



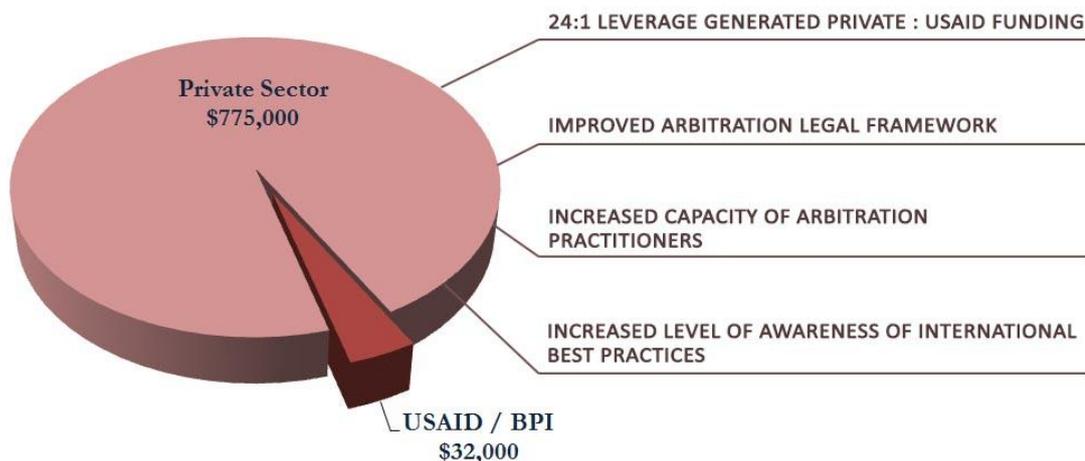
USAID
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Business Plus Initiative
USAID funded project implemented by Chemonics International

QUARTERLY PERFORMANCE REPORT (April-June 2014)

LEVERAGING PRIVATE SECTOR RESOURCES FOR COMMERCIAL ARBITRATION DEVELOPMENT



During this quarter, USAID Business Plus Initiative (BPI) partnered with two international law firms to leverage technical assistance, valued at approximately \$775,000 USD in support of the commercial arbitration reform. On a pro-bono basis, Gibson, Dunn & Crutcher LLP contributed more than 900 hours to develop an in-depth training curriculum, deliver a week-long workshop and produce a technical glossary to support awareness and education for international best practices in arbitration and Sidley Austin LLP provided 100 hours of technical assistance, in support of the development of the Concept Paper for the new arbitration law.

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Report Title: Quarterly Performance Report (April-June 2014)
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ABBREVIATIONS AND ACRONYMS

BPI	Business Plus Initiative
CGA	Customs General Administration
CGDC	Corporate Governance Development Center
CSC	Citizen Service Center
DS	Development Solutions
EBRD	European Bank for Reconstruction and Development
EJC	Economic Journalists Club
ELC	Economic and Legal Consultancy
ERC	Energy Regulatory Commission
GASI	General Authority for Special Inspection
GASR	General Authority of State Registration
GDT	General Department of Taxation
GIZ	German Agency for International Cooperation
GOM	Government of Mongolia
HACCP	Hazard Analysis and Critical Control Point
IFC	International Finance Corporation
IMRI	Integrated Mineral Resource Initiative
IT	Information Technology
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

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 addressing bottlenecks to country competitiveness. Over the reporting period, the BPI continued to address the project's newest reform area, commercial arbitration, working closely with the MOJ working group, and local partner Mongolian Bar Association (MBA), international law firms, and the International Chamber of Commerce (ICC). This report is the Business Plus Initiative (BPI) project Quarterly Report and describes project activity from April through June 2014.

During the reporting period BPI partnered with two international law firms leveraging their respective corporate social responsibility programs to bolster reforms in the area of commercial arbitration. Through pro-bono initiatives with these international firms, BPI is mobilizing industry expertise to bring specialized technical assistance and credibility to Mongolian reform effort. This quarter, BPI launched the results of the Commercial Arbitration Survey, submitted the concept paper for the draft arbitration law to the Ministry of Justice (MOJ) working group, developed a week-long workshop on arbitration law and practice accredited by the Mongolian Bar Association and published an arbitration glossary to support awareness and education for international best practices in arbitration.

The project continued to work closely with the General Department of Taxation (GDT), making major progress this quarter in preparing the new E-payment system for official launch scheduled early next quarter. As a critical trade facilitation tool, BPI continued to support capacity building for the Customs General Authority (CGA) to strengthen risk-management (RM) techniques, including commencing a three-part workshop "Introduction to Financial Audit" successfully completed by 46 Customs officers. Also during this period, BPI technical expert reviewed the implementation of the previous RM recommendations and proposed 13 additional technical solutions, which were accepted by the CGA. In addition, BPI is developing a Customs Valuation Module to facilitate analysis on trade data for use by customs officials as well as the trade community.

In regards to private sector capacity and competitiveness strengthened, as of the end of the reporting period, QSDC is providing TAF assistance to 16 SME clients. As a result of QSDC's TAF assistance, actual increased sales of client firms have reached nearly three billion MNT, which is already three times higher than the LOP target.

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, in April, BPI and CGA organized a discussion with Minister Saikhanbileg and private sector representatives from the Customs Brokers Association. As a result, participants clarified how the number of documents is assessed according to the DB TAB Methodology and identified areas for improvement in Mongolia. Participants agreed that continued public education for customs brokers and freight forwarders was critical in understanding the reform.

A. Significant Accomplishments

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

PIR I: 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 in three areas, outlined below:

- Trading across borders:* With BPI support, the Customs General Authority met with World Bank Doing Business team to explain the current situation in the implementation of the latest amendment to the Customs Law, Customs Tariff Law and requirements of GATT Customs Valuation Agreement. In addition, BPI provided technical assistance to CGA aimed at strengthening risk management and post clearance audit systems as part of the overall trade facilitation system. Customs and IT international consultant Jorge Montoya worked with CGA to ensure RM system correctly incorporated all the improvements identified during his previous visit to Mongolia. In addition, Mr. Montoya began the development of a new Customs Valuation System which will provide transparency and efficiency in the area of customs valuation – the most important area of disagreement between CGA and the trading community. The module is expected to be completed during the next reporting quarter. BPI also provided specialized training to the staff of the PCA department in the area of auditing financial reporting for mining cases.
- Paying taxes:* With BPI support the General Department of Taxation (GDT) continues to develop the new e-payment system. During the reporting quarter, BPI finalized procurement of hardware required for the system; four commercial banks agreed to participate in the e-payment program; and Infinite Solutions, a BPI sub-contractor, started to install e-payment software in the servers. IP addresses for participating commercial banks have been obtained from the Bank of Mongolia at the end of June to initiate the testing process. The E-payment system is expected to be commissioned during the next quarter. In addition, as part of GDT’s public education campaign efforts to demonstrate to taxpayers that the upgraded system makes paying taxes much easier, cheaper, and faster than traditional paper filing, GDT, with BPI support, developed a series of thirteen user-friendly demos. The demos are available on the GDT website and provide step-by-step instructions to guide taxpayers in preparing, filing, and paying taxes online.



The e-payment module will enable taxpayers to make tax payments via online services offered by participating local commercial banks, including Ulaanbaatar City Bank, Golomt, Capitron, Khan Bank, and State Bank.

- Arbitration Reform:* Following the hosting of the first international conference on commercial arbitration at the end of the previous quarter, the BPI project and been working intensively with the MOJ, the Mongolian Bar Association and international law firms Sidley Austin and Gibson Dunn to advance the legal and regulatory reform in commercial arbitration and improve capacity of Mongolian lawyers and arbitration practitioners during the reporting period. Key actions taken during the present quarter includes the following: in May 2014, BPI presented the Arbitration Survey results to MOJ. In addition, due to performance issues identified by BPI and its public and private counterparts, BPI modified the sub-contract with New Grata LLC making the arbitration survey its last deliverable and signed a new sub-contract with local legal firm MDS &Khan Lex LLP to continue to provide assistance in the drafting of the new arbitration law. In June 2014, as a result of MDS work and with the participation of international law firm Sidley Austin, BPI presented the draft Concept Paper

and associated Policy Paper for the new law to MOJ and its arbitration working group. At the end of the reporting quarter, BPI in collaboration with the Mongolian Bar Association to organize a five-day training on arbitration law and practice conducted by Gibson & Dunn, aimed at sharing international best practices and increasing the capacity of Mongolian lawyers and practitioners.



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 April to June marked the fourth 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 nine Supplier Development Plans (SDPs) this quarter, which are expected to assist client firms to increase their sales by more than 3 billion MNT in 2014.

During this reporting period, QSDC delivered four trainings: Competitiveness and Marketing, Occupational Health and Safety (OHS), Food Safety and HACCP for 99 participants from 50 private sector firms which received a total of 124 person/days of training.



15 participants from 12 food processing companies received international HACCP certificates after completing QSDC's HACCP training at the Art House in Ulaanbaatar from 22-24 April 2014.

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

During this quarter, BPI was active in elevating the visibility and developing educational programs for increased understanding and awareness of commercial arbitration in Mongolia. This quarter, BPI organized a public presentation of the Arbitration survey results at the MOJ with participants from private sector law firms, MINAC representatives, and public officials. In addition, the Arbitration website <http://bpi.mn/arbitrationppd/> developed during last quarter's conference has evolved into a one-stop portal which houses updates and resources related to BPI's activities in this area. Finally, BPI, Mongolian Bar Association (MBA), and international law firm Gibson, Dunn & Crutcher LLP organized a five-day workshop series to begin at the end of this quarter, June 30, 2014 to introduce Mongolian lawyers to specific aspects of the arbitration practice, which was successfully accredited by the MBA during the reporting period.



BPI developed an arbitration website <http://bpi.mn/arbitrationppd/> to serve as a one-stop portal for information and resources related to BPI's activities in this area.

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 six agency-level working groups for the doing business reform areas supported by the project. Currently, BPI continues to work closely with the Ministry of Justice (MOJ), 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) and the Mongolian Bar Association (MBA). Next quarter, BPI will work closely with the Ministry of Economic Development (MoED) on public-private partnership activities (PPPs).
- *Donor coordination:* Next quarter, BPI will coordinate with other donors collaborating with GOM counterpart GDT on "paying taxes" and the area of concessions and public-private partnerships (PPP), which is a potential work area for BPI during the implementation of the Option Year.
- *Collaboration with private sector.* The private sector is also increasingly interested in meaningful collaboration with the BPI project, predominantly through the QSDC. During this quarter, QSDC accelerated buyer-led supplier development work through a series of productive meetings and informational public events, including the SGS HACCP/ISO training seminar to raise awareness and increase visibility for QSDC services. In addition, BPI signed two Letters of Engagement with international law firms who agreed to support arbitration reform efforts on a pro-bono basis.

Ongoing Performance Constraints:

- BPI successfully collaborated with the new arbitration working group this quarter, despite an initial delay in accelerating the development of the concept paper due to performance issues with BPI's local subcontractor. BPI responded to the MOJ working group's concerns rapidly and replaced the subcontractor during the quarter, involving the counterpart throughout the entire selection and replacement process. BPI maintains regular briefings with authorities on the status of reforms and communicated the significance of continuing reform implementation.
- Several unanticipated events resulted in delays of reform implementation in the area of starting a business and dealing with construction permits. In the case of the legal entities registration law, the draft law was halted in Parliament as it was overtaken by other policy priorities. The law will not be discussed by Parliament standing committee until the fall session. Likewise, there were some setbacks in the schedule for the soft launch of the online registration system as BPI continues to discuss OCRS technology platform with GASR's new IT director. BPI expects to be able to resolve technical differences with GASR during the next reporting quarter. Finally, the draft construction is still undergoing additional revision at the MCUD. Specifically, the Minister and his technical team are working on further clarifying key concepts related to risk categories for construction projects, and the safety and accreditation of construction professionals. In addition, the Ministry decided to add license requirement to building projects in risk category three. It is expected that the Concept Paper for the draft law will be sent to Cabinet during the next quarter.
- This quarter, QSDC ramped up transactions; and started collecting TAF repayments from nine clients. By the end of June 2014, QSDC had collected some 15 million MNT. Nonetheless, TAF repayment will continue to be an ongoing challenge for QSDC and a fundamental issue for sustainability. To address irregular repayments for two clients during the reporting period, QSDC met with buyers and clients to identify bottlenecks and worked with affected clients to re-negotiate their repayment schedules. This approach proved successful and QSDC has started collecting TAF repayments from these clients.

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; Annex B includes reporting of results for the quarter against the BPI project's draft performance monitoring plan; finally Annex C includes the QSDC grantee Quarterly Progress Report.

C. Work plan implementation.

PIR I: 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, and dealing with construction permits.

KRA I.1: Trade, paying taxes, getting new electricity connections, construction, and company registration procedures simplified:

Trading Across Borders:

CGA Director and his technical committee made risk management (RM) and post-clearance audit key priorities in order to achieve the two main objectives of the organization: (i) meet government targets for tax collection and (ii) facilitate trade for the Mongolian trading community. BPI continued to support CGA on both fronts through this reporting period.

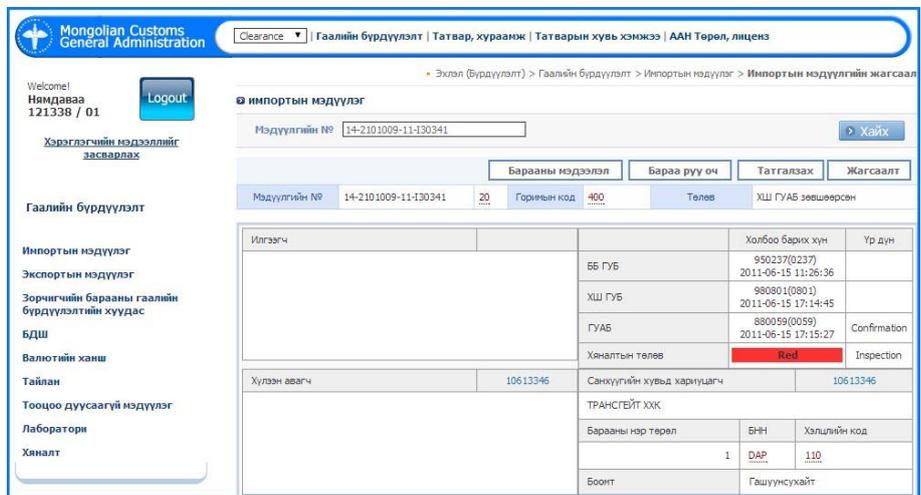
In April 2014, the BPI project facilitated a technical meeting between CGA and the two technical members of the World Bank Doing Business team. During the meeting CGA explained the current situation in the implementation of the latest amendment to the Customs Law, Customs Tariff Law and requirements of GATT Customs Valuation Agreement. BPI also provided a list of private sector representatives for the trading across borders indicators. The DB team explained that DB2015 will include some changes to the current methodology used to consider country performance rankings.

As part of ongoing assistance, BPI provided international risk management expert, Jorge Montoya to work at CGA to (i) ensure that improvements recommendations made during his previous visit to Mongolia had been incorporated to the RM correctly, (ii) review the RM module, identify and

On Risk Management Module

After reviewing the Risk Management module with BPI consultant Jorge Montoya, B. Ganzorig, the head of CGA IT department shared:

“Now that I understand the RM module very well, I see that there are many automation possibilities in customs processes that we can implement at the CGA. I agree that the IT Department should be proactive in initiating and promoting automation and look forward to new improvements.”



Mongolia is taking the lead on tackling undervaluation with a new customs valuation tool, pictured above. The system will give Customs on line access to trade data which can help identify problem shipments, not only with undervaluation, but also cases where goods are incorrectly classified to avoid higher duties.

correct new errors and (iii) provide new recommendations for improving the general customs process through automation. During his May 12-23 assignment, Mr. Montoya trained new personnel from the RM department on the functionality of the RM module and methodology previously tailored for the CGA. During his last trip, Mr. Montoya and RM department developed a risk management manual for customs officials to increase awareness and understanding on the subject. In May, BPI recognized a marked improvement in the RM department staffs' understanding as a result of the manual. As part of the latest assignment, Mr. Montoya reviewed the progress made against the risk management action plan developed jointly with CGA during his January visit which documented nine errors and proposed 14 possible enhancements to eliminate risk scenarios and streamline customs procedures, setting the basis for further reducing physical inspections. Eight of the nine documented errors from the January report were corrected by May 2014. In addition, three of the proposed enhancements have been adopted, and another six are nearly completed. During the May assignment, Mr. Montoya also identified about 9 additional potential enhancements to the clearance process.

One of the enhancements proposed by Mr. Montoya is the development of a Customs Valuation Module. By the end of the reporting quarter, the module has been developed and undergoing internal testing by CGA IT department. The module is expected to be completed during the upcoming quarter after incorporating additional modifications requested by CGA to strengthen the module's search functionality. The purpose of this module is to provide CGA personnel and the trading community with online access to Mongolian trade data as stated on customs declarations, through a user-friendly interface. The module will be available in both English and Mongolian. The system has a section which can be used to make detailed studies based on a particular HS code and it graphically displays the unit prices declared for a commodity over time. These types of studies are very useful in detecting undervaluation problems. In addition, CGA is evaluating what part of this data can be made public so that the trading community can get involved in identifying problem areas in trade operations and work jointly with CGA in enforcing compliance.

On Customs Valuation Module

“Mongolian Customs is getting the private sector involved in identifying problem shipments which hurt their businesses. So now, the private sector can do more than just point fingers and blame government for all their problems. The private sector can now get involved and help. For example, a Mongolian factory that builds something can review the price at which the raw materials are imported into Mongolia and they can help CGA identify shipments in which the raw materials they used are undervalued because they are the experts in these goods.”

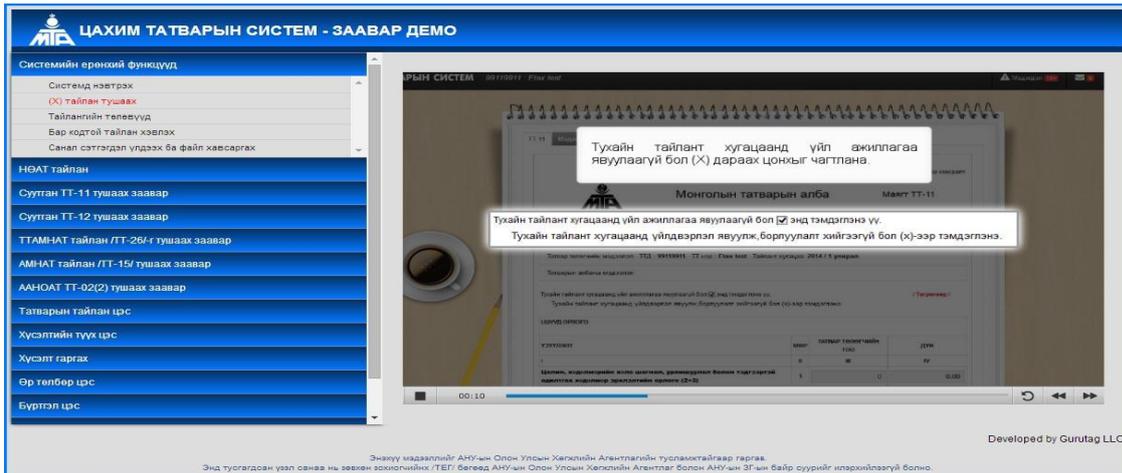
JORGE MONTOYA

BPI International Customs Expert

Paying Taxes:

In January 2014, the General Department of Taxation (GDT) upgraded and launched its e-filing system which now reaches more than 70 percent of taxpayers. In order to further increase facilitation in the paying taxes area, BPI has continued to support the GDT in developing an IT solution to facilitate e-payment, through which taxpayers can make payments via online services offered by participating local commercial banks. During the reporting period, BPI's local IT developer finalized testing of four commercial banks including Ulaanbaatar Bank, Capitron, Golomt, and State Bank. In addition, BPI installed new hardware and software for the system and successfully completed data migration. GDT is planning the soft launch of the e-payment system in the upcoming quarter. In addition, BPI assisted the GDT to: develop tax e-filing instructional demos that provide taxpayers step by step instruction on how to file their taxes electronically through the new system.

Increasing taxpayers' e-filing awareness through instructional demos. During the reporting period, BPI project supported GDT in the development of 13 flash video demos, through BPI local subcontractor, Gurutag LLC. The target audience is taxpayers who lack understanding on how to navigate the new tax filing and new e-filing system. The demos provide step by step instructions for filing corporate income, value added tax, personal income, employee withholding and Royalty taxes. In addition, the demos provide instructions of other user-friendly functions available through the new e-filing system including sending requests to GDT, filing late tax returns, registering as a taxpayer, posting comment on the FAQ menu, among others. The videos are available to the public on the GDT website.



BPI supported GDT awareness campaign with the development of 13 step-by-step demos to help taxpayers navigate new e-tax system.

Preparing for the tax e-payment system launch. During the reporting period, BPI, via its local subcontractor Infinite Solutions completed the following tasks:

ОНЛАЙН ТАТВАР ТӨЛӨЛТИЙН СИСТЕМ					
ТАТВАР ТӨЛӨЛТИЙГ БАТАЛГААЖУУЛАХ ХУУДАС					
ТА ТӨЛӨХ ГЭЖ БҮЙ ТАТВАРУУДЫНХАА ЖАГСААЛТ БОЛОН НИЙТ ДҮНГ ШАЛГААД, ҮНЭН ЗӨВ БОЛОН БАТЛАХ ТӨВЧ ДЭЭР ДАРАН ТӨЛБӨР ТӨЛӨХ ХУУДАС РУУ ШИЛЖИНЭ ҮҮ.					
№	ТА НЭР	ТАТВАРЫН ТӨРӨЛ	ОГНОО	НЭХЭМЖЛЭХ №	ДҮН (MNT)
1	АРХАНГАЙ	ГАЗРЫН ТАТВАР	2013.11.29	123456789	1,067,900.00
2	АРХАНГАЙ	ГАЗРЫН ТАТВАР	2013.11.29	123456789	1,067,900.00
3	АРХАНГАЙ	ГАЗРЫН ТАТВАР	2013.11.29	123456789	1,067,900.00
4	АРХАНГАЙ	ГАЗРЫН ТАТВАР	2013.11.29	123456789	1,067,900.00
5	АРХАНГАЙ	ГАЗРЫН ТАТВАР	2013.11.29	123456789	1,067,900.00
6	АРХАНГАЙ	ГАЗРЫН ТАТВАР	2013.11.29	123456789	1,067,900.00
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Pictured above is a screenshot from the GDT E-payment system.

- Installed all required hardware for the e-payment system at GDT;
- Obtained public IP addresses to be used for connection and installation of necessary applications - Oracle Client as well as E-Payment website;

- Tested local environment for the system and worked with GDT on finalizing Single Sign On functionality in close collaboration with the local IT firm that developed the e-filing system for GDT;
- Prepared for full testing on the new environment; Tested four banks' web services functionality and two banks' card center connection; and
- Provided training for two commercial banks.

Full implementation of the e-filing system, including the e-payment module will result in significant reduction in the time required to pay taxes in Mongolia. In terms of the World Bank Doing Business "Paying Taxes" indicator, this reform will result in a significant reduction in the number of payments as electronic filing and payments of a given tax are counted as one regardless of payment frequency.

Starting a Business:

Legal entities registration law. To reduce barriers to registering business, the General Authority for State Registration (GASR) with BPI support, drafted a revised law on the legal entity registration which was submitted to Parliament last quarter. The draft law underwent a first set of revisions by the Parliament Working Group (WG), under the Standing committee for legal affairs during April-May 2014. During the revision phase, the WG provided 20 conceptual and 55 editorial changes to the original draft. Given the extent of the proposed changes, MOJ withdrew the draft law, then finalized it by incorporating comments from the WG discussions as deemed appropriate, and shared it with ministries and agencies for comments in late May using an expedited procedure. As a result of the expedited process, the MOJ received Cabinet approval for the new draft on June 7, and re-submitted the package to Parliament on June 9. Unfortunately, the law was held up in Parliament, as the body dedicated the rest of the spring session to deal with other priority legislation. Despite of the progress made at the Parliament standing committee during the first review of the legal entities registration law, the draft law will not be considered until the fall session of Parliament.

Online Company Registration System. During the reporting period, BPI worked closely with GASR in preparation of the soft launch scheduled to take place during the quarter. In April, BPI hired a local IT company, ITZone LLC to accompany the process. In addition, BPI mobilized an Alfa XP engineer in April to facilitate data migration to the OCRS system. Due to the complexity of mapping tables and structures between GASR's existing system (LES) and OCRS, the data migration could not be completed during the Alpha XP engineer's short-term assignment. BPI and GASR jointly agreed to spend more time to improve the mapping between two systems and rescheduled the soft launch in June. GASR IT and BPI subcontractor, ITZone team finalized the data migration successfully. At the request of GASR, BPI subcontractor, ITZone, added the following new functions during the reporting period:

1. Automatic allocation of online applications to the various locations of legal entity registration branches in the country;
2. Channeling UB-based applications to senior registrars who now have the ability to distribute applications to registrars, ensuring appropriate workload for each registrar;
3. Improvement of the inquiry panel to ensure user-friendliness in processing requests;
4. Enhancement of the name search and confirmation functions based on the detailed specifications provided by GASR registrars;
5. Registration of liquidated entities;
6. Locking/unlocking of registration files at the request from authorized government bodies, such as police and court;
7. Additional functions to register foreign invested companies, per registration requirements under the November 2013 law on investment;

8. Enhancement of other OCRS functions at GASR request.

Notwithstanding the progress achieved and the successful completion of data migration, the new IT Director for GASR added last minute requirements including substitution of the current MS-SQL technology platform currently serving as the OCRS database with Oracle, as well as replacing the IIS web server with Linux. At this stage, changing the platform would require the project to re-develop the entire system. Accordingly, BPI will continue to work with GASR and GOM counterparts to overcome these technical differences and ensure the OCRS can be officially launched during next quarter.

Dealing with Construction Permits:

During the reporting period, the MCUD team requested additional clarification to the draft law and worked on four areas to further bolster the draft law as follows:

1. *Definition of parameters for risk categories:* MCUD technical team worked on the further definition of the technical building specifications (parameters) which will be used to determine construction projects risk categories with relation to their purpose. MCUD technical team has to review and finalize the technical details.

2. *Professional levels:* The draft law includes 4 levels of professional categorization with Level 4 reserves for construction experts that are allow to work on all class 1-5 construction projects:

- Level 1: Junior professional (who have to complete residency programs);
- Level 2: Professional;
- Level 3: Advanced professional;
- Level 4: Expert.

While the draft law identifies the four competence levels above, to avoid any confusion during the implementation of the law, MCUD included detailed requirements, educational and continuing education mechanisms to prepare for these levels, qualifying instruments and certified educational institutions to provide clarification for each level.

3. *Expertise:* MCUD team is working to finalize the risk categories that require expertise in design and construction. MCUD faces the challenge of effectively implementing expertise in high risk buildings given the weak capacity currently existing in the local construction industry to complete comprehensive expertise.



BPI continues to support enhancements to MCUD's new construction law.

4. *Licenses requirements.* In late June, MCUD changed the initial concept for licensing requirements for companies to

run construction activities. According to the new change, companies engaged in construction projects in risk categories 3, 4 and 5 will be required to obtain licenses for construction businesses.

Incorporation of the additional changes resulting from the work of the MCUD will likely require additional drafting assistance during the next quarter. The above outlined additions to the draft

law should not have any negative effect on the proposed streamlined process for dealing with construction permitting as defined by the World Bank Doing Business methodology.

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. Building on the previous series of specialized trainings conducted in recent months, BPI organized a new training on Audit of Financial Reports during the present quarter.

The two-day training “Financial Audit with Mining Cases” was delivered by Fiscal Audit, a local audit firm that provided an overview of IFRS standards used for all mining phases from exploration through and close up/restoration, international audit standards and regimes .

On June 24, 2014, BPI and CGA hosted a closing ceremony for participants who completed the three-part workshop series “Introduction to Financial Audit for Customs Officers.” Forty-Six customs officers participated with more than 56 person-days of training on a wide range of financial audit issues during the workshop series conducted by local companies. Participants learned how to review financial accounting records and other relevant information files of importers to verify import declarations, using international norms and techniques for conducting PCA.

As a result, CGA tax revenues have increased and non-compliance has decreased:

- Previous to PCA capacity building efforts (or as of June 30, 2013) 88 % of PCA imposed fines were challenged in court, police and dispute resolution bodies of customs. Now (or as of June 30, 2014) the opposite is true, and Customs is collecting more than 67% without having to go through court proceedings, which has contributed to MNT 4.8 billion of additional tax revenues to the budget from January- June 2014 alone. An overall contribution of additional revenues since June 2013 represents MNT 9.5 billion.



Ts. Uugangerel, Deputy Director General, CGA commends customs officers on dedication to building their PCA skills at the closing ceremony.



Richard Chen, General Development Officer, USAID Mongolia and Uugangerel, Deputy Director General, CGA present certificates to trainees.

- Under the customs regulation, if traders reveal their mistakes in customs declarations and voluntarily resubmit declarations they will pay additional taxes but will not have fines imposed. Using the skills obtained during the post clearance control training PCA has been educating traders in order to improve their compliance rate. The number

of companies' voluntarily resubmitting declarations to comply with PCA rules has grown 2.2 times since the beginning of the PCA training. Traders have realized that a high compliance rate verified by PCA will help them be within green and yellow channels, which do not require physical inspections and enhance their chances to be incorporated within the economic operators program to be implemented in future.

Trade Related Regulatory Measures Facilitated

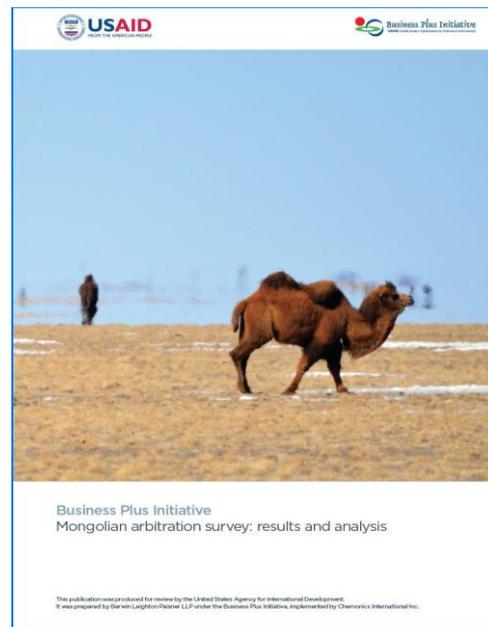
The PCA Department revised the draft revised Procedure on Post Clearance Audit and submitted to Director General for approval. However, the approval is postponed due to expected changes from the draft Law on Breaches being discussed at the Parliament for approval, which will replace the current Law on Administrative Penalties.

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

Commercial Arbitration facilitated

Following the first international conference on commercial arbitration at the end of the previous quarter, the BPI project has been working intensively with the MOJ, the Mongolian Bar Association and international law firms Gibson Dunn and Sidley Austin to advance the legal and regulatory reform in commercial arbitration and improve the capacity of Mongolian lawyers and arbitration practitioners during the reporting period. In May 2014, BPI presented the Arbitration Survey results to MOJ and the arbitration reform working group.

The survey revealed that legal drafting efforts should be accompanied by educational awareness for private sector stakeholders who are the potential users of arbitration and capacity building and training for arbitrators. The current low number of cases resolved through arbitration is mostly due to low levels of knowledge of arbitration proceedings, interaction between courts and arbitration, and perception of inadequate transparency and training of arbitrators. Results were presented by international law firm BLP who conducted the survey in conjunction with local subcontractor New Grata LLC. Key results outlined in the arbitration survey include:



BPI distributed 150 copies of the arbitration survey to judges, lawyers, local institutions, among others.

Mongolian Arbitration Survey findings at a Glance:

- Only 20% of all respondents said that they had experience of commercial arbitration
- 60% of respondents who had experience of arbitration in Mongolia said that the experience was a bad one
- 41% of business people never considered including an arbitration agreement when making a contract
- 81% of respondents said that arbitrators should be required to have either undertaken training to become an accredited arbitrator or be able to demonstrate that they have the necessary knowledge and experience to conduct arbitration

- 27% of respondents said that there was a difficulty in finding an arbitrator of the right quality and experience
- 37% of business people were not aware that arbitration could be used instead of court process to produce enforceable decisions
- 26% of respondents said that parties took disputes to court even though their contract contained an arbitration agreement
- Only 7% of respondents had any experience of arbitration conducted under the rules of an international arbitral institution

Reflecting the performance of the local sub-contractor and in agreement with MOJ, BPI replaced the subcontractor with local firm MDS & KhanLex and engaged MDS's international partner, Sidley Austin on a pro-bono basis. Despite the time constraint, BPI was able to submit the initial draft Concept Paper and an associated Policy Paper for the proposed arbitration law to MoJ at the end of June. The key principles of the concept for the proposed Arbitration Law apply the internationally accepted UNCITRAL Model Law (2006) as the basis for the new legislation. The final Concept Paper will be submitted after the incorporation of comments from WG members of MoJ in next quarter.

In collaboration with the Mongolian Bar Association, BPI started specialized five-day training on arbitration law and practice for 51 participants from MBA, MINAC and government organizations. The five-day training that commenced on June 30 was organized in two groups: Training for Group One was conducted in English, while training for Group Two was conducted in English with Mongolian translation. Gibson, Dunn & Crutcher LLP, an international law firm provided the development of the course



“There is a wealth of experience around the world that informs and facilitates the drafting of good arbitration legislation. Today’s challenge lies in implementing such legislation and creating arbitral institutions and practices that gain the confidence of potential users. Meeting that challenge requires a long-term commitment, resources and unwavering political will.”

- Cyrus Benson, partner, Gibson, Dunn & Crutcher and Co-Chair of the firm’s International Arbitration Practice Group will lead the “Arbitration Practices” workshop for Mongolian lawyers and practitioners from June 30-July 4, 2014.

The curriculum will include topics such as the following:

- (i) differences between litigation and arbitration and what factors to consider in advising clients on whether to choose one or the other for particular transactions or disputes;
- (ii) drafting of arbitration clauses, including when to consider going beyond the standard, simple clauses recommended by arbitral institutions;
- (iii) what the arbitral process looks like in practice, including highlighting key differences in the rules of the major arbitral institutions and efforts by the IBA to harmonize some of the differences between the civil and common law approaches to dispute resolution;
- (iv) the proper role of the courts in the arbitral process;
- (v) hot topics/recent developments in arbitration law around the world (i.e. what are the issues that courts and arbitral institutions have had to grapple with in recent years) and
- (vi) a primer on investment treaty arbitration exploring what it is and how it differs from commercial arbitration.

curriculum and delivered the training pro-bono as part of the firm's corporate social responsibility program. BPI submitted a request for accreditation to the MBA and the training was approved for formal accreditation, worth 25 percent of the total continuing education requirements needed for 2014.

This course is designed to provide Mongolian lawyers and local arbitration practitioners with solid foundational knowledge of both commercial and treaty based international arbitration. Participants will learn basics of international arbitration, arbitration agreements and jurisdictions, requirements for arbitrators and the proceedings, arbitration hearing and awards and investment treaty arbitration. The workshop will be completed July 4, 2014 and results will be included in the upcoming reporting period.

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 the USAID Business Plus Initiative (BPI) seeks to increase private sector capacity and competitiveness. The QSDC supports Mongolian firms under its supplier development and quality assurance training programs.

The supplier development program utilizes a USAID-funded revolving Technical Assistance Fund (TAF) aimed at: (i) helping local products and services meet domestic and international market requirements; (ii) improving production 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. During its first year of implementation, QSDC has demonstrated its capability to continue selection and investment process for TAF implementation. As of the end of the quarter, QSDC is providing TAF assistance to 16 SME clients with the investment amount of 559,744,946 MNT. As a result of QSDC's TAF assistance, actual increased sales of client firms have reached nearly three billion MNT, which is three times higher than the LOP target for this indicator. Furthermore, the 16 supported client firms are expected to add another 3.8 billion MNT in increased sales by the end of Year One as a result of QSDC assistance. QSDC continues to work on identifying new client firms that can benefit from TAF assistance. Currently, QSDC is negotiating supplier development plans with 5 additional potential clients.

Repayment of TAF assistance: One important aspect of sustainability is the capacity of QSDC to ensure timely repayment of the TAF. Most QSDC clients will initiate their repayment schedule after July 2014. As of June 30, 2014, seven out of eight clients whose repayment installment due dates are already in effect, have begun repayment, with a total of 15,436,016.55 MNT recovered to date. QSDC is renegotiating repayment schedule with one client who is making irregular repayments due to trouble collecting payments from its buyers, following the slow-down of the construction sector activities in Ulaanbaatar.

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. During the quarter, QSDC staff worked closely with companies to analyze cash flows and collect purchase orders and signed nine SDPs and services agreements.



Chicken farm at Ulemj Buyan LLC currently houses 15,000 chickens. The client plans to build another farm with additional 15,000 chickens with the increased sales.

Ulemj Buyan LLC, a local egg producer that employs 10 people, needs to purchase larger quantities of higher quality chicken feed from a new supplier in Inner Mongolia of PRC in order to meet the company's increasing orders and unfulfilled demand with the current quantity of 15,000 chickens. QSDC is assisting Ulemj Buyan to cover these costs in order to increase the quality of eggs and productivity with the better feed and to double their sales. QSDC's assistance is expected to grow sales by more than two times and increase staff by four employees.

Nomads Tailor LLC, a leather producer that employs 6 people, struggles to purchase enough raw materials in advance to cover the operating and production costs required to export its semi-processed wet-blue leather to a new buyer in Finland, given that raw hide supplies are only available before leather processing factories halt production during the summer season in Mongolia. QSDC is providing financing so that Nomads Tailor can stockpile four months of raw hides to enable the client to access the new export market. The increased capacity is expected to grow sales by more than two times.



Processed leather used by Nomads Tailor LLC to produce bags.



June 25, 2014- Mrs. Oyunchimeg Sh., Director of Mon Master LLC and Mr. Bayarmagnai J., Executive Director of QSDC sign Supplier Development Plan.

Mon Master LLC, a supplier of leather products including bags, police gear, cases, horse tooling, restaurant menus that employs 7 people recently received three large purchase orders. The client does not have enough liquidity to buy enough leather to meet the deadline for the orders. QSDC is providing a short-term investment to client in order to assist to export new product. QSDC's assistance is expected to double sales over one year.

SRB LLC, a women-owned and operated local leather bag producer with 10 staff. SRB has contracted representatives to sell its products in Taiwan, Japan, and Korea and is too often forced to close down its e-shopping website when orders exceed production capacity. QSDC is assisting the client to increase the production of bags needed to meet SRBs growing market abroad, which is expected to more than double the client's sales in the first year.



Employee of SRB LLC working on women's bag.



May 26, 2014- Mr. Dorjdagva D., Director of Arvin Suljee LLC and Mr. Bayarmagnai J., Executive Director of QSDC sign Supplier Development Plan.

Arvin Suljee, a construction company that employs 60 people, struggles to purchase enough raw materials to cover the operating and production costs required for its increasing orders, given that buyers are not always able to make advance payments. QSDC is assisting Arvin Suljee to cover these costs until the company begins to receive payments from its buyers. The increased capacity is expected to double increased sales in the first year alone.

QSDC was introduced to **Mrs. Rentsensuren** by the Ministry of Industry and Agriculture several weeks ago after she unsuccessfully tried to receive a loan from commercial banks to buy the raw materials she needs to fill two new orders she received from large buyers in UB and Bayan-Ulgii that are also exporting to neighboring Russia. Mrs. Rentsensuren currently employs five local workers for her leather gloves production, which she has been operating since 2000. QSDC's assistance is expected to grow her sales by three times and add two new jobs.



May 23, 2014- Mrs. Rentsensuren D., leather glove producer and Mr. Mauricio Moscoso, BPI Private Sector Advisor sign Supplier Development Plan.



Garden City LLC worker on blocks compression machine.

Garden City LLC, a medium-sized business that employs 15 people, provides biological and technical remediation and landscaping services to its buyers from the mining, construction, and public sectors. The company was recently awarded tenders announced by Municipalities of Khentii aimag, Orkhon aimag and Khentii aimag, as well as a new contracted project with the Governor of Orkhon aimag for sidewalk renovation. QSDC is assisting the client to develop its capacity to produce pavement blocks, in order to reduce the expenses involved with purchase of those blocks and eliminate their dependency on the suppliers, to enable Garden City to meet larger orders and take on additional projects. The increased capacity is expected to grow sales by more than 2 times.

Ikhbulag Delger LLC, a small-sized woman-owned and operated business employing five staff, provides textile products including uniforms, ger covers, and traditional costumes, among others. During the last years the client has been seeking to expand its production offerings with more profitable products. The client secured her first two clients during a trade show in 2013 from Russia and Mongolia. QSDC is assisting the client to develop their financial capacity to produce new products required by buyers that will increase exports and grow their market in Russia. The expanded production line is expected to grow sales by more than 2 times and generate two additional jobs.



Ikhbulag Delger LLC produces textile products such as uniforms.



Taij Od LLC is receiving more orders since the Russian ban on Mongolian meat imports was lifted.

Taij Od LLC, a small-sized business with three employees that supplies meat to slaughterhouses is experiencing a surge in orders since Russia lifted its ban on Mongolian meat imports. The rapid increase in production required from its buyers is producing a bottleneck for the client, caused by the under supply of young cows. QSDC is assisting the client to meet the uptick in purchase orders from buyers and to stabilize its meat supply business. The increased capacity is expected to grow sales by more than 5.5 times.

For more detailed overview of the QSDC Client Portfolio during this reporting period, please see Annex C: QSDC Grantee Quarterly Progress Report.

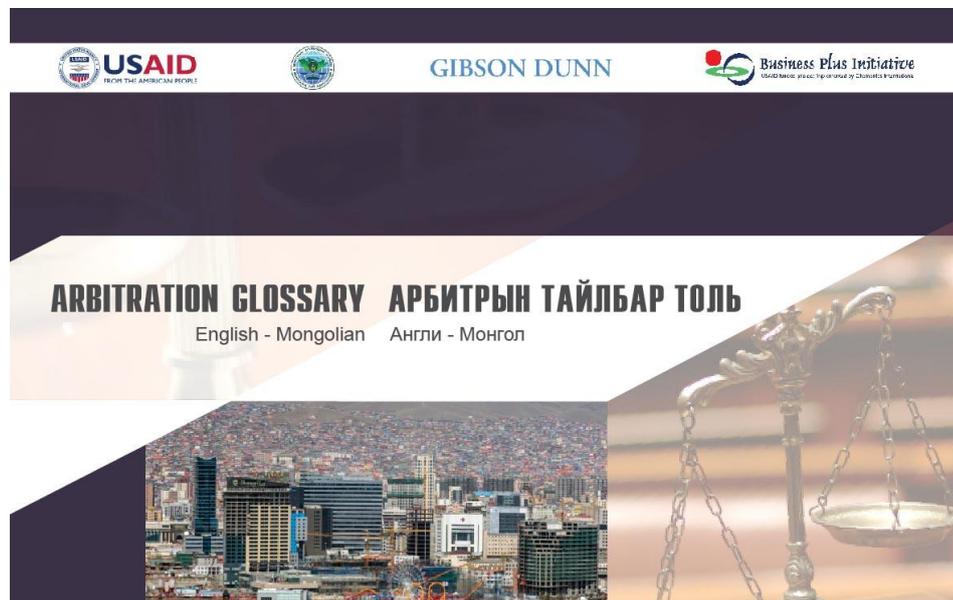
KRA 2.2: Partnerships that leverage resources to improve business and country competitiveness, promote an enabling business environment and good governance facilitated

Leveraging Private Sector Resources for Development. Working with private sector partners, BPI was able to bring this quarter's commercial arbitration reform activities to an international level and increase the development impact by utilizing technical expertise of industry experts. The organizations below provided level of effort (LOE) at no cost to the BPI project:

- International Chamber of Commerce (ICC) International Court of Arbitration
- Sidley Austin LLP
- Gibson, Dunn & Crutcher LLP
- Mongolian Bar Association (MBA)

This quarter, BPI partnered with two international law firms to leverage approximately \$775,000 USD in technical assistance in support of the commercial arbitration reform. On a pro-bono basis, Sidley Austin LLP provided some 100 hours of a leading international arbitration expert to support the development of the draft Concept Paper for the new arbitration law, including the development of an accompanying policy paper. Gibson, Dunn & Crutcher LLP devoted a team of eight lawyers out their international arbitration practice in London and New York to support BPI in the development of an in-depth course curriculum for, and the delivering of, a week-long

workshop on *International Arbitration Law and Practice*. Through this pro-bono engagement, Gibson Dunn has provided some 900 hours of technical assistance with an equivalent commercial value approximately \$700,000, to support BPI efforts to increase capacity for Mongolian arbitration practitioners and raise awareness on international best practices in arbitration.



BPI, Gibson Dunn, and MBA developed a glossary for technical commercial arbitration terminology.

In addition, via the partnership with MBA and Gibson, Dunn, BPI produced 100 commercial arbitration technical glossaries that were distributed to the arbitration workshop participants. Through this user-friendly handbook, businesses, lawyers, judges and other public and private stakeholders will have access to professional and internationally recognized terminology practical for the field of commercial arbitration.

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 four quality management trainings delivered by local trainers, including local trainers internationally certified with the London-based Chartered Institute for Environmental Health (CIEH). As a result, 35 private sector participants, from 22 SMEs increased their capacity in areas critical to increasing competitiveness through a total of 92 person-days of training.

Additionally QSDC is focusing on identifying additional clients interested in food safety and quality management certification (ISO, HACCP). For that purpose, QSDC in partnership with SGS, a leading world-wide audit, inspection, verification, testing and certification body hosted the "Management System Standards for the Food Chain" seminar for 64 participants from 20 companies in the food industry on June 12, 2014. The seminar introduced the services SGS and QSDC are able to provide to assist companies in meeting international management and food safety standards. The topics for the discussion included: 1) Introduction of ISO Management System and Food Safety Management System standards (increasing requirement from buyers) 2) Key elements for successful Food Safety Management Systems implementation (how QSDC can provide financial and TA to accompany implementation process); and 3) Overview of Certification Process (i.e. duration, cost).

For more detailed overview of the QSDC Training Program activities during this quarter, please see Annex C: QSDC Grantee Quarterly Progress Report.

Exhibit 1. Quality Supplier Development Center Trainings:

Training Name	Date	Participants	Number of person-days of training	Number of companies
HACCP training	22-24 April, 2014,	15	39.4	11
OHS training	13-15 May 2014	11	28.9	7
“Winning the Market” Competitiveness Building Training	17-18 June, 2014	9	23.6	4
Total		35	92	22
Quality Management public event in conjunction with SGS				
Food Safety Quality Management Standard Training	June 12, 2014	64	40	20

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

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

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

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. PIR III provides integral support of PIR I and PIR II, and activities including events, trainings, PPDs that support public awareness and promotion of international best practices are discussed in detail under the first two components.

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 seven events for EJC members: four roundtables on hot topics including Chinggis Bond financing in cooperation with the GoM SME Development Agency, corruption and transparency issues presented by the “Street Project” and the real-estate down-turn organized in collaboration private sector company Master Properties LLC. In addition, BPI supported three trainings on economic and trade issues to build the capacity of journalists. 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.

Exhibit 2. Economic Journalists Club: Economic Events April-June 2014

Event	Date
1. Do you want to own your land?	Apr 22, 2014
2. Meeting with International Journalist Andrew Leckey	Apr 30, 2014
3. Engineers' Association PPD	May 2, 2014
4. Calculating Inflation Training	May 13, 2014
5. Transparency of Street Project Activity	May 15, 2014
6. Navigating the Improved E-tax System	May 23, 2014
7. "Housing Market Downturn" Training	Jun 27, 2014

EJC Event: Utilizing Technology for Tax Reform. On May 22, 2014, BPI and local partner, The Press Institute of Mongolia hosted an event ‘Utilizing Technology for Tax Reform’ for the Economic Journalists Club. In January of this year, General Department of Taxation (GDT) of Mongolia launched an upgraded online e-filing system which is already being utilized by more than 70 percent of taxpayers. Since electronic signature has been introduced in June 2012, 91.3 percent of taxpaying entities use e-signature and no longer need to make physical visits to tax offices. 68 percent of corporate taxpayers and 77 percent of VAT taxpayers are now filing their taxes electronically, consequently the time spent filing taxes has decreased by more than 30 percent. As part of GDT’s public education campaign efforts to demonstrate to taxpayers that the upgraded system makes paying taxes much easier, cheaper, and faster than traditional paper filing, GDT, through USAID support recently developed a series of thirteen user-friendly demos. The demos are available on the GDT website and provide step-by-step instructions to guide taxpayers in preparing, filing, and paying taxes online.

During the event, public officials from GDT discussed upcoming tax reforms for the upcoming seven months, introduced the demos and the proposed law related to VAT tax return with more with 15 journalists of the Economic Journalists Club. Participating journalists noted that their exposure to these important economic issues help them to better understand business enabling reforms and enable them to produce more effective media coverage, and raise awareness among taxpayers. Panelists included: Mr. D. Bayaraa, Director of Customer Service Department of General Taxation Department, Mr. H. Batbayar, Head of IT department of General Taxation Department and Mr. Z. Ganbold, Tax inspector Taxpayer Service department of GTD.

SUCCESS STORY
The Darkhan-Geomach Co., Ltd. Quality Supplier Development Center, and Wagner Asia Equipment LLC: Partnership for Growth

One Buyer at a Time: As a result of the USAID-funded QSDC Supplier Development Program, a local supplier is becoming an integral link in the supply chains of large international buyers in Mongolia.

Larger firms in Mongolia's mining and construction industry face significant pressure from competitors and the public to increase the size of local suppliers in their supply chains. However, production capacity, limited product and service quality, and lack of international experience, result in limited local company engagement. USAID Mongolia assists local suppliers to address these challenges through the Quality Supplier Development Center (QSDC) Supplier Development program.

The Darkhan Geomach Co. (Geomach) used fabrication company manufacturing geological and agricultural equipment and provides equipment maintenance and salvaging services. After consulting with Geomach's personnel and current buyers, QSDC discovered that the shop produced metal parts of inconsistent quality, with a significant buyer concentration in the firm. QSDC and Geomach collaborated to hire a consultant to design and create a system manual, standardizing the shop's production process for better and consistent output, increasing work health and safety standards, and increasing the production line. As a result, subsequent work showed a significant increase in the metal products' durability.

QSDC introduced Geomach to Wagner Asia Equipment (WAE), Mongolia's largest Caterpillar mining, construction, and power generation equipment distributor, which sought a new local supplier for mining equipment salvaging services. WAE General Director Demberel Puren explained, "In their operation Caterpillar salvages up to 87% of damaged pieces, but in Mongolia it is the opposite. Only 17% is salvaged, so there is a tremendous need for local suppliers. QSDC can help Mongolia companies take advantage of these opportunities." After several months of successful trial orders and consultation, WAE announced its plans to build a long-term partnership with Geomach. Demberel Puren stated, "This is a powerful new initiative launched by QSDC... Wagner Asia's facility does not have the space to set up a salvage assembly plant, so if we can help Geomach get to the same level of the care of all of our salvaging needs locally, we will also save millions of dollars worth of shipping parts to China for repair or buying damaged parts and lack of the salvaging."

Since October 2013, Geomach has provided part repair services to WAE, now meeting high precision and quality standards. By becoming a trusted local business partner, WAE and other large firms in the mining industry, Geomach will be well-positioned to gain access to a large salvaging service market, demonstrating local supplier potential to become an integral part of large national and international business value chains.



Mr. D. Bayaraa, Director of Customer Service Department of General Taxation Department, Mr. H. Batbayar, Head of IT department of General Taxation Department and Mr. Z. Ganbold, Tax inspector Taxpayer Service department of GTD presented to journalists on May 22, 2014 EJC Event.

D. BPI Activities by the Numbers

During the April-June 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 third 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 project extension 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 sign a MOU with CGA to formalize the continued collaboration with the project. It is anticipated that MOU will stipulate specific areas of collaboration including customs tax e-payment, customs valuation module, review of customs processes and regimes, capacity building of PCA and IT staff of CGA and continued effort through PPDs aimed at trade facilitation and education of trade participants.

BPI will continue to monitor implementation of risk management related recommendations provided to CGA. One of Jorge's recommendations is an option to automate customs duty payment. BPI plans to provide technical assistance to CGA to integrate customs duties into the tax e-payment system, currently being developed at GDT.

Next quarter, BPI will complete and assist the CGA in launching the new Customs Valuation Module.

Dealing with Construction Permits: BPI will follow-up with the MCUD to finalize pending concepts on parameters for risk categories, professional levels, and expertise. Upon completion, the MCUD is expected to submit the concept paper to the Cabinet and MOJ for review and approval. Given the reality that the draft law will not be submitted to Parliament in the fall session, BPI will aggressively push for the amendments to Resolution #151 through engaging the MPA.

Starting a Business: BPI will resolve the technical issue to change the database and operating platform with GASR. The draft law on legal entity registration is suspended until the Parliament fall session. In parallel, BPI will work with GASR on how to improve internal processes that do not require legislative changes.

Paying Taxes: BPI will complete the e-payment module in the next quarter and will sign a MOU with GDT. It is anticipated that under the MOU, BPI will provide technical with respect to VAT e-invoice system, which will minimize VAT evasion, false filing and fraud.

Arbitration: BPI will complete the arbitration workshop in next quarter and continue work on the draft concept paper, arbitration law and amendments to other laws to facilitate the arbitration in Mongolia. In addition, BPI will focus on elevating the awareness and visibility of arbitration through (i) arbitration simulation in partnership with local NGO Law Society and the ICC, (ii) organize a second PPD event to collect feedback on the first draft of the new law, and (iii) continued leveraging of assistance with international law firms for targeted trainings.

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 analyst.
- Development of QSDC Monitoring and Evaluation Plan

- Upgrading QSDC website.
- Promotion of QSDC membership program that will offer additional services and discounts for companies interested in either of QSDC programs.
- Development of robust training program promotion strategy.

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 independent professionals.
- Innovative approaches to leverage resources; i.e. study tours in partnership with international embassies

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

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

QSDC will organize three Quality Management Trainings next quarter for approximately 60 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. Finally, BPI will organize a PPD event next quarter to discuss the first draft of the arbitration law.

Exhibit 3. PIR 3 Activities for Next Quarter

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

SECTION II: PROJECT MANAGEMENT AND ADMINISTRATION

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

A. Significant project management and administration activities

During this quarterly reporting period, BPI project management and administration activities continued to support the delivery of programmatic and technical assistance across the three PIRs areas.

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

- Oyunbold Gansukh, IT Department manager resigned from his position as of May 31, 2014.
- Buyankhuu Suran went on maternity leave from May 15, 2014.

B3. Deployment of short-term technical assistance

Deployment of short-term expatriate assistance proceeded according to the Year 3 Annual Work Plan schedule. Four (4) technical assignments were completed or initiated during the quarter by a total of 5 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 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). On April 10, 2014 the Indefinite Quantity Subcontract (IQS) was executed with ITZone LLC to provide targeted IT assistance in support of project activities related to the legal entity registration process in Mongolia.
 - In April 2014, TO #01 was issued to ITZone LLC under the IQS to work closely with GASR and the OCRS developer, Alfa XP, to ensure a soft launch of the OCRS;
 - In May 2014, 2014, TO #02 was issued to manage regular internal project IT needs/requests and provide support to external IT related projects that BPI is supporting, particularly GASR website.

- In May 2014, TO #03 was issued to work closely with GASR and the OCRS developer, Alfa XP, to complete the data migration and soft launch of the OCRS;
- In April 2014 a fixed price subcontract was executed with local IT firm, Gurutag LLC to develop flash demos in a user-friendly format that provide step-by-step instructions to taxpayers on how to utilize various functions of the new e-filing system.
- In April 2014 a fixed price subcontract was executed with Alfa XP Web Software LLC to provide a direct assistance to GASR before and during the OCRS soft launch within GASR and provide hands-on-training on data migration and provide assistance to GASR IT staff to migrate registration data from the existing database to the OCRS.
- In May 2014, BPI project issued sub-task order no. 10 to Economic and Legal Consultancy LLP (ELC) under IQS, to assist the BPI project in reviewing BPI's fixed-term employment agreement.
- In June 2014, sub-task order no. 11 was issued to ELC LLP under IQS to assist the BPI project in providing support and oversight to BPI's grantee QSDC by providing a legal opinion on denomination of the QSDC employees' salaries in local currency.
- In May 2014, a modification to fixed price subcontract with New Grata LLC was executed to reflect the formal close-out of the subcontract.
- In June 2014, a fixed price subcontract with MDS and Associates LLP was executed for the drafting the Arbitration Concept Paper and Law.
- In June 2014, a fixed price subcontract with local audit firm, Fiscal Audit LLC was executed to conduct two-day financial audit training with mining cases for the Post Clearance Audit (PCA) Department of Customs General Administration (CGA).
- In June 2014, Chemonics extended the duration and increasing the ceiling of the QSDC OD Fixed Obligation Grant. During the reporting quarter the following training deliverables were submitted by the QSDC:
 - HACCP (Hazard Analysis critical Control Point)
 - Occupational health and safety
 - Winning the market, competitiveness building
 - Food safety quality management standard
- In June 2014, Chemonics extended the duration and increasing the ceiling of the QSDC TAF Fixed Obligation Grant. During the reporting quarter the following TAF deliverables were submitted by the QSDC:
 - SRB LLC, leather bag producer;
 - Arvin Suljee LLC, construction company;
 - Ulemj Buyan LLC, chicken egg farming;
 - Nomad Tailor LLC, leather accessories and goods such as bags, wallets, and outfit producer;
 - Mon Master LLC, leather goods producer;
 - Ms. Rentsensuren, leather glove producer;
 - Garden City LLC, remediation and landshaft service provider
 - Ikh bulag Delger LLC, Sewing shop;

- Taij Od LLC, cow farmer

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.
- Continue working with existing local subcontractors and grantee.

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

Exhibit A-1: Local long-term project staff as of the end of April – June 2014 quarter			
Employee name	Position	Start date	Current Contract End date
Uurtsaikh Sangi	Deputy chief of party	Jun 20, 2011	Sept 30, 2014
Altanzaya Baldan	Accountant	Jun 20, 2011	Sept 30, 2014
Zul Sabikhan	Operations Manager	Jun 20, 2011	Sept 30, 2014
Tsolmon Naidandorj	Video and graphics coordinator	Jul 28, 2011	Sept 30, 2014
Batmunkh Perlii	Driver/Messenger	Aug 22, 2011	Sept 30, 2014
Myagmar Gombo	Driver/Messenger	Sep 12, 2011	Sept 30, 2014
Gerelmaa Tumurbaatar	Accounting assistant	Oct 7, 2011	Sept 30, 2014
Oyunbold Gansukh	IT manager	Oct 7, 2011	May 30, 2014
Amgalan Nordov	Regulatory reform manager	Jan 3, 2012	Sept 30, 2014
Solongo Samdandovjid	Business environment and competitiveness specialist	Jul 16, 2012	Dec 31, 2014
Davaakhuu Baatar	Translator/Interpreter	Jul 16, 2012	Sept 30, 2014
Munkhjargal Demberel	Office manager	Sep 26, 2012	Sept 30, 2014
Ariuntuya Ayurzana	Public private dialogue specialist (TPI)	Oct 5, 2012	Sept 30, 2014
Buyankhuu Suran	Translator/interpreter and editor	August 19, 2013	June 30, 2014

Exhibit A-2: Short-term technical assignments during the April – June 2014 quarter			
Name	Purpose of assignment	Date of arrival	Date of departure
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.	May 11, 2014	May 24, 2014
Leonid Popusoi	Assistance to GASR on OCRS under Alfa XP Subcontract	Apr 12, 2014	Apr 17, 2014
David Roney	Arbitration expert to assist the BPI and Ministry of Justice on drafting arbitration law on a pro-bono basis	June 16, 2014	June 21, 2014
Victoria Orłowski	Gibson, Dunn & Crutcher, a law firm to conduct an arbitration workshop on International Best Practices on Arbitration on a pro-bono basis	June 29, 2014	July 5, 2014
Benson Cyrus	Gibson, Dunn & Crutcher, a law firm to conduct an arbitration workshop on International Best Practices on Arbitration on a pro-bono basis	June 29, 2014	July 5, 2014

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

PIR1: Business enabling environment, governance, and country competitiveness policies and practices improved												
KRA 1.1 Trade, paying taxes, getting new electricity connections and construction procedures simplified												
		Baseline Value (DB2013)	AWP-3 Target		Jun	Jul- Sep (DB2014)	Oct- Dec	Jan- Mar	Apr- Jun	Jul- Sep	AWP-3 Results	LOP Target
1.1.1	Time and cost of clearing imports and exports reduced (Baseline DB2013)											
1.1.1a	Number of documents required to export/import a shipment	11/13	3/3	Target	n/a	5/5	3/3	3/3	3/3		3/3	3/3
				Actual	n/a	11/13	11/13	11/13	11/14			
1.1.1b	Number of days required to export/import a shipment	49/50	27/28	Target	n/a	35/36	30/31	27/28	27/28		27/28	27/28
				Actual	n/a	49/50	49/50	49/50	49/51			
1.1.2	Burden of compliance with tax administration procedures reduced (Baseline DB2013)											
1.1.2a	Number of payments per year:	41	19	Target	n/a	19	n/a	n/a	n/a			19
				Actual	n/a	41	41	41	41			
1.1.2b	Number of hours per year required to comply with paying taxes	192	133	Target	n/a	n/a	133	n/a	n/a			133
				Actual	n/a	192	192	176	176			
1.1.2c	Percentage of taxpayers that use e-payment for VAT, CIT and PIT taxes	24.6%	55%	Target	n/a	35%	40%	50%	55%		55%	55%
				Actual	n/a	24.6%	24.6%	24.6%	24.6%			
1.1.3	Construction permits procedures streamlined (Baseline DB2013)											
1.1.3a	Number of procedures to build a warehouse legally	21	13	Target	n/a	18	16	13	13			13
				Actual	n/a	20	n/a	n/a	n/a			

1.1.3b	Number of calendar days required to complete all procedures:	216	120	Target	n/a	130	120	120	120			120
				Actual	n/a	186	186	186	186			
1.1.4	Getting new electricity connections processes simplified (Baseline DB2013)											
1.1.4a	Number of procedures to obtain an electricity connection:	8	7	Target	n/a	7	7	7	7			7
				Actual	n/a	8	8	8	8			
1.1.4b	Number of calendar days required to complete all procedures:	126	102	Target	n/a	102	102	102	102			102
				Actual	n/a	104	n/a	n/a	n/a			
1.1.5	Online company registration system established (Baseline DB2013)											
1.1.5a	Number of procedures to start a business:	7	4	Target	n/a	6	4	4	4		4	4
				Actual	n/a	5	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	5
				Actual	n/a	11	11	11	11			
1.2.1	Customs risk management program strengthened (Baseline AWP-2)											
1.2.1a	Percentage of "green and yellow channel" shipments:	32.8%	40%	Target	33%	35%	35%	40%	40%			40%
				Actual	38%	34.4%	22.4%	22.6%	25.66%			
1.2.2	Customs post clearance audit program strengthened (Baseline AWP-2)											
1.2.2a	Number of PCA audits conducted with valuation training from BPI	0	50	Target	n/a	10	10	20	10			50
				Actual	n/a	30	89	61	61			
1.2.2b	Person/days of training on PCA and other trade facilitation delivered	226	409	Target	94		250	65			409	635
				Actual	117	207	3.1	156	56			

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

PIR2: Private sector capacity and competitiveness strengthened												
KRA 2.1 Capacity of Mongolian private sector firms to sell products and services meeting buyers' and market demand strengthened												
		Baseline Value	AWP-3 Target		Jun	Jul - Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	AWP-3 Results	LOP Target
2.1.1	Consolidation of QSDC: Buyer-supplier transactions facilitated (Baseline AWP-2)											
2.1.1a	Number of products/services with buyer's specifications:	23	40	Target	20	8	11	10	7		40	63
				Actual	14	9	8	8	10			
2.1.1b	Number of due diligence conducted on suppliers:	25	26	Target	15	8	6	5	4		26	51
				Actual	4	4	7	12	9			
2.1.1c	Number of TAF contracts to assist potential suppliers:	7	18	Target	9	5	6	2	2		18	24
				Actual	0	1	2	3	9			
2.1.1d	Number of purchase orders fulfilled:	1	24	Target	10	8	6	4	3		24	25
				Actual	7	6	4	8	17			
2.1.1e	Expected Value of transactions facilitated (million MNT)	n/a	1 billion MNT	Target	200	200	400	100	100		1,000	1 billion MNT
				Actual	197.4	401.3	908.1	970.5	850			
KRA 2.2 Partnerships that leverage resources to improve business and country competitiveness, promote an enabling business environment and good governance facilitated												
2.2	Capacity of private-led institutions strengthened (Baseline AWP-2)											
2.2.1	Number of person/days of training delivered on BPI's developed toolkits	86	50	Target		10	20	20			50	136
				Actual	0	6	60	0	0			
2.2.2	Number of cost-sharing agreements and/or subcontracts	9	5	Target	0	1	2	1	1		5	14

	with local partner institutions to work on BEE issues:			Actual	0	1	2	5	7			
<i>KRA 2.3 Capacity of private sector-led institutions to contribute to an enabling business environment, governance, and country competitiveness strengthened</i>												
2.3	Consolidation of the QSDC: Quality assurance training program (Baseline AWP-2)											
2.3.1	Number of trainings on quality assurance related topics delivered	6	12	Target	1	3	3	3	2		12	18
				Actual	1	0	3	3	3			
2.3.1a	Number of firms supported with improved management				8		32	66	22			
2.3.2	Number of person/days of training delivered on quality assurance related topics	538	720	Target	60	180	180	180	120		720	1,258
				Actual	36	0	122	176	92			
PIR3: National private sector driven and supported dialogue on business enabling environment, governance, and competitiveness strengthened												
<i>KRA 3.1 Increased public awareness of country competitiveness and governance issues, business enabling environment reforms, international experiences, and best practices</i>												
		Baseline Value	AWP-3 Target		Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	AWP-3 Results	LOP Target
3.1	Increased public awareness of BEE and competitiveness issues (Baseline AWP-2)											
3.1.1	Number of public events held on BEE or competitiveness issues:	56	50	Target	10	10	15	15	7		50	106
				Actual	1	7	12	12	3			
3.1.2	Total Number of person/days of attendance at public events and BPI trainings:	1,575	2,500	Target	1,500	200	300	300	200		2,000	4,075
				Actual	1467.5	256	2,785	750	309			
3.1.2a	Number of person-days of training for government officials			Actual	1429	207	700	279	69			
3.1.2b	Number of person-days of training for private sector representatives			Actual	36	0	1,988	170	190			

3.1.2c	Number of person-days of attendance to EJC and other public			Actual	2.5	49	97	301	49			
3.1.3	Number of workshops held for journalists:	28	20	Target	2	3	5	5	5		20	48
				Actual	1	5	11	6	6			