over the next quarter.

Strengthening Customs Post Clearance Audits (PCA) Department at CGA. BPI continued to work with the Customs General Authority to build capacity in post clearance audit during the last quarter. Through a series of high level trainings, including (i) advanced Stage III – Customs Valuation training covering methods 2 through 6 under GATT's Customs Valuation Agreement; (ii) introduction to Fraud, Transfer Pricing, Tax Avoidance, and Tax Planning Training; and (iii) Basic Interview Techniques for Audits, the BPI project was able to train the entire staff of the PCA department, supporting their ability to refine risk criteria, facilitate low-risk cargos through the green and yellow channels, and focus their efforts on high-risk cargos through the red channel. CGA praised the training once again on being practical and relevant, allowing trainees to easily apply what they learned immediately to their jobs.



September 20, 2013- 30 customs officers received certificates for successfully completing Post Clearance Audit Training course supported by BPI.

Section I provides detail on the above mentioned areas and other reform achievements during the reporting period.

PIR 2: Private sector capacity and competitiveness strengthened:

This reporting period also marks a significant milestone in the project's work to increase the competitiveness of the private sector. Last quarter BPI experienced delays in establishing a revolving Technical Assistance Fund (TAF) for QSDC clients via the project's grants program. In September, a \$250,000 Technical Assistance Fund (TAF) was approved by USAID. A revolving investment fund administered by QSDC, the TAF will enable QSDC to provide timely, appropriate and niche investments to QSDC clients that will directly enable them to meet sales goals included in their SDPs. In addition to the buyer-led approach, the TAF is a differentiator for QSDC in the marketplace and promotes QSDC's long-term sustainability.

QSDC's buyer-led approach coupled with access to a revolving TAF will allow the QSDC to ramp-up activities in the next quarter related to providing Mongolian SMEs with customized technical assistance or seed funding, facilitating access to an expansive network of buyers and introducing new opportunities to leverage funds through reputable partnerships.

PIR 3: National dialogue on business enabling environment, governance, and competitiveness strengthened:

The BPI project's strategic communications team continued to reach out to the public, helping to educate the population about the government's reform plans and Mongolian competitiveness issues, as well as engaging the private sector in the project's competitiveness efforts through a series of events attended by more than 224 participants. BPI recognizes that the input and awareness of the reform initiatives from stakeholders from across the country is imperative for accelerating and cementing Mongolia's business enabling reforms. Notably, in September, the BPI project in a joint effort with the Press Institute of Mongolia and the Economic



September 27- Mrs. Altantsetseg, Dornod Customs' Specialist shows that Dornod customs deals with Chinese and Russian borders in addition to sea, air, and rail points.



Zorigt Ganbold, Taxpayer Service Department from Ulaanbaatar presents "paying taxes" reforms.

Journalists Club piloted the first "Getting Real on Reforms" forum in the Dornod aimag to encourage on-going dialogue between the private and public sectors on reform initiatives beyond the capital city. The project's public-private dialogue strategy for this workshop resulted in a forum with over 40 participants from three aimags, including rural SME entrepreneurs, government officials from the national and local level, and media professionals. Local businesses and officials from the Dornod CGA and GDT reported improved understanding and awareness of the benefits of business enabling and competitiveness reforms.

The forum attracted positive publicity and promoted the awareness and support for USAID development assistance in more than a dozen TV reports and newspaper and online articles.

B. Salient Programmatic Trends and Ongoing Performance Constraints

Per Section F.8 of the BPI project contract, this section discusses salient programmatic trends observed from major activities in process or recently completed. It also highlights unresolved or ongoing administrative constraints to the contractor's optimal performance.

Salient Programmatic Trends:

- Continuing collaboration with GOM.* The BPI project has continued to work closely with the Cabinet Secretary, the government's reform working group and the five agency-level working groups for the doing business reform areas supported by the project. Currently, BPI is working closely with the Cabinet Secretariat, the Ministry of Construction and Urban Development (MCUD), the General Authority for State Registration (GASR), the General Department of Taxation (GDT), the Customs General Authority (CGA), the Ulaanbaatar Municipality, and the Energy Regulatory Commission (ERC). Over the next quarter, BPI will deepen the conversation with the government's reform working groups and the Mongolian private sector through a second National Business Enabling Environment "Working Together for Reforms" series of roundtables culminating in a Forum with the Prime Minister.
- Donor coordination.* During the reporting period the BPI project has been actively collaborating with other donors to support both business enabling environment reform and private sector development. BPI continues to work closely with the European Bank for Reconstruction and Development (EBRD) to develop training-of-trainers (TOT) course using the BPI Proposal Development Toolkit as a basis, slated to launch in October 2013. Over the next quarter, BPI will work closely with the Asian Development Bank (ADB) and the Mongolia National Chamber of Commerce and Industry (MNCCI) to organize the "Working Together for Reforms" public-private dialogue. Finally, under its private sector component, BPI will continue to meet with donor financed projects in Mongolia to leverage the utilization of subject matter experts present in Mongolia for the benefit of QSDC client firms.
- Collaboration with private sector.* The private sector is also increasingly interested in meaningful collaboration with the BPI project. QSDC is focused on forging new and strengthening continued partnerships with leading private sector buyers and potential suppliers. Through strengthened relationships with lead buyers, QSDC has been successful in leveraging lead buyer resources for improved supplier capacity. This quarter, Wagner Asia continued to provide two Six Sigma quality management Mongolian Black Belt trainers to conduct quarterly Six Sigma Green Belt trainings at no cost to QSDC. QSDC continues to explore opportunities for expanded cooperation with Wagner Asia to develop supplier capacity. During this quarter, QSDC facilitated Wagner Asia's commitment to a deeper purchase arrangement with a QSDC supplier client. A formal MOU is expected in the coming quarter. Also this quarter, QSDC accelerated buyer-led supplier development work through a series of productive meetings with additional buyers and potential suppliers for current and new buyer clients. In the coming quarter, the BPI project will continue to support QSDC as it identifies opportunities for local purchasing, negotiates purchase intents, elaborates SDPs enabled with TAF funds, and stewards supplier improvements.



First public training on six-sigma was held in collaboration with Wagner Asia Equipment LLC resulting in 13 new six-sigma green-belts from SMEs in Mongolia.

Ongoing Performance Constraints:

- Over the last two quarters the BPI project has been active in building relationships with new authorities at the working groups' level. BPI has successfully re-established its collaboration with relatively new authorities at Customs, the Tax Department, the General Authority of State Registration (GASR), and the Revenue Division of the Ministry of Finance. BPI recognizes that earning trust and buy-in with these new counterpart authorities is a key element for ensuring the success of reforms to streamline procedures. BPI briefed the new authorities on the status of the reforms and communicated the significance of continuing reform implementation. Nevertheless, building strong relationships with these partners is limited by BPI's ability to respond to additional technical assistance requests given the availability of project resources. Continued success in reform areas will require BPI to be able to provide select technical assistance on an ongoing basis aimed at deepening the reforms and achieving even greater results during the September 2013-2014 project year.
- The BPI project and the QSDC concluded recruitment for the technical staff of the QSDC and the BPI project is now in position to accelerate the achievement of results through both the Quality Assurance Training and the Supplier Development components of the QSDC. BPI project will be supporting QSDC in the recruitment of a full-time accountant that can support the center operations starting in November 2013.
- At the end of this quarter, USAID approved a revolving Technical Assistance Fund (TAF) to support QSDC supplier clients. The objective of the TAF is to allow the QSDC to recycle the funds to finance negotiated supplier development plans with local SMEs in order to address the specific gaps limiting the SMEs ability to fulfill a buyer's demand. BPI anticipates accelerating QSDC transactions now that the grant is approved.
- This quarter QSDC had difficulties delivering training programs for the Quality Training Component due to (1) a lack of local internationally certified trainers and (2) an insufficient promotion strategy. To address this constraint, BPI is supporting the QSDC in the registration process of three Mongolian experts in the areas of Food & Safety and Health & Environment with the Chartered Institute of Environmental Health (CIEH). Additionally, QSDC will continue its current partnership with Wagner Asia to leverage WAE LLC Six Sigma and Health & Safety (two trainers on a quarterly basis for each case) to deliver public trainings for the benefit of Mongolian firms. The BPI strategic communications team is working closely with the QSDC to prepare marketing materials in order to reach more potential training participants.

This quarterly progress report is organized as follows: Section I details work plan implementation for the quarter, organized by PIR; Section II describes project management and administration activities, current personnel, deployment of short-term expatriate technical assistance, as well as project and contract management actions for the next quarter; Annex A describes current long-term project staff and details of short-term expatriate technical assignments; finally Annex B includes reporting of results for the quarter against the BPI project's draft performance monitoring plan.

SECTION I: WORK PLAN IMPLEMENTATION

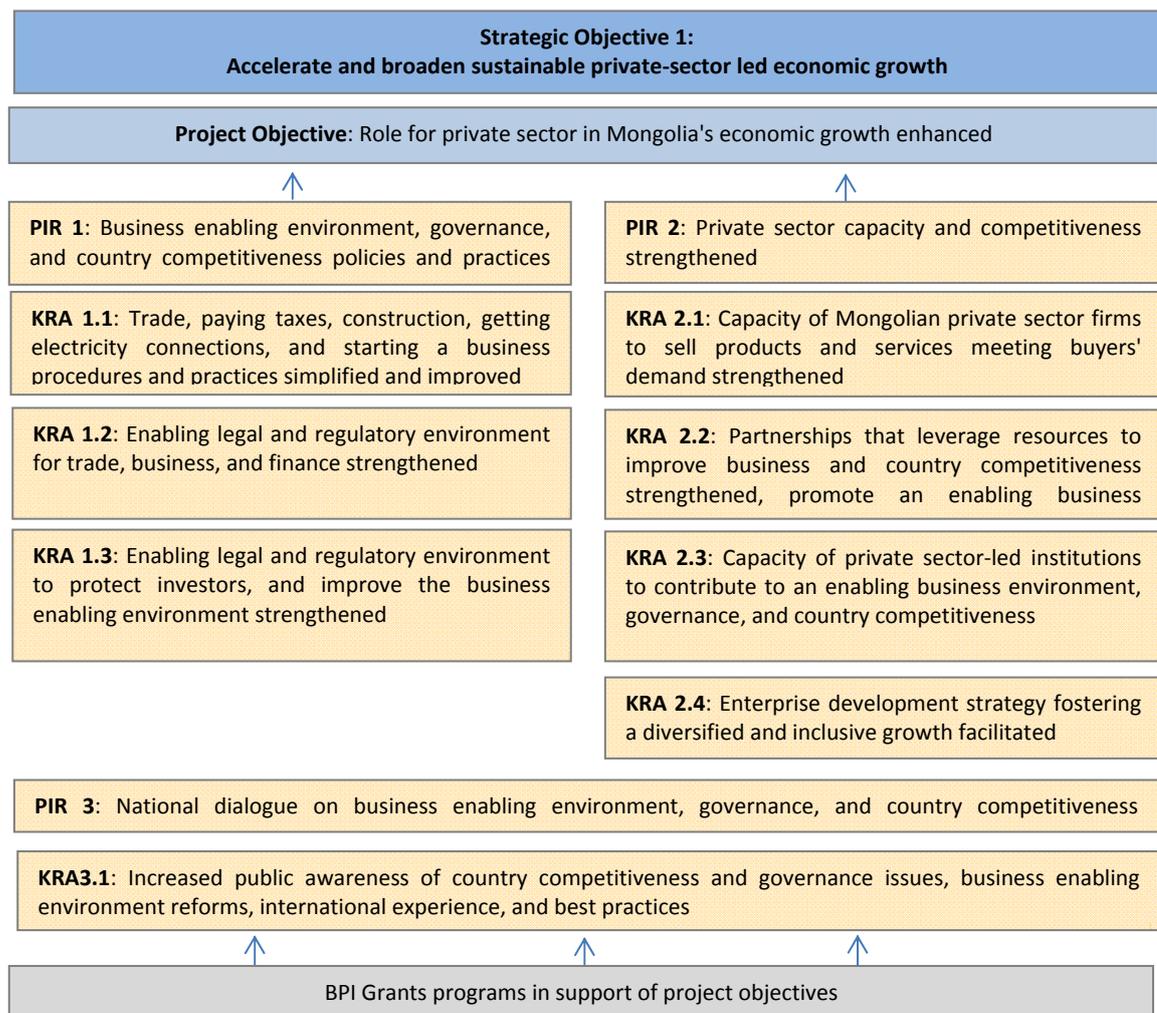
A. Introduction

This Section details the status of project implementation as of the end of the quarter. Below in Part B, we present the framework of the work plan for the three project components included in the submitted Year Three Annual Work Plan: business enabling environment, governance, and country competitiveness policies and practices improved; private sector capacity and competitiveness strengthened; and national dialogue on business enabling environment, governance, and competitiveness strengthened. Part C of this section contains detailed implementation status by project component. PIR 1 and 2 activities are described in the text, with selected PIR 3 cross-cutting national dialogue activities highlighted in text boxes in each section.

B. Work Plan Framework

This quarterly progress report is organized around the three PIRs with corresponding Key Result Areas (KRAs) proposed in the Year 3 Annual Work Plan:

BPI Project Logical Framework



C. Work plan implementation.

PIR 1: Business enabling environment, governance, and country competitiveness policies and practices improved

The current reporting period represents the third quarter of implementation for several reforms adopted by the GOM in the areas of starting a business, trading across borders, paying taxes, dealing with construction permits, and getting electricity. Between July and August, BPI facilitated extensive communications with World Bank's *Doing Business* (DB) team located in Washington DC on the reforms implemented in five areas. The official release of the DB 2014 report on October 29, 2013 confirmed the preliminary response on Mongolia's ranking.

KRA 1.1: Trade, paying taxes, getting new electricity connections, construction, and company registration procedures simplified:

As reported in the previous quarter, the Cabinet Secretariat of Mongolia received communications from the DB team in late June 2013 informing that only one area – Starting a Business (SAB) – was recognized in the Doing Business 2014 survey. The Minister and Chief of Cabinet Secretariat requested BPI and USAID assistance to respond to the DB team on behalf of the GOM. In early July, BPI and USAID arranged five separate teleconferences with DB indicator managers for the areas of starting a business, dealing with construction permits, getting electricity, paying taxes and trading across borders to brief them on initiatives in each area and address questions from the DB team. As a result of the teleconferences, in mid July, BPI submitted the DB team memorandums detailing each reform initiatives with the following content:

1. Regulations and clarifications, as needed, on new reformative actions;
2. Description of publicly available information posted on government websites, including approved regulations, templates and forms, guidelines and other application related documents for services;
3. Data collected from government agencies providing services in five areas;
4. Updates on ongoing reforms that are not going to be captured in DB 2014 but for their future reference;
5. Additional contributors as the DB team did not have adequate contributors for some areas, who are familiar with new procedures from legislative and practical sides.

In an official correspondence dated August 15, 2013, the DB team provided a detailed response and explanation as to why the DB team recognized and did not recognize reforms in each area. The communication provided detailed response on the five reform areas supported by BPI plus the registering property area supported by MCC. The DB team confirmed that reforms in three areas – Starting a Business, Dealing with Construction Permits, and Getting Electricity - would be recognized in the DB 2014 report.

Starting a Business:

The DB team recognized two regulatory changes adopted by GASR and acknowledged by private sector representatives. These reforms include the following:

- (a) Effective February 2013, local companies are no longer required to notarize company documents, which eliminated one procedure for businesses. Only foreign investment companies need to notarize company charters according to the Foreign Investment Regulations and Registration Department of the Ministry of Economic

Development of Mongolia. As confirmed by the DB team, the majority of local companies no longer notarize company documents in practice.

- (b) An agreement between GASR and GDT, effective February 27, 2013, removed the requirement of tax registration by new businesses. GASR has been periodically sharing information with GDT on new business registration and the DB team recognized only this reform. Unfortunately, the reduction of registration days from six to four as a result of reduced internal layers for registration was not considered as it is not yet applied in practice.

Based on the above two reforms, the DB 2014 report, released on October 29, 2013, recognizes an improvement of 11 positions for Mongolia's ranking in the Starting a Business (SAB) indicator. The number of procedures is cut from 7 to 5, with 11 days required to register a business. The improvements resulted in a reduction in costs associated with business registration of 0.5% of income per capita per registration according to the DB 2014 report. Exhibit 1 summarizes the change between 2013 and 2014 rankings.

Exhibit 1. DB 2014: Starting a Business			
	2013	2014	Change
Ranking	36	25	+11
Procedures	7	5	
Time (days)	12	11	
Cost (% p.c. inc.)	2.4	1.5	
Minimum capital	0	0	

According to GASR registry, 9,792 new companies benefited from the streamlined registration procedures and the reduction in cost during the March through September 2013 period. Accordingly, the total savings to the private sector as a direct result from the SAB reform during this period amounts to 2.6 billion MNT or USD1.6 million, using the stated per capita income of \$3,160 USD included in the DB 2014. See Exhibit 2 below. The reduction in time to register a business in Mongolia has also resulted in additional benefits which are not included in the savings calculation below.

Exhibit 2. Total Benefits of SAB Reforms, in MNT

Cost savings of SAB reforms (March-September 2013)	Savings per registration	Total new cases affected	Cumulative cost savings in MNT
Tax registration eliminated (all new legal entities)	268,600	9,792	2,630,131,200
Reduced notary requirements (all new legal entities)			

Dealing with Construction Permits:

The DB 2014 report acknowledges that the Government of Mongolia introduced three risk-based categories for construction projects, following the approval of the Cabinet Resolution #151 in December 2012. As a result of the risk-based categories, the construction permit is issued by the municipality of Ulaanbaatar for medium-risk projects such as the warehouse case-study measured by DB. The DB team also acknowledges the elimination of state expertise for project designs by the state for low- and medium-risk buildings.

DB 2014 reports that Mongolia improved its ranking by 25 positions by saving 30 days for businesses as a result of eliminating the requirements for state expertise for low- and medium-risk buildings. Exhibit 3 demonstrates changes in 2014 against the DB 2013 ranking.

Exhibit 3. DB 2014: Dealing with construction permits			
	2013	2014	Change
Ranking	132	107	+25
Procedures	21	20	
Time (days)	216	186	
Cost (% p.c. inc.)	33.4	7.6	

Exhibit 4 shows the benefits to date due to improvement in the dealing with construction permit reform area. The DB 2014 report estimates a reduction in cost of 21.4% of per capita income due to the improvements in the ease of dealing with construction permits. According to the permitting authority, there were 1,154 new permit applications processed under the new procedures from March through September 2013. In total, the USAID supported reform under this indicator has resulted in total savings to the private sector in the amount of 1.3 billion MNT or USD 780,381 for the period identified above, using the stated per capita income of \$3,160 USD included in the DB 2014.

Exhibit 4. Benefits for Construction Reforms

Construction reforms cost savings (February-October 2013)	Savings per application	Total new cases affected	Cumulative benefits
Eliminating state expertise for low- and medium-risk projects	1,149,608	1,154	1,326,647,632

Getting Electricity:

DB 2014 report recognizes improved efficiency and associated costs to getting electricity connections in Mongolia. The Energy Regulatory Commission (ERC) approved new connection procedures that streamlined the previously enforced procedures, reducing the time and costs associated with getting electricity. As a result of the reform, the Ulaanbaatar Electricity Distribution Network (UBEDN) has reduced the days between applying for and receiving electricity connection by 22. In total, Mongolia improved 9 positions in DB 2014 getting electricity rankings from 171st to 162nd, as shown in Exhibit 5.

Exhibit 5. DB 2014: Getting electricity			
	2013	2014	Change
Ranking	171	162	+9
Procedures	8	8	
Time (days)	126	104	
Cost (% p.c. inc.)	1,012.6	742.7	

Exhibit 6, below, shows the benefit to date due to improvement in the Getting Electricity indicator. The DB 2014 report indicates that the reform for this indicator has resulted in a cost decrease of 6.5% of income per capita. According to UBEDN there were 2,582 new cases processed under the improved procedures during the period of March through September 2013. During this period, the private sector savings amounted to a total of 902 million MNT, using the stated per capita income of \$3,160 USD included in the DB 2014. The total benefits accrued to the private sector goes beyond the reduction in the direct costs associated with this indicator. Under this reform, UBEDN made it easier for people to check their connectivity possibility in various points in Ulaanbaatar through an online tool and the overall time for getting new electricity connections was reduced by 22 days.

Exhibit 6. Cumulative Benefits of Getting Electricity Reforms

Savings (May-September 2013)	Description/ Formula	Savings per defined unit (MNT)	Cumulative transactions	Cumulative cost savings MNT
Savings to business from the elimination of the fees for testing the installation	Savings per transaction X number of applications processed	349,180	2,582	901,582,760

Trading across Borders:

Amendments to the customs law approved by Parliament in January 2013 reduced the number of required documents to export and import to 3 each. For special goods, the required number of documents has been reduced to a maximum of 5. In addition, around 38 percent of all cargo is being cleared through the green and yellow channels of the CGA risk management system, resulting in significant reduction in costs and time to the trading community.

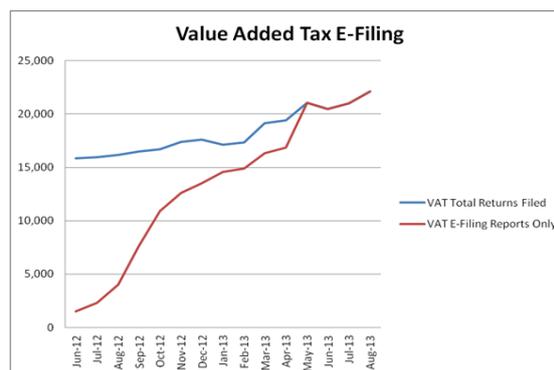
Exhibit 7. DB 2014: Trading Across Borders			
	2013	2014	Change
Ranking	180	181	-1
Documents export	11	11	
Time export (days)	49	49	
Cost to export	2,555	2,745	
Documents import	13	13	
Time import (days)	50	50	
Cost import	2,710	2,950	

DB 2014 registered no change in the number of documents and the time required for export and import activities in Mongolia. Nonetheless, due to reforms achieved in other countries, Mongolia lost one position in DB 2014 ranking (Exhibit 7). Over the next six months, BPI will work with CGA and the private sector to ensure that the amended customs law is fully implemented and that trade facilitation takes on a higher priority for the agency and the country.

Paying Taxes:

The main achievements in this area have been a) the continued implementation of GDT e-filing system which now reaches more than 50 percent of taxpayers, b) increased capacity at GDT to provide taxpayer services, and c) the introduction of e-payment to complement the e-filing reforms. Once completed, these reforms will significantly lower the number of tax payments and the time and cost associated with tax compliance in Mongolia, as measured in DB. In addition to improving Mongolia's ranking in the next DB report, these reforms will significantly contribute to reduced tax avoidance, under-reporting and overall Mongolian shadow economy. No change was registered in DB 2014, as in Exhibit 8, as compared to the previous year. However, due to reforms in other countries, Mongolia dropped one position in the ranking.

Exhibit 8. DB 2014: Paying Taxes			
	2013	2014	Change
Ranking	73	74	-1
Payments	41	41	
Time (days)	192	192	
Total tax rate (% of GDP)	24.6	24.6	



KRA 1.2: Enabling legal and regulatory environment for trade, business, and finance strengthened

In addition to the working group level reforms, this quarterly reporting period the BPI project continued providing on-going technical assistance on trade facilitation as follows:

Improving Mongolian Customs' Post Clearance Control Capacity

In response to a request for technical assistance, BPI has been working closely with the Customs General Authority (CGA) to support the Post Clearance Audit (PCA) department in providing a comprehensive training package for customs officers to improve their capacity to conduct post clearance audit and compliance. PCA serves an important role in upgrading the customs risk management system by continually providing information on audit results to be reflected in risk selectivity criteria. Customs risk management and post clearance audit are essential tools used for trade facilitation although their impact to improvement of Mongolia's "Trading Across Borders" indicator in the World Bank's Doing Business report is limited by the DB methodology.

From September 2 to 20, 2013, BPI delivered two seven-day training courses for 21 customs officers from the PCA and other departments including key members of a working group on drafting laws and regulations, including: (i) a six-day valuation course on Methods 2-6 of GATT Customs Valuation techniques; (ii) a one -day course on Customs Post Clearance Audit Interview techniques, and (iii) a four-day course on Tax Planning, Tax Avoidance, Fraud and Transfer Pricing, resulting in a total of 207 person/days training. By having a cadre of skilled PCA staff, the CGA started to collect more customs duties. Using the recently obtained knowledge on GATT and Customs Valuation Agreement, PCA staff collected additional revenue of more than 3 billion MNT. The acceptance rate by traders without appealing to a court grew 2.3 times in the reporting quarter compared to the previous quarter. In total, 31 customs officers obtained certificates of completion. At the ceremony of presenting certificates to trainers, CGA Director General O. Ganbat expressed his gratitude to USAID for the capacity building and requested his staff to reflect respective recommendations into a new series of customs laws including the Customs Procedure Law, Customs Authority Law, and Customs Tax and Tariff Law to be drafted and submitted for adoption.

KRA 1.3: Enabling legal and regulatory environment to protect investors, enforce contracts, and resolve insolvencies strengthened

As reported in the previous QPR, the Corporate Governance Diagnostic Toolkit was officially launched at the fifth Corporate Governance Forum in May 2013. In the reporting period, BPI in coordination with the Corporate Governance Development Center

disseminated the toolkit CD to private companies. On September 18, BPI hosted an EJC event with panelists from the private sector who have used the toolkit to assess their corporate governance standing with relation to local legislation and international best practices. More details are provided under the section C3.

PIR 2. Private sector capacity and competitiveness strengthened

During this quarter QSDC, with assistance from the BPI project, completed its recruitment for technical staff. QSDC has strengthened its management team with a local Executive Director and a new BPI expatriate Private Sector Advisor. In addition, the team has incorporated a local training coordinator to the team. We are confident that with these resources in place, QSDC will accelerate its pace for achieving results in both the Quality Training and the Supplier Development Components.

Regarding the Quality Training Component, in this quarter QSDC had difficulties delivering training programs due to (1) a lack of local internationally certified trainers and (2) an insufficient promotion strategy. This quarter, QSDC initiated registration of three Mongolian experts in the areas of Food & Safety and Health & Environment with the Chartered Institute of Environmental Health (CIEH). Additionally, QSDC will formalize its current partnership with Wagner Asia through a Memorandum of Understanding (MOU). Through this MOU, QSDC will leverage WAE LLC in-house staff capabilities in the areas of Six Sigma and Health & Safety (two trainers on a quarterly basis for each case) to deliver public trainings for the benefit of Mongolian firms.

Regarding the promotion strategy, QSDC is collaborating with the BPI strategic communications team to prepare marketing materials in order to reach more potential training participants.

In the Supplier Development component, QSDC signed Supplier Development Plans (SDPs) with Nomin Uguuj and is prepared to sign two SDPs with Geomach and Bitube. Further, the team has focused on increasing its portfolio of potential buyers and related suppliers through several meetings and trips to different cities in Mongolia, specifically South Gobi and Zavkhan. QSDC will work in turning those contacts into specific SDPs as well as strengthen its activities for identifying new businesses. In September, a \$250,000 Technical Assistance Fund (TAF) was approved by USAID. A revolving investment fund administered by QSDC, the TAF will enable QSDC to provide timely, appropriate and niche investments to QSDC clients that will directly enable them to meet sales goals included in their SDPs. In addition to the buyer-led approach, the TAF is a differentiator for QSDC in the marketplace and promotes QSDC's long-term sustainability.

In August, QSDC responded to a USAID/Washington Development Grant Proposal (DGP) Request for Applications. The DGP is a highly competitive process where NGOs from all USAID recipient countries compete for grants with project ideas that are consistent with their corresponding countries' objectives. In the case of Mongolia, the goals focus on governance and economic growth. A DGP grant would enable QSDC to expand both its supplier development and training services to grow the nascent organization and ensure its financial stability. Through the application process, QSDC developed and honed its institutional materials and processes, as the team learned about responding to RFAs and developing tailored applications for funding, and practiced working together as a team to elaborate a technical concept and budget

KRA 2.1: Capacity of Mongolian private sector firms to sell products and services meeting buyers' demand strengthened

Transaction-based assistance: During the last quarter, QSDC met with five large buyers in the mining and energy sectors. They provided QSDC with a list of nine products—from

salvage assembly to personal protection equipment—that they would prefer to source and purchase domestically. Based on these product requirements, QSDC assessed the market to identify potential suppliers. Of those, QSDC met with 39 Mongolian suppliers to assess their capacity to meet the needs of these buyers. As mentioned in previous reports, common gaps across suppliers include low product quality due to obsolete equipment/technology or limited workers’ skills, such as Geomash’s obsolete equipment/technology and Khanbogd Bayjikh’s limited skilled workforce to manage millions in inventory.

During the reporting period, QSDC provided assistance to Meat Export in the adoption of a HACCP protocol for their meat manufacturing facility. As of result of QSDC intervention, Meat Export was able to secure three new large buyers, significantly expanding sales. Meat Export’s increased sales during this quarter reached 401.3 million MNT.

Summary Table: Potential Buyers and Suppliers	
Buyers	
Buyers:	Buyer specification for:
<ol style="list-style-type: none"> 1. Wagner Asia 2. General Electric 3. Petrovis 4. Oyu Tolgoi 5. Bayan Airag 	<ul style="list-style-type: none"> • Salvage assembly • Engine repair and servicing • Uniforms • Personnel protection equipment • General engineering supplies • Sea-buckthorn juice and concentrate • Bakery and confectionery products • Vegetables • Iodate salt products
Selected Suppliers	
Suppliers:	Potential product offerings:
<ol style="list-style-type: none"> 1. Mon Tsakhim 2. Darkhan Geomach 3. Nomin Uguuj 4. King Fruit 5. Mongol Market 6. Clean Fuel 7. ERMA 8. Bitube 9. Khanbogd Khugjikh 10. Khanbogd Bayjikh 	<ul style="list-style-type: none"> • Engine repair and servicing • Salvage assembly and metal piece repair • Bakery and confectionery product • Sea-buckthorn juice and concentrate • Processed ready-to-eat product • Biodiesel • Vegetables • Construction wall wire mesh • Personnel protection equipments • General engineering supplies

QSDC is a new organization that will require an expansive network of buyers and suppliers in order to be sustainable and knowledgeable enough about the market of potential suppliers. During the reporting period, BPI Private Sector Advisor left the project while the organization was in the process of recruiting for a local Executive Director. To avoid losing momentum in the identification of potential clients for the QSDC supplier development component, the BPI project issued a small subcontract to local organization Development Solution (DS) to extend QSDC reach to buyers and suppliers to identify their needs, requirements, gaps, and business opportunities. DS assessed 25 suppliers’ capacity, defined specific gaps missing to fulfill orders from buyer and analyzed upstream opportunities for improvement. From these 25 companies QSDC has selected 8 potential suppliers for transaction based assistance.

Pre-selected clients from Development solutions

Nº	Company	Products
1.	Clean Fuel LLC	Biodiesel
2.	Poli Market LLC	Packaged and smoked pork meat products
3.	ERMA BB LLC	Canned vegetables salads, jams and juices
4.	Tumurt Tugs Khiits LLC	Metal products:
5.	Ask Eba LLC	Internal and external decorations service provider using compressed stones
6.	Megaton Minerals LLC	Integrated geological service: research of mining resources and facilitation of official permits/licenses.
7.	Tsogt Orshikhui LLC	Uniforms
8.	Altan Aalz LLC	Working glove producer

QSDC's ability to finalize supplier development plans (SDPs) for companies identified as potential suppliers to identified buyers was limited due to the fact that BPI and USAID were not able to finalize the establishment of the Technical Assistance Fund (TAF) within the QSDC. Nonetheless, after a thorough analysis of their respective businesses, QSDC prepared SDPs for three companies this quarter.

Bakery and confectionery products: In July, QSDC met with Bayan Airag Exploration, one of the biggest mining company to assess their demand for locally produced products. The buyer confirmed demand for bakery and confectionery products and willingness to support local suppliers from the local provinces where they operate. The buyer defined a supplier of confectionary products that has been supplying them for five months and meets some requirements but needs assistance to fully satisfy their demand. In addition, the buyer demonstrated its commitment to this supplier by financing food and safety trainings for this particular supplier. QSDC met with the supplier and identified gaps limiting its capacity to satisfy buyer's demand. As a result, QSDC signed a SDP with the supplier, Nomin Uguuj. QSDC will help this new client purchase equipment including a commercial oven and a kneading machine in order to increase the efficiency and capacity of their production line. In addition, QSDC is facilitating discussion between the supplier and the buyer to leverage additional support for the local supplier. Increased sales from the identified intervention are estimated at 63.4 million MNT for the first year, a 10:1 return on QSDC investment.

Wire mesh construction company: QSDC met with large construction companies, who confirmed satisfaction with the quality and services received from Bitube LLC, a local wire mesh supplier which resulted in four purchase orders for Bitube to be fulfilled over the next four months. In order to take advantage of these purchase orders, QSDC and Bitube agreed to sign a SDP and TAF agreement in the upcoming quarter. QSDC's assistance will provide working capital to allow Bitube to acquire the required raw material and capacity to fulfill purchase orders for four new buyers over the November 2013 – February 2013 period. As a direct result of QSDC assistance, Bitube estimates that its sales will increase by 183 million MNT over the next 4 months.



Bitube, a female operated metal mesh supplier is increasing its sales through new buyers facilitated by the QSDC.

Salvage assembly and metal piece repair: During the last quarter, Darkhan Geomach, a metallurgical company received assistance from QSDC to increase the quality standards of

its metal in order to meet the requirements of large mining companies. QSDC provided an international expert to provide technical assistance. As a result, Geomach metal products' durability has increased by 20%. After quality improvements were introduced and adopted, QSDC introduced the metal company



Geomash, a Mongolian metal company is improving the quality and precision of its metal salvaging capacity with the help of QSDC

to Wagner Asia, the local distributor of Caterpillar mining equipment, as they were seeking a local salvage assembly supplier. Wagner Asia spends millions of dollars sending engines overseas for repair, recondition, and overhaul. As a result of the connection facilitated by the QSDC, Wagner Asia agreed to provide Geomach with a trial order to test their capacity to meet Caterpillar standards. Geomach was able to meet Wagner Asia standards after upgrading its measurement tool and is now working on a second and larger trial order from Wagner Asia. QSDC has high expectations for the relationship between Geomach and Wagner Asia. After a successful first response to a trial order, Wagner Asia believes that Geomach is ready to become its local salvaging service supplier in Mongolia. Geomach will need to invest in equipment in order to respond to the expected level of service work required by Wagner Asia. QSDC is working closely with Geomach and Wagner Asia to gathering specific information for a new SDP, which will likely also yield a TAF agreement for the purchase of new equipment.

In the above cases, QSDC has started to provide comprehensive business advisory services addressing production and operations, inventory and cash management, and sales strategies. QSDC's proposed financial assistance represented only one component of the total support package and each financial award was matched by a client contribution that exceeded the QSDC portion of the total investment cost. QSDC has confirmed that client firms are willing to provide repayment to the QSDC technical assistance fund (TAF) from realized increased sales.

KRA 2.2: Partnerships that leverage resources to improve business and country competitiveness, promote an enabling business environment and good governance facilitated

Changing Corporate Culture in Mongolia. On September 18 the Business Plus Initiative (BPI) project hosted an event with the Press Institute of Mongolia and the Economic Journalists Club (EJC) to discuss the benefits of sound corporate governance frameworks and practices for companies as well as the investment climate in Mongolia and encourage the use of the Corporate Governance Diagnostic and Scoring Toolkit



USAID Representative to Mongolia, Frank Donovan shared his enthusiasm about the engagement of the private sector and their use of the diagnostic toolkit by saying, "corporate governance infuses the democratic values of fairness, accountability, responsibility, and transparency into corporations."

developed by USAID through the Business Plus Initiative (BPI) project -- a self-assessment tool for Mongolian businesses to identify and diagnose corporate governance weaknesses in their companies. At the event, representatives from IFC and the Corporate Governance Development Center made clear that those companies and governments with good corporate governance practices are being rewarded with higher rates of growth in GDP and investment. Private banking sector representatives stressed the importance of strong corporate governance in the banking sector given that a well-regulated banking system is especially important in Mongolia, where most of the external financing for corporations comes from banks. The event was covered in twenty-two television reports and newspaper and online articles indicating that corporate governance is a major issue in Mongolia's development and an indicator to the health of the business climate which affects investment, in turn jobs and the welfare of Mongolians.

KRA 2.3 Capacity of private sector-led institutions to contribute to an enabling business environment, governance, and country competitiveness strengthened

Quality Assurance Trainings: During this quarter QSDC experienced difficulties organizing training programs. One of the main reasons was the lack of certified trainers; the other was the difficulty to reach potential participants.

In order to overcome the first problem, QSDC is working to certify four experts in the areas of Food & Safety as well as Health & Environment with an internationally accredited training institution in the UK. QSDC is assisting them in the application process, and by the end of the next quarter we expect to have new certified trainers.

As a complementary strategy QSDC has begun to offer, in partnership with Wagner Asia, customized Six Sigma training programs to individual firms. QSDC submitted one proposal to a large firm this quarter and plans to expand this line of services in the future given the opportunity to work with clients for extended periods will generate additional revenues for QSDC.

PIR 3. National dialogue on business enabling environment, governance, and competitiveness strengthened

This component is responsive to PIR 3, National dialogue on business enabling environment, governance, and competitiveness strengthened. Per the BPI logical framework, there is only one KRA under this PIR, KRA 3.1: Increased public awareness of country competitiveness and governance issues, business enabling environment reforms, international experiences, and best practices. PIR 3 and KRA 3.1 are cross-cutting, and some of the BPI activities within this component are discussed in the above sections. Additional activities are described below.

KRA 3.1: Increased public awareness of country competitiveness and governance issues, business enabling environment reforms, international experiences, and best practices

The BPI project continued to actively collaborate with subcontract partner, the Press Institute (TPI) of Mongolia and their Economic Journalists Club (EJC). During this reporting period, the BPI project held five events for EJC members: two roundtables on supplier development and corporate governance, two trainings to build the capacity of journalists reporting on economic issues and one public-private dialogue on business enabling reforms described in detail in this section. BPI project staff member also assisted TPI to organize additional events including the "Street" project event sponsored by the Ministry of Finance. The broadening of EJC collaboration with government agencies is an important milestone as EJC develops into a more vibrant and important voice in Mongolia.

In support of PIR I, the strategic communications team supported the Government of Mongolia in communicating the legal and regulatory changes to the World Bank's Doing Business survey teams and private sector contributors to help ensure important reforms are captured for the 2014 survey.

In support of PIR 2, the strategic communications team provided significant assistance to the QSDC this quarter. Given that market demand is the starting point for every QSDC transaction with suppliers, QSDC solutions rely heavily on relationship building, improved marketing and communication strategies, and organizational development. This included development of informational marketing materials highlighting QSDC's services to share with potential clients and partners, producing videos demonstrating successful QSDC case studies, providing editorial and graphic support for quality training advertisements and training materials, providing guidance in concept development for tenders, facilitating partnerships with buyers, and organizing events related to supplier development to raise awareness of the importance of building the capacity of local firms and connecting them to large buyers.

Economic Journalists Club: List of Economic Events July-September 2013

Topic of Discussion per Event	Date
1. Local Supplier Development	July 3, 2013
2. MoF "Street" Project Event	Aug 15, 2013
3. Analytic Writing Training	Aug 29, 2013
4. Corporate Governance Toolkit event	Sep 18, 2013
5. EJC Economic Journalism Training for Journalists in Rural Areas	Sep 25, 2013
6. "Getting Real on Reforms" in the Countryside PPD Roundtable	Sep 26, 2013

Getting the word out on local supplier development. On July 3, 2013 the BPI project hosted a roundtable with the Press Institute of Mongolia and the Economic Journalists Club to raise awareness of the need to enable local small and medium enterprises (SMEs) in Mongolia's emerging market to gain access to sales opportunities with large companies as well as the increasing recognition of local procurement as a strategic business tool by international companies. The panelists brought different perspectives from their unique roles in the supply chain including the Quality Supplier Development Center (QSDC), an intermediary advisory service provider for SMEs, SME local suppliers, large domestic and international buyers, and government officials. The event was widely publicized via nineteen different TV reports and newspaper and online articles.

Increasing E-payment in Mongolia. In September, BPI provided public outreach assistance to the GDT sponsored event for large taxpayers and Doing Business contributors to open dialogue on the current tax reform status, the benefits of increasing e-payment for businesses and individuals as well as the importance of improving Mongolia's World Bank Doing Business "Paying taxes" ranking. The event served to emphasize the critical importance of e-filing and e-payment and reinforced GDT's commitment to improve the tax environment for taxpayers with support from the BPI project. BPI also provided GDT with international best practices for implementing e-payment through internet banking to facilitate e-payment solutions with local commercial banks. In the coming quarter, BPI will provide hardware and technical support to support completion of the GDT's e-filing and e-payment system as well as public outreach support through the BPI communications team.

Analytical Writing and Data Journalism Workshop. BPI and local partner The Press Institute hosted the Analytical Writing and Data Journalism Workshop on August 29, 2013 focused on improving the capacity of local media to report on key economic development topics. The workshop convened over 20 participants from the Economic Journalists Club addressing today's most critical concerns in economic, social, and technological developments that are reshaping journalism in addition to our normal beats related to economic development. Through the training program, practical case studies and hands-on experience at the workshop, EJC members were able to hone in on their critical analysis and business reporting skills. Participants left the workshop enthusiastic about putting their knowledge into action in both written and multimedia work to engage audiences, create public understanding and reduce the public uncertainty of important economic and business issues.



August 29, 2013- BPI and partner TPI hosted the Analytical Writing and Data Journalism Workshop for 20 media professionals.

Public-private dialogue in the countryside. On September 25-26 BPI in a joint effort with the Press Institute, the General Department of Taxation (GDT), and Customs General Authority (CGA) hosted the “Getting Real on Reforms” forum in the Dornod aimag. The forum, with over 40 participants and covered by 17 media outlets, was to encourage and engage the private sector outside of the capital city in the reform process to ensure that the Government stays informed of business needs as reform options are being considered. Much of the discussion around business environment reform initiatives is concentrated in Ulaanbaatar. BPI recognizes that input and awareness of the reform initiatives from stakeholders from across the country is imperative for accelerating and cementing Mongolia's standing in the Doing Business ranking. The project's strategy for this workshop resulted in bringing the private sector in Dornod and surrounding aimags, together with public officials from the capital city to encourage on-going dialogue on reform initiatives throughout Mongolia, resulting in the rural private sectors' improved understanding and awareness, as well as contribution to the benefits of business enabling and competitiveness reforms.

In addition to the forum, BPI in cooperation with the Economic Journalists Club (EJC) organized two days of complementary events in Dornod, including a half-day economic journalist training and study tours to Dornod local Customs office, Dornod local Tax



BPI and partner Economic Journalists Club (EJC) organized study tours to Dornod local Customs office, Dornod local Tax office, and the 'Dornod-Guril' flour factor for journalists, government officials, and local private sector business leaders.

office, and the 'Dornod-Guril' flour factor. This result was improved reporting skills and capacity of rural media professionals and increased understanding of the functions of local government agencies and challenges facing the private sector for 24 journalists from Dornod, Khentii, and Sukhbaatar aimags.

D. BPI Activities by the Numbers

During the last reporting period, the BPI project submitted Year 3 Annual Work Plan and is reporting against those revised targets beginning this quarter. Annex B to this quarterly performance report includes the submitted indicators and targets presented in the revised performance monitoring plan, and reports against targets for this quarter.

E. Next Steps for the Coming Quarter

Major activities or key actions projected for the next quarters, by project component, are detailed below.

PIR 1: Business enabling environment, governance, and country competitiveness policies and practices improved

This quarter represents the first quarter for BPI Annual Work Plan Year 3. Given the natural slow down of project activity during this summer period of July and August, BPI will focus on accelerating implementation during the next quarter in all three of the project's components. Below are anticipated and/or potential tasks for the coming quarter which will focus primarily on six tasks: (1) consolidating QSDC organizational and institutional capacity; (2) completing supplier development plans for local suppliers in the sectors of construction, electrical repair/prevention for wind turbine and heavy equipment, biofuel, food production and food processing, metal products production for mining companies, among others; (3) completing the technical implementation of the Online Company Registration System which supports the reform of Starting a Business; and (4) continuing the process of documenting the positive impact of reforms on private sector development in Mongolia. (5) Completion of e-payment programming and hardware procurement (6) Organize training with tax inspectors and taxpayers on educating about new e-filing system and e-payment.

Trading Across Borders: Over the next quarter BPI will provide financial audit training to the CGA PCA department in order to strengthen the PCA system, which will result in a higher proportion of cargo cleared through the “green” and “yellow” channels under the CGA risk management system, and will help to increase cost and labor efficiency. In the next quarter BPI will provide an international expert to provide technical assistance support to the CGA Risk Management department. Finally, BPI will work with the Mongolia National Chamber of Commerce and Industry (MNCCI), Customs and the Cabinet Secretariat to organize a public-private dialogue on how the TAB reforms are being implemented from the private sector point of view.

Dealing with Construction Permits: BPI will intensify its coordination with the MCUD to ensure that the new draft Construction Code which has been developed with BPI assistance can be submitted to Cabinet for revision and approval and complete for Parliament submission before the end of the current fall session that began in October 1, 2013. BPI will remain engaged with the Ulaanbaatar Municipality to ensure that recommendations provided by BPI short-term advisors who visited Mongolia earlier this year continue to be implemented in order for the OSS to provide effective services such as construction permitting.

Starting a Business: During the current quarter subcontractor Alfa XP finalized the Beta version of the Online Company Registration System, and initiated final user acceptance testing with GASR. Over the next quarter, the BPI project will work closely with GASR and Alfa XP to ensure the technical completion of the new online registration system. Simultaneously with the OCRS the project will continue to support the GASR working group to ensure that the new BPI supported company registration legal package, currently at the Ministry of Justice, can be submitted to the Cabinet for revision and

approval and prepared for Parliament submission at the beginning of the fall session beginning October 1, 2013.

Paying Taxes: Over the next quarter the BPI project will support GDT in enabling e-payment options through internet banking solutions. As a result of BPI recommendations in the conceptual stages of the e-payment project planning, the GDT modified its strategy on e-payment and will now focus on working with internet providers to establish secure connections rather than individual fiber optic connections with each bank. The internet connection solution is faster and less costly than the initial plan and is in line with international best practice. BPI will provide support to the GDT e-payment project, including IT procurement and software development. GDT has already agreed to provide a team of experts to assist the local IT company supported by BPI in order to accelerate implementation and ensure completion of the e-payment project within 2-3 months.

In addition, GDT and BPI will collaborate in implementing a broad-based training program for both tax officers and taxpayers in the areas of e-filing and e-payment. The training will aim to educate taxpayers on the new e-filing platform and new e-payment options in order to ensure that Mongolia completes the e-filing reform under the doing business framework. Once e-filing and e-payment is in place and used by more than 50 percent of taxpayers, the Doing Business Report would reduce the number of payments for VAT and CIT to one each, even if multiple payments are made throughout the year. Hence, the total number of tax payments would be reduced from 41 to less than 19. This is considered a second generation reform that will ensure Mongolia continues to improve its rating in the 2015 Doing Business Report. BPI will continue to work closely with GDT to determine if there are additional areas for potential collaboration with the project, taking into consideration the availability of resources and the timeframe remaining.

PIR 2: Private sector capacity and competitiveness strengthened

KRA 2.1 Capacity of Mongolian Private Sector firms to sell products and services meeting buyer's and market demand strengthened

With a complete team and Technical Assistance Fund (TAF) in place QSDC will focus on two main activities in the upcoming quarters: (1) identification of new business opportunities; and (2) consolidation of the potential business linkages made in the previous months. The goal is to reach eight SDPs (in some cases with their respective TAF agreements) by the end of the year.

Likewise, the first TAF agreement, between QSDC and Bitube LLC, is expected to be signed in October.

New business identification: One of the main challenges for QSDC during the upcoming quarter is to significantly increase its business portfolio. Therefore, it will focus intensely on new business screening and identification. In this regard, the team will rely on both collective and individual strategies.

Regarding the collective strategies, QSDC is planning to organize a dissemination event by the end of October together with the Mongolian National Chamber of Commerce and Industry. Similarly the QSDC will present its services at the December meeting of the Business Council of Mongolia (BCM). BCM currently has more than 250 members, including a mix of both large and small Mongolian and foreign-based entities in diverse sectors.

In terms of individual strategies, QSDC will continue scheduling meetings with both large companies (from high-value sectors such as mining, construction and energy) and medium/small companies as potential suppliers.

Consolidating current businesses opportunities: Besides the three SDPs already signed (with their respective TAF agreements), QSDC expects to add at least two others from contacts made in previous periods. For example, Geomach (supplying Wagner Asia) and Bitube (supplying four construction companies). QSDC expects to finalize SDP's with local suppliers recommended by international buyer, General Electric.

KRA 2.2 Partnerships that leverage resources to improve business and country competitiveness, promote an enabling business environment and good governance facilitated

Collaboration with EBRD: In Mongolia large companies, the donor community, and the government are increasingly issuing open tenders to identify firms and individuals with the right mix of skills, services, and products to meet their procurement needs. However, many Mongolian companies and consultants are inexperienced with proposal development. To address this issue, in the spring of 2012 the BPI project introduced a proposal development tool designed to demystify the process. The tool uses examples and descriptions to explain how to write a technical volume and how to think through preparing a cost proposal. To date, the BPI project has trained more than 50 Mongolian businesses on the use of the tool.

The demand for these trainings led the BPI project and the European Bank for Reconstruction and Development (EBRD) to work together to develop a TOT course for teaching the proposal development process. In November of the next quarter, EBRD is financing this TOT course under the Support to SME Development in Mongolia project, which is a five-year, €3.8 million project funded by the European Union. Using the toolkit developed by the BPI project, EBRD will hold a three-day training course, referencing USAID's support and distributing the toolkit to representatives of more than 20 companies.

KRA 2.3 Capacity of private sector-led institutions to contribute to an enabling business environment, governance, and country competitiveness strengthened

In the next quarter, QSDC is planning to organize four training events with a total of 200 persons/days delivered. The first training event will be a Marketing/Competitiveness Training. Additionally, QSDC and Wagner Asia are planning to conduct the second Six Sigma training for CEOs in December.

One of the main limitations faced during the last quarter was the lack of certified trainers for different topics. In order to overcome that problem, QSDC will sign an MOU with Wagner Asia Equipment (WAE) LLC, through which QSDC will leverage WAE LLC in-house staff capabilities in the areas of Six Sigma and Health & Safety to deliver public trainings for the benefit of Mongolian firms.

In the same vein, BPI is supporting QSDC in the application process for certifying five experts in the areas of Food Safety and Health & Safety with the Chartered Institute of Environmental Health (CIEH). QSDC expects these experts to obtain their certifications the upcoming quarter. This will help the QSDC to build in-house capacity so that QSDC can conduct trainings on subject matter topics.

PIR 3: National dialogue on business enabling environment, governance, and competitiveness strengthened

KRA 2.3 Increased public awareness of country competitiveness and governance issues, business enabling environment reforms, international experience, and best practices

Continued Cross-Cutting Engagement: In the coming quarter, the activities of PIR 3 will continue to communicate the work being done in PIR 1 and PIR 2 to the general

public and stakeholders, including government and the private sector. Specifically the project's strategic communications team will focus on publicizing through roundtables, forums, and press conferences the World Bank Doing Business 2014 report on Mongolia's business enabling environment reforms which will be released in the upcoming quarter. For example, BPI will expand its reach to rural areas outside of the capital city in the coming quarter given the positive responses and follow-on requests from GDT and CGA for continued public outreach in the countryside as a result of the public-private dialogue forum pilot "Getting Real on Reforms in the Countryside" in the Dornod aimag this reporting period.

In the coming quarter, given that several BPI initiatives related to BEE will be finalized, the project strategic communications team will focus on increasing the capacity of targeted GOM entities to communicate reforms and simplified procedures to the public. For example, at the request of GDT, the project strategic communications team will assist the agency with a public education campaign to increase both taxpayers' and tax officers understanding of the new e-filing and e-payment system. Additionally, the project expects that the law accompanying the OCRS will be finalized in the coming quarter, and BPI will work with GASI to publish the new law on the agency and project website in addition to organizing an official launch for the new system.

Furthermore, the project's strategic communications team will ramp-up activities related to policy dialogue with the private sector in the coming quarter to ensure increased public awareness and understanding of BEE reforms and facilitate national dialogue on competitiveness. For example, the project will implement a three phased public-private dialogue series, "Year Two Business Enabling Environment Road Map Initiative" to continue the conversation between GoM reform teams and private sector representatives initiated by the project last year. This is particularly important because Mongolia's Doing Business 2014 ranking remained stagnant, despite significant improvement in 3/6 reform areas: "getting electricity", "dealing with construction" and "starting a business" indicators. Unlike last year, this upcoming public-private dialogue initiative is not focused on identifying reform areas rather to provide the GoM and private sector a space to examine the progress on the 6 reform areas selected from year one and double down on their commitment to improve the country business enabling environment in year two with a concrete action plan. In addition, BPI aims to transfer this process to a local partner in order to institutionalize this process so that public-private dialogue may continue beyond the life of the project.

BPI will also continue to provide significant support to the QSDC to ensure that the organization is well positioned to leverage resources from both private sector and other donors in order to maximize assistance to Mongolian SMEs which will allow local suppliers to take advantage of existing market opportunities.

PIR 3: Planned Activities for Next Quarter

- Execute Year Two Business Enabling Environment Reform Initiative public-private dialogue series.
- Expand BEE and competitiveness public outreach to rural areas through countryside public-private dialogue forums.
- Increase capacity of local media through at least 2 targeted journalism trainings and support for local partner TPI's program.
- Publish ten to twenty articles by the local media on BPI work and accomplishments.
- Attract positive publicity and promote awareness and support for USAID

development programs through bi-weekly BPI Web site and Facebook updates to share BPI accomplishments, and publish monthly e-newsletter with program updates.

- At least five EJC workshops on topics including newly released DB 2014 reforms.
- At least one public awareness campaign for technical activities such as e-payment.

SECTION II: PROJECT MANAGEMENT AND ADMINISTRATION

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 third-country national technical assistance assignments.

A. Significant project management and administration activities

During this quarterly reporting period, BPI project management and administration activities continued to support the delivery of programmatic and technical assistance across the three PIRs areas. Over the last quarter, the efforts of the project management team continued to focus on ensuring the BPI project has the right mix of staff to meet the needs of the project's refocused activities.

Key project management and administration actions and activities completed include:

- This quarter, Chemonics executed the contract modification no. 06 and no. 07 with USAID.
- In August the project submitted the final revision of the Third Annual Work Plan, incorporating USAID comments and recommendations.

B. Personnel

B1. Long-term expatriate personnel

During this reporting period, the project made one change to expatriate personnel:

- Antonio Daza, the Private sector advisor resigned from the project in September 2013. The project received required approval to mobilize the replacement, Mauricio Moscoso to be fielded in the next reporting period.

B2. 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 BPI project recruited the translator-interpreter/editor to fill an open position.

The following changes were made in local long-term personnel:

- Buyankhuu Suran, Translator/interpreter and editor joined the project as of August 14, 2013 to replace Oyuntsetseg Gombosuren, Editor/publications specialist who resigned from the project in the previous quarter;
- Khaliun Yura, Monitoring and evaluation specialist resigned from her position as of September 1, 2013;
- Dulguun Mijiddorj, Training coordinator was transferred to the Quality Supplier Development Center (QSDC), local NGO as of August 1, 2013;
- Solongo Purevjav, Private sector development associate and grants assistant was transferred to the QSDC as of September 1, 2013;
- Khash-Erdene Battsengel, Business development advisor, employed through the Open Society Forum, the BPI project's subcontractor, was transferred to the QSDC as of October 1, 2013.

B3. Deployment of short-term technical assistance

Deployment of short-term expatriate assistance proceeded according to the Submitted Year 3 Annual Work Plan schedule during the quarter. Eight (3) project-related technical assignments were completed or initiated during the quarter by a total of 3 short-term expatriates and third

country consultants. Exhibit A–2 in Annex A provides details about the purpose of these assignments as well as dates of arrival and departure.

C. Status of subcontracts and grants

During this reporting period, the BPI project continued to work with consortium partners as well as other Mongolian service providers to support the project's initiatives. Specific updates include:

- Under the indefinite quantity subcontract with Economic and Legal Consultancy LLC (ELC), which was signed last year the BPI project issued one additional sub-task order in July 2013:
 - Under sub-task order no. 07 ELC assisted the BPI project and the QSDC to review, revise, and provide appropriate languages to draft labor agreements for QSDC long-term local employees. The agreement will be used for the personnel who will be transferring from BPI to QSDC and new local hires.
- Under a firm fixed price subcontract executed in March 2013 Alfa XP, an international IT firm provided system guides and full users testing of an online company registration system for GASR The subcontract is ongoing and will be completed in the coming quarter.
- In July, 2013 the Churchill's provided a hazard analysis and critical control points (HACCP) system established for the BPI project's grantee Meat Export LLC under fixed-price subcontract per the in-kind grant awarded to the Meat Export, a potential client of the BPI-supported Quality Supplier Development Center (QSDC).
- Under the infinite quantity subcontract with Orchard Consulting LLC the project issued one additional task order in July:
 - Under sub-task order no. 05 Orchard assisted the BPI in coordination of test connections between GASR, GDT, SSIGO, and three commercial banks on online company registration system, contribute to system improvements such as testing functions and translation. Also Orchard Consulting provided guidance to GASR IT personnel during server installations procured by the BPI and coordinated between GASR and Alfa XP, the BPI subcontract on server configurations and other issues.
- In July, 2013 Chemonics International executed a fixed obligation grant (FOG) agreement to support the organizational development of the Quality Supplier Development Center, and a FOG agreement for a Technical assistance fund (TAF) to support QSDC clients in September, 2013.

D. 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:

- Field long-term expatriate, Mauricio Moscoso, Private sector advisor to support the private sector component of the project.
- Field short-term local and expatriate assistance to complete technical assignments in accordance with the submitted final version of Year 3 Annual Work Plan.
- Negotiate a sub task-order under IQS with ELC LLC to assist the BPI project and QSDC to review, revise and provide appropriate languages to finalize the draft Supplier development plan and Technical and financial disbursement agreement templates in both Mongolian and English for the selected suppliers, in compliance with the local law.
- Finalize the subcontract with Open Society Forum (OSF)
- Close the in-kind FOG agreement with Meat Export LLC.

- Close the FFP subcontract with Alfa XP executed to establish an OCRS for GASR.

ANNEX A: Long-term local personnel and expatriate short-term assignments

Exhibit A-1: Local long-term project staff as of the end of January – March 2013 quarter			
Employee name	Position	Start date	End date
Uurtsaikh Sangi	Deputy chief of party	Jun 20, 2011	
Altanzaya Baldan	Accountant	Jun 20, 2011	
Zul Sabikhan	Operations Manager	Jun 20, 2011	
Khaliun Yura	M&E specialist	Jul 27, 2011	August 31, 2013
Tsolmon Naidandorj	Video and graphics coordinator	Jul 28, 2011	
Dulguun Mijiddorj	Training coordinator	Aug 22, 2011	July 31, 2013
Batmunkh Perlii	Driver/Messenger	Aug 22, 2011	
Myagmar Gombo	Driver/Messenger	Sep 12, 2011	
Gerelmaa Tumurbaatar	Accounting assistant	Oct 7, 2011	
Oyunbold Gansukh	IT manager	Oct 7, 2011	
Khishigjargal Purevsuren	Financial analyst	Oct 31, 2011	
Khangal Davaa	Financial markets specialist	Jan 3, 2012	August 31, 2013
Amgalan Nordov	Regulatory reform manager	Jan 3, 2012	
Solongo Samdandovjid	Business environment and competitiveness specialist	Jul 16, 2012	
Davaakhuu Baatar	Translator/Interpreter	Jul 16, 2012	
Solongo Purevjav	Private sector development associate/Grants assistant	Sep 14, 2012	August 31, 2013
Munkhjargal Demberel	Office manager	Sep 26, 2012	
Ariuntuya Ayurzana	Public private dialogue specialist (TPI)	Oct 5, 2012	
Khash-Erdene Battsengel	Business Development Advisor (OSF)	Nov 19, 2012	September 30, 2013
Buyankhuu Suran	Translator/interpreter and editor	August 19, 2013	

Exhibit A-2: Short-term technical assignments during the January – March 2013 quarter			
Name	Purpose of assignment	Date of arrival	Date of departure
Olin McGill	BEE reforms	September 23, 2013	October 18, 2013
Luc Vocks	OCRS for GASR: full users testing	September 17, 2013	October 1, 2013
Laurence Gidley	PCA training program to strengthen the CGA PCA department to continue developing its risk management module	September 1, 2013	September 22, 2013

ANNEX B: Performance indicators, baseline, targets, and results for Annual Work Plan-3 (June 2013 through September 2014)

PIR1: Business enabling environment, governance, and country competitiveness policies and practices improved

KRA 1.1 Trade, paying taxes, getting new electricity connections and construction procedures simplified

		Baseline Value (DB2013)	AWP-3 Target		Apr-Jun	Jul-Sep (DB2014)	Oct-Dec	Jan-Mar	Apr-Jun	AWP-3 Results	LOP Target
1.1.1	Time and cost of clearing imports and exports reduced (Baseline DB2013)										
1.1.1a	Number of documents required to export/import a shipment	11/13	3/3	Target	n/a	5/5	3/3	3/3	3/3	3/3	3/3
				Actual	n/a	11/13					
1.1.1b	Number of days required to export/import a shipment	49/50	27/28	Target	n/a	35/36	30/31	27/28	27/28	27/28	27/28
				Actual	n/a	49/50					
1.1.2	Burden of compliance with tax administration procedures reduced (Baseline DB2013)										
1.1.2a	Number of payments per year:	41	19	Target	n/a	19	n/a	n/a	n/a		19
				Actual	n/a	41					
1.1.2b	Number of hours per year required to comply with paying taxes	192	133	Target	n/a	n/a	133	n/a	n/a		133
				Actual	n/a	192					
1.1.2c	Percentage of taxpayers that use e-payment for VAT, CIT and PIT taxes	24.6%	55%	Target	n/a	35%	40%	50%	55%	55%	55%
				Actual	n/a	24.6%					
1.1.3	Construction permits procedures streamlined (Baseline DB2013)										
1.1.3a	Number of procedures to build a warehouse legally	21	13	Target	n/a	18	16	13	13		13
				Actual	n/a	20	n/a	n/a	n/a		

1.1.3b	Number of calendar days required to complete all procedures:	216	120	Target	n/a	130	120				120
				Actual	n/a	186					
1.1.4	Getting new electricity connections processes simplified (Baseline DB2013)										
1.1.4a	Number of procedures to obtain an electricity connection:	8	7	Target	n/a	7	7				7
				Actual	n/a	8					
1.1.4b	Number of calendar days required to complete all procedures:	126	102	Target	n/a	102	102				102
				Actual	n/a	104	n/a	n/a	n/a		
1.1.5	Online company registration system established (Baseline DB2013)										
1.1.5a	Number of procedures to start a business:	7	4	Target	n/a	6	4			4	4
				Actual	n/a	5					
1.1.5b	Number of calendar days required to complete all procedures:	12	5	Target	n/a	10	5			5	5
				Actual	n/a	11					
1.2.1	Customs risk management program strengthened (Baseline AWP-2)										
1.2.1a	Percentage of "green and yellow channel" shipments:	32.8%	40%	Target	33%	35%	35%	40%			40%
				Actual	38%	34.4%					
1.2.2	Customs post clearance audit program strengthened (Baseline AWP-2)										
1.2.2a	Number of PCA audits conducted with valuation training from BPI	0	50	Target	n/a	10	10	20	10		50
				Actual	n/a	36					
1.2.2b	Person/days of training on PCA and other trade facilitation delivered	226	409	Target	94		250	65		409	635
				Actual	248	207					

1.3	Enabling legal and regulatory environment strengthened (Baseline AWP-2)										
1.3.1	Percentage of progress in facilitating Draft Construction law	55%	100%	Target	55%	75%	100%				100%
				Actual	n/a	75%					
1.3.2	Percentage of progress in facilitating Legal Entities law	55%	100%	Target	55%	75%	100%				100%
				Actual	n/a	75%					
1.3.3	Number of trade related regulatory measures facilitated	0	2	Target			1	1			2
				Actual							
1.3.4	Number of regulatory measures facilitated to implement the new Securities Markets law	0	3	Target			1	1	1		3
				Actual							
<p><i>BPI METRICS FOR LAWS & REGULATIONS (Contractor's manageable interest): Concept paper 10% Working draft 20% Technical review 25% Public dialogue 20% Draft hand-over 25%.</i></p>											
<p><i>PERFORMANCE METRICS FOR LAWS AND REGULATIONS: MoJHA clearance Cabinet approval Parliament Standing Committee clearance Inclusion in Parliament agenda Parliament approval.</i></p>											
<p><i>CHANGES TO ORIGINAL PMP TABLE: Indicator 1.3.5 Percentage of progress in facilitating draft regulations for VAT law was dropped since the Government decided not to change the VAT law. Baseline data for 5 BEE supported reform areas reflect latest revised data for DB2013 published in the DB2014 report.</i></p>											

PIR2:Private sector capacity and competitiveness strengthened											
<i>KRA 2.1 Capacity of Mongolian private sector firms to sell products and services meeting buyers' and market demand strengthened</i>											
		<i>Baseline Value</i>	<i>AWP-3 Target</i>		<i>Apr-Jun</i>	<i>Jul-Sep</i>	<i>Oct-Dec</i>	<i>Jan-Mar</i>	<i>Apr-May</i>	AWP-3 Results	
2.1.1	Consolidation of QSDC: Buyer-supplier transactions facilitated (Baseline AWP-2)										
2.1.1a	<i>Number of products/services with buyer's specifications:</i>	23	40	<i>Target</i>	20	8	11	10	7	40	63
				<i>Actual</i>	46	9					
2.1.1b	<i>Number of due diligence conducted on suppliers:</i>	25	26	<i>Target</i>	15	8	6	5	4	26	51
				<i>Actual</i>	11	4					
2.1.1c	<i>Number of TAF contracts to assist potential suppliers:</i>	7	18	<i>Target</i>	9	5	6	2	2	18	24
				<i>Actual</i>	2	1					
2.1.1d	<i>Number of purchase orders fulfilled:</i>	1	24	<i>Target</i>	10	8	6	4	3	24	25
				<i>Actual</i>	8	6					
2.1.1e	<i>Expected Value of transactions facilitated (million MNT)</i>	n/a	1 billion MNT	<i>Target</i>	200	200	400	100	100	1,000	1 billion MNT
				<i>Actual</i>	197.5	401.3					
<i>KRA 2.2 Partnerships that leverage resources to improve business and country competitiveness, promote an enabling business environment and good governance facilitated</i>											
2.2	Capacity of private-led institutions strengthened (Baseline AWP-2)										
2.2.1	<i>Number of person/days of training delivered on BPI's developed toolkits</i>	86	50	<i>Target</i>		10	20	20		50	136
				<i>Actual</i>		6					
2.2.2	<i>Number of cost-sharing agreements and/or subcontracts with local partner institutions to work on BEE issues:</i>	9	5	<i>Target</i>	0	1	2	1	1	5	14
				<i>Actual</i>		1					

<i>KRA 2.3 Capacity of private sector-led institutions to contribute to an enabling business environment, governance, and country competitiveness strengthened</i>											
2.3	Consolidation of the QSDC: Quality assurance training program (Baseline AWP-2)										
2.3.1	<i>Number of trainings on quality assurance related topics delivered</i>	6	12	Target	1	3	3	3	2	12	18
				Actual		0					
2.3.2	<i>Number of person/days of training delivered on quality assurance related topics</i>	538	720	Target	60	180	180	180	120	720	1,258
				Actual		0					
PIR3: National private sector driven and supported dialogue on business enabling environment, governance, and competitiveness strengthened											
<i>KRA 3.1 Increased public awareness of country competitiveness and governance issues, business enabling environment reforms, international experiences, and best practices</i>											
		Baseline Value	AWP-3 Target		Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	AWP-3 Results	LOP Target
3.1	Increased public awareness of BEE and competitiveness issues (Baseline AWP-2)										
3.1.1	<i>Number of public events held on BEE or competitiveness issues:</i>	56	50	Target	10	10	15	15	7	50	106
				Actual	39	7					
3.1.2	<i>Number of person/days of attendance at public events:</i>	1,575	2,500	Target	1,500	200	300	300	200	2,000	4,075
				Actual	2,268	225					
3.1.3	<i>Number of workshops held for journalists:</i>	28	20	Target	2	3	5	5	5	20	48
				Actual	11	5					