



# QUARTERLY PERFORMANCE REPORT (April - June 2007)

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(EPRC)

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## ABBREVIATION AND ACRONYMS

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ADB	Asian Development Bank
AWP	Annual Work Plan
COP	Chief of Party
CGAM	Customs General Administration of Mongolia
DCOP	Deputy Chief of Party
EPRC	Economic Policy Reform and Competitiveness Project
EPSP	Economic Policy Support Project
ERA	Energy Regulatory Authority
ERDC	Energy Research and Development Center
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
FTZ	Free Trade Zone
GATT	General Agreement on Tariffs and Trade
GDNT	General Department of National Taxation
GDP	Gross Domestic Product
GoM	Government of Mongolia
ICTA	Information and Communications Technology Agency
IMF	International Monetary Fund
IR	Intermediate Result
IT	Information Technology
KRA	Key Result Area
LAN	Local Area Network
LOE	Level of Effort
LOP	Life of Project
MASM	Mongolian Agency for Standards and Metrology
MIK	Mongolian Mortgage Corporation
MNCCI	Mongolian National Chamber of Commerce and Industry
MoE	Ministry of Environment
MoF	Ministry of Finance
MoFE	Ministry of Fuel and Energy
MoIT	Ministry of Industry and Trade
MOU	Memorandum of Understanding
MRTT	Ministry of Roads, Transportation and Tourism
M&E	Monitoring and Evaluation
NSO	National Statistics Office
OSF	Open Society Forum
PIR	Project Intermediate Result
P/Ds	Person/Days
SO	Strategic Objective
SOW	Scope of Work
SPC	State Property Committee
SSIA	State Specialized Inspection Agency
STTA	Short-term Technical Assistance
TA	Technical Assistance
TAF	The Asia Foundation
TCI	The Competitiveness Initiative
TORs	Terms of Reference
TSG	The Services Group, Inc.
UNDP	United Nations Development Program
WB	World Bank
WTO	World Trade Organization



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## EXECUTIVE SUMMARY

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This Quarterly Performance Report (QPR) for the *Economic Policy Reform and Competitiveness Project* (EPRC) activity covers the period from 1 April through 30 June 2007.

### Project overview

The *Economic Policy Reform and Competitiveness Project* (EPRC) is a five-year initiative funded by USAID/Mongolia and implemented by a consortium led by Chemonics International. The consortium also includes The Services Group (TSG), Crimson Capital, Dexis Consulting, Making Cents, and The Asia Foundation. The EPRC contract began on 19 September, 2003 and is currently scheduled to end on 18 September, 2008.

The primary goal of EPRC is to accelerate and broaden sustainable, private sector-led economic growth by improving the enabling environment for business and increasing Mongolian competitiveness on the world stage. This goal is achieved by creating synergies in the following four areas: (1) economic and trade policy support; (2) energy sector reform support; (3) business competitiveness, and (4) consensus building, public education and national dialogue.

EPRC activities support USAID/Mongolia Strategic Objective 1, “*Accelerate and broaden sustainable private sector led economic growth*” as defined in the Mission’s Strategic Plan 2004–2008. The project specifically addresses two Intermediate Results underneath the SO:

- IR 1.1: *Improved enabling environment for private sector growth*
- IR 1.2: *More-competitive industries and sectors.*

The project has two goals which correspond directly to these Intermediate Results:

- (1) *Accelerate and deepen the policy liberalization process in Mongolia* (IR1.1)
- (2) *Promote increased competitiveness in the Mongolian economy* (IR 1.2)

The QPR follows the framework of the work plan and specifies four Project Intermediate Results (PIRs)—one for each of the project components—and fourteen Key Results Areas (KRAs) specified, as follows:

#### *Component 1: Economic and trade policy*

PIR 1: Economic and trade policy environment improved

- KRA 1.1: Sound macroeconomic policies developed and implemented
- KRA 1.2: Trade and investment policies developed and implemented
- KRA 1.3: Policy formulation and organizational structures strengthened

#### *Component 2: Energy*

PIR 2: Energy sector competitiveness, efficiency, and transparency improved

- KRA 2.1: National consensus on energy sector policy and strategy developed
- KRA 2.2: Energy sector regulatory environment more transparent, market-oriented
- KRA 2.3: Commercial orientation and practices at energy SOEs improved
- KRA 2.4: Energy sector legal, regulatory, and financial environment improved

#### *Component 3 Business competitiveness*

PIR 3: Priority sectors strengthened

- KRA 3.1: Enabling legal, regulatory, and business finance environment strengthened

- KRA 3.2: Competitiveness of identified sectors improved
- KRA 3.3: State-owned enterprises (SOEs) prepared for privatization
- KRA 3.4: Competitiveness of client business firms improved

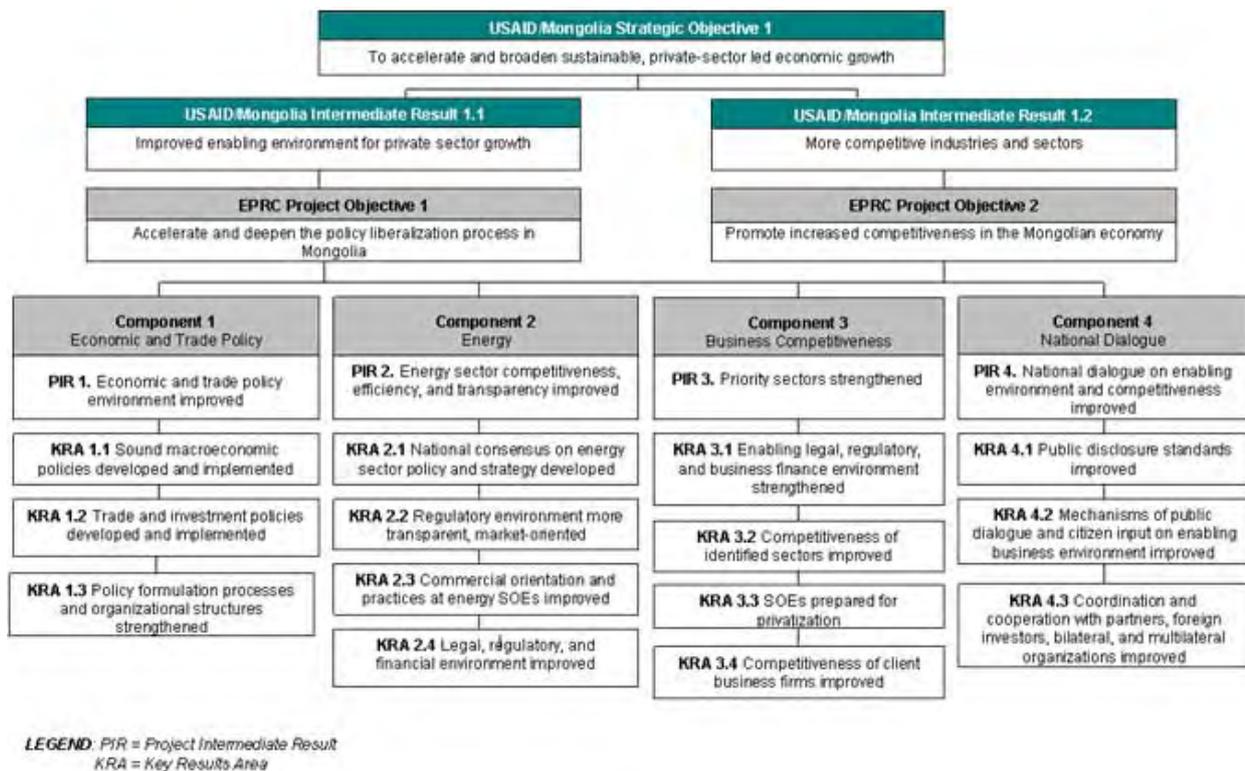
*Component 4: National Dialogue*

PIR 4: National dialogue on enabling environment and competitiveness improved

- KRA 4.1: Public disclosure standards improved
- KRA 4.2: Mechanisms of public dialogue and citizen input on enabling business environment improved
- KRA 4.3: Coordination and cooperation with partners, foreign investors, bilateral, and multilateral organizations improved

The exhibit below diagrams the conceptual connections between USAID/Mongolia Strategic Objective 1, the project contractual objectives, and the Contractor-developed Project Intermediate Results (PIRs) and the Key Results Areas (KRAs) responsive to the contract and Mission objectives.

Annex A contains a summary project description that provides additional details about EPRC.



**Quarterly overview**

Section I of the QPR provides a summary of selected significant accomplishments of the quarter:

- *Mongolian Mortgage Corporation (MIK)* approves increase of capital and negotiates liquidity facility
- Cabinet approves national program to establish a single electronic window for foreign trade facilitation
- Energy Regulatory Authority signs first performance agreement in the sector

- Central Bank develops strategy to support mortgage market development
- *Financial Regulatory Commission* undertakes drafting of proposed Securitization Law and regulations for securities and mortgage bond instruments
- Parliament Sub-Working Group holds weekend retreats on housing finance
- Mongolian Bankers Association discusses draft law on credit information services
- National Legal Center releases new CD with updated business laws
- Forty-one Mongolian university faculty and professionals graduate from two-week Summer Trade Seminar
- Public education campaign on energy sector issues initiated
- Private and public sector agree on national tourism strategy
- National workshop on new tax regulations and tax forms held for tax inspectors across Mongolia
- *Information and Communications Technology Authority* releases open-source Joomla! *Mongolia* for website development and administration.

Section II of this report presents results of work plan implementation for the quarter under each of the four activity management components. Exhibits at the end of this section provide an overview of project deliverables and their schedule.

Section III describes project management and administration activities, current personnel, deployment of short-term expatriate technical assistance, problems encountered and remedial actions, as well as project and contract management actions for the next quarter.

Annexes A, B, and C contain, respectively, a project description sheet, current long-term project staff and details of short-term expatriate technical assignments, and a budget status report.



## SECTION I: SIGNIFICANT ACCOMPLISHMENTS

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### A. Introduction

Pursuant to contract provision F2. (c), this Quarterly Performance Report (QPR) for the *Economic Policy Reform and Competitiveness Project* (EPRC) covers the period from 1 April through 30 June 2007.

Section I of the report describes significant project accomplishments, Section II summarizes work plan implementation, and Section III covers project management and administration. Annexes A, B, and C contain, respectively, an updated project description sheet, current long-term project staff and expatriate short-term assignments, and a budget status report.

### B. Significant accomplishments

A close and supportive association with the Mission, the country team, and GoM counterparts facilitated the successful accomplishment of projected tasks as planned and no major problems were encountered. Significant accomplishments of the quarter included the following:

- *Mongolian Mortgage Corporation* (MIK) approves increase of capital and negotiates liquidity facility
- Cabinet approves national program to establish a single electronic window for foreign trade facilitation
- Energy Regulatory Authority signs first performance agreement in the sector
- Central Bank develops strategy to support mortgage market development
- *Financial Regulatory Commission* undertakes drafting of proposed Securitization Law and regulations for securities and mortgage bond instruments
- Parliament Sub-Working Group holds weekend retreats on housing finance
- Mongolian Bankers Association discusses draft law on credit information services
- National Legal Center releases new CD with updated business laws
- Forty-one Mongolian university faculty and professionals graduate from two-week Summer Trade Seminar
- Public education campaign on energy sector issues initiated
- Private and public sector agree on national tourism strategy
- National workshop on new tax regulations and tax forms held for tax inspectors across Mongolia
- *Information and Communications Technology Authority* releases open-source *Joomla! Mongolia* for website development and administration.

The remainder of this section provides a summary of these accomplishments, including other activities implemented during the quarter.

#### **B1. *Mongolian Mortgage Corporation* (MIK) approves increase of capital and negotiates liquidity facility**

With shareholders' approval of a capital expansion and a signed Memorandum of Understanding (MOU) with *Kreditanstalt für Wiederaufbau* (KfW) and the Ministry of Finance to provide a liquidity facility, MIK made steady progress during the quarter to meet its initial capital needs in the secondary mortgage market.

*Shareholders' approval of MNT 2.2 billion capital increase*

At a special meeting of shareholders held on Wednesday, 20 June, the shareholders of the Mongolian Mortgage Company (MIK) unanimously approved further capitalization of the company in the amount of MNT 2.2 billion (US \$ 1.9 million) and issued a call for capital.

The approved capitalization will allow MIK to secure a line of credit for expansion and securitization. MIK's long-term business model will be a combination of a warehouse facility with subsequent securitization through issues of asset-backed securities with credit enhancement. In line with its long-term strategy, MIK defines securitization as the financing or re-financing of income yielding assets by packaging them into tradable instruments through issuing of bonds or other securities.



In the short to medium term, MIK's business will focus on mortgage warehousing and securitization. To ensure long-term growth, MIK plans to diversify its asset classes by expanding to commercial mortgages, credit card receivables, consumer loans, and leasing contracts.

MIK's capitalization will be accomplished through the issuance of 2,200,000 common shares at the nominal value of MNT 1,000 (one thousand Togrogs) each that will initially be offered in equal amounts to each shareholder. MIK issued a capital call to shareholders to subscribe for shares within 30 days.



*Memorandum of Understanding signed with KfW and the Ministry of Finance to provide a 4.8 million euros liquidity facility and 500,000 Euros for technical assistance*

At a ceremony held in the Ministry of Finance on Friday, 22 June, the Ministry of Finance, *Kreditanstalt für Wiederaufbau* (KfW), and MIK signed a Memorandum of Understanding (MOU) that provides 4.8 million Euros for MIK to finance the purchase of primary mortgages and issue bonds.



Funds to MIK will come from the Ministry of Finance through the Bank of Mongolia and will be used to purchase residential mortgages of individuals from eligible loan sellers according to criteria approved by KfW.

The MOU also provides for up to 500,000 Euros worth of technical assistance to MIK to develop products for the secondary mortgage market. The technical assistance will be used, *inter alia*, to help the company with:

- Development of standard documentation
- Definition of minimum quality standards, eligibility criteria and credit appraisal
- Asset-liability management
- Management information systems
- Training of MIK staff.

The overall objective of MOU is to contribute to the fulfillment of demand for housing finance and achieve an increase of the Mongolian housing portfolio of at least 35% per annum. At the end of the funding and other accompanying measures provided in MOU, MIK will be able to execute mortgage purchases and to refinance itself on a stand alone basis.

Project interventions in the secondary mortgage market facilitated the creation of MIK and EPRC has continued to provide technical assistance to enable the company to secure financing to allow it to operate on a self-sustaining basis. The MOU with KfW is a significant milestone in this process.

Having accomplished its role as a facilitator in the creation of MIK and as the loan facility and package of technical assistance from KfW get implemented, EPRC will begin phasing out its support according to plan.

## **B2. Cabinet approves national program to establish a single electronic window for foreign trade facilitation**

On 23 May, culminating five months of intensive work of the Working Group to establish a single window for foreign trade facilitation (SWTF), Cabinet approved the National Program for its establishment.

The Working Group (WG) was established in response to Government Resolution 251 issued on 18 October through Ministry of Finance (MoF). Decree 370 of 2006 appointed the following members:

- Mr. Ch. Saikhanbileg, Chair of the Working Group and Director of the Information and Communications Technology Agency (ICTA)
- Mr. S. Demberel, Chairman, Mongolian National Chamber of Commerce and Industry (MNCCI)
- Mr. B. Enkhmandakh, Deputy Minister, Ministry of Environment (MoE)
- Mr. Ya. Sodbaatar, Deputy Minister, Ministry of Industry and Trade (MoIT)



- Mr. B Battumur, Director, Mongolian National Customs Administration (MNCA)
- Mr. L. Zorig, Director, General Department of National Taxation (GDNT)
- Mr. G. Gantumur, Director, Mongolian Agency for Standards and Metrology (MASM)
- Mr. J. Enkhbayar, Deputy Director, State Specialized Inspection Agency (SSIA)
- Mr. S. Altangerel, Secretary of the Working Group and Director, IT Department, Mongolian Customs General Administration (MCGA).

The WG had its first meeting on 18 December 2006, with Mr. Bayartsaikhan, Minister of Finance, acting as chair. From 20 February to 1 March, through EPRC arrangements, three experts from the *Société Générale de Surveillance* (SGS) visited Mongolia to obtain first-hand information about efforts to establish the single electronic window: Philippe Isler, David Walker, and Chris Holden. Based in Geneva, Mr. Isler is Project Manager for TradeNet, an SGS product for single electronic windows to facilitate trade. Mr. Walker is an SGS customs expert based in Dubai, and Mr. Holden is the Operations Manager of GCNet, the company that operates the Ghana single electronic window for trade.

At its second quarterly meeting on 29 March, the Working Group approved the draft National Program that Cabinet has now approved. The Decree adopts the recommendation of the WG to establish a separate company to operate the single window. The company would be a public-private partnership (PPP) with participation of an experienced international company and the government. Expected results of the implementation of a single electronic window, as stated in the Decree are:

- “Sharing information among the participating government agencies through a single window will promote growth and have an impact on efficiency, reduction of costs to the government and traders as well as time savings
- Service will be more open, transparent and quick for traders
- Bureaucracy and corruption will be reduced by introducing e-trade documentation and using IT strengths and advantages
- Revenue of the government budget will be increased
- By making information more transparent and open there will be more efficient use of financial resources and efficiency and competitiveness of trade participants will be improved
- Introduction of e-payment system in a single window will make tax and fee collections faster and more precise for all relevant government agencies
- There will be an opportunity for government agencies to transfer human resources to more useful and productive positions
- Customs clearance and issuance of relevant permits will be faster.”

Promulgation of the Cabinet Decree will enable the WG to begin implementation of the detailed action plan it has prepared. The project will continue to provide technical assistance as required and requested to support these efforts.

### B3. Energy Regulatory Authority signs first performance agreement in the sector

On 1 May, the Energy Regulatory Authority (ERA) and the Baganuur and South Eastern Region Electricity Distribution Network (BSEREDN) signed the first Performance Agreement (PA) in Mongolia. Performance Agreements can play an important role in improved performance in the delivery of energy services.



Based on the experience gained in the implementation of this first PA, the ERA will consider

it as a requirement of the operational license of each energy entity. The ERA monitors each licensee's performance using a Performance Measurement System (PMS) made up of benchmarks and key performance indicators (KPIs).

On an annual basis, the Performance Agreement will set specific performance targets and financial consequences. The ERA will use KPIs to monitor licensee performance and measure progress on the agreed benchmarks. Licensees will be financially rewarded for attaining or exceeding the goals set forth in the PA. Similarly, they will be financially penalized for failing to attain the goals set forth in the PA. Performance agreements have been widely used by regulators in the US and many European countries as a means to monitor and provide consequences for areas of concern to regulators.

The ERA has selected four KPIs for the first Performance Agreement: electricity distribution losses, percent changes in accounts receivable, payments to the Single Buyer; and a quick ratio.

The electricity distribution loss is the sum of technical and commercial electricity losses of the BSEREDN expressed as a percentage of the total amount of electricity purchased by it. The company significantly reduced electricity distribution losses from 22% in 2000 down to 12% in 2005. Connection of new soums, with few low voltage consumers connected to the network, increased distribution losses and the ERA has set the new target for the year 2007 equal to 12.5%.

Another area of concern by the ERA is collection of consumers' payments for the electricity they use. Lower collection rates result in higher accounts receivable from consumers and lessened payments to the "single buyer". The single buyer is the Transmission Company of the Central Energy System, which buys electricity from power plants and sells it to electricity distribution companies. The BSEREDN significantly improved its collection rates, reducing accounts receivable by 70% over the last 5 years.

The payment rate to the single buyer for purchased electricity was 102.4% in 2006 demonstrating the company's achievement in collecting current payments and old receivables.

A quick ratio is a measure of a company's liquidity and ability to meet its obligations and equal to a ratio of cash and cash equivalent to short term liabilities.

The ERA and BSEREDN agreed to use the “social cost” component of the company’s tariff revenue for financial consequences or incentives. Social cost includes bonuses, housing and other allowances and benefits to employees that motivate not only the management but all the employees of the company to improve performance. The PA allows the ERA to calculate and consolidate financial consequences resulting from measured performance at the end of 2007 by each KPI. The maximum possible rewards or penalties are MNT 140 million and MNT 110 million respectively.

#### **B4. Central Bank develops strategy to support mortgage market development**

On 30 May, Mr. Roberto Toso, an international expert brought at the request of the Bank of Mongolia (BoM), made a presentation of a proposed strategy and summary recommendations to support development of Mongolian mortgage markets in accordance with the Monetary Policy Guidelines approved by the Mongolian Parliament.

Mr. Toso, a former senior executive with the Central Bank of Chile, worked with BoM staff from 7 May through 2 June to assist with the definition of its role and strategy in this area. Based on this work, Mr. Toso made the following recommendations:

##### *Adoption of industry standards on mortgage loan structures and documentation*

BoM through its Bank Supervision Department and in coordination with Mongolian Mortgage Corporation (MIK) and representatives of commercial banks should spearhead the formation of a “Standardization Working Group” (SWG) to recommend the adoption of industry standards on mortgage loan structures and documentation.

Mortgages that have similar characteristics can be pooled together to create a larger pool size and more liquidity. This reduces due diligence costs for investors, insurance companies and rating agencies by minimizing information asymmetries. Standardization also refers to documentation such as securing cost effective registration of title and lien, transfer taxes, stamp duties and time it takes to complete registration. Standardized loan application and disclosure forms in common formats, uniform residential appraisal reports, uniform credit reports compiled by credit bureaus, employment verification, income verification (pay stubs, income tax returns), insurance policy for life, property and casualty, representations and warranties given by loan originators, etc all are necessary prerequisites for “completeness” in loan origination.

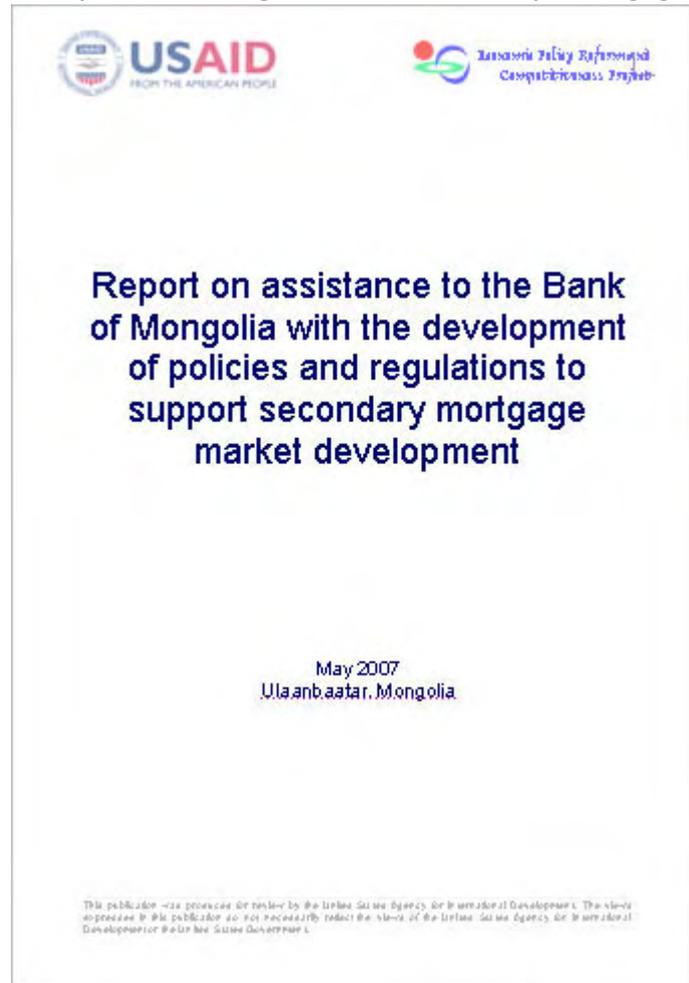


Adequate practices of servicing are necessary for building a viable secondary mortgage securities market. Basic standards for regulating the following activities are necessary: collecting mortgage payments, accounting for all financial transactions, collecting past due accounts, remitting payment to investors, foreclosing on delinquent properties and disposing of foreclosed real estate.

*Review of the draft Mortgage Law, Securitization Law and Credit Bureau Law with the purpose of harmonizing the legal texts with the standardization agreements that will be enforced by the Supervision Department of the BoM*

The “Standardization Working Group” should also review these draft laws and work with other government agencies and organizations to advance in four crucial market infrastructure reforms:

1. Streamline, expedite and make cost-effective the existing property title and lien registration process
2. Standardize property appraisal criteria
3. Streamline, expedite and make cost effective property collateral foreclosures by reviewing and supporting the approval of the Mortgage Law
4. Expedite the enactment of the draft Credit Bureau Law.



*Test access to international long term funding by exploring the placement of a long-term dollar-denominated sovereign bond and thus obtain a benchmark for a long term interest rate*

The lack of “long term benchmark interest rates” is definitely a deterrent for the development of a long term bond market in Mongolia. In the case of Mongolia, periodic interest rate adjustments for mortgages are rather discretionary and vary among lenders and for each type of loan. This introduces significant unpredictability in the calculation of loan values and makes securitization of mortgage loans more difficult, if not impossible. A benchmark long term interest rate or uniform adjustability criteria that takes into account cost of funds and financial markets long term conditions is definitely needed to standardize interest rate adjustment formulas and eliminate current interest rate uncertainty.

Current economic conditions in Mongolia, as reflected by a budget surplus, high international reserves, low inflation and economic growth, constitute a favorable environment for such a transaction. Moreover, the BoM is currently working with credit rating agencies such as Fitch, Moody’s and S&P to upgrade its rating. In December 2006, S&P rated Mongolia’s sovereign risk as “B plus Positive” which constitutes an encouraging indicator for Mongolia’s risk tolerance by investors in the international bond market.

Moreover, “international market timing” seems unusually favorable for a bond issue. There are extraordinary market conditions where the expectations of investors are the inverse of those demonstrated by a normal yield curve. Bonds with maturity dates further into the future are expected to offer lower yields than bonds with shorter maturities. This “inverted yield curve” indicates that the market currently expects international interest rates to decline as time moves farther into the future, which in turn means the market expects yields of long-term bonds to decline. International investors interpret an inverted curve as an indication that the international economy will soon experience a slowdown, which causes future interest rates to give even lower yields. Before a slowdown, investors prefer to lock money into long-term investments at present prevailing yields, because future yields will be even lower.

*Explore the viability of establishing a Mongolian equivalent of the Federal Housing Administration of the US (FHA) which provides 100% coverage of principal loss and foreclosure processing costs*

This institution would be established as an autonomous government entity under the purview of the Government Budget and completely separate and independent from the BoM. A corresponding Contingency Reserve Fund will also be part of the Government central budget, its amount clearly defined and publicly known.

The current Law of the Bank of Mongolia (Article 10 through Article 23) does not authorize this institution to assume or insure private sector risks. From a strictly economic policy point of view, the BoM should not entertain engaging in this type of transactions.

The concept of default insurance explains the economic rationale behind this recommendation. Default risk is fundamentally different from other forms of casualty insurance. The fundamental risk for mortgage default insurance is of “catastrophic” nature because it is not limited to the normal risk that an individual home owner might experience in terms of financial adversity, resulting in foreclosure. Rather, “catastrophic” refers to the widespread foreclosures that may occur as a result of an economic crisis. The horizon of risk under each individual mortgage insurance policy is long because it is maintained through the maturity of the secured loan and is non-cancelable by the insurer, notwithstanding the likelihood of changing conditions during the life of such loan.

Under default insurance there is usually a combination of credit and collateral risks. The event of loss under a mortgage insurance policy is the borrower’s failure to make scheduled payments. The risk of actual loss also depends on the occurrence of a second event following borrower’s default which is the lender’s inability to recover the outstanding debt through the liquidation of the collateral. Finally, default insurance has greater capital requirements than other insurance products such is the need to constitute a Contingency Reserve Fund. Based on these characteristics, insurance policy provisions will require that the loan originator and servicing bank be strictly qualified by the insurer.

Default insurance is especially susceptible to “adverse selection of risk” by the lenders who “purchase” it. This situation is considerably magnified by a “moral hazard” factor if the BoM is called upon to participate as a default insurer of specific private sector mortgage transactions. By participating, the BoM becomes vulnerable to systemic and open-ended losses if a catastrophic event should occur. This is particularly undesirable at a moment when the BoM has been working with credit rating agencies to upgrade Mongolia’s sovereign credit rating. Moreover, a possible BoM participation would severely distort the allocation of risks in the financial system by biasing banks to take excessive credit risks, because they have the incentive to choose, case by case, which loans to “self insure” and which ones to insure with the BoM. Finally, pricing default risks in an environment where there is no historical record of

mortgage loan defaults makes a BoM exercise highly academic and unreliable, exposing it to political pressures and “negotiations” to adopt artificial pricings.

*Creation of a public data base that will permit private insurance companies to quantify relevant default risk factors*

This database is required to establish the price of mortgage default insurance as there is no sufficient historical experience with mortgage loan defaults.

The BoM, with the assistance of international experts, can take the lead in creating a public data base that will permit private insurance companies to quantify relevant default risk factors. Data on loan origination and subsequent foreclosures will be needed from commercial banks. Developing this information infrastructure is particularly important to attract private insurers so they can figure out how to price their services.

*Regulating requirements for purchasing mortgage default insurance*

A provision about this issue must be contemplated in the draft Mortgage Law to prevent banks from purchasing insurance only for the most risky loans. An alternative would be to require insurance for all loans or to reduce risk-based capital requirements for mortgages for insured loans or other loan features, such as over-collateralization, as the standards that in the future will require mandatory mortgage insurance.

*“Sunset provision” for BoM’s participation in the Mongolian Mortgage Corporation (MIK)*

International experience shows that government support in developing mortgage capital markets is common. The decision of BoM to sponsor the creation of MIK on the basis of helping jump start the market is consistent with international experience. Similar cases are to be found in Egypt, Jordan, India, Armenia and Malaysia, among others.

It is not clear that an equity participation of the BoM in MIK is allowed in the BoM Law. According to Article 23 of the Law, an exception to activities prohibited that applies to this case states: “acquiring and holding shares in legal entities that have direct relevance to deposit insurance; export finance, clearing and automation of payments, monetary policy implementation and banking data processing, provided that the aggregate value of such shares does not exceed three percent of its capital” It is subject to interpretation if MIK fits this description of exempted legal entities.

It is recommended that the document of constitution of MIK be amended or a shareholder’s agreement signed by all shareholders whereby a “sunset provision” of three years will be agreed upon. After three years of MIK operations BoM shares will be purchased at book-value by the remaining shareholders on a prorated basis.

As Mongolia’s primary mortgage market—direct bank loans to purchase or improve property or secured by these assets—develops, and an increased need to develop the secondary mortgage market—instruments and institutions that provide liquidity or additional funds to the banks themselves, there is a need to get this framework “right.” A suitable combination of institutions, regulations, systems, and procedures suitable for the current Mongolian market and based on international experiences needs to be implemented and maintained.

Through the development of its institutional strategy, the BoM is taking the lead in defining its proper role in the rapidly evolving primary and secondary mortgage markets. The report is available and can be downloaded from [www.eprc-chemonics.biz](http://www.eprc-chemonics.biz). Following the lead of BoM, other government institutions, such as the Ministry of Finance and the Ministry of Construction and Urban Development need now to examine their roles and develop their strategies to facilitate the development of the primary and secondary mortgage markets in

ways that do not crowd out private sector initiatives or generate potential conflicts of interest or raise due concerns about moral hazard and adverse selection.

**B5. Financial Regulatory Commission undertakes drafting of proposed Securitization Law and regulations for securities and mortgage bond instruments**

The Financial Regulatory Commission (FRC) in leading GoM's efforts to create a legal and regulatory environment conducive to the efficient and transparent functioning of financial markets for security instruments to support housing finance. At their request and to work with FRC legal advisors, EPRC brought Steve Butler, an international lawyer experienced in the functioning and regulation of secondary mortgage markets, especially in emerging economies.

From 28 April through 11 May, Mr. Butler and legal advisors at FRC reviewed existing legislation for securities, consulted with commercial banks, the Central Bank, and an emerging second-tier mortgage finance institution, the Mongolian Mortgage Corporation (MIK). Products of this work included a concept paper for a draft Law on the Mortgage-backed Securities Market and appropriate draft legislation to regulate the secondary mortgage market. Mr. Butler made presentations on the draft securitization laws to the Parliamentary Working Group, commercial banks, and The Bank of Mongolia (BoM).

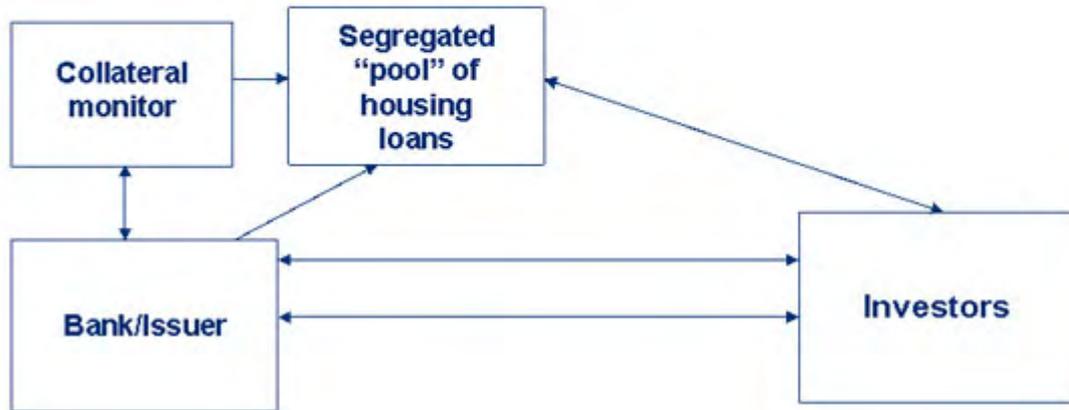
*Collateralized Mortgage Bonds draft Law*

This draft law would authorize banks and housing finance companies sponsored by banks to issue collateralized mortgage bonds subject to the supervision of the Financial Regulatory Commission and the Central Bank of Mongolia.

*Collateralized mortgage bonds* are a general obligation of the issuer, where the bank sells bonds and assumes general liability for payment of principal and interest and bondholders purchase bonds and receive principal and interest payments from the bank. Mortgages that back up such bonds remain on the balance sheet of the bank but are segregated in a separate register or "pool" which is equal in value to the amount of the bonds. The bank or banking regulator appoints an independent "trustee" to monitor compliance with the law and periodically audits the value of the collateral pool. In case of failure to pay or bankruptcy of the issuer, bondholders have direct, preferred access to the collateral.



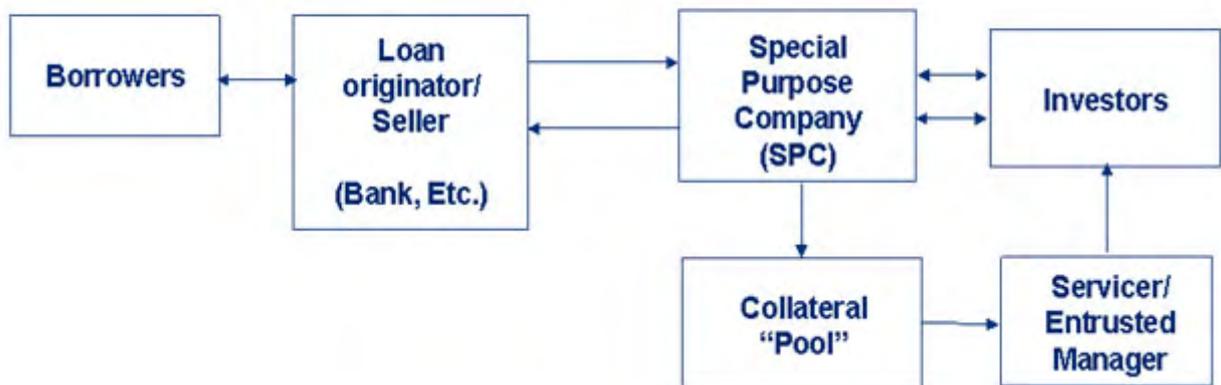
## Exhibit 1: European covered mortgage bonds



### *Asset-Backed Securities draft Law*

This draft law is intended to provide the framework for implementation of securitization and the asset-backed securities market by authorizing Special Purpose Companies to be created for the sole and exclusive purpose of holding revenue-producing assets and issuing asset-backed securities, subject to the regulation of the FRC.

## Exhibit 2: Mortgage (Asset) Backed Securities



*Mortgage (Asset)-Backed Securities* are a “non-recourse” to issuer securities that depend solely on assets for repayment. In an asset-backed securitization, originators sell assets to a Special Purpose Company (SPC)—a company created and operated solely for purposes of securitization and issuance of asset-backed securities. The SPC sells securities (bonds, equity certificates, notes, limited partnership interests, etc.) to investors. The SPC is obligated to pay principal and interest on securities from the cash flow of loans. Investors pay for securities, receive principal and interest payments from the cash flow of loan repayments. The SPC pledges the loans to investors as collateral, or sells common ownership (participation) interests. A Servicer/Entrusted Manager takes possession of and manages collateral for the benefit of investors and the SPC pays originator/seller of loans from the proceeds of sale of securities.

The Financial Regulatory Commission (FRC) is currently making the proposed draft new laws concordant with existing Mongolian legislation and drafting amendments to relevant and related laws.

On the heels of draft laws on Collateralized Mortgage Bonds and Asset-Backed Securities prepared during late April and May, the FRC, with assistance from the project, began drafting regulations for the implementation of the proposed laws.

Through an engagement from EPRC, Mr. Steve Butler, who assisted the FRC with the initial drafts of the laws, came to Mongolia again during June.



During his second assignment, Mr. Butler finalized with FRC the drafts of the secondary mortgage market laws and regulations for their implementation. The laws and regulations are intended to provide the framework for implementation of securitization and the asset-backed securities market by authorizing Special Purpose Companies to be created for the sole and exclusive purpose of holding revenue-producing assets and issuing asset-backed securities, subject to the regulation of the Financial Regulatory Commission of Mongolia.

Mr. Butler made a presentation at a round table seminar held at Government House, organized by FRC and attended by about 40 participants, including the Economic and Legal Standing Committees of Parliament, Ministry of Construction and Urban Development, Ministry of Finance, Ministry of Justice and Home Affairs, Financial Regulatory Commission, The Bank of Mongolia, Mongolian Stock Exchange, Real Estate Registration Agency, ADB Housing Project, Housing Finance Corporation, Mongolian Mortgage Corporation (MIK) and a number of commercial banks. MIK sponsored the cost of the seminar.

In their opening speeches, Member of Parliament Ochirkhuu and Minister Narantsatsralt emphasized the importance of these laws and expressed support for the development of the housing finance market and the capital markets by supporting implementation of securitization, by providing a legal and regulatory framework for securitization, and creating a favorable market environment for a variety of asset backed securities.

#### **B6. Parliament Sub-Working Group holds weekend retreats on housing finance**

The Parliamentary Sub-Working Group on Housing Finance organized two weekend retreats in Ikh Tenger.

*Housing subsidies retreat of 5 May*

The retreat of 5 May focused on direct housing subsidies (DHS). Per EPRC proposals, direct housing subsidies would be designed to support government efforts in developing an affordable urban housing plan based on best international practices. DHS would improve access to housing and increase affordability of housing finance for low income families.

Tim O'Neill, Senior Finance Advisor of EPRC, made a presentation on DHS. These subsidies are an explicit, once-only, non-repayable contribution that the state provides to families that comply with certain established requirements in order to provide them with a



purchasing power greater than that afforded by their own income. The two major types of DHS are:

- *Down payment subsidies* used to complement borrowers down-payments, thus improving both affordability and loan/value ratios
- *Interest rate subsidies* used to reduce the prevailing contractual market interest rate, thus improving affordability but leaving loan/value ratios intact.

EPRC presented indicative comparative calculations illustrating the cost of both types of the subsidies, using a set of assumptions based on the Government's "40,000 Housing Units" Program. According to the calculations, the cost of a down payment subsidy would be US\$ 50.9 million, compared to US\$ 65.7 million for the interest rate subsidy.

Compared to other subsidies for affordable housing, direct housing subsidies have the following benefits:

- Are more equitable since they are directly and exclusively targeted to intended recipients: low and middle income households
- Are complementary to mortgage loans made on market terms and do not displace them
- Involve a smaller administrative burden for the state, lessening the fiscal burden
- Facilitate the development of an efficient, market-oriented mortgage system
- Increase availability of market rate mortgages eligible for securitization and are thus supportive of secondary mortgage market development.

Continuing its support of the work of the Parliamentary Housing Finance Working Group, EPRC will bring a short-term consultant in mid June to help the GoM design a system of direct housing subsidies to assist eligible lower income families get access to affordable housing and thus help deliver on this yet unfulfilled promise of the Government Action Plan of 2004-2008.

*Draft Mortgage Law retreat of 12 May*

The topic of the second retreat held on 12 May was the draft Mortgage Law that Government submitted to Parliament for discussion during the spring session.

The draft Mortgage Law deals mostly with collateral and related issues such as collateral state registration, lien registration and lien transferability as well as the structure and content of the mortgage note. It also aims to bring standardization and uniformity to mortgage lending.

Although significant discussions are taking place among stakeholders, there are at least two significant issues in the current version of the draft law that, if not addressed, may severely impair the establishment and development of the mortgage securities market. The first is the discretionary power of the courts in deciding foreclosures. At present, foreclosures are costly, lengthy, and highly dependent on court interpretations. Foreclosures must be streamlined and expedited, and banks should have clear and cost-effective, off-court foreclosure procedures at their disposal.

The second issue refers to the differentiation between relevant and non-relevant defaults. Again, it is at the court's discretion to determine if a default is relevant based on whether the defaulted outstanding principal constitutes the majority or the minority of the original loan and whether foreclosure proceedings are pertinent. The law must not differentiate among types of default and must allow servicing banks and borrowers to deal with the issue independently.

At the request of the Parliamentary Sub-Working Group on Housing Finance, Steve Butler, an international legal consultant provided comments on the draft Mortgage Law and prepared a revised draft. EPRC has engaged Mr. Butler to assist the Financial Regulatory Committee (FRC) with the drafting of the securitization laws.

#### **B7. Mongolian Bankers Association discusses draft law on credit information services**

On 14 May, Roger Nye, an international expert on credit information bureaus, presented his recommendations on the legal framework for the proposed new private credit information bureau (CIB) to a gathering of members of the Mongolian Bankers Association (MBA). Working with two lawyers from the MBA, Mr. Nye reviewed the existing legal framework and prepared a draft new CIB law supporting the principles of a modern credit information bureau and prepared draft amendments to several related existing laws.

Several factors support the passage of a separate Law on Credit Information Bureaus. The timing is optimal and support is building for such a law among banks and non-bank financial institutions since the project first examined the issue in 2006. (See: Restructuring the Mongolian Credit Information Bureau: Prospects for privatization, available on the project website, [www.eprc-chemonics.biz](http://www.eprc-chemonics.biz)).

#### *Current conditions in the Mongolian banking sector*

The sector suffers from a number of weaknesses that an efficient, privately owned and operated CIB will mitigate. These weaknesses include:

- High levels of explicit and implicit bad debts
- High lending risks where borrowers rely on excessive leverage and where collateral is often double-pledged



- A lack of audited accounts and a lack of financial sector transparency
- A weak culture for honoring debt and for punishing defaulters
- Weak institutional capacity for credit risk and project analysis
- Gaps in the regulatory framework and an element of moral hazard.

#### *International experiences*

Years of experience with CIBs in dozens of other countries have provided several significant conclusions relevant to the creation of a private CIB in Mongolia:

- Private CIBs distinguish good versus bad borrowers at the SME and micro level better than a public sector CIB, which targets the macro level
- A private CIB catches errors and fraud better than a public CIB
- A profit-oriented CIB has the incentive to improve its processes and services continually while a state-owned CIB depends on public funding and other priorities that may hamper innovation and provision of good services
- A private CIB will help lenders improve and accelerate their credit decisions, which will stimulate lending, investment, growth, jobs, and incomes; conversely, the goal of a public CIB is more narrowly banking sector safety and stability.

#### *No formidable barriers*

Many countries have strict rules on the sharing of confidential information and these become significant legal roadblocks to creating a private. Another barrier is often the unwillingness of major banks to share their data on good customers with a CIB, worrying they might lose these profitable borrowers to other banks. In Mongolia neither of these is a significant barrier. Thus, in practical terms it should be easier to generate and sustain a consensus on a CIB and to provide in a separate CIB law for the exchange, with safeguards, of confidential financial information.

The existence of an appropriate and facilitating legal environment is the key to success for any new CIB. As current Mongolian laws have many areas of ambiguity and interpretation, a separate Law on Credit Information Bureaus and the amendment of a number of others may be required to address them.

#### *The timing is right*

Both the evolution of the Mongolian financial sector and current support for a CIB among key stakeholders make the timing propitious for the creation of a CIB. Additional supporting factors include:

- Dissatisfaction among creditors with the current CIB in the BOM
- The creation of a working group within the Mongolian Bankers Association aimed at laying the legal, financial and technical foundations for a private CIB
- Existence of a unique identification for all individuals and companies
- Foreign technical assistance that USAID and the International Finance Corporation (IFC) can offer
- The Bank of Mongolia, as an important stakeholder, is not overtly opposed to the creation of a private CIB
- The Government itself is seeking ways to mitigate credit risk in the system
- Looming provisions of Basle II for banks to enhance their methods of credit assessment
- Growing retail demand for mortgages and credit cards which will require more careful scrutiny of borrower.

EPRC will continue to support the Mongolian Bankers Association and stakeholders to urge passage of the new law and related amendments to make possible the establishment and functioning of an effective and efficient private sector-led credit information services bureau.

### B8. National Legal Center releases new CD with updated business laws

At a press conference held on 3 April at the National Legal Center (NLC), Dr. Amarsanaa J., Director of the NLC, announced the second release of the *Essential Business Laws of Mongolia* CD. Mr.

Bayanbileg D., Director of Public Communications, conducted a presentation of the contents of the CD to invited guests and members of the media.

The CD is the product of a joint effort between NLC and EPRC to provide investors and the public with current information on main business laws.



The first release of the CD in September 2004 contained 20 updated business laws in Mongolian and English and a listing of international investment and tax treaties to which Mongolia is a party. This second release contains an additional 47 business-related laws, for a total of 67, plus the full text of all international investment and tax treaties currently in effect.

The CD includes information that operating businesses require on a day-to-day basis, e.g. the new personal income, corporate income, value-added and excise tax laws, as well as information that potential investors may need to assess the Mongolian business environment. Examples of the latter include the constitution, company law, and the law on foreign investment.



To the extent possible, the laws are current as of the last day of Parliament's Fall 2006 session.

Several of the laws on the original CD had been either repealed or amended, plus many of the new laws had also already been amended. As Mongolia's legal environment is constantly evolving, future releases are planned to incorporate new laws and amendments to current laws.

The CD is priced at 20,000 MNT and is available through the National Legal Center (Sukhbaatar street 7, Chingeltei District, Ulaanbaatar 46. Telephone: 31 91 44). The text of the laws and treaties is also available for download at the NLC website ([www.legalcenter.mn](http://www.legalcenter.mn)).

Demand for the CD has been brisk, with NLC reporting sales of over 150 copies during the first month after release.

### **B9. Forty-one Mongolian university faculty and professionals graduate from two-week Summer Trade Seminar**

On Friday, 29 June, forty-one professionals graduated at Ikh Tenger from the two-week *Summer Trade Seminar: Tools for Practitioners*. The Ministry of Industry and Trade (MoIT) and the Mongolian National University (MNU), with support from EPRC and GTZ sponsored the seminar.

Speaking and presenting diplomas at the closing ceremony were Mr. Brian Goldbeck, Deputy Chief of Mission, US Embassy, Mr. Matthias Schuhmacher, First Secretary, German Embassy, Mr. Enkhbold V., Director, Trade and Economic Cooperation Department, MoIT, Dr. Khashchuluun Ch., Dean of the School of Economic Studies at MNU, and Dr. Fernando Bertoli, EPRC.

Attendees included staff of the Ministry of Industry and Trade (MoIT), the Mongolian National Customs Administration (MNCA), the Mongolian Agency for Standards and Metrology (MASM), the Ministry of Finance (MoF), the State Specialized Inspection Agency (SSIA), the National Statistical Office (NSO), the Mongolian National Chamber of Commerce and Industry (MNCCI), and faculty, mostly from the Mongolian National University.

The purpose of the Summer Seminar was to provide practical tools for Mongolian analysts, decision makers and potential negotiators to address major trade issues affecting the country and to provide technical support for Mongolia's effective participation in multilateral and bilateral trade negotiations.

Objectives of the seminar included, *inter alia*, the following:

- Improve participants' capacity to use analytical tools, models, and quantitative techniques to examine the economic, financial and social impact of trade policies and measures
- Improve participants' understanding and practical application of World Trade Organization (WTO)

Agreements such as the General Agreement on Tariffs and Trade (GATT), Agreement of Agriculture (AoA), General Agreement on Trade in Services (GATS), Trade Remedies, Agreement on Technical Barriers to Trade (TBT), and Dispute Resolution to Mongolia trade issues

- Increased understanding of key trade issues facing Mongolia examined in the context of economic theories, international trade rules, case studies and potential impact of alternative trade policies



- Increased knowledge and understanding of trade issues to prepare for and conduct successful trade negotiations.

Instructors of the seminar included five international and two Mongolian trade experts.

International instructors were: Dr. Miles K. Light, University of Colorado, Dr. Craig R. MacPhee, University of Nebraska, Dr. Edwini Kessie, Council and Trade Negotiations Committee Division, WTO, Mr. Darren Thorne, International

Development Law Organization (IDLO), and Mr. Kofi Addo, WTO expert and trade policy advisor. Mongolian trade experts included Ms. Zoltuya B., and Mr. Yondon Ts., both of MoIT.



#### *Seminar structure and modules*

The seminar was modular and designed around four different modules that could be taken independently according to participants' needs, interests, and professional requirements.

Module I covered empirical models useful for analyzing the effects of changes in trade policies. Module II presented information on the World Trade Organization and the agreements it oversees. Module III focused intensively on certain aspects of WTO proceedings such as dispute settlements, agriculture, services and trade remedies. Module IV covered negotiation skills.

The final day of the seminar was devoted to a discussion of Mongolian trade issues with Mr. Enkhbold V., Director, Trade and Economic Cooperation Department, Ministry of Industry and Trade, Mr. Li Zhi Guo from the Chinese Embassy, Mr. M.A. Mikhailov and Ms. Yu. Karpova from the Russian Embassy, and Mr. Paul Herman, Economics Officer from the US Embassy.

To facilitate dissemination of the materials used in the seminar, participants will receive a CD containing course syllabi, instructors' presentations, and reading materials.

With planned support from EPRC and GTZ, participants will also have further opportunities to apply the knowledge and skills learned at the seminar by applying for grants to conduct trade policy-oriented analyses. Current plans are to award on a competitive basis up to six grants for proposals submitted by 31 August, 2007.

#### **B10. Public education campaign on energy sector issues initiated**

On 22 June, the Energy Regulatory Commission (ERA), the Ministry of Fuels and Energy (MoFE), and the Ministry of Finance (MoF), with assistance from the Press Institute and EPRC, held a brainstorming meeting with eleven journalists to discuss and agree on a series of workshops for printed media professionals.

The purpose of these workshops is to provide journalists with information for a printed mass media public education and information campaign on energy issues. EPRC is assisting GoM agencies involved in energy with the design and implementation of this campaign to educate and involve the public, decision makers and public opinion leaders in national energy issues.



Specific objectives are to assist the GoM with the following:

1. Educating printed mass media professionals on key energy issues, choices, and importance of energy for national economic and social development
2. Facilitating access of the general public to targeted, understandable information on energy issues presented in non-technical language
3. Improving the ERA, MoFE and MoF capacity to communicate with the public on energy issues.

During the design workshop, journalists expressed interest in the following topics:

- An overview of energy (from generation of electricity and heat to consumption)
- International best practices and experiences in energy sector issues
- Performance measurement practices and how they work in Mongolia
- Costs of generation, transmission and distribution
- Renewable energy, including hydro energy and its efficiency
- Environmentally friendly energy projects

Journalists attending were primarily from economic backgrounds and several had experience in writing about the Mongolian energy sector. It was agreed that the first workshop of the series would focus on providing basic background and a common base of knowledge about energy and the Mongolian energy sector. This first workshop is scheduled to be held in early July. After completion of the workshops journalists will be better prepared and informed to write about energy issues in Mongolia.

### **B11. Private and public sector agree on national tourism strategy**

Representatives of Mongolia's tourist industry moved one step closer to forming a national tourism organization (NTO) following a three-day workshop/retreat held at the "Secret History Tourism Camp" during 6 – 8 April. With EPRC support, the retreat brought together leading tourism decision-makers from the Ministry of Roads, Transport and Tourism (MRTT), local administrations, private sector associations, and donor organizations to discuss the possible legal structure of an NTO, its membership, its role, and to consider various funding mechanisms.



An NTO is seen as fundamental to the tourism strategy that MRTT has recently proposed and received broad support from the industry. The retreat was the culmination of a number of preparatory consultative working group meetings that the project has been facilitating over the last few months.

Participants in the retreat established three working groups to study the issues surrounding the formation of an NTO. One group concentrated on the legal form that such an entity may take under current Mongolian laws, the second group worked on the definition of the role and activities of the NTO, and the third considered mechanisms of funding. After internal discussions, each group presented its findings to the plenary group.

Based on international experience, group discussions began with premise that the promotion of tourism within a country is most effectively delivered through a decision-making organization representative of all sectors of the industry, typically through a public-private partnership. Though there may be country variations in form or structure, NTOs normally take supervisory responsibility for destination marketing, vocational training, voluntary classification and in-country information provision. Importantly they also decide priorities and how available funds are disbursed. NTOs liaise with government on issues such as health and safety, environment, and employment protection, and lobby central and local governments on issues impeding the development of tourism.

In conclusion, the workshop reached consensus as to the structure and role of the NTO and asked EPRC to continue its role as facilitator and to encourage industry wide support for the initiative. EPRC has agreed to provide technical and legal assistance to expedite the formation of the proposed NTO.

### **B12. National workshop on new tax regulations and tax forms held for tax inspectors across Mongolia**

Seventy-eight tax inspectors and collectors from across Mongolia attended a three-day workshop held in Ulaanbaatar on 18–19 April in preparation for the administration of revised regulations and tax return forms to support the recently enacted new tax laws. The General

Department of National Taxation (GDNT), with project support, designed the workshop, presentation and reference materials and case studies.

The first day of the workshop was devoted to International Financial Reporting Standards (IFRS), as the new tax laws will require a sound understanding of international accounting practices to examine the adequacy of reported financial information and thus determine actual taxable income. EPRC Accounting Advisor D. Munkhsaikhan led the initial day's session and presented updated information



and explanatory materials on the standards, with additional in-depth review of individual standards that related to revenue recognition and appropriate expense requirement.

The second day covered the personal income tax (PIT) and corporate income tax (CIT) laws. These are the laws that are substantially different from those previously in effect, and required detailed explanations of new provisions in both the laws and regulations.

GDNT inspector Mr. Bayaraa presented the CIT law in its entirety, targeting the new provisions in detail, which included income classification, transfer pricing, loss carry-forward, investment tax credit, and deductible expenses. As the question and answer session concluded, the class saw a need for improved regulations as the implementation of the law progresses. Following the CIT presentation, EPRC Tax and Accounting Advisor Larry Jensen, addressed the group on international practices reflected in the new law.

GDNT inspector Ms. Tuul presented the PIT law during the latter half of the day. Ms. Tuul, an experienced in-house specialist, highlighted the major changes in the new law and provided detailed examples on each. The new law incorporates treatment for many problem areas that existed in the past. These include treatment of fringe benefits, related party transactions, self-employed income, and artistic performance, among others. Ms. Tuul's main message to the collectors was to strengthen their efforts to implement the "good" law passed by parliament.

Both presenters demonstrated the new income tax statements, showing how to fill out the new electronic forms that GDNT has developed. The training session provided opportunities for collectors to give feedback on forms as the tax authority moves forward to develop consolidated and easy-to-understand tax return statements.

The third day covered the Value-added tax law (VAT), Excise tax law and tax accounting topics. GDNT specialist Mr. Buyanbadrakh presented the VAT law, regulations, and forms. Highlights of the presentation were the reduced tax rate, fewer tax exemptions, and clarification of provisions of the new law. Questions from the collectors were in the context of the law's administration, a challenging task for the tax authority for years. Mr. Buyanbadrakh addressed problems and issues with filling out the new VAT form. Value-added taxpayers have already started filing the statement on a monthly basis.

Mr. Oktyabri-Erdene led the excise tax presentation and highlighted its new provisions such as taxing of gambling activities, imported vehicles on different bases, and taxing alcohol products in a clear and consistent manner.

When presentations on the four new tax laws was completed, GDNT specialist Ms. Uranchimeg and project advisor Munkhsaikhan addressed the class to follow up on accounting issues raised during the discussions of the new laws. Ms. Uranchimeg provided specific examples on accounting journal entries for tax accounting while Mr. Munkhsaikhan discussed in detail the international accounting standard governing fixed assets. Inspectors needed to receive up-to-date information on fixed asset accounting because depreciation is a fully deductible expense under the CIT law.

The workshop for GDNT tax inspectors and collectors from across Mongolia was part of the overall program of project support to GDNT in improving tax administration of the new tax laws. There was general consensus among workshop participants that the new laws, draft regulations and tax forms were a vast improvement over the past but further work was needed on the latter two.

Presentations of the new draft regulations and tax forms generated numerous questions and, on occasion, arguments on definitions, the intent of various provisions, and the need for more extensive explanatory regulations. The group reached consensus that much work remains in the development and clarification of the regulations as well as revisions of the proposed new forms. The project will continue to support GDNT in its efforts to revise the regulations and forms, as required.

Upon return to their tax offices, workshop participants will conduct training for those tax inspectors and collectors in their district that were not able to attend the Ulaanbaatar workshop. Similarly, they will participate in taxpayer education workshops currently being organized between GDNT the Mongolian National Chamber of Commerce and Industry (MNCCI) and EPRC.

### **B13. Information and Communications Technology Authority releases open-source Joomla! Mongolia for website development and administration**

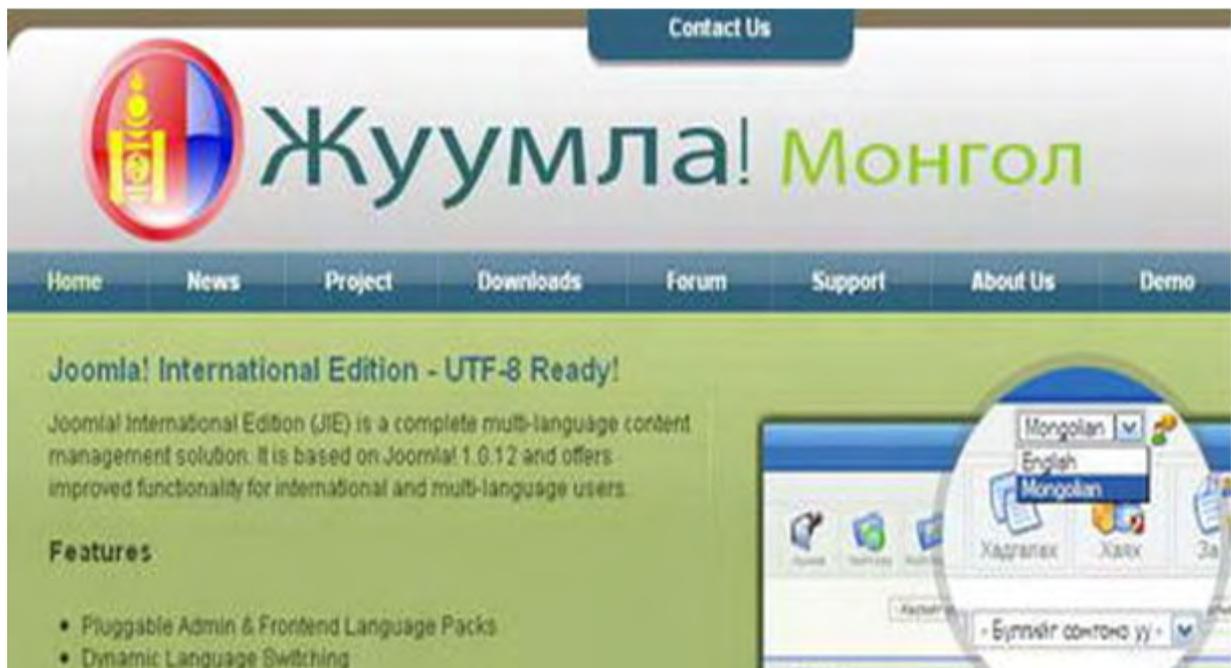
On 28 June the Information and Communication Technology Authority (ICTA) of Mongolia (<http://www.icta.gov.mn>) released the beta version of a Mongolian language website content management system (CMS) developed with project support and based on Joomla!—an open source CMS.

Content management systems (CMS) provide integrated software tools for the development and maintenance of contents of a website: computer files, images, audio files, documents, etc. At ICTA's request, EPRC got involved is assisting the agency with the development of a royalty-



free and sturdy CMS fully in the Mongolian language to address IT budget constraints of GoM agencies and shortage of qualified IT personnel.

*Joomla! Mongolia* (<http://www.joomla-mongolia.com>) fully supports Unicode encoding for Mongolian language in all parts of the system, including interface, administrative panel, system messages, and essential components. It has native Unicode support, improved PDF generation, easy template designs, and a vast library of third-party components, among many other improvements.



Licensed open and free for everyone under a General Public License (GPL) that governs many free open-source projects, *Joomla! Mongolia* provides a full CMS solution in the Mongolian language. Its royalty-free distribution and Mongolian language tools will ease the constraints of government agencies and public organizations in developing and maintaining websites to communicate with citizens.

Initially started as a project to facilitate the development of government websites as part of ICTA's e-Government initiative to increase the flow of information between citizens and government and improve transparency, *Joomla! Mongolia* has wider implications for the Mongolian IT market. For example, it opens up opportunities for private sector developers to deploy websites faster and more efficiently for any vertical market.

With the attendance of over 68 representatives from government agencies and the private sector, the launch of *Joomla! Mongolia* included:

- A presentation and discussion of website management issues in government organizations
- Features and requirements of open-source licensing, including a detailed discussion of the General Public License (GPL)
- Basic technical terms and concepts of a website content management system (CMS)
- Introduction and demonstration of the *Joomla! Mongolia* CMS
- Discussion of the role of ICTA as a national distributor of the system and role of the private sector and developers.

The ease of installation of the system, powerful array of features, and user friendliness impressed the seminar participants during the live demonstration of the system. Seminar participants also received a simulation mini CD with the beta version of the system to try on their own computers.

Consistent with its mission as a publicly funded institution to support the adaptation and development of state-of-the-art information and communications technologies and make these available and accessible to all Mongolians, ICTA plans to continue refinement of the *Joomla! Mongolia* CMS and release its first official version in late September.

With EPRC support, ICTA will also conduct workshops for GoM agency webmasters and IT personnel on how to use the system effectively as a tool for public communications to improve transparency and input from citizens. Separate workshops will also be conducted on business opportunities for private sector developers

## **SECTION II: WORK PLAN IMPLEMENTATION**

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### **A. Introduction**

This section documents project implementation status as of the end of the quarter. Part B presents the framework of the work plan for the four project components: Economic and Trade Policy, Energy, Business competitiveness, and National Dialogue. The framework contains the four Project Intermediate Results (PIRs)—one for each component—and fourteen Key Results Areas (KRAs). Part C of the section contains detailed implementation status by project component.

### **B. Work plan framework**

The Quarterly progress Report (QPR) follows the framework of the work plan and is organized around the Key Results Areas (KRAs) responsive to the Project Intermediate Results (PIRs) for each of the four components:

#### *Component 1: Economic and trade policy*

PIR 1: Economic and trade policy environment improved

- KRA 1.1: Sound macroeconomic policies developed and implemented
- KRA 1.2: Trade and investment policies developed and implemented
- KRA 1.3: Policy formulation and organizational structures strengthened

#### *Component 2: Energy*

PIR 2: Energy sector competitiveness, efficiency, and transparency improved

- KRA 2.1: National consensus on energy sector policy and strategy developed
- KRA 2.2: Energy sector regulatory environment more transparent, market-oriented
- KRA 2.3: Commercial orientation and practices at energy SOEs improved
- KRA 2.4: Energy sector legal, regulatory, and financial environment improved

#### *Component 3 Business competitiveness*

PIR 3: Priority sectors strengthened

- KRA 3.1: Enabling legal, regulatory, and business finance environment strengthened
- KRA 3.2: Competitiveness of identified sectors improved
- KRA 3.3: State-owned enterprises (SOEs) prepared for privatization
- KRA 3.4: Competitiveness of client business firms improved

#### *Component 4: National Dialogue*

PIR 4: National dialogue on enabling environment and competitiveness improved

- KRA 4.1: Public disclosure standards improved
- KRA 4.2: Mechanisms of public dialogue and citizen input on enabling business environment improved
- KRA 4.3: Coordination and cooperation with partners, foreign investors, bilateral, and multilateral organizations improved

The fourth component also includes project management activities.

## C. Work plan implementation

Substantive work was accomplished in all four project components during the quarter under review. Exhibits II-1 through II-4 summarize work plan implementation details for each.

### C1. Economic and trade policy component

This component is responsive to PIR 1, Economic and trade policy environment improved. In addition to activities described in Section I, work of this project component during the quarter included the following:

*Tax reform support.* Review of the GDNT presentation to the Ministry of Finance concerning the fiscal impact of the tax laws implemented in 2007 showed that CIT and PIT revenues are up over the same period in 2006 while the VAT revenues show a slight decrease for the first four months. Fiscal impact of the dramatic reductions in the tax rates effective 2007 has so far been negligible. The project will assist GDNT conduct a more detailed analysis of fiscal impact of the tax reform when revenue data for the first half of the year become available.

*Trade and Transport Facilitation (“Transit Mongolia”).* The recently established National Committee on Trade and Transport Facilitation (NCTTF) has requested EPRC assistance on the development of a national program, “Transit Mongolia” along the same lines the project offered the Working Group on a Single Electronic Window for Trade Facilitation. The project would act as a technical secretariat of the committee.

Exhibit II-1, at the end of this section, provides details on overall status of work plan implementation in the Economic and Trade Policy component.

### C2. Energy component

This component is responsive to PIR 2, Energy sector competitiveness, efficiency, and transparency improved. In addition to activities described in Section I, work of this project component during the quarter included the following:

*Consensus building.* The project continues active work in this area through the conduct of a public information/education (PI/PE) campaign on energy issues facing Mongolia. The initial thrust is to educate the print media first on the organization, operation, role and benefits of the ERA and in parallel, the entire sector. In addition to the organizational workshop held for printed media professionals, another workshop is being planned for the upcoming quarter.

*Energy sector strategy and planning.* An Energy Working Group (EWG) was established in the fall of 2006 just prior to the GoM/External Partners meeting (Tech Session) held in October. The EWG purpose is to identify critical action items and plan for their implementation. USAID has now assumed a leading role in the EWG. The EWG met on 30 June and agreed to hold monthly meetings on the second Thursday of each month. The project and USAID prepared detailed meeting notes for distribution to all attendees and other interested parties. The next meeting will be held on 9 August. USAID/EPRC comments, suggestions and guidance will be very specific. The revision of the sector Master Plan continues to languish and is no longer considered an EPRC priority.

*GoM/External partners next meeting.* The next meeting of this group is tentatively scheduled for September/October but some members are considering a delay until the first quarter of 2008. The World Bank energy staff are in complete agreement with the EPRC approach and recommendations.

*Market design/tariffs.* EPRC and the ERA have discussed the project white paper on the operation of the single buyer system until the new market is implemented. Despite a

recommendation on implementing the two-part tariff system instead of the ERA's proposed competitive auction scheme, to effect efficiency improvements, ERA will implement the competitive auction model and will not implement the two-part generation tariff until early 2008 following the auction model test period that concludes at the end of 2007. This is a disappointment as Mongolia is virtually the only country in the world that does not practice economic dispatch. The ERA reviewed a program plan and schedule for all tariff work that can be completed by EPRC by EOP. They have accepted it and will form a working group, to meet for the first time in September and regularly thereafter.

*Sector financial status.* The project also completed a report on the financial situation in the sector and justification for a tariff increase and distributed it to all WG members and the Ministry of Finance on 29 May. The ERA supports its conclusions but there has been no reply yet from the other three counterparts.

*ERA assessment.* The ERA has implemented virtually all recommendations presented in the agency assessment report.

*ERA benchmarking.* The ERA and the Baganuur and South East Electricity Distribution Network have signed a Performance agreement detailing expected benchmarking improvements to be made by the end of 2007. This is a landmark action and agreements are now being pursued with the other 16 CES licensees.

*World Bank coordination.* EPRC continues to work closely with World Bank energy staffers on all actions, initiatives and recommendations. The World Bank has also expressed interest in participating in the development of a Corporate Governance Center.

*Corporate Governance.* The project forwarded to the SPC the terms of reference for establishing a Corporate Governance Center, initially within a committee for energy sector SOEs at the State Property Committee (SPC). The SPC has requested further assistance on the amended Concessions Law and other aspects of CG.

*Fuel/Coal Sector.* Several meetings, including a Saturday/Sunday session were held with the MoFE lead person of the Mongolian Coal Program, Mr. Boldkhuu. The prime objectives of the meetings were to learn about progress achieved so far, convince Mr. Boldkhuu to focus the program on private sector investment and away from GOM-funded, research-based program and share experiences with Mr. Boldkhuu on selecting strategic partners that would be most beneficial to Mongolia. Mr. Boldkhuu recently traveled to several countries, including France, in search of support for the coal program. He believes that France will be very supportive and will provide funding. He also noted that he was trying to get US mining companies such as Peabody interested, but found that they are not as responsive and eager as the French and other companies. Based on discussions with Mr. Boldkhuu, he understands the need for developing a solid foundation for the Coal Program, but it is not clear whether he has a concept of how to actually build the foundation. The coal program is still in Parliament awaiting approval.

*Energy legislation.* MoFE has stated their first priority is to get the Energy Conservation Law to Parliament, hopefully for the fall session. After that, MoFE will resume work on the Energy Law amendment. MoJ recently issued the concept paper for the Concession Law as well as a draft Concession Law. Working groups have been established for both laws. EPRC has provided its comments on the new draft Concessions Law and will also do the same on the draft Conservation Law. The Concessions Law WG has may request assistance from the EPRC-supplied lawyer who worked on the original draft many months ago.

*Management contracts.* EPRC is attempting to convince the SPC, MoFE and MoF that a single management contract for a distribution company, as a stepping-stone to privatization and as a pilot for other such contracts, makes sense for Mongolia. GoM entities are now

weighing a decision. EPRC has arranged an STTA expert for September to develop the next steps.

*Disaster scenario.* EPRC has prepared a draft of the most critical disaster that Mongolia may have to face. This would be the complete failure of UB Power Plant #4 that provides heat during the winter. Failure of Power Plant #4's electric supply was judged not too critical as electricity could be provided by the other CES CHPs and the Russian tie line. Much more work has to be done on this scenario.

Exhibit II-2, at the end of this section, provides details on overall status of work plan implementation in the Energy component.

### **C3. Business competitiveness component**

This component is responsive to PIR 3, Priority sectors strengthened. In addition to activities described in Section I, work of this project component during the quarter included the following:

*Mongolia Mortgage Corporation (MIK):* The project continued to support MIK at the CEO and Board level assisting with the development of a business plan, organizational support and hiring and supervision of staff. EPRC also is assisting MIK in negotiations with the International Finance Corporation and FMO, the Netherlands Development Bank, for potential financing, equity investment and technical assistance grants.

*Secondary mortgage market:* The project continued to support MIK and the Bank of Mongolia in negotiations with XacBank for the potential issue of mortgage-backed bonds.

*Housing finance assistance:* At the request of the Parliamentary Working Group on housing finance, EPRC commenced a feasibility study on a possible direct subsidy program for lower and middle income families to acquire or upgrade housing.

*National tourism organization.* The board of NTO held its inaugural meeting on 15 June and elected a Chairman and an Executive Director. The organization completed all the legally required procedures and was registered with the Department of Justice and the Tax Administration as "The Mongolian National Tourism Organization."

*Tsaatan (reindeer people) community tourism.* Training for the Tsaatan community began on 20 June in Tsagaan Uur soum, the northernmost soum in Khovsgol aimag. The training involves 42 households, approximately 250 people and covers basic hospitality, health and safety, guiding, and food preparation and basic business principles.

*Fibermark Society:* The project engaged two short-term experts to assist the Fibermark Society with the development of a three-year revival strategy and refocusing of the role of the society. The draft of the first interim report was presented to the board at a meeting held on June 19<sup>th</sup>. The main recommendation was that the society should concentrate on the promotion of quality Mongolian cashmere that could be guaranteed in terms of origin, purity, feel, durability and color fastness. This would require the establishment of an independent third party textile laboratory run by the Fibermark Society. A separate feasibility study will be required to establish a laboratory. In terms of management and governance the report said that in order to attract the necessary donor support the society must be seen to be independent, inclusive and transparent. The board will review the report and its recommendations at its next meeting.

*Horsemeat:* The Japanese buyers expected in June had to delay their trip due to conflicting schedules. The visit has been re-scheduled for September 2007.

Exhibit II-3, at the end of this section, presents details of implementation of the work plan for the Business Competitiveness component.

### **C3.1 The Mongolian Competitiveness Fund (MCF) and the Business Development Fund (BDF)**

Exhibits II–5 and II–6, at the end of this section, summarize the cumulative obligations and disbursements of the Business Development Fund (BDF) and the Mongolian Competitiveness Fund (MCF) as of the end of the quarter. Disbursements of these funds resumed last quarter after contract amendment # 8 finalized in December 2006 replenished funding for this budget line item

#### *Status of the Business Development Fund (BDF)*

As of 30 June 2007, BDF had obligated \$209,010.32 to help fund 24 engagements of assistance to individual client firms. These firms, in turn, had committed \$375,008.50 as co-payment contributions. Total value of projects leveraged through BDF funds was \$584,018.82 as shown in Exhibit II–5 at the end of the section.

#### *Status of the Mongolian Competitiveness Fund (MCF)*

At the end of the same period, MCF had obligated \$ 374,813.38 in commitments to support thirty-one agreements; client counterparts had committed an additional \$ 658,179.38 as co-payment for the projects. Total value of projects leveraged through MCF funding was \$ 1,024,502.76 as shown in Exhibit II–6 at the end of the section.

In summary, total funds commitments of BDF and MCF at the end of the quarter amounted to \$ 583,823.70 or 97.3% of the revised life-of-project budget of \$600,000 for these funds. The value of client contributions was close to double this amount, or \$1,033,187.88.

Obligations of MCF and BDF are now approaching the budgeted funds currently in the contract and additional funds will be required if these programs are to continue.

### **C4. National dialogue component**

This component is responsive to PIR 4, National dialogue on enabling environment and competitiveness improved. The component also includes project management. In addition to activities described in Section I, work of this project component during the quarter included the following:

*National educational campaign on the new tax laws.* The project continued to work closely with the GDNT's Public Affairs Officer in the conceptualization and preparation of materials to raise public awareness about the new tax laws. The project provided assistance on development and airing of three promotional TV spots. The first two such spots were broadcast through April. The third spot promoted both the new laws and the redesigned GDNT website and was aired during National Taxpayers Week celebrations in the second week in May.

*Public communications handbook for public affairs officers.* Following training of GoM public affairs officers, subcontractor The Asia Foundation finished a Mongolian handbook for their use. The manual has been printed with assistance from the project and the Cabinet Secretariat has distributed it among GoM ministries and agencies.

*Improved public communications tools: GDNT website.* GDNT concurred on the final website structure and agreement was reached on content. The project prepared a document management system for GDNT to control content uploading. Project assistance will continue during the uploading process, with EPRC being responsible for preparing certain tax educational materials for inclusion on the site.

## **D. EPRC–sponsored public conferences, presentations, and training events**

Exhibit II–7, at the end of this section, summarizes the number and types of project–supported or co–sponsored external events. A total of 339 participants attended eleven events sponsored or supported by the project with a total duration of 57.5 hours for an equivalent of 2,437 person/days (339 participants x 57.5 hours divided over 8 hours per day).

## **E. Emerging issues and key actions for the next quarter**

Based on project implementation during the quarter, a number of issues worthy of attention have emerged. A summary of these is provided below, as well as key actions scheduled for the next quarter.

### **E1. Emerging issues**

*Implementation of a single electronic window for trade facilitation.* With Cabinet approval of the national program that the Working Group prepared with project assistance, implementation of the action plan will commence during the quarter.

*Technical support to the National Committee on Trade and Transport Facilitation (NCTTF).* Per their request, the project will act as a technical secretariat to develop a national program and draft a decree to support trade and transport facilitation through the Transit Mongolia project.

*Small grants support for the analyses of Mongolia’s trade issues.* The project will continue its partnership with GTZ in the Summer Trade Seminar by providing support for Mongolian trade seminar participants who submit proposals to address trade policy issues relevant to MoIT and trade negotiations.

*GoM/Donors Technical Meeting.* The next meeting is tentatively scheduled for September/October but some are interested in delaying it to the first quarter of 2008. In EPRC’s opinion, this effort is much too important and should not be delayed. EPRC will again interface with the World Bank and is will assist the MoFE with their sector status presentation. The last two Tech Sessions have been improvements but much more work is necessary to prepare for this next session.

*Public dialogue and public education.* EPRC commenced this campaign this quarter. Given the serious energy sector problems and issues, this effort is vital to convince all stakeholders (government, parliament, energy customers, the media and the public) of the need to address the issues and problems, especially a significant tariff increase.

*Tariffs.* The project has completed and the ERA has accepted a comprehensive tariff methodology and tariff design program. Completion of this program by EOP in June 2008 is of utmost importance

*Assistance to GoM with the design of a direct system of housing loan support for lower and middle income families.* EPRC will continue to work with the Ministry of Construction and Urban Development, the Ministry of Finance, the Parliamentary Working Group on Housing Finance and other key stakeholders to develop consensus and prepare a viable plan for a program to assist lower and middle income families to acquire or upgrade housing.

### **E2. Key actions for the next quarter**

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

*Economic and trade policy component:*

- Continued participation with GDNT in the revision of regulations and tax reporting forms supporting the new tax laws
- Completion of the review of tax revenues for the first half of 2007 and fiscal impact of the new tax laws
- Continued work with GDNT, NAMBC and MNCCI on development and presentation of nationwide training programs on the new tax laws, regulations and revised tax return forms
- Support the implementation of the action program for the establishment of a SEW for trade facilitation as Cabinet approved the national program in late May
- Continued assistance to MoIT on conducting analyses of trade policy issues through a small grants program, funded jointly with GTZ, for Summer Trade Seminar participants awarded such grants through a competitive process
- Provide technical support to the National Committee on Trade and Transport Facilitation (NCTTF) on the development of a national program, “Transit Mongolia”
- Implementation of other scheduled work plan tasks.

*Energy component:*

- Continue but intensify the consensus building efforts with MoFE, other GoM stakeholders, selected donors, energy customers and, when appropriate, the media and the public, particularly the PI/PE campaign
- Provide assistance to USAID and the MoFE to prepare for the next GoM/External Partners Technical Meeting tentatively scheduled for September/October 2007
- The project will continue to work towards completion by EOP in June 2008 of the comprehensive tariff methodology and design that the project prepared and ERA approved
- Assist ERA to finalize and approve generation two-part tariff methodology, develop shadow generation tariffs for the CES and continue the tariff program discussed above
- Continue assisting on the draft concept paper for the master plan revision and the revision itself, but only as specifically requested by the ERDC
- Continue assistance to the MoFE, MoF and SPC on the amendments to the Energy, Concessions and Conservation Laws
- Continue interfacing closely with the World Bank (mostly) and other donors on all energy issues
- Continue to assist ERA on development of Performance Agreements for all CES SOEs to improve performance as measured by the benchmarking system
- Continue training and technical assistance for the SPC and SOEs on corporate governance and assist the SPC with implementation of the EPRC-developed TORs to establish and implement the Corporate Governance Center
- Continue technical assistance regarding implementation of the coal program and the establishment of a management contract for one distribution company
- Continue to provide technical support to USAID with its current role as lead agency of the Energy Working Group
- Continue the development of a disaster scenario related to total loss of the heating sector in the winter
- Implementation of other scheduled work plan tasks.

*Business Competitiveness component:*

- Design programs and provide TA to increase the capacities and effectiveness of selected business associations and representative groups based on the 2006/7 association survey
- Provide technical assistance to the Working Group set up to define the structure and role of a National Tourism Organization
- Continue to provide technical assistance to the portal company DOT.MN to enhance content management, internet marketing, and search engine optimization
- Provide local and international technical assistance to the Fibermark Society to re-structure its constitution to position it as the main vehicle for the promotion of Mongolian cashmere abroad
- Identify and pursue market opportunities for niche products, particularly soft fruit products and horsemeat
- Work with selected trade associations to develop capacity to increase the range and quality of their services
- Provide continued management support to the MIK including hiring and training staff, organizing Board committees, completing a business plan and working towards the first secondary mortgage market transactions
- Continue assistance in the development of the secondary mortgage market by working with MIK in negotiations, due diligence and documentation to provide credit enhancement, liquidity facilities, equity investment and technical assistance
- Support stakeholders to ensure that proposed collateral and mortgage-backed securities legislation are implemented
- Assist MICC to identify and negotiate with an IFI to establish a \$25 million SME private equity fund
- Work with the Mongolian Bankers Association to complete negotiations with the International Finance Corporation for support to establish a new, private sector led, credit information bureau
- Work with stakeholders to gain consensus on a program to support lower and middle income families to acquire or upgrade housing
- Implementation of other scheduled work plan tasks.

*National dialogue and project management component:*

- Completion and launching of the newly redeveloped GDNT website, including all content uploading
- Develop a public communications strategy for the energy sector focused on consensus building and priority actions required in the next twelve months
- Continue dialogue with stakeholders and develop public communications campaign on development of a single electronic window for trade facilitation
- Implementation of other scheduled project tasks.

*Contract management:*

- Refine project strategy and anticipated results through current end-of-contract date and suggested areas of work and strategy for beyond
- Refine quarterly projections for short-term expatriate technical assistance
- Develop and conduct in depth briefing sessions for USAID staff as required
- Implement other scheduled project tasks.

**Exhibit II-1: Economic and Trade Policy Component - Quarterly Progress Report (April-June 2007)**

*PIR 1. ECONOMIC AND TRADE POLICY ENVIRONMENT IMPROVED*

DELIVERABLES & BENCHMARKS					
AWP-2007 ACTIVITIES	Quarter 1	Quarter 2	Quarter 3	Quarter 4	END OF QUARTER RESULTS
<b>KRA 1.1. Sound macroeconomic policies developed and implemented</b>					
<b>A. Tax reform implementation</b>					
<b>A1. GDNT support with implementation of new tax laws</b>					
<b>A1.1 Training of tax inspectors and supervisors</b>					
Assist GDNT in developing training materials and deliver training for tax inspectors and tax supervisors on the new income tax return forms applicable international corporate accounting practices, regulations, and procedures	>>	>X >> >>	>> >> >>	>> >> >>	In conjunction with GDNT, presented a three-day training program for 78 tax inspectors and collectors. Training encompassed the new laws, reporting forms and regulations. Selected GDNT trainers will participate in nationwide workshops for the public, scheduled for the third quarter in conjunction with chambers of commerce and local NGOs.
<b>A1.2. Assistance to GDNT with drafting selected model regulations and public hearing procedures</b>	>>	>> X >>	>> >> >>		Activity is pending availability of GDNT personnel and public input into the revised forms and regulations previously issued. Demand is rising within GDNT to redraft, expand and clarify the new regulations based on comments from GDNT's inspectors and collectors.
<b>B. Tax reform facilitation</b>	>> >> >>	>> >> >>	>> >> >>	>> >> >>	Initiated a review of 2007 tax revenues to identify factors accounting for the increase in PIT and CIT revenues in spite of lower tax rates. Agreed with GDNT to accomplish the analysis in the third quarter when revenue data for the first half of the year will become available
<b>C. Tax reform technical support</b>	>> >> >>	>> >> >>	>> >> >>	>> >> >>	None requested.

**Exhibit II-1: Economic and Trade Policy Component - Quarterly Progress Report (April-June 2007)**

*PIR 1. ECONOMIC AND TRADE POLICY ENVIRONMENT IMPROVED*

DELIVERABLES & BENCHMARKS					
AWP-2007 ACTIVITIES	Quarter 1	Quarter 2	Quarter 3	Quarter 4	END OF QUARTER RESULTS
<b>KRA 1.2. Trade and investment policies developed and implemented</b>					
<p><b>A. Support for the Trade Analysis and Negotiations Unit</b>                      TANU established and operational since July 2006 with support from UNDP, GTZ and project; GTZ and project provide technical support on core trade issues, work plan preparation and implementation</p>	>> >> >>	>> >> X	X >> >>	>> >> >>	Efforts during the quarter focused on the design and recruitment of instructors and participants for the <i>Summer Trade Seminar</i>
<p><b>B. Support for the establishment of a single electronic window for trade facilitation</b>                      Project work to facilitate trade began in third quarter of 2006, by fourth quarter a MoF decree set up a Working Group (WG) to establish a single window (SEW) for trade, with EPRC providing technical support; WG had first meeting in December and project will continue its technical assistance through AWP-07</p>	>> >> X	>> >> X	>> >> >>	>> >> >>	Cabinet approved the National Program for SEW on 23 May, capping five months of intensive technical assistance that EPRC has been providing the Working Group; all principles of the business model proposed, including formation of a separate joint-stock PPP company were endorsed
<p><b>C. Support for the establishment of Trade Policy Council</b>                      Concept paper and draft decree completed to establish a Trade Policy Council to improve management and coordination of foreign trade policy but on hold pending appointment of new MoIT Minister; passage of decree is condition precedent for EPRC procurement of IT server and peripherals to support the unit.</p>	>> >> >>		>> >> >>	>> >> >>	No activity during the quarter as newly appointed Minister at MoIT settles in
<b>KRA 1.3. Policy formulation processes and organizational structures strengthened</b>					
<p><b>A. Assistance to the National Statistics Office (NSO)</b>  <b>A1. Improvement of estimation of national accounts aggregates and GDP</b>                      Continued from AWP-06; assistance provided to NSO in the administration, procedures, management, and documentation of methodology in the estimation of national accounts to bring them into closer compliance with UN-96 standards</p>	>>	>			Project-supplied short-term expert in national accounts completed her work and submitted report to NSO

**Exhibit II-1: Economic and Trade Policy Component - Quarterly Progress Report (April-June 2007)**

*PIR 1. ECONOMIC AND TRADE POLICY ENVIRONMENT IMPROVED*

DELIVERABLES & BENCHMARKS					
AWP-2007 ACTIVITIES	Quarter 1	Quarter 2	Quarter 3	Quarter 4	END OF QUARTER RESULTS
<b>A2. Social Account Matrices</b> Assist NSO with production of SAMs on an annual basis	>> >>	>X			Activity will be transferred to IMF-supplied national accounts expert.
<b>B. Summer Seminar on Trade</b> Project and GTZ support for implementation of the Trade Analysis and Negotiations Unit (TANU) work plan for 2007, including design and implementation of a summer seminar focused on bilateral and FTA key trade issues for Mongolia	>> >>	>> >> X	X		Forty-one professionals graduated from intensive, hands-on, two-week <i>Summer Trade Seminar: Tools for Practitioners</i> sponsored jointly with GTZ, MoIT, and the Mongolian National University
<b>Other Areas: Respond to emerging policy reform initiatives</b> As negotiated and agreed upon and consistent with project policy support focus on laws, regulations, systems, and procedures directly affecting the business environment.		>>			Project received request to provide technical support to the National Committee on Trade and Transport Facilitation (NCTTF) on the development of a national program, Transit Mongolia" and began analysis of NCTTF-prepared documents

**SYMBOLS:**

- P = Projected passage of Law
- X = Event, benchmark, task completion
- >> Indicates continuous activity
- W = Workshop

## Exhibit II-2: Energy Component - Quarterly Progress Report (April-June 2007)

### PIR 2: ENERGY SECTOR COMPETITIVENESS, EFFICIENCY, AND TRANSPARENCY IMPROVED

DELIVERABLES & BENCHMARKS						
AWP-2007 ACTIVITIES	Quarter 1	Quarter 2	Quarter 3	Quarter 4	END OF QUARTER RESULTS	
<b>KRA 2.1 National consensus on energy sector policy and strategy developed</b>						
<b>A. Technical support for long-term energy sector vision, strategy, and implementation priorities</b>						
Assist MoFE and stakeholders, in cooperation with the World Bank, with development of long-term sector vision, policy and strategy	>>	>>	>> >> >>	>> >> >>	>> >> >>	Support provided through third quarter; further support contingent on consensus on key energy issues, approach, and implementation priorities
<b>B. Technical support for consensus facilitation in energy sector</b>						
Development of technical background information and briefings; meetings with stakeholders to help build consensus on energy sector long-term policy; linked to Public Dialogue Activity B1	>> >>	>> >> >>	>> >> >>	>> >> >>	>> >> >>	Working consensus developed among stakeholders on energy sector issues and implementation priorities.
<b>C. Support for updating energy sector master plan</b>						
Assist MoFE with energy sector master plan update	>>	>>	>>	>X		Support provided through second quarter; further support will depend on achieving working consensus on energy sector strategy and priorities
<b>KRA 2.2 Energy sector regulatory environment more transparent, market-oriented</b>						
<b>A. Support for cost-based tariff policies</b>						
<b>A1. Cost of service estimates by customer class</b>						
After completion of conversion to International Accounting and Financial Reporting Standards ( IAFRS)-based Uniform System of Accounts (USOA) at all Central Energy System (CES) and Eastern Energy System (EES) during AWP-06, project will assist ERA Audit Unit--set up last year with project support--with establishing cost-of-service estimates by customer class		>> >>	>> >>	X		Indicative cost of service by customer class estimates available
<b>A2. Estimations of Operations &amp; Maintenance costs</b>						
Project support to develop indicative estimates of technically required O&M budget compared to current revenues, and O&M expenditures of energy companies		>> >>	>> >> >>	>X		Indicative cost estimates of technically required O&M compared to actual O&M expenditures available
<b>A3. Support for implementation of two-part tariff structure</b>						
Assist the ERA with the implementation of two-part tariff methodology/structure and World Bank tariff policy development	>>	>>	>>	>>	>X	Will be completed by year end 2007 but will pick up again second quarter 2008

**Exhibit II-2: Energy Component - Quarterly Progress Report (April-June 2007)**

*PIR 2: ENERGY SECTOR COMPETITIVENESS, EFFICIENCY, AND TRANSPARENCY IMPROVED*

DELIVERABLES & BENCHMARKS					
AWP-2007 ACTIVITIES	Quarter 1	Quarter 2	Quarter 3	Quarter 4	END OF QUARTER RESULTS
<b>B. Energy sector bilateral market structure developed</b>					
Development of market design, development of vesting contracts and other agreements and implementation assistance of proposed bilateral market structure	>>	>>	>>	>>	Work will continue intermittently until mid-2008
Develop electricity market rules and operational procedures					Completed; awaiting approval for implementation
Develop customer protection procedures					Completed in 2005
Monitor ERA implementation of above rules and procedures and revise as needed	>>	>>	>>	>>	STTAs will continue intermittently through EOP.
<b>C. Improved institutional capacity of ERA</b>					
Accounting system review and update to comply with IAFRS					Completed February 200
Implementation and training of audit department					Completed April 2006.
Provide internships and training of regulatory auditors					Completed April 2006
Facilitate domestic and foreign training of regulators and energy sector officers	>>	>>	>>	>>	Activity to continue until EOP
<b>D. Improved legal and regulatory framework and policy environment</b>					
Assistance with development of a draft Concession Law					Concept paper and draft law issued and is now in the review cycle; EPRC has provided comments
Assistance with development of a draft Energy Law		>>	>>	>>	Revision has been under discussion for many months; targeted for passage by Parliament in late 2007
Assistance with development of a draft Energy Conservation Law				>>	EPRC draft submitted in 2005; MoFE has suspended work until first Q 2007; will be completed by end of 2007
Assist energy sector state-owned enterprises (SOEs) to improve corporate governance and corporatization.	>>	>>	>>	>>	Will continue intermittently through 2007 and to mid-2008.
Refine ERA Docketing system					Completed September 2006
Revise Grid Code and reconcile with Market Rules				>>	Assist MOFE and ERA as requested.
Long-term energy project planning					Work will continue intermittently until EOP
Review of power plant fuel contracts					Draft contract submitted to MoFE in mid-2006; no additional work planned

**Exhibit II-2: Energy Component - Quarterly Progress Report (April-June 2007)**

*PIR 2: ENERGY SECTOR COMPETITIVENESS, EFFICIENCY, AND TRANSPARENCY IMPROVED*

DELIVERABLES & BENCHMARKS					
AWP-2007 ACTIVITIES	Quarter 1	Quarter 2	Quarter 3	Quarter 4	END OF QUARTER RESULTS
<b>E. Assist the State Property Committee (SPC) with energy sector privatization</b>					
Assistance with tender preparation					SPC requested assistance with energy sector asset privatization in January 2007; no further activity since then
Assistance with selection of transaction advisors					No privatizations expected in 2007
Review of energy sector SOEs' reporting requirements to the ERA, SPC, Ministry of Fuel and Energy and Ministry of Finance			>> >>	>> >X	Pending completion of tariff system reporting requirements by ERA/EPRC. All CES entities have submitted 2006 financial statements in USOA format; uniform reporting system being developed and completion is scheduled by end of 2007
<b>F. Capacity building at the National Dispatch Center (NDC)</b>	>>>>>		>>>> >>	>>	This task will continue intermittently well into 2008 as the tariff and market design tasks come to fruition
<b>KRA 2.3 Commercial orientation and practices at energy state-owned enterprises improved</b>					
<b>A. Implementation of tariff cost accounting methodology</b>					
Assist companies with the implementation of USOA chart of accounts workshops					Same as KRA 2.2, A above, but for SOEs
Assist companies with account conversions					Same as KRA 2.2 above
Assist companies with the implementation of the proposed two-part tariff methodology.	>> >>	>> >>	>> >>	>> >>	Will continue intermittently to EOP
<b>B. Implementation of customer service and complaint resolution procedures</b>					
Develop and implement Customer Service organization and procedures		>>	>> >>	>> >>	Ongoing in concert with the benchmarking program
Conduct ERA and in-company training workshops and seminars	>> >>	>> >>	>> >>	>> >>	STTAs will perform intermittently until EOP
<b>KRA 2.4 Energy sector legal, regulatory, and financial environment improved</b>					
Continue potential investor due-diligence for the energy sector					Lead for this task transferred to EPRC Finance Team
Assist GoM and ERA drafting and commenting on procedures, rules and regulations to improve investor friendliness and facilitate privatization					Will continue intermittently through 2007 as requested

**Exhibit II-2: Energy Component - Quarterly Progress Report (April-June 2007)**

*PIR 2: ENERGY SECTOR COMPETITIVENESS, EFFICIENCY, AND TRANSPARENCY IMPROVED*

DELIVERABLES & BENCHMARKS					
AWP-2007 ACTIVITIES	Quarter 1	Quarter 2	Quarter 3	Quarter 4	END OF QUARTER RESULTS
<b>KRA 2.5 Respond to emerging opportunities in the energy sector</b>					Intermittently as requested, negotiated and agreed upon and consistent with overall project purpose and objectives for the sector until EOP
Facilitate Tavan Tolgoi development					No activity at this time pending GoM decision to proceed
Permanent license terms and conditions					Pending Energy Law amendment passage and Bilateral Contract Market implementation in mid-2008.
					Completed unless additional requests from ERA
Rules and procedures for binding of licenses					Same as above
Development of price cap methodology	>> >> >>	>> >> >X			Report on incentive regulation has been submitted. Will continue to EOP
Implement ERA Docketing System					Completed. Please see 2.2 D

SYMBOLS:

- P = Projected passage of Law
- X = Event, benchmark, task completion
- >> Indicates continuous activity
- W = Workshop

**Exhibit II-3 Business Competitiveness Component - Quarterly Progress Report (April-June 2007)**

*PIR 3. PRIORITY SECTORS STRENGTHENED*

AWP-2007 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER RESULTS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<b>KRA 3.1 Enabling legal, regulatory, and business finance environment</b>					
<b>A. Credit Information Bureau</b>					
<b>A1. Support development of consensus on business model</b> Review upgrading recommendations to determine capital requirements, develop a revised business model, gain consensus and support implementation of potential privatization plan	>> >>>>>	>X			Working Group formed under umbrella of Mongolian Bankers Association. Agreement in principle reached with IFC for technical assistance to create new CIB
<b>A2. Support implementation of business model to privatize credit information services</b> Provide appropriate support to implementation of the privatization plan		>> X >>	>> >> X		Draft CIB law prepared during the quarter and submitted to Working Group
<b>B. SME Private Equity Fund</b>					
<b>B1. Support with negotiations with funds manager</b> Assist Mongolian International Capital Corporation in negotiations with international fund manager to reach agreement on support to MICC fund management company	>X				Agreement reached with Aureos Capita to provide advisory services.
<b>B2. Support with negotiations with funds manager</b> Provide support to MICC Fund Management Company through the fund raising process	>> >>	>> >> >>	>> >> >>	>> >> >>	Asian Development Bank made policy decision to no longer support any private equity funds. MICC reviewing alternatives for lead investor
<b>C. Support for Mongolia Mortgage Corporation (MIK)</b>					
<b>C1. Support for MIK management and operations</b> MIK was established last year; project will continue support and assist MIK with management and operations, including business plan preparation, hiring staff, and advising board of Directors	>> >> >>	>> >> >X	>> >> >>	>> >> X	Shareholders approved business plan and capital increase. Will continue support until CEO engaged and proposed FMO/KfW technical assistance comes on line
<b>C2. Support for MIK 's first transaction</b> Assist MIK to complete first transaction with support of Bank of Mongolia, including advising on transaction structure and completion of due diligence	>> >> >>	>> >> >>	>> >> >X		BOM made policy decision not to participate. Now working towards market-based solution (see C.3)
<b>C3. Negotiation of credit enhancement facility</b> Assist MIK to negotiate and complete a credit enhancement facility with an international financial institution	>> >> >>	>> >> >>	>> >> >>	X> >> >>	Negotiations underway with IFC and ADB on liquidity, capital enhancement and equity. MOU signed with KfW on 4.8m Euro liquidity facility

**Exhibit II-3 Business Competitiveness Component - Quarterly Progress Report (April-June 2007)**

*PIR 3. PRIORITY SECTORS STRENGTHENED*

AWP-2007 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER RESULTS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<b>C4. Support for placement of credit-enhanced mortgage-backed securities</b> Assist MIK to structure and place first credit-enhanced, mortgage-backed security with third party investors			>> >> >>	>> >> >>	MIK's business plan projects this transaction to occur January 2008
<b>D. Loan foreclosure and asset recovery procedures</b> Project support for drafting of proposed amendments to laws and regulations to expedite loan foreclosures and asset recovery of non-performing loans	>> >> >>	>> >> >X			Mortgage Security Law draft prepared and submitted to Financial Regulatory Commission
<b>E. Support for Mortgage-Backed Securities Law</b> Assist with drafting of proposed mortgage-backed securities law consistent with international best practice that will facilitate development of private sector-led secondary mortgage markets.	>> >>	>> >> >X			Asset Backed Securities Law and Covered Bond Law drafts prepared and submitted to Financial Regulatory Commission
<b>F. Housing finance assistance program</b> Assist Ministry of Construction and Urban development to design a system to assist lower income families to improve affordability of housing finance; legal review of laws and drafting of amendments to facilitate housing finance for lower income groups		>>	>>	>> >> >X	First phase of feasibility study completed. Second phase to commence in 3rd quarter
<b>KRA 3.2 Competitiveness of identified sectors improved</b> <b>A. Natural fibers</b> <b>A1. Market linkages</b>  Identify brand holders, distributors and retailers in international markets for cashmere, camel, and other natural fibers products. Introduce cashmere processors to potential buyers through brokers and agents, trade missions and invitations to Mongolia	>> >> X>	>> >> >>	>> >> >>	>> >> >>	Clients have received sample orders from eight well-known brand holders based in the US. There have been some problems with producing the samples on time. Two client companies have announced significant new orders from Europe

**Exhibit II-3 Business Competitiveness Component - Quarterly Progress Report (April-June 2007)**

*PIR 3. PRIORITY SECTORS STRENGTHENED*

DELIVERABLES & BENCHMARKS					
AWP-2007 ACTIVITIES	Quarter 1	Quarter 2	Quarter 3	Quarter 4	END OF QUARTER RESULTS
<b>A2. Firm support to market linkages</b> Deploy consultants, advisors and technicians through BDF to ensure processors meet the requirements of customers identified through market linkages in terms of quality, consistency, delivery etc.; concentration on weaving, spinning and dyeing	>> >> >>	>> >> >>	>> >> >>	>> >> >>	A textile chemist engaged through the project conducted a series of five seminars on recent innovations in dyeing and finishing. He also provided direct consultancy advice to four client companies
<b>A3. Spinning capacity</b> Support and encourage cashmere companies to introduce, develop and upgrade spinning capacities	>> >> >>	>> >> >>	>> >> >>	>> >> >>	Mongolia now has the spinning capacity to process all Mongolian fiber into yarn
<b>A4. Fibermark Society</b> Develop capacity and resource within the Fibermark Society to enable it expand the range of services to members	>> >X >>	>> >> >>	>> >> >X	>> >> >>	The Fibermark Society has reconstituted its board as the first step in reviving the society. EPRC provided two short-term consultants to help with development of a business plan, funding proposal, and capacity building initiatives. It is essential that FS management is restructured to face new challenges
<b>A5. Market intelligence</b> Collect, compile, and disseminate market information , design and color predictions and fashion trends	>> >> >X	>> >> >>	>> >> >X	>> >> >>	On going
<b>B. Tourism</b> <b>B1. Improved business practices, marketing and technical knowledge of cluster/sector firms</b> Through the Mongolian Competitiveness Fund, initiate and develop group projects which lead to improved competitiveness of the group or sector such as joint promotion, training activities, assistance to broaden role and services of trade associations etc.	>> >X >>	>> >X >>	>> XX >>	X >> >>	Three MCF applications were approved during the quarter, the Itgel Foundation (community tourism: see B6 below), the Sustainable Tourism Development Center (Trade Journal), and TIC

**Exhibit II-3 Business Competitiveness Component - Quarterly Progress Report (April-June 2007)**

*PIR 3. PRIORITY SECTORS STRENGTHENED*

AWP-2007 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER RESULTS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<p><b>B2. Improved Mongolia's tourism web presence: Establishment of a tourism portal</b> Continue to provide technical assistance to the portal company (Dot.Mn) established as a private entity in 2006.</p>	>> >> >>	>> >> >>	>> >> >>	>> >> >>	The portal took its first on-line bookings this quarter. It has an arrangement with Visa and is now concluding a deal with MasterCard. The Portal doubled its number of information pages over the period
<p><b>B3. Improved sector legal and regulatory environment</b> <b>B3.1 Support consensus-building on national tourism strategy and the introduction of a National Tourism Organization (NTO)</b> Improved private sector advocacy and participation in tourism sector policy-making; consensus on tourism sector strategy</p>	>> >> >>	>X >> >X	>> >> >>	>> >> >>	The National Tourism Strategy was adopted in April. The NTO was registered by the State Tax Administration under the name "The National Tourism Organization" and was registered as a legal entity (NGO). There are twenty founders representing all interests in the industry, public and private sectors. The board comprises eleven, including MRTT, MoEd, MoE, and eight private. The Mongolian Tourism Association (MTA) decided to postpone membership.
<p><b>B3.2 Support for international best practices in tourism sector</b> Continue to provide advice, guidance and training on best international practice to officials of the Ministry of Roads, Transport and Tourism and sector trade associations.</p>	>> >> >W	>> >> >>	>> >> >P	>> >> >>	On going
<p><b>B4. Tourism satellite account</b> Provide technical assistance to the Ministry of Roads, Transport and Tourism and the National Statistics Office to establish a tourism satellite account within the national accounts system of Mongolia</p>			>> >> >>	>> >> >>	Awaiting formation of a strong inter-agency working group
<p><b>B5. Improved tourist information services</b> Continued technical assistance to Tourist Information Center</p>	>> >> >>	>> >> >>	>> >> >>	>> >> >>	On going. TIC is fully staffed for 2007 season. Current plans of the newly formed NTO are to take over management responsibility for TIC

**Exhibit II-3 Business Competitiveness Component - Quarterly Progress Report (April-June 2007)**

*PIR 3. PRIORITY SECTORS STRENGTHENED*

AWP-2007 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER RESULTS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<p><b>B6. Support for community-based tourism</b> Provide technical assistance to a pilot program to create a tourism 'product' in the Khovsgol area, owned and managed by the local Tsaatan (Reindeer) community and leveraging the recently established visitor center</p>		W W	>> >> ><	>> >> >>	EPRC provided both financial and technical assistance to the program; training of local community began May
<p><b>C. Quarterly performance reports of the <i>Mongolian Competitiveness Fund</i></b>  Report on MCF disbursements, commitments, and results</p>	X	X	X	X	Report published in QPR. 97.3 percent of available \$600,000 funds had been obligated by end of quarter. Project will not make further obligations unless additional funds become available
<p><b>KRA 3.3 State-owned enterprises prepared for privatization</b> <b>A. Support for State Property Committee</b> As requested by the Government of Mongolia and approved by USAID</p>					No assistance requested.
<p><b>KRA 3.4 Competitiveness of client business firms improved - <i>Business Development Fund</i></b> <b>A. Identify potential client firms and transactions</b></p>	>> >> >>	>> >> >>	>> >> >>	>> >> >>	Proceeding with caution due to limited remaining funds
<p><b>B. Transaction support</b> Assist client firm with implementation</p>	>> >> >>	>> >> >>	>> >> >>	>> >> >>	On going
<p><b>C. Quarterly performance reports of the <i>Business Development Fund</i></b>  Report on <i>Business Development Fund</i> (BDF) disbursements, commitments, and measures of impact</p>	X	X	X	X	Report published in QPR. 97.3 percent of available \$600,000 funds had been obligated by end of quarter. Project will not make further obligations unless additional funds become available

**Exhibit II-3 Business Competitiveness Component - Quarterly Progress Report (April-June 2007)**

*PIR 3. PRIORITY SECTORS STRENGTHENED*

AWP-2007 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER RESULTS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<b>KRA 3.5 Strengthen selected business associations</b> Select up to four business associations to receive technical assistance and support through MCF to improve the range and quality of services for members.	X	>> W >>	>> W>>	>> >> >>	No follow up due to doubts about the ability / willingness of associations to implement suggested changes
<b>KRA 3.6 Respond to emerging opportunities to strengthen client firms or sectors</b> As negotiated and agreed upon and consistent with business development objectives to improve competitiveness of the business environment, sectors/clusters, and firms	>> >> >>	>> >> >>	>> >> >>	>> >> >>	Visit of Japanese horsemeat buyers expected in June was delayed due to external factors; they are now expected to visit in September 07

SYMBOLS:

- P = Projected passage of Law
- X = Event, benchmark, task completion
- >> Indicates continuous activity
- W = Workshop

**Exhibit II-4: National Dialogue Component - Quarterly Progress Report April-June 2007)**

*PIR 4. NATIONAL DIALOGUE ON ENABLING ENVIRONMENT AND COMPETITIVENESS IMPROVED*

DELIVERABLES & BENCHMARKS					
AWP-2007 ACTIVITIES	Quarter 1	Quarter 2	Quarter 3	Quarter 4	END OF QUARTER RESULTS
<b>KRA 4.1 Public disclosure standards improved</b>					
<b>A. National public education program on new tax laws and regulations</b>					
<b>A.1 Development and dissemination of public informational materials on new tax laws</b>					
Tax brochures, TV and radio spots developed jointly with public affairs officer of GDNT and disseminated to the public	>> X >>	>> X >>	>> >> X	>> >> >>	Production and distribution of tax brochures completed. Three television spots were designed, produced and aired promoting the new tax laws and the newly redeveloped GDNT website. Airing concluded in May, with numerous airings during the month's National Taxpayers Week.
<b>A.2 Training of trainers program on new tax laws and regulations</b>					
Project support provided for GDNT trainers on new tax laws and regulations to support national taxpayers workshops on new tax laws and regulations		>> W			Postponed at the request of GDNT
<b>A.3 National workshops for taxpayers on new laws and regulations</b>					
Project support provided to GDNT and representative business associations such as MNCCI, NAMBC, etc. to design and implement hands-on workshops for taxpayers on tax forms, procedures and regulations.	>>	>> W W	W		Agreement was reached with all parties on the basic framework of the workshops, including postponing of same until late summer or early fall
<b>A.4 Redesign of GDNT website</b>					
Project support provided to GDNT to redesign its website to disseminate information to taxpayers, improve its security, update its content management system, and develop tools to facilitate administration	>> >> >>	>> X			Site structure and primary content is complete, with agreement of GDNT; document management developed and in use at GDNT to load and administrate web site

**Exhibit II-4: National Dialogue Component - Quarterly Progress Report April-June 2007)**

*PIR 4. NATIONAL DIALOGUE ON ENABLING ENVIRONMENT AND COMPETITIVENESS IMPROVED*

DELIVERABLES & BENCHMARKS					
AWP-2007 ACTIVITIES	Quarter 1	Quarter 2	Quarter 3	Quarter 4	END OF QUARTER RESULTS
<b>B. National public education program on energy issues</b>					
<b>B.1 Development of public informational materials on energy issues</b>					
Project support provided to ERA and MoFE on development of public informational materials (background articles, press releases, TV and radio spots, etc.) for mass media use	>	>>>>>>	>>	>>>>	Development of public information materials delayed until completion of workshops for printed mass media professionals
<b>B.2 Workshops for mass media on energy issues</b>					
Project support provided to ERA and MoFE to conduct workshops for journalists and provide background on energy issues		>> W W	>W >>	W W >>	Workshop for eleven journalists held on 22 June, with sponsorship from ERA, MoFE, and MoF, with assistance from the Press Institute to discuss and agree on a series of workshops for printed media professionals
<b>B.3 Dissemination of information on energy issues through mass media</b>					
Project support provided to ERA and MoFE to disseminate information on energy issues to the public		>> >>	>> >> >>	>> >> >>	Scheduled for end of next quarter, after completion of workshops for journalists
<b>C. On-line access to regularly updated business laws in Mongolian and English through the <i>National Legal Center</i></b>					
<b>C1. Release of updated business-relevant laws</b>					
Business-relevant laws updated with current amendments, translated into English, made available on CDs, and posted on-line at the NLC Website in Mongolian and English	>> >> >>	X			The National Legal Center, with project support, released the second version of the <i>Essential Business Laws of Mongolia</i> CD in April; the CD contains 67 fully updated business-relevant laws in English and Mongolian as well as the full text of all international investment and tax treaties currently in effect. Demand for the CD appears strong as NLC reports sales of over 300 copies at 20,000 MNT each
<b>D. Public communications standards for government websites</b>					
<b>D1. Development of Mongolian language technical tools for managing websites</b>					
Project support to the Information Communications and Technology Agency (ICTA) and IT of Cabinet Secretariat to adapt open source content management systems (CMS) to Mongolian language, develop Mongolian language website administration tools, and training materials	>>	>> >> X			With the attendance of over 68 representatives from government agencies and the private sector, ICTA, with EPRC support launched the beta version of <i>Joomla! Mongolia</i> , a full Mongolian language version of the <i>Joomla!</i> open source content management system (CMS) to facilitate development and maintenance of GoM agencies' websites

**Exhibit II-4: National Dialogue Component - Quarterly Progress Report April-June 2007)**

*PIR 4. NATIONAL DIALOGUE ON ENABLING ENVIRONMENT AND COMPETITIVENESS IMPROVED*

DELIVERABLES & BENCHMARKS					
AWP-2007 ACTIVITIES	Quarter 1	Quarter 2	Quarter 3	Quarter 4	END OF QUARTER RESULTS
<p><b>D2. Redesign of MASM website to improve public access to standards</b>                      Project support to the Mongolian Agency for Standards and Metrology (MASM) to redesign its website, organize its standards in electronic form, and provide public access to them</p>		>> >>	X >>	>> >> >>	On hold until action program of the SEW National Program gets under implementation
<p><b>E. Technical and operational support of the <i>Open Government</i> website</b>                      Project support provided to assist with on-line postings of draft laws, amendments, and regulations</p>	>> >> >>				Activity discontinued as former subcontractor, The Asia Foundation, has assumed this responsibility
<p><b>KRA 4.2 Mechanisms of public dialogue and citizen input on enabling business environment improved</b></p>					
<p><b>A. <i>Open Government</i> national multimedia chats program</b>                      Project support provided through the <i>Open Government</i> website to engage citizens and decision makers in dialogue about current economic and financial issues in a question-and answer format carried live on national TV and radio; planned focus of these is on energy sector issues, tax policies, housing finance, and trade facilitation, among others. Scheduled as opportunity arises.</p>		>> >>	>>	>> >> >>	None held during the quarter
<p><b>B. Public presentations and discussion fora</b>                      Experts share their knowledge and findings on economic policy issues, best practices, and international experiences with the general public</p>	>> >> >>	>> >> >>	>> >> >>	>> >> >>	Discussion fora, retreats and presentations held during the quarter included: two parliamentary retreats on housing finance, one public-private sector retreat on tourism strategy, FRC support for two public discussions of proposed new draft laws on securities, ICTA launch of Joomla! Mongolia, and MBA public presentation of proposed new draft law on credit information services
<p><b>C. Monthly EPRC Newsletter</b>                      Monthly summary of significant project activities and brief discussions of relevant economic policy issues for the general public</p>	X X X	X X X	X X X	X X X	Three issues produced during the quarter

**Exhibit II-4: National Dialogue Component - Quarterly Progress Report April-June 2007)**

*PIR 4. NATIONAL DIALOGUE ON ENABLING ENVIRONMENT AND COMPETITIVENESS IMPROVED*

DELIVERABLES & BENCHMARKS					
AWP-2007 ACTIVITIES	Quarter 1	Quarter 2	Quarter 3	Quarter 4	END OF QUARTER RESULTS
<b>D. EPRC project website</b> Content provision, technical support and operations	>> >> >>	>> >> >>	>> >> >>	>> >> >>	On going
<b>KRA 4.3 Coordination and cooperation with partners, foreign investors, bilateral and multilateral organizations improved</b>  Issue-driven information-sharing and coordination with donors, NGOs and international finance institutions to leverage project funds, avoid duplication of efforts, and minimize contradictory messages and programs	>> >> >>	>> >> >>	>> >> >>	>> >> >>	Leveraging of project funds included: co-financing of <i>Summer Trade Seminar</i> with GTZ, MOU for 4.8 million Euro line of credit facility for MIK signed with KfW; negotiations conducted with IFC to support MBA's initiative to establish private sector credit information bureau
<b>KRA 4.4 Project performance and management</b>					
<b>A. Annual Work Plans and budgets</b> Submission of annual work plan to USAID				>X	Work plan and amended LOP budget submitted
<b>B. Quarterly Progress Reports</b> Submission of Contractor's progress reports to USAID	X	X	X	X	
<b>C. Quarterly project performance indicators</b> Submission of Contractor's progress reports to USAID	X	X	X	X	QPR submitted
<b>D. Training database</b> Submission of information on training events and participants	>> >> >>	>> >> >>	>> >> >>	>> >> >>	On going
<b>E. Other reports on demand</b> Prepare and submit reports as required	>> >> >>	>> >> >>	>> >> >>	>> >> >>	On going; intensive support of Energy Sector Working Group

SYMBOLS:

- P = Projected passage of Law
- X = Event, benchmark, task completion
- >> Indicates continuous activity
- W = Workshop

**Exhibit II-5: Business Development Fund (BDF) cumulative obligations and disbursements as of 30-Jun-07**

Client firm	Date of confid. agreement	Objectives of subcontract	Date BDF subcontract signed	Due completion date	Subcontract value (US\$)			BDF funds disbursed	Sector	Type
					Client contribution	BDF funds obligated	Total contract value			
<b>October - December 2004 Quarter</b>					<b>Totals:</b>	<b>7,862.00</b>	<b>10,000.00</b>	<b>17,862.00</b>	<b>10,000.00</b>	
Hotel Mongolia	30-Aug-04	Feasibility of outdoor zoo	1-Sep-04	1-Oct-04	7,862.00	10,000.00	17,862.00	10,000.00	T	PRO
<b>January - March 2005 Quarter</b>					<b>Totals:</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	
<b>April - June 2005 Quarter</b>					<b>Totals:</b>	<b>40,420.50</b>	<b>25,525.32</b>	<b>65,945.82</b>	<b>25,525.32</b>	
Altai Cashmere	6-Jun-05	TA and training in designing	6-Jun-05	30-Dec-05	7,527.50	2,509.17	10,036.67	2,509.17	NF	M&S
Eermel	14-Jun-05	TA in designing	14-Jun-05	14-Sep-05	17,120.00	7,243.15	24,363.15	7,243.15	NF	M&S
Darkhan Nekhii	3-Jul-05	Study tour -Turkey	3-Jul-05	15-Jul-05	15,773.00	15,773.00	31,546.00	15,773.00	ML	M&S

**Exhibit II-5: Business Development Fund (BDF) cumulative obligations and disbursements as of 30-Jun-07**

Client firm	Date of confid. agreement	Objectives of subcontract	Date BDF subcontract signed	Due completion date	Subcontract value (US\$)			BDF funds disbursed	Sector	Type
					Client contribution	BDF funds obligated	Total contract value			
<b>July - September 2005 Quarter</b>					<b>Totals:</b>	<b>3,957.00</b>	<b>3,957.00</b>	<b>7,914.00</b>	<b>3,957.00</b>	
Tengerland	6-Jun-05	Market research, USA	1-Aug-05	10-Oct-05	3,957.00	3,957.00	7,914.00	3,957.00	NF	M&S
<b>October-December 2005 Quarter</b>					<b>Totals:</b>	<b>22,350.00</b>	<b>22,350.00</b>	<b>44,700.00</b>	<b>22,350.00</b>	
Eermel	14-Jun-05	Market readiness	6-Dec-05	18-Mar-06	21,100.00	21,100.00	42,200.00	21,100.00	NF	PRO/M&S
Technical Innovation	16-Dec-05	Investment proposal	12-Dec-05	10-Jan-06	1,250.00	1,250.00	2,500.00	1,250.00	O	FN
<b>January-March 2006 Quarter</b>					<b>Totals:</b>	<b>52,392.00</b>	<b>52,392.00</b>	<b>104,784.00</b>	<b>52,392.00</b>	
Altai Cashmere	6-Jun-05	Las Vegas trade show participation	12-Jan-06	25-Feb-06	6,873.00	6,873.00	13,746.00	6,873.00	NF	M&S
Gobi Corp		Las Vegas trade show participation	12-Jan-06	25-Feb-06	8,323.00	8,323.00	16,646.00	8,323.00	NF	M&S
MCCWC	6-Feb-06	Las Vegas trade show participation	12-Jan-06	25-Feb-06	6,873.00	6,873.00	13,746.00	6,873.00	NF	M&S
Eermel Co. Ltd	14-Jun-05	Las Vegas trade show participation	12-Jan-06	25-Feb-06	8,323.00	8,323.00	16,646.00	8,323.00	NF	M&S
MCCWC	6-Feb-06	Technical consultancy	27-Feb-06	14-May-06	22,000.00	22,000.00	44,000.00	22,000.00	NF	M&S

**Exhibit II-5: Business Development Fund (BDF) cumulative obligations and disbursements as of 30-Jun-07**

Client firm	Date of confid. agreement	Objectives of subcontract	Date BDF subcontract signed	Due completion date	Subcontract value (US\$)			BDF funds disbursed	Sector	Type
					Client contribution	BDF funds obligated	Total contract value			
<b>Apr-June 2006 Quarter</b>					<b>Totals:</b>	<b>12,205.00</b>	<b>12,205.00</b>	<b>24,410.00</b>	<b>12,205.00</b>	
XasBank	24-Apr-06	Information system consultancy	24-Apr-06	11-Jun-06	12,205.00	12,205.00	24,410.00	12,205.00	O	PRO
<b>July-September 2006 Quarter</b>					<b>Totals:</b>	<b>202,145.00</b>	<b>52,145.00</b>	<b>254,290.00</b>	<b>51,728.00</b>	
MN Logistics	7-Jun-06	To develop a start up business plan for MN Logistics	7-Jun-06	15-Aug-06	1,750.00	1,750.00	3,500.00	1,750.00	O	M&S
Bukhug LLC	20-Jul-06	To organize a trip to Beijin to investigate broiler industry equipment	19-Jul-06	8-Apr-06	1,600.00	1,600.00	3,200.00	1,600.00	ML	PRO
MICC	25-Jul-06	Legal advisory services to MICC in establishment of SME Private Equity Fund	25-Jul-06	25-Jul-07	175,000.00	25,000.00	200,000.00	25,000.00	O	M&S
Housing Finance corp.	1-May-06	Consulting service for establishment of HFC	1-May-06	5-Sep-06	13,750.00	13,750.00	27,500.00	13,750.00	O	M&S
Eermel Co.Ltd	14-Jun-05	Commissioning of new equipment and training of key engineers	11-Sep-06	29-Sep-06	5,600.00	5,600.00	11,200.00	5,200.00	NF	PRO
Beneduct	27-Jul-06	Investigation of technical merits of food industry equipments and systems	2-Sep-06	2-Sep-06	4,445.00	4,445.00	8,890.00	4,428.00	O	PRO

Exhibit II-5: Business Development Fund (BDF) cumulative obligations and disbursements as of 30-Jun-07

Client firm	Date of confid. agreement	Objectives of subcontract	Date BDF subcontract signed	Due completion date	Subcontract value (US\$)			BDF funds disbursed	Sector	Type
					Client contribution	BDF funds obligated	Total contract value			

**Jan-Mar 2007 Quarter**

**Totals: 31,577.00 28,336.00 59,913.00 27,275.00**

Bambuu LLC	7-Mar-07	To participate in the seminar and purchase an equipment	9-Mar-07	25-Mar-07	2,121.00	2,121.00	4,242.00	1,060.00	ML	M&S
Ulemj LLC	12-Mar-07	To develop a business plan	13-Mar-07	14-Apr-07	2,100.00	2,100.00	4,200.00	2,100.00	O	M&S
Goyo LLC	7-Feb-07	To oversee the running of recently procured equipment	30-Mar-07	23-Mar-07	23,240.00	20,000.00	43,240.00	20,000.00	NF	PRO
B-bulag	30-Mar-07	To train production staff	2-Apr-07	2-May-07	4,116.00	4,115.00	8,231.00	4,115.00	ML	PRO

**Apr-Jun 2007 Quarter**

**Total 2,100.00 2,100.00 4,200.00**

Ulemj LLC	13-Jun-07	Investment proposal	8-Jun-07	6-Jul-07	2,100.00	2,100.00	4,200.00		O	M&S
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<b>Cumulative totals:</b>	<b>Client funds contributed</b>	<b>BDF funds obligated</b>	<b>Total value of contracts</b>	<b>BDF funds disbursed</b>
	375,008.50	209,010.32	584,018.82	205,432.32

**Sector codes:**

- T = Tourism
- NF = Natural fibers
- ML = Meats & leather
- O = Other

Exhibit II-6: Mongolian Competitiveness Fund (MCF) cumulative obligations and disbursements as of 30-Jun-07

Client group	Date application accepted	Objectives of subcontract	Date MCF agreement signed	Due completion date	Subcontract value (US\$)			MCF funds disbursed	Actual completion date	Sector	Type
					Client contribution	MCF funds obligated	Total contract value				
<b>October - December 2004 Quarter</b>					<b>Totals:</b>	<b>2,497.88</b>	<b>2,497.88</b>	<b>4,995.76</b>	<b>2,497.88</b>		
Eco Aris	27/Sep/04	Joint market survey	30/Sep/04	30/Nov/04	2,497.88	2,497.88	4,995.76	2,497.88	11/Dec/04	ML	M&S
<b>January - March 2005 Quarter</b>					<b>Totals:</b>	<b>162,202.00</b>	<b>60,286.00</b>	<b>222,488.00</b>	<b>60,286.00</b>		
Mongolian Arts Council	18/Oct/04	Cultural Tourism Forum organization	18/Oct/04	22/Oct/04	23,340.00	7,550.00	30,890.00	7,550.00	22/Oct/04	T	M&S
Tourist Information Center (Post Office)	25/Feb/05	Establishment of center	25/Feb/05	31/Aug/05	30,015.00	20,000.00	50,015.00	20,000.00	31/Aug/05	T	M&S
Eco Tourism Forum	23/Feb/05	Marketing of eco tourism products	23/Feb/05	1/Apr/05	108,847.00	32,736.00	141,583.00	32,736.00	1/Apr/05	T	M&S
<b>April - June 2005 Quarter</b>					<b>Totals:</b>	<b>70,500.00</b>	<b>69,000.00</b>	<b>139,500.00</b>	<b>69,000.00</b>		
MSEE (Conservation Ink)	10/May/05	Development & distribution of maps, postcards, etc. of national parks	10/May/05	31/Aug/05	61,500.00	60,000.00	121,500.00	60,000.00	31/Aug/05	T	M&S
Meat Association	7/Jun/05	Trade Delegation to China	7/Jun/05	28/Jul/05	9,000.00	9,000.00	18,000.00	9,000.00	28/Jul/05	ML	M&S
<b>July - September 2005 Quarter</b>					<b>Totals:</b>	<b>72,053.50</b>	<b>33,063.50</b>	<b>105,117.00</b>	<b>33,063.50</b>		
Sarlag Erdene	22/Jul/05	Uvurkhangai Website	22/Jul/05	1/Sep/05	1,043.00	953.00	1,996.00	953.00	15/Sep/05	T	M&S
Khentii Dev & Prom Foundation	17/Jul/05	Khentii Website	17/Jul/05	1/Sep/05	756.50	936.50	1,693.00	936.50	15/Sep/05	T	M&S
Tourist Information Center (2)	1/Sep/05	Second phase support	1/Sep/05		18,040.00	19,000.00	37,040.00	19,000.00		T	M&S
JATA Group	13/Sep/05	Delegation to Tokyo	13/Sep/05	20/Sep/05	52,214.00	12,174.00	64,388.00	12,174.00	24/Sep/05	T	M&S

Exhibit II-6: Mongolian Competitiveness Fund (MCF) cumulative obligations and disbursements as of 30-Jun-07

Client group	Date application accepted	Objectives of subcontract	Date MCF agreement signed	Due completion date	Subcontract value (US\$)			MCF funds disbursed	Actual completion date	Sector	Type
					Client contribution	MCF funds obligated	Total contract value				
<b>October - December 2005 Quarter</b>					<b>Totals:</b>	<b>61,220.00</b>	<b>66,920.00</b>	<b>128,140.00</b>	<b>66,920.00</b>		
MSEE (Conservation Ink)	30-Oct-05	Development & distribution of maps, postcards, etc. of national parks	1/Nov/05	31/Mar/06	60,000.00	65,700.00	125,700.00	65,700.00	31/Mar/06	T	M&S
Khentii Development Promotion Foundation	29-Nov-05	Promotion of Khenti Tourism	30/Nov/05	5/Dec/05	1,220.00	1,220.00	2,440.00	1,220.00	2/Dec/05	T	M&S
<b>January - March 2006 Quarter</b>					<b>Totals:</b>	<b>77,095.00</b>	<b>23,016.00</b>	<b>100,111.00</b>	<b>22,830.39</b>		
MTGA	13-Feb-06	Tour guides joint training program	13-Feb-06	20-Apr-06	6,649.00	6,649.00	13,298.00	6,649.00	9-Jun-06	T	M&S
ITB Berlin Group SME	17-Feb-06	Participation in the ITB Tourism Fair	2-Mar-06	12-Mar-06	64,840.00	10,760.00	75,600.00	10,760.00	2-Mar-06	T	M&S
MPPA	9-Mar-06	Poultry Association training	10-Mar-06	14-Apr-06	2,161.00	2,161.00	4,322.00	2,069.39	19-Apr-06	ML	M&S
Nomadic Urtuu	27-Mar-06	Capacity building of network staff to improve the collective efficiency	29-Mar-06	23-Apr-06	3,445.00	3,446.00	6,891.00	3,352.00	27-Jun-06	T	A&M
<b>April - June 2006 Quarter</b>					<b>Totals:</b>	<b>43,030.00</b>	<b>25,840.00</b>	<b>68,870.00</b>	<b>25,840.00</b>		
Tsarmiin (Golden Eagle Ass)	13-Feb-06	Bayan Ulgii website project	31/Mar/06	25/Jun/06	1,337.00	970.00	2,307.00	\$ 970.00	25/Jun/06	T	PRO, M&S
TIC	17-Feb-06	Further Enhancement OB Operations	1/May/06	31/Aug/06	40,694.00	24,000.00	64,694.00	\$ 24,000.00	31/Aug/06	T	M&S
The Women's Association of Arkhangai	9-Mar-06	Arkhangai aimag tourist website	26/Jun/06	1/Sep/06	999.00	870.00	1,869.00	\$ 870.00	1/Sep/06	T	PRO, M&S

**Exhibit II-6: Mongolian Competitiveness Fund (MCF) cumulative obligations and disbursements as of 30-Jun-07**

Client group	Date application accepted	Objectives of subcontract	Date MCF agreement signed	Due completion date	Subcontract value (US\$)			MCF funds disbursed	Actual completion date	Sector	Type
					Client contribution	MCF funds obligated	Total contract value				
<b>July - September 2006 Quarter</b>					<b>Totals:</b>	<b>62,302.00</b>	<b>41,705.00</b>	<b>104,007.00</b>	<b>\$ 31,205.00</b>		
Khentii Development promotion foundation	27-Aug-06	Khentii website project (2)	28-Aug-06	1-Sep-06	\$ 567.00	\$ 707.00	1,274.00	\$ 707.00	1-Sep-06	T	PRO, M&S
Chamber of Commerce and industry of Zavkhan aimag	10-Jul-06	Zavkhan website project	27-Jul-06	1-Sep-06	\$ 1,599.00	\$ 2,029.00	3,628.00	\$ 2,029.00	1-Sep-06	T	M&S
Cow Hide Tanneries group	28-Jul-06	Improvement of the export performance of Mongolian tanneries	27-Jul-06	1-Nov-06	\$ 38,100.00	\$ 25,500.00	63,600.00	\$ 15,000.00		ML	PRO, M&S
Chamber of Commerce and industry of Selenge	14-Aug-06	Selenge website project	14-Aug-06	31-Oct-06	\$ 514.00	\$ 544.00	1,058.00	\$ 544.00	31-Oct-06	T	M&S
World Capital kharakhorum Association	15-Aug-06	Uvurkhangai aimag project	25-Aug-06	15-Oct-06	\$ 452.00	\$ 295.00	747.00	\$ 295.00	15-Oct-06	T	M&S
Tokyo group JATA 2006	1-Sep-06	Promotion of Mongolian tourism	5-Sep-06	26-Sep-06	\$ 21,070.00	\$ 12,630.00	33,700.00	\$ 12,630.00	26-Sep-06	T	M&S
<b>October - December 2006 Quarter</b>					<b>Totals:</b>	<b>6,666.00</b>	<b>6,000.00</b>	<b>12,666.00</b>	<b>\$ 2,000.00</b>		
Mongolia Gateway Development Foundation	18-Oct-06	ICT sector report 2007	20-Oct-06	1-May-07	\$ 6,666.00	\$ 6,000.00	12,666.00	\$ 2,000.00		T	M&S
<b>January - March 2007 Quarter</b>					<b>Totals:</b>	<b>28,080.00</b>	<b>20,000.00</b>	<b>48,080.00</b>	<b>\$ 20,000.00</b>		
Fibermark Society	15-Feb-07	Mongolian Cashmere Promotion (New York)	3-Jan-07	20-Mar-07	\$28,080.00	\$20,000.00	48,080.00	\$ 20,000.00	20/Mar/07	NF	M&S

Exhibit II-6: Mongolian Competitiveness Fund (MCF) cumulative obligations and disbursements as of 30-Jun-07

Client group	Date application accepted	Objectives of subcontract	Date MCF agreement signed	Due completion date	Subcontract value (US\$)			MCF funds disbursed	Actual completion date	Sector	Type
					Client contribution	MCF funds obligated	Total contract value				

*April- June 2007 Quarter*

**Totals:**                      **72,533.00**      **26,485.00**                      **90,528.00**      **18,245.00**

Ilgel Foundation	19-Jan-07	Develop Tsaatan community tourism potential	17-May-07	15-Nov-07	19,990.00	8,490.00	19,990.00	4,245.00	15-Nov-07	T	M&S
STDC	23-Apr-07	PR media for tourism Development	18-May-07	1-Nov-07	1,995.00	1,995.00	3,990.00	1,000.00	1-Nov-07	T	M&S
TIC	5-Jun-07	Tourism Information Center	1-Jun-07	30-Sep-07	26,888.00	6,000.00	32,888.00	3,000.00	30-Sep-07	T	M&S
MAC	15-Jun-07	Promotional materials and tourism handbook	15-Jun-07	23-Nov-07	23,660.00	10,000.00	33,660.00	10,000.00	23-Nov-07	T	M&S

<b>Cumulative totals:</b>	<b>Client funds contributed</b> 658,179.38	<b>MCF funds obligated</b> 374,813.38	<b>Total value of contracts</b> 1,024,502.76	<b>MCF funds disbursed</b> 351,887.77
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**Sector codes:**

T = Tourism  
 NF = Natural fibers  
 ML = Meats & leather  
 O = Other

**Agreement type code:**

M&S = Marketing & sales  
 A&M = Accounting & management  
 PRO = Product line management  
 FN = Financial management

**Exhibit II-7: Public conferences, presentations, and events held during April - June 2007 quarter**

<b>No</b>	<b>Event code</b>	<b>Date</b>	<b>Event</b>	<b>Target participants</b>	<b>No. of Atten.</b>	<b>Type of event</b>	<b>Location (city)</b>	<b>Duration (Hours)</b>
1	EPRC	6-8-Apr	Tourism national strategy and formation of a national tourism organization	MRTT, MTGA, MHA, MTA, private tourism companies, Ger Camp Association, Ger to Ger Project, Mercy Corps, and EPRC	22	Retreat	Mongolian Secret History Tourist Camp	13
2	EPRC	10-Apr	Signing of MOU to establish a private sector Credit Information Bureau	Representatives of the commercial banks, non-bank financial institutions, the MBA, the Bank of Mongolia, and EPRC	22	Signing ceremony	Mongolian Bankers Association	0.5
3	EPRC	16-18-Apr	Tax inspectors training	Tax inspectors and tax supervisors of GDNT, EPRC Project	78	Training	Conference room of Khan Palace Hotel	23
4	EPRC	5-May	Housing Finance Retreat	MPs, MoCUD, MoF, Housing Finance Corporation, ADB, MIK, and EPRC	30	Retreat	Ikh Tenger compound	4
5	EPRC	9-May	Presentation on mortgage bonds and asset-backed securities laws for Mongolia by Steve Butler	Representatives of the commercial banks, Financial Regulatory Commission, the MBA, the Bank of Mongolia, MIK Board Members, MoJHA, MoCUD, Mongolian Stock Exchange Market, Housing Finance Corporation, Broker Dealer companies, USAID, and EPRC	47	Presentation	Bank of Mongolia	2.5
6	EPRC/USAID	11-May	USAID/EPRC By-weekly meeting	USAID, EPRC staff	13	Meeting	USAID TRC, Ulaanbaatar	2
7	EPRC	12-May	Housing Finance Retreat #2	MPs, MoCUD, MoF, MoJHA, Housing Finance Corporation, Financial Regulatory Commission, MBA, ADB, MIK Board Members, Mongolian National University, Property Registration Office, representatives of commercial banks, the Bank of Mongolia, and EPRC	43	Retreat	Ikh Tenger compound	5
8	EPRC	14-May	Credit Information Bureau presentation by Roger Nye	Representative of the commercial banks, Financial Regulatory Committee, the MBA, the Bank of Mongolia, and EPRC	15	Presentation	Mongolian Bankers Association	2
9	EPRC	16-May	Credit Information Bureau presentation by Roger Nye	MoCUD, Financial Regulatory Commission, Housing Finance Corporation, Non-banking Institution, Savings and Credit Cooperative, and EPRC	37	Presentation	USAID TRC, Ulaanbaatar	2

**Exhibit II-7: Public conferences, presentations, and events held during April - June 2007 quarter**

<b>No</b>	<b>Event code</b>	<b>Date</b>	<b>Event</b>	<b>Target participants</b>	<b>No. of Atten.</b>	<b>Type of event</b>	<b>Location (city)</b>	<b>Duration (Hours)</b>
10	EPRC	30-May	Presentation on BoM policies and regulations to support secondary mortgage market development by Roberto Toso	Bank of Mongolia, MoF, MIK, USAID, and EPRC	22	Presentation	Bank of Mongolia	2
11	EPRC/USAID	30-May	USAID/EPRC By-weekly meeting	USAID, EPRC staff	10	Meeting	USAID TRC, Ulaanbaatar	1.5

<b>Totals</b>	<b>339</b>	<b>57.5</b>
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*Abbreviations: USAID=United States Agency for International Development  
 EPRC= Economic Policy Reform and Competitiveness Project  
 TRC=Training Resource Center  
 ADB=Asian Development Bank  
 CIB=Credit Information Bureau  
 MBA=Mongolian Bankers Association  
 MIK=Mongolian Mortgage Corporation  
 SPC=State Property Committee  
 MoCUD=Ministry of Construction and Urban Development  
 MoF=Ministry of Finance*

<b>Total person/days:</b>	<b>2,437</b>
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## **SECTION III: PROJECT MANAGEMENT AND ADMINISTRATION**

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### **A. Introduction**

This section summarizes significant project management and administration activities, problems encountered and actions taken to solve them, and main activities scheduled for completion during the next quarter. Annex B contains a list of long-term local project staff and short-term expatriate technical assignments. Annex C has a budget status report as of the end of the same period.

### **B. Significant project management and administration activities**

Key project management actions and activities completed during the quarter included:

- Prepared and submitted to USAID revised LOP and annual budgets to extend the long-term expatriate Accounting, Auditing, and Tax Advisor
- Concluded successful negotiations with subcontractor The Asia Foundation regarding termination by convenience of their subcontract, per their request
- Completed project inventory of commodities under contractor's custody and submitted report to USAID
- Organized contractual and logistical arrangements for the energy sector public education campaign and worked closely with MoIT, The Mongolian National University, and GTZ to organize the Summer Trade Seminar
- Advertised, identified and hired three long-term local positions; an Economist/Trade Analyst, a Business Development Assistant and an Accounting Assistant.

All long-term key personnel were at post, implementation of short-term assignments for the quarter proceeded smoothly and subcontractors' work proceeded according to schedule.

### **C. Personnel**

Changes in key personnel and a consequent reassignment of responsibilities occurred at the end of the quarter as scheduled in the AWP-07.

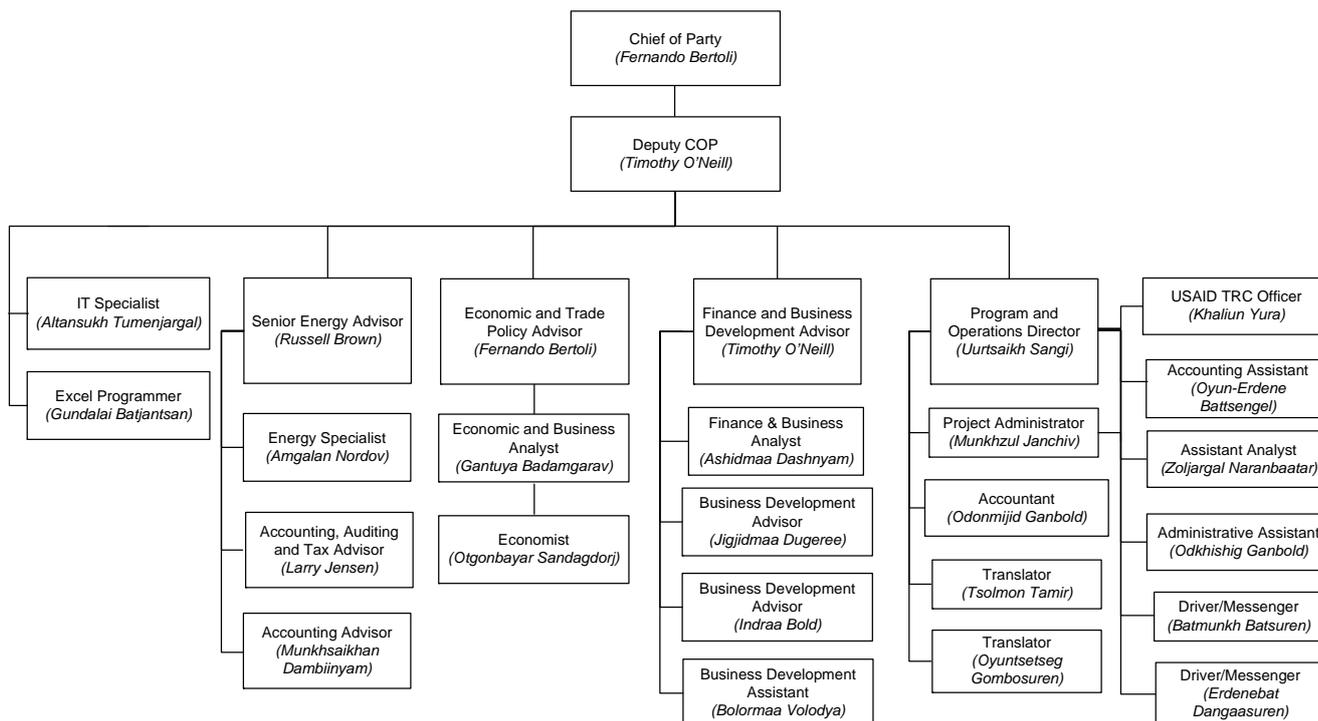
#### **C1. Long-term expatriate personnel**

Mr. Bruce Harris, Senior Business Development Advisor and key personnel in the Competitiveness Specialist position finished his assignment on schedule on 30 June. Mr. Tim O'Neill assumed additional responsibilities as a Senior Business Development Advisor in charge of that project component.

Requests from GDNT to continue support of the implementation of new tax laws and regulations, anticipated changes in tax legislation by Parliament such as a proposed "tax amnesty" law, as well as requirements of the energy sector for additional analysis of financial performance of the sector, led to a reallocation of project resources to extend Mr. Larry Jensen, Accounting, Auditing and Tax Advisor, through 31 December, 2007. AWP-07 had anticipated 30 June, 2007 as the end date of his assignment.

Mr. Jensen's extension of his assignment required a modification of the project organizational chart proposed in AWP-07 to go into effect on 1 July, 2007. Exhibit III-1 shows the revised EPRC organizational chart.

Exhibit III-1: EPRC organization chart effective 1 July 2007



## C2. Long-term local personnel

Exhibit B-1 in Annex B provides a summary status of local staff as of the end of the reporting period. As per AWP-07 scheduling, the project hired Mr. Otgonbayar Sandagdorj as a local Economist/Trade Analyst and he assumed his duties on 14 June. Mr. Otgonbayar will be primarily responsible for project technical work to support the recently established National Committee on Trade and Transport Facilitation (NCTTF). At their request, the project will act as a technical secretariat and provide assistance to develop a national program, “Transit Mongolia” along the same lines the project offered the Working Group on a Single Electronic Window for Trade Facilitation.

There were two resignations of local staff during the quarter: Ms. Dulguun Baatar, Business Development Assistant, resigned from her post on 19 May and Ms. Otgontuya Dorjkhoo, Accounting Assistant, resigned on 30 April. Project management advertised, identified and hired replacements. Ms. Bolormaa Volodya started on 21 May as a Business Development Assistant and Ms. Oyun-Erdene Battsengel began serving as Accounting Assistant on 14 May.

## C3. Deployment of short-term expatriate technical assistance

Fielding of short-term expatriate assignments was intensive during the quarter and proceeded according to work plan schedule. Twenty-three short-term technical assignments were completed or initiated during the quarter. Exhibit B-2 in Annex B provides details about the purpose of these assignments and dates of arrival and departure, as relevant.

## D. Status of subcontracts

Subcontractor performance proceeded according to schedule during the quarter.

#### **E. USAID Resource Center utilization**

Exhibit III-1, at the end of this section shows the use of the USAID Training Resource Center (TRC) during the quarter. A total of seven events and 153 participants used the TRC for a total of 31.5 hours. The number of person/days of other uses of the TRC was 602 (153 participants x 31.5 hours divided over 8 hours).

#### **F. Budget status report**

Annex C presents the project budget status showing all amounts invoiced during the quarter, cumulative totals, and funds remaining by budget CLIN. The numbers are rounded to the nearest dollar.

#### **G. Problems encountered and remedial actions**

There were no significant problems materially affecting contract performance during the quarter. Obligations of MCF and BDF funds, however, are now approaching the budgeted funds currently in the contract and additional funds will be required if these programs are to continue. By the end of the quarter, 97.3% of the revised life-of-project budget of \$600,000 for these funds had been obligated. The value of project commitments was \$583,823.70 while the value of client contributions was close to double this amount, or \$1,033,187.88.

#### **H. Project and contract management actions expected for the next quarter**

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

- Explication and refinement of project strategy and anticipated results through current end-of-contract date and suggested areas of work and strategy for beyond
- Refine quarterly projections for short-term expatriate technical assistance
- Develop and conduct in depth briefing sessions for USAID staff as required
- Perform any and all other contract management and project support functions as required in the AWP-07 and as needs emerge.

**Exhibit III-1: Other USAID Training Resource Center use during April - June 2007 quarter**

<b>No.</b>	<b>Event code</b>	<b>Date</b>	<b>Event</b>	<b>Participants</b>	<b>No. of Atten.</b>	<b>Type of event</b>	<b>Location (city)</b>	<b>Duration (Hours)</b>
1	NTO	6-8-Apr	NTO Retreat	MRTT, MTGA, MHA, MTA, private tourism companies, Ger Camp Association, Ger to Get project, Mercy Corps, and EPRC	22	Retreat	Mongolian Secret History Tourist Camp	13
2	Ger Initiative	7-May	Staff Meeting	Ger Initiative staff	32	Meeting	USAID TRC, Ulaanbaatar	4
3	NTO	15-May	Working Group Meeting	NTO Board Members	15	Meeting	USAID TRC, Ulaanbaatar	4
4	Fiber Market Association	17-May	Board Meeting	Cashmere companies	17	Meeting	USAID TRC, Ulaanbaatar	2
5	NTO	22-May	Working Group Meeting	NTO Board Members	16	Meeting	USAID TRC, Ulaanbaatar	2
6	Itgel San	24-May	Presentation on Tourism based on community	Tour operators	17	Presentation	USAID TRC, Ulaanbaatar	2.5
7	Ger Initiative	4-Jun	Staff meeting	Ger Initiative staff	34	Meeting	USAID TRC, Ulaanbaatar	4

<b>Totals</b>	<b>153</b>	<b>31.5</b>
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<b>Total person/days:</b>	<b>602</b>
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*Event codes: NGO=Non Government Organization  
 USAID=United States Agency for International Development  
 EPRC= Economic Policy Reform and Competitiveness Project  
 NTO=National Tourism Organization  
 MRTT=Ministry of Road, Transport and Tourism  
 MTA=Mongolian Tourism Association  
 MHA=Mongolian Hotel Association  
 MTGA=Mongolian Tour Guide Association*







## **ANNEX A: SUMMARY PROJECT DESCRIPTION**

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## ANNEX A: SUMMARY PROJECT DESCRIPTION



**USAID**  
FROM THE AMERICAN PEOPLE



### MONGOLIA ECONOMIC POLICY REFORM AND COMPETITIVENESS PROJECT

**Activity duration:**

17 September 2003 to  
16 September 2008

**USAID Contract No.:**

438-C-00-03-00021-00

**Implemented by:**

Chemonics International Inc.  
In association with:  
The Services Group Inc.  
Dexis Consulting Group  
Crimson Capital  
Making Cents

**Key personnel:**

Fernando Bertoli, *Chief of Party*  
Tim O'Neill, *Deputy Chief of Party and Financial Advisor*  
Russ Brown, *Energy Advisor*  
Larry Jensen, *Tax and Auditing Advisor*

**Objectives of the activity**

To support Mongolia's efforts to accelerate and deepen the policy liberalization process and promote increased competitiveness of the Mongolian economy to achieve broad and sustainable, private-sector-led economic growth.

**Situation and solution**

Among transition economies, and more broadly among lower GDP per capita countries, Mongolia has achieved remarkable progress in setting the foundations for a democratic, open-market economy. Since the breakup of the Soviet Union in 1989, the country has implemented broad economic and political reforms, changing from a state-controlled to a market-driven economy where the private sector now accounts for more than 70 percent of GDP. With the most difficult tasks of a democratic transition largely completed, Mongolia now needs to focus on a second stage of economic policy reform measures to improve its competitive participation in the world economy and provide for broad-based, equitable, private-sector-led economic growth. EPRC is designed to assist Mongolian efforts in the following areas:

- **Economic and trade policy:** To: (a) improve the economic and trade policy environment; (b) support the development and implementation of sound macroeconomic policies; and (c) help strengthen policy formulation processes and structures.
- **Energy sector reform:** EPRC supports Mongolia's efforts to develop and implement a transparent, market-oriented regulatory environment to promote a competitive and efficient delivery of energy services to consumers; commercial practices in energy generation and distribution; and an attractive environment for foreign and domestic private investment.
- **Business competitiveness:** EPRC works: a) to enhance and maintain an enabling legal, regulatory, and business finance environment; b) with individual firms to improve their competitive position; and c) with groups of firms or organizations to address constraints to national and sectoral competitiveness.
- **Consensus building, public education and national dialogue:** EPRC supports: a) an expanded national dialogue on economic policy and competitiveness; b) development of improved public disclosure standards; c) expansion of mechanisms and channels for public dialogue and citizen input on enabling business environment issues to link policy reform and private-sector-led economic growth.

**Results as of June 2007**

- **New tax laws:** Worked closely with Ministry of Finance, General Department of National Taxation, Parliament Standing Committees, and representative private sector associations, to assist with the formulation of competitiveness-based tax reform objectives, model draft laws, economic and fiscal impact analyses, as requested, of diverse tax scenarios; in June 2006, Parliament enacted new personal income, corporate income, VAT, and excise tax laws.
- **Ranking of Mongolia in the World Economic Forum's Growth Competitiveness Index:** As National Partner, had Mongolia ranked in 2005 for the first time.
- **Development of national program for a single electronic window (SEW) for foreign trade facilitation:** Assisted a multi-agency working group in developing a national program for a SEW to facilitate trade; Cabinet approved the national program and action plan in May 2007.
- **Establishment of a secondary mortgage market private sector financial institution:** With project assistance, ten private sector banks and The Bank of Mongolia have formed the Mongolia Mortgage Corporation (MIK)—the first second-tier mortgage institution of the country; MIK is currently working on structuring its first transaction.
- **Development of a private sector credit information bureau:** Worked with the Mongolian Bankers Association to develop an MOU to establish a separate, private sector controlled, credit information bureau; currently assisting a group of private sector banks in negotiations with the IFC.
- **Informal economy national survey:** Completed national survey of shadow and informal economy of 19,000 households in partnership with *National Statistics Office* and *Open Society Forum*.
- **Tourist Information Center:** Negotiated private-public partnership to establish Mongolia's first Tourist Information Center; GoM has now opened two more in Mongolia and one in Tokyo, Japan
- **Opening of foreign markets for cashmere and niche products through a 'Routes to Market' program:** Through participation in international fairs, development of contacts with, visits of buyers, and extensive support to the cashmere industry and niche products such as wild blueberry jam, opened access of Mongolian products to international markets.
- **Uniform Chart of Accounts (USOA) for energy sector companies:** In preparation for redesign of sector tariffs, financial statements for 2004 and 2005 are now compliant with International Accounting and Financial Reporting Standards (IAFRS) for energy sector companies
- **National multimedia chats:** Designed and implemented chats carried live through national television and radio, Internet chat server, open telephone lines, and SMS text messages to facilitate public policy dialogue between government officials and citizens.

Updated: Jun-07



**ANNEX B: LONG-TERM LOCAL PERSONNEL AND EXPATRIATE  
SHORT-TERM ASSIGNMENTS**

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**ANNEX B: LONG-TERM LOCAL PERSONNEL AND EXPATRIATE SHORT-TERM ASSIGNMENTS**

<b>Exhibit B-1: Local long-term project staff as of the end of April-June 2007 quarter</b>			
<b>Employee name</b>	<b>Position</b>	<b>Start date</b>	<b>End date</b>
<i>Professional Staff</i>			
Altansukh Tumenjargal	IT Specialist	10-Nov-03	
Amgalan Nordov	Energy Specialist	10-Nov-03	
Uurtsaikh Sanghi	Program and Operations Director	10-Nov-03	
Jigidmaa Dugeree	Business Development Advisor	8-Dec-03	
Indraa Bold	Business Development Advisor	5-Jan-04	
Odonmijid Ganbold	Accountant	27-Apr-04	
Ashidmaa Dashnyam	Business and Finance Specialist	10-May-04	
Gantuya Badamgarav	Business and Economic Analyst	24-Aug-06	
Otgonbayar Sandagdorj	Economist/Trade Analyst	14-Jun-07	
<i>Support Staff</i>			
Khaliun Yura	TRC Officer	26-Nov-03	
Batmunkh Batsuren	Driver/Messenger	1-Feb-04	
Erdenebat Dangaasuren	Driver/Messenger	9-Feb-04	
Munkhsaikhan Dambiinyam	Accounting Advisor	26-May-04	
Munkhzul Janchiv	Project Administrator	18-Oct-04	
Tsolmon Tamir	Translator/Interpreter	22-Oct-04	
Dulguun Baatar	Business Development Assistant	19-Sep-05	19-May-07
Otgontuya Dorjkhoo	Accounting Assistant	1-Mar-06	30-Apr-07
Gundalai Batjantsan	Excel Programmer	14-Jun-06	
Odkhishig Ganbold	Administrative Assistant	15-Jan-07	
Zoljargal Naranbaatar	Assistant Analyst	1-Feb-07	
Oyun-Erdene Battsengel	Accounting Assistant	14-May-07	
Bolormaa Volodya	Business Development Assistant	21-May-07	

**Exhibit B-2: Short-term technical assignments during the April-June 2007 quarter**

Name	Purpose of assignment	Date of arrival	Date of departure
Adrian Mummey	Content Management for tourism portal website	19-Jun-06	30-Apr-07
Peter Jezek	Energy sector master plan and consensus building - Phase II	7-Feb-07	16-Apr-07
Adrian Mummey	GDNT website upgrade	15-Feb-07	30-May-07
Joachim Bertot	GDNT website upgrade	15-Feb-07	30-May-07
Jim Krigbaum	Promotion of local products in international markets	16-Mar-07	30-Jun-07
Angela Atherton	Transaction support for MIK	27-Mar-07	30-Jun-07
Mary Webster	Evaluation of ERA operations & Corporate Governance for energy SOEs	29-Mar-07	1-May-07
Douglas Bowman	Market design and tariff policy for ERA – Phase II	31-Mar-07	11-Apr-07
David Morse	Energy regulatory assistance and development of public education	10-Apr-07	5-Jun-07
Roger Nye	Legal assistance for Credit Information Bureau	28-Apr-07	18-May-07
Steve Butler	Legal assistance for Financial Regulatory Commission – Phase I	28-Apr-07	11-May-07
Roberto Toso	BOM Securitization	6-May-07	2-Jun-07
Margueritte Harlow	Assistance for MIK to review the mortgage market	12-May-07	10-Jun-07
Douglas Bowman	Market design and tariff policy for ERA – Phase III	16-May-07	27-May-07
Peter Jezek	Energy sector master plan and consensus building – Phase III	26-May-07	–
Philip Eddleston	Assistance for Fiber Market Society	28-May-07	10-Jun-07
Megan O'Donnell	Assistance for Fiber Market Society	28-May-07	9-Jun-07
Craig MacPhee	Summer Trade Seminar	3-Jun-07	–
Crisan Popescu	Textile technology for fiber industry	8-Jun-07	17-Jun-07
Gabriel Nagy	Housing loan affordability	13-Jun-07	30-Jun-07
Amos Golan	BOM Monetary Policy Framework: Econometrics training	16-Jun-07	23-Jun-07
Steve Butler	Legal assistance for Financial Regulatory Commission – Phase II	18-Jun-07	29-Jun-07
Douglas Bowman	Market design and tariff policy for ERA – Phase IV	21-Jun-07	–