

PD ABM-935
90610



REGIONAL TECHNICAL SUPPORT PROJECT
Contract No. 410-0004-C-00-3483-00

SECTION I - CONTRACTOR'S SUMMARY FINAL REPORT
1996

DEVELOPMENT ALTERNATIVES, INC.

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May 30, 1996

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SECTION I - CONTRACTOR'S SUMMARY FINAL REPORT

Period Covered: April - May 31, 1996

A. NARRATIVE:

1. BACKGROUND

The Regional Technical Support Project (RTSP)^{1/} commenced in October 1993. It was designed to provide a wide range of technical assistance services as identified by East Asia field missions, the Asia Bureau and the Regional Support Mission for East Asia (RSM/EA), to address this region's numerous and varied development challenges. This Project (Activity) is the main vehicle for delivering a wide range of technical assistance services necessary to assess, plan, implement, and evaluate the field missions' development agendas. Over the past ten quarters and two months, the RTSP has completed five Delivery Orders (D.O.s) and a Strategic Plan/Desktop Study that provided technical inputs for the RSM's future strategy. Covering the two-month period under review, the RTSP continued to carry out three additional long term D.O.s; the first Activity is addressing higher education needs in Cambodia; the second Activity is providing technical assistance and training for economic policy formulation and implementation to the Office of the Prime Minister in Mongolia; and the third Activity is providing technical assistance to establish the Strategic Planning Unit (SPU) within the Support Division of the Royal Government of Cambodia's (RGC's) Cambodian Development Council (CDC). The Strategic Planning Unit will undertake strategic planning in macroeconomics, sectoral programs and human resource development.

The total estimated cost of the project (activity) over the five-year period was budgeted for \$23,298,383.00. Through the two-month period under review of CY 1996, or 53% into the five years, expenditures were \$3,959,317.41 or 16.99% of the estimated cost. ^{2/} The backlog of work on D.O. #7, D.O. #8 and D.O. #10, all now in process, amounts to approximately \$2,955,256.00. An additional funding of approximately \$2 million is being obligated for D.O. #7. These activities are scheduled to be completed by March 1998.

Specifically, the RTSP's main functions were to create options for country development strategies, design programs and projects, and provide analytical and feasibility studies in the

1/ As the RTSP has not been formally renamed, the functional name "Activity" has been used throughout this report to highlight the transition to the reengineered system during the last quarter.

2/ Data available only through April 30, 1996, May expenditures are estimated.

environment, human resource development, population/family planning, democracy and human rights, economic planning and private sector activities, and HIV/AIDS. The Project (Activity) provides long-term and short-term technical assistance through a variety of methods: institutional contracts or cooperative agreements, subcontracts and commodity procurement. Both short-term and long-term technical assistance focus on the following priority areas: country development needs assessments; macroeconomic analyses; sectoral analyses; policy reform; institutional reform; pilot/special activities; and project evaluations and financial assessments. Since project start-up over two years ago, the RTSP has addressed or is in the process of addressing most of these areas in its D.O.s. In addition, the RTSP provided sectoral and country analyses on many of these topics in the Strategic Plan/Desktop Study.

2. EXPECTED RESULTS

Since this is a demand driven contract, the results at its conclusion will be measured by how well the contractor satisfied the requirements for the various technical assistance services over the life of the contract. Therefore, the results were incrementally evaluated based on the delivery of each technical assistance package as well as the contractor's responsiveness and management. Over the past ten quarters and two months, five Delivery Orders (D.O.s) were completed on target and with satisfactory results. In addition, a Strategic Plan/Desktop Study was completed for the RSM in Bangkok. During the last review period, there were three long term D.O.s being executed, all are on target and anticipated to yield very satisfactory results.

3. RTSP CLOSEDOWN

Through a "partial closedown" notification, the RTSP Bangkok Office, under the DAI contract, funded by the RSM/EA has been directed to close effective June 30, 1996. The close-down was determined in line with RSM/EA's programmatic and cost saving measures under the subject contract. Delivery Orders in Cambodia and Mongolia will be continued. Meetings with the Project Officer were held on different occasions to discuss; RSM's recommendations to USAID/Washington of RTSP's partial termination and preliminary guidelines on the close-down of RTSP operations. In response to RSM/EA's decision, DAI has submitted a proposal to RSM/EA reiterating their strong concern for continued support for the D.O. activities and to maintain smooth and efficient management oversight and technical support required for Cambodia and Mongolia. DAI proposed to continue operations in Bangkok under a greatly diminished structure that would reduce the average CORE costs by 79% for the duration of the existing D.O.'s. It should be noted that while RSM is closing in Bangkok, the technical support activities managed by the RTSP Bangkok Office for Cambodia and Mongolia have achieved their highest level of activity during the first quarter of 1996 and pose a strong case to maintain continuity.

The Project Officer/RSM/EA has advised the RTSP Office that its proposal for continued support of the existing D.O.'s from Bangkok was not approved. It was made clear by the RSM/EA that all support work should be done from DAI home in Bethesda, USAID's

administrative support for the D.O.'s will be shifted to Manila and its technical support to Phnom Penh. The last billing from the RTSP Office in Bangkok will be for April 1996. The RSM has informed us that while there will be no further CORE budget, except to fund the close-down operation in Bangkok, funding for support work should be included in each D.O.'s. Close-down costs have been submitted to the Contracting Officer, RSM/EA.

4. REENGINEERING

4.1 **Cambodia**

Worked closely with the AID/REP and their staff, the CDC as well as other relevant institutions, in developing a long term overall HRD strategy as part of the work under D.O. #10. Also, this strategy included activities under D.O. #8, and provided inputs for the USAID reengineering exercise for the HRD sector.

4.2 **Mongolia**

Refinements to S.O. #1 and how D.O. #7 activities meet its objectives were continued during the last quarter.

5. CORE ACTIVITIES

5.1 **Description of Activities**

The Bangkok RTSP operations included overall activity direction, accounting, billing, administrative operations, as well as technical design and supervision for buy-ins and core-funded activities, as described below.

Over the last review period of CY 1996, operations of the RTSP Bangkok office included the following:

- (i) provided continuing technical support and management in the implementation of D.O. #7, D.O. #8 and D.O. #10 through frequent telephone calls, fax and e-mail;
- (ii) continued to conduct comprehensive search for available candidates to fill in the Chief of Party position on D.O. #10, we now understand that the scope of work (S.O.W.) for D.O. #10 is being revised;
- (iii) the RTSP Office Manager assembled information materials on Senior Executive Management Seminar that are offered in the U.S through access in Internet (Netscape) on a request made by the USAID/Rep in Phnom Penh;

- (iv) responded to a request made by the USAID/Rep in Phnom Penh to get brochures and application forms for the PEW Economic Freedom Fellows Program at Georgetown University for possible participation of the Secretary General of CDC, Mr. Chantol Sun;
- (v) submitted a preliminary cost estimate for the six-month extension of D.O. #8 at the request of the Project Officer, USAID in Phnom Penh, we are awaiting a response;
- (vi) responded to a request made by the Project Officer, RSM/EA to submit a list of candidates for a SOW on the evaluation of the U.S. Thai Partnership Project;
- (vii) responded to a request made by the Contracting Officer, RSM/EA to submit the RTSP's inventory list of office furniture and equipment and depreciated value;
- (viii) responded to a request made by Project Officer, RSM/EA to submit the final estimate of the close-down costs for the RTSP operations;
- (ix) a detailed scope of work for a new Delivery Order to develop a rural development strategy is being prepared by the Project Officer. USAID/Phnom Penh made an urgent request to provide candidates to start the work in early June. The resumes of three qualified candidates were submitted the following day for their review;
- (x) tentative request by the RSM/EA to arrange shipment of all the office equipment, furniture and fixtures to USAID in Phnom Penh;
- (xi) there was no CORE-funded travel during this period. Since the notice for partial close-down of the RTSP Office was received on April 9, 1996 no further travel plans were made.

5.2 Performance

RTSP, CORE funded support for D.O. operations were on-target with objectives met.

- **RTSP - Bangkok**
 - ▶ Continued overall RTSP management, financial operations and technical support for D.O.'s in Mongolia and Cambodia.
 - ▶ One candidate each for the position of Sr. Development Specialist and Private Sector Specialist for the SOW on the evaluation of the U.S. Thai Partnership Project were submitted for their review. The response turn around was less than two weeks.

- ▶ An inventory list together with the estimated depreciated market value was prepared and submitted to the RSM office. Copies were also sent to USAID in Phnom Penh and DAI, Phnom Penh for their information.
 - ▶ Response to the issues raised by the Contracting Officer, RSM/EA on the close-down costs were cleared and a revised closedown costs were submitted the next day.
 - ▶ The names of three qualified candidates and their resumes' for the SOW to develop a rural development strategy were submitted to USAID in Phnom Penh, for their review, within two days of their request.
- **D.O. #7; Economic Policy Support Activity**
 - ▶ Reviewed SOW and submitted draft budget for one year extension.
 - ▶ Procured and shipped office equipment for use during the training seminars being planned for the next STTA. To facilitate early release at the customs, the list of items with the corresponding prices were sent immediately. The items included the overhead projector, screen projector & tripod and the spare lamps have been released and arrived in time for the next STTA work on Central Budget Processes.
 - ▶ The remaining requested office supplies followed airshipment and have been received in a timely manner.
- **D.O. #8; Cambodia Long-Term Education Advisor**
 - ▶ Provided technical guidance in Phnom Penh.
 - ▶ Submitted the preliminary cost estimate for the six-month extension on D.O. #8 at the request of the Project Officer, USAID/Phnom Penh, for their information.
 - ▶ Informed the Project Advisor of the concurrence by the Contracting Officer, RSM/EA for the provision of R&R travel for him and his wife but subject to availability of funds under D.O. #8.
- **D.O. #10; Technical Assistance to the Cambodian Development Council - Strategic Planning Unit**
 - ▶ Provided technical, management support in Phnom Penh through frequent telephone calls, fax and e-mails.

- ▶ Contacted several senior level candidates to fill in the position of Chief of Party on D.O. #10.
- ▶ We were told that the SOW for D.O. #10 is being changed.
- ▶ Assembled various information materials from different Business Graduate Schools in the U.S. offering the Senior Executive Management Seminar accessed through Internet (Netscape) and were hand-delivered by Dr. James P. Winkler during one of his field visits in Cambodia.
- ▶ Several copies of the PEW brochure and application forms were DHL'd to USAID/Rep in Phnom Penh. AID/Rep is in the process of identifying the candidates for nomination. Applications are due to be received by the Foundation by July 15, 1996.

5.3. Projected CORE Activity

None

6. BUY-INS (DELIVERY ORDERS)

6.1 Description of Activities

- D.O. #7; Economic Policy Support Activity (Mongolia)

- ▶ The EPSP technical assistance, research and training activities continued.
- ▶ The duration of stay of the short term expert on Local Government Administration; Ms. Juliana Pigeay has been extended for another five days, i.e. April 7th. This was done at the request of the government and also approved by USAID/Rep in Mongolia. Meetings with several government offices were held during this period. Her final report entitled "Report on Local Government Finance and Management" has been submitted. A copy of the Executive Summary is enclosed as Annex 1.
- ▶ The short term expert on Central Budget Processes; Dr. Mark Gallagher has arrived in Ulaanbaatar on May 4, 1996, as scheduled. His terms of reference are included in the EPSP's Activity Report #4 and is enclosed as Annex 2.

- ▶ A revised draft R4 paper for the Economic Growth Strategic Objective #1 and a letter reiterating the need for continued USAID assistance in Mongolia has been submitted to USAID/Rep in Mongolia for further discussions at USAID/Washington are enclosed as Annex 3.
 - ▶ Early recruitment of a short term expert on the improved energy sector management has been requested by the Project Advisor.
 - ▶ Prepared a revised work plan for the EPSP activities on increased resources and projections through June 1998.
 - ▶ Arrival in good condition of the overhead projector and the screen projector with tripod has been confirmed by the Project Advisor.
- **D.O. #8: Cambodia Long-Term Education Advisor**
 - ▶ Technical assistance to the Task Force on Higher Education continued.
 - ▶ A revised Work Plan covering the period July 1, 1995 through Dec. 31, 1996 has been submitted by the Higher Education Adviser to USAID in Phnom Penh and is enclosed as Annex 4. Information Bulletin #2 describing the activities undertaken is also enclosed as Annex 5.
- **D.O. #10: CDC Strategy Planning Unit (Cambodia)**
 - ▶ Dr. James P. Winkler made a field visit to Phnom during April 4-6, 1996 and April 22-25, 1996. The purpose of these visits was to hold round-table discussions with USAID, Faculty of Business, key government agencies, and the CDC. Supervisory work to the Assessment Team is being performed by Dr. Winkler funded through D.O. #10.
 - ▶ A report on the findings, options and recommendations of the Assessment Team under supervision by Dr. James P. Winkler has been submitted to USAID in Phnom Penh for review and comments on April 26, 1996. The draft report entitled " Human Resource Development in the Private Sector: Assessment and Strategy " has been submitted to USAID in Phnom Penh. A copy of the Executive Summary is enclosed as Annex 6. An Activity Report is also attached as Annex 7.
 - ▶ Dr. Bo Chum Sin met with Malaysian officials at the Ministry of Education in Kuala Lumpur from May 17-20, 1996. This TDY has been approved by Ed Birgells/USAID in Phnom Penh a day before departure.

6.2 Performance

All performance was on schedule and moved towards achieving the relevant S.O.'s to meet the new reengineering criteria.

6.3 Projected Activities for the Third Quarter of CY 1996

- **D.O. #7**
 - ▶ Continue to provide technical advice and training in economic policy formulation and implementation.
 - ▶ Prepare the budget projections based on the revised work plan and new SOW from USAID for one year extension and provision of additional advisors.
 - ▶ Continue to respond the GOM requests to undertake policy research activities.
 - Provide a short term Energy Sector Management Consultant.
- **D.O. #8**
 - ▶ Continue to provide technical assistance to the Higher Education Task Force.
- **D.O. #10; Technical Assistance to the Cambodian Development Council - Strategic Planning Unit**
 - ▶ Respond to new SOW being developed by USAID.
 - ▶ Mobilize the Chief of Party and produce a work plan.

7. **SUBCONTRACTOR ACTIVITY**

- No sub-contractor work.

8. **STATEMENT OF WORK**

It is the opinion of the contractor that the statement of work in the subject contract fits the current circumstances, and there is no need for the statement to be amended.

Annexes:

1. - D.O. #7 - Executive Summary of the Report on Local Government Finance and Management
2. - D.O. #7 - EPSP Activity Report
3. - D.O. #7 - Comments on R4
4. - D.O. #8 - Activity Report
5. - D.O. #8 - Information Bulletin #2
6. - D.O. #10 - Executive Summary of the Draft Report on Human Resource Development in the Private Sector: Assessment and Strategy
7. - D.O. #10 - Activity Report
8. - CORE - 7 RTSP Quarterly Reports from inception
9. - CORE - 2 RTSP Annual Reports from inception^{3/}

^{3/} 3rd Quarterly Reports for FY1994 and FY1995 were incorporated in the Annual Reports.

B. ADMINISTRATIVE INFORMATION:

1. INTRODUCTION

Due to the "partial project close down", the financial management and billing for RTSP will be transferred to the DAI headquarters in Bethesda. Billing for April 1996 was the last invoice submitted to USAID by the RTSP office in Bangkok. DAI headquarters in Bethesda sent to Bangkok Mr. Sherali Basharat, the DAI Assistant Controller-Audit Specialist, to ensure a smooth transition of financial and administrative functions from the Bangkok office to the headquarters. Most of the office equipment, furniture and fixtures will be transferred to USAID mission in Cambodia after the closing of Bangkok office on June 30, 1996.

USAID deobligated \$1,650,000.00 from Core activities at the beginning of this quarter. Since DAI already submitted final invoices for completed Delivery Orders 1, 2 and 3, USAID also deobligated the unused budgets for the three delivery orders: \$6,181.19 for Delivery Order #1; \$36,582.67 for Delivery Order # 2; and \$35,583.48 for Delivery Order # 3. These total to \$78,347.34. Deobligations from Core and from the three delivery orders bring the new total obligated amount to \$5,434,573.66. However, as of this writing, USAID still has to give DAI the official copies of deobligations for Delivery Orders 1 ,2, and 3. Below is the breakdown of new obligated amount for Core and delivery orders.

Obligated for Core Activities	\$	2,219,081.00
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Delivery Orders:

Delivery Order # 1	\$	205,188.81
Delivery Order # 2		127,270.33
Delivery Order # 3		407,719.52
Delivery Order # 4		70,275.00
Delivery Order # 7		1,095,000.00
Delivery Order # 8		490,200.00
Delivery Order # 9		19,839.00
Delivery Order # 10		800,000.00

Subtotal for Delivery Orders		3,215,492.66
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<i>Total Obligated Amount in the Basic Contract</i>		<u><u>\$5, 434,573.66</u></u>
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2. FINANCIAL REPORT

The cumulative expenditures for Core Activities and Delivery Orders amounted to \$3,783,958.44 as of April 30, 1996. This amount represents 16.24% of the life of the Project budget. The costs for May 1996 are not yet available as of this writing. Consultations were made between the USAID Office of Finance and the RTSP accountant to verify and confirm the amounts billed by DAI and payments made by USAID from inception of the project.

Table 1 below shows the status of obligated amounts for Core Activities and delivery orders as of April 30, 1996.

	CORE	Delivery Orders	Total
Obligated Amount as of April 1, 1996	3,869,081.00	3,293,840.00	7,162,921.00
De-obligated this quarter	1,650,000.00	78,347.34	1,728,347.34
Total Obligated	2,219,081.00	3,215,492.66	5,434,573.66
Expenditures to date	2,096,435.49	1,687,522.95	3,783,958.41
<i>Balance remaining</i>	<i>\$ 122,645.51</i>	<i>\$1,527,969.71</i>	<i>\$ 1,650,615.22</i>

The total expenditures for Core activities were \$2,096,435.49. This amount represents 94.47% of the new obligated amount for Core of \$2,219,081.00. For Delivery Orders, the total expenditures of \$1,687,522.95 represents 52.48% of the new obligated amount of \$3,215,492.66.

The Economic Policy Support Activity in Mongolia (Delivery Order # 7), has used \$445,125.99 through April 30, 1996 (\$379,247.92 for Long Term Technical Assistance and \$65,878.07 for Short Term Technical Assistance). This amount represents 31.24% of the total budget for this activity. USAID is planning to obligate an additional \$2,000,000.00 to this program.

The National Higher Education Action Plan Activity in Cambodia (Delivery Order # 8), has used \$240,308.92 through April 30, 1996. This amount represents 47.79% of the total budget. Of the total expenditures of \$240,308.92, DAI spent \$37,552.49 for logistical support while the subcontractor, Development Associates (DA), spent \$202,756.43.

The Monitoring and Evaluation Activity in Cambodia (Delivery Order # 9) was completed on December 15, 1995; it has billed to USAID a total amount of \$17,605.98. This amount represents 88.74% of the total budget. No additional costs were incurred during this quarter.

The CDC Strategic Planning Unit (Delivery Order # 10) commenced on February 15, 1996, it has used a total of \$174,487.42 as of April 30, 1996; \$155,778.22 for LTТА and \$18,709.20 for STТА. This represents 9.24% of the project budget.

Attachment No. 1 shows the overall budget and expenditures for Core Activities and the eight delivery orders as of April 30, 1996. Attachments 2 to 9 show the budgets and cumulative expenditures for Delivery Orders 1 through 10, respectively.

3. LEVEL OF EFFORT

A total of 22.44 person months (pm) were used during April and May; 2.92 pm for Core activities and 19.52 pm for Delivery Orders. Core Activities used 2 pm of expatriate's time and 0.92 pm of home office staff's time.

Delivery Order # 7 used 3.12 pm of expatriate's time of which 2 pm was of long term technical assistance (LTТА) and 1.12 pm of short term technical assistance (STТА), and 4 pm of local hire economists.

Delivery Order # 8 used a total of 2 of LTТА expatriates and 2.60 of local hire staff.

Delivery Order # 10 used a total of 7.80 pm. 4 pm of LTТА expatriate's time, 0.88 pm of STТА expatriate's time, 1.15 pm of local hire professional STТА, 1.40 pm of local hire office manager, and 0.37 pm of home office support staff.

Attachment 10 shows the detail of person months used during the last two months while Table 6 shows the cumulative total of person months used by periods and by activities for life of the Project.

4. BUDGET PROJECTIONS

Budget Forecast for 3rd Quarter 1996 June 1, 1996 through September 30, 1996

Budget forecasts in this report include projections for the month of June 1996 and for the 3rd Quarter 1996. Core includes costs only for June and for the close down activities.

- ▶ Table 2 - Core Activities
- ▶ Table 3 - Delivery Order # 7, Economic Policy Support Activity in Mongolia
- Table 4 - Delivery Order # 8, National Higher Education Action Plan in Cambodia
- ▶ Table 5 - Delivery Order# 10, Technical Assistance to the Cambodian Development Council - Strategic Planning Unit

Table 2. Core Activities

Budget Projection for Core Activities Close down costs and for June 1996	
Line Items	In U.S. Dollars
Direct Labor	8,385.00
Fringe Benefits and Overhead	8,063.00
Allowances	3,215.00
Other Direct Costs	3,407.00
Travel and Per diem	2,586.00
Project Support Costs	10,022.00
Close down costs	46,415.00
Total	82,093.00

**Table 3. Delivery Order # 7 Economic Policy Support Activity
in Mongolia**

Budget Projection For FY 1996 III Quarter	
Line Items	In U.S. Dollars
LTTA	
Direct Labor	30,826.00
Indirect Costs	27,805.00
Travel and Transportation	4,500.00
Allowances	10,800.00
Project Support Costs	24,000.00
Other Direct Costs	5,000.00
Procurement	4,000.00
Total LTTA	106,931.00
STTA	
Direct Labor	20,800.00
Travel and Transportation	6,700.00
Other Direct Costs	2,500.00
Total STTA	30,000.00
Total	136,931.00

Table 4. Delivery Order # 8 National Higher Education Action Plan in Cambodia

Budget Projection For FY 1996 III Quarter	
Line Items	In U.S. Dollars
Direct Labor	59,273.00
Travel and Per diem	1,500.00
Allowances	15,781.00
Other Direct Costs	16,842.00
Total	93,396.00

Table 5. Delivery Order # 10 Technical Assistance to the Cambodian Development Council-Strategic Planning Unit

Budget Projection For FY 1996 III Quarter	
Line Items	In U.S. Dollars
Direct Labor	45,612.00
Indirect Costs	46,640.00
Travel and Per Diem	8,963.00
Allowances	16,400.00
Other Direct Costs	31,200.00
Project Support Costs	5,109.00
Procurement	5,000.00
Total	158,924.00

**Total Budget Projection for
June and 3rd Quarter FY 1996**

\$ 471,344.00

Table 6.

Person Months

	Core			Work Orders								TOTAL
	Expatriate	Desktop Study	Home Office	#1	#2	#3	#4	#7	#8	#9	#10	
Year 1 Total	16.50		4.68	10.21	5.06	16.20						52.65
Year 2 Total	13.81	26.85	8.16			6.80	3.56	7.81	3.00			69.99
Year 3												
4th Qtr. 1995	3.93		0.68					9.00	6.00	0.69		20.30
1st Qtr 1996	3.00		0.72					11.00	6.45	0.01	5.37	26.55
2nd Qtr 1996	2.00		0.92					7.12	4.60		7.80	22.44
Year 3 Total	8.93	0.00	2.32	0.00	0.00	0.00	0.00	27.12	17.05	0.70	13.17	69.29
TOTAL	39.24	26.85	15.16	10.21	5.06	23.00	3.56	34.93	20.05	0.70	13.17	191.93

Attachment No. 1: Regional Technical Support Project

Name of Contractor: Development Alternatives, Inc.
 Financial Report from Inception through April 30, 1996

Contract No.: 410-0004-C-00-3483

Category	Budget Amount As per Mod.5	Cumulative Amount CORE	Cumulative Amount BUY-INS	Cumulative Total	Remaining Amount	Percent of Budget Expended
Salaries and Wages	5,763,504.00	443,941.09	241,857.11	685,798.20	5,077,705.80	11.90%
Indirect Costs	4,028,382.00	433,686.45	193,856.48	627,542.93	3,400,839.07	15.58%
Travel, Trans. and Per diem	2,865,106.00	113,468.93	91,046.87	204,515.80	2,660,590.20	7.14%
Allowances	3,433,035.00	122,687.44	100,571.45	223,258.89	3,209,776.11	6.50%
Other Direct Costs	808,810.00	200,017.62	261,055.19	461,072.81	347,737.19	57.01%
Procurement	387,759.00	146,166.37	131,576.45	277,742.82	110,016.18	71.63%
Project Support Costs	2,297,177.00	312,070.08	111,722.93	423,793.01	1,873,383.99	18.45%
Subcontractors	2,361,396.00	193,896.44	519,275.15	713,171.59	1,648,224.41	30.20%
Subtotal	21,945,169.00	1,965,934.42	1,650,961.63	3,616,896.05	18,328,272.95	16.48%
Fee	1,353,214.00	130,501.07	36,561.32	167,062.39	1,186,151.61	12.35%
TOTAL	23,298,383.00	2,096,435.49	1,687,522.95	3,783,958.44	19,514,424.56	16.24%

Attachment No. 2: Delivery Order No. 1

Cambodia Technical Support
 Name of Contractor: Development Alternatives, Inc.
 Contract No.: 410-0004-C-00-3483
FINAL REPORT

Project Number: 2301

Category	Budget Amount	Inception to Last Reported Period	This Period	Cumulative Amount	Remaining Amount	Percent of Budget Expended
Salaries and Wages	109,088.00	101,878.38		101,878.38	7,209.62	93.39%
Other Direct Costs	102,282.00	101,389.77	2,821.45	104,211.22	(1,929.22)	101.89%
Subtotal	211,370.00	203,268.15	2,821.45	206,089.60	5,280.40	97.50%
Amount Withheld @ 5%		(10,163.42)	10,163.42	0.00	0.00	
Subtotal	211,370.00	193,104.73	12,984.87	206,089.60	5,280.40	97.50%
Add: Disallowance					900.79	
Total	211,370.00	193,104.73	12,984.87	206,089.60	6,181.19	
Deobligated Amount					6,181.19	
BALANCE					\$0.00	

**Attachment No. 3: Delivery Order No. 2
Final Report**

Cambodia Technical Support - Health and Rural Development
Name of Contractor: Development Alternatives, Inc.
Contract No.: 410-0004-C-00-3483

Project Number: 2302

Category	Budget Amount	Inception to Last Reported Period	This Period	Cumulative Amount	Remaining Amount	Percent of Budget Expended
Salaries and Wages	99,122.00	84,759.86	0.00	84,759.86	14,362.14	85.51%
Other Direct Costs	64,731.00	42,662.31	1,078.74	43,741.05	20,989.95	67.57%
Subtotal	163,853.00	127,422.17	1,078.74	128,500.91	35,352.09	78.42%
Add: Disallowance					1,230.58	
Total	163,853.00	127,422.17	1,078.74	128,500.91	36,582.67	
Deobligated Amount					36,582.67	
BALANCE					\$0.00	

Attachment No. 4: Delivery Order No. 3

Cambodia Technical Support - MEF Staff Training Program
 Name of Contractor: Development Alternatives, Inc.
 Contract No.: 410-0004-C-00-3483

Project Number: 2303

Category	Budget Amount	Inception to Last Reported Period	This Quarter	Cumulative Amount	Remaining Amount	Percent of Budget Expended
Salaries and Wages	103,420.00	96,569.92	0.00	96,569.92	6,850.08	93.38%
Other Direct Costs	339,883.00	312,162.26	107.39	312,269.65	27,613.35	91.88%
Subtotal	443,303.00	408,732.18	107.39	408,839.57	34,463.43	92.23%
Add: Disallowance					1,120.05	
Total	443,303.00	408,732.18	107.39	408,839.57	35,583.48	
Deobligated Amount					35,583.48	
BALANCE					\$0.00	

Attachment No. 5: Delivery Order No. 4

Urban Disaster Mitigation Project
 Name of Contractor: Development Alternatives, Inc.
 Contract No.: 410-0004-C-00-3483

Project Number: 2304

Category	Budget Amount	Inception to Last Reported Period	This Quarter	Cumulative Amount	Remaining Amount	Percent of Budget Expended
Salaries and Wages	49,848.13	32,412.48	18,461.52	50,874.00	(1,025.87)	102.06%
Other Direct Costs	20,427.00	8,293.24	8,696.11	16,989.35	3,437.65	83.17%
TOTAL	70,275.13	40,705.72	27,157.63	67,863.35	2,411.78	96.57%

Attachment No. 6: Delivery Order No. 7

Mongolia Economic Policy Support Project (EPSP)
 Name of Contractor: Development Alternatives, Inc.
 Contract No.: 410-0004-C-00-3483
 As of April 30, 1996

Project Number: 2305

Category	Budget Amount	Inception to Last Reported Period	This Quarter	Cumulative Amount	Remaining Amount	Percent of Budget Expended
L T T A						
SALARIES AND WAGES	202,221.00	62,666.32	14,921.88	77,588.20	124,632.80	38.37%
INDIRECT COSTS	168,337.00	54,360.20	13,058.94	67,419.14	100,917.86	40.05%
TRAVEL/TRANS & PER DIEM ALLOWANCES	41,159.00	5,965.66	4,930.32	10,895.98	30,263.02	26.47%
PROJECT SUPPORT COSTS	154,168.00	42,639.25	8,714.12	51,353.37	102,814.63	33.31%
OTHER DIRECT COSTS	235,319.00	46,710.94	11,129.83	57,840.77	177,478.23	24.58%
PROCUREMENT	23,303.00	5,289.10	1,160.88	6,449.98	16,853.02	27.68%
	95,339.00	67,884.53	15,377.44	83,261.97	12,077.03	87.33%
SUBTOTAL	919,846.00	285,516.00	69,293.41	354,809.41	565,036.59	38.57%
FEE @ 6.69%	61,538.00	19,802.78	4,635.73	24,438.51	37,099.49	39.71%
TOTAL LTTA	981,384.00	305,318.78	73,929.14	379,247.92	602,136.08	38.64%
S T T A						
SALARIES AND WAGES	285,743.00	29,100.56	20,179.76	49,280.32	236,462.68	17.25%
TRAVEL/TRANS & PER DIEM	143,912.00	8,875.44	7,562.51	16,437.95	127,474.05	11.42%
OTHER DIRECT COSTS	13,696.00	69.30	90.50	159.80	13,536.20	1.17%
TOTAL STTA	443,351.00	38,045.30	27,832.77	65,878.07	377,472.93	14.86%
GRAND TOTAL	\$1,424,735.00	\$343,364.08	\$101,761.91	\$445,125.99	\$979,609.01	31.24%

Attachment No. 7: Delivery Order No. 8

Long Term Higher Education Advisor
 Name of Contractor: Development Alternatives, Inc.
 Contract No.: 410-0004-C-00-3483
 As of April 30, 1996

Project Number: 2307

Category	Budget Amount	Inception to Last Reported Period	This Quarter	Cumulative Amount	Remaining Amount	Percent of Budget Expended
Development Alternatives, Inc. (DAI)						
TRAVEL/TRANS & PER DIEM	9,600.00	3,724.00	1,300.00	5,024.00	4,576.00	52.33%
PROJECT SUPPORT COSTS	52,846.00	24,947.71	5,226.05	30,173.76	22,672.24	57.10%
SUBTOTAL	62,446.00	28,671.71	6,526.05	35,197.76	27,248.24	56.37%
FEE @ 6.69%	4,178.00	1,918.14	436.59	2,354.73	1,823.27	56.36%
TOTAL DAI	66,624.00	30,589.85	6,962.64	37,552.49	29,071.51	56.36%
Development Associates (DA)						
SALARIES AND WAGES	123,969.00	68,966.82	14,358.96	83,325.78	40,643.22	67.22%
INDIRECT COSTS	131,407.00	27,443.34	14,358.96	41,802.30	89,604.70	31.81%
TRAVEL/TRANS & PER DIEM	21,117.00	12,858.59	0.00	12,858.59	8,258.41	60.89%
ALLOWANCES	145,469.00	53,056.63	0.00	53,056.63	92,412.37	36.47%
OTHER DIRECT COSTS	14,235.00	6,400.64	5,312.49	11,713.13	2,521.87	82.28%
TOTAL DA	436,197.00	168,726.02	34,030.41	202,756.43	233,440.57	46.48%
GRAND TOTAL	\$502,821.00	\$199,315.87	\$40,993.05	\$240,308.92	\$262,512.08	47.79%

Attachment No. 8: Delivery Order No. 9

Monitoring and Evaluation System Design
 Name of Contractor: Development Alternatives, Inc.
 Contract No.: 410-0004-C-00-3483
 As of April 30, 1996

Project Number: 2308

Category	Budget Amount	Inception to Last Reported Period	This Quarter	Cumulative Amount	Remaining Amount	Percent of Budget Expended
SALARIES AND WAGES	10,498.00	11,150.64	0.00	11,150.64	(652.64)	106.22%
TRAVEL/TRANS & PER DIEM	7,810.00	6,291.78	0.00	6,291.78	1,518.22	80.56%
OTHER DIRECT COSTS	1,531.00	163.56	0.00	163.56	1,367.44	10.68%
TOTAL	19,839.00	17,605.98	0.00	17,605.98	2,233.02	88.74%

Attachment No. 9: Delivery Order No. 10

CDC Strategic Planning Unit
 Name of Contractor: Development Alternatives, Inc.
 Contract No.: 410-0004-C-00-3483
 As of April 30, 1996

Project Number: 2309

Category	Budget Amount	Inception to Last Reported Period	This Quarter	Cumulative Amount	Remaining Amount	Percent of Budget Expended
L T T A						
SALARIES AND WAGES	377,057.00		23,965.28	23,965.28	353,091.72	6.36%
INDIRECT COSTS	346,791.00		23,362.99	23,362.99	323,428.01	6.74%
TRAVEL/TRANS & PER DIEM	31,661.00		5,621.83	5,621.83	26,039.17	17.76%
ALLOWANCES	417,315.00		21,690.16	21,690.16	395,624.84	5.20%
PROJECT SUPPORT COSTS	148,514.00	1,565.07	22,143.33	23,708.40	124,805.60	15.96%
OTHER DIRECT COSTS	59,856.00		0.00		59,856.00	0.00%
PROCUREMENT	88,965.00		47,242.48	47,242.48	41,722.52	53.10%
SUBTOTAL	1,470,159.00	1,565.07	144,026.07	145,591.14	1,324,567.86	9.90%
FEE @ 6.69%	98,354.00	104.70	9,635.35	9,740.05	88,613.95	9.90%
TOTAL LTТА	1,568,513.00	1,669.77	153,661.42	155,331.19	1,413,181.81	9.90%
S T T A						
SALARIES AND WAGES	180,343.00		15,451.20	15,451.20	164,891.80	8.57%
TRAVEL/TRANS & PER DIEM	104,809.00		3,677.00	3,677.00	101,132.00	3.51%
OTHER DIRECT COSTS	33,929.00		0.00		33,929.00	0.00%
TOTAL STТА	319,081.00	0.00	19,128.20	19,128.20	299,952.80	5.99%
GRAND TOTAL	\$1,887,594.00	\$1,669.77	\$172,789.62	\$174,459.39	\$1,713,134.61	9.24%

**Attachment No. 10: Level of Effort for 2nd Quarter FY 1996
April 1 through May 31, 1996**

----- SUMMARY

CORE			
Expatriates		2.00	
Home Office Support		0.92	
Delivery Orders			
Delivery Order # 7			
Expatriates - LTТА		2.00	
Expatriates - STТА		1.12	
Local Hire		4.00	
Delivery Order # 8			
Expatriates -LTТА		2.00	
Local Hire		2.60	
Delivery Order # 10			
Home Office Support		0.37	
Expatriates - LTТА		4.00	
Expatriates - STТА		0.88	
Local Hire		2.55	
Total Person Months		<table border="1" style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: center;">----- 22.44 -----</td> </tr> </table>	----- 22.44 -----
----- 22.44 -----			

LOCAL GOVERNMENT ADMINISTRATION
ULAANBAATAR, MONGOLIA

REPORT ON LOCAL GOVERNMENT FINANCE AND MANAGEMENT
ISSUES AND RECOMMENDATIONS

Final Report - May, 1996

Prepared by :

Juliana H. Pigey

For:

Economic Policy Support Project

Development Alternatives, Inc.

United States Agency for International Development

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ACRONYMS

ADB	Asian Development Bank
AUSAID	Australian Agency for International Development
CIT	Corporate Income Tax
CTA	City Tax Administration (Ulaanbaatar city tax office)
DTA	District Tax Administration (District tax offices)
EPSP	Economic Policy Support Project
ESPD	Economic and Social Policy Department (Ulaanbaatar city administration)
GRDP	Gross regional domestic product
GTA	General Tax Administration (Central Government Tax Office)
JICA	Japan International Cooperation Agency
MDP	Management Development Program
MID	Ministry of Infrastructure Development
MOF	Ministry of Finance
NDB	National Development Board
PIT	Personal Income Tax
UB	Ulaanbaatar
UNDP	United Nations Development Program
USAID	United States Agency for International Development

EXECUTIVE SUMMARY

INTRODUCTION

The following report presents the initial observations and recommendations following one month in Ulaanbaatar. The aim is to describe the most salient features of Ulaanbaatar's city management and budget practices and propose initial recommendations as well identify further needs for technical assistance.

Economic Role of Ulaanbaatar

The capital city of Ulaanbaatar (UB) is the major demographic and economic center of Mongolia. With a population of 637,000, the city accounts for 29% of the total population of Mongolia. Total spending of Ulaanbaatar city and districts accounted for 4.86% of GDP and 38.9% of all local government spending in 1995.

Reform of Decentralization and Local Administration

The current local administration system discourages local initiative in budget preparation and revenue generation, and emphasizes local dependence on the center. In the reform process which is about to be launched, the wildly disparate nature of local administrations within Mongolia cannot be ignored and should be taken account of. That is, it is necessary to refer to the condition of the rural aimags in the development of any policy, regulatory, task and revenue proposal. It is equally necessary to take account of the needs and conditions of urban administrations.

LOCAL GOVERNMENT ADMINISTRATION IN ULAANBAATAR

Municipal Budget Structure

General Budget Framework

The Budget Law of Mongolia defines the tax and non-tax revenues which form the basis of city/aimag and district/som budgets. However, the laws and decrees issued by different Ministries impose additional requirements and budget constraints on the local administrations. These texts do not simply define the tasks which local administrations are required to provide, but they may also occasionally indicate the percent of the local budgets which are to be spent on a specific sector, such as for the "Year of Education" in 1996 (minimum 40% of local budgets for education). Such decrees and spending requirements do not encourage rational budget planning and management.

Recommendation

★ The reform of decentralization policy and regulatory framework should include a clear definition of the tasks which local governments are to provide. With a clearer definition of local responsibilities (which should not be modifiable at the whim of the sector Ministries), any sectoral administrative spending requirement should be cancelled.

Budget Situation of Ulaanbaatar (City and Districts)

The results of the analysis of UB city and district budgets indicate that the overall financial situation of UB is deteriorating. In the results of 1995 and the budget of 1996, both current revenues declined and current expenditures increased (net of inflation). Net operating savings (current revenues - current expenditures) represented less than 4% of current revenues in 1994, and were negative in 1995 (-1.3%). This situation indicates that the city does not have much capacity to finance investments from its own income. The 1996 budget shows a net savings deficit of almost 20% of current revenues. The structure of current revenues (actual 1995) shows a preponderance of tax income (69%), with corporate income tax (CIT) collections accounting for 40% of current revenue. The investment effort of UB was a respectable 18-19% of total expenditures in 1994 and 1995, with 21% of expenditures planned for 1996. This data includes investments financed with revenues and funds from other sources (road fund, central budget, privatization fund...). There appears to be an overall current year budget deficit of 2.1 billion Tg. in 1995 and an expected 5.4 billion Tg. deficit forecast in 1996. These figures are current year only, and exclude any surpluses carried over from previous years, or other off-budget income which does not appear in the budget revenue tables.

Recommendation:

★ UB finance department should consider the preparation of a one-page budget summary (not an asset/liability balance sheet) of all revenue and expenditure sources, to provide a simple management tool which summarizes the situation of the local budget at a glance. Table 2a is one example of such a one-page summary (directly applicable to UB), with a more analytical, rather than just informational, approach.

Organization of Ulaanbaatar City Government

The capital city governing structure is headed by the Governor and the City Hural. The Governor, named to a four-year term by the Prime Minister functions as Mayor and Governor. Members of the City Hural are elected to 4-year terms. The Mayor's office, headed by the Vice Mayor, is responsible for administrative and general services. The Governor's office, headed by the General Manager, provides the direct services of the city. Within the city administration are subordinate offices, budgetary organizations and enterprises. A number of companies, whose functions are not directly related to core municipal services are still managed by the city, and have not been privatized. Many of the activities of such companies are not directly related to the provision of public services and are

often more efficiently managed by the private sector.

Recommendation:

★ To the extent possible within the privatization law and local economic conditions, those companies which do not directly provide core public or local government services should be privatized, through an open tendering and bidding procedure.

Budgeting Process

The fiscal year (FY) is January 1 - December 31 and budget preparation for the next fiscal year begins in July. Government fiscal, wage and price policies are indicated to all local administrations. The accounting classification has not been modified and is still based on the requirements of a centrally planned economy. Preparation of the investment budget is not integrated in the budget process per se. Only once the investment list has been prepared, is it submitted to the finance department to check for available funding. All investment expenditures do not appear in the budget itself. Any investment financed with outside or off-budget sources (central government, road fund, privatization fund...) is not included in the budget. The budget document as it is currently defined does not capture the full range of municipal activities.

Recommendation:

★ Total investment expenditures, regardless of which sources are used to finance specific expenditures or projects, should be included in the city budget documents. On the revenue side, accounting chapters or codes should be added, to account for outside sources of investment revenues, such as the Central Government, Road Fund, Privatization Fund, etc...In addition, any loans contracted, payment of existing loans, surplus carried over or other sources of income should appear in the local government budget documents.

Revenue Estimation and Collection

Over 80% of Ulaanbaatar's revenues are collected by the tax department, with the most important revenues from CIT, PIT, excise tax and sales tax. The city tax administration (CTA) prepares estimates of tax revenues for the next fiscal year by distributing a questionnaire to all registered business entities. The Property Department is responsible for the water fee and the natural resource fee. Dividends from end of year profits of the enterprises in which the city holds shares are determined by the Board of Directors of the companies. Actual revenue collections and accounts are followed and managed by the finance officer of each department which collects revenues. Overall, the Finance Department does not appear to have an active role in either revenue estimation or collection, and staff seem uncertain as to their proper role in this area.

Recommendations:

★ The Finance Department should use macroeconomic indicators to prepare revenue estimates. By

following evolution of GDP in the UB area, a reasonable estimate of revenues could be established (the taxes which form most of UB revenues respond directly to changes in economic activity).

★ The Finance Department could consider an active role in establishing relations with major taxpaying enterprises; this should not be understood as relations for tax collection or audit purposes. Rather, such contacts could give the city the opportunity to present local government policies and concerns to these enterprises, and obtain direct access to information on hiring/firing and investment plans of companies, which would also help in revenue estimation.

★ Staff of the Finance Department, and in particular, those responsible for budget preparation (expenditures and revenues), should be given training in using spreadsheet and database software for analytical, management and communication purposes. Many of the tables and information which are prepared seem to follow strict accounting requirements, but do not provide recent comparisons (ie., evolutions over past three year), analytical ratios, or illustrative graphs / charts.

Current Expenditures

Many elements which determine the level of current expenditures are set by the national government. Budgets are prepared by each city unit on a line-item basis (salaries/wages, social insurance, supplies, services, utilities...). Budget proposals are reviewed by the Finance Department and adjusted in line with estimated revenues. An annual budget for each service is prepared before the beginning of the fiscal year, with a monthly transfer schedule. The amount of funds scheduled for transfer is implemented each month, regardless of whether funds were completely used up from the previous month. Action is only taken if funds are used for a non-authorized purpose. The Finance Department receives a monthly fiscal report, as well as quarterly statements with full accounts.

Recommendation:

★ Although the budget of the city is prepared by each individual department, the overall focus of budget preparation is an accounting and line-item approach. The city and districts should consider the establishment of a Program Budget, a process which would permit the budget to function as a policy and management tool, as well as an accounting tool. The establishment of a program budget would also enable the development of appropriate socio-economic indicators to identify if city services are being provided and maintained at the level which has been defined for each department.

Relations Between Capital City and the Districts

Aimags, the capital city, sums and districts are "administrative and territorial, economic and social entities with specially imposed responsibilities and self-governance under the law". In practice, however, the districts have little maneuvering room, to set policy or determine investments. Districts are responsible for financing schools, but policies (classrooms per school, class scheduling) is set by the Education Department of the capital city (in cooperation with the Finance Department). Investment requests must be proposed to the ESPD. This "symbiotic" relationship is clear in the way

local officials discuss city finances. Any numbers usually refer to the consolidated amount. The city exercises "general supervision", monitoring of spending (schools, medical centers) is the responsibility of the districts themselves.

Recommendations:

★Budget tables and presentation (including a summary table) should include a clearer distinction of the city's own budget, over which it has direct control and the budgets of the individual districts.
★ In the studies which are examining the reform of decentralization framework and policy, the structure and respective roles of the capital city and districts should be re-examined. Ulaanbaatar is a unified entity and the role of the districts is not directly comparable to that of some within their aimags. There is considerable dispersal of budget preparation and financing responsibilities for two of the major services provided in Ulaanbaatar - education and health care. Although the capital city does include an Education Department and a Health Department responsible for policy issues and general supervision, the direct financial supervision role (on a day to day basis, not for occasional audits) escapes the capital city administration.

Tax Administration

The three main functions of the city tax office are to (1) provide information and tax assistance to the city taxpayers; (2) supervise and control the implementation of tax legislation; and, (3) collect taxes. In 1995, the seven main taxes collected by the CTA and DTA's amounted to 11.9 billion Tg., which accounted for 81% of the total revenues of the city and district budgets. At least 10% of tax revenue is collected through audits and inspections. The targets for audits are based on a pre-determined schedule of enterprises which are to be visited (chronic tax avoiders), as well as to check violations and errors in tax declarations. Current tax legislation limits considerably the tax collection capacity of the CTA and DTA's, in that there is no enforcement power. If a taxpayer consistently refuses to pay his/her tax obligation, the tax offices cannot place a lien on bank accounts, seize assets or close businesses independently. Rather, they must request a court order for such actions.

Recommendations:

★Establish and implement a protocol for exchange of taxpayer information between the tax offices (CTA and DTA's) and city / district administrations which also have contact with taxpayers.
★Establish a more effective audit and inspection policy by conducting well-publicized audit campaigns which target specific business sizes and/or specific sectors of economic activity. Such a policy could encourage tax compliance by all groups of taxpayers, rather than just concentrating only on the largest taxpayers.
★Establish an active policy of seeking out businesses and individuals who should be paying taxes and are not doing so, particularly for payers of personal income tax, as there has been very little control or supervision in this area.
★In order to improve the efficacy of tax collection, legislation which gives direct enforcement power to the tax offices should be drafted and enacted as soon as is feasible. Unless tax offices can take

direct action against delinquent tax payers (seizing bank accounts and assets, closing businesses), many taxpayers may not feel the pressure to become more responsible for their tax obligations.

Urban Planning in Ulaanbaatar

The urban plan in Ulaanbaatar is still based on the concept of a master plan. The last revision is still valid and establishes the strategy for the city until the year 2000. In 1995, a medium-term concept for urban planning and construction was elaborated with the Ministry of Infrastructure Development. The planning permission process begins with a builder / developer requesting permission to build a project on a specific plot of land. The developer would have to seek permissions to cover the different networks and safety issues (ie., water supply, heating supply, drainage, fire protection, environmental protection). The technical committee (ie., planning permission board) studies each request to decide whether the permission should be approved or rejected.

Recommendations:

- ★ Review of Ulaanbaatar land use policies and regulations by international experts (American, European, Asian) to expose city officials to urban planning and land use concepts which are more adapted to a market economy.
- ★ Consider the establishment of open public hearings for the review of proposed projects, with attention to the participation of enterprises and individuals located in the immediate vicinity of a proposed project.
- ★ Consider the establishment of a building permit fee, to be paid by developers / builders of projects on undeveloped plots of land.

Investment Planning

Socio-Economic Survey and Planning

Investment planning is prepared on an annual basis, with no multi-year capital improvements plan. The investment planning process begins with the “socio-economic” survey. For departments which are directly financed by the city, the information collected in the socio-economic survey should serve as a management tool, to identify the level and quality of service being provided by each of the city’s departments and units. As it is currently conceived, the exercise seems to revolve around providing data to the NDB, so that the latter may set “targets” or indicators for the city and aimags. One critical issue is the viability of the information which is being produced by the districts and departments and sent to ESPD. If the purpose of the socio-economic planning exercise is to satisfy the NDB and complete a series of tables with no relevance to the daily preoccupations of local administrations, the information produced is not likely to have any relation to reality.

Recommendation:

- ★ To collect relevant information for city planning, a mission statement and objectives of each office, department, or enterprise should be clearly defined. The specific services which are to be provided and programs to be implemented should be stated annually. Once specific levels of service for city operations have been defined, the ESPD could then define and analyze the indicators and

information which indicate whether program objectives have been achieved, to what extent, with what means.

Investment Plan

Individual investment project proposals are submitted by city departments and institutions. Once these individual investment projects have been reviewed, a draft proposal of approved investment projects is prepared. Criteria for selection are based on the city action plan and the results of the socio-economic survey. The question of funding for the proposed investments is raised only once the investment list is approved. Specific investment procedures are now being defined, for investment preparation and implementation.

Recommendations:

★ The cost and financial analysis of proposed investments should be studied at a much earlier stage of the investment planning process than is currently the case. This analysis should also include an estimate of operating and maintenance costs which will result from the implementation of proposed investments (or the decrease of such costs, as the case may be).

★ The city should consider the establishment of a multi-year capital improvements and maintenance plan. In the annual investment preparation process, many of the proposals which are rejected (particularly due to lack of funds) are very possibly re-proposed in the following year. As city staff have a good knowledge of which investments are needed, a multi-year capital improvements plan (including the scoring of different investments based on a series of specific criteria), would allow the city to improve the management and scheduling of its investment projects.

Investment Implementation and Monitoring

Until 1995-1996, the City Construction Department was responsible for investment implementation, and acted in the dual role of investor for the city and supervisor of works. From 1996, the Economic and Social Policy Department has been given a greater role in the implementation of investments. Selection of contractors is initiated upon approval of the investment list. ESPD will receive all bidding documents and also participates in the selection of contractors. Release of funds to contractors will only be authorized after a site inspection and the preparation of a statement.

Procurement and Tendering Process

City officials in Ulaanbaatar deemed that it was in the city's interest to introduce such a procurement process, to improve the quality of works and to ensure that the city is getting the best value for the funds it is investing. The competitive procurement system has been partially implemented in 1995 and 1996; from 1997, all investment contracts are to be subject to tendering. One of the difficulties faced in using a bidding process is the limited number of suppliers to which the city may have

access, partly due to cost and geographical factors. Another major issue for the city is the method for evaluating and scoring the bids which are proposed. A third problem is the regulation of conflicts of interest. Certain rules should be introduced to regulate the risk of biased awarding of contracts.

Recommendations:

★ At present, the city's procurement regulation does not contain any distinction in the types of procurement process, on the basis of estimated cost of different project components. The city could define minimum and maximum levels at which different types of procurement procedures are required. For example, below, say 1 million Tg. a procedure of "national shopping" would be used; from say 1-10 million Tg., negotiated bids, and say above 10 million Tg., require competitive bidding.

★ Avoiding impropriety and corruption is one of the reasons public procurement laws have been enacted in the U.S. and Western Europe. In the case of Ulaanbaatar, there are at least two situations in which a city official should be excluded from the procurement committee : (1) one of the bidders is an immediate family relation or (2) the city official has direct financial interests in one of the companies proposing a bid (eg., stocks, direct/indirect financial investment...). Financial interest disclosure in these cases should perhaps become a requirement for city official and employees. Any wider exclusions (ie., personal contacts, friends, but no financial interests involved) would be difficult in the Mongolian context, given the rather small size of the population.

★ In order to ensure the widest potential business audience to the city's announcements of bids published in the UB city newspaper, the city may want to consider announcements on the city radio station on the day of (or the day before) publication. If there are any professional journals of the construction industry, the city may also want to consider placing announcements of calls for bids in such journals, particularly for larger projects.

Land Management

Although the Land Law was passed in 1995, enabling legislation for collection of land fees has not yet been passed by the Ikh Hural. The Land Management Department is collecting land fees based on previous legislation. Land fees are collected only from businesses and organizations. Inhabitants, whether of ger areas or of apartments do not pay land fees. The valuation of land is based on a survey of Ulaanbaatar from 1991, which established different zones for geological features, infrastructure networks, socio-economic situation and environmental zones. The base "price" was established at 4.5 million Tg. per hectare, or 450 Tg./m². The land fee imposed is 10% of the administrative land value. The Department of Land Management currently has one computer for all the land files. The Department does not have the computer equipment to establish a mapping system of city land use.

Recommendations:

★ Enabling legislation for the Land Law and implementation of land fees will be reviewed by the Ikh Hural. These fees will be determined by the Ministry of the Environment. Although this Ministry

may be logical from the point of view of land use in most of Mongolia, such a Ministry is not a logical spot to determine land values in an urban area. It is highly recommended that a clear distinction in land fee implementation be made between urban, built-up areas, and other land features in Mongolia.

★ In addition to computers, more flexible and appropriate database software for the main land use/occupation database should be introduced. All the parameters which could be needed for the database should be defined and discussed, as well as the types of reports / information which should be produced from such a database.

★ The land surveyors clearly need more modern measurement and surveying tools, as the equipment available allows for only approximate measures.

Property Management

The activities of the Property Department include the management and rental of city owned buildings, and representing the city on the boards of enterprises in which the city holds shares. Revenues collected from rentals amount to 60-70 million Tg. per year. About 15-20% of this revenue is retained as revenue for the city. The remaining portion is used to pay the operating and maintenance costs of the buildings. The Property Department is also responsible for managing the fixed assets which are occupied by city budgetary units and organizations. Under the new property law currently discussed by the Ikh Hural, the Privatization Committee and the Property Department would be merged into one unit.

Recommendations:

★ Once the new Property Law has been passed, the city may want to review its overall property holdings. Based on the information provided by the Property Department, it would appear that the buildings for which the city is responsible engender more costs than they provide revenue, particularly at the current level of rent. If it is not considered feasible to raise rents, at least to the point where capital repairs as well as operating and maintenance needs could be fully financed by rental income, the city may want to consider selling off some of these buildings.

★ Once the Privatization Committee and the Property Department have merged, it could make sense to transfer responsibility for collection of water fees and resource fees (sand, quarry stone, brick) to the city or district tax offices, or to another city department which also collects income and fees.

RECOMMENDATIONS

National Policy Issues

Reform of taxes on business entities (CIT, sales, excise)

The tax distribution system among the central level, capital/aimags and districts/soms may create

conflicts between the central and local administrations. There is no fiscal logic as to why one company should pay taxes to the state, while another will pay its taxes to the aimag/capital. This organization can also create inefficiencies in tax administration. This system also has a negative impact on businesses, who need transparency and predictability from the tax system. The organization and distribution of taxpaying companies within Mongolia is very specific. Of total *corporate income taxes*, almost 80% is paid to the central budget, 13% to the capital/district budgets, 7% to the aimags/soms.

Any reform of this system should achieve at least four goals : increase the efficiency of the tax administration, ensure a stable revenue base for the central government, ensure a stable revenue base for local governments, and increase the transparency and predictability of the tax system for businesses. There is a need to move rapidly ahead with urban-based reform proposals. A change of the corporate income taxes should be concentrated on the urban areas, Ulaanbaatar, Orkhon and Darkhan-Uul (maybe Gobi-Sumber), where companies do contribute taxes to the central budget. Enterprise taxes could be paid to one entity (the central government); then there are at least two ways that the enterprise taxes could be redistributed. A first option could define a percentage share of the taxes on economic entities which could be allocated to the local administrations, which may not be uniform for each of the aimags and Ulaanbaatar. A second option is the establishment of local surcharges on the enterprise taxes in the three urban aimags. Any changes to the tax system and the distribution of taxes among the different levels of governments would have to be carefully analyzed and various options considered, before any final changes are made.

Decentralization of “Local” Taxes

One concern of city officials are means of generating additional revenues. One proposition is the “Urban Tax”. Tax laws should recognize a greater role for local administrations, and given them more responsibility for rate determination. For example, the Ikh Hural or the Government could set maximum rates for the taxes, such as the City Tax. Each capital and aimag Hural could set the local rate, within the maximum limit allowed. This modification would give more responsibility for local taxes to the local administrations, and give them a greater stake in the collection of these revenues.

Tax Administration Re-Organization

The organization of tax collection offices is currently based on the way taxes are distributed among Within one geographic area, there are three different tax offices involved, with three parallel and similar tax administrations. However, if three companies are paying CIT and sales tax, the process of collection and administration are the same. Tax payment should be based on the geographical location of the enterprises or individual, not on to whom payment is being remitted.

Definition of the City Tax

The city tax has been defined as a state tax, that is, one whose rates and bases are introduced and

collected in the same way in the territory of Mongolia and the tax rate is set by the State Ikh Hural. There is a wide disparity of economic bases and revenue potential between the capital and the three city aimags and the remaining local governments; it is impossible to define at a national level a common and effective tax base for a city tax. Consideration should be given to re-defining the city tax as a local tax. In the determining the type of city tax which could be implemented, the city and the MOF should determine what is the purpose of such a tax. Is the city tax principally to raise revenue? To encourage or discourage a certain kind of behavior? Given that local inhabitants are not contributing greatly to the financing of public administrations, a city tax should perhaps target local inhabitants, initially, with a token payment amount, given the low incomes of Mongolian households. One option could be a renter's tax, and could be based, or on the surface area of housing, or on the number of people occupying the apartment or plot, or on the basis of income.

Reform of Taxes on Livestock and Animal Husbandry Activities

A reform of the taxable base and rates on all issues pertaining to livestock and derivative activities of animal husbandry is of great concern to the Ministry of Finance. Any reform on the taxation of this sector should take account of potential revenue sources from livestock fee, grazing or land fees, and by-products of animal husbandry. More discretion could be given to individual aimags in determining which elements of livestock activities would be most applicable for the local situation.

Normative Subsidy for Local Administrations

Even with a reform of the enterprise taxes and the livestock tax, many aimags and soms would still not be able to balance their budgets. The current system of distributing subsidies to these aimags is inherently unfair. It is recommended that a system of normative subsidies, based on defined criteria and principles be implemented. One objective could be to ensure an equalization of fiscal capacity. Another objective could be to ensure the financing of a basic level of local services. Whichever principle of normative subsidy a government chooses to implement, an important element of design is simplicity. The bases for transfers and their calculation should rely on information and data which is relatively easy to collect, reliable and simple to verify.

More Specific Recommendations for Ulaanbaatar City Government

Real Estate Observatory

It is not currently possible for individuals or enterprises to own land in Mongolia. This provision limits any development of a real estate market. Land fees are collected based on an administrative estimate of land value; as a result, the revenue-generating capacity of the land fees is limited. In order to identify some from of market value, it is recommended that the city of Ulaanbaatar establish a real estate observatory, to determine the levels of rent/m² which are being paid by sub-lessees of privately managed buildings and office space. The information which could be gathered and

analyzed by such an observatory could then provide an objective and informed basis for a revision by the Hural of the determination of land values.

The Role of Socio-Economic Planning

One of the issues which is of great concern to the City Government is the appropriate role of socio-economic planning in a market economy. The NDB requires that municipalities collect a wealth of information which is not directly relevant to the specific activities of the local administrations. An essential role in a market economy is to gather data on trends in economic growth, employment, investment, trade, etc. However, the role which has been assigned to local administrations at this level is not necessarily appropriate. For the city, there is a need to clearly define the mission statement and objective of each department, office, enterprise.

Once specific levels of service which are to be achieved in city operations have been defined, the ESPD should then define the indicators and information which will allow the analysis of whether program objectives have been achieved, and with what means.

Financing Municipal Investments

One of the measures included in Ulaanbaatar's 1996 City Plan of Action is the creation of a City Development Fund. One means of resolving the lack of available financing for investment and which is generally within the means of a city decision is to include an investment or cost recovery surcharge in the public utility fees and charges which are paid by users of these utilities / services. For each of the utilities and services, these individual investment fund amounts could be used to finance investments directly, or used as repayment of medium- to long-term investment loans .

Public Participation and Transparency

The principle of public participation in local affairs and the need for budget transparency is not well practiced in Mongolia. It is important that there be an exchange of information and specific forums for citizens to express their concerns and opinions on the city policies. In addition to openness of debate, the availability and distribution of local budget is important to inform citizens of the services being financed and the means used to finance them. Local finance is public finance, and the local administration budget should be available for examination by and information to local inhabitants. Finally, it is also important that the public be associated or allowed to express their concerns on planned urban development and projects.

MEMORANDUM

To: Chuck Howell, Resident Representative, USAID Ulaanbaatar
cc: Peter Gajewski, Director, RTSP

From: Bill Bikales (original signed)
Project Advisor, EPSP

Date: May 17, 1996

Re: Activity Report #4, for Two-month Period Ending May 31, 1996
Delivery Order 7 Under Contract 410-0004-C-00-3483

In this period our activities were concentrated on the following tasks;

1. Regarding the use of Short-term Technical Assistance

a. **LOCAL GOVERNMENT:**

Our consultant, Ms. Juliana Pigeu, stayed here until April 7, a five-day extension at the request of the government, and approved by USAID. During that period she held additional meetings with the Ulaanbaatar government's Budget, Property and other departments, and gathered further information for her report. Her draft final report was received by fax on April 18, translated and circulated within the government for comments. These comments, along with those of our team's, were relayed to Ms. Pigeu, and her final report was received on May 14. The report is 73 pages in length, including annexes. A copy is attached. The final report is now being translated into Mongolian, and follow-up discussions will be held with officials in the Ministry of Finance, Ulaanbaatar Municipal Government, and other relevant agencies.

b. **CENTRAL BUDGET PROCESSES:**

Dr. Mark Gallagher, who has worked on USAID and other Fiscal Policy projects in Nicaragua, El Salvador and many other nations, was identified and recruited to provide one month's assistance to the Ministry of Finance. Several discussions were held with the Minister and Deputy Minister concerning his scope of work. The final agreed upon terms of reference are attached.

After reviewing Dr. Gallagher's c.v. the Ministry of Finance requested that Gallagher be assigned to work with the Ministry for a full year. Their letter is attached. This request sparked further meetings concerning expanded cooperation, and it was agreed that one part of Dr.

Gallagher's work would be recommendations concerning further assistance by our project to the Ministry. Dr. Gallagher arrived smoothly on May 4. In his first two weeks he has met with the Minister and Deputy Minister, the heads of each department, most of the staff of the Budget and Treasury Departments, as well as the Head of the Monetary Policy Department of the Bank of Mongolia, the Heads of the Macroeconomic Policy and Technology and Investment Departments of the National Development Board, the Deputy Director of the State Tax Administration, the Deputy Director of the General Customs Administration, the Head of the Macroeconomic Statistics Department of the State Statistical Office, and staff of the Standing Committee on Fiscal and Monetary Policy of the Parliament. Meetings were also held with the IMF Resident Representative and the Chief Technical Advisor of the UNDP Management Development Program. A plan of action for his work was set in discussions with the Ministry, including two training seminars for Ministry economists, recommendations on issues concerning ministry organization and coordination with other government agencies and the creation of a fiscal analysis and planning unit in the Ministry.

Further to discussions with the Ministry, we have begun recruitment of two additional consultants to work with the Ministry in the coming two months on initial preparation of the 1997 budget and on the creation of a fiscal analysis unit.

We have established and will maintain regular discussions with the IMF on our assistance to this Ministry, since it is a primary counterpart of the IMF. They expressed full support for Mr. Gallagher's SOW and for the other work we have done there to date.

c. **CASH PRIVATIZATION:**

We met with Mr. Bailykhoo, Secretary of the State Privatization Commission, concerning follow-up to the work of our consultant Lewis Brandt. He requested that we help explain our recommendations regarding the sale of blocks of shares outside the Stock Exchange with several people in the government. Memos were written to Mr. D. Sugar, Deputy Minister of Justice, Mr. D. Buyantogtokh, Advisor to the Minister of Finance, and Mr. G. Tsedendaggva, Member of Parliament, concerning these issues, and I met with each of them. For Mr. Sugar's meeting I invited Manuel Gephardt, GTZ legal advisor to the Ministry of Justice, to participate, and he was quite helpful.

2. Assistance in foreign aid management and debt management

Our project continued its assistance to the Bank of Mongolia regarding negotiations with the IMF, World Bank and Asian Development Bank, particularly concerning problems created by conflicts between the WB and ADB in their planned joint program of technical assistance for Financial Sector Restructuring. Two meetings were held with Governor Molomjamts concerning these issues, and a memo was sent to him on this subject.

Concerning the Russian debt issue, we were advised by the IMF that Nicaragua has just reached a debt agreement with Russia which may set a favorable precedent for Mongolia, and have been seeking further details. We have also been continuing our discussion about this issue with the World Bank. We had a discussion on this issue (along with others) with Prime Minister Jasrai.

3. Regarding Improved Current Budget Performance

We submitted a memo to the Prime Minister on reduced work week for government employees as a means of avoiding a pay raise. We began work with the Treasury Dept. Of the Ministry of Finance on budget forecasting, and submitted detailed recommendations to the Ministry on how to structure this work.

4. Regarding Improved Energy Sector Management

We began discussions with the Prime Minister's Office and with the State Privatization Commission concerning assistance with the creation of a price regulatory board, to remove energy price setting from the political sphere. The government has expressed serious interest in pursuing this idea with our project, and we have begun to make plans for the use of STTA in this crucial policy area.

5. Regarding Exchange Rate Regimes and Foreign Exchange Management

We held in depth discussions with the Bank of Mongolia concerning modifications in the current floating exchange rate regime. New written materials were submitted to the Governor's office on the experience of other countries in this regard, on possible approaches to working with the IMF in this area, and on other recommendations concerning options for Mongolia. Discussions with the Ministry of Trade and Industry on the competitiveness issues in exchange rate management have also continued. The plan is to get back to this issue immediately after the election, when the possibility of abuse of such a policy for political purposes will be eliminated, and after some short-term pressure on the nation's foreign reserves have eased.

6. Regarding Private Sector Development

We were requested by USAID to do background research on a proposal from the Mongolian Business Development Agency that USAID provide support for the creation of a one-stop business registration center in that Agency. That report is being prepared by our two Mongolian economists, and will be completed next week.

We are now completing a detailed study on donor-financed industrial projects in Mongolia, focusing on the Darkhan Metallurgical Plant (Japanese financed), the Hovd Cement Factory (Indian), the Bagakhangai Horsemeat Factory (Finland) and the Disposable Syringe Factory (Republic of Korea) in Ulaanbaatar. This will be submitted to the Prime Minister before the end of May. Some of this information has also been shared with the World Bank team of experts investigating government support for public enterprises.

7. Others

We were approached by Mr. Ts. Yondon, Deputy Minister of Trade and Industry, concerning joint research on government support for industry. He has advised us that Mr. Kh. Ganbaatar, head of the Department of Investment, is writing a formal written request to the government that we provide assistance in this interesting area. We were requested by Ms. Oyungerel, President of the Petroleum Import Company, to provide information on management contracts. Materials were assembled and sent to her.

8. Organizational Matters; staff and procurement

Ms. Ts. Altantuya, project translator, left the project effective May 1. The job opening has been posted in the USAID and UNDP offices, and interviews of potential replacements have begun. One strong candidate has been identified.

Spare parts for the project vehicle were shipped from the U.S., and the nonhazardous parts have arrived in Ulaanbaatar. An overhead projector and screen were procured in Bangkok by the RTSP and shipped here.

Work Agenda for Dr. Mark Gallagher, Short-term Consultant to the Ministry of Finance
Arriving May 4, starting work on May 6
Departing June 4

1. Analyze the current organization of the Ministry of Finance;
 - a. What are the roles of each department? In what areas do they overlap? Where they overlap, recommend ways to either shift full responsibility to one department or to define the roles more clearly, so that it is understood precisely what each department should be doing.
 - b. What work is not being addressed? Can it be assigned to one of the departments under the current organizational structure, or is there a need for the creation of new departments?
 - c. How should fiscal analysis and research be organized and conducted within the Ministry?
 - d. What are the staffing needs in order for the Ministry to be able to function effectively?
2. Approach these issues through a study of three particular subjects:
 - a. There are a number of budgetary funds which are largely independent of the Ministry of Finance's oversight; the Road Fund, the Privatization Fund, the Environment Fund, and some established through foreign aid. How can these be managed more effectively?
 - b. For the last two years sales tax revenues are consistently falling short of expectations. Why is this happening, and how can the tax be improved to expand coverage?
 - c. Expenditure forecasting and management under relatively high inflation is difficult. To take one important example, how can we factor inflation into our plans for education expenditures for the remainder of 1996 and in planning the 1997 budget?
3. Prepare recommendations for further assistance in the coming year to the Ministry of Finance from the Economic Policy Support Project. What are the most urgent needs, and how can they best be addressed by the resident staff, by future short term technical assistance, by overseas training or by other means?

The Ministry of Finance Letter

March 23, 1996

To Mr. Bikals, Project Advisor

Taking into account Doctor Gallagher's CV we think that he can be invited as MoF advisor for one year.

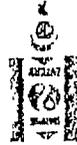
We would like to request to include consultancy complimentary supply and MoF counterpart economist interpreter's cost in overall budget. The following scope of work is recommended for this consultancy.

1. Design and implementation of the most costless organizational structure of fiscal and budgetary function, treasury control in the MoF and local finance agencies.
2. Preparation of suitable for the Mongolian current situation budget revenue and expenditure planning procedures and methodology for medium to long term forecasting.
3. Propose and initiate proposal to convert budget entities and organizations' accounting methods into international standards, and improving fiscal revenue and expenditure statistics based on multi-year background information.
4. Besides conduct necessary advice and recommendations on urgent issues of fiscal, budget, monetary and securities policy as they arise.

Sincerely

Chouancellor

B. Avirmed



OPERATIONS RESEARCH CENTER
ECONOMIC POLICY SUPPORT PROJECT

Economic Policy Support Project
Government House
Ulaanbaatar, Mongolia
Telephone (976-1) 329163, 328147
FAX : (976-1) 329163

MEMORANDUM

To: Chuck Howell, USAID Representative, Mongolia
From: Bill Bikales, EPSP 
Re: R4 Comments
Date: April 8, 1996

I would like to comment in detail on the questions raised by Gregg Baker about the Economic Growth section in our R4. He asks the right questions, and in doing so gives us an excellent opportunity to drive home to everyone in Washington the significance of the work that USAID is doing in Mongolia today.

There are two different types of questions here. First, aren't the IR1 macroeconomic indicators and targets much too big for USAID to claim a significant role in achieving them? Second, aren't the IR2 indicators and targets process-oriented and not results-oriented, in a way that we are supposed to be avoiding now?

Let me address the second question first. My answer is yes. If all we achieve is establishing a library, a data base, and improved coordination in policy-making, then we have failed. At the same time, these activities are necessary and helpful and will require a good amount of effort on our part. In this way they are similar to overseas training, where the same problems arise, as Baker points out -- unless the new skills are properly utilized there are no concrete results to point to. Since a lot of time and money will be spent on these activities it seemed appropriate to include them, and to make sure that we make progress toward achieving them. But I want to reemphasize that the key to the economic growth S.O. is IR package #1, and the IR2 results are part of how we will achieve them.

I hope very much that people raise questions about IR package #1. These questions will give you an opportunity to make clear to everyone in Washington what an unusual project we have, and what a large impact USAID is having through our work here.

It seems that everyone realizes that we have an advisor in the Office of the Prime Minister. In most countries that would be a sufficient description of the nature of our work, because there would be

other advisory projects in the key macroeconomic agencies. The advisor to the PM would have an important role, but could hardly claim credit for a tangible contribution toward increasing the current budget surplus, lowering inflation, etc. However through our location in the Office of the PM our project has now become directly involved with the work of all the key policy agencies, and in many of them we play a major advisory role.

First, everyone must understand that Mongolia is receiving far less assistance in the area of economic policy-making than any other transition country I know of. In Kazakhstan and Kyrgyzstan, for example, they are receiving far more help. Every key agency there has teams of long-term advisors from the IMF, World Bank, USAID, etc. But look at Mongolia's situation;

- 1) The Ministry of Finance has never had a long-term advisor from any organization. The IMF sent two people for six months at a time; they were not career IMF staff, had very limited mandates, and produced almost no results. The Ministry of Finance is not even receiving much short-term technical assistance. Our project is by far the most important technical assistance they are receiving now.
- 2) The State Privatization Commission has no long term advisor. There have been a few short term people here over the years, plus our old friend Mary Smith, who, alas, accomplished very little.
- 3) The State Statistical Office has never had a long-term advisor.
- 4) The Bank of Mongolia has received a good deal of technical assistance. In their case we have a different role; we are the government's independent advisor, completely on their side, and able to assist in dealings with the IMF and so on. We are regularly called on to do this work, and it is vital work. Once you have sat in on an IMF negotiating session here you cannot forget the scene; on one side of a long table sit five IMF Economics Phd's, with many years' experience in many countries. On the other sit Minister Byambajav, Governor Molomjants and their translators and assistants, with a couple of recent M.A.'s between them.
- 5) The Ministry of Trade and Industry has never had a long-term advisor.

The current IMF Res Rep is, as you know, a disaster and embarrassment for the IMF, and has played no role in policy issues. He will be replaced this Fall, but that will bring another unknown quantity with little knowledge of Mongolia and no connections in the government. Neither the World Bank nor the ADB has a res rep here. There is Paul Oquist and the UNDP Management Development Program, who are doing some good work. However in terms of macroeconomic policy issues Oquist often does more harm than good -- he has no interest in those issues, and sees his and UNDP's role as one of balancing the IMF/WB structural adjustment approach. Hence their role in implementing a budget-busting civil service reform, and the danger that they will do similar things now with their decentralization program.

So there is a vacuum here. In part because of this vacuum, and in part because I am well known, and, I believe, well trusted among a number of key government agencies, our project is playing a

tremendously important role here, and this role is only going to increase over the coming years. Of course one USAID advisor cannot be a substitute for individual advisors in each of the agencies. But our project, through the contacts we are developing and building, through the strong team we have assembled and our long experience in Mongolia and deep knowledge of the economic situation, offers to those agencies many of the advantages of having a long-term advisor.

Here are some specific notes on the indicators we have chosen and the work we are doing

1. **Current budget surplus.** In fiscal policy our project is by far the most significant donor activity in Mongolia. I am now spending at least one day a week training Ministry of Finance (MoF) staff in budget forecasting. The goal is to have a simple working model of the Mongolian budget fully operational in time to analyze first half 1996 budget performance and recommend adjustments in the second half, and to be utilized in drafting the 1997 budget. I have frequent meetings with MoF leaders and officers on other issues. We submitted proposals concerning the 1996 budget, a number of which (increasing privatization proceeds and adjustments in tariffs, most notably) were accepted. We recently had a short-term local government finance expert, working with the Ulaanbaatar government and with the MoF on the crucial problem of central/local fiscal relations.

As you know, the MoF has now requested us to bring in an advisor to work with them for one full year on a number of central issues in their work: organization of their Ministry, forecasting, accounting and statistical work and other urgent issues as they arise. Of course we could not do this. But in the discussions that ensued after we received their proposal we agreed to view this request as an outline of ways in which our project will assist them. One of the assignments for our next short-term consultant, who will work with the MoF from May 6-June 5, is to draw up a plan for a full year's cooperation between our project and their staff. As part of this cooperation we plan to bring further assistance to them as well.

We conducted a one-week workshop on macroeconomic analysis, using first Russian and then the most recent Mongolian numbers, in December, 1995. This was attended by, among others, the Chief of the MoF's Budget Department and his senior economist, as well as the Deputy Director of the Customs Administration and senior economists from the State Tax Administration. Although the seminar covered a number of topics, the most important material was on the links between the budget and its various revenue and expenditure components and the rest of the economy. The Director of the MoF's Budget Department said at the conclusion of the workshop that his "eyes had been opened." The Director of the State Tax Administration went out of his way after the seminar to thank me for making clear to this high level group the need to increase tax revenues. We have now been requested to conduct a second such workshop in September, after the new government takes office, in order to assist with the formulation of the 1997 budget and other economic plans.

I cite all this because I hope it will be clear that we are going to have a direct and very significant impact on Mongolian budget performance, and a resulting impact on inflation.

2. **Inflation.** In the area of stabilization and lowering the inflation rate, our help on budget issues is of direct relevance. In addition, I am regularly consulted by the Bank of Mongolia on issues in monetary policy and on tough questions arising in the course of implementing financial sector restructuring. As I have advised you, we are now in the process of preparing with the government

a new exchange rate policy proposal, which we hope will strengthen confidence in the togrog, encourage savings and therefore reduce the inflation rate. We are working on this with the Bank of Mongolia. The macroeconomic workshop which we will hold in September will also help ensure that the overall 1997 economic program of the government is consistent with a substantial fall in the inflation rate.

3. In the critical area of privatization policy, which has an impact on the budget, growth and even on inflation, I would be delighted if you could tell your people about your conversation with Deputy Prime Minister Enebish, Chairman of the State Privatization Commission, in which he referred to me as his "right hand". And please make clear that although Mr. Enebish is the #2 Deputy PM, there was absolutely no structural link between his office and our project. This is another example of how we have been approached for assistance by a government agency and have tried to help them. They had serious problems designing and implementing the new cash privatization program, approached us for help, we turned the request around in a short time and gave them some productive and focused assistance. I honestly don't think Mr. Enebish had realized that foreign assistance could play such a helpful role.

It is great that Mr. Enebish is now comfortable with us, because I know that he was unhappy about a report we gave the Prime Minister earlier this year, in which we criticized some parts of the draft 1996 privatization program. I am pleased to note that many of the suggestions we made in that memo were adopted; most importantly, 24 large enterprises which had been slotted for only partial privatization are now planned to be 100% privatized, and many others have seen the percentage of state shares to be sold greatly increased. This was one of the key points of our report.

4. We have now been approached by the Ministry of Trade and Industry to assist with another key policy area; they have asked us to work with them on government policy to support industry. This has direct links to monetary policy and inflation, the budget, as well as private sector development. Our approach to this question starts from the idea that the key to supporting industry is establishing a healthy environment for the growth of private businesses. As part of this work we have started gathering information on the economic results obtained from large externally financed industrial projects, which are always closely connected to the state.

5. With regard to subsidies to the energy and agriculture sectors, our main approach is to work with the core Economic policy-making agencies; Finance, Bank of Mongolia, NDB, Ministry of Trade and Industry, in clarifying the cost of continuing subsidies and developing alternative approaches. This is now becoming an important question, as the Spring sowing season will start shortly, and farms are clamoring for support from the government.

6. As we have discussed, I am uncomfortable with the addition of GDP growth as an indicator, because in this area I do not see how we can identify our influence. But the same criteria by which we accept criticism of this indicator and target allow us to make a very strong case for the other ones.

I hope this is useful to you. Please let me know if you have other questions, and good luck in your meetings!



OPERATIONS RESEARCH CENTER
ECONOMIC POLICY SUPPORT PROJECT

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MEMORANDUM

To: Chuck Howell, USAID Representative, Mongolia
From: Bill Bikales, EPSP *Bill Bikales*
Re: On the Nccd for a Continued USAID Presence in Mongolia
Date: April 8, 1996

On the overall question of USAID's continued role in Mongolia, here are several points. All of them are strengthened, I believe, by the small size of the program here. A great deal can be achieved here for a far lower price than is necessary elsewhere. And a great deal will be lost for the sake of a very small savings gain if the program is ended too soon.

1. Mongolia is feeling more and more threatened by the instability in Russia, and by China's more aggressive external stance. The upcoming Russian elections are being followed very closely. The real and the symbolic significance of an end to USAID's program here at a time like this will be substantial and negative. It could quite possibly have an impact on the elections, since the U.S. is so closely linked with democracy and reform here. In addition to being good for Mongolia, it is very much in U.S. interest to maintain its influence here under these circumstances.

2. There is an additional danger posed by growing Japanese and (to a lesser but far from insignificant extent) South Korean influence. Neither of these countries is promoting a private-sector based approach to the economy here -- in fact, they are doing the opposite. For example, the Japanese are now circulating a paper calling for "Industrial Policy" here, which includes subsidized credits to large state-owned enterprises, tax breaks for those same enterprises, protection for the Darkhan steel mill which was built by Japanese companies and is an economic disaster (protection will only compound the disaster), and so on. The Koreans are even more aggressive in promoting a state-centered development model, with a weak financial sector and large investment in heavy industry. Whatever one thinks about these ideas, they are extremely inappropriate and dangerous in a transition country, where they appeal greatly for all the wrong

reasons to the former central planners.

USAID can continue to play a key role in educating Mongolian policy-makers and the Mongolian public about market economy and democracy. No one else can play as constructive a role.

3. Mongolia's transition to democracy and a market economy are often discussed by observers. But there is a third type of transition occurring here, which is often missed -- the transition to true independence. American support has played a central role in promoting Mongolia's confidence in its ability to attain and sustain its independence. No other country's friendship can carry the same significance with a nation which is bordered by two large powers who have a history of imposing their will on the Mongolian people. Other new friends, in East Asia and elsewhere, while affording a small amount of balance to Mongolia's international position, are also often motivated by their own narrow self-interest. A premature ending of official American aid to Mongolia could deeply shake that confidence and create the perception among the Mongolian people and their leaders that their nation will always have to embrace the lesser of two evils in their foreign policy, instead of being able to freely pursue its own aspirations.

4. Mongolia has the potential to be a success story. It is much too early to make that claim now, but why should USAID be in a rush to close down a mission where at a very low cost they are playing a prominent role in what could become one of the most successful transition experiences?

This is particularly true because USAID has played such an important and positive role in developments to date, and has a clear opportunity to continue to play that role. I hope my other memo makes the case for continuing the work our project is doing; no one is ready to step in and replace us, and as a new government comes to power this Fall we should have a major influence on policy-making right from the start. Furthermore, as Gregg Baker pointed out in his message to you, we need to be here when the people we are sending to the USA to study economics return to their government agencies, to make sure that they are utilizing their skills. As you know, this is an issue that I feel very strongly about, and it is one where we can have a major impact.

The relatively small cost required to maintain a presence here and follow through on what we have started can lead to a very significant pay-off for Mongolia and for USAID.

I would like to mention again that the elections this June give USAID a great opportunity, through our project in particular, to play a large role at a small cost in the shaping of policy for the coming few years. At the same time, a decision to withdraw at this time will send a very unhealthy message both to the electorate and to the new government as it comes into office.

Annex 4
D.O. #8 ACTIVITY REPORT

NATIONAL HIGHER EDUCATION TASK FORCE SECRETARIAT
April - May 1996 Activity Report

PART ONE: IMPLEMENTATION OF PLANNED ACTIVITIES

On July 31, 1995 the Higher Education Adviser submitted to USAID/Cambodia a Work Plan for the National Higher Education Action Plan Project (NHEAPP). The Plan covered the period July 1, 1995 through December 31, 1996. Because of several operational constraints, SAID/Cambodia as per agreement with the Australian Agency for International Development (AusAID) and the World Bank approved the extension of the NHEAPP for a period of six (6) months, i.e., June 30, 1997. The Plan is divided into six (6) Phases. This Progress Report describes the continuation of the work in Phase III of the Plan, covering the period April 1 - May 15, 1996. The Report involves two parts: Part One: Implementation of Planned Activities; Part Two: Project implementation and Support.

Phase III: APPLIED RESEARCH OF THE NATIONAL ACTION GROUPS
(to be continued until June 15, 1996)

Much of the staff work, applied research, short-term technical assistance and study tours will occur during Phase III. During this phase, the donors will coordinate activities, such as study tours, short-term technical assistance, and other support for the National Working Groups. Each Working Group, with guidance and advice from the USAID Adviser and the support of the Secretariat staff, will implement specific studies and engage in discussions with NGOs, government agencies and the private sector, and draw on project resources to formulate a series of recommendations, options and proposals that will become the basis for the draft National Action Plan developed in the next phases.

National Higher Education Action Plan Work Plan Report of Higher Education Adviser -
Phnom Penh, July 31, 1995. p.10

I. Activities

I.1 National Higher Education Task Force (NHETF)

The third meeting of the NHETF scheduled for May 13, 1996 was postponed at the request of the Chairperson, H.E. Keat Chhon due to the tense political situation currently obtaining in Cambodia. The two major political parties have had serious problems over the issue of co-sharing Government responsibilities, specifically the apportionment of the positions of Minister in the various line Ministries. Presently, semi-official rumors have it that a number of Ministers will be either shifted or replaced. Given this relatively ambiguous situation, the incumbent Ministers are quite reluctant to engage in official activities until their status has been clarified. The NHETF meeting will be scheduled as soon as the political situation has stabilized. In the meantime, several technical assistance reports have been circularized to the Task Force members for their review and study.

I.2 National Working Groups (NWGs)

The members of the NWGs submitted their Final Member Reports as scheduled on April 15, 1996. These thirty (30) Reports are presently being synthesized into six (6) Final Group Reports by the Group Leaders of the six NWGs, to be submitted to the Secretariat on May 15, 1996. With the completion of their Reports, the members of the NWGs in effect have completed their six-month applied research period -- i.e., Oct. 15 '95 - April 15 '96. A Final Synthesis Report will be produced by the NWG Group Leaders for June 15, 1996. This Report is expected to provide a summary of the work of the NWGs and to serve as a critical input to the preparation of the National Action Plan.

I.3 Technical Committee (TC)

The work of the NWGs having been completed, a Technical Committee will now assume responsibility for the preparation of the NAP for the NHETF. A seven (7)-member Khmer group has been selected from among the NWGs to comprise the TC. The mandate of the TC will extend from June 1 '96 through May 31 '97. The TC will be assisted by several foreign consultants, as also by the Executive Director, the Higher Education Adviser, and the Secretariat. The first activity of the TC will be the preparation of NAP-Draft # 1 by July 15 '96 for study by the NHETF in August '96.

I.4 Short-Term Technical Assistance

Short-term technical assistance (three-week duration) was provided by Dr. David Sloper (Australia) and Dr. Serge Cuenin (France) during this report period. These two consultants assisted the members and Group Leaders of the NWGs in the preparation of the final reports.

They also participated in the development of the organization and functions of the Technical Committee. Dr. James Macpherson (Papua New Guinea) carried out a three-week consultancy to develop a feasibility study for the possible establishment of a national coordination body for higher education. From May 19 - June 8, Dr. Anthony Kaye (United Kingdom) is scheduled to prepare a feasibility study for the development of an Open University scheme for Cambodia. In the latter half of June, Dr. David Sloper (Australia) is scheduled to carry out a feasibility study on a distance education scheme.

I.5 Solicitation of Supplementary Project Funding

At the request of the World Bank and AusAID, the Higher Education Adviser undertook to prepare proposals for supplementary project funding. A proposal in the amount of US\$110,000 was prepared and submitted to the World Bank on May 10 to support additional short-term technical assistance. Supplementary funding in the amount of US\$100,000 was requested from AusAID on May 13 to provide for additional short-term training, as also formal degree studies.

I.6 Complementary Project Funding

In the context of the progress of the NWG activity, the Higher Education Adviser undertook discussions with FAO for the funding of a master plan for the sub-sector of Agriculture Education. Negotiations with WHO have also been initiated for support of a HRD plan for Health Education. Funding for the development of a personnel data bank for higher education is currently under discussion with the European Union; the project is intended to provide for sound planning of institutional staff development, and to strengthen institutional personnel management in higher education.

I.7 Ancillary Advisory Services

I.7.1 USAID/Cambodia -- consultancy services were provided to the Faculty of Business in the context of the Georgetown U. and U. of San Francisco USAID-funded projects.

I.7.2 Ministry of Education, Youth and Sport (MOEYS) -- the Adviser served as a member of the special MOEYS Task Force responsible for the preparation of the MOEYS Position Paper for the Consultative Group Meeting for Cambodia scheduled for July 12-13 1996 in Tokyo, Japan. Assistance was also provided for the development of a workshop on the Management of Records for institutions of higher education to be offered by the Asian Institute of Technology Continuing Education Center in July 1996 in Phnom Penh.

I.7.3 Cambodia Development Council -- Strategic Planning Unit -- advisory service was provided to the CDC/SPU in the development of a USAID- funded pilot design study to undertake the mobilization of Cambodian know-how.

I.7.4 AusAID Institutional Development Project at the Univ. of Phnom Penh --AusAID, Cambodia requested the consultancy services of the Adviser in the preparation of a five-year institutional development project at the Univ. of Phnom Penh. The project is being established in the context of the proposed National Action Plan.

I.7.5 EDUCAM -- This association of NGOs engaged in Education meets monthly to discuss current issues in the sector. At the May monthly meeting I was requested to present a progress report on the work of the NHETF and the NWGs.

PART TWO: PROJECT IMPLEMENTATION AND SUPPORT

Mr Kee Peung and Mr Romeo Arquisola continue to provide the logistical, management, financial, administrative and computer support for Dr. Paul Hebert's housing needs and the National Higher Education Task Force (NHETF) Secretariat. Towards the end of February 1996, the NHETF Secretariat is fully staffed and much of the general administrative functions are carried out by the local hired staff. With the assistance of Mr Arquisola and the NHETF Secretariat staff for much of the support functions for Dr. Paul Hebert and the NHETF Secretariat, Mr Peung continues devoting 30% of his time to assist in the specialized support functions, often of a technical nature, such as, computer, email, and the accounting function of the Development Associates Account.



រាជរដ្ឋាភិបាល
ROYAL GOVERNMENT
ក្រុមប្រឹក្សាភិបាលការងារជាតិសម្រាប់កម្ពុជាកម្ពុជា
NATIONAL HIGHER EDUCATION TASK FORCE

ព្រះរាជាណាចក្រកម្ពុជា
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INFORMATION BULLETIN # 2

Introduction

We are pleased to come to you with this second information bulletin to bring the many concerned and interested parties up to date on the progress of the on-going activities of the National Higher Education Action Plan Project (NHEAPP). The reaction to the publication of the first bulletin last October was most positive and proved a source of encouragement to all those actively involved in the National Action Plan.

National Higher Education Task Force (NHETF) -- the second meeting of the NHETF was held on February 6, 1996 at the Government Palace/CDC. H.E. KEAT CHHON opened the meeting by thanking his colleague members for their continued interest in the Project and for the support that they have provided to the various activities in progress. An adjustment in composition of the NHETF was introduced with the addition of H.E. NUTH NARANG, Minister of Culture and Fine Arts as a member. The participation of this Ministry was deemed appropriate since it is responsible for the Royal University of Fine Arts. The addition brings the membership of the NHETF to eleven -- seven (7) Ministers; one (1) representative of higher education institutions; three (3) representatives from private industry.

The key feature of this second NHETF meeting was the presentation of the brief progress reports by respective National Working Group (NWG) Leaders of the applied research activity of their Group members. The NWGs having reached approximately the half-way mark in their scheduled six-month applied research work, it was important for the NHETF to learn the progress made thus far. The Group Leaders shared some of the observations and preliminary findings that are gradually emerging in each of the six (6) Themes that constitute the framework of the applied research. Please cf. Annex A. In addition to the Group Leaders, their colleague members of the NWGs had also been invited to attend the meeting as Observers, and as potential resource persons. The NHETF members were unanimous in their appreciation of the fine work of the NWGs and confirmed their continued interest and support of their applied research. The feeling was further expressed that the active role of the NWGs in the process of developing the National Action Plan demonstrates a tangible expression of local capacity building.

National Working Groups (NWGs) -- an on-going evaluation of the applied research of each of the NWG members has been possible through the regular submission of progress and performance reports. Four (4) Periodic Performance Reports were programmed for submission by each NWG

member during the course of the six-month research period, i.e., October 5 '96 through April 15 '96. The Fourth Periodic Performance Report is to be submitted on March 15. A synthesis of the four periodic performance reports will be submitted in the form of a Final Report due on April 15. The final reports of the thirty (30) NWG members will contain a brief description of the current situation for each of the thirty (30) Sub-Themes for which the former are responsible, as also conclusions/findings, policy recommendations, and activity recommendations. Remuneration of the NWGs is based primarily on the submission of the performance reports. This approach to project activity is considered innovative in the context of local development project management and has proved successful in assuring serious and professional commitment on the part of the NWG members.

A General Meeting of all NWG members is scheduled monthly. In February H.E. Minister TOL LAH of the MOEYS met with the members and the occasion provided an excellent opportunity to exchange views and perspectives on the various issues confronting higher education at present. At the March meeting, H.E. Excellency the Ambassador of Thailand to Cambodia is scheduled to discuss the development of higher education in Thailand.

Secretariat -- The service staff continues to provide technical and administrative support for the NWGs and the consultants who contribute technical assistance. They also assure regular contact with all concerned and interested entities and persons involved in the Project. Key additions to the staff were made during the month of November: Dr. IV CHAN as Program Officer, Dr. HEAN SAHIB as Administrative Assistant; CHAN DARA as Financial Officer. The Secretariat staff is always available and would be pleased to assist in supplying information on the activities of the Project.

Technical Assistance -- From the inception of their applied research activity the NWGs have been fortunate to have access to experienced and expert technical assistance. The help of local Khmer and local expatriate consultancy have proved especially valuable. Foreign technical experts have also been invited to aid the NWG members. A list of the persons who have provided technical assistance thus, as also those programmed for involvement can be found in Annex B. The Secretariat would welcome suggestions of names of experts (local and foreign) who could assist the Project!

World Bank Mission -- DR. PETER R. MOOCK, project liaison for the World Bank, visited Phnom Penh from February 14-22, as a member of the Country Assistance Strategy (CAS) Team of the WB. The Team met with senior officials of the RGC to discuss support for Cambodia over the coming fiscal year. Dr. Moock took the opportunity of his presence in Phnom Penh to review the progress of project activity and plans. He was pleased with the work of the NWGs and with the continued and growing concern and interest of Government, the donor community, the academic institutions, and industry in the development of the National Action Plan. After a careful review of the initial timetable for the Project and discussions with representatives of the other two project donors (i.e., AusAID and USAID), it was agreed that the original timeline was not realistic. The decision to extend the Project timetable for a period of six (6) months was made -- i.e., December 31, 1996 through June 30, 1997. Dr. Moock also participated in the Donor Roundtable convened by the MOEYS on February 22 in preparation for the Consultative Group Meeting scheduled for Tokyo, Japan in July of this year.

Training/Observation Visits -- In addition to the provision of technical assistance, Project funds have also been made available to the NWG members to undertake training/observation visits outside of Cambodia. Mr. NATH BUN ROEUN (NWG-IV: Academic Programmes -- Sub-

Theme NWG-IV.4: Methodology and Pedagogy) is scheduled to visit in mid-March a number of universities in Australia to study and observe developments and trends in these specialized areas. Mr. MAO NGY HONG (NWG-VI: Institutional Management -- Sub-Theme NWG-VI.2: Personnel Function) will visit several universities in Thailand to discuss personnel management issues. Mr. CHUCH PHOEUN: NWG-VI: Institutional Management -- Sub-Theme NWG-VI.3: Academic Function) will also visit various universities in Thailand to observe policies and procedures for the evaluation of performance of academic staff and students. The visits to Thailand will also be carried out in mid-March. The visits should contribute importantly to the work of the NWG members in their respective areas of applied research. The Secretariat is deeply appreciative of the valuable administrative assistance provided by the Save the Children Fund/Australia for the training opportunity in Australia, and to the Embassy of Thailand for the visits to Thailand.

Contact with Concerned and Interested -- In order to assure as broad a participation as possible in the process of preparation of the proposed National Action Plan, the NWG members have been encouraged to seek out contact opportunities with various concerned and interested groups and persons. The senior staff members of the Secretariat have also sought to participate in different activities organized by professional organizations, as also to meet with visiting representatives of international agencies and institutions. Such contacts have afforded an excellent opportunity to provide information about the Project and to obtain valuable feed-back to on-going Project activity.

NWG-III: Access and Output -- Sub-Theme NWG-III.5: Labor Market Needs and Trends under the leadership of Mr. HOU VUDTHY has successfully initiated contact with the Industrial Sector, both private and parastatal. A series of presentations has been programmed to share with industrial leaders some of the applied research findings of NWG-III.5. Presentations to the Corporate Club of Cambodia and the Cambodian Chamber of Commerce are scheduled for mid- and late March. Presentations to leaders of the higher education community are presently being negotiated. A better familiarization with labor market needs and trends is necessary if the academic community is to be responsive to such demands.

Phnom Penh
March 1, 1996

ROYAL GOVERNMENT OF CAMBODIA
NATIONAL HIGHER EDUCATION TASK FORCE
NATIONAL WORKING GROUPS
SECRETARIAT

PRESENTATION OF PROGRESS REPORTS BY NATIONAL WORKING GROUP LEADERS

Each of the Group Leaders of the six National Working Groups (NWGs) presented a brief progress report on the applied research carried out since October 15. The various activities undertaken and contacts with the different line Ministries, higher education institutions, donors, and other concerned entities were described. A summary of the work already achieved follows:

NWG-I - Legislation and Structure – Existing legislation concerning higher education is defective. Models of other countries have been reviewed and evaluated. Various organizational structures for the higher education sector are being studied in keeping with new proposed legislation. There is need for a consolidation of higher education institutions. Various aspects of institutional autonomy are being studied for recommendation.

NWG-II - Resources – An analysis of RGC support to institutions has been completed. As expected, 85%+ of annual institutional budget is for salaries. The financial management of the institutions must be developed, e.g., development/management of annual institutional budgets. Institutions must learn to utilize better both RGC and non-government funding. There exists no RGC financial plan to develop higher education; such a plan is needed. There is need for better coordination of external donor assistance to higher education. Institutions must develop their search for non-government funds.

NWG-III - Access and Output – There is need for a better distribution of access to higher education for Secondary school graduates from provincial schools. The admission of women to higher education must be better coordinated – the need for affirmative action by institutions. Simulations of access potential to higher education needed. Institutions must be involved in a follow-up of their graduates: the need for institutional mechanisms to be established. MSALVA must assist in identification of priority labor demands and needs; also assist in identification of labor market trends.

NWG-IV - Academic Programmes – For the most part, existing programmes do not relate to new socio-economic needs for national development. There is need for non-degree programmes for continuing education of professionals. Non-degree programmes should allow for transfer to formal degree programmes on a performance basis. Institutions must develop collaborative relations with public and private industry. “Chalk and talk” methodology must be replaced by inter-active teacher/pupil relationship. Pedagogical training of teaching staff must be strengthened. A systematic review and revision of academic programmes must be undertaken by every institution.

NWG-V - Language – The utilization of Khmer as a medium of instruction is to be encouraged, although the deficiency of adequate instructional and informational materials is very serious. There is need for a clear national policy on the use of Khmer as a medium of instruction in higher education. A national language institute is needed to establish linguistic standards for the appropriate use of Khmer. The use of French and English is still in demand, with the interest in the latter growing steadily. Efforts to promote the use of English must be strengthened.

NWG-VI - Institutional Management – Current institutional management reflects the disparity of their organizational structures. Existing structures do not respond to institutional objectives. Management of teaching and non-teaching personnel is very weak – evaluation of performance is non-existent. Support for research and professional publications is missing. The management of institutions needs to be freed from political influence. Formal statutes and by-laws for institutions must be established. The selection of institutional academic administrators must be effected by democratic means, with no political intervention.

ROYAL GOVERNMENT OF CAMBODIA
NATIONAL HIGHER EDUCATION TASK FORCE
NATIONAL WORKING GROUPS
SECRETARIAT

TECHNICAL ASSISTANCE
(October ' 95 - January ' 96)

I. Local Khmer Consultants

<u>Consultant</u>	<u>Agency</u>	<u>Technical Area</u>	<u>Funding</u>
1. Mr. Ros Sophan	Fonction Publique	Legislation/Structure - Personnel	RGC
2. Dr. Ou Vuddy	Univ. of Phnom Penh	Gender Equity - Women in H.E.	RGC
3. H.E. Pou Darany	MOEYS	System Policy	RGC
4. M. Kong Phirun	ERA	System Legislation	RGC
5. Dr. Te Ku Sieng	MOH	Personnel Resources/Legislation	RGC
6. Mr. Nuon Sin	MOA	Personnel Resources/Legislation	RGC
7. Mr. Chiev Khus	CDC	Non-Government Resources	RGC

II. Local Expatriate Consultants

<u>Consultant</u>	<u>Agency</u>	<u>Technical Area</u>	<u>Funding</u>
1. Dr. Edward Greeley	USAID	Institutional Structure	USAID
2. Prof. Jean-Marie Crouzatier	Fac.Droit/Sc.Eco.	System Legislation	France
3. Dr. Geoffrey Coyne	AusAID	Output Utilization	AusAID
4. Mr. Jean-Claude Le Gay	Fonction Publique	System Adm. Redorm	E.U.
5. Prof. Dominic Mellet	Fac.Droit/Sc.Eco.	Labour Demands & Trends	France
6. Mr. Bernard Jolly	UNDP	System Adm. Reform	UNDP
7. Mr. Daniel Bollinger	Council of Ministers	System Structure/Legislation	UNDP
8. Prof. Pierre Carteret	Fac./Medicine	Academic Programmes/Medicine	France
9. Dr. John Dewdney	WHO	Academic Programmes/Medicine	AusAID
10. Prof. Bernard Cavaille	ITC	Institutional Management	France
11. Dr. Luise Ahrens	UPP	Institutional Management	Maryknoll
12. Dr. Ron Gibson	MOEYS/PMMU	Non-Government Resources	AusAID

III. International Foreign Consultants

<u>Consultant</u>	<u>Agency</u>	<u>Technical Area</u>	<u>Funding</u>	<u>Period</u>
1. Mr. Alain Abecassis	Ministry of Higher Educ.	System Legislation/Structure	France	December '96
2. Prof. Serge Cuenin	I.R.E.D.U./Dijon	Project Development	France	Oct/95 & Dec/95
3. Mr. Jean Gazolle	Ministry of Higher Educ.	Personnel Resources	France	January '96
4. Dr. Oscar Perez de Tagle	Int. Labour Organization	Labour Demands & Trends	World Bank	Oct/95 - Jan/96

IV. International Foreign Consultants -- (Programmed)

<u>Consultant</u>	<u>Agency</u>	<u>Technical Area</u>	<u>Funding</u>	<u>Period</u>
1. Dr. Maurice Garnier	Univ. of Indiana, USA	Institutional Structure	AusAID	February '96
2. Dr. Serge Cuenin	I.R.E.D.U./Dijon/France	Access to HE System	AusAID	February '96
3. Prof. Ingrid Gray	UPP/Foreign Lang. Centre	Women in HE	AusAID	February '96
4. Mr. Didier Treutenaere	France/MOEYS	Personnel Management	World Bank	March '96
5. Mr. Les Asplin	Australia/MOEYS	Financial Management	AusAID	March '96
6. Dr. Thel Thong	Monash U./Australia	Khmer Language	AusAID	March '96
7. Dr. Michael Morrissey	U. of West Indies/Jamaica	Distance Education	World Bank	April '96
8. Dr. James McPherson	MOE/Papua Guinea	System Structure	AusAID	April '96
9. Dr. David Stockley	Latrobe U./Australia	Non-Gov. Resources	AusAID	April '96

DRAFT REPORT

HUMAN RESOURCE DEVELOPMENT IN THE PRIVATE SECTOR: ASSESSMENT AND STRATEGY

**Strategic Planning Unit (SPU)
Council for the Development of Cambodia (CDC)**

**U.S. Agency for International Development (USAID)
Development Alternatives, Inc. (DAI)**

April 26, 1996

Prepared by:

Dr. Bo Sin
Dr. Kun Nhem
Dr. Oscar Perez-De-Tagle
Dr. James Packard Winkler
Nina You
Kee Peung

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EXECUTIVE SUMMARY

The newly established Strategic Planning Unit (SPU) in the Council for the Development of Cambodia (CDC) has a mandate to undertake planning activities to support the economic development of Cambodia. Macroeconomic and sectoral planning activities are designed to guide public and private investment in human resource development, to promote policy formulation to increase competitiveness, and to coordinate donor programs and public investments to develop a competitive economy.

The SPU has several important functions:

- To coordinate with line ministries, donor agencies, private firms and associations, and key government officials for the purposes of planning sound government programs and public investments;
- To disseminate relevant information to key stakeholders through seminars, reports, and workshops to improve the knowledge of economic development and human resource development requirements; and,
- To encourage a partnership between the public and private sectors as Cambodia's market economy emerges.

The SPU undertook this six-week assessment of human resource development, with a focus on the issues related to private sector development, to gain an understanding of the challenges facing Cambodia and to recommend strategic objectives and training options to guide both private and public investment. Management skills were identified in our surveys as the critical deficiency in private firms. Firms typically can hire and train semi-skilled and unskilled labor, but firms require minimum competency levels, often referred to as "trainable" local staff, for key management positions.

This baseline study is the beginning of a two year planning project financed by USAID to assist the government in developing the human capital required for a competitive economy that will improve the social and economic well-being of the population. Additional work by the SPU will focus on training and issues related to public sector reform.

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Methodology

The assessment is based on a methodology to identify: the current situation in the labour market; ongoing activities and investments to develop human resources; and the gaps and the critical needs that merit public investment. The data and the views presented in this assessment report are based on the analysis of the following sources of information:

- Surveys in Phnom Penh included: 15 training schools and 13 firms; surveys in Siem Riep, Sihanoukville, and Battambang included: 16 training schools and 17 firms;
- A survey of 330 of an estimated 7,000 Khmers trained overseas in current or former socialist countries who are viewed as an underutilized resource by the government;
- Interviews with 7 experts in human resource development from donor agencies and line ministries;
- A review of the major studies and programs in human resource development to date; and,
- Two briefings and roundtable discussions with representatives of the private sector and the public sector to begin the dialogue that will build the support and consensus required to identify and implement sound training activities and strategic objectives for human resource development.

This assessment is the beginning of a process in which the SPU will promote the partnership between the private and public sectors to implement a strategy to develop skilled Cambodian managers and professionals who are a critical resource in the economic growth of the country.

The Role of Human Resource Development in Economic Development and Competitiveness

Cambodia faces the challenges of all former socialist countries making the transition to a market economy. Cambodia has the additional challenge of rebuilding its human capital after more than two decades of warfare.

There are both internal and external factors that must be considered in assessing the current and future issues for human resource development. Market gaps in the emerging market economy are predominantly internal because Cambodia is still

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dominated by the public sector. But this economic composition is changing rapidly. Administrative reform will lay off 20 percent of the civil service. This redundant labour must be absorbed by the private sector or become unemployed. As regional integration moves forward and Cambodia attains full status in ASEAN, economic standards will be imposed externally. Reduction in tariffs that currently protect domestic industries, new standards for manufacturing, and legal and administrative reforms are among the changes that Cambodia must adapt to.

Ultimately, Cambodia's competitive advantages will determine its economic growth and socio-economic well-being. The important considerations of private investors include the physical, human and financial resources of a country, in addition to its domestic market size and proximity to regional and international markets. Cambodia will have to compete increasingly with other ASEAN countries for private investment. Many ASEAN countries enjoy large competitive advantages over Cambodia in financial markets, trained labour, large domestic markets, high economic growth rates, and highly developed infrastructure to support the private sector.

Human capital is one critical resource in the competitiveness equation. This assessment does not address the full range of issues relevant to competitive advantage vis-a-vis other countries. The SPU will continue to address human resource development in the context of economic development and competitiveness.

Critical Gaps and Needs

The assessment identified critical gaps and needs that may be addressed through targeted public investments and training activities. Current investments in public and private higher education are inadequate to meet the requirements of private sector investors and firms who need qualified managers. The lack of trained managers will increasingly become a critical constraint for private investment and economic growth.

- The employer survey identified a large critical gap between the growing need by private employers for qualified managers and the current competency levels of higher education graduates in terms of English, computer, management and business skills.
- Public training institutions have not responded to this demand because of the rigid curricula imposed by the Ministry of Education, Youth and Sport (MOEYS) and the structure of higher education in Cambodia, which is primarily for 4 or 5-year degree courses. There is no flexibility to design customized training to the needs of employers. There is also the added constraint of insufficient government funding, except for foreign government or university funding of

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specific programs or institutions.

- Private post-secondary schools, for the most part, have very low quality standards and cater to the low-tuition, low quality training demand of an uninformed public. Qualified instructors and improved facilities and materials require increased revenues. With tuition rates limited by the low incomes in Cambodia, the competitive advantage rests with private schools that are financially supported by foreign donors or which, as NGOs, are not subject to high levels of taxation and regulatory costs imposed on foreign instructors. A few private colleges have survived by competing for employer-financed, customized staff training.

The dislocations in the labor market are a part of the emerging market economy in Cambodia. Donors and the government have not yet focused on these dislocations largely because of the overwhelming investments required for reconstruction and rehabilitation to date of fundamental infrastructure, both physical and human. The mismatch between employer managerial requirements and business management training programs and the insufficient market-oriented mechanisms for graduate job placement are examples of critical gaps.

- Donor programs to improve the gaps between employer requirements for trained and qualified managers and the training programs for business management offered by public and private institutions should focus on three aspects:
 - ▶ The program should be market neutral, i.e., not give any market player a competitive advantage; hence, whatever program is chosen must allow the student to retain his/her right to choose the type of training, the location of training (Phnom Penh vs. Provinces) and the institution to deliver the training.
 - ▶ The program chosen should address the reality of labor market conditions in Cambodia. As such, management training should be offered to both current and potential public and private sector managers, using a variety of training modes, including, short-term courses, employer customized training, training abroad (in the U.S. and in regional locations, especially in ASEAN countries), and local training with better-trained and experienced Khmer instructors and facilities/materials supported by foreign education technology, teachers and programs.
 - ▶ Training activities should be coordinated with current public sector reform programs which offer training towards a public service career; as well as with current (and new) private sector cooperative arrangements for work-

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study or internship/hire programs with training institutions; efforts should be made to avoid duplication and the lessons of these existing programs should be utilized in designing the new program.

- Supply-side interventions should develop basic skills and fill gaps, but avoid investments for specific jobs that should be trained by the ultimate employer. In the public sector, administrative reform is necessary before training investments will make a difference. One example illustrates this point. USAID financed DAI's program to train 50 auditors selected by the MEF for 50 positions in the Ministry. These new positions and capabilities were needed to implement a new financial decentralization system to be installed in 1994. A condition of USAID funding was that this training was provided so that these important positions would be filled with trained staff. Mid-way through the program, there was a change in Finance Ministers. The financial decentralization program was scrapped, and the jobs for the training graduates were temporarily eliminated. Over a year later, these graduates are being hired in new audit positions. The survey indicated that private firms are very capable of training "trainable" new hires for management and professional positions.
- Donor programs to improve the market-oriented mechanisms for employer-institution dialogue and cooperation towards more effective job placement can take various forms:
 - ▶ Private employment agencies or job placement firms are expected to enter the market in Phnom Penh shortly. One option is to wait and see if this development will remedy some of the labor market dislocations and address some of the gaps, without the intervention of donors.
 - ▶ The National Higher Education Task Force (NHETF) will be recommending a tripartite mechanism to achieve such dialogue and coordination through a senior inter-ministry committee composed of MSWALVA and MOEYS officials, senior administrators of all major higher education institutions and employer groups. It further recommends that this Higher Education Manpower Committee be supported by a donor-funded technical Secretariat which will collect and analyze the labor, manpower and educational data, supervise the annual tracer studies of the institutions and secure employer input into course curricula and standards.
 - ▶ Closer partnerships between individual companies and specific institutions, such as company managers sitting in Advisory Boards of training institutions; company-sponsored seminars and case studies at

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business schools; company funding of scholarships, work-study programs or internship programs; company hiring of top students in certain institutions even before graduation; private funding to endow professorships at the Faculty of Business.

Strategic Framework

An investment strategy in human resource development for both the RGC and the donor community must fit within the conditions of the emerging market economy of Cambodia. Several important characteristics of an HRD strategy to support the development of a competitive private sector would include:

- **An enabling environment for human capital formation.** Training alone is not the solution for increasing employment and developing a productive workforce. HRD investments within a broader economic development strategy will have maximum returns when these HRD investments are supported by an enabling environment that encourages private investment, and fosters a competitive private training services sector that complements the programs of public education institutions.
- **Market-sensitive, targeted public Investments.** Public investments can complement and foster private sector initiatives to develop the human capital required for a competitive economy. Donor investments should avoid supply-driven solutions that too often drive out private business initiatives to solve requirements of the market place. Experience in developing and developed countries shows that the private sector is often more efficient than the public sector to prepare employees for specific jobs in the workforce.
- **Establishing a private sector-public sector partnership.** Promotion of a private sector-public sector partnership to develop human capital to meet the needs of a competitive economy is critical as Cambodia moves toward a competitive market economy. As Cambodia prepares for full participation in ASEAN and its regional trade agreements, such as ASEAN Free Trade Area (AFTA), it is increasingly important that a dialogue between private interest groups and the government address the transition. The government plays an important role in developing the supporting legal, regulatory and economic infrastructure for private firms. In addition, public investments in education are essential to build an educated workforce and qualified managers to work in the productive sectors of the economy.

Clearly, there is an important role for government and donors to contribute to the

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development of an educated workforce and trained managers in Cambodia to attract and retain foreign investment in the increasingly competitive ASEAN region.

This report presents the specific strategic objectives and training options that meet the emerging market requirements of the private sector, with analysis of the strengths and weaknesses, and the cost and the benefits of each activity. These strategic objectives and training options include:

Strategic Objective 1: Facilitating Market Mechanisms in Cambodia to Support Human Resource Development

- Establishing a legal and regulatory framework to promote a competitive private training services sector.
- Encouraging private sector training schools to develop programs for public sector management courses.
- Establishing a clearinghouse function linking qualified, tested graduates (e.g. overseas trained Khmer) and employers (private investors and public agencies).
- Developing testing standards and professional standards for Cambodia to identify the gaps in education and skill competencies.

Strategic Objective 2: Targeting Donor Assistance in Critical Market Gaps

- Promoting public-private sector dialogue and partnership through training of public servants in economic management positions.
- Providing basic skills training: Pre-training for entrants into business programs in Faculty of Business and Overseas Schools (e.g. English language, computer, and core competency areas).
- Developing improved management skills for key management positions in a two track program:
 - 1) Training trainers: Develop qualified trainers in basic business management skill areas
 - 2) Training line managers in public or private organizations: Develop improved skills in basic management (office management, planning, financial management)

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for non-financial managers, personnel management, and leadership)

- Providing competitive scholarships for degree programs in business management and pre-training programs.

Strategic Objective 3: Creating Standards of Academic Excellence in Business Education and Strengthening National Training Institutions in Phnom Penh

- Creating standards of academic excellence in business education.
- Developing Faculty of Business Special Program on Economic/Trade Links with ASEAN; and ASEAN Orientation on FOB Business Programs.

Strategic Objective 4: Establishing Provincial Training Institutions

- Provincial Training Component: Training activities could have specific targets in key provincial centers; training programs could have extension programs in such cities dealing with small business management and entrepreneurship.

Strategic Objective 5: Providing Minimal Intervention in the Emerging Market

- Leave the private sector to solve human resource deficiencies; let the market clear itself.

The option of no intervention has such high social and economic costs that it is not a viable option. Public investment is necessary to increase Cambodia's competitiveness through improved management skills within the labour force. At a minimum, public investment is required to develop "trainable" people who can be hired and trained by private firms.

The SPU/CDC Coordination Role in Human Resource Development and Economic Planning ____

Five strategic objectives, each with a set of suggested activities for human resource development, are proposed below. Each activity will require additional design work conducted by the implementing agencies to define the workplan, the performance measures, the targets, and the costs. Many of the proposed activities are complementary, and can be combined into an integrated, phased training program funded by multiple donors and implemented by a combination of donors, private and

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public training schools and international organizations.

The next stage of design should be conducted by the implementing agencies, including donors, line ministries, private sector training schools, and private sector firms, which will draw upon their own resources to implement a program. The SPU/CDC should have a coordinating role in blending the activities of the various implementing agencies into a comprehensive strategy and program.

Annex 7
D.O. #10 ACTIVITY REPORT

STRATEGIC PLANNING PROJECT

April - May 1996 Activities:

Dr. Bo Chum Sin and Ms Nina You arrived in Phnom Penh and began working in March 1996 on the 6-week Human Resource Development Training Needs Assessment (TNA). Dr. Oscar Perez-de-Tagle and Dr. Khun Nem, local short-term consultants, assisted in the TNA. Mr Jim Winkler, Project Manager of the Assessment Team, and Mr Peter Gajewski made several trips to Phnom Penh to provide technical assistance and the coordination functions for the start-up of the project.

A roundtable meeting was held on April 6 1996 at USAID/Cambodia Conference Room, to discuss the preliminary findings of the 6-week Training Needs Assessment and to present training options. The draft report titled "Human Resource Development in the Private Sector: Assessment and Strategy" was completed and submitted to USAID/Cambodia in April 1996.

Current on-going work includes preparations for the Economist Forum on Cambodia, July 5-8, 1996, and preparations for a series of human development policy discussions to be held in the months May through August in connection with SPU's role in establishing a consultative mode for human resource development in Cambodia.

The position of the Chief of Party of the project and the future direction of the Strategic Planning Unit at the Council for the Development of Cambodia are still under discussion between USAID/Cambodia and Development Alternatives Inc.

Office Set-Up:

The office space and office utilities for the Strategic Planning Project office are provided by the Government of Cambodia based at the Council for the Development of Cambodia. These are the principle contributions to the project by the Government of Cambodia.

With the assistance of Mr Romeo Arquisola, Mr Kee Peung started the office renovation and the procurement of computer and office furniture in late February 1996. The office renovation was completed on March 10 1996. Most of office equipment have been procured, but the office still requires additional furnishing. The procurement of office furniture was not completed because the closing down of the RTSP/RSM office in Bangkok. There was plan that some of the office furniture in Bangkok can be transferred to the Phnom Penh DAI support office, and so Mr Peter Gajewski instructed DAI Phnom Penh to delay further procurement.