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**Business Plus Initiative**  
USAID funded project implemented by Chemonics International

# QUARTERLY PERFORMANCE REPORT (January-March 2014)

April 2014  
Ulaanbaatar, Mongolia

## Mongolia's First International Conference on Commercial Arbitration



USAID Business Plus Initiative (BPI) and partners MOJ, AmCham and MNCCI/MINAC hosted the “International Conference on Commercial Arbitration” on March 27, 2014, providing a forum for stakeholders to learn, share, and discuss international best arbitration practices and forge a public-private sector consensus on the framework that should govern arbitration reform in Mongolia.

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## **ABBREVIATIONS AND ACRONYMS**

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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
ITPTA	Information Technology, Post and Telecommunication Authority
KRA	Key Result Area
MCUD	Ministry of Construction and Urban Development
MINAC	Mongolian International and National Arbitration Center
MMCI	Mongolian Management Consultant's Institute
MNCCI	Mongolian National Chamber of Commerce and Industry
MOF	Ministry of Finance
MOJ	Ministry of Justice
MOU	Memorandum of Understanding
NCPSS	National Council For Private Sector Support
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
PPD	Public-Private Dialogue
PPP	Public-Private Partnership
QSDC	Quality Supplier Development Center
SDP	Supplier Development Plan
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

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## **EXECUTIVE SUMMARY**

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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 incorporated one additional reform area addressing commercial arbitration and began working closely with the MOJ working group, AmCham Mongolia and MNCCI/MINAC partners. This report is the Business Plus Initiative (BPI) project Quarterly Report and describes project activity from January through March 2014.

During the reporting period, the BPI project continued to support public-private dialogue (PPD) as a key mechanism to foster BEE improvements in Mongolia. Following the previous quarter events, BPI supported the CGA in hosting an important PPD with the trading community during the month of January. As a result of the PPD, customs published the proposed amendments to the customs law on its website to allow the trading community to provide timely feedback. This quarter, BPI and partners also organized Mongolia's first "International Conference on Commercial Arbitration", engaging more than 200 participants to learn, share, and discuss international best arbitration practices and forge a public-private sector consensus on the framework that should govern arbitration reform in Mongolia. Through a public-private dialogue (PPD) format and presentations from international arbitration experts from France, Hong Kong, United Kingdom, Singapore, and Georgia, the conference raised awareness on the best practices world-wide and the opportunity of using arbitration as an alternative dispute resolution mechanism as well as empowered private sector leaders to better channel their needs to the government.

The project continued to work closely with the General Authority for State Registration (GASR) and the Online Company Registration System (OCRS) developer, Alfa XP to complete testing, incorporate changes and prepare for the official launch of the new system, scheduled for next quarter. BPI also trained 16 registration officers to operate the new administrative functions of the OCRS. In parallel with the General Department of Taxation's (GDT) e-tax system launch in January, BPI's local developer made major progress this quarter on the complimentary electronic, e-payment module. During this period, the developer in close coordination with GDT and commercial banks, completed the e-payment module, finalized testing on the internet banking option, and connected three banks to connect to the commercial banks' gateway for credit/debit card system.

As a critical trade facilitation tool, BPI continued to support capacity building for the Customs General Authority (CGA) to strengthen risk-management (RM) techniques. This quarter, BPI technical expert provided 14 key recommendations that were accepted in their entirety. In addition, CGA General Director implemented an agency action plan and issued an internal procedure to strengthen RM in line with the recommendations.

### **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:

- *Starting a business:* The General Authority for State Registration (GASR), with assistance from BPI, drafted a new legal package on legal entity registration that amends the current legal entity registration law and 30 additional laws. The Cabinet approved the legal package on January 3 and submitted it to the Parliament on January 9. The head of the Parliament Working Group J. Batzandan started the review in late January with the joint team of GASR and BPI. The legal package is expected to be presented to the Parliament Standing Committee in late March 2014, and the final vote at Parliament is slated for May 2014. Testing of the new Online Company Registration System (OCRS) continued throughout the quarter. The launch of the system is expected in the next quarter.
- *Managing construction permits:* BPI coordinated with the Municipal Master Planning Agency and MCUD in legislative initiatives on two fronts: a) draft construction law and b) amendments to the Resolution #151, enacted in December 2012. The MCUD finalized the draft law, with BPI support, in the reporting quarter and will submit it to the Ministry of Justice in the next quarter. As a result, the MCUD will be able to conceptualize proposed amendments to the Resolution #151.
- *Trading across borders:* With BPI support, the Customs General Authority (CGA) (a) organized a public private dialogue aimed at reducing a number of documents required for import and export and (b) strengthened CGA risk management and post clearance audit systems as part of the overall trade facilitation system. In the reporting quarter, CGA adopted the Customs Risk Management Procedure.
- *Paying taxes:* With BPI support the General Department of Taxation (GDT) developed the new e-payment system. During the reporting quarter, BPI facilitated commercial banks to develop and upgrade own internet banking and debit/credit card payments systems. Reflecting different speeds at commercial banks to finish development of required software to enable the e-payment system, installation of servers procured for GDT and necessary preparation work, the new e-Payment system has been planned to commence in early May 2014 with 4-5 major commercial banks.
- *Arbitration Law:* Per Ministry of Justice's request BPI started its technical assistance to facilitate commercial arbitration in Mongolia. The Ministry of Justice of Mongolia, USAID, MNCCI/MINAC, and AmCham organized the International Conference on Arbitration in March to learn and discuss regional best arbitration practices and forge a private-public sector consensus on the framework that should govern a new arbitration reform in Mongolia. The outcome of this PPD will be reflected in the draft Concept Paper of the Arbitration Law, revisions of the Arbitration Law and amendments to other laws to facilitate commercial arbitration in Mongolia.

## PIR 2: Private sector capacity and competitiveness strengthened:

During this quarter QSDC achieved important milestones in both of their components – Supplier Development Program and Quality Management Program – and has progressed rapidly on several initiatives, key to the centers institutional strengthening and sustainability.

The period from October to December marked the third full quarter of QSDC operations and the center has worked effectively to expand their client rosters, strengthen their institutional capacity, and develop a locally-driven training program. Notably, QSDC completed three Supplier Development Plans (SDP) this quarter, which are expected assist client firms to increase their sales by more than 984 million MNT in 2014.

During this reporting period, QSDC delivered five trainings: Marketing, Six Sigma and Food Safety/HACCP for 126 participants.



February 11-13, 2014 QSDC delivered a two-day training on branding and marketing strategies for 17 professionals.



QSDC Executive Director, Bayarmagnai J. signs SDP with Clean Fuel CEO A. Begzsuren on January 17, 2014.

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



BPI is awarded "2014 Silk Road Award" from MNCCI to acknowledge public-private dialogue activities.

MNCCI awarded BPI this year's Award for Most Valued Contributor in Implementing Public Private Dialogue Partnership for its pioneering work in the area of national dialogue. The prestigious "Silk Road 2014" Award was presented to Piper Campbell, U.S. Ambassador to Mongolia to recognize USAID's reform efforts utilizing the public-private (PPD) format. This has included spearheading the "Working Together for Reforms" forum between GOM reform teams and private sector representatives for the second year in a row, lauded by Minister Ch. Saikhanbileg, Chief of the Cabinet Secretariat as "a critical initiative to secure the private sectors' support and commitment to advancing reforms as well as a platform for the GOM to express commitment to improving the lives of Mongolian citizens." The ongoing PPDs have enabled policy makers to gain an improved perspective of the status of implemented reforms and establish viable action plans to deepen those reforms with the support of the private sector.

## **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. In addition, this quarter BPI began working closely with the Ministry of Justice (MOJ) on the new arbitration law. Currently, BPI continues to work closely with the Cabinet Secretariat, the Ministry of Construction and Urban Development (MCUD), and the General Authority for State Registration (GASR), the General Department of Taxation (GDT), and the Customs General Authority (CGA). BPI also worked closely with partners including American Chamber of Commerce of Mongolia (AmCham Mongolia), the Mongolia National Chamber of Commerce and Industry (MNCCI) and the Mongolian International and National Arbitration Center (MINAC) to organize Mongolia's first "International Conference on Commercial Arbitration" and public-private dialogue series. Next quarter, BPI will work closely with the Ministry of Economic Development (MoED) on public-private partnership activities (PPPs).
- *Donor coordination:* During the reporting period, BPI has actively collaborated with other donors to support both business enabling environment reform and private sector development. In March, BPI assisted the European Bank for Reconstruction and Development (EBRD) to develop training-of-trainers (TOT) course using the BPI Association Strengthening Toolkit as a basis. Next quarter, BPI will coordinate with other donors collaborating with GOM counterpart GDT on "paying taxes" reforms on educational awareness campaign and USAID promotional success stories. BPI held regular meetings with the IFC this quarter to exchange information and coordinate development activities.
- *Collaboration with private sector.* The private sector is also increasingly interested in meaningful collaboration with the BPI project, predominantly through the QSDC. QSDC is also focused on forging new and strengthening current partnerships to leverage resources and facilitate collaboration in its efforts to bolster supplier development. For instance, international partner Wagner Asia LLC continued to provide in-kind contributions, including Six Sigma Black Belt trainers to execute QSDC's quarterly Six Sigma Green Belt trainings. In addition, QSDC accelerated buyer-led supplier development work through a series of productive meetings and informational public events, including five QSDC Quality Training Program events to raise awareness and increase visibility in collaboration with MNCCI, the Mongolian Leather Association, SME Development Agency, Seabuckthorn Association, and Business Women's Group. In the coming quarter, BPI will continue to support QSDC as it identifies opportunities for local purchasing, negotiates purchase intents, implements SDPs enabled by the Technical Assistance Fund (TAF), and stewards local supplier improvements. In addition, for next quarter BPI plans to leverage funds with commercial banks on the e-payment activities.

### **Ongoing Performance Constraints:**

- BPI recognizes that earning trust and buy-in with counterpart authorities is a key element for ensuring the success of reforms to streamline procedures. Over the last quarter, BPI has been active in strengthening relationships with authorities at the working groups' level. BPI successfully collaborated with the new arbitration working group in the new arbitration reform area implemented this quarter. BPI maintains regular briefings with authorities on the status of 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 2014. BPI has initiated discussions with USAID for exercising the BPI option year and plans to add activities in new areas, including bankruptcy and PPPs if the request for additional duration and funding is approved in the next quarter.

- In 2013, USAID approved a revolving Technical Assistance Fund (TAF) to allocate resources to the QSDC to finance negotiated supplier development plans with local SMEs in order to address specific gaps limiting SMEs ability to fulfill buyer demands. Last quarter, BPI anticipated more rapid progress this quarter on QSDC transactions, however due to the winter season slow-down in multiple sectors including agriculture, mining, and construction, QSDC faced delays in executing SDP's. This quarter, QSDC ramped up transactions; however QSDC faced challenges in collecting scheduled repayments. To address this issue, QSDC met with buyers and clients to identify bottlenecks and worked with the clients to re-negotiate their repayment schedules. This approach proved successful and QSDC has collected several TAF repayments this quarter. Next quarter, BPI expects to significantly accelerate QSDC assistance via SDP's and strengthen the training component. To ensure this goal, BPI supported QSDC in aggressive public awareness campaign to raise awareness of the Supplier Development Program through Economics Journalists Club (EJC) events and awareness events for QSDC's training program.

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.

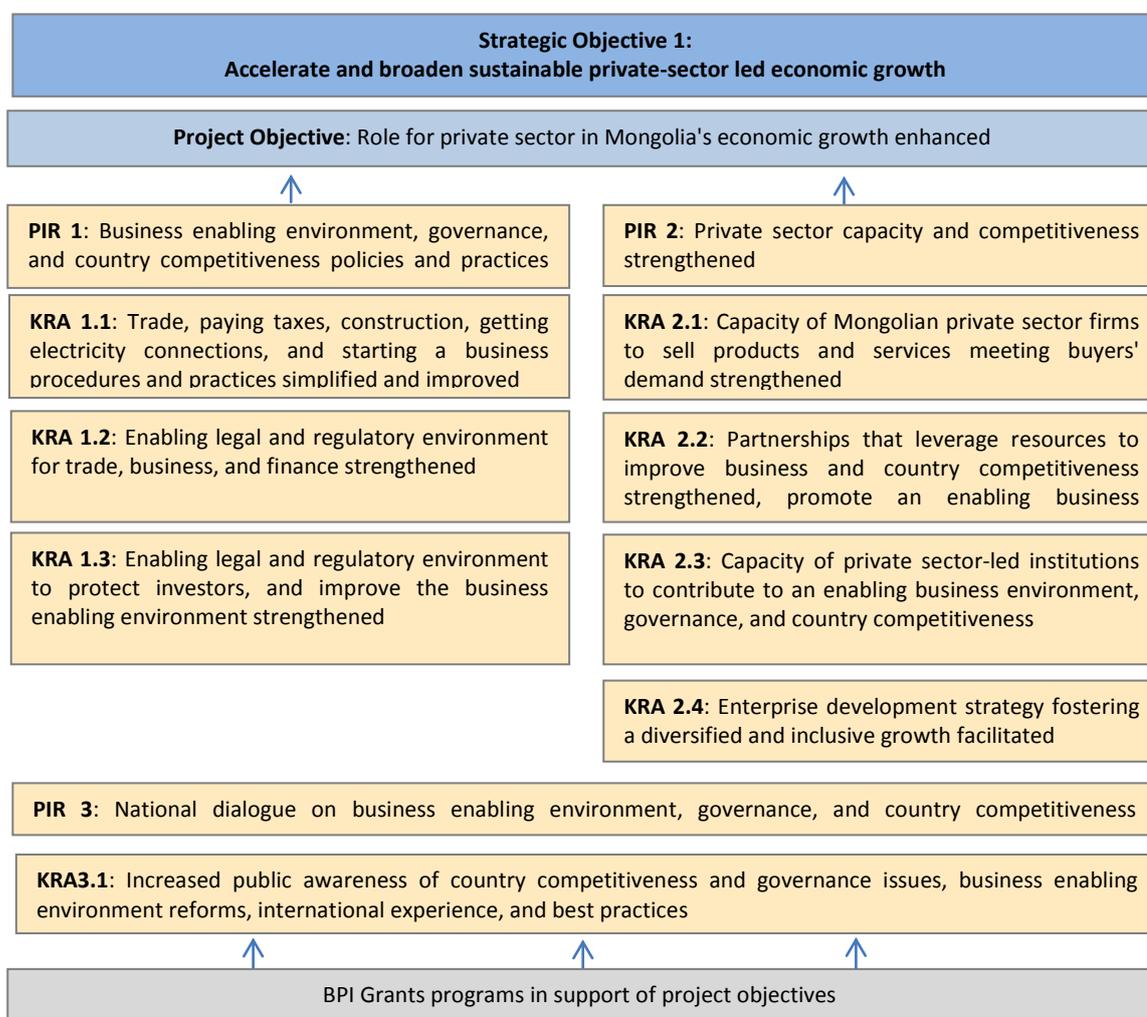
## SECTION I: WORK PLAN IMPLEMENTATION

### 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:



PIR: Project Intermediate Result  
KRA: Key Result Area

Rev: 5-Nov-13

### **C. Work plan implementation.**

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

The current reporting period represents the fifth quarter of implementation for several reforms adopted by the GOM in the areas of arbitration, starting a business, trading across borders, paying taxes, dealing with construction permits, and getting electricity.

As a mechanism to incentivize future initiatives and leverage the current reform momentum, BPI facilitated several vibrant public-private dialogue events in reform areas this quarter that were well-received by the Mongolian government and private sector participants. BPI has continued to receive requests for additional PPD's from counterpart agencies.

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

##### **Starting a Business:**

To reduce barriers to registering business, the General Authority for State Registration (GASR) with BPI support, drafted amendments to the legal entity registration law. Additionally, the project is supporting a new Online Company Registration System (OCRS).

This quarter, the Ministry of Justice (MOJ) working group submitted the legal package to the Cabinet Secretariat, which was approved at the January 3 cabinet meeting. Following the Cabinet's submission to Parliament on January 9, the Parliament Legal Standing committee appointed a working group on January 22, headed by Member of Parliament J. Batzandan with four other Members of Parliament. The technical working group, under the Standing Committee, included GASR and MOJ representatives. BPI participated to provide technical support. The initial review of the draft law took place through February 5, just before the Parliament went on recess.

Member of Parliament, J. Batzandan held a thorough review of the draft law and approved all of the concepts proposed in the draft law including detailed clarifications and technical inputs from the technical working group. At the end of the review, the technical working group suggested revisiting the concept of authorized registration agents which was originally dismissed by the MOJ during the initial review.

During the Parliament recess, the technical working group refined the language of the draft law to ensure consistency with related laws, including the Civil Code, law on general registration, and others. BPI provided technical guidance and comparative research on introducing registration agents to ensure the use of these agents is optional and does not require double permitting/registration requirements which were the main objections from the MOJ. Accordingly:

- Authorized registration agents will be a third option for legal registration services in addition to paper and online services.
- Authorized registration agents must hold permits and necessary requirements to run legal services per the law on legal status of lawyers and advocates of Mongolia.
- Introduction of registration agents will formalize registration services offered by legal firms on the basis of power of attorney and other "unofficial" services rendered by individuals, not necessarily with legal background, for a small amount fee.
- GASR will select authorized registration agents in open bids and evaluate and award contracts to qualified agents, in accordance to qualifications included in the law.
- Developing the concept of authorized agents was based on international best practice, especially that of the UK.

The draft, including the new chapter, has been finalized at the end of the quarter. Further review to take the law to the Parliament plenary session for approval will continue once the Parliament returns from recess in late March/April.

*Online Company Registration System.* BPI continued working with GASR and subcontractor Alfa XP to refine the OCRS system. On January 4, BPI conducted a training session for 16 Ulaanbaatar-based registrars for all OCRS modules, including the e-filer and registrar's panels. Based on the feedback from the training, Alfa XP fixed bugs and improved the system functions. At the request of GASR, BPI conducted training for Ulaanbaatar-based and rural registration officers during the month of March to prepare for the soft launch. The testing validated that the OCRS could handle traffic of 30 users logged in simultaneously, or more than 650 transactions on the system. The soft launch is scheduled in the next quarter.

### **Dealing with Construction permits:**

On January 8, BPI met with Ulaanbaatar Chief Architect N. Natsagdorj, who also heads the Municipal Master Planning Agency (MPA), to review Resolution #151 (an interim legislation measure on construction permitting in place until a new law is approved) and identify areas for improvements. Both parties agreed to propose amendments to Resolution #151, in coordination with the MCUD. As a follow-up, BPI discussed technical details with MPA departments, Construction and Urban Development Department and Urban Development and Infrastructure Unit who issue construction and occupancy permits, respectively. In coordination with MPA departments and MCUD, on February 19 BPI organized roundtable discussions for government stakeholders in construction, including MPA, MCUD, four utilities companies, and the Construction Development Center. The roundtable sought to build stakeholder consensus on the amendments and continue streamlining the UBM one-stop shop by incorporating utilities companies. Highlights of the roundtable discussions include the following issues:

1. Proposing realistic timeline for each step of construction permitting process. The current Resolution #151 includes 30-35 working days for a full cycle of construction permitting, which is not practical. The participants suggested increasing it to 42 working days (adding one work week) and emphasized that internal and external coordination between permitting bodies has to improve to make the proposed timeline workable.
2. Streamlining each step of permitting process. Resolution #151 states that after the final inspection required for issuing occupancy certificates, construction companies have two weeks to respond to any technical recommendations from the inspection commission in order to complete a construction project. When a construction company fails to meet the two-week deadline, a new request for a new final inspection must be filed and the process has to restart. The roundtable participants opposed adding more days and instead suggested that the initial inspection, which is a deciding factor whether a construction project is ready or not for the final inspection, has to be thorough and comprehensive. A more thorough and comprehensive initial inspection should result in final inspections that yield fewer recommendations, and therefore incorporating recommendations within the two-week period should be possible.
3. Streamlining coordination of government participants. Government agencies involved in the permitting process should have clear communications, paper and online, to exchange information and process approvals. By improving coordination, agencies can complete each step in the timeline.
4. Other proposals are to settle ambiguity in the process and sanctions.

Following the roundtable, BPI consolidated all comments from the participants and submitted them to MCUD on February 27. Unfortunately, MCUD has not yet determined whether they will review the proposal and submit amendments to Resolution #151 to the Cabinet or finalize the

new permitting process as part of the draft law and submit a new version of the permitting procedure as a substitute for Resolution #151.

BPI hired a local subcontractor to work with MCUD in January to finalize the draft law. After Parliament went on recess, the Minister of Construction and Urban Development Ts. Bayarsaikhan led the review process with the legal firm, MCUD team, and BPI. During the review sessions, stakeholders discussed new concepts and issues among MCUD specialists.

Throughout March, the MCUD team discussed different variations on parameters for risk categories and corresponding categories to be determined based on the type (i.e. commercial, residential, industrial) of building projects. The local subcontractor completed draft chapters on these issues, which were submitted to MCUD and BPI in the reporting quarter. BPI will work with MCUD in the next quarter to finalize these two concepts and submit the draft law to the MOJ for review and approval.

**Exhibit 1. New concepts introduced in draft law on construction**

<b>The draft law introduces new concepts and descriptions on the following issues:</b>
Types of construction activities: <ul style="list-style-type: none"> <li>• New construction;</li> <li>• Reconstruction;</li> <li>• Repair (refurbish, upgrade), finishing, equipping;</li> <li>• Demolition;</li> <li>• Landscape construction;</li> </ul>
Types of buildings and construction: <ul style="list-style-type: none"> <li>• Residential, commercial, and other civil construction;</li> <li>• Industrial construction;</li> <li>• Engineering network, pipelines, and construction;</li> <li>• Rail and auto roads.</li> </ul>
The draft law stresses supervision by various participants to ensure development closely abide by design and follow safety rules before and during construction activities: <ul style="list-style-type: none"> <li>• Contractor’s supervision;</li> <li>• Author’s supervision;</li> <li>• Investor’s supervision;</li> <li>• State supervision;</li> </ul>
Another safety-related concept is the conservation procedures: when construction projects are suspended for over 7 months, safety measures must take place on construction site and surrounding areas.
The following professional levels are introduced in the draft law with Level 4 being the highest level that can work as expert for all class 1-5 construction projects: <ul style="list-style-type: none"> <li>• Level 1 – Junior professional (who have to complete residency programs);</li> <li>• Level 2 – Professional;</li> <li>• Level 3 – Advanced professional;</li> <li>• Level 4 – Expert.</li> </ul>

**Trading Across Border:**

BPI and the USAID/Economic Policy Reform and Competitiveness predecessor project have worked with customs since 2007 to build support within the agency for utilization of risk management (RM) principles and an overall risk management system for inspections, particularly at the border. The new director of the CGA and his technical committee made RM and post clearance audit key priorities moving forward that BPI continues to support.

As part of ongoing assistance, BPI provided an international risk management expert, Jorge Montoya to work closely with the new management at CGA to review the RM module and identify errors in RM and build the capacity of CGA IT personnel.

During his January 12-25 assignment, Mr. Montoya trained new personnel from the RM department on the functionality of the RM module and methodology previously tailored for the CGA. Recent risk cases were discussed and used as examples to clarify how the RM methodology and the RM module functionality should be used. In addition they tested the RM module's functionality. Approximately 15 errors were identified and subsequently addressed. IT and the RM personnel received training on how to test the RM module to verify that it is working properly.

Mr. Montoya reviewed feedback from inspections and stressed the importance of utilizing continuous feedback as a valuable piece of data that helps improve RM targeting. Further, Mr.



*Mr. Jorge Montoya, BPI Customs Specialist and Amgalan Nordov.*

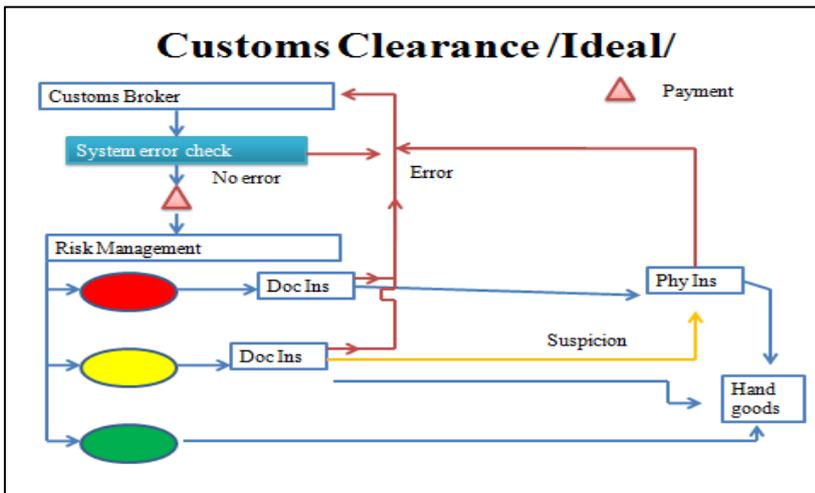
Montoya engaged different levels of management at CGA in discussion regarding problems and automation needs, reviewed profiles and loaded indicators in group sessions to demonstrate to the IT and RM departments how to identify the causes of the risk scenario and introduced options to minimize risk. As a result of the consultants observations, BPI recommended that CGA Director General, O. Ganbat strengthen the IT team in order to implement the RM. In response, CGA called an urgent Technical Committee meeting, attended by all high level officials within the agency. The RM department presented the errors discovered and action plan for the automation needs. Director General Ganbat appointed three staff from the IT department to exclusively work on the RM component and address the automation needs. Consequently, Director Ganbat committed to allocating additional resources to the IT department, which will significantly contribute to further gains in RM.

Mr. Montoya provided 14 recommendations, accepted by the CGA Director and the CGA Technical Committee, to streamline processes and increase automation to facilitate trade without losing control or revenue. As a result, CGA plans to significantly increase the number of shipments cleared through the Green and Orange channels that do not require physical inspection. CGA is also expanding its Post Clearance Audit Department sizably and with the support of BPI ensures that all department personnel receives highly specialized skills training to implement the new risk management techniques.

BPI Risk Management expert Jorge Montoya provided 14 key recommendations to improve implementation of the RM system at CGA which were approved by CGA Technical Committee comprised of all department heads and senior officers. Commenting on this achievement, Mr. Ganbat, CGA General Director stated:

“Our risk management Division has benefited extensively from his mission, from which they have developed an action plan to implement the recommendations made by Mr. Montoya.”

**Exhibit 2. Ideal Customs Clearance Process Recommended by Jorge Montoya**



**Note:** Colored circles are corresponding Stamps assigned to the shipment by Customs Automated Information System.

BPI sent an official letter to CGA with Mr. Montoya’s final report in February. The letter included a summary table with including the level of effort required for CGA to implement each recommendation in order to facilitate the follow up on the implementation of Jorge’s recommendations.

BPI plans to use the Summary Table as a tool to follow-up on the implementation of Mr. Montoya recommendations. It will help both CGA and BPI monitor the progress in terms of RM enhancement, as well as plan Mr. Montoya’s future technical assistance to CGA.

**Paying Taxes:**

In January 2014, the General Department of Taxation (GDT) launched its upgraded e-filing system, which now reaches more than 50 percent of taxpayers. In order to facilitate use of e-filing, this quarter BPI assisted the GDT to develop a complimentary E-Payment Module through which taxpayers can make payments via online services offered by participating local commercial banks. BPI also supported the procurement of hardware and software for the new system, which is expected to be delivered next quarter. During the reporting period, BPI supported the completion of the e-payment module and finalized testing with commercial banks. Over the next quarter, the project will work closely with GDT and a local IT firm to complete the integration of the e-payment module with all local commercial banks. As a result, taxpayers’ payment information will be provided directly to their personal banking online services via the GDT database immediately via electronic means. Before this service was available, taxpayers needed to make tax payments at their bank and then physically visit the GDT office, where a tax inspector would enter payment information to the system based on the payment slip. The new e-payment system will make the process more convenient and efficient while ensuring security and reliability.

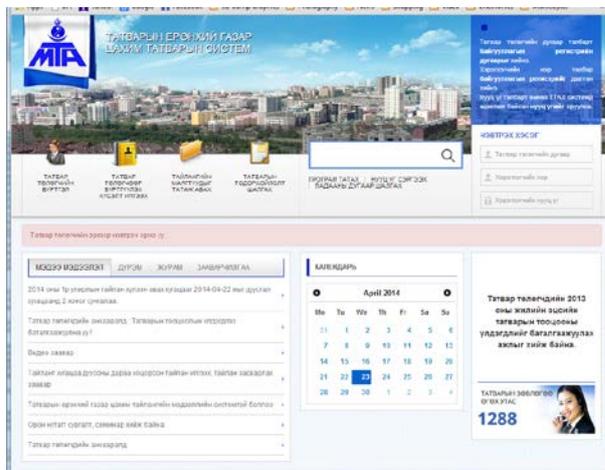
Key achievements obtained in the area of paying taxes include the following:

- Since January 2014, 84,033 out of 92,000 or 91.3 percent of total taxpayers have already obtained their digital signature.
- As of January 2014, on average 71 percent of total taxpayers are already filing their tax returns electronically (77 percent for VAT, 68 percent for CIT and 67 percent for Employee withholding tax returns were filed electronically using digital signature).
- The time (hours per year) it takes to file tax returns since the introduction of new e-filing system in January 2014 has decreased by more than 30 percent.

- DB-2014 reported 52 hours/per year spent on filing taxes, since January 2014 the time has dropped to 36 hours per year, according to the tax office.
- For taxpayers filing electronically using digital signature GDT has removed the procedure to go to tax office physically.
- With BPI assistance, some 3,347 taxpayers and 505 tax inspectors in 20 provinces have been trained on how to use the new e-filing system

In addition to savings in time and cost, BPI expects that the e-tax system will simultaneously improve GDT's ability to detect tax evasion and better deal with the issue of Mongolia's "shadow economy", potentially increasing tax revenues in the near future.

*Preparing for the tax e-payment system.* E-payment is an integral part of the GDT's comprehensive e-filing system to facilitate tax payments online. Once the e-filing reform is recognized by the World



A screen shot of GDT's e-tax web page.

Bank Doing Business team, Mongolia's ranking in the Paying Taxes indicator should increase dramatically. On February 6, the project facilitated a meeting with 31 participants representing GDT, the Mongolian Bankers Association, and commercial banks to discuss potential solutions for linking commercial banks with the new e-payment system at GDT. The group discussed three viable options for e-payment including: 1) integrating a "Pay Tax" option through banks' internet banking system; 2) paying through the banks' credit/debit card payment system; and 3) paying through direct debit from taxpayer accounts.

During the reporting period, BPI, via its local subcontractor Infinite Solutions completed the following tasks:

- Developed a functionality that linked to GDT's database to submit users tax information and record back tax payments to GDT's database.
- Provided to banks with featured web services specification, documentation containing detailed information of how bank systems and the e-payment module will communicate.
- Finalized a Beta version of the new e-payment module.
- Collaborated with commercial banks with the e-payment test environment to enable and integrate existing Internet bank, Smart bank and other solutions of e-payment.
- Made e-payment system presentations to GDT, commercial banks, CGA and Information Technology, Post and Telecommunication Authority (ITPTA).
- Integrated E-Payment module with debit/credit card systems of the Trade and Development Bank (which includes XacBank, Erelbank, Capitron Bank, Ulaanbaatar Bank, Chinggis Khan Bank, Capital Bank).
- Completed development of the GDT administrative counsel.
- Prepared the full technical specification of the tax e-payment system for GDT.

At the end of the reporting quarter, Golomt and Capiron banks were ready to integrate their internet banking into the e-payment system. Three other banks: TDB, Khan and State banks were in the process of developing their systems. The e-payment system will be officially launched during the next quarter.

As a result of these activities, Mongolia's ranking is expected to improve in World Bank Doing Business "Paying Taxes" indicator, as evidenced by the anticipated significant reduction in the number of tax payments per year, as shown in the following exhibit:

**Exhibit 3. Number of Tax Payments Per Year**

Tax type	Number of payments per year "Tax Payments" indicator - /number per year/		
	Doing business 2014		After the reform
✓ CIT	12		1*
✓ VAT	12		1*
✓ Social Insurance contribution	12		12
✓ Immovable property tax	1		1
✓ Vehicle tax	4		4
✓ <b>TOTAL</b>	<b>41</b>		<b>19</b>

\*In 2014 with the new e-tax information system combined with e-payment module CIT,VAT tax will be received and paid electronically therefore it will be counted as paid once a year regardless of its payment frequency according to the World Bank methodology.

According to the World Bank Doing Business methodology, time spent on paying three major taxes is the sum of the time spent on preparation, filing and paying. Time spent on filing is calculated with three parts. The following exhibit shows how time spent on filing reduces by each tax type and each activity. Since January 2014 taxpayers are not required to physically file their tax returns at GDT. The time spent submitting forms to tax authority has reduced by 16 hours per year. Taxpayers can use that time for other productive activities rather than travelling to the tax office or waiting in the line. Further, tax inspectors can use that saved time for quality service and educational activities for needed taxpayers, rather than solely collecting tax returns.

**Exhibit 4. Number of Hours Spent Filing Taxes**

Filing tax returns (hours per year)	Doing Business 2014			After the reform		
	CIT	Labor taxes and social contributions	VAT	CIT	Labor taxes and social contributions	VAT
1 Completion of tax return forms	6	6	8	4	6	6
2 Time spent submitting forms to tax authority, which may include time for electronic filing, waiting time at tax authority, etc.	6	6	20	4	4	12
3 Other activities undertaken for each taxes	0	0	0	0	0	0
Total filing time	12	12	28	8	10	18
<b>Grand total</b>	52			36		

Exhibit 5. Total Compliance Time

Total compliance time (hours per year)	Doing Business 2014			Projection After the Reform		
	CIT	Social Insurance Contribution, Employee Withholding	VAT	CIT	Social Insurance Contribution, Employee Withholding	VAT
✓ Prepare	31	40	34	31	40	34
✓ Filing	12	12	28	⑧	⑩	⑱
✓ Pay	14	11	10	14	11	10
<b>Total</b>	<b>57</b>	<b>63</b>	<b>72</b>	<b>53</b>	<b>61</b>	<b>62</b>
	<b><u>192</u></b>			<b><u>176</u></b>		

Since introduction of the new e-filing system in January 1<sup>st</sup>, 2014, the amount of time spent to prepare tax returns will stay the same. It is a function dependent on the payer, rather than the GDT, and the complete e-payment module has not yet been introduced to all commercial banks (currently it is only available at Golomt bank. GDT plans to launch completed e-payment module by May). By introducing the new e-filing system, the amount of time spent on filing CIT will decrease by 4 hours, Employee Withholding by 2 hours and VAT by 10 hours per year. In total, taxpayers will save 16 hours per year when preparing, filing and paying three major taxes.

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

During the reporting period BPI continued to provide ongoing technical assistance on trade facilitation.

#### **Improving Mongolian Customs' Post Clearance Control Capacity**

In response to a request for technical assistance, BPI has continued to support the Post Clearance Audit (PCA) department.

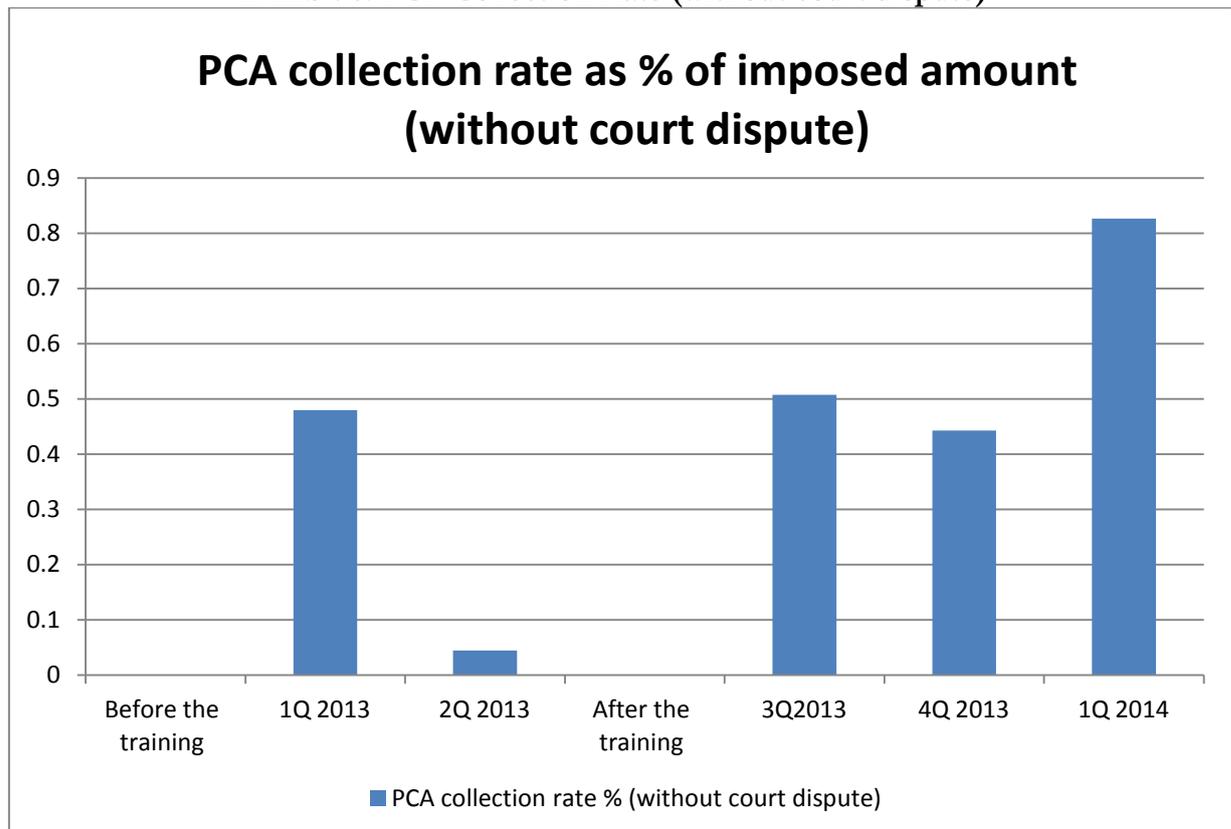
##### *Support to Customs General Authority.*

Over the past several months, BPI delivered capacity building trainings on specialized areas, including customs valuation, post clearance audit and compliance, interview techniques, tax planning, tax avoidance and fraud, and transfer pricing for the Post Clearance Audit (PCA) department. Building on the series of training sessions over recent months, BPI organized two training modules in March 2014 for the PCA department: Introduction to Financial Audit and financial accounting software training. The PCA department constitutes of a team of 47 professionals, representing a significant increase in human resources dedicated to PCA. The three-day training "Introduction to Financial Audit" was delivered by a MONICPA, a local firm that provided an overview of financial audit, audit evidences and regimes, sampling, audit risk assessment and reporting to teach participants the essential International Standards on Auditing (ISA) and their application. The second training module aimed to enhance participants' knowledge of accounting software currently being used in Mongolia, particularly the tools used to facilitate audits and identify errors and omissions and system reporting procedures with regard to the reporting of inventory, cost, and taxes. Participants commented that these tools are essential to cope effectively with tax evasion by non-compliant traders that attempt to evade import and domestic taxes. As a result, CGA tax revenues have increased and non-compliance has decreased.

- Following June 2013-PCA capacity building efforts, PCA increased revenue collection without disputes by more than 15 percent in the second half of 2013 (January-June 2013: collected 1.5 billion out of 12.7 billion; July-December 2013 collected 6.3 billion out of 22.8 billion).
- In 2014, PCA reported MNT 1,320.5 million in audit findings and of that collected MNT 1,091.4 million, or 83 percent collection rate, contributing MNT 1 billion of additional tax revenues to the budget. This is a significant improvement as compared to the same quarter of 2013 when PCA was only able to collect 48 percent of imposed amount.

Exhibit 6 below illustrates a dynamic change in collection rates.

**Exhibit 6. PCA Collection Rate (without court dispute)**



#### *Trade Related Regulatory Measures Facilitated*

In March of this quarter, the CGA Director General adopted the Regulation to Establish a Risk Management Committee (RMC) by the Mar. 5, 2014 Decree #A/39. The new regulation improves the effectiveness of risk management by merging two current committees (Strategic and Selectivity) into one committee. The RMC's key mandates include: identifying risk groups; implementing a customs control strategy based on risk assessment; setting criteria for risk selectivity; updating risk management profiles; and revising the risk management structure at CGA. The new structure is a significant step toward implementing the recommendations provided by Mr. Montoya earlier in the year.

## Exhibit 7. Risk Management and Post Clearance Issues

Issues	Risk Management	Post Clearance
Main function	Targets risky cargo by assigning red (physical and documentary inspection), yellow (documentary inspection) and green (no inspection) channels for customs control and clearance.	Ensures the accuracy of customs declaration and customs values, regimes and customs tax collected. It audits risky traders and checks compliance of compliant/green channel traders.
Applicable time	When declared at ports and depots after entry.	Within 5 years of initial declaration.
Time spent at ports and depots for clearance	More green and yellow channel shipments reduce percentiles of time spent for clearance.  Enable effective allocation of customs scarce resources for fruitful inspection of risky shipments.	PCA is essential for increasing green and yellow channel shipments at ports and depots.  After building the sufficient PCA capacity, traders will be able to deposit customs duty in cases of disputed customs value and pay/claim the difference after PCA.
Customs Value	Because of human nature even green/compliant traders can make unintentional mistakes in customs declarations.	Collaboration with PCA and self assessment/review by traders help them reveal such errors and omissions and allow submit corrected declaration without any penalties.
Coordination	Based on PCA findings and results RM upgrades risk criteria, traders profiles for risk management and prevents generic errors and omissions for occurrence.	Feedback from customs clearance officers on yellow and green channel shipments help PCA improve its targets.

**KRA 1.3: Enabling legal and regulatory environment to protect investors, enforce contracts***Commercial Arbitration facilitated*

At MOJ's request, BPI began working in the area of arbitration reform during the reporting quarter. BPI supports the MOJ in developing a new concept paper and draft law on arbitration. In March, BPI engaged a local law firm for research services and legal drafting support. The firm prepared a report on the issues hindering in Mongolian arbitration environment and developed a survey questionnaire to capture arbitration stakeholders' opinions and perceptions on enforcement of the current arbitration law. The survey will be distributed and analyzed next quarter.

In collaboration with the MOJ, AmCham, and MNCCI, BPI organized Mongolia's first International Conference on Arbitration. More than 200 guests representing various private businesses, business associations, and government entities including courts and court decision enforcement agencies participated. Discussions of regional best arbitration practices and current bottlenecks in Mongolia and potential solutions helped forge a private-public sector consensus on the framework that should govern a new arbitration reform in Mongolia. As a result of the conference, BPI has been in discussions with the International Chamber of Commerce (ICC) to establish an ICC National Committee in Mongolia.

PIR 3 provides more detailed information on the conference.

## Exhibit 8. International Conference on Commercial Arbitration Report-Out Summaries

*SUMMARY: Report-Out Summaries from break-out sessions at International Conference on Commercial Arbitration*

**Domestic and International Arbitration:** Participants noted that the current law does not distinguish between domestic and international commercial arbitration. Accordingly, there should be separate provisions in the law for domestic and international arbitration. Arbitration clauses are appropriate for inclusion in most private sector contracts in Mongolia. Other matters such as disputes related to rights and constitutional matters should be resolved solely through the court system.

**Development of Arbitration Institutions:** The development of a arbitration culture in Mongolia will require strong arbitration institutions that conduct their business in a professional, transparent and efficient manner. In terms of institutional development, Mongolia should aspire to reach the level of institutional performance similar to that of regional neighbors such as Singapore, Honk Kong and South Korea, while also leaning from international best practices such as those of the International Chamber of Commerce (ICC) International Court of Arbitration. Two key limitations for the development of arbitration in Mongolia include the lack of trust and the lack of awareness that private stakeholders, lawyers and judges have on the matter of arbitration. The law should include a set of minimum requirements for the development of domestic and/or international arbitration institutions in Mongolia under the arbitration law. Appointment of arbitrators should be regulated by internal rules of the arbitration institution to protect the rights of disputing parties and allow for mutual agreement of the participating parties to select the presiding arbitrator and institutions should adopt a strong Code of Ethics to be followed by all registered arbitrators under the organization.

**Arbitration Cost Considerations:** Participants pointed out that understanding arbitration cost structure is important to increasing public trust in arbitration, thus the need for awareness and education/ training activities in this area. The appropriate costs associated with arbitration proceedings will be influenced by several variables which might include: neutrality, enforceability, selected jurisdiction (rules), selected languages, and arbitrators' capacity, among others. Clear financial instruments identifying fee schedules for arbitrators should be developed and made publicly available. May be difficult to have multiple arbitration centers in Mongolia at this stage of development. Simplifying enforceability of arbitration awards will increase the acceptability of arbitration by private businesses.

**Court Involvement in Arbitration:** Participants consider that the court can provide valuable support at the time of summoning witnesses and respondents, obtaining evidence from individual and competent authorities, authorizing interim measures, and making a determination as to setting aside arbitration awards based on legally valid reasons. However, court involvement should be in line with international best practices to support the independency of the arbitration system in the country. Need to revise current arbitration proceedings in line with best international practices and include revised procedures in the Arbitration Law, including detailed procedures for arbitration hearings. Elimination of restrictions to utilize arbitration for settling disputes incorporated in sector specific laws, the civil code, and any other economic law in Mongolia as a way to increase the scope of arbitration. Limit legal basis on which appeals courts can make a determination to set aside an arbitration award to those factors clearly specified in the law. The current three month timeframe for filing an application to set aside an arbitration award hinders the immediate enforcement of the award, creating confusion in the application of the rules. Courts should not be involved in selection of arbitrators and training judges.

**PIR 2. Private sector capacity and competitiveness strengthened**

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

The Quality Supplier Development Center (QSDC) is the primary mechanism through which BPI seeks to increase private sector capacity. The QSDC Supplier Development Program consists of: (i) helping local products and services meet market requirements, i.e. requirements of buyers in and outside the country; (ii) improving productive and commercial process efficiency, and (iii) linking suppliers to new markets. QSDC’s fundamental objective is to promote economic development based on generating increased sales for local suppliers.

*Identifying and assessing new clients.* During this reporting period, QSDC worked to identify new business opportunities and aggressively promoted their programs to the private sector via individual and collective meetings, public presentations, and outsourcing. As a result QSDC has met around 54 potential buyers and suppliers in 31 different sectors. QSDC staff is working closely with these companies to analyze cash flows and collect purchase orders.

**Exhibit 9. QSDC’s Potential Buyers and Suppliers**

<b>Summary Table: Potential Buyers and Suppliers</b>	
<b>Buyers</b>	
<b>Buyers:</b> <ul style="list-style-type: none"> <li>• Chinggis Land Group</li> <li>• DHL Express</li> <li>• TESO</li> <li>• Cass Town</li> </ul>	<b>Buyer specification for:</b> <ul style="list-style-type: none"> <li>• Catering Services</li> <li>• Uniforms</li> <li>• Repair Service for heavy machines</li> <li>• Milk</li> <li>• Building Information Modeling Service</li> </ul>
<b>Selected Suppliers</b>	
<b>Suppliers:</b> <ul style="list-style-type: none"> <li>• Batuunom</li> <li>• The Standard Consulting Group</li> <li>• Zambalgaramiin Gomyo</li> <li>• NOTS</li> <li>• Mongol Sckool</li> <li>• Kaiser Flashrai</li> <li>• MONENZYME</li> <li>• MONENZYME MED</li> <li>• Khatan Suikh</li> <li>• Cow farmer</li> <li>• Soyombe printing</li> <li>• Unisol one</li> <li>• DHL global forwarding</li> <li>• Individual</li> <li>• ModNuus</li> <li>• Individual</li> <li>• Batjinbat</li> <li>• MLTG</li> <li>• Nansacashmere</li> <li>• Ikh Gazriin Chuluu</li> <li>• Batuunom</li> <li>• Kaiser Flashrai</li> <li>• Badarmaa / Individual</li> <li>• Shine Zam Ekhlel</li> <li>• Suun Sondor</li> <li>• MBDS</li> </ul>	<b>Potential product offerings:</b> <ul style="list-style-type: none"> <li>• Inspection and monitoring equipment import</li> <li>• Energy, urban planning, transportation consultancy services</li> <li>• Felt products</li> <li>• Sandwich panels</li> <li>• Internet gaming</li> <li>• Meat processed products</li> <li>• Cosmetic and disposal syringe</li> <li>• Disposal syringe producer</li> <li>• Milk / Dairy products</li> <li>• Printing services</li> <li>• Internatioanl frieght trade</li> <li>• Mug production and renting service</li> <li>• Leather safety boot producer</li> <li>• Used oil processer and diesel oil producer</li> <li>• Filter producer</li> <li>• Raw hide processing</li> <li>• Cashmere product, clothing</li> <li>• Uniform producer</li> <li>• cleaning, baby pick-up and drop off service</li> <li>• beauty salon</li> <li>• heating oven producer</li> <li>• Leather products</li> <li>• Movie maker</li> </ul>

<ul style="list-style-type: none"> <li>• River Roud</li> <li>• MBDS</li> <li>• River Roud</li> <li>• Khussen Zug</li> <li>• Mekhloplat</li> <li>• Khanbayan</li> <li>• Ekh Ergelt</li> <li>• Music Hall</li> <li>• Monmaster</li> <li>• Ulemj Buyan</li> <li>• SRB</li> <li>• Uushgiin Agui</li> <li>• Uv Ur</li> <li>• Arvin Suljee</li> <li>• Mon Meat</li> <li>• Asralt Bayan Hairkhan</li> <li>• Manna Properties</li> <li>• Ikh Bulag Delger</li> <li>• Best Quality Children</li> <li>• Rentsensuren / Individual</li> <li>• Tamir Gold</li> <li>• Ochi Uils</li> <li>• Oyuntuya/individual</li> <li>• Darkhan Nemekh</li> </ul>	<ul style="list-style-type: none"> <li>• First aid bag producer</li> <li>• Egg producer</li> <li>• Wood furniture</li> <li>• Construction</li> <li>• Slaughter House</li> <li>• Car coverage producer</li> <li>• Dice board game</li> <li>• Leather glove producer</li> <li>• Frozen dumpling</li> <li>• Handbag producer</li> <li>• Construction block producer</li> <li>• Packed vegetable</li> <li>• Construction</li> <li>• Meat slaughtering</li> <li>• Uniform producer</li> <li>• Roof and basement sealant service</li> <li>• Winter cover for cars</li> <li>• Dice board games for children</li> <li>• Leather glove</li> <li>• Handbag producer</li> <li>• Construction cement block</li> <li>• Uniform producer</li> </ul>
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*Supplier Development Plans (SDPs).* QSDC's buyer-led approach links buyers with proven demand to suppliers, improving capacity, increasing sales and creating employment. QSDC provides financial and technical assistance to suppliers (QSDC "clients") from its revolving Technical Assistance Fund, which is supported by BPI grant funds. This quarter QSDC signed three SDPs and services agreements.

#### Exhibit 10. Quality Supplier Development Center Portfolio Review:

Client Name/Business Description	QSDC Assistance
<p><b>Clean Fuel LLC:</b> The client is a biodiesel supplier with ten employees. The firm uses waste cooking oil to produce biodiesel that is then mixed with petroleum diesel to produce B-5, B-10, B-20 and B-100 products (The number represents the percentage of biodiesel in the mix).</p> <p><b>Expected Results:</b> As a direct result of 38.5 million MNT assistance, Clean Fuel expects to increase its sales seven times, resulting in more than 270 million MNT in expected increased sales in the first year.</p>	<p>After conducting a detailed cash flow analysis, QSDC was able to show Clean Fuel that they could significantly increase their sales and profit by focusing their efforts away from mixed products to 100% biodiesel (B-100) production. After facilitating conversation with local buyers, QSDC also supported the firm in securing substantial increased demand for B-100 product as compared to 2013 demand.</p>
<p><b>Standard Consulting Group (SCG) LLC:</b> The client provides professional, technical, and management consulting services on energy, urban planning, transportation, environment, infrastructure and IT and employs a staff of six.</p> <p><b>Expected Results:</b> SCG's expanded portfolio as a result of 72 million MNT assistance is expected to bring the client 353 million MNT in increased sales within the first year.</p>	<p>The client wants to incorporate the services of Building Information Modeling (BIM) in their portfolio in order to meet the local demand from construction companies that have already committed to future contracts for BIM services. QSDC is assisting the client in developing the new service through financial assistance for software licenses, special hardware and tailored training for two additional engineers.</p>

<p><b>Uv Ur:</b> Family-run furniture manufacturing business, based on custom orders from long-term clients for households, hotels, restaurants, and retail stores. The market extends to other wood products that can replace imported products from China, presenting a tremendous market opportunity because the number of local manufacturers with the capacity to supply this niche market is limited.</p> <p><b>Expected Results:</b> 360 million in additional sales and at least 4 new clients.</p>	<p>The client aims to increase the competitiveness of the business by improving their manufacturing technology in order to increase production and enable them to produce more and higher quality products for existing clients as well as expand to new markets for wooden products.</p> <p>QSDC is assisting the client to purchase a computerized spindle ATC wood engraver machine with multiple heads that will allow high production capacity and a vacuum press laminating machine for fine quality surfacing.</p>
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SDPs in the pipeline. During this reporting period, QSDC conducted extensive due diligence and develop SDPs for the new clients below. These SDPs will be finalized next quarter.

Exhibit 11. SDP's in the Pipeline

Potential Client Name/Business Description	Proposed QSDC Assistance
<p><b>Arvin Suljee LLC:</b> The client supplies the construction industry and employs more than 50 people.</p> <p><b>Expected Results:</b> The expected sales total 1.2 billion MNT.</p>	<p>Construction industry is one of the most attractive industries in Mongolia for the next 27 years. Our client worked on numerous construction projects including both private projects as well as government and is interested in growing in its portfolio. Therefore, the client wants to increase their sales by working on larger scale projects and recently was selected for a government tender. Client's deficit for the investment required to operationalize the activities for the tender is 150 million MNT. QSDC plans to provide partial assistance and work with the client to identify additional sources for funding.</p>
<p><b>SRB:</b> The client produces leather bags for the local and international market, based on specific purchase orders received online.</p> <p><b>Expected Results:</b> Expected increased sales resulting from approximately 40 million MNT of assistance is 340 million MNT in the first year.</p>	<p>Often, client needs to close its website for a period due to the fact that client's production capacity is not big enough to fulfill purchase orders. QSDC will cost-share with the client assistance for the investment required to purchase enough raw material to be used during the summer season.</p>
<p><b>Ulemj Buyan:</b> The client is a high-quality egg producer in Baganuur. The client aims to increase its capacity to meet additional orders from buyers.</p> <p><b>Expected Results:</b> Expected increased sales totals 1 billion MNT in the first year.</p>	<p>The client needs financial assistance for operational costs related to a project to build additional chicken coops for 30,000 additional chickens.</p>
<p><b>Mon Meat LLC:</b> This potential client provides meat processing and packaging since 2007, with a strong portfolio of current buyers including Modern Nomads, Tuushin Hotel, Bosa Catering, Max Food, Ukrainian restaurant, Ikh Mongol restaurant, among others. The company employs 20 full time workers and processes about 200 tons of sorted and packed meat annually.</p> <p><b>Expected Results:</b> The expected increased sales within the first year are around 300 million MNT.</p>	<p>Recently Mon Meat built a slaughter house in Khentii province and increased their capacity by 200 sheep per day. However, the current meat processing capacity still does not meet demand from restaurants. They require more production equipment as well as working capital. QSDC is considering providing assistance that will increase the company's capacity to be able to handle big orders, process their own supply of meats, and provide services/products inside and outside of the country.</p>

In addition to the specific activities related to its two main programs – Supplier Development Program and Quality Management Program – QSDC worked intensively during the quarter on institutional strengthening. Key accomplishments for this quarter include:

- Hiring an accountant.
- Development of QSDC Monitoring and Evaluation system.
- Acquisition of its own domain and development of QSDC website.
- Launch of QSDC membership program that will offer additional services and discounts for companies interested in either of QSDC programs.

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

### *Leveraging Private Sector Resources for Development.*

Leveraging resources with partners, BPI was able to bring this quarter's conference on commercial arbitration to an international level and increase the development impact. BPI engaged several new partners in order to bring the top international arbitration experts – to share their technical and legal knowledge with lawyers, businesses, public sector officials, and other stakeholders throughout Mongolia. The organizations below provided level of effort (LOE), recommendations, participation to educate local media, and presentations at no cost to the BPI project:

- International Chamber of Commerce (ICC) International Court of Arbitration
- Singapore International Arbitration Center (SIAC)
- Hong Kong International Arbitration Centre (HKIAC)
- Gibson, Dunn & Crutcher Law Firm
- BGI Legal
- American Chamber of Commerce in Mongolia (AmCham Mongolia)
- Mongolian International and National Arbitration Center (MNCCI/MINAC)

In addition, via a cost-share arrangement with AmCham and Hogan Lovells, BPI produced 300 handbooks on best practices in international arbitration that were distributed to conference participants. Through this user-friendly manual, businesses, lawyers, judges and other public and private stakeholders will have access to the latest expertise on arbitration.

For PIR 2, since many large companies the QSDC works with have committed to source predominantly from local suppliers if the opportunity exists, QSDC works to leverage resources through a joint effort with the private sector to exponentially increase its results in creating new income and jobs, in addition to increasing sales for client firms.

This quarter the QSDC continued to work with Wagner Asia to support local supplier Geomash. In addition, the QSDC partnered with SGS to promote quality management trainings, leveraging SGS's network and resources to attract more participants to the QSDC trainings as well as letting suppliers know that QSDC can accompany firms throughout the implementation process in order for them to fulfill SGS certification requirement. As QSDC continues to demonstrate the effectiveness of its programs private sector co-financing is expected to increase significantly.

These unique partnerships with world class companies and organizations have the power to improve the business enabling environment and local supply chain throughout Mongolia--an excellent example of how public and private sectors can work together for greater good.

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

For Mongolians to compete and succeed in today's global market, traders, producers and suppliers must not only find a buyer, but they must also ensure that their products and services meet international quality and safety requirements, as well as the customers' expectations.

During this quarter, QSDC organized five quality management trainings delivered by local trainers internationally certified with the London-based Chartered Institute for Environmental Health (CIEH). As a result, 126 private sector participants, from 75 SMEs increased their capacity in areas critical to increasing competitiveness through a total of 1,408 training hours.

Additionally QSDC is focusing on identifying clients interested in food safety and quality management certification (ISO, HACCP). For that purpose, QSDC is working together with international certification company, SGS (formerly Société Générale de Surveillance) to develop informational events, such as seminars and workshops. Certification companies such as SGS require multiple stages for implementation in order to certify local firms to supply export markets. In support, QSDC provides financial and technical assistance to the clients in order to meet the requirements required to obtain the international certification.

**Exhibit 12. Quality Supplier Development Center Trainings:**

Training Name	Date	Participants	Number of training-hours	number of companies
Marketing training	11-13 Feb, 2014	17	408	13
HACCP training	25-27 Feb, 2014	14	336	11
Yellow Belt training	28 Feb, 2014	61	248	33
ISO consulting event	13 March, 2014	19	56	10
6 Sigma training	25-27 March, 2014	15	360	8
<b>Total</b>		<b>126</b>	<b>1,408</b>	<b>75</b>

**Marketing Training, February 11-13.** QSDC Executive Director introduced strategies for sound business models, developing branding and marketing strategy and improving product and service design. The training was attended by 17 participants from 13 local firms.

**HACCP training, February 24-25.** QSDC delivered three-day training on food safety and hygiene and hazard analysis of critical control points (HACCP) for 14 professionals from 11 local firms engaged in the food service and processing industries. This was QSDC's second subject training utilizing a Mongolia trainer who is internationally accredited by the London based Chartered Institute for Environmental Health (CIEH). Participants attended an interactive classroom training, which included analyzing practical case studies on food safety, food processing flow chart, good hygiene practice, group discussion and team activities. After the training, each participant completed an official examination, and received internationally recognized HACCP certificates from CIEH.

**Yellow-Belt Six Sigma Training, February 28.** Leveraging the Wagner Asia Equipment corporate social responsibility program, QSDC gained access to two Mongolian Six Sigma Black Belt trainers who delivered an introductory Yellow Belt Six Sigma Green Belt training course to

promote awareness and interest in QSDC's Green Belt Six Sigma Training, at no cost to participants. The training was attended by 61 participants from 33 local firms who were keen on continuing their learning in Six Sigma through the QSDC's more advanced Green Belt program next month.

**ISO Introduction Event, March 13.** In partnership with SGS, QSDC organized a seminar with 19 participants from 10 firms in the food sector. An SGS international expert explained the different Food Safety/Quality Assurance standards, including HACCP, ISO 9000, ISO 22000 and FSCC 22000, implementation procedures, certification process, and costs. QSDC's Executive Director provided information on how QSDC can accompany companies to achieve their certification goals.

**Green-Belt Six Sigma Training, March 25-27.** QSDC, in partnership with Wagner Asia Equipment LLC delivered Six Sigma training for 15 participants from 8 firms. During the three-day training, participants learned key techniques and explored ways to ensure the most efficient and effective processes, products and services are in place to meet customer requirements. The participants practiced using new tools including pareto diagrams, tree diagrams, root cause analysis, and process mapping under the observation of Black Belt Six Sigma trainers. Afterward, in the class, each participant shared their real-life experience and challenges in reducing costs and improving quality at their respective companies. Trainers followed up with the participants to address their specific capacity gaps. Participants commented that this training exposed them to several new ideas, including the importance of process improvement and analyzing the external and internal factors that may affect the process, anticipating potential obstacles and risks, and being prepared with alternative courses of action, and the benefits of using a systematic methodology. Process improvement is an ongoing process and now the participants from over a dozen local companies, representing various sectors, have the tools to implement Six Sigma.



*Participants engaged in group exercise during QSDC Competitiveness Building & HACCP trainings.*

### **PIR3. 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**

In order for legal and regulatory business reforms to succeed and “take root” in society, it is important that the public embrace them. This requires that people be informed about the reforms and understand why they are necessary. To involve private sector stakeholders in project reforms and increase their capacity to influence the reform process, BPI continues to utilize the public-private dialogue (PPD) format.

In support of PIR 1, the strategic communications team supported the GOM and private sector to forge a private-public sector consensus on the framework that should govern business and regulatory reforms.

### **Fostering Public-Private Dialogue on Mongolian Business Enabling Environment “Working Together for Reform Forum” in November 2013 Sparks Ongoing PPDs**

Deepening business enabling environment reforms in Mongolia requires an ongoing public-private dialogue. In order to raise awareness and facilitate a vibrant dialogue between the public and private sector, ensuring the Mongolian private sector actively participates in both the formulation and implementation of the reforms, the project worked with the counterpart agencies to host PPD events to further discuss current and proposed legal and regulatory changes in the Mongolia.

#### **PPD on Customs**

On January 14, in partnership with BPI, the CGA hosted a Customs and Business Consultative Meeting as a follow-up meeting to the national public-private dialogue forum held in November 2013, to discuss recent improvements and plans for further reforms in 2014. The event included 156 participants representing local and national government organizations, private sector firms and mass media organizations. In his opening speech Mr. O. Ganbat, CGA Director General, identified the need for upgrading the Mongolian customs from a current administrative body to a service-oriented organization in concert with international trends in order to facilitate cross border trade and economic growth, emphasizing that trade facilitation requires the efforts of both the public and private sectors. During the event, CGA provided the private sector a comprehensive update on activities related to customs compliance management, trade facilitation, generic breaches revealed by post clearance audit, associated recommendations, and principle amendments to the Customs and Customs Tariff laws. Following the update, the CGA invited participants to engage in open discussion to address various problems facing the private sector including customs duties, VAT, exemption, rates, various customs regimes, overview of the required documents for import and export clearances and ways to reduce them, provisions of the draft laws regulating customs brokers, current opportunities and technical solutions for advance declarations, compensations to freight forwarders in cases of arrested cargo, and protection of exclusive distributor’s interest by customs. Finally, Director Ganbat announced the upcoming Economic Operators Program to be introduced in 2014 as an incentive for traders and a tool for trade facilitation and advocated for strengthened collaboration with customs organizations of neighboring countries. Following the PPD event, the CGA included minutes, proposed action plan, draft laws and results of a survey conducted by CGA during the event on the agency's website <http://www.ecustoms.mn/>.



January 14, 2014 Customs and Business Consultative Meeting. Above, Mr. O. Ganbat, Director General of CGA makes opening remarks.

### PPD on E-Payment

On February 6, the project facilitated a meeting with 31 participants from the GDT, the Mongolian Bankers Association, and commercial bank representatives to discuss the potential solutions for linking commercial banks with the new e-payment system at GDT. BPI local subcontractor, Infinite Solutions presented three viable options for e-payment including 1) integrating a “Paying tax” option through banks’ internet banking systems, 2) paying through the banks’ credit/debit card payment systems, and 3) paying through direct debit from taxpayer accounts. Participants engaged in fruitful discussion with the GDT and provided recommendations and bottlenecks for the various e-payment solutions. As a result, GDT and BPI collected the feedback and recommendations from commercial banks to incorporate in the development of the new e-payment module.



*February 6, 2014- BPI facilitated a meeting with 31 participants from the GDT, the Mongolian Bankers Association, and commercial bank representatives to discuss the potential solutions for linking commercial banks with the new e-payment system at GDT.*

### Elevating Awareness of Commercial Arbitration in Mongolia

Although Mongolia adopted a domestic and international arbitration law in 2003, arbitration is still not being widely utilized and enforced effectively in Mongolia. To address observed weaknesses, the MOJ, USAID, MNCCI/MINAC and AmCham are leading a new joint effort to ensure that arbitration reform in Mongolia is based on best international practices, incorporates private sector (domestic and foreign) inputs, and is supported by the Mongolian court system.

BPI, Ministry of Justice of Mongolia, AmCham and MNCCI/MINAC hosted the “International Conference on Commercial Arbitration in Mongolia” on March 27, 2014 drawing a crowd of 205 participants. The one-day conference provided a forum for stakeholders to learn, share, and discuss international best arbitration practices and forge a public-private sector consensus on the framework that should govern arbitration reform in Mongolia. The morning session included presentations and discussion on best international and regional practices from international leaders on arbitration from France, Hong Kong, United Kingdom, Singapore, and Georgia.

The afternoon session engaged private and public sector participants in break-out working group discussions and spurred vivid discussion on the key tenants that should guide and define the new draft of the arbitration law, a key objective of the MOJ’s legislative agenda for this year. Key issues that were discussed included the relationship between local courts and arbitration institutes, the required support from the country’s legal system to enforce arbitration decisions and awards, and the organization and efficiency of arbitration courts, among others. BPI supported the release of 300 handbooks on best practices in international arbitration at the conference. Through this user-friendly manual, businesses, lawyers, judges and other public and private stakeholders will have access to the latest expertise on arbitration.



*Left, the International Conference on Arbitration was attended by more than 200 participants. Right, Mr. Kirk McBride, Chargé d’Affaires, US Embassy in Mongolia gives opening remarks.*

On Wednesday, March 26, 2014 BPI organized pre-conference meetings for guest speakers and MOJ Working Group, Supreme Court representatives, and private sector participants. The experts worked with the Working Group to think through the details of how to set up and structure an efficient, unbiased, and cost-effective arbitration practice in Mongolia that will be utilized by the private sector. The guest speakers shared experiences from their respective countries to demonstrate how other countries have structured their arbitration systems. Participants commented that through their interaction with arbitration experts from around the world, they learned lessons and best practices they might apply to Mongolia.

Through the PPD format and the presentation of best international practices, the conference raised awareness on the importance and the opportunity of using arbitration as an alternative dispute resolution mechanism and empowered private sector leaders to better channel their needs to the government. BPI utilized this this multifaceted initiative to improve representation of the private sector from the outset of the reform process to foster inclusive economic growth in Mongolia.

BPI continued to actively collaborate with subcontract partner, the Press Institute of Mongolia (TPI) and their Economic Journalists Club (EJC). During this reporting period, BPI supported six events for EJC members: two roundtables on bizguide.mn and SME development, three trainings on economic and trade issues to build the capacity of journalists, and a press conference with international arbitration experts described in detail in this section. The broadening of EJC collaboration with government agencies and private sector through the BPI facilitated events is an important milestone as EJC develops into a more vibrant and important voice in Mongolia.



*Left, public and private sector representatives engage in lively discussion during conference afternoon break-out sessions. Right, lawyers Laurent Gouiffès and Tuguludur Guraranz outline top priorities regarding court involvement in arbitration cases.*

**Exhibit 13. Economic Journalists Club: Economic Events January-February 2014**

Event	Date
1. Prepare entrepreneurs, not job applicants	Jan 17, 2014
2. Are you looking for financial support? QSDC event	Jan 24, 2014
3. Training from National Statistical office	Feb 19, 2014
4. "Why is Risk Management and Post Clearance Audit Important for Mongolian Customs?"	Feb 25, 2014
5. Press Conference on Commercial Arbitration	Mar 26, 2014
6. Real Estate Market Training	Mar 28, 2014

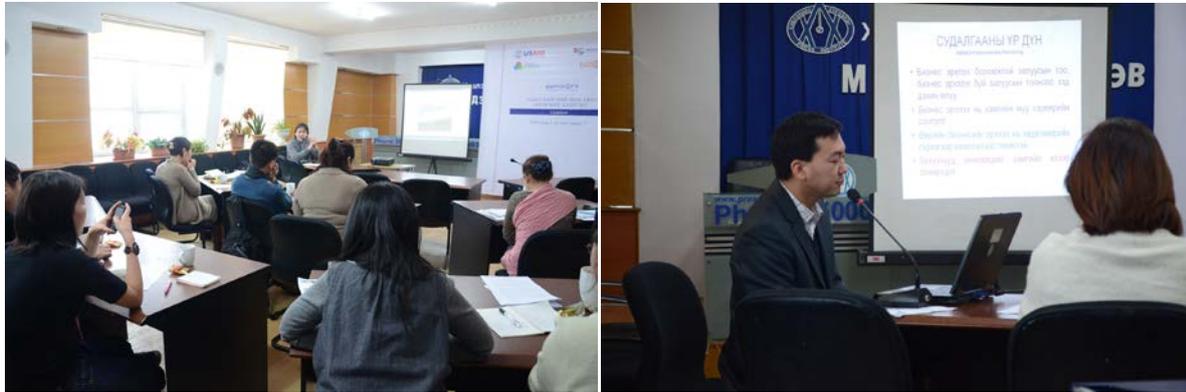
**Getting the Word Out - Where Can Local Companies Turn for Assistance to Meet Increased Demand?** On January 24, 2014, BPI hosted an event with local partners TPI and EJC to discuss the challenges that local Mongolian SMEs face and the opportunities for developing the capacity of local suppliers to meet the demands of big buyers. Ms. Gerelzaya from the SME Development Agency served as panelist, discussing the challenges for local suppliers and the new agency's efforts to assist the private sector through discounted loans, trainings, and opening new workplaces. The SME Development Agency is a new addition to the Ministry of Labor as of late 2013. The journalists were keen to field questions and find out more about the new public services. Mr. Bayarmagnai, Executive Director of the Quality Supplier Development Center (QSDC), a local business advisory service provider, introduced the USAID-supported Supplier Development Program and discussed opportunities for financial and technical assistance. Mr. Batbayar, Executive Director of Geomash LLC, a local metallurgy company, shared how the QSDC has connected his company to new international buyers and provided technical support to modernize his Soviet-era manufacturing services. He said, "I never thought it would be possible that I would be working with one of the largest international companies in Mongolia and diversifying the services my company provides after being in business 20 years, thanks to the QSDC."



*Left, Mr. Batbayar, Executive Director of Geomash LLC, shares how QSDC assisted his company to find new clients and increase sales.  
Right, Mr. Bayarmagnai, Executive Director of the Quality Supplier Development Center (QSDC), talks to reporters about the USAID-supported QSDC Supplier Development Program.*

Twenty journalists participated in the event, among them, Bayar, a young journalist who remarked, "It is so important to bring these opportunities to the public through the EJC club, as a bridge of information to the many entrepreneurs in Mongolia who do not know where to turn for assistance." The event was widely publicized through 14 television and print media outlets.

**Preparing Entrepreneurs Not Job Applicants.** On January 17, 2014, BPI, and local partners Development Solutions (DS) and TPI hosted the “Preparing Entrepreneurs Not Job Applicants” seminar for 23 journalists from the Economic Journalists Club. During the seminar, panelists from DS and experts from the Mongolian National University discussed current business opportunities, start-ups, as well as case studies with innovative solutions from other countries in the region for addressing youth entrepreneurship.



*Mr. E. Bat-Orshikh, Executive Director of Development Solutions trains journalists on how to utilize the USAID- financed interactive web portal – [www.bizguide.mn](http://www.bizguide.mn) for business information and resources.*

**Improving Mass Media Coverage of Economic Issues via EJC.** In Mongolia, there has been more than a 60 percent increase in the number of media outlets over the last 10 years. Many people complain, though, that the competition for media funding has contributed to a substantial amount of low quality, “paid-for” sensational news. Accordingly, despite the vast and growing number of media outlets in Mongolia, unbiased reporting on economic issues has been lacking. In addition, many journalists and reporters are inexperienced with reporting on economic issues.

To address this issue, BPI and TPI have organized more than a dozen trainings on economic journalism to improve the skills of EJC members to cover economic issues, and their access to sound sources of information in order to write well-researched and unbiased articles. On February 25, BPI, TPI, and CGA hosted a training “Why is Risk Management and Post Clearance Audit Important for Mongolian Customs?” with the participation of 17 EJC members.

This training for journalists is part of CGA’s efforts to educate citizens, government counterparts, and traders on the potential benefits of risk management (RM) and post-clearance audit (PCA). The proper implementation of RM and PCA contributes to economic growth through trade facilitation that contributes to faster trade turnover and benefits consumers by decreasing the price of goods. Senior customs officers from PCA and RM divisions informed journalists of the main tenants and benefits of the new tools and systems at Mongolian Customs. Further, they described how the reforms translate to benefits for businesses, the international community, and overall economy.

As result of the training, journalists improved their knowledge of trade facilitation, and produced articles and TV/Radio broadcasts covered by 11 media outlets following the event. More informed and effective media coverage produces a multiplier effect by increasing the quantity and quality of articles on economic issues that ultimately inform and engage the Mongolian public.

#### **D. BPI Activities by the Numbers**

During the July-September 2013 reporting period, the BPI project submitted Year 3 Annual Work Plan and reports 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 second quarter for BPI Annual Work Plan Year 3. Given the natural slow down of project activity during this winter period, 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) accelerating QSDC SDP and quality training programs; (2) building on the momentum of the International Conference on Commercial Arbitration to draft a new legal framework and increase the visibility of arbitration as a alternative dispute resolution; (3) completing the technical implementation of the Online Company Registration System which supports the reform of Starting a Business; and (4) continuing the public-private dialogue format to spur private sector development in Mongolia. (5) launch of the e-payment system (6) exploring innovative strategies to leverage resources.

**Trading Across Borders:** Over the next quarter BPI will provide mining industry financial audit training to the CGA PCA department in order to strengthen the PCA system. BPI will continue to monitor implementation of risk management related recommendations provided to CGA. The project will consider providing technical assistance to CGA to integrate customs duties into the tax e-payment system, currently being developed at GDT.

**Dealing with Construction Permits:** BPI will follow-up with the MCUD to finalize two pending concept papers on parameters for risk categories and expertise. Upon completion, the MCUD is expected to submit the concept paper and draft law for MOJ review and approval. In the meantime, BPI will work with MCUD and MPA to proceed with amendments to Resolution #151. As explained in KRA 1.1., the MCUD has to make a decision whether to amend the resolution based on proposals from stakeholders or substitute it with new procedures as suggested in the draft law.

**Starting a Business:** BPI will accompany GASR in submitting the legal package to the Parliament Standing Committee and plenary session for discussions and approval. Pending approval of the law, BPI will provide support to strengthen GASR's internal procedures and support GASR's awareness campaign to make transparent the procedures for businesses and citizens. BPI will complete the new, more customer-friendly website in the coming quarter as well as provide updates to the website content after the law is passed. Next quarter, BPI will select a local subcontractor to support the final stages of the OCRS, and officially launch the system.

**Paying Taxes:** BPI will complete the e-payment module in the next quarter and will continue supporting GDT in the post-implementation phase of the complete e-tax system. BPI will consider providing technical assistance with respect to VAT non-filing and evasion. The project will continue its support to GDT's customer service training and awareness campaign to complement the reforms in paying taxes.

**Arbitration:** BPI will release the survey results next quarter and work on the draft concept paper and law. In addition, BPI will focus on elevating the awareness and visibility of arbitration. BPI will begin the process of establishing a Mongolian national committee of the ICC. BPI plans to organize a workshop series for Mongolian lawyers with very practical education on specific

aspects of the arbitration practice that will be delivered on pro-bono basis by international law firm Gibson, Dunn & Crutcher LLP beginning by late June 2014. BPI also plans to organize a second PPD event to collect feedback on the first draft of the new law.

### **PIR 2: Private sector capacity and competitiveness strengthened**

In addition to the specific activities related to its two main programs – Supplier Development Program and Quality Management Program – QSDC will work intensively during the next quarter on institutional strengthening. Key actions for next quarter include:

- Hiring additional business analysts.
- Development of QSDC Sustainability Plan
- Promotion of QSDC website.
- Promotion of QSDC membership program that will offer additional services and discounts for companies interested in either of QSDC programs.

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

QSDC will continue to focus on three main activities in the upcoming quarter: (1) identification of new business opportunities; (2) consolidation of the potential business linkages made in the previous months; (3) follow up on the implementation of the current SDPs (technical/financial assistance, client's production, client's sales report, M&E and repayment).

**New business identification:** increasing its business portfolio is still one of QSDC's main challenges. Therefore, QSDC staff will keep focused on new business screening and identification. In this regard, QSDC will continue with the following strategies:

- Dissemination events with Associations, banks SME officers and MNCCI
- Individual meetings with both large companies (from high-value sectors such as mining, construction and energy) and medium/small companies as potential suppliers.
- Outsourcing in the identification of business opportunities, through Development Solutions and independent professionals.
- Innovative approaches to leverage resources; i.e. study tours in partnership with international embassies

**Consolidating current businesses opportunities:** by the end of next quarter QSDC plans to have at least nine additional SDPs signed.

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

In the second quarter of 2014, QSDC plans to work in accelerating the number and variety of trainings.

QSDC will organize three Quality Management Trainings next quarter for approximately 90 participants: 1) "Building Competitiveness"; 2) Food Safety and HACCP and 3) Six Sigma training.

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

**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 accelerating PPD activities. 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.

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 GASR to publish the new law on the agency and project website in addition to organizing an official launch for the new system. BPI is planning several outreach events in coordination with the ICC Singapore to raise the profile and understanding of arbitration.

#### Exhibit 14. PIR 3 Activities for Next Quarter

PIR 3: Planned Activities for Next Quarter
<ul style="list-style-type: none"> <li>• Continue public-private dialogue series for six reform areas in collaboration with GoM counterparts.</li> <li>• Conduct at minimum three public awareness campaigns for technical activities including construction law and OCRS, e-payment launch and arbitration reform.</li> <li>• Increase capacity of local media through at least 2 targeted journalism trainings and support for local partner TPI's program.</li> <li>• Publish at minimum twenty articles by the local media on BPI reform areas and accomplishments.</li> <li>• Promote awareness for USAID development activities through NewsPlus, BPI social media outlets, and success stories.</li> <li>• Organize at minimum five EJC workshops on to economic reform issues.</li> </ul>

## **SECTION II: PROJECT MANAGEMENT AND ADMINISTRATION**

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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.

### **B. Personnel**

#### **B1. Long-term expatriate personnel**

During this reporting period, the project did not make any changes to the long-term expatriate personnel:

#### **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. All local long-term personnel remain the same as in the previous quarter.

#### **B3. Deployment of short-term technical assistance**

Deployment of short-term expatriate assistance proceeded according to the Year 3 Annual Work Plan schedule. Two (2) technical assignments were completed or initiated during the quarter by a total of 8 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:

- In January 2014, Chemonics closed the indefinite quantity subcontract with local NGO, Development Solutions.
- In February 2014, Chemonics closed the indefinite quantity subcontract with Orchard Consulting LLC.
- In February 2014, Chemonics released the second RFP to identify local IT firm with expertise in working with WebAssembler.NET® platform to assist the project maintaining the new system including performing any minor adjustments needed to ensure that the OCRS complies with any new or existing laws and regulations, and to implement any potential revisions in close coordination with the General agency for State Registration (GASR). The selection of the IT firm will be made in the next quarter.
- In February 2014, BPI project issued sub-task order no. 09 to Economic and Legal Consultancy LLC (ELC), to provide a final legal review and translation for the QSDC's templates that will be utilized to implement the TAF.
- In February 2014, the Chemonics released an RFP to identify a local IT firm to draft a new law in line with international best practices and develop the draft concept paper in close coordination with the MOJ and working group. The fixed price subcontract was awarded to the consortium, consisting of local legal firm, New Grata LLC and UK based legal consulting firm, BLP LLP. The completion date of the subcontract is June 30, 2014.

- In March 2013, Chemonics executed a fixed price subcontract with local NGO, Mongolian National Institute of Certified Accountants (MONICPA) to conduct three-day financial audit training for the Post Clearance Audit (PCA) Department of Customs General Administration (CGA).
- In March 2013, Chemonics executed a fixed price subcontract with local IT firm, Interactive BI LLC to conduct one-day basic accounting software training for inspectors from the Post Clearance Audit (PCA) Department of Customs General Administration (CGA).
- In March 2014 the Chemonics executed a sub-task order under indefinite quantity subcontract with international subcontractor, Policy and Management Consulting Group (PMCG) for short-term technical assistance related to arbitration reform.

**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 short-term local and expatriate assistance to complete technical assignments in accordance with the submitted final version of Year 3 Annual Work Plan.
- Execute new firm fixed price subcontract with Alfa XP to provide an extension of technical assistance toward finalizing the Online Company Registration System (OCRS) to provide hands-on-assistance to GASR IT staff during the OCRS data migration process, which will ensure that GASR registrars begin using the new system immediately following the data migration process.
- Select and execute the subcontract with local IT firm to assist the GASR to refine the Online company registration system (OCRS) to 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  
October – December 2013 quarter**

<b>Employee name</b>	<b>Position</b>	<b>Start date</b>	<b>Current Contract End date</b>
Uurtsaikh Sangi	Deputy chief of party	Jun 20, 2011	June 19, 2014
Altanzaya Baldan	Accountant	Jun 20, 2011	June 19, 2014
Zul Sabikhan	Operations Manager	Jun 20, 2011	June 19, 2014
Tsolmon Naidandorj	Video and graphics coordinator	Jul 28, 2011	June 30, 2014
Batmunkh Perlii	Driver/Messenger	Aug 22, 2011	June 30, 2014
Myagmar Gombo	Driver/Messenger	Sep 12, 2011	June 30, 2014
Gerelmaa Tumurbaatar	Accounting assistant	Oct 7, 2011	June 30, 2014
Oyunbold Gansukh	IT manager	Oct 7, 2011	June 30, 2014
Amgalan Nordov	Regulatory reform manager	Jan 3, 2012	June 30, 2014
Solongo Samdandovjid	Business environment and competitiveness specialist	Jul 16, 2012	June 30, 2014
Davaakhuu Baatar	Translator/Interpreter	Jul 16, 2012	June 30, 2014
Munkhjargal Demberel	Office manager	Sep 26, 2012	June 30, 2014
Ariuntuya Ayurzana	Public private dialogue specialist (TPI)	Oct 5, 2012	June 30, 2014
Buyankhuu Suran	Translator/interpreter and editor	August 19, 2013	June 30, 2014

<b>Exhibit A-2: Short-term technical assignments during the January – March 2014 quarter</b>			
<b>Name</b>	<b>Purpose of assignment</b>	<b>Date of arrival</b>	<b>Date of departure</b>
Mr. Jorge Montoya	Assistance to CGA in upgrading and expanding its risk management system, selectivity criteria and respective internal regulations; and establish an effective feedback system to reflect PCA results and customs offence inputs in RM.	January 12, 2014	January 25, 2014
Aleksandre Tsuladze	Georgian expert in Arbitration law to participate at the International best practices on Arbitration Conference	March 25, 2014	March 29, 2014
Andrea Carlevaris	French expert in Arbitration law to participate at the International best practices on Arbitration Conference	March 25, 2014	March 28, 2014
Joe Liu	Hong Kong expert in Arbitration law to participate at the International best practices on Arbitration Conference	March 25, 2014	March 28, 2014
Lasha Gogebidze	Georgian expert in Arbitration law to participate at the International best practices on Arbitration Conference	March 25, 2014	March 29, 2014
Tan Ai Leen	Singapore expert in Arbitration law to participate at the International best practices on Arbitration Conference	March 25, 2014	March 27, 2014
Laurent Gouiffes	French expert in Arbitration law to participate at the International best practices on Arbitration Conference	March 25, 2014	March 28, 2014
Benson Cyrus	Partner in the London office of Gibson, Dunn & Crutcher and Co-Chair of the firm's International Arbitration Practice Group	March 25, 2014	March 28, 2014

**ANNEX B: Performance indicators, baseline, targets, and results for Annual Work Plan-3 (January through March 2014)**

<b>PIR1:Business enabling environment, governance, and country competitiveness policies and practices improved</b>											
<i>KRA 1.1 Trade, paying taxes, getting new electricity connections and construction procedures simplified</i>											
		<i>Baseline Value (DB2013)</i>	<i>AWP-3 Target</i>		<i>Apr-Jun</i>	<i>Jul-Sep (DB2014)</i>	<i>Oct-Dec</i>	<i>Jan-Mar</i>	<i>Apr-Jun</i>	<b><i>AWP-3 Results</i></b>	<b><i>LOP Target</i></b>
<b>1.1.1</b>	<b><i>Time and cost of clearing imports and exports reduced (Baseline DB2013)</i></b>										
1.1.1a	<i>Number of documents required to export/import a shipment</i>	11/13	3/3	<i>Target</i>	<i>n/a</i>	<i>5/5</i>	<i>3/3</i>	<i>3/3</i>	<i>3/3</i>	<i>3/3</i>	<i>3/3</i>
				<i>Actual</i>	<i>n/a</i>	<i>11/13</i>	<i>11/13</i>	<i>11/13</i>			
1.1.1b	<i>Number of days required to export/import a shipment</i>	49/50	27/28	<i>Target</i>	<i>n/a</i>	<i>35/36</i>	<i>30/31</i>	<i>27/28</i>	<i>27/28</i>	<i>27/28</i>	<i>27/28</i>
				<i>Actual</i>	<i>n/a</i>	<i>49/50</i>	<i>49/50</i>	<i>49/50</i>			
<b>1.1.2</b>	<b><i>Burden of compliance with tax administration procedures reduced (Baseline DB2013)</i></b>										
1.1.2a	<i>Number of payments per year:</i>	41	19	<i>Target</i>	<i>n/a</i>	<i>19</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>		<i>19</i>
				<i>Actual</i>	<i>n/a</i>	<i>41</i>	<i>41</i>	<i>41</i>			
1.1.2b	<i>Number of hours per year required to comply with paying taxes</i>	192	133	<i>Target</i>	<i>n/a</i>	<i>n/a</i>	<i>133</i>	<i>n/a</i>	<i>n/a</i>		<i>133</i>
				<i>Actual</i>	<i>n/a</i>	<i>192</i>	<i>192</i>	<i>176</i>			
1.1.2c	<i>Percentage of taxpayers that use e-payment for VAT, CIT and PIT taxes</i>	24.6%	55%	<i>Target</i>	<i>n/a</i>	<i>35%</i>	<i>40%</i>	<i>50%</i>	<i>55%</i>	<i>55%</i>	<i>55%</i>
				<i>Actual</i>	<i>n/a</i>	<i>24.6%</i>	<i>24.6%</i>	<i>24.6%</i>			
<b>1.1.3</b>	<b><i>Construction permits procedures streamlined (Baseline DB2013)</i></b>										
1.1.3a	<i>Number of procedures to build a warehouse legally</i>	21	13	<i>Target</i>	<i>n/a</i>	<i>18</i>	<i>16</i>	<i>13</i>	<i>13</i>		<i>13</i>
				<i>Actual</i>	<i>n/a</i>	<i>20</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>		

1.1.3b	Number of calendar days required to complete all procedures:	216	120	Target	n/a	130	120	120			120
				Actual	n/a	186	186	186			
<b>1.1.4</b>	<b>Getting new electricity connections processes simplified (Baseline DB2013)</b>										
1.1.4a	Number of procedures to obtain an electricity connection:	8	7	Target	n/a	7	7				7
				Actual	n/a	8	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		
<b>1.1.5</b>	<b>Online company registration system established (Baseline DB2013)</b>										
1.1.5a	Number of procedures to start a business:	7	4	Target	n/a	6	4	5		4	4
				Actual	n/a	5	5	5			
1.1.5b	Number of calendar days required to complete all procedures:	12	5	Target	n/a	10	5	5		5	5
				Actual	n/a	11	11	11			
<b>1.2.1</b>	<b>Customs risk management program strengthened (Baseline AWP-2)</b>										
1.2.1a	Percentage of "green and yellow channel" shipments:	32.8%	40%	Target	33%	35%	35%	40%			40%
				Actual	38%	34.4%	22.4%	22.6%			
<b>1.2.2</b>	<b>Customs post clearance audit program strengthened (Baseline AWP-2)</b>										
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	30	89	77			
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	3.1	156			

<b>1.3</b>	<b>Enabling legal and regulatory environment strengthened (Baseline AWP-2)</b>										
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			0	1			
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 &amp; 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>											

<b>PIR2:Private sector capacity and competitiveness strengthened</b>											
<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>	<b>AWP-3 Results</b>	
<b>2.1.1</b>	<b>Consolidation of QSDC: Buyer-supplier transactions facilitated (Baseline AWP-2)</b>										
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	8	8			
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	7	12			
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	3			
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	4	8			
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	908.1	970.5			
<i>KRA 2.2 Partnerships that leverage resources to improve business and country competitiveness, promote an enabling business environment and good governance facilitated</i>											
<b>2.2</b>	<b>Capacity of private-led institutions strengthened (Baseline AWP-2)</b>										
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	60	0			
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	2	5			

<i>KRA 2.3 Capacity of private sector-led institutions to contribute to an enabling business environment, governance, and country competitiveness strengthened</i>											
<b>2.3</b>	<b>Consolidation of the QSDC: Quality assurance training program (Baseline AWP-2)</b>										
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	3	3			
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	122	176			
<b>PIR3:National private sector driven and supported dialogue on business enabling environment, governance, and competitiveness strengthened</b>											
<i>KRA 3.1 Increased public awareness of country competitiveness and governance issues, business enabling environment reforms, international experiences, and best practices</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-Jun</i>	<i>AWP-3 Results</i>	<i>LOP Target</i>
<b>3.1</b>	<b>Increased public awareness of BEE and competitiveness issues (Baseline AWP-2)</b>										
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	12	12			
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	2,665	796			
3.1.3	<i>Number of workshops held for journalists:</i>	28	20	Target	2	3	5	5	5	20	48
				Actual	11	5	11	6			