



USAID | **MONGOLIA**
FROM THE AMERICAN PEOPLE

EPRC MID-TERM EVALUATION

SUBMITTED TO USAID/MONGOLIA

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DECEMBER 19, 2005

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ACKNOWLEDGEMENTS

The evaluation team would like to acknowledge the assistance and support of many different parties that made this report possible. The team would first like to thank USAID Mongolia's AID Representative Mr. Leon "Skip" Waskin and Senior Program Officer Mr. Jeffrey Goodson for their invitation to conduct the evaluation, hospitality and guidance throughout the process. The team would also like to thank the many interviewees whose views and experiences were critical in helping the team formulate its conclusions. Additionally, the team is grateful to EPRC and its chief of party Mr. Fernando Bertoli for hosting the team during the intense weeks in October and November while the assessment was being conducted in Ulaanbaatar. EPRC staff in Mongolia and Washington should be acknowledged for their candid feedback and cooperative spirit. The team particularly thanks the local EPRC administrative staff for their excellent support during the evaluation. Last, but by no means least, the team would like to thank the Mongolia country team in AID/Washington Calista Downey and Cory Johnston for their assistance in the evaluation's preparation and early interviews.

ABBREVIATIONS

ADB	Asian Development Bank
ANE	Asia and Near East
BDF	Business Development Fund
CEE	Central and Eastern Europe
CES	Central Energy System
CHP	Combined Heat and Power Plant
COP	Chief of Party
CPI	Corruption Perception Index
DAI	Development Alternatives Inc.
DCA	Development Credit Authority
EBRD	European Bank for Reconstruction and Development
EG	Economic Growth
EGAT	Economic Growth, Agriculture and Trade
EGSPRS	Economic Growth Support and Poverty Reduction Strategy
EITI	Extractive Industries Transparency Initiative
EPRC	Economic Policy Reform and Competitiveness Project
EPSP	Economic Policy Support Program
ERA	Energy Regulatory Agency
ERRA	Energy Regulators Regional Association
ETFS	Economic, Trade and Financial Support
FSU	Former Soviet Union
GDA	Global Development Alliance
GOM	Government of Mongolia
GTZ	The German Agency for Technical Cooperation
ICT	Information and Communications Technology
IMF	International Monetary Fund
IP3	Institute for Public-Private Partnerships, Inc.
IQC	Indefinite Quantity Contract
ITB	International Tourism Exchange Berlin
LCP	Least Cost Plan
LTTA	Long-Term Technical Assistance
MCA	Millennium Challenge Account
MCC	Millennium Challenge Corporation
MCF	Mongolian Competitiveness Fund
MDG	Millennium Development Goals
MFE	Ministry of Fuel and Energy

MIT	Ministry of Industry and Trade
MRTT	Ministry of Roads, Transport and Tourism
NARUC	U.S. National Association of Regulatory Utility Commissioners
NBFI	Non-bank Financial Institutions
NLC	National Legal Center
NPL	Non-Performing Loan
NSO	National Statistical Office of Mongolia
OSF/M	Open Society Forum/Mongolia
PADCO	Planning and Development Collaborative International
PM	Prime Minister
RFP	Request for Proposal
SAGA	Strategies for Accelerated Growth and Access
SAM	Social Accounting Matrix
SCC	Saving and Credit Cooperative
SEGIR	Support for Economic Growth and Institutional Reform
SGH	State Great Hural (Mongolian Parliament)
SME	Small and Medium Enterprise
SO	Strategic Objective
SOE	State Owned Enterprise
SPC	State Property Committee
STTA	Short-Term Technical Assistance
TAF	The Asia Foundation
TCI	The Competitiveness Initiative Project
UB	Ulaanbaatar
UN	United Nations
UNDP	United Nations Development Program
USAID	United States Agency for International Development
USEA	United States Energy Association
VAT	Value Added Tax
WTO	World Trade Organization
WB	World Bank
WEF	World Economic Forum

EXECUTIVE SUMMARY

The purpose of the evaluation is to provide USAID/Mongolia with an objective assessment of the appropriateness and effectiveness of current EPRC activities. In general, the EPRC evaluation team was charged with:

- 1) assessing the appropriateness and effectiveness of past and current EPRC activities;
- 2) assessing whether – and if so the extent to which – the project is contributing to sustainable, private sector-led economic growth and poverty reduction in Mongolia;
- 3) assessing whether current activities should be expanded, continued, curtailed, or cease altogether;
- 4) assessing whether the project should be involved in new or additional activities; and
- 5) making concrete, feasible recommendations for improving the project and expanding the projects' impact

The evaluation was conducted through an extensive review of relevant background, project and related documents (well over 125 in all) as well as interviews with over a 110 key informants in both Washington and Ulaanbaatar in the fall of 2005.

Background

The U.S. Agency for International Development (USAID) plays a lead role in providing bilateral U.S. economic assistance to Mongolia. USAID launched its first program in Mongolia in November 1991 with a grant of \$10 million to provide emergency supplies and spare parts to the country's power plants. By 1998, USAID had provided an additional \$50 million to help strengthen and sustain Mongolia's all-important energy sector. Other early programs focused on health and emergency food supplies. In addition, USAID funded training and other programs to promote economic reform and advance civil society. The current USAID/Mongolia strategy (2004-2008) further consolidates USAID's efforts to achieve sustainable development in Mongolia, and explicitly links its two main Strategic Objectives: (1) accelerate and broaden sustainable, private sector-led economic growth, and (2) more effective and accountable governance.

The EPRC project is a \$16.65 million effort designed to help accelerate and deepen the policy liberalization process and promote increased competitiveness in the Mongolian economy. Implemented by Chemonics, Inc., the project officially began on September 19, 2003, and is scheduled to run through September 18, 2008. The project is comprised of four main components: 1) economic, trade, financial and policy support; 2) energy sector reform; 3) business and sector/cluster development; and 4) consensus building, public education and national dialogue. Three of these components are reflective of four predecessor projects that served as the foundation for EPRC: the Economic Policy Support Project (EPSP); Energy Sector Restructuring; the Mongolian Privatization Project; and the Competitiveness Initiative (TCI). EPRC primarily supports Strategic Objective 1 (SO1) but has linkages to SO2 through its consensus building component.

Major Findings and Recommendations

General Assessment

EPRC is a relevant and effective project that has achieved notable accomplishments in its first two years. For example, these achievements include: momentum on tax reform, the Berlin Cashmere Distribution Center, International Accounting Standards in energy companies, and the popular “super chats.” Combining components from previous AID projects in policy, competitiveness and energy to form EPRC was appropriate. The administrative economics, flexibility and potential for cross-fertilization far outweigh the difficulties of finding sufficient expertise and the dangers of neglecting a component. The long-term technical assistance positions (advisors in policy implementation, energy, competitiveness, chief of party and deputy) are appropriate. Short-term technical assistance has been generally well tailored and useful.

The project and all four of its components – policy, competitiveness, energy and public participation – are worthwhile continuing for the remaining three years. However, the project can be substantially improved. The long-term positions for policy and energy need to be extended for two years until the end of the project. Short-term technical assistance would benefit from more forward planning, prioritization, and, as appropriate, longer visits and continued involvement. Collaboration clearly needs to be strengthened, both inside and outside the project. Inside the project considerable room exists to work together across the components. For example, the policy area should intensify efforts on policies related to Competitiveness. Outside the project closer substantive cooperation should be pursued with other USAID and other donor projects and with key donors, on such issues, as energy policy and anti-corruption. In general more training and capacity building should be undertaken. Greater use of internships, local consultants, and local policy and research institutions are a few possibilities. The energy sector could particularly benefit from more and more focused assistance.

Political Economy and Poverty

EPRC has been generally successful in dealing with the current political realities of a grand coalition government. Its highly consultative manner of operating and encouraging country ownership is appropriate as Mongolia seeks its own national identity, distinct from its huge neighbors. Since corruption has become a critical problem, the project needs to support counter efforts, even if it does not operate under the banner of anti-corruption. Also, as poverty continues to remain at a high 36 percent despite the positive economic growth in recent years, EPRC should factor in poverty and the potential differentiated impacts of policies on rural and urban populations, youth and gender, and local government.

Major recommendations related to political economy and poverty reduction include:

- Intensify efforts in capacity building
- Provide assistance for improved economic governance, evidence-based policy-making, and monitoring of government performance as part of anti-corruption effects
- Analyze and advise on pro-poor growth
- Include analysis of poverty, youth, gender, and rural – urban impacts in policy analyses and modeling
- Assess efficacy of current safety nets and options for productive safety nets
- Reach out to Ger and Gobi constituencies

Policy

Since 1990 the Mongolia economy has successfully transitioned from a socialistic, state-run, command economy to a private sector, market-oriented one. The key issue now for the Mongolian economy is to achieve rapid and sustainable economic growth that benefits the vast majority of Mongolians. To do the GOM must deal successfully with three main tasks. They must consolidate and institutionalize the economic reforms of the last 15 years, improve the environment for private-sector led development, especially as related to global markets, and handle wisely the threatening, interrelated challenges of corruption, natural resource potential, and overvaluation of the currency. EPRC's task is to help.

The Economic, Trade and Financial Policy Support component of EPRC has been quite active and influential. Major accomplishments include the ranking of Mongolia in the World Economic Forum's Growth Competitiveness Index, completion of important studies and analyses, influence on thinking, assistance to the MCA proposals, and progress on tax reform. If the tax reform works out well, it will be a tremendous achievement.

The major proposals to improve the Policy component are:

- Develop a policy action agenda, be proactive, and do not shy from sharing technical opinions.
- Cooperate closer with the other components of the project -- Competitiveness, on such issues as business environment, cross-border trading, domestic aviation and trade agreements; on Energy, on such issues as privatization, debt and pricing; and on Public Participation, on such issues as open-government web site, chats, and training.
- Continue and intensify efforts on helping the GOM to consolidate and institutionalize the reforms of the last 15 years, improve the environment for private-sector led development, especially as related to global markets, and to meet the challenges of developing natural resources, encouraging transparency and good economic governance, and handling overvaluation of the currency.
- Response to the suggestions related to the Political Economy by analyzing and considering poverty, pro-poor growth, social safety net, and differentiated impacts of proposed policies on rural and urban populations, youth, gender and local government.
- Strengthen local capacity to analyze and advocate on policy issues.
- Extend the position of the Policy Implementation Adviser for two years and recruit a policy oriented economist to fill the position.

Business and Sector Development

While relatively open and market-oriented, Mongolia is a landlocked country with a limited domestic market. It is poorly diversified and heavily reliant on a few low-value products and export commodities (cashmere, copper, and gold). In the 2005 WEF Global Competitiveness Report, Mongolia ranked 96 out of 117 countries. In addition, the World Bank's Doing Business survey cites formidable barriers in "trading across borders." Thus, more progress must be made if Mongolia is to become fully competitive in the global marketplace

The EPRC competitiveness component has appropriately focused on cashmere, tourism, and meat, while remaining open to opportunities in other sectors. The creation and use of the Business Development and Mongolian Competitiveness Funds have proven worthwhile. This component should be continued and strengthened. Major suggestions for improving this component are:

- Engage at multiple levels -- continue involvement at both the firm and sector levels and add attention to policy issues
- Strengthen emphasis on business environment
- Support stronger collective action for common goods at the sector level
- Incorporate more building of local capacity
- Stay the course on cashmere, tourism and meat, but remain open to other opportunities
- Collaborate more substantively with other projects
- Explore GDA-like public-private partnerships
- Improve the communication and outreach on competitiveness

Energy

While Mongolia has completed first generation reforms, its current challenge is to completing second stage reforms. Continued energy reforms are necessary not only to ensure adequate heating and electricity for one of the coldest countries in the world but also for the economic future of the country. Large debt from the inefficient energy sector endangers the country's macroeconomic balance and reforms are key to critical sectors like tourism and mining. The more complex nature of second generation reforms requires careful analysis and clear policy and strategy.

USAID has played a central role in energy sector reforms in Mongolia and is the only donor that can provide the on-the-ground specialized technical assistance required. While this EPRC component has been active and achieved some good results, such as in the introduction of international accounting standards in energy companies, it has not focused on the most critical issues of private sector participation. The opportunity to make lasting impact in the energy sector calls for refocusing this component. To do this, the major recommendations are:

- Focus on critical work needed for private sector participation
- Give priority to work on tariffs for heating and electricity, market design and regulatory development
- Encourage the development of a GOM energy policy paper and a privatization strategy
- Provide substantial training to the Energy Regulatory Authority
- Provide short-term assistance in a structured process for the amending of the Energy Law
- Assist the development of a least cost investment plan
- Analyze such issues as the coal sector, district heating issues and needs, and the impacts of privatization
- Address the debt situation
- Establish a donor – GOM coordinating mechanism for the Central Energy System
- With limited resources, let others address financial recovery plan, commercial practices, laws on renewable energy and conservation, the legal framework for all regulatory authorities and concession law, and coal briquettes to improve air quality.
- Provide substantial short-term assistance, beyond what is currently budgeted, to further work in the key energy areas
- Extend the position of the Energy Adviser for two years and recruit a person who can substantively participate in the work on private sector participation as well as oversee the short-term assistance.

Consensus Building, Public Education and National Dialogue

As outlined in the political economy section, improved transparency and accountability are critical at this point in Mongolia's development. A cross-cutting component of the EPRC project is Consensus Building, Public Education, and National Dialogue. The purpose of this component is to support an improved environment for government transparency and economic governance that builds consensus among government, civil society, and private sector stakeholders on policy reform and private sector development issues.

Overall, EPRC is doing an excellent job of implementing this cross-cutting component. Public access to information and GOM support for openness has been expanded. Public participation in economic policy-making has been facilitated. At a time when corruption may seriously jeopardize Mongolia's economic development and an independent media and strong civil society are absent, efforts to sustain and strengthen this component should be pursued. To improve this component the major suggestions are:

- Institutionalize the Open-Government website
- Continue to expand the use of different media to reach more Mongolians
- Plan an agenda of strategic economic issues to cover under this component
- Reach out to the Ger and Gobi constituencies
- Explore training for public affairs staff, economists in commercial law and lawyers in economics

Management and Budget

EPRC is generally a well managed project with an efficient administrative staff. There are thus only a few suggestions:

- Reduce the burden on the COP by hiring a local person to take the lead in public participation and assist with report preparations; have the deputy assume a greater liaison role; and have a new Policy Implementation Adviser who will assume the key advocacy role on policy issues
- Hold a retreat to digest and integrate the recommendations in this report
- Use the 2006 Work Plan to implement accepted recommendations

A few of the evaluation recommendations, such as extension of two long-term positions and ramping up of short-term assistance in energy, require major rearranging of the budget. The evaluation team did not have sufficient mastery of the budget to test feasibility. Hence, these recommendations may not be feasible within the current budget of the project and may require additional resources.

I. BACKGROUND

A. Purpose

The purpose of this evaluation is to provide USAID/Mongolia with an objective external assessment of the appropriateness and effectiveness of current EPRC activities – specifically, the contributions that the project has made in moving Mongolia from where it was in September 2003 to where it is at the time of the evaluation, and how those contributions were made.

In general, the EPRC evaluation team is charged with: (1) assessing the appropriateness and effectiveness of past and current EPRC activities; (2) assessing whether – and if so the extent to which – the project is contributing to sustainable, private sector-led economic growth and poverty reduction in Mongolia; (3) assessing whether current activities should be expanded, continued, curtailed, or cease altogether; (4) assessing whether the project should be involved in new or additional activities; and (5) making concrete, feasible recommendations for improving the project and expanding the projects' impact. Specific Terms of Reference (Scope of Work) are provided in Attachment 1.

B. Methodology and Team

The evaluation team was composed of team leader Paul Deuster (policy), Robert Archer (energy), Borany Penh (political economy, poverty, and national dialogue), and Jennifer Tikka (competitiveness). While each team member was primarily responsible for different components of the project, members participated in the formation of opinions on all sections of the report. General assessment and management issues were treated by the team as a whole.

The methodology consisted of reviews of over 125 relevant documents and interviews with over 110 key informants. The team reviewed an extensive body of background, project, and related documents. It conducted countless interviews with EPRC staff, Mongolian government officials, representatives of the private sector and civil society, USAID and Embassy/State staff, and other donors working in Mongolia. Interviews were conducted both in Washington D.C. and Ulaanbaatar during the period of October 5 to November 17, 2005. Complete lists of resources consulted and persons interviewed are included in Attachments 3 and 4 respectively.

C. Mongolia

Mongolia's Significance to the United States. Mongolia provides an important example to others in east and central Asia on how to manage an economic transition from a centrally planned to a free market economy within a democratic political framework. Mongolia's harsh climate, small domestic market, landlocked status, and lack of infrastructure, however, are formidable challenges to sustainable economic development.

The United States values Mongolia's contribution to stability in a potentially volatile part of the world, its positive example in promoting economic reform and democracy, and its visible support for the war on terrorism. Its strategic location between Russia and China—two traditional rivals, nuclear powers and major global players—adds to Mongolia's significance.

Economic Growth. Approximately 75 percent of the Mongolian economy is in private hands, up from virtually nothing at the beginning of the 1990s. After several years of stagnation and decline, GDP growth rates reached 3.9 percent in 2002, 5.6 percent in 2003, and exceeded 10

percent in 2004. This encouraging trend suggests that Mongolia's hard-won political stability is beginning to have an economic impact.

Democracy and Governance. Mongolia has made significant progress in establishing the basic framework for a democratic society. An impressive constitution is in place, along with laws and regulations that provide a sound foundation for further progress in the years ahead. If one true test of democracy is the ability to change governments through regular free and fair elections, then Mongolia has passed that test with admirable results.

D. USAID/Mongolia Program

The current USAID strategy (2004-2008) further consolidates USAID's efforts to achieve sustainable development in Mongolia, and explicitly links the two main Strategic Objectives: (1) sustainable private sector-led economic growth, and (2) more effective and accountable governance. Every USAID-funded project in Mongolia is organized around at least one of these two mutually re-enforcing Strategic Objectives.

USAID's Strategic Objective One, "To accelerate and broaden sustainable, private sector-led economic growth," consists of three main projects:

- *Economic Policy Reform and Competitiveness Project:* Implemented by Chemonics, Inc., this project provides the USG with a quick-response mechanism for addressing a wide range of economic policy reform and private sector development issues. Working in conjunction with the Prime Minister's office, six long-term expatriate technical specialists provide information and analysis on key issues related to trade, investment, private sector development and related issues. Specially targeted emphases include commercialization of the energy sector, and strengthening industries such as tourism and cashmere where Mongolia has a competitive advantage.
- *The Gobi Initiative Phase II:* Implemented by Mercy Corps International, the Phase II of the Gobi Initiative (\$10 million over five years, 2004-2008) promotes economic growth by developing and strengthening rural businesses in the six southern *aimags* or provinces of Mongolia. Activities include facilitating financial transactions with local banks; technical support for herders and small and medium-sized enterprises; and providing expanded business information services through various media, including innovative radio programs and the monthly magazine Rural Business News.
- *The Ger Initiative:* Implemented by CHF international, the GER Initiative (\$2.0 million over four years, 2002-2006) promotes business development and employment services in the rapidly growing *ger* districts that surround Mongolia's four largest urban centers—Darkhan, Erdenet, Ulaanbaatar, and Choibalsan.

USAID's Strategic Objective 2—"more effective and accountable governance"—consists of two main projects.

- *Judicial Reform Project.* With the introduction of new civil and criminal codes, USAID launched a series of training programs for judges in Mongolia. This improved case management, introduced new ideas to continuing legal education and helped reduce corruption in the legal system. Mongolia's courtrooms are now fully automated, and

public access to information has increased dramatically. Public terminals in each court make case information available to lawyers, litigants and the public. Also, because of USAID's assistance in establishing a special investigative unit, more judicial crimes were reported last year than in the previous four years combined. USAID's partners also produce the popular television show "Legal Hour", informing the public of their legal rights.

- *Political Parties and Parliamentary Reform Project.* The second focus of USAID's governance work is to make Mongolian political processes more competitive, effective and transparent. USAID's training of poll watchers, and of Mongolia's major political parties, recently led to dramatically improved proportional representation in the State Great Hural (SGH)—the Mongolian Parliament. Parliamentary procedures have also been significantly improved with the assistance of U.S. congressional experts.

E. The EPRC Project

The EPRC Project is a five-year, \$16.65 million effort designed to help accelerate and deepen the policy liberalization process and promote increased competitiveness in the Mongolian economy. The project officially began on September 9, 2003, and is scheduled to run through September 18, 2008. EPRC was designed to build on the work of the four predecessor projects: the Economic Policy Support Project (EPSP); Energy Sector Restructuring; the Mongolian Privatization Project; and The Competitiveness Initiative (TCI).¹ EPRC may not be unique in bringing together under a single contract these closely related areas of emphasis, but such projects are certainly rare in AID. The specific areas of work for EPRC and their policy objectives were set out as follows:

- *Economic, trade, financial and policy support.* Policy objectives for this component include: (1) development, maintenance, and implementation of sound macroeconomic policies to promote sustainable and equitable economic growth; (2) development, maintenance, and implementation of trade and investment policies supportive of a competitive participation of Mongolia in the world economy; (3) support an enabling legal and regulatory environment for private-sector-led economic growth; (4) strengthened policy formulation, structures, and processes; and (5) response to emerging policy reform initiatives.
- *Energy sector reform.* Objectives for this component include: (1) development and implementation of a transparent, market-oriented regulatory environment to promote competitive and efficient delivery of energy services to consumers; (2) development and implementation of commercial orientation and practices at energy state-owned enterprises (SOEs); (3) development, maintenance, and implementation of a legal, regulatory, and financial environment attractive to foreign and domestic private investment and management in the sector; and (4) Response to emerging energy sector initiatives.
- *Business and sector/cluster development.* Objectives of this component include: (1) improved competitiveness of the business environment; (2) improved competitiveness of identified sectors/clusters; (3) privatization support; (4) improved competitiveness of client business firms through a Business Development Fund; and (5) response to emerging opportunities to structure and facilitate public or private/public transactions. EPRC works with individual firms and interrelated groups (clusters) in key industrial

¹ See Attachment 2 for summary descriptions of the predecessor projects.

sectors to develop competitive, export-driven businesses. Priority sectors include cashmere, tourism, hides and skins, leather, meat, and textiles.

- *Consensus building, public education and national dialogue.* Objectives of this component include: (1) improved public transparency, corporate governance and national dialogue; (2) coordination and cooperation with partners, foreign investors, bilateral, and multilateral organizations; and (3) technical project management and contract administration. EPRC supports an improved environment for government transparency and corporate governance that builds consensus among national decision-makers, businesses, local government and community leaders, academic institutions, and civil society representatives by linking policy reform and private sector-led economic growth.

II. GENERAL ASSESSMENT

Overall, the Evaluation Team considers the EPRC to be a dynamic, effective project with notable accomplishments in its first two years. Definitely EPRC and all its four components of policy, competitiveness, energy and public participation are worth continuing for the project's remaining three years. However, the team also concludes that there is considerable room in the project for improvement. This section presents the team's overall general assessment comments. Details and additional comments can be found in the following sections on the Political Economy, each individual component of the project, and Management.

A. Progress toward Attainment of Objectives

The broader USAID program objective which the EPRC project serves is USAID/Mongolia's Strategic Objective 1: Accelerate and broaden sustainable, private sector-led economic growth and its Intermediate Results: Improved enabling environment for private sector growth and More competitive industries and sectors. The project's own goals are: Accelerate and deepen the policy reform process in Mongolia and Promote increased competitiveness in the Mongolian economy.

It is difficult to give an objective assessment of this question as quantitative indicators do not exist for the project. The Mission's Performance Management Plan uses broad indicators for the economy that over time are useful for seeing if the economy is moving in the desired direction, but not useful for a particular activity. EPRC in its performance reports lists steps against the annual work plan, at best project outputs, not results. Hence, the assessment here is a subjective one of the team.

It is the feeling of the evaluation team that through two years of its five year life, the project has made reasonably good, even excellent, progress. The project has completed a number of worthwhile outputs and has initiated a number of promising activities that can be expected over time to have substantial impact on the objectives. These include, for example, the creating the Business Development and Mongolian Competitiveness Funds, establishing Tourism Information Center, generating momentum on tax reform, introducing international accounting standards in the energy sector, and institutionalizing chats on policy issues and proposals.

However, it is much too earlier to claim much impact on the objectives. Furthermore, in some areas, the feeling is that more progress could have been made. For example, in energy more attention to policy issues and pre-conditions for private sector participation, such as tariffs, market design and institutional development of ERA, likely would have pushed progress further. Within the project more synergism between Policy and Business Development likely would had greater impact.

B. Current Relevance

Since the project was designed and launched, many things have changed or are better understood today. The most relevant major changes include major political changes; improving economic conditions; better understanding of, such things as, the macro economic situation and issues in cashmere industry; emerging new priorities; and the possibility of a Millennium Challenge Account (MCA) program. Despite all these changes, the project and its four components of

policy, competitiveness, energy and public education and dialogue definitely remain relevant today, even more so.

Paramount among the changes has been the replacement of single party run government with a coalition government in October 2004, based on the parliament elections of May 2004 in which then ruling party of the Mongolian People's Revolutionary Party and the Motherland-Democratic Union (a coalition of opposition parties) did equally well. Despite the collapse of the Democratic side of the coalition in December 2004, the sharing of executive and legislative positions among the parties continues to this day. The present arrangement is quite fluid and certainly makes decision making complex, slow and disjointed. The greater de facto freedom of individual ministries and agencies does open up more opportunities for collaboration. The project personnel strongly believe that they can achieve substantial progress and have done so despite, or maybe because of, the political situation. The evaluation team itself has met many seemingly dedicated public officers in both the executive and legislative branches who appeared interested in reforms and eager to work with the project. Therefore, the team judges the project still relevant, if not more so.

The economic has shown good growth over the last several years, peaking at over 10 percent in 2004. Does this growth mean that conditions in the country are ripe for further growth without the project or one of its components? Unfortunately, the improving economic growth has been largely illusory for the bulk of the population which has not seen improving standards of living. The key drivers of growth over the last couple years has been increasing commodity prices, especially for gold and copper, increasing mining production, and recovery of livestock herds from the devastating impact of a few years of extremely harsh winters. The growth does not signal the economy is in good order, one that does not need policy or competitiveness work.

Analytical work done on such sector topics as the cashmere industry, free trade zones and equity funds, and on such macro problems as non-mineral exports, exchange rate, and shadow economy have found serious problems. The discoveries highlight the challenges facing the project and enforce the need for it, not invalidate it.

During these two years, several topics have emerged as needing additional attention. Corruption has come to the forefront as a most critical issue with which to deal. The mining sector and the potential resource flows coming from it clearly need more attention. Exchange rate over valuation due to the Dutch disease phenomena of capital flows appreciating the real exchange rate to the detriment of exports, potential exports and import competing activities is a serious danger for Mongolia. Trade issues are becoming more critical with discussions on transit, free trade and WTO agreements. However, these sorts of issues, at least to some extent, can be handled within the project; they do not make the project irrelevant.

Mongolia has been declared an MCA eligible country. With the project help, Mongolia has submitted a proposal for \$292 million to cover three activities: enhance railroad transportation, improve housing conditions and vocational skills, and expand access to improved health services. The first activity involves the construction of 150 kilometers of railroad with the generated profits going for further railroad improvements (\$120 million). The second component aims to improve conditions in the ger (traditional tent housing) areas surrounding major urban centers (\$84.4 million). Elements include working on policy issues such as land tenure, property registration, credit information, and housing insurance or loan package standards; upgrading basic infrastructure of ger areas and promoting energy efficient housing units; developing entrepreneurship activities and long-term mortgages with guarantee funds for low-income households; and providing vocational training centers and programs. The third activity on health

involves the establishment a highly specialized diagnostic and treatment center, other support activities, and the delivery of diagnostic and other public services through a modern ICT infrastructure (\$87 million).

If the MCA proposal and its three components are accepted as submitted, the impact on the project should be little. The MCA proposal is focused on activities not generally covered by the project. Minor exceptions would be credit information, long-term mortgages, and possibly the energy system. Without energy sector reform the expansion of the system into the ger areas may not be sustainable. The great danger to EPRC is that it will be called upon to assist in the implementation of an accepted MCA proposal. The project does not have resources to do this. Any assistance rendered will be at the cost of achieving its own tasks and objectives.

Overall, EPRC and its main foci on policy, competitiveness, energy and public participation remain relevant today. The changes in the operating environment have not made the project less relevant and likely have made it more relevant. With adjustments to deal with emerging critical issues, such as mining, overvaluation of the currency, and corruption; to take advantage of better understandings; and, to work in the present political situation, the project and its components remain relevant.

C. Appropriateness of the Design

The team feels the design of putting together four separate project activities into EPRC was appropriate. Combining policy work (Economic Policy Support Project (EPSP)), the competitiveness (The Competitiveness Initiative (TCI)), energy and public participation, offered economics of administration, flexibility for responding to opportunities and difficulties, and potential powerful synergisms of working together. However, such combining created risks of a contractor or consortium not having the full range of expertise, skills and experience desired for each of the components. It also set up a situation in which one or the other of the components might be neglected.

The broadening of the actors that the project would work with, from the Prime Minister's office, to include parliament and other ministers was an important design decision that proved critical. With the weakened position of the Prime Minister in the new coalition government, the wider approach turned out to be essential and effective.

A serious design fault, at least in hindsight, is the limits recommended for some of the long term persons. The policy analyst and energy expert were only suggested for three years and the competitiveness person, for four years, although he was contracted for five. Certainly at the present time it is clear that the two ending positions need to be extended through the rest of the project, although not necessarily with the present incumbents.

D. Appropriateness of the Long-term Technical Assistance

Currently there are six long-term ex-pat advisers on the project – Chief of Party (COP), Energy Adviser/Deputy COP, Senior Business Adviser, Senior Policy Adviser, Financial Adviser, and Accounting, Auditing and Tax Adviser. The term of the last adviser is set to expire in January 2006. The COP, Senior Business Adviser and Financial Adviser are scheduled to go until September 2008 or the end of the project. However, the Senior Policy and Energy Advisers are

only scheduled to go until September 2006. In Attachment 5 there is an organizational chart of the project that shows both ex-pat and local staff.

In general, the types of positions listed are quite appropriate. They cover the range of areas and activities of involvement of the project and, with one exception, reflect appropriate priority emphases of the project. The one exception is that of the Financial Adviser who replaced a trade adviser when he fell sick. Unfortunately, at the moment, little work is able to be done fruitfully on financial and privatization issues, but strong need and opportunity exist to provide assistance on trade issues and agreements.

The present planned terminations of the Policy and Energy positions in September 2006 are serious problems. The originally planning of three years for the Policy and Energy Advisers, in retrospect, was definitely overly optimistic, both as to what could be achieved in the time period and the development of local staff to take over the tasks on the departures of the ex-pats. Both positions need to be extended to deal with critical issues and opportunities. While the Accounting Adviser position should be allowed to expire as planned, the two positions of Policy and Energy should be extended through the end of the project. With the extensions of the two positions, the questions of the appropriate skills needed to fill the positions arise. Other recommendations in this report lay out new directions for both positions. For the proposed change in emphases, present incumbents may not be the most appropriate persons.

E. Appropriateness of the Short-term Technical Assistance

The EPRC project has been very busy in utilizing short-term technical assistance (STTA) during its first two plus years (September 2003 into early November 2005.) Over this period 50 activities, involving 34 persons, were carried out. By component it was 18 activities by 11 persons for Policy; one by one for Public Education and National Dialogue; 25 by 18 for Cluster Development; and six by four for Energy. This list does not include an additional 11 visits by six different persons for management purposes. In Attachment 5 is a list of the STTA undertakings.

In general the use of short-term technical assistance (STTA) has been excellent. Many useful and well received reports have been generated. These include, for example, the Value Chain Analysis of the Cashmere Sector which clearly delineated the challenges and potential of the sector, the Public Communications Strategy Report: Rules and Procedures which assisted the Energy Regulatory Agency to establish public hearings on proposed tariff increases, and various tax studies and model that is helping with the tax reform efforts.

On the other hand, not all the STTA has been as useful as hoped for, due to a variety of reasons. For example, the excellent recommendations of the Assessment of Mongolia's Free Trade Zone Program and Site Evaluation were not only ignored, but the study was actually misused to justify government actions. The work on the energy and concession laws was not maximized by having the consultant continuing to be involved over time. Work on the national strategy was not as fruitful as it could have been had the effort been longer and more comprehensive. A legal expert to help with drafting the tax laws could not be recruited in a timely fashion. Furthermore, many potential topics were not pursued. In the energy area work was not done on such topics as tariff pricing and market design, key for meeting key pre-conditions for privatization. With the loss of the trade expert, no substitute STTA was used. Business policy issues, such as crossing border trading and inspections, were not investigated.

STTA is expensive in the Mongolia setting, both because highly expensive specialized expertise is often needed and because of the travel costs involved in bringing in persons. However, there seems little alternative to using ex-pat STTA. Little local expertise is available, although what is available should be used. The project to be successful needs the short-term expertise.

The utilization of STTA could also be improved in many ways. For example, to maximize visits, short-term ex-pat experts should be allowed to work a six day week and should be allowed a few days for preparation and home office work before coming. If the consultant can be trusted to turn in the report on time, he or she should also be allowed to do more report writing at home. Priority setting and forward planning are essential for obtaining the desired expertise at a time when it can be most useful. Allowing sufficient time for the task and continued involvement over the project as the task progresses should enhance the prospects for greater impacts.

F. Training and Capacity Building

In general EPRC has to date undertaken little training and capacity building. What has been done has been uneven across the project's components. Only ten persons from outside the project have undertaken international trips, eight persons under the Energy component for five meetings and three training sessions, and two under Policy for a three day tax reform workshop. Four persons from the project have also attended international events. A list of overseas trainings to date can be found in Attachment 5.

In Mongolia, the project has sponsored eleven training events, 20 presentations, and six workshops. Seven of the ten training events were related to Energy, all but one for improving accounting. Two one-day and one two-day events provided training related to Business Development, i.e. Export Management, Tradeshow, and Tourist Information Center. One training on the use of the tax model related to Policy. In Attachment 5 is the list of trainings, presentations and workshops held either in the project's Training and Resource Center or outside.

In addition to the above, the project does have an internship program, aimed at government officials. So far, only one intern from the Energy Regulatory Authority (ERA) and one from the National Legal Center (NLC) have completed their stays, while another from NLC has just started and two more are promised for the National Statistical Office. The expansion of this program, including for persons outside of government, offers a way to increase capacity building.

Overall, the assessment is that much more needs to be done in this area to encourage greater and longer lasting impact of EPRC. The winning Technical Proposal for this project is full of promises to development local capacity, including a local think tank. Several Mongolian institutions provided for the Proposal letters of interest in working together. However, to date little has been done in following up on these intentions.

G. Monitoring and Reporting

EPRC turns out elaborate monthly newsletters which are widely shared and appreciated and thick quarterly performance reports. Overall, the quantity seems excessive and the burden of producing such reports distracting from achieving the objectives of the project. An internal project review and review with USAID done with an eye to reducing the burden of such reporting could help to keep monitoring and reporting in line with project activities.

H. Collaboration

Information sharing is quite extensive, both through the circulation of a well written and received monthly newsletter and through personal meetings, mainly of the Chief of Party. However, substantive collaboration both within EPRC, with other USAID projects and with other donors and their projects seems weak and needs more attention. For example, in energy the donors have not agreed on what to do about tariffs, market design and privatization. Within the project the Policy and Competitiveness components are not working closely together on trade and business environment issues. Substantial benefits seem possible through closer working relations with such projects as the Ger Initiative, Gobi Initiative, Ger to Ger project, Judicial Reform, etc.

III. MONGOLIA'S CURRENT POLITICAL ECONOMY

This section briefly discusses the relationship between EPRC and the current political economy situation in Mongolia, including some new political economic realities. Reviewing these country realities offers the opportunity to broadly assess the project's effectiveness, its relevance, and options for adjustments. It also provides an opportunity to consider the relevance of EPRC's activities within the context of USAID's current strategic priorities.

A. The Grand Coalition Government and Economic Reform

The lack of an overwhelming victory in the spring 2004 Parliamentary elections by any one of Mongolia's political parties may be a testament to the public's lack of confidence in the parties' commitment to deliver broad economic prosperity. The resultant coalition government appears to be in agreement on the need to strengthen economic growth and reduce poverty. However, actual progress on economic policy reform and other changes has been slow owing largely to disagreement and lack of cooperation between government ministries.² Uncertainty around the Prime Minister's tenure and challenges to his leadership are also affecting the pace of reforms.³

EPRC has been generally successful in dealing with the new political climate:

- EPRC's intention at the outset to engage stakeholders across the government, not just the Prime Minister's Office, appears to have been helpful in facilitating communication and subsequently interaction between ministries, the PM's Office, and Parliament.
- The project's focus on engaging Parliament, e.g. on tax reform, also appears to be a successful tactic in helping the government move forward on reforms, particularly now that Parliament is more powerful under this government.⁴
- Building on the ESPS project's successful rapport with the Prime Minister's Office, the Chief of Party has privileged access to the Prime Minister, i.e. weekly private sessions.
- The Chief of Party has earned the trust of a number of government leaders through his pragmatic approach. Several interviewees cited their ability to contact the COP directly if they had requests for the project.
- The project is working on a few areas that resonate with the majority of the government. Tax policy reform and the National Dialogue activities appear to be particularly successful.

B. National Identity

² Leadership of the ministries is divided among the two main parties as part of the coalition compromise. Also, the number of ministries proliferated under the current government.

³ Due to a power-sharing agreement the PM is expected to be replaced by an opposition party member in mid-2006 although there is speculation that political intrigue may suddenly force an early departure.

⁴ An estimated 17 members of Parliament (MPs) are also Cabinet members.

Having been occupied by both Russia or China at one time or another Mongolia is wary of its large neighbors. At the same time, the two giants have been an important source of economic development for the country. But while Russia's economic influence recedes, China's is fast on the ascent, prompting many Mongolians to worry about economic and subsequently cultural absorption by China.

Mongolia's pride in being able to govern and develop itself can be viewed as part of the struggle to forge a national identity. On the one hand, Mongolian ownership of their own development process is desirable given the proximate relationship between country ownership and aid effectiveness.⁵ Country ownership is, in fact, one of the development principles outlined by USAID Administrator Natsios. On the other hand, reticence in accepting outside assistance while lacking the desired technical expertise themselves may hamper Mongolia's development efforts. This is particularly worrisome in the mining sector.

C. Corruption

Corruption has become a greater problem in Mongolia. Where once it was mostly petty corruption, the more insidious form - grand corruption - is beginning to take hold.⁶ Some observers believe that Mongolia is at a critical historical juncture. *If the country is not able to get corruption under control now, before its mining sector really takes off, it may go the way of Nigeria and fall under a "natural resource curse."*

Interestingly, corruption has become a topic of wide public debate. In some ways the broad discussion is a welcome sign of openness and healthy concern over corruption's corrosive effects. Many of the government officials we interviewed did not shy away from the topic and endorsed USAID, even EPRC, work on anti-corruption. An alternative interpretation of the public nature of these discussions is that anti-corruption has become a populist platform, exploited by political rivals who aim to indict each other on corruption charges or curry public opinion in their favor.

Mongolia is taking some major first steps to stem corruption. It recently signed on to the Extractive Industries Transparency Initiative (EITI) and the UN Convention Against Corruption. The current openness should be viewed as an opportune time for EPRC to offer assistance in support of anti-corruption work. As mentioned above, some of the government counterparts interviewed inquired as to the possibility of EPRC assisting them with anti-corruption work, particularly in the mining sector. USAID, understandably, should avoid getting caught in domestic political battles over corruption. However, it is important to acknowledge that **corruption affects and is affected by economic activities in the country.**⁷ Furthermore, while the project does not operate under the banner of "anti-corruption", **some EPRC activities were purposely designed to increase government transparency and accountability** (energy regulatory accounting, introduction of international accounting standards, the Open Government web-site, support for Mongolia's ranking on Transparency International's Corruption Perception Index, etc).

⁵ *Assessing Aid – What Works, What Doesn't, and Why.* Dollar, David and Lance Pritchett. World Bank. 1998

⁶ See USAID Assessment of Corruption in Mongolia, August 31, 2005.

⁷ "USAID recognizes that meaningful successes in one SO cannot occur in the absence of progress in the other. Few would argue, for example, that sustained economic growth can occur in the absence of effective legal administration or controls on corruption." RFP SOW, III. Activity Description, a) Approach

D. Poverty and Vulnerability

Poverty, as multi-dimensional deprivation, is a mixed picture in Mongolia. The country's social indicators in health and education have actually improved since the decline during transition. Longitudinal measurements of poverty in terms of income are less reliable. Current estimates are that 36% of the population lives on less than \$1 a day, the same rate recorded in 1994, just after the height of transition. The rate reportedly approaches 50% if the \$2 a day threshold is used. Income inequality is also reportedly on the rise, particularly between urban and rural households.

Despite improvements in social indicators, the poverty figures are disturbing for a country that claims to be finished with transition and moving towards full development. In fact, the apparent stagnation in income poverty has made the topic of poverty of greater concern among Mongolians today. In a recent national public opinion poll, poverty ranked as the 2nd highest concern among Mongolians, after unemployment.⁸⁹ Another sign of political prominence is the Prime Minister's declaration of a "War on Poverty."

Substantial donor assistance for poverty reduction is being provided by major multilateral donors in Mongolia, including the World Bank, the ADB, and UNDP. However, their limited in-country presence limits the actual technical assistance they can provide. Two USAID programs, the Ger and Gobi projects focus explicitly on the poor at the grassroots level. EPRC does not duplicate these efforts largely because it was designed to work at the firm and policy levels thus indirectly contributing to poverty reduction efforts. However, the project can make more direct contributions within its current orientation and should make as SO1 targets "broad" economic growth.

- a) **"Pro-Poor Growth":** Economic growth in Mongolia has been trending up since 2002, with an estimated 10.6% growth rate in 2004. Higher gold and copper prices, increased mining production, and livestock recovery were largely responsible for the 2004 increase. But poverty rates have not subsided even with the economic turnaround. Mining, a capital-intensive industry, is expected to comprise a significant proportion of future GDP. However, future growth in areas that employ the poor, such as agriculture, is less certain.
- b) **Social Safety Nets:** Transition was accompanied by increases in poverty and vulnerability due in great part to higher unemployment and major cuts in social programs. The multi-year *dzuds* (1999 – 2001) further pushed many herder households into poverty. In the energy sector, liberalization resulted in an increase in tariffs which made heating and electricity unaffordable for poor households – an extreme hardship in one of the coldest countries in the world. Arguably, a stronger social safety net could have mitigated the effects of these shocks and assisted Mongolians in weathering temporary poverty (transitory poverty) instead of being pushed into a "poverty trap" whereby households no longer have assets for wealth-generation and barely subsist.
- c) **Rural vs. Urban:** EPRC was designed to work on national economic policies. However, there is an assumption in the design that economic policies made centrally would have the same effects across the country. Yet, the growing differences in poverty rates between urban and rural households seem to indicate the need for some differentiation in policies.

⁸ Although it may be more accurate to view unemployment as a primary cause of poverty.

⁹ Sant Maral Foundation, POLITBAROMETER #25, Nov 2005

- d) **Youth and Gender:** Labor and youth issues constitute the core of “Jobs for the 21st Century”, one of the priorities in the ANE bureau’s new strategic framework. As in many developing countries, a large proportion of Mongolia’s population is youth. It is estimated that the economy must generate 48,000 new jobs a year to absorb new entries into the job market. Obviously, this is a tough order given current economic constraints. The challenge is even more difficult if gender is considered. With less state support for education during transition and boys dropping out of school to work, a reverse gender gap exists in Mongolia. Not only has this created a problem of employable male youths in professional jobs but social problems like domestic violence and alcoholism.

E. Regional Socio-economic Development

Although provincial (*aimags*) and district level (*soums*) governments are part of Mongolia’s administrative structure, actual policy and fiscal control resides with the central government. Consolidation of fiscal control began with the *General Budget Law* and the *Public Sector Management and Finance Law* of 2003 which emulate the New Zealand system, a country with similarly expansive geography and thin population. Within this highly centralized structure, the government is moving on its *National Framework for Regional Development in Mongolia*. The plan promotes regional economic development (livestock intensification, integration of crop and livestock farming, etc.) and strengthening of social schemes. Momentum for the regionalization plan appears to be due to a combination of factors. One rationale is relief from urban migration strains on Ulaanbaatar. Another is using the plan as a “back door” approach to administrative restructuring including consolidation of aimags

The Framework may have important negative or beneficial effects depending on the way the government pursues it. Politically, if the plan reinforces central control over local government, it could further tip the balance of power among the major political parties to the MPRP as it is the party with the strongest ties to the rural areas. However, if the government pursues regional development to empower local governments, it could create space for local solutions to local problems and moderate the current “top-down” approach. Some observers welcome this opportunity, citing the often inappropriate nature of policies made at the national level for the local context. The economic effects can only be speculated at this time. A policy note by the World Bank cautions that regional targeting could be a huge strain on the budget with little economic payoff.¹⁰ Conversely, regional development (as local development) is viewed by some as an incentive for local economic innovation.¹¹

Regardless of the Framework, local governance and economic development are issues that EPRC should monitor as this trend may complicate EPRC policy work. While the design of USAID economic projects tried to complement a high level with a grassroots approach, in practice, the approaches largely operate independently. EPRC does not work with local governments in implementing policy reforms. Moreover, neither the Ger nor the Gobi II project deals with policy reform.

¹⁰ “Mongolia’s Regional Development: Selected Issues.” World Bank Policy Note. August 2005

¹¹ The prospective mining boom is already affecting local governance. For instance, using project funding from Boor, a local *soum* developed an action plan with projected completion dates and posted it at the town hall. Boor also contributed funds for a dental clinic which the local government then used to leverage funding from donors.

F. Recommendations

1. Continue with a broad-based consultative approach which promotes country ownership.

The project should continue to work across the GOM in a highly consultative manner but confer with USAID before engaging in particularly politicized issues.

2. **Increase capacity building efforts.** Issues of national identity make capacity building extremely valuable in Mongolia. Capacity building is also a priority in the Agency's FY07 budget and fits with the "Training Future Leaders" priority in ANE's new strategic framework. An emphasis on country counterparts that welcome capacity building and have the potential to significantly influence economic policy (ex: Ministry of Finance) would make strategic use of EPRC resources. See also suggestions for intensified EPRC efforts in capacity building in other sections of the evaluation report.

3. **Promote transparency and accountability through EPRC's technical comparative advantage.** The project's technical orientation allows it to support anti-corruption efforts in various concrete ways.

- a) Economic governance – This includes carefully defined assistance in the sectoral areas of the project as recommended in USAID Anti-Corruption report. Other examples: technical assistance on fiscal transparency (ex: publishing the state budget), simplifying administrative procedures, international best practices on Conflict of Interest, etc.
- b) "Evidence-based policy-making" – promote a culture within government that values policy-making based on data and analysis. This line of activity should be paired with research capacity building efforts. Two successful examples of this pairing are the Strategies for Accelerated Growth and Access (SAGA) cooperative agreement and the Global Development Network.¹²
- c) Monitoring tools which government and civil society can use to promote and monitor progress on anti-corruption. Ex: costing and timelines for government plans, "report cards" on government services performance, etc.
- d) See recommendations in the Consensus Building, Public Education, and National Dialogue section.

4. **Better Integrate Poverty Issues in EPRC Activities.** Recommendations in the first four areas should be considered in conjunction with project efforts to build Mongolian research capacity.

- a) "Pro-poor growth": Analyze and advise the government on how growth can be more "pro-poor" whereby economic growth also reduces poverty.¹³ Potential areas for EPRC work in this area include: inflation effects on real incomes; research on trade and poverty in partnership with the UNDP who is tentatively reviewing this option.
- b) Include youth, gender, rural-urban, and ex ante poverty impact analyses in EPRC analysis and modeling of policy reforms, e.g. reforms in energy, labor, taxes, etc. Methodologies and best practices in this area are being led by the multi-donor group working on Poverty

¹² www.saga.cornell.edu and www.gdnet.org

¹³ See: http://inside.usaid.gov/EGAT/off-pr/poverty_analysis_safetynet/pro_poor.htm

and Social Impact Analysis (PSIA).¹⁴ Other ideas include: following up EPRC research on labor and the shadow economy with a focus on youth and gender. It may also be worthwhile to consult with the World Bank on its planned 2007 World Development Report whose theme will be youth.

- c) Assess the efficacy of current government safety nets with an eye towards options for devising productive safety nets. These “cargo nets” are distinguished from traditional social safety nets by their focus on moving people towards more productive activities, ex: through skills training or more profitable crops. Productive safety nets would be particularly useful in areas where herder households now turn to illegal mining as a livelihood, a dangerous practice for both their health and the environment.
- d) Outreach to Ger and Gobi Constituencies: Given the difficulties poor Mongolians face in participating in the economy, information on economic policy, regulatory, and administration can help them make better economic choices. While it is true that EPRC is investing in mechanisms that can reach all Mongolians, a direct link to Ger and Gobi constituencies takes advantage of an easy opportunity to optimize USAID’s impact. Coordination could include: exploring employment and business linkages; shared value chain work as recommended in the Competitiveness section¹⁵; dissemination of information on policy reforms, business laws and procedures in Ger and Gobi newsletters; distribution of NLC law compilations, etc.; and inviting participation in relevant “super chats” as a way to facilitate greater voice of the poor in economic policy-making.

5. Explore the integration of local economic governance issues in EPRC work. EPRC’s currently expansive list of activities and limited resources make partnering an optimal option in this area. UNDP is working on localizing the Millennium Development Goals (MDGs) and Open Society Forum/Mongolia is considering work on local development strategies. Another avenue is to explore follow-on work on tax reform that covers local implementation of the reforms and local tax issues. See also recommendations for improved linkages to Gobi and Ger constituencies.

¹⁴ See: www.worldbank.org/psia

¹⁵ Ger is already working with some EPRC private sector clients on employment opportunities for its clients but this is ad hoc and not with EPRC staff participation.

IV. ECONOMIC, TRADE, AND FINANCIAL POLICY SUPPORT

Since 1990 the Mongolia economy has successfully transitioned from a socialistic, state-run, command economy to a private sector, market-oriented one. The key issue now for the Mongolian economy is to achieve rapid and sustainable economic growth that benefits the vast majority of Mongolians. To realize such growth, the GOM must deal successfully with three main challenges. The GOM must consolidate and institutionalize the economic reforms of the last 15 years, improve the environment for private-sector led development, especially as related to global markets, and handle wisely the threatening, interrelated challenges of corruption, natural resource potential, and overvaluation of the currency.

Mongolia has done an excellent job of introducing a market economy. However, many loose ends still abound, e.g. unprivatized state enterprises, fiscal and balance of trade deficits, debts, lack of institutional capacity. Business conditions still need substantial improvement as highlighted in the Competitiveness and Doing Business reports. Mongolia is at a major crossroad as emphasized in the recent USAID report on Corruption in Mongolia. The looming potential of developing natural resources intensifies the need to move aggressively and quickly on transparency and good economic governance issues. If handled well, mining offers Mongolia and its people substantial benefits. Such a development is likely to aggravate an already visible problem of an over valued currency. The daunting responsibility for EPRC is to help the GOM deal with these tasks.

A. Background

The Policy Analysis, Formulation and Implementation Support component of the RFP and the technical proposal have become two areas of activities: Economic, Trade and Financial Support (ETFS) and Energy Reform. Early in the project the objectives of the ETFS were noted in the EPRC Newsletter of January 2004 as:

- Development, maintenance and implementation of sound macroeconomic policies to promote sustainable and equitable economic growth
- Development, maintenance and implementation of trade and investment policies supportive of a competitive participation of Mongolia in the world economy
- Reduction in transaction costs of businesses
- Deepening and strengthening of the financial sector
- Response to emerging policy reform initiatives.

Since the beginning of the project, dedicated personnel support has consisted of one long-term expatriate macroeconomist, who is scheduled to leave in September 2006, and one local staff. Other staff members have assisted on particular topics, particular the tax reform effort. The total budget dedicated to his component is \$4,769,359 with \$3,302,822.59 still remaining as of the end of September 2005.

Short-term technical assistance, provided in thirteen trips, has included work on:

1. Trade and investment framework agreement (two trips)
2. Ministry of Industry and Trade reorganization
3. Tax reform communications strategy
4. Shadow economy survey

5. Mining sector stability agreements (two trips)
6. National development strategy paper
7. Overall business and macroeconomic environment program
8. Tax policy model (two trips)
9. Benchmarking tax system and reform recommendations
10. VAT Legislative Reform

Little training related to the Policy Component has been done to date under EPRC. Internationally only three persons, including one from the project, attended a three day workshop in the U.S. for Practitioners of Tax and Pension Reform. Locally a workshop was held to train personnel of the National Statistical Office (NSO) in the compilation of the Social Accounting Matrix for Mongolia and a four day workshop trained 10 persons in the use of the tax model. The MOU with the NSO promises to provide internship opportunities to two staff.

Collaboration with other donors has consisted mainly of keeping others informed through the newsletter and personal contacts. The project did provide input to a IMF tax study and in turn used the IMF study for its tax efforts.

B. Accomplishments

Major accomplishments include:

1. **The ranking of Mongolia.** For the first time ever, thanks to EPRC, Mongolia has been ranked in the World Economic Forum's *Growth Competitiveness Index*. Being ranked achieved two objectives. First, being included in the ranking draws international attention to Mongolia. They place Mongolia on the map for potential investors and buyers. Secondly, the ranking helps to focus domestic actors on what has to be done to achieve a higher ranking. They create local awareness of how Mongolia is viewed and ranked in the wider global setting.
2. **Completion of important studies, models and analyses.** These include the studies on stability agreements, free trade zones, shadow economy, and tax impact, and the creation of the Social Accounting Matrix (SAM) and tax model. These analytical tools and reports provide information to decision makers on the issues, best practices, current situation, and / or likely outcomes of choices. They help the government to make more informed decisions.
3. **Influence on the thinking of the government and political parties.** The project put considerable efforts into helping with the drafting of a national development strategy. The changes in political scene caused the strategy to not be formally adopted, but parts of it have turned up in various government and political party documents and plans. The work is shaping Mongolia's thinking on a number of critical issues and problems.
4. **Critical assistance to the Mongolian proposal for the MCA.** At the request of the MCC, EPRC provided substantial assistance to Mongolia in the drafting of a proposal to submit to MCC. The proposal is for \$292 million in funding to cover three activities: improving the railroad, ger neighborhoods, and the health system. If MCC approves the proposal, it will be due largely to this assistance.

5. **Progress on tax reform.** Substantial progress has been made in developing and obtaining support for major tax reforms in both corporate and personal income tax. If substantial tax reform is achieved, this will be a major accomplishment of the policy component of EPRC. The present tax system is a serious deterrent to business development in Mongolia.

C. Questions

1. **Does it make sense to continue working on policy reform,** given the poor GOM track record in implementing laws?
Mongolia is not exceptionally bad in this regard. The use of the expression “policy reform” is too broad for making such a decision. At the moment there are areas that seem promising and other areas that do not. For example, given the attitude of the Governor of the Mongolian Central Bank, it is unfruitful to attempt work on monetary policy and bank supervision. On the other hand, with present interest in tax reform, changes in the tax laws like quite likely. Overall, there are plenty of areas for worthwhile cooperation, such as business environment, trade and mining.
2. **What are appropriate areas of policy emphasis?**
Taxation and energy are important and deserve continued attention, including considerations of impacts on poverty, pro-poor growth, social safety nets, rural and urban, young and gender. However, clearly the project has not achieved the synergism across components areas hoped for in the RFP and promised in the Chemonics Technical Proposal. Hence, much more attention to the business environment, trade, energy and public participation is needed. Also in terms of importance to the country and critical needs of GOM, more attention needs to be devoted to the challengers of developing natural resources, fighting corruption, and dealing with the over-valuation of the currency (Dutch Disease.) A better match with the Strategic Objective 1 of USAID/Mongolia would then be achieved.
3. **How well do GOM awareness and requests match with and are responded to by the project?**
Since the evaluation team talked with government persons who worked with the project, they are aware of and generally, but not universally, consider the project responsive. It is our impression that the project is well known and responsive. The discrepancy in opinions on responsiveness seems mainly due to the change in the nature and resources of the current project versus the ones that it replaced. For example, the earlier privatization project placed persons in the State Property Committee. The project is doing a good job of responding to requests, even in some cases undertaking what are probably less critical endeavors in order to be viewed as responsive.
4. **Should there be more training for Mongolian policy makers?** If so, what kind?
Definitely there should be more, especially as so little has been done. The specifics would need to be worked out as the policy efforts go forth, but likely areas would include taxes, business environment, mining, trade, and transparency and good governance.
5. **How successful has the LTTA team been in developing good working relationships with key government and non-government personnel?**

The team leader has developed good relations with a broad range of government and non-government personnel. However, the other team members have been much more limited in their contacts and relation building.

6. What else should EPRC do in the financial and banking sector?

At the present moment in this area, EPRC is working on exploring possible uses of DCA (Development Credit Authority) for activities in Mongolia, discussing with involved parties the moving and strengthening of the credit information bureau currently in the Central Bank, and informal assistance to new start up equity funds. The project should continue with these activities and perhaps, if it would be useful to donors, do some analytical work on the financial situation, but otherwise EPRC should not at this time undertake other major efforts as they would likely not be fruitful and sustainable in the current environment.

The banking and financial system in Mongolia is presently in bad shape and a financial crisis is likely, if substantial steps (beyond the project) are not taken soon to improve the situation. Of the 17 commercial banks in Mongolia, it is common perception that several should be closed. A number of banks somehow mysteriously met required capitalization levels this year. A higher level of capitalization has to be met next year. Three of the largest banks in the country are in serious trouble over a scandal involving bogus letters of credit issued to cover transactions in Korea. NPLs (Non-performing Loans) in the banking system are rising sharply and the informed opinion is that the real situation is several times worse than the reported number because of change in definition of NPLs and lax enforcement of reporting. The Central Bank is extremely non transparent in its regulation of banks and non responsive to suggestions and offers of assistance from donors and multi-lateral institutions. At the moment there is not IMF agreement in effect. Furthermore, Saving and Credit Cooperatives (SCCs) with deposits approaching those of the banking system are offering extremely high rates of deposit (approaching the lending rates of the banks), creating the fear of pyramid schemes. SCCs are currently unregulated, although there is a draft law which would bring them under the Ministry of Finance.

The IMF, the World Bank and the Asian Development Bank (ADB) are leading efforts in this sector. The IMF is very concerned about the state of banking and the behavior of the Central Bank. It is trying to negotiate an IMF arrangement to assist with the problems. The World Bank, which is coordinating donor work in the financial sector, has recently completed a Financial Sector Adjustment Program and should be starting soon a Second Private Sector Development Credit Project. This last activity will include both a line of credit for longer-term private sector financing and a TA component to help the Trade and Development and Zoos Banks with operations and the Central Bank with bank supervision. ADB has on going assistance related to legal and institutional reforms that cover the finance sector and are working on a Financial Sector Development Program III and Capacity Building for Non-bank Financial Sector Reforms activity.

USAID/Mongolia and the U.S. Embassy should definitely be involved along with other donors in trying to avoid a financial crisis in Mongolia. For EPRC, except maybe doing some analytical work on the situation, there is not at the present time much room for the project to be involved at the technical level. The basic issues of

the moment are political. Until they are resolved, there is little the project can do to actual help the financial situation.

D. Recommendations

1. **Develop a Policy Agenda for Action**

EPRC, despite clear and ambitious stated objectives in the policy area, lacks an agreed on list of priority policies that need attention to achieve these objectives. The objectives are excellent, but what is not specified are the steps or policies needed to achieve them. Without a clear priority agenda it becomes very easy for the project to miss important policies and to devote time to less essential issues. EPRC, in conjunction with USAID and GOM, needs to develop an agenda of priority policy issues to help guide and drive the project's work.

2. **Adopt a Proactive Approach**

EPRC generally operates in a reactive mode. What is on the mind of the Prime Minister or other counterparts seems to be the key driver of the project's work. The project in conjunction with USAID should be more proactive on policy issues and advice. As the Technical Proposal put it, EPRC advisers should "lead the charge."

3. **Be Consultative, Encourage Ownership, but Share Opinions**

EPRC technical advisers need to be sensitive to Mongolian nationalistic feelings and interact in a consultative manner that encourages and fosters ownership. Within a trusting and collegial relationship, they also have the responsibility not only to present options, but also to share opinions as to which option is best and explain why. The impression is that EPRC is too careful in stating professional opinions. The caution seems to come from two fears: fear of triggering a nationalistic reaction and fear of having USAID or the US Government labeled as interfering in Mongolian matters. However, the advisers can not do their jobs properly if they just fill in details of GOM decisions. A clear delineation between the technical advice and official US positions must be drawn and conveyed to all the parties. EPRC experts do not speak for USAID or the US Government. EPRC advice needs to be regarded by all parties as the best technical opinions of experienced experts that do not necessarily reflect the views of USAID or the US Government.

4. **Strengthen Synergism**

The Technical Proposal is full of assistance and cooperative efforts that were going to be achieved across the various project components. For example, the Policy Implementation Adviser was going to be deeply involved in the Competitiveness and Energy components. Competitiveness would be attacked at a policy as well as firm and sector levels. These cross workings have not happened to the extent promised, but need to happen. Synergism needs to be systemically and actively pursued and fostered.

5. **Reinforce the Tax Reform Efforts**

The work on tax reforms is the most promising policy initiative currently underway. The analytical studies and model building that were done are providing support to the effort. However, at the moment the endeavor is being carried out in an ad hoc manner with available staff doing what has to be done to meet GOM's requests and

deadlines. There is clear need to augment the current effort with expertise on drafting tax legislation and on many of particular taxes being discussed.

6. Increase Attention to Selective Key Policy Issues

Three sets of policy issues need increased attention. The first is the consolidation and institutionalization of the economic reforms of the past decade. Here the task is to be responsive to the GOM's needs on such issues as national development strategy, tax reform, and privatization, and work to improve procedures and increase capacity to handle the issues. This needs to include building support and capacity, both inside and outside government, for evidence-based policy-making. It also includes analyzes of poverty, pro-poor growth, social safety nets, differentiated impacts of various policies on urban and rural populations, youth, gender and local government.

The second set focuses on improving the environment for private-sector led development, especially as related to global markets. The involvement of the Policy Component is essential to the success of the other components of EPRC. Issues for attention include trade, business environment and energy. Trade is essential for a small land locked country like Mongolia. A number of critical trade negotiations are underway or upcoming, such as transit agreements with China and Russia, free trade agreements, WTO Doha round negotiations. EPRC is going to co-support with GTZ on a trade unit for MIT. That unit will need technical backstopping. Business environment issues include such matters as business regulations and inspections, the procedures and documents of cross border trading, collateral foreclosure, contract enforcement, labor costs, etc. Keys to achieving a private energy sector involve policy issues, such as debts, pricing of electricity and heating, and market structure.

The third set of policy issues are paramount national ones that need to be addressed if Mongolia is going to achieve rapid, sustainable, broad based economic growth that reduces poverty. These include developing natural resources and using the received revenues, improving transparency and good governance, and dealing with the over-valuation of the currency.

The potential benefits of obtaining and using well revenues from a well handled development of natural resources are staggering. Mining involves a lot of issues beyond mining and stability agreements. How will funds be accounted for and used? Wise use of the revenues will be essential for the development of the country. Mongolia needs help to successfully navigate the dangers and opportunities that large development of mining will bring and to avoid the natural resource curse. EPRC has already done an excellent study on stability agreements. Renewed involvement in the whole range of issues is desired. This includes, for example, helping Mongolia to participate fully in the Extractive Industries Transparency Initiative.

Corruption is a major issue with such profound implications for the future direction of the country that it simply can not be ignored. As the USAID study on corruption in Mongolia points out the country is at a critical junction. Its future hinges on how well the country deals with corruption. EPRC can be of great assistance without waving the banner of anti-corruption. A lot of present work already comes under efforts of transparency and good government, such as the ERA public hearings,

international accounting standards in the energy sector, and recommendations on how to handle free trade zones.

Currently donor inflows, remittances, and mining receipts are feeding an over-valued currency. As huge mining endeavors come on stream and revenues begin to flow to the government, the degree of over-valuation most likely will be seriously aggregated. Worsening over-valuation will make the development of tradable goods, both import competing ones and exports, and, hence, diversification of the economy extremely difficult. If not handled well, overvaluation will condemn Mongolia to being a simple provider of natural resources.

7. Strengthen Training and Capacity Development

The Technical Proposal includes many suggestions on building local policy capacity that will out last the project. These plans, including the internship program and development of a Mongolian policy capacity inside and outside of government, need to be aggressively pursued. Institutionalizing making decisions based on sound analyses – evidence-based policy-making -- would be a major achievement. To do this analytical capacity must be improved. The training proposal for a Modern Economics Seminar in Country Training to provide 30 young economists with five weeks of training is an excellent start. However, it needs to be part of a greater capacity developing effort.

8. Recruit a Policy Oriented Economist

The project needs to recruit, as a replacement for the departing current ex-pat macroeconomist, a policy oriented economist who can handle micro as well as macro issues and be an active advocator for policy changes. Ideally the two persons would overlap for an extended period. Right now the attention of the present Policy Implementation Adviser is solely on macroeconomic issues and mainly on the analytical aspects of the issues, but the project needs micro issues to also be examined and policy changes to be advocated. Someone in addition to the COP is needed to work the economic policy issues with the government, private sector and donors. This should be someone who understands the issues, is able to explain them, and skilled at working issues in a cooperative fashion with all parties.

V. BUSINESS AND SECTOR DEVELOPMENT

A. Background

While relatively open and market-oriented, Mongolia is a landlocked country with a limited domestic market. It is poorly diversified and heavily reliant on a few low-value products and a number of volatile export commodities (cashmere, copper, and gold). The main export markets are the United States (47.8%), China (17.9%), and the U.K. (15.7%).¹⁶ In the 2005 WEF Global Competitiveness Report, Mongolia ranked only 96 out of 117 countries. In addition, the World Bank's Doing Business survey cites formidable barriers in "trading across borders" – with a standardized shipment of goods taking 66 days and 22 signatures to export out of Mongolia. More progress must be made if Mongolia is to become fully competitive in the global marketplace

Overview

The EPRC competitiveness component is a relatively small size effort funded at a level of \$3,691,248 over five years. This component broadly supports USAID/Mongolia's economic growth objective to accelerate and broaden sustainable, private sector-led economic growth by focusing on intermediate result for more competitive industries and sectors. EPRC project goals directly in support of this Mission intermediate result include two project-specific goals: 1) promote increased competitiveness in the Mongolian economy, and 2) priority clusters strengthened. The EPRC Business and Cluster Development project goals are listed to the right.

EPRC accomplishes these goals through a combination of one long-term expatriate advisor and three local staff members complemented by targeted short-term expatriate assistance. The primary implementation mechanisms are two new innovative, cost-sharing funds to provide assistance to firms and groups: the Business Development Fund (BDF) and Mongolian Competitiveness Fund (MCF), respectively.

The BDF and MCF have introduced transparent selection criteria: generally requiring a co-payment of at least 50% from firms or group (with a contribution ceiling of \$10,000). The BDF recipients must be at least 26% Mongolian owned, registered legal entities, enterprises in operation for at least two years, involved in legitimate business pursuits, and otherwise not prohibited from assistance. At the firm-level, the BDF supports business and financial planning or re-structuring, technology upgrading, market development, export readiness, international quality standards, management information systems, skills development, and improved facilities or services to the sector. The MCF recipients must be viable business groups (non-governmental) representing any industrial sector or sub-sector with an export potential. The MCF supports professional fees of advisors and other training costs but no expenditure on fixed assets, such as staff employed by the group or recurring overhead. Each of these two mechanisms were provided initial funding of \$250,000.

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Business and Sector Development Objectives

- Improved competitiveness of business environment
- Improved competitiveness of identified sectors/clusters
- Privatization support
- Improved competitiveness of client business firms – *Business Development Fund*
- Response to emerging opportunities to structure and facilitate public or private/public transactions.

¹⁶ CIA World Factbook, 2004 estimate. Similarly, the main import partners are Russia (33.3%), China (23.6%), Japan (7.4%), South Korea (6%), and the U.S. (4.6%)

Accomplishments

The Business Development Fund and Mongolian Competitiveness Fund have significantly leveraged USAID funds with private sector funds from Mongolian firms and groups, thus increasing the impact of limited USAID resources and gaining ownership from the private sector.¹⁷ EPRC has helped promote competitiveness in such sectors as natural fibers, tourism, leather, and meat/pet food. Some of the accomplishments under these two funds, in-house technical assistance, and short-term expatriate assistance are listed below.

- Identification of innovative new value-added markets, such as Peshmina (high-end cashmere products for dogs), pet food exports to Japan, and blueberry exports.
- Marketing delegation “Routes to Markets” to New York and Hong to link Mongolian producers with key international buyers for cashmere (in progress)
- Opening of the Tourist Information Center to provide information on the Mongolian tourist market
- Opening of the Berlin Cashmere Distribution Center to generate sales for cashmere and other natural fiber producers in Mongolia
- Participation of Mongolian Tour Operators at the exclusive ITB (International Tourism Exchange Berlin) Exhibition in Germany
- Development of the Tourism Portal to provide service providers with direct access to the international market and provide tourists with information on the Mongolian market
- Practical seminars on exporting and presentation of exhibits at trade fairs
- Delegation of meat exporters to attend the Beijing Meat Fair and to meet with Chinese industry representatives
- Buying trips to Siberia and sales trips to Moscow for leather producers

Long and Short Term Technical Assistance

Feedback on long-term and short-term technical assistance has generally been positive for the competitiveness component. Given a relatively small budget and staff of four (one long-term expatriate advisor and three local staff members), EPRC has certainly made some impressive contributions in the area of competitiveness and private-sector led growth in Mongolia. The short-term assistance is useful in providing extremely specialized private sector expertise. In addition, the local staff members on the project appear to be empowered and highly competent. If making comparisons, it should be noted that the predecessor project TCI had significantly more resources. TCI had three expatriate long-term advisors and eleven local staff. The EPRC competitiveness budget on a per annum basis is roughly only 60% of the predecessor project.

Donor Coordination

USAID and GTZ are perhaps the two most active donors in Mongolia in private sector development with existing activities that are highly complementary. The GTZ SME promotion activity (1998-2006) helps to build institutional capacity of sector-related institutions in wool and cashmere, woodworking, construction, printing, leather, and tourism. The GTZ Private Sector Development project, funded by the Royal Netherlands Embassy-Beijing, also develops the skills of Mongolian business consultants and delivers focused assistance to Mongolian enterprises. The

¹⁷ As of October 2005, EPRC had contributed \$166,685 to MCF activities and \$47,667 to BDF activities. However, EPRC had leveraged from the private sector 1.7 times its own contributions for total project costs of \$575,682.

UNDP has a new Enterprise Mongolia project (2005-2008) focused on SME promotion in the aimags. The project will help build capacity of existing local business development providers, improve access to financial services (using commercial channels and providing grants to institutions to develop innovative financial products), and enhance market development (linking clients to individual and wholesale producers). The target clients are micro entrepreneurs, subsistence-level businesses, and potential entrepreneurs in the informal sector. Finally, in terms of the financial sector constraint to private sector development, the ADB has a significant financial sector development program with a focus on regulating non-bank financial institutions (e.g., regulating insurance, savings, and credit unions), improving corporate governance in the banking systems, and the development of a separate NBF (Non-Bank Financial Institutions) regulator.

B. Issues, Problems, Questions:

1. Review of the Appropriateness and Relevance of the Project Approach and Design

Competitiveness: the Evolution of EPRC from its Predecessor Project

USAID has taken two different approaches to enterprise development through the Nathan Associates project ‘The Competitiveness Initiative’ (1999-2003) and Chemonics ‘Economic Policy Reform and Competitiveness Project’ (2003-2008). The former took more of a cluster-based approach in its original design and the latter more of a firm-centric approach.¹⁸ The EPRC approach recognized the premature nature of a cluster-based approach for Mongolia’s level of development and the dearth of viable industry clusters. This was a move in the right direction given the lack of fundamental pre-requisites for a cluster-based initiative to take hold: market orientation in business and government, strong and functioning institutions, trust, and civic champions.¹⁹ EPRC therefore cast a wary eye toward a classic cluster-based approach. The use of the term “cluster” with respect to the current EPRC project is in fact really a misnomer.²⁰

The Mongolian context does not lend itself well to a traditional “cluster-based approach.” The market is not well-diversified and depends on a few key industries, such as minerals, natural fibers, meat, and tourism. The market is also not very dense, deep, or wide in Mongolia. There are only seven major players in the natural fiber sector in Mongolia.²¹ – a traditional sector which is held back by the state-owned Gobi Corporation. The tourism sector is characterized by a growing number of small and medium enterprises, scrambling over one another to compete and gain a share of the international tourist market. Relationships among firms are often distrustful with little notion of the concept of cooperating to compete. There are not strong champions in the private sector driving the reform process. Mongolia is not at an advanced enough of a stage of development and does not lend itself well to a traditional cluster-based competitiveness initiative.

¹⁸ The Mitchell Group report notes the caveat that the original cluster-based approach under TCI morphed into a different approach in its implementation – a more traditional private sector project focused on the value chain, collective challenges of industry, and re-orienting industry toward higher value products and services.

¹⁹ See report on “Promoting Competitiveness in Mongolia: Learning from USAID’s Experience,” Mitchell Group, June 18, 2003, on fundamental pre-requisites for a cluster-based initiative to take hold.

²⁰ Add cluster prerequisites from Mongolia competitiveness assessment report.

²¹ Gobi Corporation, Buyan, Eermel, Cashmere Fine, MCCWC, Sun Shiro, Erdenet (carpets).

However, some of the lessons learned from the Mitchell Group evaluation report could be revisited in the current project design.²² Some of these lessons include: 1) assume the role of facilitator versus the implementer to develop partnerships with local institutions and firms so that they can deliver the kind of industry-driven services provided by TCI; 2) focus policy reform efforts on the micro-economic agenda; 3) develop realistic plans for strengthening the viability of key institutions (e.g., Mongolia Tourism Association and Cashmere Promotion Society) and for steadily reducing USAID involvement; and 4) focus on sustainability as an operating principle for future interventions, working as partner with local institutions to build their capacity to provide industry-driven services.

Competitiveness: Alternative Approaches to Enterprise Development

Competitiveness is not synonymous with a “cluster-based” approach. However, the “right” approach is heatedly debated and there is currently no consensus. The orthodox view is that an open and non-distorting business environment puts private entrepreneurs in a better position to make business decisions than donors or policy makers, who may try to “pick winners.”²³ The government/donor role should thus be restricted to creating a facilitative environment for the private sector to flourish. Direct donor interventions to assist firms often result in little impact at the national level and at worse create a subsidy effect that distorts markets, encourages donor dependency, and crowds out local service providers. The critics may argue that the reforms failed to produce results and that work to simulate the supply response is also needed. Michael Porter’s theories on creation of “competitive advantage” would fit into this category of counterarguments.²⁴

This evaluation will not attempt to pick an ideological view (e.g., clusters versus firm-level assistance) but rather take a practical approach by addressing the three broad factors shaping enterprise growth.²⁵ The three broad factors shaping enterprise growth are: 1) demand for the products and services that firms produce, 2) the quality of the business environment, which affects the incentives firms face, and 3) the competitive response of firm to market demand. None of these factors should be considered mutually exclusive but rather taken in conjunction with one another. Any donor-funded project with an aim of enterprise development should address all three factors. Each of these factors alone is necessary but by themselves insufficient to shape enterprise growth and foster private sector growth.

Therefore, enterprise development initiatives **should engage at multiple levels - enterprise, sector, and national level** - to appropriately and adequately address these three factors. Given limited donor resources, there should be a balance between quick impact interventions and interventions with higher (not necessarily the quickest) impact. The highest impact is usually achieved by addressing market failures.²⁶ These could include business environment reforms as well as collective/public goods. There is usually underinvestment in public goods because benefits accrue to a broader group than just those who pay for them (i.e., there are spillover

²² Ibid. p. vii.

²³ See Snodgrass and Winkler, February 2004 for overview of these views, the three broad factors shaping enterprise growth, and recommendations for multiple levels of engagement.

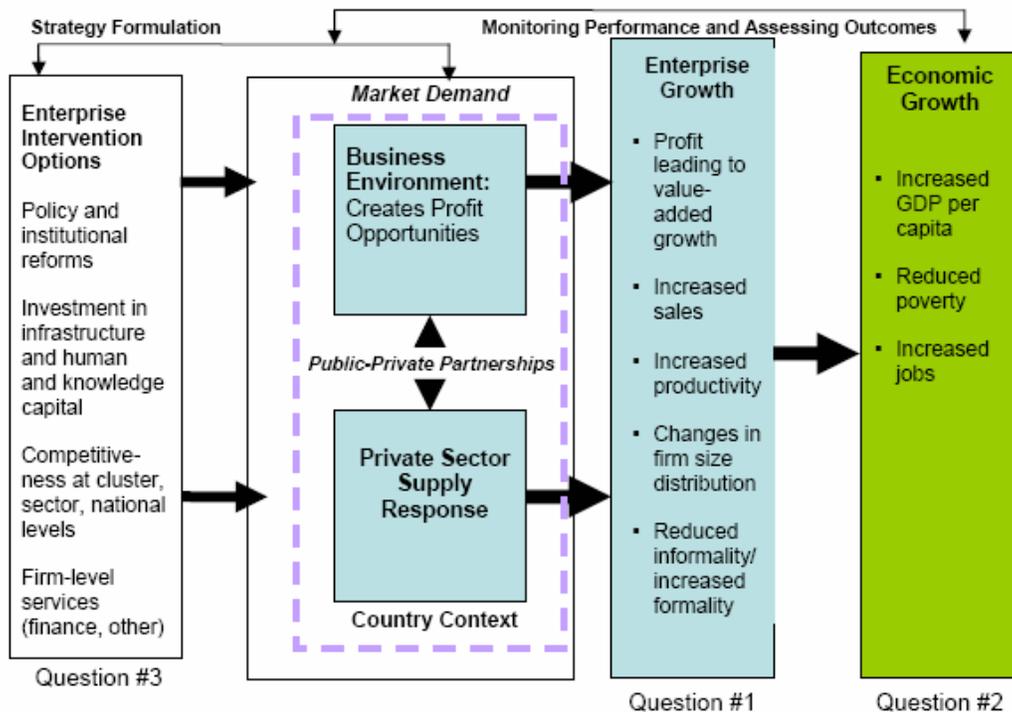
²⁴ Attachment 6 is a review of the literature on clusters, competitiveness and enterprise development.

²⁵ Ibid.

²⁶ Michael Enright of the University of Hong Kong cites the following market failures as rationales for cluster initiatives: impacted information, managerial myopia, coordination failures, and under provision of public goods.

effects).²⁷ Examples include a region’s reputation and business environment reform. In these cases, even though all firms would gain, it is in no one business’s interest to fund initiatives increasing the value of public goods when they cannot capture all the benefits. Examples include destination marketing, testing/certification centers, brandings, standards, and transportation that have a spillover effect. Higher impact interventions generally benefit the entire sector writ large.

Figure 1: Growth and Development of Sustainable Private Enterprises



Graph from Snodgrass and Winkler (2004).

2. Evaluating the Effectiveness, Efficiency, Impact, and Sustainability of the Business and Sector Support Component

Strengthening Emphasis on the Business Environment

ERPC has “improved competitiveness of the business environment” as one of the five business and sector development objectives; however, assistance in this area has been ineffective to date as it currently receives insufficient attention. EPRC should capitalize on the current momentum toward business climate reform from the World Economic Forum, the World Bank, and most importantly, the Government of Mongolia.²⁸ The GOM has recently released a 90 page study on licenses on the Open Government Website. The World Economic Forum ranked Mongolia 96 out

²⁷ See “What are clusters” by Amy Cogan, USAID, EGAT/EG, October 2005.

²⁸ Mongolia was ranked for the first time in the WEF competitiveness index in 2005. The World Bank is also coming out with an Investment Climate Assessment and Doing Business report for Mongolia by the end of the year.

of 117 countries.²⁹ In the World Bank “Doing Business” report for 2006, Mongolia performs relatively well in the number of days to open a business but dismally in the new “trading across borders” category in the area of time and signatures needed for importing and exporting a standardized shipment of goods. For instance, it takes 66 days to export and 22 signatures (compared to 25 days and 7 signatures in the region). Similarly, it takes 74 days to import and 22 signatures (compared to 27 days and 8 signatures in the region). These bottlenecks are ludicrous for a landlocked country with already high transport costs.³⁰

Effectiveness of the Business Development Fund and Mongolian Competitiveness Fund

The Business Development Fund and Mongolian Competitiveness Fund have not yet had a significant impact at the sectoral or national level at this early point in time. However, the BDF and MCF have successfully produced quick tangible results at the firm and group level in terms of the inputs provided (e.g., marketing delegation, trade fairs, expatriate assistance). They have developed transparent selection criteria, successfully leveraged funds from the private sector, and ensured client buy-in through co-funding, thereby multiplying the effects of limited resources. However, it is difficult to measure the outcome of the assistance and the cost-effectiveness of the assistance (e.g., ratio of fund resources to the impact on sales, revenue, or jobs) provided due to a lack of baseline and trend data. The project only began to collect data on the “transaction value” of sales this past quarter. One final comment is that firm-level assistance is typically the most costly assistance with the lowest-level impact. Therefore, to ensure more than a one-off impact, EPRC should continue to be mindful of business environment reform and “public goods” type interventions with spillover effects that will have a real sustained impact at the national level.

Measuring the Impact through Monitoring and Evaluation

It is difficult to assess the impact of business and sector support on private sector competitiveness given the lack of baseline and trend data. ERPC only began to collect data on the “transaction value” of sales under the Business Development Fund and Mongolian Competitiveness Fund this past quarter. However, EPRC has always collected broad macroeconomic indicators for the Mission’s performance management plan. These trends are largely positive although they may suffer from an attribution problem. For instance, the tourism sector contribution to GDP has gone up to 15% in 2005 from 12.6% in 2003.

Incorporating More Local Capacity for Longer-Term Impact

EPRC should take measures to build local capacity in order to ensure that interventions have a longer-term impact. ERPC should seek to work more with the supporting institutions that are identified in the original proposal and/or find new innovative ways of building local capacity.³¹ Some illustrative ideas include the following: First, EPRC could consider more partnering of short-term expatriate consultants with the relevant local counterpart, e.g., local marketing firms, design institutes, service providers in quality control, accounting, internet service, management

²⁹ The most problematic factors for doing business in the WEF study include: inefficient government bureaucracy, inadequate supply of infrastructure, tax rates, corruption, tax regulations, and access to financing.

³⁰ Other categories where Mongolia performs poorly include the number of payments for taxes, the number of days to enforce contracts, and the lack of private credit bureau coverage.

³¹ The list includes the Mongolian Chamber of Commerce and Industry, FIFTA, Mongolian Tourism Association, Mongolian Wool and Cashmere Association, Mongolia Air Transport Association, Mongolia Meat Exporters Association, Magicnet, BizMongolia, Monconsulting, Premier International, etc.

consulting. Second, EPRC could consider sub-contracting or competitive procurements for local service providers where relevant.³² EPRC should continue such work as the partnering with PXL consulting to design the tourism portal and Human Fortis Co. to conduct a national survey of business executives to feed into the World Economic Forum indices. Third, EPRC could make use of the internship program to train and place students in key government ministries, associations, or enterprises.

C. Findings/Recommendations

- 1. Consider multiple levels of engagement including at the policy and legal and regulatory level.**³³ The three levels of engagement include the firm level, sector level, and the national policy level. The competitiveness component is currently oriented toward firm- and sector-level support but neglects the policy-level. However, Mongolia is a landlocked country with a weak microeconomic business environment. It ranks 96 out of 117 countries in the World Economic Forum Global Competitiveness Index. Without addressing legal and regulatory constraints to competitiveness, any amount of firm-level assistance will hit a glass ceiling and be constrained by the policy climate. Generally “firm-level only” assistance is recommended in conflict environments or where the government must be circumscribed.
- 2. Balance short-term results with activities that promote longer-term transformation of the competitiveness of Mongolia’s economy.** EPRC is currently oriented toward transactions at the firm and group-level that tend to have a one-off impact. This approach may be rooted in a legitimate desire to demonstrate to the USAID Mission that EPRC is “producing results.” However, transactional assistance tends to have a limited impact at the national level. EPRC should therefore complement these efforts with longer-term interventions that may produce an impact in 2-3 years or more. These include business climate reforms, “public goods,” and institution building of associations and related supporting institutions. These interventions may initially appear to be amorphous in the short-term but produce more significant results in the long-term. A balanced approach is recommended.
- 3. Strengthen efforts to improve competitiveness of the business environment.** Current EPRC policy advice is oriented toward macroeconomic concerns and has little interaction with the business development component. Microeconomic reforms relating to the competitiveness of private sector business would be a natural fit for a project entitled “economic policy reform and competitiveness.” The project should engage more proactively on microeconomic reform, streamlining procedures, reducing the “hassle factor,” and removing transportation-related barriers. EPRC could use the market intelligence gathered from interacting directly with the private sector to inform the policy agenda. Given that 1) the policy specialist is a macroeconomist and 2) EPRC competitiveness advisors are business development specialists, there is currently a gap in EPRC project staff resources in the area of microeconomics and business environment reform. EPRC should consider hiring a long-term expatriate policy advisor with expertise in both macroeconomics and microeconomics. This could be complemented by a local business environment advisor for the business team.

³² Local service providers include a wide range of services from market research, packaging, and design services, accounting, auditing, quality assurance and certification, IT services, management consulting, business planning, legal advice, production engineering,

³³ Enterprise Growth Initiatives: Strategic Directions and Options, February 2004, Funded by EGAT and implemented by DAI, By Donald R. Snodgrass and James Packard Winkler.

- 4. Support stronger collective action for “common goods” at the sector level.**³⁴ EPRC should not focus only on transactional firm-level assistance (as is being suggested by headquarters). This view is shortsighted since it tends to overemphasize short-term results and have a limited national impact. EPRC should also pursue activities with a broader impact at the sector/national level. There is currently a general sense of neglect at the association level vis-à-vis the previous project (e.g., Fibermark Society felt strongly about this and may soon disintegrate).³⁵ EPRC could work more at building institutions at the association level and support more active collective lobbying on policy issues through trade associations, the Mongolian National Chamber of Commerce and Industry, and public-private mechanisms at the Ministry of Industry and Trade. However, EPRC should not consider a competitiveness council in the context of Mongolia. There is a risk of further concentration of power in the hands of the few (i.e., the powerful often occupy several roles simultaneously as MPs, ministers, and private business owners). There is a concern about whose interests are being represented and whether the agenda could become tilted toward directive actions that benefit one’s own enterprises. Perhaps a more traditional combative role with open dialogue is a preferred route. EPRC should also consider incorporating the cross-cutting national dialogue and consensus building component into competitiveness, such as through business climate or sector-specific “super chats,” newspaper articles, and the Open Government Website.
- 5. Incorporate more local capacity to encourage longer-term impact.** Strengthening capacity building is a cross-cutting theme throughout this evaluation. As the BDF/MCF are not working through an independent third party service provider and will dissolve upon project completion, the current EPRC business model is not set up for sustainability of business services, although the assisted changes in enterprises are expected to be sustainable. EPRC could work to extend the impact of current assistance by working more with the supporting institutions that are identified in the original proposal and/or find new innovative ways of building local capacity.³⁶ Some illustrative ideas include partnering of short-term expatriate consultants with local counterparts (e.g., with design, marketing, quality control experts); sub-contracting or competitive procurement for local service providers where relevant (e.g., as was the case with Pixel consulting for the tourism portal); conducting more extensive trainings (e.g., targeting clients, associations, MRTT, EPRC local staff); and utilizing the internship program. EPRC could report on capacity building as a separate cross-cutting category in the quarterly performance reports. In any follow-on activity, the Mission may want to consider competitive use of local service providers (rather than direct provision) in the design of the project if the local service provider market has matured sufficiently at that point in time and if enterprises demonstrate effective demand/willingness to pay for local services at market-based prices.

³⁴ Page 4 of Meyer-Stamer and Harmes-Liedtke, August 2005, identify examples of collective action: the provision of real services by business associations; joint trips to fairs, joint stands at fairs; joint purchasing, joint sales, export consortia; jointly maintained, organizationally separate supporting institutions in fields like training, technology information, or export information; and political lobbying and active participation in forums which work on shaping locational advantages.

³⁵ USAID helped create the Fibermark Society but it is now on the verge of collapse. There appears to be an issue with the funding of the distribution centers in Berlin whereby the society invested significant resources from its members but in turn significant investments from EPRC did not materialize.

³⁶ The list includes the Mongolian Chamber of Commerce and Industry, FIFTA, Mongolian Tourism Association, Mongolian Wool and Cashmere Association, Mongolia Air Transport Association, Mongolia Meat Exporters Association, Magicnet, BizMongolia, Monconsulting, Premier International, etc.

- 6. Stay the course with cashmere but continue innovative work to expand sectors beyond tourism and natural fibers.** Given the importance of cashmere to the Mongolian economy, EPRC should stay the course with cashmere for the life of the project but continue to explore innovative new opportunities that emerge, such as in “petschmina” (high-end doggy wear), pet food, leather, hides/skins, wool carpets, and blueberries. EPRC should continue to take the “wide view” to new opportunities. The cashmere sector may be precarious; however, a simulation model shows that the industry still offers some potential. The simulation model in the EPRC report “A Value Chain Analysis of the Mongolian Cashmere Industry” suggests that if a firm has access to funds at low international rates, has best practice yields, and produces quality standards, it can return an acceptable profit to its investors. In addition, the Multi-Fiber Agreement phase-out failed to deliver the dramatic losses that were expected.³⁷
- 7. Give higher priority to the MCF if strategic decisions must be made between the two funds; expand the MCF if possible to allow a sufficient timeframe for implementation.** This argument is being made for several reasons: First, the MCF is a useful tool for having a broader sector-level impact and benefiting more than one firm, such as the support for eco-tourism brand building and marketing, helping meat exporters attend the Beijing Meat Fair, and establishing the Tourist Information Centers. Second, the BDF dangerously resembles a firm-level subsidy and has less impact on the competitiveness of Mongolia. Third, the MCF is quickly being exhausted. The MCF had expended 67% of total funds as of October 2005 (\$166,685) while the BDF had only expended 19% of total funds as of October 2005 (\$47,667).³⁸ While in practice the amount between the two funds is fungible, EPRC has expended approximately 43% of total funds between the two mechanisms in a 1-1 ½ year timeframe. Sufficient funds must be allotted for the remaining three years of the project. Staged (but ultimately declining) assistance would allow EPRC to build on previous success.
- 8. Coordinate more actively with the USAID Gobi Initiative to address the entire value-chain in natural fibers, and meat and with the GER project on the enabling business environment.** EPRC does not work at the lower-end of the value chain in the area of animal husbandry despite requests from clients (e.g., Meat Association and a potential leather processing client). Many of the quality problems originate at the lower-end of the value chain. For instance, infestations of parasites and lice of animals on the steppe affect the quality of the hides supplied, thereby resulting in inferior processed leather products at the higher-end of the value chain. It is outside the scope of EPRC to work directly with herders. However, the Gobi Initiative does work with herders. USAID resources could be more effectively leveraged by closer coordination between these two projects. In addition, EPRC could coordinate with the GER project on the enabling business environment, e.g., public posting and dissemination of procedures, regulations, and licenses for micro and small entrepreneurs in urban and peri-urban areas. This coordination will become even more important as EPRC begins to focus more intensively on business climate concerns.

³⁷ Some Chinese-owned firms exited initially. However, international buyers have chosen to “hedge their bets” by sourcing some production from Mongolia. Mongolia has also benefited from recent EU and U.S. trade disputes with China (Mongolia’s main competitor).

³⁸ One reason for different utilization rates is that the Conservation Ink proposal disproportionately occupied the MCF budget. The MCF also has more flexibility than the BDF, is not limited to consultancy, e.g., can send firms to trade shows, and therefore, it is easier to attract clients under the MCF for a variety of purposes. The BDF has been slower to take off due to general suspicion on the value of expatriate know-how and reluctance to invest in \$500/day consultants. The education process takes time, and as firms witness other firms benefiting from the BDF, there is potential for a “demonstration” effect and increased demand for the BDF (as has happened with a leather client).

- 9. Explore opportunities for GDA-like public-private partnerships in Mongolia.** There could be potential opportunities for leveraging USAID resources in Mongolia through public-private partnerships in the private sector, e.g., social responsibility alliances with the mining sector, leather products could be partnered with the Italian design market or sporting good stores, wool carpets with buyers from Costco (as is being discussed), handicrafts with World Market or Pier 1, assistance from buyers in meat on quality standards, and cashmere with other retailers (e.g., access to international rates of finance or quality enhancements).
- 10. Improve communication and outreach on competitiveness.** Information sharing between EPRC and the Mission could be improved on the competitiveness component. EPRC is working in some innovative areas that would make for some excellent success stories. However, the Mission is not always aware of the latest activities. EPRC could share project documentation, write success stories, and package materials for the Mission (preferably in a way that demonstrates top Agency priorities such as public-private alliances). USAID has a standardized “success story” format that is being posted on websites worldwide. On a similar note, success stories could be posted on the EPRC website to demonstrate new ideas and stimulate a demonstration effect to private sector entrepreneurs within Mongolia.
- 11. Eliminate references to “clusters” to remove external confusion.** EPRC never took a “cluster” based approach. The use of the term in EPRC project documentation is really an artificial holdover from the RFP and the original Chemonics proposal. In fact, it appears that the Chemonics proposal only used the term ornamentally to cover its bases with the terminology but substantively never recommended a traditional-cluster based approach.

VI. ENERGY SECTOR REFORM

A. BACKGROUND

Mongolia is in a position to strengthen its energy security and reliability and meet large investment requirements if sound reforms are implemented. It has a record of substantial “First Stage” reforms and needs to implement significant “Second Stage” reforms in a timely manner including private sector participation.

The outcome can be a transparent commercial power and heat system with substantial private sector participation, expanded investment and, where appropriate, some degree of competition. Critical for achievement of this end state is the continued institutional development of the Energy Regulatory Authority to strengthen its authority, autonomy and accountability. The reforms need to consider and ameliorate the environmental and social impacts.

Mongolia Energy Reforms To Date

The energy sector has, since the start of transition, gone through emergency assistance to restore electricity and heat, stabilization of the system and the first stage of systemic power/heat sector reforms.

The Central Energy System (CES) has been unbundled and consists of five combined heat and power plants (CHPs), several distribution companies and separate transmission and dispatch companies. (The small east and west systems are not the focus of USAID assistance.) The CES is unique in that all the provision of electricity is from CHPs (about 750 Megawatts capacity). This results in a constrained system with limited flexibility given the need to meet heat requirements through the very long, cold heating season. The system has some flexibility through its connection to the Russian power system from which it imports to meet peak period electricity demand. The Mongolian power and heat systems are owned by the Ministry of Fuel and Energy (MFE), Ministry of Finance and State Property Committee (SPC). MFE is responsible for system oversight and continues to play a direct operational role.

USAID has had a significant role in the reform process including from 1997-2003 when major reforms occurred. The World Bank, Asian Development Bank and the Japanese and German donor agencies have made soft loans resulting in substantial debt accumulation. Significantly, USAID is the only donor on the ground addressing providing technical assistance for the systemic reforms.

This concentrated donor effort has helped improve the technical and commercial (collections) performance. Significant financial issues remain including the external debt and internal sector financial losses.

Energy sector reform is a long-term process in transition of the Former Soviet Union (FSU) and Central and Eastern Europe (CEE). Experience shows that sequencing of the reform process matters and that it can roughly be categorized in two stages.

First Stage reforms can be categorized as the following:

- Passage of modern energy law
- Creation of autonomous energy regulatory body

- Initiation of substantial electricity tariff reforms (and less so for heat)
- Restructuring of monopoly structure and use of the single buyer market
- Initial commercialization steps

Mongolia has taken these First Stage steps.

Necessary Second Stage reforms can be categorized as follows:

- Legal amendments to conform to international practices
- Strengthening the Regulator's authority, autonomy and accountability
- Market design with a degree of competition/open access for large customers
- Implement pre-privatization requirements at macro and sectoral level such as:
 - ❖ Macro: international arbitration; tax and repatriation;
 - ❖ Sector: Tariff and social safety net; market reform; collections and cut-off policy; regulatory framework transparency and stability; investment planning
- Private sector participation

Second stage reforms are not easy. Vested interests resist reform and consequent loss of control. Corrupt interests resist change. Tariff reforms, while lower in percentage than earlier years, are larger in absolute terms and affordability issues are politically sensitive.

Political will is always mixed in power sector reforms. It often can be found in ministries with economic responsibilities (Ministries of Economy or Finance). In some countries the line ministry (Energy) may have an interest in maintaining its owner/operation role. Donor support of the reformers, wherever they are placed, is important.

Mongolia's reforms have followed a similar path and compare in some ways with the progress and problems in countries like Moldova, Georgia, Armenia and Macedonia (and ahead of Kyrgyzstan, for example).

The Second Stage reforms are more complex and require careful analysis and clear policy and strategy. The application of experienced technical assistance expertise is required. The unique characteristics such as five CHPs, small size of the Mongolian system and limited import-export flexibility call for simplicity and transparency as guidelines. Complex, sophisticated approaches to market design, for example, are questionable. A careful staged transition approach, receptive to the needs of private investors, is appropriate.

The potential for competition is constrained by nature of system – the small number of CHPs and concentration of generation in one CHP #4 accounting for 70% of output. This situation does not meet most measurements for a (potentially) competitive market. Transmission and distribution are inherent monopolies and can be addressed through good regulation/monitoring/quality of service standards and benchmarking against other countries performance. There is a risk that competition can be overemphasized in a constrained system. Some degree of competition may be achievable but the priority in Mongolia, as in many countries, should be on simplicity and transparency with respect to the design of the electricity “market” and regulatory approaches. Complex competitive bidding and pricing arrangements, without consideration of realistic investor requirements, should be avoided. A staged transition approach, under effective regulatory oversight, is critical to avoid significant failures and abuses.

The Need for Continued Energy Reform

Continued energy reforms are important for the following reasons:

- They are central to future economic development—tourism/small and medium enterprise development, mining and the potential for electricity exports;
- The large debt, external and domestic, impact both the macro-economic situation as well as the domestic budget;
- The reforms are inherently supportive of the anti-corruption efforts through regulatory transparency and accurate cost, financial and technical reporting;
- The heat sector is critical given the climate and social implications of heat problems and prices; heat and electricity are linked through CHPs, tariff policies and environmental impacts;
- Any MCC peri-urban program may be unsustainable without successful power-heat reforms;
- Energy is critical to the future development of the two major mines in the south—copper and coal—and provides an opportunity to expand Mongolia’s energy security, reliability and exports; and
- USAID has had a critical role in the evolution of the energy sector reforms and plays a key role in regulatory and other reforms (in most FSU/CEE countries as well). No other donor is likely to step forward with the on-the-ground long- and short-term assistance necessary for the reforms to proceed.

B. ENERGY SECTOR REFORM PROJECT OBJECTIVES

The Energy Policy Reform and Competitiveness Project (EPRC) has a three tier approach: (1) policy analysis; (2) policy formulation; (3) policy implementation through legal/regulatory and related work. The “Energy Sector Reform Support” component of the project has the following Policy Support Objectives and “Projected Annual Results”:

- B1. Development and Implementation of a transparent, market-oriented regulatory environment to promote competitive and efficient delivery of energy services.
- B2. Development, maintenance, and implementation of commercial orientation and practices in energy generation and distribution companies in the sector.
- B3. Development, maintenance, and implementation of a legal, regulatory and financial environment attractive to foreign and domestic private investment and management in the sector.
- B4. Response to emerging energy sector initiatives.

The 2005 Work Plan made some modifications to the above.

The significant relationship of the EPRC energy component is with the Energy Regulatory Agency (ERA). The MOU calls for assistance to ERA to:

- Improve the country business and regulatory environment to attract domestic and foreign investment into the energy sector;
- Develop the agency’s capacity in cost-based rate-making and tariff design;
- Strengthen ERA’s capabilities in the regulation of a liberalized and competitive energy;
- Develop an effective public communications and complaint resolution system;
- Become a politically independent modern regulatory agency with the ability to regulate a competitive energy market.

C. ENERGY SECTOR ISSUES

Energy Policy

Absence of a clear energy policy statement means that policy issues get debated in legal, strategy and regulatory practices at the “third level” of work which is less efficient and effective. Possible victims of this are the Concession Law (over a year in the development/process without a clear sponsor for most of the time), the amendments to the Energy Law, the energy conservation law and the progress on privatization. In addition, the potential regression on regulatory authority, autonomy and accountability may be another example of the disagreements unresolved by lack of a policy. In some countries, the establishment of an energy policy results from the World Bank-Government dialogue. It is not necessary to wait for a policy statement. Tariff reform for example, can proceed as well as other measures.

Privatization and Pre-Privatization Reforms

There is a need for progress and dialogue on how to carry out the energy privatization. The Government has put in place reasonable guidelines, with ECSP input, but key issues remain unresolved with no action in sight. There is a need for an energy privatization strategy that addresses the objectives, method of privatization, bundling/packaging of assets, timing and assistance needed to implement. In addition, a clear approach on key pre-privatization reforms such as tariff and market design must be developed. The experiences of Ukraine, Moldova, Georgia, Armenia, Romania and Bulgaria should be considered. Generally distribution is privatized first, followed by generation. However, in retrospect, in small systems like Moldova, it might have been better to combine distribution with the one CHP plant which accounted for 25% of the country’s supply.

The lesson learned was that sequential privatization stages for very small assets may not work as the transaction costs of each bidding process are relatively high and the risk of a change in the government’s policy and investment environment also exists (as it did in Moldova). Unbundling in Mongolia and FSU/CEE countries has proven to be a sound transition strategy increasing transparency and the commercial orientation of the companies. The privatization strategy however should consider the option of re-grouping assets such as all distribution together, all CHPs together or some distribution and CHPs together. The risks of monopoly abuse are minimal under good transparent regulation, incentive tariff arrangements, and benchmarking the performance against other countries. It is important to structure the transaction so as to have the best chance of attracting capable international strategic investors that can provide modern management, training, equipment and longer-term investment needs.

Tariff Reforms

There has been limited movement the last three years on this critical issue. The reasons for uncertainty and delay are unclear and may relate to deferral by EPRC to the World Bank for this work. There is a need for broader consideration of the social impact issue besides the tariff mechanism. The WB notes on social impacts are a good beginning but limited. Consideration needs to be given to residential end use efficiency to reduce energy consumption and costs, thereby serving as a social safety net. This also reduces fuel consumption and pollution.

Political Will

This is best assessed by the Mission in dialogue with the GOM and through the establishment of benchmarks agreed upon by the GOM and donors to assess progress of the GOM (and to assess the progress of the donors in providing the needed assistance). Interviews with key counterparts reflected a desire for energy sector assistance but in a more effective mode.

Donor Coordination

There is a growing need for substantive donor coordination beyond periodic information exchanges. Stronger donor coordination can help address the need for an energy policy and privatization strategy. Better donor coordination would reduce the likelihood of donor activity leading to the removal of companies like CHP#4 from the privatization list. Donor lending and capital projects need to be carefully examined by all concerned to determine their impacts on the timing and approach to privatization.

The added debt for capital projects complicates the privatization process. Presently the EPRC Project has one position on privatization; EBRD, another; the Japanese, another as reflected in CHP #4 rehabilitation; and the World Bank's strategy is unclear, although it is supportive of private sector participation in principle. The market design issue remains unclear with the World Bank consultant study raising questions of complexity and applicability.

Similarly, the continued need for progress on tariff reforms requires attention. It is essential to have a substantial degree of consensus among donors. It does not mean imposition of views on the Government. It means each donor, and all elements of the Government, have a clear picture of the path forward. Based on the policies, strategies and political commitments, each donor then can decide if they want to commit resources.

Power Sector Reforms and Linkages

The power sector is a system and has two significant linkages affecting its performance: coal supplies and the heat sector. Coal pricing/competition will have impact on success of reforms as coal constitutes over 60% of the cost of generation. District heating reforms are needed to make the CHPs attractive for privatization. Tariff reforms and the inefficiency of energy use in residential apartments impact the whole system and the likelihood of improved sector performance.

Mining

This is an issue of great significance. The copper/gold mine and coal mine in the south provide an opportunity for future power supply—both domestic and export. The potential exists to introduce private power investment without government obligations; enhance Mongolia's reliability and security of supply and expand electricity exports. The potential exists for greatly enhancing Mongolia's energy supply security, reliability and exports for a "win-win" situation for the country and for the mining interests.

Investment Needs and Proposals

There is no Least Cost Plan (LCP) to assess generation and transmission investments needed for the future as well as the periodic project proposals of various interests including donors. Absence of this analytical framework leads to uncertainty, sub-optimal investments and prolonged debates.

Affordability

The tariff work needs to consider the affordability approaches that must accompany tariff reform for both electricity and heat tariffs. USAID's analysis of this issue in FSU/CEE countries and the EBRD Transition report and analyses put forward 3 approaches: (1) the traditional welfare payment approach (which is impeded by limited budgets and administrative capacity); (2) tariff design (which is difficult to get right and may lead to wider use of the tariff system for social/political purposes); and (3) residential energy efficiency through meters and controls which can reduce energy use by 20-30% with a comparable reduction in costs. The latter should be examined closely by some donor and included in the proposed World Bank heat distribution loan under consideration.

It is very surprising that in the coldest capital in the world there is no systematic program or legal requirement for heat controls and meters in existing apartments on the district heating system. The experience of Bulgaria is relevant where a law was passed, private companies carried out installation of thermostatic control valves and heat meters in each apartment and billing was based on use and not according to the square meters of apartment space. The potential to reduce customers bills (including vulnerable households), reduce heat production and therefore coal use and pollution should not be passed up.

MCC

If the Millennium Challenge Corporation includes electricity access extension in its peri-urban infrastructure work, such work may lead to unsustainable results without the systemic power/heat sector reforms.

D. PROJECT ISSUES

Work Plan Accomplishments toward Objectives

Regulatory Accounting

The development of the Chart of Accounts and implementation have been major achievements that will provide the basis for addressing tariff reform, debt resolution and some commercial improvements. This makes the energy sector the first industrial sector to adopt such standards and it serves as a model for other sectors. The extensive training in the companies as well as the creation of the capability for regulatory audit in ERA is sound institutional development. This work was undertaken by Short Term Technical Assistance (STTA) and turned into a Long Term Technical Assistance (LTTA) assignment.

ERA Institutional Development

ERA procedures and openness have been enhanced by the development and adoption of the following:

- Public Hearing Procedure
- Tariff Review Procedures
- Dispute Resolution Procedure

The first major public hearing held by ERA was based on these efforts. This work was done through a STTA arrangement for 6 weeks.

Legal Development

Initial legal assistance was provided by STTA for the Concession Law and revisions to the Energy Law. No further STTA assistance was called upon. The developments and revision of the laws are now in their second year and the outcome is uncertain with respect to timing and more importantly as to whether the revisions of the Energy Law will be a step backward or forward. The process seems to have resulted in two versions of the revised Energy Law being circulated.

Tariff and Market Rules

Relatively little progress has been made in tariffs and no progress in market reform is apparent. The deference to the World Bank for this issue has not moved things forward in a timely manner. Tariff work in particular has been an area of USAID comparative advantage, activity and expertise in FSU and CEE countries.

Commercial Development

No work has been done in this area. Given the policy/regulatory orientation of the EPRC Project it is unclear why it was one of the objectives. Consequently the absence of effort on this is not a significant shortcoming. Significant commercial improvements are best achieved through effective privatization rather than donor/government efforts. The accounting work, done for regulatory reasons, will have some beneficial commercial impacts (although the incentives for change are weak) The EPRC proposal for utility manager training is a misplaced priority.

Regulatory Development and Training

There has been very limited training of technical staff or commissioners. Similarly the independence of the regulator appears to be under attack and no clear strategy for combating this is in place. Notably absent is some linkage to the public outreach component of the EPRC. Training is an on-going requirement particularly for regulatory bodies where commissioners have fixed terms. Existing and new staff require training as reforms progress and the issues become more complex.

Related Project Issues

Long Term and Short Term Expertise and Mode of Operation

The major achievements of the project, accounting, regulatory procedures and initial legal modifications, were initiated by short-term expertise. There has been an imbalance in the application of resources with too little going to short-term expertise. With the Second Stage reforms on tariffs, market design, privatization strategy, regulatory institutional development, etc. it is anticipated that more short term expertise will be needed.

Additionally, the mode of operation merits review. In the case of the legal work, it may have been more effective to structure a process where the same lawyer made multiple short term visits interacting with a Government working group with agreement among the principles they follow a structured working arrangement with the short term consultant. This has been an effective

approach in numerous FSU/CEE countries. If it is not too late in the process, consideration should be given to this approach for the Energy Law amendments.

The 2004 and 2005 Work Plans

The work plans were not sufficiently oriented to energy policy and strategy issues and more toward the “third tier” of activity to be addressed under the EPRC project. The absence of policy and strategy frameworks means the work on laws, tariff methodologies and market designs are more prone to “chapter by chapter” disputes that would not occur if the issues had been addressed at a higher level.

Project Design and Structure

The EPRC project design includes four elements under one contract based on a concept of interaction and presumably the desire to minimize the “management units” in a small Mission. The Contractor’s corporate experience and capabilities are strongest in other three areas vs. energy. As a consequence there is limited corporate capability and experience to address the increasingly complex energy reform issues. The extensive relevant experience in FSU/CEE countries is not readily available. While the three short-term consultants brought from outside Chemonics have been effective, problems will arise such as with the effort to recruit an electricity market expert.

EPRC Policy Advice

The policy advice offered should be carefully considered in light of experience elsewhere. With respect to the method of privatization, advocacy of a concession approach at this time is premature. Leaving the assets in government ownership means that future governments will feel they can continue to interfere in operations more so than a privatized asset. Such is the inherent legacy of former communist countries. The only significant concession in the FSU is the Baku Distribution Company held by a Turkish company (Barmek). Despite its good work, Barmek is under systematic attack in an effort to return the asset to Azerenergo. The extensive effort to get the Government of Kyrgyzstan to adopt the concessions approach failed.

Similarly, the advocacy of privatization of transmission and dispatch is not productive and unnecessary at this point. It has not happened in any of the former FSU/CEE countries. Additionally, the advocacy of privatization of a single distribution company as a first step may be counterproductive as serious investors may not be interested in such a small undertaking with uncertainty about what follows. The transaction costs of multiple rounds of privatization will be a detriment to attracting international strategic investors.

E. RECOMMENDATIONS

Focus of the Project Resources on Priority Work Needed to Create an Energy Regulatory and Investment Framework for Private Sector Participation: The project’s limited resources should focus on the policy, strategy and regulatory development necessary to attract private sector participation. Commercial improvements are best left to on-going efforts and to the future owners of the assets.

- **Sound Energy Law Amendments:** Provide short-term assistance in structured process

- **Active role in energy policy paper:** Get GOM agreement on development of paper and who assists with preparation
- **Regulatory Institutional Development and key issues:**
 - ❖ **Tariffs** (electricity and heat—resolve WB role in both and re-assume responsibility for tariff work with ERA with short-term technical assistance); integrate approach to vulnerable households including residential end use efficiency possibly through other USAID contractors working on housing finance and other donors
 - ❖ **Market design** and initial transition step (a theoretical debate on the end state envisioned in the WB consultant report is unproductive at this time);
 - ❖ **Regulatory reporting/monitoring** of quality of service;
 - ❖ **Training:** Substantial training should be provided along the lines of that proposed by including regulatory courses being developed by ERRA, existing IP3 (Institute for Public-Private Partnership, Inc.) courses (utilizing distance learning option if possible) and possibly the University of Florida/World Bank course for future new commissioners or staff director.
- **Development of Strategy for Private Sector Participation** (and reconsideration of Chemonics policy advice).
 - ❖ The Strategy needs to address:
 - ✓ Objectives (top dollar or competent owners for system restoration)
 - ✓ Method of privatization for assets;
 - ✓ Packaging/bundling of assets;
 - ✓ Sequencing and timing;
 - ✓ Assistance needs for implementation/transactions (e.g., privatization advisors)
 - ❖ Chemonics should review its previous advice regarding (a) concessions instead of asset sale; (b) privatization of transmission/dispatch; and (c) packaging and sequencing.
- **Least Cost Investment Plan:** The power sector focus should consider rehabilitation of existing assets; new generation and transmission including imports. (The analysis should address mine/power options and export-import options with China in this context.) Consider carefully the level of sophistication (or simplicity) required and consequently the resources. Identify appropriate counterpart(s) such as MFE and/or Dispatch Center (with ERA observer participation).
- **Policy Analysis:** Coal sector issues/needs with focus on power/heat private sector participation; district heating issues/needs and impacts on power/heat privatization. Analyses can be concise 10-20 page “notes” supported by data/information, identify implications and define policy/programmatic options for the GOM and donors.
- **Debt Issues:** Address through Chart of Accounts; advocate approaches to solution and engage GOM and other donors to resolve as a key pre-privatization action. Alternatively, consider EPRC Policy Analysis component for engagement
- **Donor Coordination:** There is a serious need for substantive donor coordination in close collaboration with the GOM. It is recommended that a **small focused high-level**

donor-GOM coordination mechanism be established. It should involve the major donors focused on the issue of power/heat sector reform in the Central Energy System. That is where most donor efforts have gone historically and appropriately so. It is essential to get all donors and the GOM in agreement on the policy and strategy for going forward with the Second Stage reforms necessary to attract substantial private sector participation in the sector.

A joint Donor-GOM Energy Sector Reform Group could be chaired by the World Bank and EBRD (ADB is out of the sector in its new strategy). Members might include USAID, ADB and the German and Japanese for the donor community. The GOM side should be chaired by the Prime Minister (Minister of Fuel and Energy in his absence) with members including the ministers of Fuel and Energy and Finance and ERA and SPC Chairmen.

The donor level participation should be senior in level and include the USAID Mission Director and at least the division heads of the energy operations at the WB and EBRD. Its objective should be the establishment of a brief consensus document on the actions needed to move ahead on Second Stage reforms, policy and strategy.

It would require commitments from both the GOM and donors. It would meet quarterly initially and then every 4-6 months after the first year. USAID will have to take the initiative to establish this. This approach was effective in Ukraine in bringing decision makers to the table and getting a common agenda on track and substantially implemented.

Issues Not to be Addressed by Energy Component (to be addressed by others)

- **Financial Recovery Plan:** The EPRC should contribute to the concepts and formulation of the Plan to extent possible but focus its work on requirements to achieve private sector participation that are already known. If the Financial Recovery Plan includes substantial commercial/management improvements before privatization that take time, there may be a conflict with the objective of timely privatization. There is a tendency among some donors to lengthen the “preparation” for privatization by lending for efficiency improvements as a way to prepare the assets. Many improvements should be left for post-privatization.
- **Commercial Practices:** There is substantial work by others. CHP#4 receive Japanese equipment (and hopefully technical assistance); UB District Heating Network receives ADB and WB assistance in the future); UB Electricity Distribution Network receives WB assistance and the dispatch company is receiving assistance. USAID’s role with respect to commercial practices will be support to ERA for monitoring of financial/technical performance. This will include some accounting support to get chart of accounts and related regulatory reporting well established.
- **Other laws:** The work on laws on renewable energy and energy conservation are better left to other donors so that limited resources can be applied to the priorities.
- **Legal Framework for (all) Regulatory Authorities and the Concession Law:** It is recommended that this be reexamined and clarify why it can’t be done in context of Energy Law. If the EPRC project deems this an important overall governance issue, then it can be pursued under another EPRC component. Similarly, the concession law should be lead by another part of the EPRC project given its broader application.

- **Clean Air:** One cannot ignore the air quality issue in the capital. The use of low quality coal by the gers surrounding Ulaanbaatar is quite evident. USAID and Chemonics might encourage other donors to do a preliminary analysis on the economic viability of a (coal) briquette plant which would go a long way to clean up the coal. Twenty years ago the briquette plant in Pakistan was marginal. Today's technology may be a different story. Market penetration of a higher cost briquette would remain an issue most likely.

Staffing

The successful application of the limited short-term technical assistance and the increasing complexity of the Second Stage reforms call for a rebalancing of resources between long-term and short-term expertise. More short-term expertise will be needed.

- **Long Term:** Currently there are two long-term personnel. The work on the accounting is substantially in place and the issues that have been identified to complete the sustainable implementation can be handled by the exceptionally competent FSN and short-term assignments during 2006 by the current long-term advisor. Going forward it is expected that long-term expertise with in-depth regulatory development expertise will be most effective in supporting the required reforms. The regulators in most FSU/CEE countries have played a significant role in advancing the reforms and increasing transparency.
- **Short-Term:** Expanded application of experienced expertise will be needed on issues such as:
 - ❖ Legal Development—Consideration should be given, if not too late, to re-engaging legal expertise on the modifications to the Energy Law in a structured way
 - ❖ Regulatory Development including tariffs (electricity and heat): a short-term expert with 4 visits over the next eight months can develop the methodology for electricity tariffs and coordinate with the World Bank consultant to be contracted in December to do heat tariffs. The electricity tariff design work is a high priority and does not have to await completion of the final inputs from the Chart of Accounts.
 - ❖ Transition Market Design followed by the detailed development of Rules: It is important to have a consensus on the next transition step on the electricity market. A short-term advisor over 3-4 trips should put together a draft market design for review among key GOM officials and the donor community. If consensus is reached, a scope for development of market rules can be initiated.
 - ❖ Energy Policy and Privatization Strategy: a senior policy advisor should be obtained to work closely with the Minister and other GOM officials to put together an energy policy framework (10-15 pages) and the privatization strategy so that the two are coordinated. This should be done in coordination with the donors.
 - ❖ Least Cost Planning: A simple power sector least cost planning effort should be done to identify the cost-effective investment options going forward including

rehabilitation/life extension, new generation, new transmission and imports. The effort must address the heat demands as well given the CHP character of the system.

Term of Energy Work

The current energy assistance ends in September 2006. It is recommended that this assistance be extended, both the long-term position and substantial short-term help. The experience in FSU/CEE countries on implementation of substantial Second Stage reforms including initiation of privatization requires approximately three years depending upon the process to date, political will and donor coordination and assistance. There are three modes of extension discussed below.

Mode of Assistance Delivery

Alternative #1

Existing Contract: The existing contract can be utilized by extending the energy component to September 2008, modifying the energy scope to meet the future needs described above and revising the budget to extend the long-term position and include substantially more short-term technical assistance (12-15 trips a year for two to three years).

Alternative #2

Existing Contract: The contractor should obtain a new energy subcontractor in place of the one originally envisioned. This subcontractor should have the corporate experience and depth of personnel to provide a long-term person and carry out extensive short-term work as well as have some background in the FSU/CEE experience.

Alternative #3

Energy IQC Task Order: During 2006 a Task Order could be executed with one of the 5 energy IQCs that would overlap with the current contract. The task order would be for 3 years from, for example, June 2006 to June 2009.

Complementary Specialized Mechanisms in Addition to #1, #2, or #3

Serious consideration should be given to the limited utilization of the Cooperative Agreements with the U.S. National Association of Regulatory Utility Commissioners (NARUC) which supports the Energy Regulators Regional Association (ERRA). ERRA is the 23 member energy regulatory association of FSU/CEE regulators and Mongolia ERA is a member. It provides unique exchange of information and experience and is developing a 5 course regulatory training program both for the classroom and through e learning. The U.S. Energy Association (USEA) has unique access to U.S. and FSU utility personnel including on issues like market design and market monitoring. Annual buy-ins of \$50,000-75,000 can provide critical input to the reform process not obtainable by contractors.

There are pros and cons to each alternative. Alternative #2 is recommended as it maintains a single management unit and brings energy corporate expertise and ready access to technical short-term expertise needed in the future.

VII. CONSENSUS BUILDING, PUBLIC EDUCATION AND NATIONAL DIALOGUE

A. Background

A cross-cutting component of the EPRC project is Consensus Building, Public Education, and National Dialogue. The purpose of this component is to support an improved environment for government transparency and economic governance that builds consensus among government, civil society, and private sector stakeholders on policy reform and private sector development issues.³⁹ Major activities under this component include: ranking of Mongolia in Transparency International's Corruption Perception Index (CPI); management of the Open Government website; facilitation of public discussion of proposed laws and regulations; a monthly project newsletter; and electronic access to regularly updated business laws.

The Asia Foundation (TAF), a subcontractor, is responsible for implementing activities related to the Open Government website and public discussions. One full-time local TAF hire is working on these activities. EPRC partnered with the National Legal Center (NLC), a Mongolian government agency affiliated with the Ministry of Justice and Home Affairs, to assist with the business laws activity. Two communication strategies were completed through short-term technical assistance, one on the Energy Regulatory Authority (ERA) and one on tax reform.⁴⁰

The project provides some training in this component, including a training session on the Open Government website to project staff members and press officers of the various ministries. It also has an internship program aimed to help NLC staff improve their understanding of economics by working closely with EPRC advisors. The component to date has expended \$917,503 or approximately 33% of its contract budget of \$2,794,849 (as of Q3 2005).

Of the major donors or organizations working in Mongolia, only the Open Society Forum/Mongolia can be described as working in the public engagement area. OSF/M produces a popular weekly television "talk show" on different policy issues. It also educates citizens on policy issues through research it conducts itself and a publicly accessible resource center. EPRC has been cooperating with OSF/M on a few activities, including research support for and dissemination of the shadow economy publication.

B. Accomplishments

Overall, EPRC is doing an excellent job of implementing this component. The activities under this component are having positive effects on the economic policy-making process in Mongolia. Additionally, it has beneficial externalities for government transparency and accountability. Major accomplishments under this component include:

- 1) Access to important information by citizens and investors
 - Electronic dissemination of information on different government draft policies and strategies gives citizens access to information otherwise not easily available to them

³⁹ Coordination with other AID activities and donors and project management are technically other cross-cutting components per the RFP but they are evaluated independently in other sections of this report.

⁴⁰ Neither of these was billed to the National Dialogue component but instead to their respective technical project components – energy and policy.

- Compilation and dissemination of The Essential Business Laws of Mongolia was a significant step to helping investors understand Mongolia’s commercial legal system
- 2) Increased GOM support for openness
 - The PM reportedly regularly responds to emails coming through the OG website
 - The Minister of Finance now welcomes the idea of “super-chats” although his advisors cautioned against them
 - The “Open Government” name is being used for state broadcasts of government information although EPRC is not affiliated with the broadcasts
 - 3) Facilitation of public participation in economic policy-making
 - A Cabinet resolution mandating periods of public comment for proposed new laws and amendments was passed due in part to EPRC assistance
 - Some public comments from the tax “super-chat” were incorporated in the draft tax law
 - 4) Pushing the envelope on public participation efforts
 - First nationwide “super-chat” simultaneously through the Open Government website, television, and radio
 - 5) Effective use of resources
 - LTTA: Employment of a Mongolian national at TAF and partnering with NLC is both cost-effective and an excellent way to build local capacity.
 - STTA: The STTA used for the tax relief communications strategy was well-defined and resulted in a good and useful product.

C. Problems/Issues/Questions

While the project is doing an excellent job in this area, there are some issues that should be addressed as the project goes forward. Some of these issues may be beyond the project’s control. However, they are still important for discussion.

- 1) **Sustainability:** Two years into the project, the activities under this component are still largely under the management and implementation of EPRC. Should USAID funding be cut in this area, most of these activities will likely disappear. The project has not yet found willing partners either within the government or among other donors to assume responsibility for any of these activities.
- 2) **Uneven Coverage of Project Themes:** To date, the major themes covered by this component have been the National Action Plan and the tax relief effort. Macro-economic policy, competitiveness, energy, etc. have been noticeably absent. Additionally, while a communication strategy was supposedly done for the ERA, little has actually taken place in terms of implementation.
- 3) **Training/Capacity Building:** Training under this component has been limited. Some GOM interviewees expressed the need for additional training in public relations for their press officers and technical internet training for their ICT departments.

- 4) **Reaching More Mongolians:** Participants of short online chats have been modest. The tax relief “super-chat” statistics were more successful because the event utilized multiple forms of media. Future activities under this component should take into account the accessibility of different types of media by Mongolians, particularly those who are poor and/or live in remote areas.
- 5) **Other**
- The TAF local hire is central to the success of this component. His departure could seriously hamper future accomplishments in this area.
 - Journalists are not necessarily trained in economics so may have difficulty writing up EPRC events
 - “National Dialogue” may be an overstatement better suited for activities such as national referenda.

D. Recommendations

At a time when corruption may seriously jeopardize Mongolia’s economic development, this project component carries considerable responsibility in promoting transparency and accountability. The component is especially valuable given the lack of independent media and relatively weak civil society which cannot lead this function. Furthermore, the absence of a robust USAID program in media or CSO strengthening activity within its DG SO and attention by other donors in this area mean that continued support for this project component is crucial.

Specific recommendations:

Open Government Website and Super-Chats

- Move more aggressively on institutionalization of OG website. Get “buy-in” from ministries. Let government assume more shared responsibility for the management and funding of the site.
- Continue work on expanding the “Open Government” concept beyond the website as planned to reach Mongolians who do not rely on the Internet as their primary source for information. Television is probably the best means although its considerable expense will require strategic planning on issues to be covered and partners to cost-share with.
- Reach out to Ger and Gobi project clients for public discussions on policy reforms that affect them, ex: tax reform
- Plan an agenda of strategic issues: energy, business environment, poverty, mining, etc.
- Consider opening up OG to discuss economic issues important to Mongolians but that EPRC is not necessarily working on.

Capacity Building

- Explore greater training options for public affairs staff at the ministries and Parliament
- Work with IRI on briefing MP staff on economic reform issues
- Explore economic training for legal experts and Mongolian commercial law overview for economists (perhaps in a second phase of partnership with NLC cooperation)

- Provide media with press kits or briefings ahead of EPRC events, particularly the “super chats” to better facilitate their understanding and subsequently coverage of economic issues raised during the events

NLC

- Delegate a staff member to be a point of contact for operational issues instead of COP handling. This will facilitate more frequent communication to ensure proper implementation of the partnership. For example: meeting with NLC at least quarterly with them to discuss progress on their joint effort.
- Distribute business law CDs and/or publicize internet source to other USAID projects to share with their constituencies
- Ensure that future ERPC efforts in compiling and distributing Mongolian business laws are coordinated with the planned World Bank effort with the Ministry of Justice to bring all Mongolian laws into one database.

Other

- Ensure institutional memory and qualified backup person at TAF
- Position EPRC as the logical resource for the GOM to seek support should true national dialogue become a reality.

VIII. MANAGEMENT

A. Background

EPRC project personnel in Mongolia totals 25, consisting of six long-term ex-pats and 19 local staff. Out of these the COP and 11 local staff are counted against the management line of the budget. Chemonics home office charges a little time for top management involvement, but has four persons providing administrative assistance on, at least, a part time basis under the overhead component of the project budget. The total amount budgeted for management is \$3,619,959 with \$1,648,581.98 or 45.5 percent spent through September 30, 2005.

B. Accomplishments

In general the project is widely acknowledged as well managed. The feedback from long-term and short-term experts included comments of this project being one of the best managed projects in which they have ever been involved. The home office regularly sends out persons to help with administrative matters under the overhead costs of the project.

C. Questions

- 1. Is the scope to the project too big?** Too much for one contractor to handle?
EPRC is not a particularly big project in terms of money and personnel. For example, Chemonics itself currently is managing 127 projects with an average size of \$24 million and with some being over \$150 million. What about in terms of diversity of components? Again EPRC is not particularly unique and the components should be able to reinforce each other. While there are risks of one or the other component being a stepchild or the contractor experiencing difficulties in providing the range of expertise needed, the gains from economics of administration, flexibility to adjust to changing circumstances and opportunities for impacts, and the potential synergisms among the components far out weight the risks. The Team definitely does not judge EPRC as too big or too diverse.
- 2. How can the burden on the COP be reduced?**
Chief of party currently carries a very heavy burden. Besides normal administrative duties, he personally is the primary liaison with the government and donor community. He edits and writes substantial portions of the monthly newsletters, quarterly performance reports, policy briefings, tax briefs, and technical reports. He is the principle actor in the public education and national dialogue component. His burden raises questions on whether he is able to ensure synergism among the components, achieve substantive donor collaboration on many issues, and keep every component, such as energy, from becoming a stepchild. See below for recommendations on what to do.
- 3. How well is the home office supporting field operations?** The impression is quite well. Practically no complaints or even suggestions for improvement were offered when long and short term advisers and management personnel were quizzed.

D. Recommendations

1. Reduce the burden on the COP.

To reduce the burden on the COP, it is recommended that:

- 1) EPRC hires locally a person to play a key role in the public participation component of the project and assist in the writing, editing and ensuring of the quality of newsletters and reports
- 2) The deputy COP assumes a greater liaison role.
- 3) The to-be-recruited new policy implementation advisor assumes the key role of pursuing major economic policy issues, such as tax reform, with government, donors and private sector.

2. Hold a retreat.

It is recommended that in response to this evaluation that EPRC personnel with participation from the home office along with USAID persons hold a retreat to discuss improvements. In preparation for such a retreat, the persons should reread the Chemonics Technical Proposal, this evaluation, and the various reports and analyses of the project. Some critical topics would be synergism across the components, training and capacity development, collaboration with other projects and donors, and strategies and actions for the various components.

3. Use the 2006 Work Plan as the Change Instrument.

The 2006 EPRC Work Plan offers a timely means to incorporate the results of the evaluation and the above recommended retreat into the thinking and operations of ERPC. Specific actions should be designed and included to deal with the main recommendations, such as increasing synergism between components, capacity development, attention to energy policy issues, focus on key economic policy issues, etc. The process of creating the work plan also gives opportunity to discuss proposed changes with counterparts and arrive at consensus.

IX. CONCLUSIONS

Overall, the Evaluation Team considers the EPRC to be a dynamic, effective project with extremely close relationships with the Mongolian government and parliament and with many notable accomplishments in its first two years. Achievements and activities initiated to date are likely to have substantial impacts over time. Definitely EPRC and all its four components of policy, energy, competitiveness and public participation are worth continuing for the project's remaining three years.

However, the Team believes that the project could be considerably improved. Below are recommendations for improvements from each of the other sections of the report. The most far reaching suggestions are: extensions of the Implementation and Energy adviser positions for two years each, substantially more effort on private sector participation in energy, adding policy level involvement to the business development efforts, closer cooperation across the components inside the project, more substantive collaboration outside the project, and more attention to capacity building.

A. General Assessment

In general assessment terms, EPRC is making good progress toward its objectives. Its activities have achieved real accomplishments to date, such as momentum on tax reform, Berlin Cashmere Distribution Center, International Accounting Standards in energy companies, and super chats. The project undoubtedly has potential to make substantial and lasting impacts in the course of its remaining three years.

The project is unmistakably still, if not more so, relevant today than when it was designed. Despite changes in the political situation, the economy, understandings, emerging issues, and the MCA, the project remains pertinent. The project's combining of previous projects in policy, competitiveness and energy was appropriate. The administrative economics, flexibility and potential cross-fertilization and cooperation far outweighed the difficulties of finding sufficient expertise and the dangers of neglecting a component. Broadening the reach of the project from the Prime Minister's office to other executive departments and agencies and to the Parliament was very timely in light of the political changes to come. However, the limiting of the Policy Implementation and Energy advisers to three years, at least in hindsight, is judged to be a design flaw. All three components are still need and are expected to need ex-pat involvement for the remainder of the project.

The positions of the long-term technical assistance, i.e. positions for Policy Implementation, Energy, Competitiveness, Chief of Party and Deputy, were and are appropriate. The current long term accounting position has apparently sufficiently done its tasks and should be allowed to expire as scheduled in January. The Competitiveness position, while is only listed as a four year position in the RFP, is scheduled to run the full five years; this is excellent. The switch from Trade to Financial Specialist for one position seems unfortunately as trade needs are high while working on privatization and the financial sector is currently slow and difficult.

Both the Policy Implementation and Energy advisers positions, currently scheduled to end in September 2006, should be extended for two additional years or to the end of the project. However, with the extension the focus of the positions should be changed and the persons with appropriate skills for the new tasks or foci should be recruited. The Policy Implementation

Adviser will need to focus much more on issues that support the Competitiveness, Energy and Public Participation components. These issues include such ones as business environment, cross border trading, trade agreements, energy pricing, energy sector debts, contract enforcement, public agenda, etc. The Energy Adviser will need to focus on promoting private sector participation, pricing of heat and electricity, market design and development of the Energy Regulatory Authority.

Basically short-term technical assistance was well tailored and useful. However, it could be improved through more forward planning, prioritizing, and, as appropriate, longer visits, and continued involvement. Certainly the energy area could profit from more intense and focused assistance.

In generally more training and capacity building should be undertaken. More use of internships, greater use of local consultants, more efforts to improve policy and research institutions are a few possibilities.

The reporting, especially through the monthly newsletters and quarterly performance reports, is well received and serves a useful information role. However, the documents tend to be far more than what is needed and tend to take too much time and effort. USAID and the project should review current reports and decide what is needed in an effort to reduce the burden.

Collaboration needs to be strengthened, both inside and outside the project. Inside the project substantial room exists to work together across the components. For example, the Policy work should intensify efforts on policies related to the Political Economy, Competitiveness, Energy, and Public Participation. Outside the project closer substantive cooperation should be further with other USAID projects, such as Judicial Reform, Ger Initiative and the Gobi Initiative; with other projects, such as Ger to Ger and the World Bank's law data base; and with key donors, on such issues, as energy policy and anti-corruption.

B. Political Economy

EPRC has been generally successful in dealing with the current political realities of a grand coalition government. Its highly consultative manner of operating and encouraging country ownership is quite appropriate as Mongolia seeks its own national identity, distinct from its huge neighbors. Since corruption is such a critical problem, the project needs to support counter efforts, even if it does not operate under the banner of anti-corruption. Since despite economic growth, poverty is not being reduced and is at a high 36 percent, the project needs to be conscious of and take into consideration poverty and the potential differentiated impacts of policies on rural and urban populations, youth and gender, and local government.

Major recommendations related to Political Economy include:

- Intensify efforts at capacity building.
- Provide assistance for improved economic governance, evidence-based policy-making, and monitoring of government performance as part of anti-corruption effects.
- Analyze and advise on pro-poor growth.
- Include analysis of poverty and rural – urban impacts in policy analyses.
- Assess efficacy of current safety nets and options for productive safety nets.
- Include attention to youth and gender.

- Reach out to Ger and Gobi Constituencies.
- Include local taxes in the tax reform efforts.

C. Key Component Recommendations

Below are the key recommendations contained in the various chapters on the four components of EPRC. Many more suggestions are found in the specific chapters. Only selective ones are repeated here.

1. Policy

The Economic, Trade and Financial Policy Support component of EPRC has been quite active and influential. Major accomplishments include the ranking of Mongolia in the World Economic Forum's Growth Competitiveness Index, completion of important studies and analyses, influence on thinking, assistance to the MCA proposals, and progress on tax reform. If the tax reform works out well, it will be a tremendous achievement.

The major proposals to improve the Policy components are:

- Develop a policy action agenda, be proactive, and do not shy from sharing technical opinions.
- Cooperate closer with the other components of the project -- Competitiveness, on such issues as business environment, cross-border trading, domestic aviation and trade agreements; on Energy, on such issues as privatization, debt and pricing; and on Public Participation, on such issues as open-government web site, chats, and training.
- Continue and intensify efforts on helping the GOM to consolidate and institutionalize the reforms of the last 15 years, improve the environment for private-sector led development, especially as related to global markets, and to meet the challenges of developing natural resources, encouraging transparency and good economic governance, and handling overvaluation of the currency.
- Response to the suggestions related to the Political Economy by analyzing and considering poverty, pro-poor growth, social safety net, and differentiated impacts on rural and urban populations, youth, gender and local government.
- Strengthen local capacity to analyze and advocate on policy issues.
- Extend the position of the Policy Implementation Adviser for two years and recruit a policy oriented economist to fill the position.

2. Business and Sector Development

The Competitiveness component has appropriately focused on cashmere, tourism, and meat, while opening up to other opportunities. The creation and use of the Business Development and Mongolian Competitiveness Funds have proven worthwhile. The component should be continued and strengthened.

The major suggestions for improving this component are:

- Engage at multiple levels -- continue involvement at both the firm and sector levels and add attention to policy issues.
- Strengthen emphasis on business environment.
- Support stronger collective action for common goods at the sector level.
- Incorporate more building of local capacity

- Stay the course on cashmere, tourism and meat, but remain open to other opportunities.
- Collaborate more substantively with other projects.
- Explore GDA-like public-private partnerships.
- Improve the communication and outreach on competitiveness.

3. **Energy**

While this component has been busy and has achieved some good results, such as in the introduction of international accounting standards in energy companies, it has not focused on the most critical issues of private sector participation. The opportunity to make lasting impact in the energy sector calls for refocusing this component.

To do this, the major recommendations are:

- Focus on critical work needed for private sector participation.
- Give priority to work on tariffs for heating and electricity, market design and regulatory development.
- Encourage the development of a GOM energy policy paper and a privatization strategy.
- Provide substantial training to the Energy Regulatory Authority.
- Provide short-term assistance in a structured process for the amending of the Energy Law.
- Assist the development of a least cost investment plan.
- Analyze such issues as the coal sector, district heating issues and needs, and the impacts of privatization.
- Address the debt situation.
- Establish a donor – GOM coordinating mechanism for the Central Energy System.
- With limited resources, let others address financial recovery plan, commercial practices, laws on renewable energy and conservation, and the legal framework for all regulatory authorities and concession law.
- Provide substantial short-term assistance, beyond what is currently budgeted, to further work in the key energy areas.
- Extend the position of the Energy Adviser for two years and recruit a person who can substantively participate in the work on private sector participation as well as oversee the short-term assistance.

4. **Consensus Building, Public Education and National Dialogue**

EPRC is doing an excellent job of implementing this component. Public access to information and GOM support for openness has been expanded. Public participation in economic policy-making has been facilitated.

To improve this component the major suggestions are:

- Institutionalize the open-government website.
- Continue to expand the use of media to reach more Mongolians.
- Plan an agenda on strategic issues.
- Reach out to the Ger and Gobi constituencies.

- Explore training for public affairs staff, economists in commercial law and lawyers in economics.

5. **Management**

EPRC is considered a well managed project. Hence, the few suggestions include:

- Reduce the burden on the COP by hiring a local person to take the lead in public participation and assist with report preparations, by having the deputy assume greater liaison role, and by having a new Policy Implementation Adviser assume the key advocacy role on policy issues.
- Hold a retreat to digest and integrate the recommendations in this report.
- Use the 2006 Work Plan to implement accepted recommendations.

D. Budget Implications

With the objective of improving EPRC, this report puts forth many suggestions and recommendations for the project's remaining three years. By far most of the proposed changes -- the vast majority are matter of emphasis, attention and priority and can be easily accommodated within the planned budget and personnel of the project.

A few of the suggestions, such as extension of two positions, would require major rearranging of the budget with a shift from short-term to long-term assistance or an adjustment in the planned pattern of the long-term assistance. Moreover, in order to implement better the recommended changes in directions, it is likely that changes in personnel would be advisable, either as soon as convenient or at the end of their current contracts.

Lastly, the combination of recommendations to extend two positions for two years and to spend substantially more than originally envisioned on short-term technical assistance for energy will require hard choices in order to implement, including reviewing current plans on long-term advisers. The Team did not have sufficient mastery of the budget to run the various scenarios and see what is possible within the current budget limits. Hence, possibly, the recommendations may not be within the current capacity of the project and additional funds will be required to carry out the proposed adjustments.

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ATTACHMENT 1: EXCERPTS FROM TERMS OF REFERENCE

DETAILED STATEMENT OF WORK

The purpose of this evaluation is to provide USAID/Mongolia with an objective external assessment of the appropriateness and effectiveness of current EPRC activities—specifically, the contributions that the project has made in moving Mongolia from where it was in September 2003 to where it is at the time of the evaluation, and how those contributions were made.

In general, the EPRC evaluation team is charged with: (1) assessing the appropriateness and effectiveness of past and current EPRC activities; (2) assessing whether – and if so the extent to which – the project is contributing to sustainable, private sector-led economic growth and poverty reduction in Mongolia; (3) assessing whether current activities should be expanded, continued, curtailed, or cease altogether; (4) assessing whether the project should be involved in new or additional activities; and (5) making concrete, implementable recommendations for improving the project and expanding the project’s impact.

Specifically, the evaluation team will:

- **Review Documents.** Review applicable sections of USAID and project documentation, including but not limited to:
 - The Mission Strategy, 2004-2008
 - The DAI EPSP Closeout Report
 - The Nathan Associates TCI Closeout Report
 - The Barents Privatization Closeout Report
 - The USAID-Chemonics contract for EPRC
 - The Year 1 and Year 2 EPRC Annual Work Plans (AWPs)
 - EPRC Quarterly Performance Reports
 - The Year 1 EPRC Annual Report
 - The EPRC section of the last 18 months of the *Mongolia Monitor*
 - EPRC monthly project newsletters
 - EPRC newspaper tax briefings and other media pieces
 - EPRC STTA reports

- **Conduct Interviews.** Talk to a broad range of individuals familiar with the project, project operations, and project activities, including but not limited to:
 - All current LTTA members
 - STTA members currently in town
 - Field office administrative and support staff
 - Home office administrative and support staff prior to departing Washington
 - USAID/Mongolia professional staff
 - U.S. Embassy professional staff, including those in the commercial, economic, political, public affairs sections.
 - Other USAID/Mongolia project personnel, including the Chiefs of Party

- **Assess Progress Toward Attainment of Objectives.** Evaluate the appropriateness and effectiveness of EPRC activities with respect to project and broader USAID program objectives.
- **Assess Current Relevance to USAID Program.** Assess how appropriate the EPRC goals and objectives are in the light of current Mongolian political realities.
- **Assess Appropriateness of the Design.** Determine the strengths and weaknesses of the approach taken by USAID/Mongolia to dovetail mission policy reform, competitiveness, energy and privatization work under a single project.
- **Assess Appropriateness of the Long-Term TA.** Evaluate the current mix of long-term technical assistance, and its appropriateness.
- **Assess Appropriateness of the Short-Term TA.** Evaluate the short-term technical assistance (STTA) provided under the project, including the mix of STTA, the quality of the experts, the responsiveness of the project to USAID and GOM requests, turnaround time, and cost-effectiveness. Is there too much STTA? Is there enough?
- **Assess Monitoring and Reporting.** Review and evaluate EPRC monitoring, assessment and reporting. Is the reporting burden too great? Is USAID getting the kind of information that it needs?
- **Assess Collaboration.**
 - Review and evaluate the effectiveness of collaborative efforts by EPRC with other USAID projects.
 - Review and evaluate the effectiveness of collaborative efforts by EPRC with other donor agencies, non-governmental organizations, private organizations, and the national government (including the office of the Prime Minister, cabinet members, and members of Parliament).

Some specific questions to be addressed by the EPRC evaluation team include, but should not be construed as being limited to, the following:

Policy Reform

- Given the GOM's poor track record on implementing laws—much less policies—does it make sense to continue working on policy reform?
- EPRC works in much greater depth on some policy issues (e.g., taxation, energy) than others. Is the emphasis right? What areas, if any, are overemphasized? What areas are underemphasized? Should new areas (e.g., urban land markets, intellectual property rights) be addressed?
- How widespread is GOM awareness of the policy reform work of the project? Does the GOM seek project input enough on urgent matters? How effective is the project in responding to the GOM's requests? How well does EPRC screen GOM requests for assistance? How well does the EPRC policy work track with the objectives of SO1? Based on recent experience, in what areas does the GOM most need policy reform assistance?

- Should there be more training of Mongolian policy makers, and if so what kind?
- How effective has EPRC tax-related policy reform work been?
- How successful has the LTTA team been in developing good working relationships with key government and non-governmental personnel?

Cluster Development and Support

- How effective have USAID efforts been to date in improving the competitiveness of Mongolian business sectors?
- Evaluate EPRC's work with tourism. Chemonics has taken a very different approach to the approach that Nathan Associates took under the TCI project. How effective has the Chemonics approach been? How appropriate is the approach? Should work in this sector continue at all, and if so how should it proceed?
- Evaluate the Business Development Fund (BDF). How well is it working? Can it/should it be expanded?
- Evaluate the Mongolian Competitiveness Fund (MCF). How well is it working? Can it/should it be expanded?
- Evaluate the effectiveness of STTA in this area.
- Does EPRC convey its messages well to the appropriate audiences?
- Review the May 2005 Report "A Value Chain Analysis of the Mongolian Cashmere Industry". Given the findings of that report, does it make sense to continue working in support of the Mongolian cashmere industry? If so, what activities really make sense?
- A cashmere sector study conducted by EPRC suggested that government policies and regulations towards the cashmere sector are "killing" the Mongolian cashmere companies. Was this message delivered to the GOM? How willing is the GOM to make the kind of structural policy reforms in cashmere that are required?
- Given the assessments above, how much longer should EPRC continue to provide LTTA for competitiveness work?

Energy Sector Reform

- Is commercialization of the 18 generation and distribution entities really *necessary* before taking them to privatization? Does it make sense to privatize entities without first commercializing them? Is there another model for privatization that can be used?
- How many of the 18 entities can realistically be privatized, assuming that re-bundling of some will be necessary?
- How long will it take to privatize all or a substantial portion of the 18 entities?
- How does progress towards privatization of the Mongolian energy sector compare with privatization of other post-Soviet energy sectors?
- How important is the accounting work to privatization of generation and distribution entities? How long should EPRC continue to provide LTTA for energy sector accounting work?
- What can be done to improve and/or hasten the rate of privatization?
- How effective has EPRC been in getting the GoM to attract private sector energy investment in Mongolia? Given limited project and mission financial resources, is this work really critical? Should it be expanded, and if so, how?
- How effective has EPRC collaboration been with other energy sector players in the donor community, including the World Bank?

- Is there a logical end point for USAID assistance to the energy sector?
- Given the assessments above, how much longer should EPRC continue to provide LTTA for energy sector work?

Consensus Building, Public Education and National Dialogue

- How effective has EPRC consensus building been? How can it be improved?
- How effective has EPRC education and national dialogue been? How can it be improved?
- How well has The Asia Foundation performed under its subcontract to Chemonics for public education and national dialogue?
- How well is the Open Government Website working? How can it be expanded?

Political Economy and Poverty Reduction

Neither EPRC, nor its predecessor and antecedent projects, nor any other projects in the USAID/Mongolia portfolio, were either conceived or designed as “poverty reduction” projects *per se*. The impact of these projects is not measured by reductions in poverty, but rather by their contribution to private sector-led economic growth. While EPRC is therefore expected to have an impact on reducing poverty, that impact derives from the economic growth of the economy to which EPRC materially contributes. This evaluation nonetheless provides an opportunity to assess project impact on the political economy of Mongolia, as well as to poverty reduction.

Other

- Is the scope of this project too large? Is it too much for one contractor to handle?
- How can EPRC reduce the administrative and management workload burden on the Chief of Party?
- Evaluate Chemonics administration and home office support for field operations.
- Evaluate training under the project—quantity, mix, and appropriateness. Should EPRC expand training activities, and if so what kind of training and for who?
- Is EPRC doing a good job of inoculating itself—as well as USAID and the US embassy—from being used for political purposes?

ATTACHMENT 2: DESCRIPTIONS OF PREVIOUS PROJECTS

Summary Descriptions of EPRC Predecessor Projects

EPRC was designed specifically to consolidate and strengthen the integration of four previous USAID/Mongolia economic growth projects:

The Economic Policy Support Project (EPSP)

From 1995-2003, USAID used EPSP to provide intensive technical assistance (TA) to the GOM on a broad range of economic policy reform issues. EPSP was implemented by Development Alternatives, Inc. (DAI). With limited funding, the project succeeded in shaping economic policy in Mongolia during a critical period in the country's transition to a market economy.

Energy Sector Restructuring

As GOM attention shifted to sector restructuring and commercialization, and the establishment of an institutionalized mechanism for tariff adjustments, EPSP was tasked with supporting this effort. The work was carried out largely by PADCO (Planning and Development Collaborative International), under subcontract to DAI, and it focused on providing assistance to the Ministry of Infrastructure Development.

Mongolia Privatization Project

This project was designed to help achieve sustainable enterprise privatization and attract foreign investment into Mongolia. The project provided direct technical assistance to the GoM's State Property Committee (SPC), the agency responsible for managing and privatizing state-owned assets. In September 1998, the Barents Group of BearingPoint, Inc. was contracted by USAID to serve as advisor to the SPC and implement the project. The project included three major components: Most Valued Companies Privatization, Sealed-Bid Auction Support, and a Public Information and Investor Awareness Component. A fourth component focused on post-privatization assistance. Significant support was also provided to improve the legal, regulatory and policy framework surrounding privatization. Originally designed as a three-year effort, at the request of the GOM USAID agreed to continue support through March 2004.

The Competitiveness Initiative (TCI)

TCI was a three year (August 2000-October 2003), US\$ 3.9 million effort implemented under a SEGIR (Support for Economic Growth and Institutional Reform) task order via a contract with Nathan Associates and subcontract with JE Austin Associates. It was originally designed to test different approaches in implementing competitiveness initiatives with key clusters that were thought to have the greatest potential for generating export earnings, employment, and increased income for a large number of Mongolians and private sector firms. TCI focused on two main activities in years one and two: 1) developing better business strategies and providing technical assistance and training to businesses to improve competitiveness; and 2) building a better business environment through strengthening public-private dialogue in specific policy and regulatory areas and improving business services. In its third year, TCI focused primarily on building institutional capacity to carry forward initiatives that had been started in years one and two.

ATTACHMENT 3: RESOURCE MATERIALS

Asian Development Bank

Country Strategy and Program Update (2004-2006) Mongolia. August 2003.

Country Strategy and Program Update (2005-2006) Mongolia. August 2004.

Country Strategy and Program 2006-2008 Mongolia. August 2005.

ATI Consulting

Mongolia: Market Study and Company Analysis Report. Section 2: the Electricity Sector.

Economist Intelligence Unit

Mongolia Country Report. September 2005.

BearingPoint

SEGIR Mongolian Privatization Program

DAI

The Energy Sector of Mongolia: A Status Report. April 2003.

Mongolia's Energy Sector Commercialization and Privatization Program: Final Report. August 2003.

EPRC

Administrative Reports

Annual Work Plan. 2004 and 2005.

Monthly Newsletter. From January 2004 through September 2005.

Quarterly Performance Reports. From September-December 2003 through July-September 2005.

Policy Briefs

The Energy Sector Privatization Plan. September 2004.

Free Trade Zones. April 2004.

Fulfilling Campaign Commitments in a Fiscally Responsible Way. September 2004.

Negotiation of Stability Agreements in Mining. April 2004.

Public Debt, the Energy Sector and Private Investment. September 2004.

Sequence of Privatization in the Energy Sector. August 2005.

Transparency, the Open Government Website and Public Participation. September 2004.

Tax Briefings

Tax Briefing. No. 1 through No. 14. June through October 2005

Technical Reports

Abolition of Quotes for Garment Industry. November 2004.

Action Plan for Negotiations under TIFA. December 2004.

Assessment of Mongolia's Free Trade Zone Program and Site Evaluation. March 2004.

Benchmarking of Mongolia's Tax Performance. April 2005.

Boosting Competitiveness: Taking Stock and Where to Go From Here. October 2005.

Business Plan: The National Tourism Information Center of Mongolia. April 2004.

Cashmere Spinning Capacity. April 2005.

A Communications Strategy to Support Tax Relief in Mongolia. April 2005.

Country Risk and Country Risk Premium Estimation for Mongolia. August 2004.

Developing a Nature Reserve at Gachurat, Bayanzurkh District near Ulaanbaatar, Mongolia. June 2004.

Economic Impacts: Mongolian Tax Proposals. September 2005.

Feasibility Analysis of USAID's Development Credit Authority Guarantee Products for SME Term-lending. August 2005.

Framework and Action Plan for Trade Negotiations Support Unit. February 2005.

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Ministry of Industry and Trade Organizational Reform Assessment, Structure, Strategy and Action Plan. May 2005.

Mongolia Country Risk Estimation. August 2004.

Mongolian Garment Industry: Likely Effects of Abolition of Quotas. November 2004.

Mongolian Mining Sector Competitiveness and the Use of Stability Agreements. April 2004.

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Mongolian Private Equity Fund Feasibility Study, Second Stage. April 2005.

Potential Target Export Markets for Mongolian Pet Food Products. June 2005.

Potential Impact of the end of the Multi Fiber Agreement on Mongolia's Textile Industry. Draft Briefing Paper. August 2004.

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Regulatory Cost Accounting, Training Manual on CD. April 2004.

Technical Documentation: Mongolian Tax Model. April 2005.

Value Chain Analysis of the Mongolian Cashmere Industry. June 2005

Working Papers and Drafts

National Development Strategy for Mongolia, 2005-2020. Draft. April 2004.

Energy Sector Submittals 1 through 8

GOVERNMENT OF MONGOLIA

Economic Growth Support and Poverty Reduction Strategy. October 2003.

Millennium Development Goals: National Report on the Status of Implementation in Mongolia. 2004.

New Opportunities for Mongolians. October 2005.

Energy Regulatory Authority

Annual Report 2004.

National Statistical Office of Mongolia

Main Report of Labour Force Survey. 2004.

Parliament

Resolution on Approving the General Guidelines of State Property Privatization and Reformation during 2005-2008. July 5, 2005.

IMF

The Acting Chair's Summing Up, Mongolia – 2005 Article IV Consultation and Ex Post Assessment of Longer-Term Program Engagement, Executive Board Meeting 05/82, September 21, 2005. September 24, 2005.

IRI

Mongolia Nationwide Voter Survey, April 2004 and April 2005.

IRIS

The Size and Character of the Informal Sector and its Shadow Economy in Mongolia. September 2005.

Other

Atwood, Piece. Regulatory Benchmarking Report for: Armenia, Georgia, Kazakhstan, Kyrgyz Republic, Mongolia, Russia and Ukraine 2005. Data Annex.

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Becker, Jason. *The Lost Country: Mongolia revealed*. Sceptre, 1993.

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Meyer-Stamer, Jorg, and U. Harmes-Liedtke. *How to Promote Clusters*. Inter-American Development Bank, August 2005.

Porter, Michael E. "Clusters and the New Economics of Competition." *Harvard Business Review*. November-December 1998.

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Solvell, Oran et al. *The Cluster Initiative Greenbook*. 2005

Weatherford, Jack. *Genghis Khan and the Making of the Modern World*. Three Rivers Press, 2004.

TIC (The Competitiveness Initiative)

Mongolia: Manual for Action in the Private Sector (MAPS) Survey Findings. 23 November 2001

UNDP

Human Development Report Mongolia 2003.

USAID

Assessment of Corruption in Mongolia. Final Report. Submitted by Casals & Associate. 31 August 2005.

Cluster Initiatives in Developing and Transition Economies. Draft Report. Submitted by the Mitchell Group. Christian Ketels, Lindqvist, G., and Solvell, O. August 2005.

Enterprise Growth Initiatives: Strategic Directions and Options. Final Report. Submitted by Development Alternatives, Inc. February 2004.

Promoting Competitiveness in Mongolia: Learning from USAID's Experience. Submitted by The Mitchell Group, Inc. 18 June 2003.

USAID/Mongolia

The Mongolia Monitor, Monthly Reports from #26, September 2003, through #51, October 2005.

RPF No. 438-03-003 Economic Policy Reform and Competitiveness.

Strategic Plan, 2004-2008.

Volume One: Technical Proposal for RFP No. 438-03-003 from Chemonics, along with the final revision.

World Bank

Doing Business in 2006: Creating Jobs. Regional Profile for East Asia and Pacific Region and Country Profile for Mongolia. 2005.

Implementation Completion Report on a Credit to Mongolia for a Financial Sector Adjustment Credit. March 31, 2005.

Mongolia Energy Assessment. 1995.

Political Economy of Poverty Reduction in Mongolia: A Background Note for the 2005 Poverty Assessment. August 30, 2005

Project Appraisal Document on a Proposed Credit to Mongolia for a Second Private Sector Development Credit Project. June 2, 2005.

World Economic Forum

Lopez-Claros, Augusto, Michael E. Porter, and Klaus Schwab. *The Global Competitiveness Report 2005-2006.*

ATTACHMENT 4: PERSONS INTERVIEWED

EPRC PROJECT

Chemonics/Washington

Cheryl Doty
Project Manager, Asia

Ron Levy
Senior Vice-President, Asia

Najja Bracey
Assistant, Asia

James T. Riordan
Director, Latin American and Caribbean

Christie W. Sunwoo
Manager, Asia

Roberto Teso
Director, Asia

Ex-pat Staff

Fernando Bertoli
Chief of Party

Bruce Harris
Senior Business Development Advisor

Larry Jansen
Accounting, Auditing and Tax Advisor

Horst Meinecke
Deputy Chief of Party
Energy Advisor

Timothy O'Neill
Corporate Financial Advisor

Janusz Szyrmer
Senior Policy Advisor

Local Staff (ordered by first names)

Altansukh Tumenjargal
IT Specialist

Altantuya Dorjpalam

Web Coordinator

Amgalan Nordov
Energy Specialist

Ashidmaa Dashnyam
Finance and Business Specialist

Batbold Gankhuu
Translator/Interpreter

Doljinsuren Jambal
Economic Analyst

Dulguun Baatar
Business Development Officer

Indraa Bold
Business Development Advisor

Jigjidmaa Dugeree
Business Development Advisor

Mukhsaidhan Dambiinyam
Accounting Specialist

Tsolmon Tamir
Translator/Interpreter

Short-Term Consultants

Claude Bevot
Housing Finance

Miles Light
Tax Reform Support

Anna Myslinska
Analysis of the Shadow Economy Survey

Julia Weller
Energy and Concession Laws

GOVERNMENT OF MONGOLIA

General Department of National Taxation

Zorig Luvsandash
Director General

Energy Regulatory Authority

Damdinsuren Gungaarentsen

Regulator

Ganjuur Radii
Chairman

Myagmar Ravdan
Regulator

Ministry of Finance

Norov Altankhuyag
Minister

Ministry of Fuel and Energy

Ochirkhuu Tuvden
Minister
Member of Parliament

Ganbaatar Badгаа
Director
Fuel Policy and Regulation Department

Dulguun D.
Officer
International Cooperation Department

Batrenchin Sharav
Senior Officer

Ministry of Road, Transport and Tourism

Baigal Lkhagvasuren
Officer
Postal Service Policy and Coordination Department

Oyundelger Sengee
Officer
Tourism Policy and Coordination Department

Orgodol Tseden
Deputy Director
Tourism Policy and Coordination Department

Ministry of Trade and Industry

Galsandorj D.
Director General
Policy and Coordination Department for Geology and Mining

Zorigt Dashdorj
Director General
Policy Coordination Strategic Planning Development

Enkhbold V.

Director General
Trade and Economic Cooperation Policy Coordination Department

National Center for Legal and Judicial Researches, Training and Information

Chimid Byaraa
Scientific Secretary
Honoured Lawyer and Professor

Bayangbileg Danykhoo
Head of the Legal Information Center

National Dispatching Center

Jambalsuren Chultem
Deputy Director and General Dispatching Engineer

Tsend Lkhagvatseren
Project Manager

National Statistical Office of Mongol

Gerelt-Od G.
Vice-Chairman

Bajikhoo Kh.
Director of Administration Department
General Manager

Parliament (State Great Hural)

Bat-Uul Erdene
Member

Dr. Batkhuyag Jamiyandorj
Member

Purevdorj Lkhanaasuren
Member
(Former head of the State Property Committee)

Dr. Oyun Sanjaasurengin
Member

Ochirkhoo Tuvden
Member

Prime Minister's Office

Boldkhuyag Damdinsuren
Press Secretary

Tsogtsaikhan Gombo
Economic Policy Adviser

State Property Committee

Bailikhuu D.
Adviser

MONGOLIAN ORGANIZATIONS

Arts Council of Mongolia

Ariunaa Tserenpil
Executive Director

Biz Mongolia

Sunjidmaa Jamba
Director

Centre for Policy Research

Enkh-Amgalan Ayurzana
Founding Director

Mongolian Energy Association

Sukhbaatar Tsegmid
Secretariat General

Open Society Forum

Munkhsoyol E.
Manager

Erdenejargal P.
Executive Director

MONGOLIAN BUSINESS SECTOR

Banks

Khan Bank (Agricultural Bank of Mongolia)

Ben Turnbull
Deputy CEO

Xac Bank

Jim Anderson
Adviser

Leather Processing

Mongol Shevro

Managing Director

Meat

Mongolian Meat Association

Dr. Delg. Sanjmyatav
President

Natural Fibers

Fibermark Society

Batbayar Batjargal

Mongolian Textile Institute

Prof. Enkhtuya Dorj

Gobi Corporation

Sedvanchig TS

CEO

Erdenetuya Namkhai

Chief of the Division

Business Management Department

Mongolian Cashmere, Camel, and Wool Company (MCCWC)

Batsaikhan

CEO

Sun Shiroh

Borkhuu Rentsendo

Director

Eermel

Munkhjargal S.

Executive Director

Tourism

Mongolian Tourism Association

Batnasan Damdinsuren

General Manager

Galtmaa G.

Vice-President and General Director of Shuren Travel Services

Elstei Ger Camp

Erdenebat N.

Managing Director of Mongolian Adventure Tours

Bayarsaikhan Tsevelmaa

MTA President, MP, and Minister for Social Welfare and Labor

Mongolia Tour Guides Association

Bayana

Nomadic Expeditions

Monkhtuya

Mongol Khan Expedition

Tulgan O.

Nomadic Trails

Tsolmon Travel
Navchaa M.
Marketing Director

New World Juulchin
Nergui Sh.
President

Juulchin
Baatarsaikhan Tsagaach

Other
Abe and Partners
Enkh-Amgalan S.
Managing Partner

**DONORS, MULTILATERAL INSTITUTIONS, AND
INTERNATIONAL NGOs**

Asian Development Bank
Barry J. Hitchcock
Country Director

The Asia Foundation
Badamdash D. Marhy
Program Officer

CHF
Margaret Herro
Country Director, Mongolia

Neil McCullagh
Deputy Director

European Bank for Reconstruction and Development
Eric Peter
Energy Adviser

GER to GER
Zanjan Fromer
Project Director

GTZ (German Technical Cooperation)
Dr. Albert Gierend
Economist

L. Hulan
Project Manager

IMF

Dawn E. Rehm
Resident Representative, Mongolia

IRI (International Republican Institute)

John H. Poepsel
Resident Program Director

JICA

Morimoto Yasuhiro
Deputy Resident Representative

Ganzorig M.
Senior Program Officer

Mercy Corps

Steve Zimmerman
Country Director, Mongolia

Project GER to GER

Zanfan Fromer
Project Director

UN

Paratibha Mehta
UN Resident Coordinator
UNDP Resident Representative

The World Bank

Saha Dhevan Meyanathan
Mongolia Country Manager and Resident Representative

Salvador Rivera
Energy Adviser

US GOVERNMENT

US Department of State

Katia J. Bennett
Mongolia Desk Officer

US Embassy/Mongolia

Brian L. Goldbeck
Attaché, Deputy Chief of Mission

USAID/Washington

Pamela Baldinger
Energy and Environmental Specialist

Anthony Chan
Director, Office of Technical Support, ANE

Scott Christiansen
Senior Agricultural Advisor

Calista Downey
Desk Officer, Mongolia and Philippines

Cory Johnston
Assistant Desk Officer, Mongolia

Sarah Lane
Research Assistant

Michael Miklaucic
Senior Democracy Advisor

Mark Murray
Energy Advisor

John Wilson
Senior Energy Advisor

USAID/Mongolia
Jeff Goodson
Senior Program Manager

Leon Waskin
Representative

ATTACHMENT 5: SUPPLEMENTARY INFORMATION ON EPRC

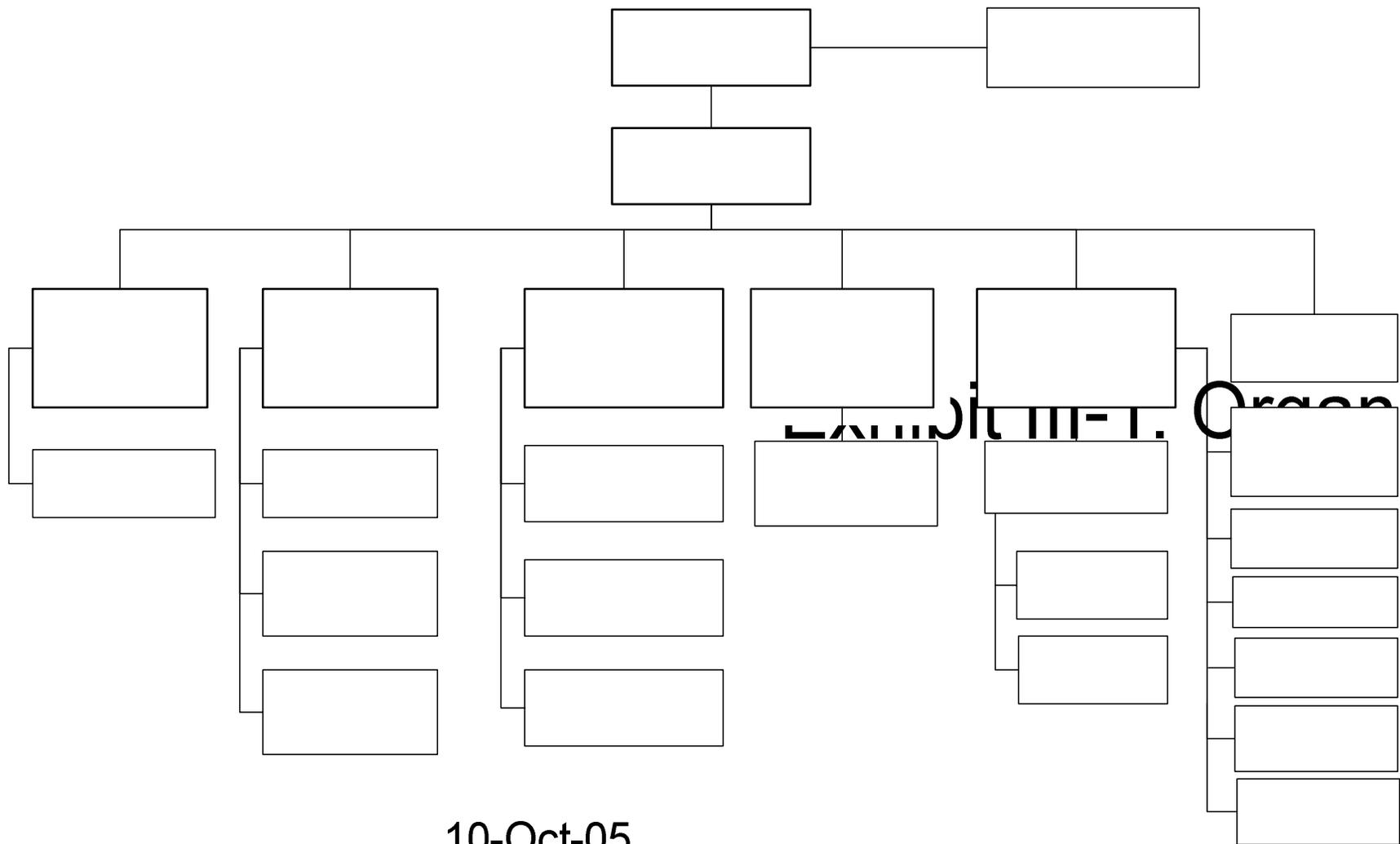
ORGANIZATION CHART

STTA: OCTOBER 2003 – NOVEMBER 2005

OVERSEAS TRAINING TO DATE

PRESENTATIONS AND WORKSHOPS HELD IN TRAINING AND RESOURCE CENTER DURING 2004 AND 2005

PRESENTATIONS AND WORKSHOPS HELD OUTSIDE TRAINING AND RESOURCE CENTER DURING 2004 AND 2005



Appendix III-1. Organization

10-Oct-05

Economic Policy Reform and Competitiveness Project
STTAs: October 2003 – November 2005

	Name	Assignment	Start date	End date
		CLIN 001 – Policy Analysis, Formulation and Implementation		
2004	Jose Ceron	Assessment of Mongolia's Free Trade Zones Program	29-Jan-04	17-Feb-04
	William Arnold	Mongolia's mining sector competitiveness and framework for use of stability agreements	28-Feb-04	7-Mar-04
	David Snelbecker	Development of prioritized national development strategy for Mongolia through Year 2020	8-Mar-04	26-Mar-04
	Jeff Meller	Concession law and legal framework	10-Jul-04	23-Jul-04
	Rup Khadka	Overview of the Mongolian tax system	26-Jul-04	15-Oct-04
	David Snelbecker	Assistance on development of 100-day program for GoM	24-Sep-04	1-Oct-04
	Roger Freeman	Preparation for negotiations on the TIFA	15-Nov-04	20-Dec-04
2005	Roger Freeman	Development of a Trade Negotiations, Administration and Compliance Unit	31-Jan-05	24-Feb-05
	Miles Light	Development of a Computable General Equilibrium Model (CGE)	14-Feb-05	18-Mar-05
	Jo Beth Mertens	Benchmarking of Mongolian tax system	7-Mar-05	26-Mar-05
	Andrew Kaiser	Review of structure of Ministry of Industry and Trade	12-Mar-05	24-Apr-05
	Barbara Zadina	Public communications strategy for tax reform	19-Mar-05	8-Apr-05
	Miles Light	Tax modeling	7-Apr-05	25-Apr-05
	Miles Light	Development of a CGE – continuation	9-Jun-05	29-Jun-05
	William Arnold	Mining seminar for the Ministry of Industry and Trade	11-Jun-05	25-Jun-05
	Miles Light	Tax policy reform support	15-Sep-05	9-Oct-05
	Miles Light	Tax policy reform support – continuation	28-Oct-05	18-Nov-05

	Anna Myslinska	Analysis of shadow economy survey	23-Oct-05	17-Nov-05
		CLIN 002–Public Education and National Dialogue		
2005	Gary Goodpaster	Development of SME Support Strategy	5-Mar-05	18-Mar-05
		CLIN 003–Cluster Development Support Activity		
2004	John Heather	Development of business plan for Tourist Information Center	6-Mar-04	10-Apr-04
	Jeremy Burgess	Feasibility study for open zoo	28-Aug-04	1-Oct-04
	John Smith	Alleviation of the impact of MFA discontinuation	4-Oct-04	8-Nov-04
	Dennis Grubb	Feasibility study for establishment of equity fund	13-Sep-04	17-Oct-04
2005	Bruce Norlund	Feasibility study of the equity fund establishment	17-Jan-05	18-Mar-05
	John Smith	Technical review of Gobi Joint Stock Company	11-Feb-05	10-Mar-05
	Donald Lecraw	Value chain analysis of the cashmere sector	14-Feb-05	17-Mar-05
	Philip Eddleston	Analysis of cashmere spinning sector	27-Feb-05	27-Mar-05
	Tim O’Neill	Financial review for Gobi JSC	3-Mar-05	16-Apr-05
	Ted Wood	Project proposal for Conservation Ink	3-Mar-05	19-Mar-05
	Jeremy Schmidt	Project proposal for Conservation Ink	7-Mar-05	22-Mar-05
	Jeanne Everett	Feasibility study for pet food sector	17-Mar-05	30-Apr-05
	Guy Leger	Review of Tourism Law of Mongolia	23-Mar-05	27-Apr-05
	Keith Swenson	Management support to Tourism Information Center – 1st stage	24-Mar-05	5-May-05
	Philip Eddleston	Marketing strategy for Gobi privatization	11-Apr-05	14-May-05
	Donald Lecraw	Value chain analysis for cashmere sector	5-May-05	24-May-05
	Keith Swenson	Management support to Tourism Information Center – 2nd stage	13-Jun-05	2-Sep-05
	Philip Eddleston	Market routes for cashmere sector	20-Jun-05	30-Jul-05

	Jeanne Everett	Company profiles for pet food sector	22-Jun-05	20-Jul-05
	Caroline Averch	DCA activities	17-Jul-05	6-Aug-05
	Irina Sedova	DCA activities	17-Jul-05	6-Aug-05
	Jim Riordan	Review of project competitiveness component	18-Sep-05	25-Sep-05
	Jim Krigbaum	Export assistance for pet food companies	19-Sep-05	1-Oct-05
	Claude Bovet	Housing finance	24-Sep-05	16-Oct-05
	Claude Bovet	Housing finance – continuation	5-Nov-05	26-Nov-05
		CLIN 004–Energy Sector Policy Reform		
2004	Larry Jensen	Development of and training on IAS–compliant charts of accounts for energy sector generating and distribution companies	12-Mar-04	7-May-04
	Larry Jensen	Implementation of uniform system of accounts	15-Aug-04	16-Dec-04
	Hasso Bhatia	Development of ERA public communication strategy	10-Oct-04	26-Nov-04
2005	Julia Weller	Concessions law	30-Jan-05	10-Feb-05
	Julia Weller	Review of the Energy law of Mongolia	3-May-05	26-May-05
	Xiaokang Xu	Training for Energy National Dispatching Center	20-Aug-05	31-Aug-05
		CLIN 005–Project Management		
2003	Christie Sunwoo	Project start–up	26-Sep-03	21-Oct-03
	Cheryl Doty	Project start–up	26-Sep-03	21-Oct-03
	Ron Ivey	Project start–up	13-Oct-03	21-Oct-03
	Josh Pashman	Setting–up office administrative system	3-Dec-03	22-Dec-03
2004	Christie Sunwoo	Project management and administration	23-Oct-04	5-Nov-04

2005	Christie Sunwoo	Project management and administration	12-Feb-05	11-Mar-05
	Christie Sunwoo	Project management and administration	11-Apr-05	30-Apr-05
	Jeremy Fischer	Field Accounting Internal Review	20-Aug-05	26-Aug-05
	Ron Ivey	Project supervisory visit – Overhead funded	30-Apr-05	5-May-05
	Roberto Toso	Project supervisory visit – Overhead funded	17-Sep-05	28-Sep-05
	Christie Sunwoo	Project management and administration	13-Oct-05	3-Nov-05

EPRC Overseas Trainings to Date

Name		Training	Dates	CLIN	
Ganjunr R.	Chairman of the Energy Regulatory Authority	Second International Congress on Restructuring the Energy Sector in Transition Countries- Opening Markets and Sustainable Development, Leipzig, Germany.	April 27-28, 2004	4	Energy
Tumtsogt, T.	Advisor to the Minister of Fuel and Energy	Third Energy Regulation and Investment Conference for Central/Eastern Europe and CIS and Energy and Regulatory Regional Association's General Assembly.	May 17-19, 2004	4	Energy
Bruce Harris	Sr. Business Development Adv., EPRC	Enterprise Development and Competitiveness	April 12-17, 2004	3	Bus Dev
Gaunchimeg, M.	Head of the Tariff and Pricing Department, ERA	Second Summer School on Energy Regulatory Practices, Budapest, Hungary	July 29-30, 2004	4	Energy
Tumptsogt	Advisor to the Minister of Fuel and Energy	Seventeenth International Training Program on Utility Regulation and Strategy, Gainesville, Florida	Jan 10-21, 2005	4	Energy
Mukhtulga, M.	Head of the Licensing Department, ERA	Energy Regulations Regional Association (ERRA) Licensing/Competition Committee Meeting, Antalya, Turkey	Feb 7-9, 2005	4	Energy

Gaunchimeg, M.	Head of the Tariff and Pricing Department, ERA	Eighteenth International Training Program on Utility Regulation and Strategy, Gainesville, Florida	June 6-17, 2005	4	Energy
Amgalan, Nordov	Energy Specialist, EPRC	Eighteenth International Training Program on Utility Regulation and Strategy, Gainesville, Florida	June 6-21, 2005	4	Energy
Munkhsaikhan D.	Accounting Advisor, EPRC	In country CPA training program	March-April, 2005	4	Energy
Zorig L.	Director General, General Dept. of National Taxations, GOM	USAID Workshop for Practitioners on Tax and Pension Reform, Washington, DC	June 27-29, 2005	1	Policy
Badral, B.	Tax Official, General, General Dept. of National Taxation, GOM	USAID Workshop for Practitioners on Tax and Pension Reform, Washington, DC	June 27-29, 2005	1	Policy
Janusz Szymer	Sr. Policy Advisor, EPRC	USAID Workshop for Practitioners on Tax and Pension Reform, Washington, DC	June 27-29, 2005	1	Policy
Kang Xu (trainer)	Senior Staff Consultant/Trainer, Siemens Power Transmission and Distribution, Inc.	Siemens training for the National Dispatch Center's Engineers	Aug 19-31, 2005	4	Energy
Samdan Benedish	Lawyer, ERA	Legal Regulation Working Group Meeting of the ERRA, Kiev, Ukraine	Oct 24-25, 2005	4	Energy

Munkhsaikhan D.	Accounting Advisor, EPRC	Study Meeting organized by the Japan Productivity Center for Socio-Economic Development	Oct 17- 20, 2005	4	Energy	

Presentations and Workshops Held in Training and Resource Center During 2004-2005

No.	Date	Event	Organizer	Type of Event	Target participants	No. of atten.
Events 2004						
1	11-Feb	Best practices and lessons learned in the implementation of Free Economic Zones	José Cerón, EPRC STTA	Presentation	Private sector, government and public	19
2	5-Mar	Mining sector polices: International comparisons	William F Arnold, EPRC STTA on mining	Presentation	Public	16
3	28-30 Sept	Training of Regulatory Accounting	EPRC/Energy staff	Training	Power plants of Erdenet, Darkhan and Ulaanbaatar, CHP, UB Audit	23
4	6-8 Oct	Training of Regulatory Accounting	EPRC/Energy staff	Training	Power plants of Erdenet, Darkhan and Ulaanbaatar, Power Plant, UB Audit	12
5	20-22 Oct	International Accounting Standards Workshop	EPRC/Energy staff	Training	Power plants of Erdenet, Darkhan and Ulaanbaatar, Power Plant, UB Audit	23
6	9-Dec	Donors on Trade	EPRC Project	Presentation	USAID, EPRC, Donor Agencies	12
7	16-Dec	Presentation on BDF and MCF	EPRC/Business Development Staff	Presentation	BDS, Government Agencies, NGO's, Donor's, Local Private Companies, Press and Media	58
Events 2005						

1	7-Mar	Gobi 2005 Future	John Smith, EPRC STTA on textile	Presentation	State Property Committee staff, EPRC Project	15
2	9-Mar	Tax modeling	Miles Lights, EPRC STTA on tax	Presentation	EPRC, Mongolian Tax Association	8
3	16-Mar	Feasibility Study	Bruce Norlund, EPRC STTA on finance	Presentation	EPRC Staff	17
4	24-Mar	"Cooperation with the OG Website" Seminar	Open Government Website	Seminar	EPRC, OG Website, Press Media of Ministries, The Asian Foundation	23
5	24-Mar	A communications strategy to support tax relief in Mongolia	Barbara Zadina, EPRC STTA	Workshop	EPRC, OG Website, Press Media of Ministries, The Asian Foundation	23
6	20-24 Apr	International Accounting and Financial Reporting Standards, implementation of Uniform System of Accounts, and development of conversion methodology for 2004 and 2005 financial statements	Larry Jensen, EPRC Accounting, Auditing and Tax Advisor and Munkhsaikhan D., EPRC Accounting Specialist	Training	Central Energy System Distribution and Transmission Licensees, Dispatch Center, and Energy Regulatory Authority	33
7	6-May	Mongolian cashmere needs to change with the times	P. Eddleston, EPRC STTA on cashmere	Presentation	Cashmere producers	20
8	11-May	Survey of opportunities for the Mongolian meat industry to develop exports of pet food	Jeanne Everett, EPRC STTA on Pet Food	Presentation	Representatives of the meat processing industry	24
9	17-May	A value chain analysis of the Mongolian cashmere industry	Don Lecraw, EPRC STTA on cashmere	Presentation	Representatives of the cashmere industry	27
10	8-9 Jul	Tourist Info Center	Keith Swenson, EPRC STTA on Tourist Information Center	Training	Management and administrative staff of the Tourist Information Center	8

11	5-Aug	Development Credit Authority Guarantee Products	Caroline Averch, EPRC STTA on financial services and Irina Sedova, EPRC STTA on financial services	Presentation	USAID Mongolia, EPRC Project	12
12	28-Sep	Export management practical guide	Jim Krigbaum, EPRC STTA on trade	Training	NGO, Tourist Companies, EPRC Project	20
13	30-Sep	Getting most out of Tradeshow	Jim Krigbaum, EPRC STTA on trade	Training	NGO, Tourist Companies, EPRC Project	20

Presentations and Workshops Held Outside Training and Resource Center during 2004-2005

No.	Date	Event	Organizer	Type of Event	Where	Target participants	No
Events 2004							
1	1-7 May	Energy Accounting workshop	EPRC Energy team	Workshop and Training	Ulaangom, Uvs province	Accountants and financial officers of the Western Energy System	164 person / days
2	21-28 May	Energy Accounting workshop	EPRC Energy team	Workshop and Training	Choibalsan, Dornod province	Accountants and financial officers of the Eastern Energy System	
3	13-Oct	Private Equity Fund	Dennis Grubb, EPRC STTA on private equity fund	Presentation	Open Society Forum, Ulaanbaatar	Bankers, accountants, lawyers, advisors and intermediaries	42
4	14-Sep	Essential Business Laws CD Presentation	EPRC and National Legal Center	Presentation	Investors' Conference, Ulaanbaatar	Investors and participants of the conference	21
Events 2005							
1	18-Feb	Private Equity Fund	Bruce Norlund, EPRC STTA on private equity fund	Presentation	Open Society Forum, Ulaanbaatar	Bankers, accountants, lawyers, advisors and intermediaries	48

2	5-Apr	Ministry of Industry and Trade organizational reform assessment, structure, strategy, and action plan	Andrew Kaiser, EPRC STTA on Organizational assessment of Ministry of Industry and Trade	Presentation	Ministry of Industry and Trade, Ulaanbaatar	Ministry of Industry and Trade Leadership team	6
3	5-Mar	Gobi 2005 The Way Forward	John Smith, EPRC STTA on textile	Presentation	Gobi Company, Ulaanbaatar	Gobi Cashmere Co. operations to company management and the State Property Committee (SPC)	19
4	24-May	A value chain analysis of the Mongolian cashmere industry	Don Lecraw, EPRC STTA on value chain analysis	Presentation	Open Society Forum, Ulaanbaatar	Cashmere industry stakeholders, Gobi Cashmere Company, GoM representatives donor, international organizations and EPRC Project	25
5	16-Jun	Stability Agreements in Mining Sector	William Arnold, EPRC STTA on mining stability agreement	Presentation	Ministry of Industry and Trade, Ulaanbaatar	Officials from Ministries and Government agencies	36
6	15-Jun	Social Accounts for the Mongolian Economy	EPRC Policy team	Workshop	National Statistical Office, Ulaanbaatar	National Statistical Office (NSO), Central Bank and government officials of diverse ministries and agencies	18
7	21-27 Aug	Training on utilization of a software package for transmission/distribution system stability issues and prediction models of system stability	Xiaokang Xu (Siemens Technologies under fixed price contract with the EPRC project)	Training	National Dispatch Center, Ulaanbaatar	Staff members of National Dispatch Center	6

8	4-Oct	The size and character of the informal sector in Mongolia	EPRC, IRIS and Open Society Forum (OSF)	Survey Report Presentation	Conference room of the Khaan Palace hotel	OSF, Ministries, NGO, Private companies, Universities, EPRC Project, Press and Media	66
9	8-Oct	Tax Reform Retreat: Legal Entity Income Tax Law	EPRC and Parliament Tax Working Group	Workshop	Hotel Mongolia, Ulaanbaatar	Parliament Standing Committees on Economic Policy and Budget, Parliament Tax Working Group, EPRC Project team	47
10	13-Oct	Global Competitiveness Index Survey 2005 Presentation	EPRC and Open Society Forum	Presentation	Conference room of the Open Society Forum	Private companies, NGO, Universities, Banks	43
11	2-Nov	The Future of the Credit Information Bureau	EPRC and Mongol Bank	Workshop	Bank of Mongolia, Ulaanbaatar	Banks, Mongolian Bankers Association, Non Bank Financial Institutions, UB Electricity Distribution Network, Mobicom, Skytel, Universities, and EPRC Project	66
12	5-Nov	Tax Reform Retreat: Personal Income Tax Law and VAT Law	EPRC and Parliament Tax Working Group	Workshop	Ikh Tenger, Ulaanbaatar	Parliament Standing Committees on Economic Policy and Budget, Parliament Tax Working Group, EPRC Project team	28

ATTACHMENT 6: REVIEW OF LITERATURE ON CLUSTERS, COMPETITIVENESS, AND ENTERPRISE DEVELOPMENT

Report	Section Title	Summary of Findings
Conclusions of Mongolia Specific Reports		
Boosting Competitiveness: Taking Stock and Where to Go From Here, Jim Riordan, Chemonics, October 5, 2005.	“Guidelines for a revised competitiveness strategy”	<ul style="list-style-type: none"> • As a rule, make individual businesses the point of entry. Although businesses have shared problems – and sometimes collective action is necessary to resolve them, the individual business is the place to start to have an impact. Such a focus is especially appropriate in Mongolia where markets are so thin. • All other things equal, take a problem-solving, transactional approach. Take a programmatic problem-solving approach, giving preference to targeted technical assistance over generalized training and broad policy reform. Use a systemic policy dialogue approach only when an issue is high-priority. • Make transactions – specifically, sales and investment – a core measure of EPRC success. • Manage for results – that is, for sales and investment. • To manage for results, take monitoring and evaluation very seriously. It would behoove EPRC not only to budget for and set up an operationally independent monitoring and evaluation system, but to use it as an ongoing, hands-on management tool. • Work on supply-side problems, but only when they constrain transactions for which there is market demand. • Expand eligibility for project support to all sectors. • Communicate success stories.
Promoting Competitiveness in Mongolia: Learning from USAID’s Experience, The Mitchell Group, June 18, 2003.	“Guiding Principles of USAID’s Future Competitiveness Effort in Mongolia”	<ul style="list-style-type: none"> • Promote cluster development as a mechanism for tackling industry-wide issues and promoting more sustainable industry-wide growth. • Broaden participation – to engage the cluster versus the industry; to engage government as part of the solution versus the source of the problem; and to build local involvement and ownership of the competitiveness initiative. • Assume the role of facilitator versus the implementer of the competitiveness initiative; develop partnerships with local institutions and firms so that they can, in turn, deliver the kind of industry-driven services provided by TCI. • Focus policy reform efforts on the micro-economic agenda, strengthening the policies, laws, institutions, and practices that support and foster market-oriented business development • Develop realistic plans for strengthening the viability of key institutions – such as the Mongolian Tourism Association and the Cashmere Promotion Society – and for steadily

		<ul style="list-style-type: none"> • They are of sufficient duration (5 to 10 years) to establish brand identity, credibility, and strategic partnerships with key policy makers and private sector leaders. • They make use of highly qualified local staff and source local service providers through open competitive procurement. • They select counterpart organizations and local service providers in a transparent fashion. • They carefully factor in incentives to change enterprise behavior and avoid subsidies that distort the behavior of enterprises, business associations, etc. • They build in learning and innovation processes to test and improve policy initiatives in the private sector. • They identify and support key champions in the public and private sectors. • They invest sufficient resources in R&D to develop the appropriate legal framework, such as tax and bankruptcy laws – to support commercial services to encourage risk-taking entrepreneurial behavior.
General Conclusions from Competitiveness Reports		
Mitchell Group “Cluster Initiatives in Developing and Transition Economies, Funded by USAID/EGAT. Draft. August 2005.	Recommendations	<ul style="list-style-type: none"> • Set clear strategic goals for aid: match cluster initiatives and their activities to the unique country and cluster-context they face • Formulate an explicit strategy for cluster selection: from individual clusters to a portfolio of cluster initiatives • Adjust the type of targets to the situation: translating strategic choices into actions • Further professionalize cluster initiative practice: encourage contractor specialization and mobilize potential allies.
Amy Cogan’s (EGAT/EG Competitiveness Advisor) synthesis drawn from “Promoting Competitiveness in Practice: The Cluster Approach (2004),: “SME Cluster and Network Development in Developing Countries: The Experience of UNIDO (1999),” and The Cluster Initiative Greenbook” (2003)	Lessons Learned	<ul style="list-style-type: none"> • Projects should be initiated on the basis of private sector demand and the private sector must drive the process. • At all levels, the project stakeholders must a) own the project and feel it is in their interest to execute it, b) be empowered to act, c) have the right skills to act, d) have the right motivation and incentives. • One strong leader can make an enormous difference – and conversely, the lack of strong champions often results in an initiative’s stagnation • Cluster development can be hardest in traditional industries, where there is often the most resistance to change • Cluster initiatives in transition economies face significant hurdles at the onset (such as low levels of trust and little understanding and experience with simultaneous cooperation and competition) – and hence, may be more difficult to launch. • Funneling too much money through a competitiveness initiative may weaken local initiative. • Cluster initiatives rarely show immediate results and are not a “quick fix” solution

		<ul style="list-style-type: none"> • Cluster development should aim at visible improvements in the economic situation and result in competitive advantages which enterprises acting alone could not achieve • There is no single and pre-defined path to be followed in the implementation of cluster/network promotion initiatives that can be easily replicated across countries, regions, and industrial sectors • Cluster initiatives that are limited to domestic companies perform worse than those that are more inclusive. • Generally, disappointing results and failure for cluster initiatives to generate change are related to poor consensus, weak frameworks, facilitators lacking strong networks, lack of offices and sufficient budgets, and neglected brand building. • Cluster initiatives serving strong clusters of national and regional importance are more successful • Cluster initiatives that are launched after a competition process to obtain funding perform significantly better in terms of increasing international competitiveness.
<p>“The Cluster Initiative Greenbook,” 2003</p>	<p>Findings</p>	<ul style="list-style-type: none"> • It takes time to build up the momentum for a cluster initiative, typically more than three years • The future success of cluster initiatives often depends on one key individual (40%) • Cluster initiatives often face three challenges: <ol style="list-style-type: none"> 1. Monitoring performance is critical to sustain the commitment. This is complex since many cluster initiatives take a long time to materialize. CIs need an indicator system for track performance over time. 2. Organizing the CI process over time: CIs never start from zero; there is always a history of the cluster and often previous organizational attempts. The analysis requires a massive shift in the participation of cluster members. 3. Integrating the CI in a broader microeconomic policy agenda: CIs will be “much more effective, if they occur in the context of other CIs and the upgrading of the business environment areas affecting many clusters.”

Subject: Contractor's comments on the mid-term external evaluation of Mongolia's Economic Policy Reform and Competitiveness Project

-----Original Message-----

From: Fernando Bertoli [mailto:fbertoli@chemonics.net]

Sent: Wednesday, April 19, 2006 8:29 AM

To: Goodson, Jeffrey (Mongolia)

Cc: Waskin, Leon (Mongolia/OD); 'EPRC Tech Team'; 'Roberto Toso'; 'Ronald Ivey'; 'Cheryl Doty'; 'Haven Ley'

Subject: Contractor's comments on the mid-term external evaluation of Mongolia's Economic Policy Reform and Competitiveness Project

Jeff,

We have appreciated the opportunity to provide comment and feedback as the evaluation team proceeded with its work, as well as the Mission's request for any additional comments on the report. We have consulted extensively within the technical team here in Ulaanbaatar and with Chemonics International project management in Washington, D.C.

After our review of the mid-term external evaluation report, we confirm that we have no comments for the record at this time.

Kind regards,
Fernando