



# QUARTERLY PERFORMANCE REPORT (October – December 2006)

February 2007  
Ulaanbaatar, Mongolia



Project: Mongolia Economic Policy Reform and Competitiveness Project (EPRC)

Report Title: Quarterly Performance Report (October – December 2006)

Contract No. 438–C–00–03–00021–00

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## **ABBREVIATION AND ACRONYMS**

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



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## EXECUTIVE SUMMARY

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This Quarterly Performance Report (QPR) for the *Economic Policy Reform and Competitiveness Project* (EPRC) activity covers the period from 1 October through 31 December, 2006.

### Project overview

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

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

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

IR 1.1: *Improved enabling environment for private sector growth*

IR 1.2: *More-competitive industries and sectors.*

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

(1) *Accelerate and deepen the policy liberalization process in Mongolia* (IR1.1)

(2) *Promote increased competitiveness in the Mongolian economy* (IR 1.2)

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

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

PIR 1: Economic and trade policy environment improved

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

#### *Component 2: Energy*

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

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

#### *Component 3 Business competitiveness*

PIR 3: Priority sectors strengthened

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

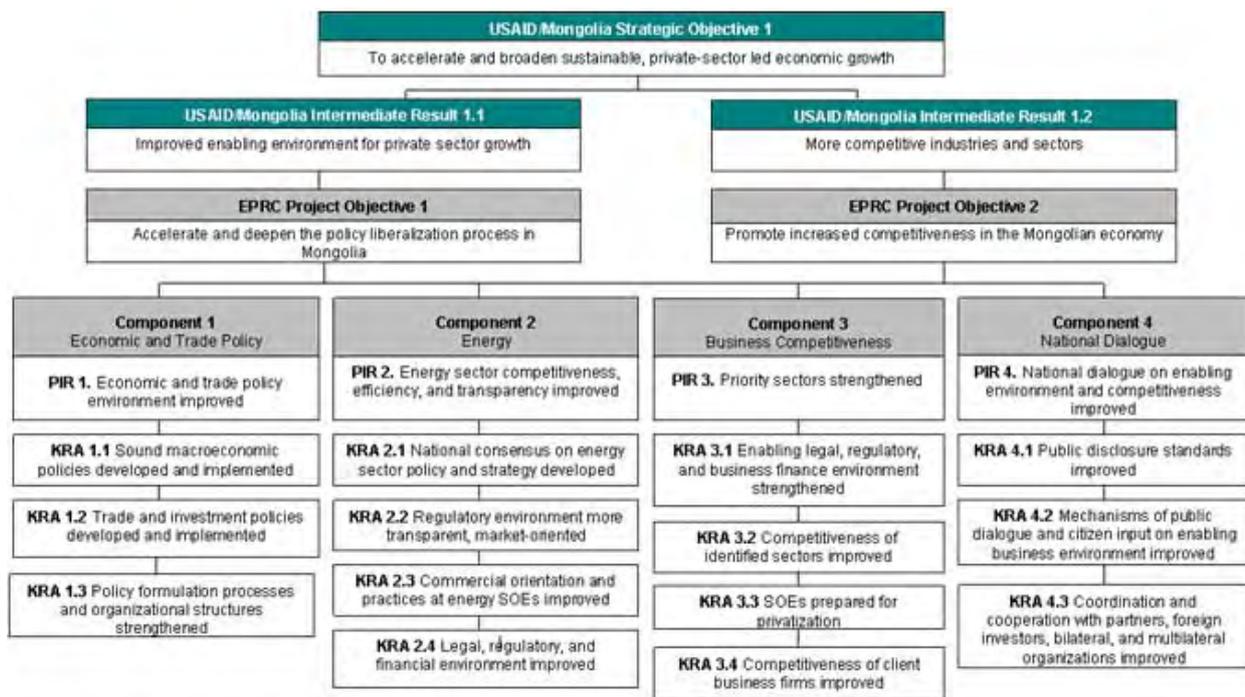
*Component 4: National Dialogue*

PIR 4: National dialogue on enabling environment and competitiveness improved

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

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

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



LEGEND: PIR = Project Intermediate Result  
KRA = Key Results Area

**Quarterly overview**

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

- Establishment of the country’s first second-tier mortgage company, the Mongolian Mortgage Corporation
- *State Information Gazette* releases new tax laws
- Multimedia national chat series of *Open Talks* on New Tax Laws held

- *Mongolian Mortgage Corporation* office opened
- Cashmere brokers from EPRC's *Routes to Market* initiative come to Mongolia
- Energy Regulatory Authority to review benchmarking and develop performance agreements of licensee companies
- GDNT continues tax inspectors' training on International Financial Reporting Standards
- Project facilitates first meeting of Working Group to establish a single electronic window for trade facilitation

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

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

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



## SECTION I: SIGNIFICANT ACCOMPLISHMENTS

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### A. Introduction

Pursuant to contract provision F2. (c), this Quarterly Performance Report (QPR) for the *Economic Policy Reform and Competitiveness Project* (EPRC) covers the period from 1 October through 31 December 2006.

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

### B. Significant accomplishments

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

- The country's first second-tier mortgage company, Mongolian Mortgage Corporation, is organized
- *State Information Gazette* releases new tax laws
- Multimedia national chat series of *Open Talks* on New Tax Laws held
- *Mongolian Mortgage Corporation* office opened
- Cashmere brokers from EPRC's *Routes to Market* initiative come to Mongolia
- Energy Regulatory Authority to review benchmarking and develop performance agreements of licensee companies
- GDNT continues tax inspectors' training on International Financial Reporting Standards
- Project facilitates first meeting of Working Group to establish a single electronic window for trade facilitation

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

#### **B1. The country's first second-tier mortgage company, Mongolian Mortgage Corporation, is organized**

At their meeting of 16 October 2006, shareholders voted to change the name "Housing Finance Corporation" specified in the Founding Agreement signed on 4 September, to *Mongolian Mortgage Corporation* with the abbreviation *MIK* to be used in both the Mongolian and English languages. The shareholders include ten commercial banks (Anod, Golomt, Zoos, Capital, Capitron, Mongol Post, Khaan, XacBank, Trade and Development, Ulaanbaatar City) and The Bank of Mongolia (BoM). The first second-tier mortgage company of Mongolia is to be



formally registered in November.

During October, EPRC continued to assist *MIK* with the development of underwriting policies and procedures, standard mortgage documentation, procedures for portfolio management and for issuance of mortgage-backed securities. The project brought two international experts to provide to work with the Bank of Mongolia and *MIK*.

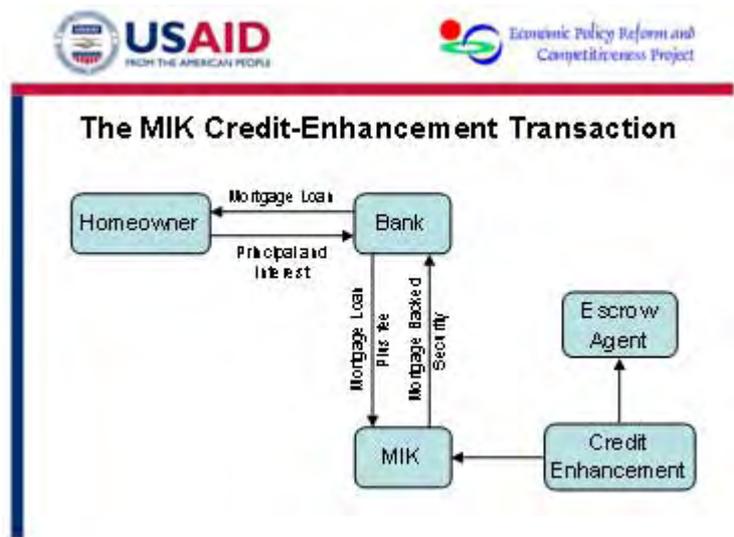
Phillip Thigpen, an internationally recognized expert on securitization transactions acting as the Securitization Advisor to the BoM reviewed the reserve requirements and risk ratings of mortgages and mortgage bonds, and assessed the impact of changes in the capital adequacy and reserve requirements on the liquidity, cost of funds, and interest rates in the overall banking system and for each individual bank.

Angela Atherton, an investment banker and former senior officer of Fannie Mae, acting as the Advisor for the Mongolian Mortgage Corporation, worked with the interim management and Board of Directors of the corporation on its corporate structure, composition, duties and responsibilities of the committees. She also worked with Phillip Thigpen to develop an outline of the initial transaction, which will be a swap of mortgage loans for mortgage-backed securities collateralized by the loans and guaranteed by the Mongolian Mortgage Corporation.

**Credit enhancement: What is it and can it be done in Mongolia?**

Upon recommendations of the securitization experts brought by EPRC, *MIK* will explore the establishment of a guarantee for the mortgage-backed bonds that it will issue. Credit enhancement will:

- Allow the creation of liquid mortgage-backed securities
- Take the risk of default by borrowers in exchange for a fee paid out of the mortgage loan coupon
- Provide securities for the development of a secondary market in Mongolia
- Increase availability of funds for mortgage loan origination by making Mongolian mortgages attractive to capital markets investors
- Provide banks with an exit strategy for mortgage loans held on balance sheet.



A third party credit enhancement facility would need to be negotiated and established to support the guarantee, with *MIK* collecting a fee out of securitized mortgage loan gross coupons to pay for the credit enhancement and operating expenses.

The BoM would act as a stand-by liquidity provider, purchasing credit-enhanced mortgage-backed securities from banks. BoM may manage currency risk by swapping MNT-based mortgage-backed securities into dollar-denominated assets and would set standards and protocols for mortgage-backed securities transactions.

The goal is to achieve investment grade credit enhancement, using rating agency standards. The credit-enhanced and rated securities could be eligible for a zero risk weighting, which would result in additional liquidity to the banks projected to range from MNT 234 million in 2006 to nearly MNT 1 billion in 2011.

In addition, lowering the reserve requirement by BoM from 14% to 10% would free up an additional MNT 27 billion for new lending and could result in a 60 basis point decline in the cost of funds for mortgage lending.

## **B2. State Information Gazette releases new tax laws**

On 13 October, the *State Information Gazette* officially published the new personal income tax (PIT), the economic entity income tax law (EEIT), and the excise tax law; the new value-added tax law (VAT) was published on 29 October. The new tax laws can be downloaded from the Parliament website ([www.parl.gov.mn](http://www.parl.gov.mn)), the General Department of National Taxation (GDNT) website ([www.mta.mn](http://www.mta.mn)), the Open Government website ([www.open-government.mn](http://www.open-government.mn)), and the EPRC project website ([www.eprc-chemonics.biz](http://www.eprc-chemonics.biz)).

### **The new personal income tax law**

Parliament passed the new law on personal taxation on 16 June 2006. The new law was completely rewritten, substantially reduces the income tax burden on individuals, is more equitable for taxpayers, diminishes opportunities for tax evasion and will encourage a higher level of taxpayer compliance. Most provisions of the new law take effect on 1 January 2007. Taxation of interest and dividends is scheduled to take effect on 1 January 2008, the same as in the current law.

Highlights of the new personal income tax law include:

- A basic flat tax rate of 10% regardless of income level, significantly less than the current tax rates of 10, 20, and 30 percent. The flat rate applies to income earned through employment, proprietorships activities, and income from property and sale of property. Property income includes interest and dividends, currently taxable at 15%.
- The annual tax credit is raised from MNT 48,000 to 84,000. This means individuals with less than MNT 70,000 monthly income will not pay any personal income tax.
- Fewer tax rates. Whereas the existing law imposes seven different rates on various forms of income, the new law has only four rates. The tax rate on the sale of immovable property remains 2%, while income from intellectual activities, e.g. scientific, literary, etc. remains taxable at 5%. The tax rate on sports and artistic performances decreases to a flat 5% while the tax rate on quizzes, gambling, and lotteries income increases from 10% to 40%.
- Closer adherence to international best practices, clearer provisions, and better concordance with other Mongolian laws. For example, the taxable income of sole proprietorships will, for the most part, be based on the new Economic Entity Income Tax Law. This will enable a sole proprietorship to deduct substantially more expenses than previously.
- Clearer definitions of fringe benefits and inclusion of these as taxable income for the recipient. The current law fails to mention fringe benefits, thus providing substantial opportunities for tax evasion.
- Definition of transactions between related parties and provision for appropriate valuation of same. This will close existing loopholes under the current law.
- Provision of a one-time deduction up to 30 million Togrogs for self-built or purchased residential apartments and tuition payment for foreign and domestic universities, colleges, and vocational schools from an individual's gross taxable income.

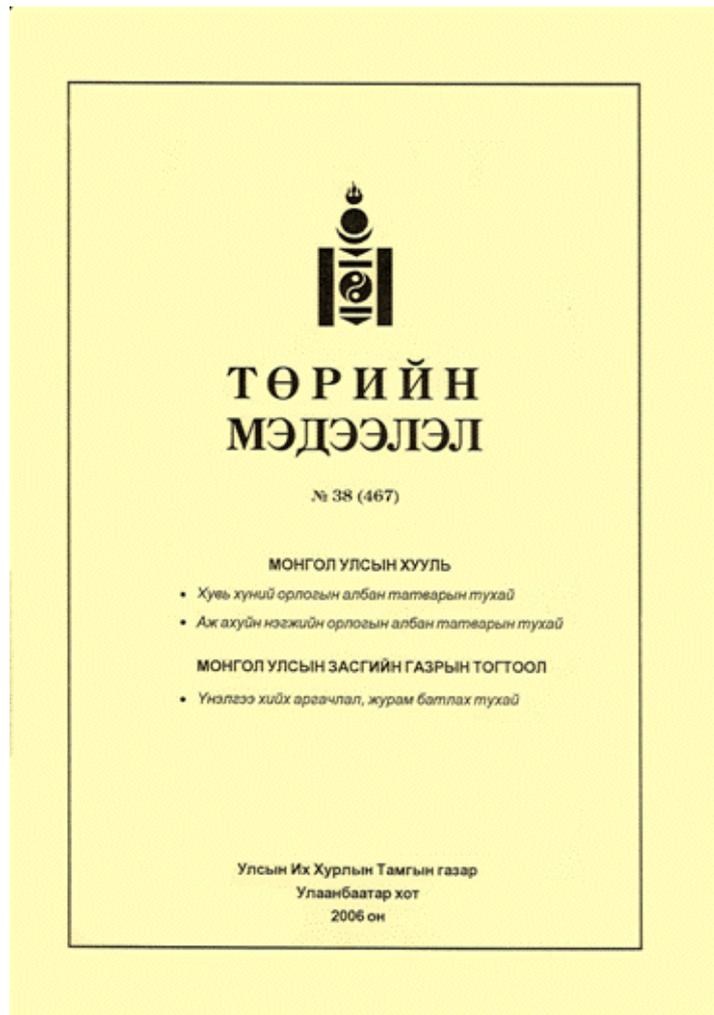
More detailed comparisons—English and Mongolian—of the old and new personal income tax laws can be downloaded from the EPRC website ([www.eprc-chemonics.biz](http://www.eprc-chemonics.biz)) and the Open Government website ([www.open-government.mn](http://www.open-government.mn)).

### The new economic entity income tax law

Parliament passed the new law on economic entity taxation on 29 June 2006. Substantially different from the old law both in form and content, the new law reduces the tax burden on businesses to support employment generation, greater tax compliance, and greater adherence to international best practices to encourage more business investment. The law will take effect on 1 January 2007.

Highlights of the new economic entity—corporate—income tax law are:

- Reduced tax rates. The new law provides for a 10% tax rate on the first 3 billion Togrogs and 25% on the excess. Thus, at least 99% of all businesses will pay only 10% on taxable income, the same rate as the new PIT law. The previous law contained rates of 15% on the first 100 million Togrogs and 30% on the balance of income.
- The 10 percent tax rate also applies to dividend and interest income, taxed at 15% under the previous law, while the rate for quizzes, gambling and lotteries remains 40%. This 40% rate also applies to income from erotic materials and performances, previously not addressed. Another new category is income from the sale of rights, taxable at 30%.
- Levels the playing field for all domestic and foreign businesses by removing special tax holidays and most exemptions granted to foreign investment. This will enable Mongolian businesses to compete on the same basis as foreign investors.
- Instead, direct incentives for new investment are provided to all businesses, foreign and domestic, through provisions for loss carry-forward and investment tax credit. Under the new law, business will be able to apply a tax statement loss for the year to up to 50 percent of net income for the two subsequent years. The investment tax credit permits a taxpayer to deduct from the income tax due up to 10 percent of the value of new investments for the purpose of beginning or increasing production. If the credit amount is more than the income tax total, the credit may be carried forward for up to three years until used.
- Allows deduction of legitimate business expenses previously limited by the old law. This is intended to encourage businesses to allocate and spend resources based on business needs rather than tax rather than tax return optimization. Examples of deductible expenses allowed in the new law include:
  - Employee bonuses, incentives, and allowances for housing, transport, meal, and fuel expenses
  - Interest portion of finance lease payments



- Subscriptions to professional subscriptions
- Voluntary insurance premiums
- Normal wear and tear on inventory.
- Removal of current limitations on expenses for advertising, employee training, and retraining in order to encourage businesses to support these necessary functions.

A comparison matrix—English and Mongolian—of the old and new economic entity income tax laws can be downloaded from the EPRC website ([www.eprc-chemonics.biz](http://www.eprc-chemonics.biz)) and the Open Government website ([www.open-government.mn](http://www.open-government.mn)).

### The new value-added (VAT) tax law

Passed on 29 June 2006, the new value-added tax (VAT) law reduces the tax rate, clarifies many provisions and conforms more closely to international best practices. The law will go into effect 1 January 2007, along with the personal and economic entity—corporate—income tax.

Highlights of the new VAT law are:

- Reduction of the tax rate from 15% to 10% applicable to all goods, works and services subject to VAT; other things being equal, this rate reduction will lower costs of importing and producing goods.
- The requirement for annual revenues of 10 million MNT enabling registration as a VAT payer remains the same, although there is now a provision permitting entities with USD 2 million investment in Mongolia to register regardless of annual revenues. This will encourage new investment and create additional employment.
- The status of foreign entities is clarified, providing that representative offices are taxpayers. The new law also provides for taxation of goods sold by a non-resident individual if based on orders placed by in Mongolia.
- Several additional transactions are included as services, including the payment to others for negligence, and debt satisfaction by performing work or services.
- Provision for registration as a group for related entities under certain conditions, permitting them to deduct VAT input credits when paying VAT taxes.
- Expansion of the number of input credits, including provisions for an assumed 10% VAT to be included in the purchase price of several animal husbandry and agricultural products if purchased for processing. This will permit processors to pay less VAT.



- The penalty provisions for violating the law are strengthened, particularly for non-registered taxpayers that charge VAT to customers. This will discourage fraudulent imposition of VAT in order to increase profits.
- VAT exemptions provided in five existing laws were repealed, reducing tax-induced economic distortions and fiscal costs.

English and Mongolian comparison matrices of the old and new VAT tax laws are available at the EPRC website ([www.eprc-chemonics.biz](http://www.eprc-chemonics.biz)) and the Open Government website ([www.open-government.mn](http://www.open-government.mn)).

### The new excise tax law

The new excise law passed on 29 June 2006 introduced changes to provide a more equitable business environment, discourage gambling, and greater consistency in the imposition of tax on alcoholic beverages. The law will come into effect on 1 January 2007, although the provisions concerning gambling went into effect on 1 August 2006.

Highlights of the new excise law include:

- Substantial excise taxes on gambling equipments and entities conducting gambling activities in order to discourage gambling. The tax will be imposed monthly and converted to USD.
- Excise tax will be imposed uniformly on physical units of goods rather than on sales price or physical unit as in the previous law. This will eliminate some inconsistencies in tax treatment of the previous excise law. For example, domestically-produced spirit and alcoholic beverages paid excise tax based on sales value while imported goods were taxed on a physical unit basis.
- Imported passenger vehicles will pay excise tax based on engine sizes, in addition to vehicle age. However, imported hybrid vehicles are exempt from excise tax in the new law.
- Revised tax rates for selected goods. For example, tax rates were increased for all types of imported or domestically produced tobacco and cigarettes.
- Reduction of the number of exemptions. For example, domestically-produced beer and a passenger vehicle of civil servants returning permanently from appointment at Mongolian embassies and consulate offices or inter-governmental organizations overseas are no longer exempt from excise tax.
- Excise rates on petroleum and diesel fuel are kept the same as those in the current law.



Comparison matrices, in English and Mongolian, of the old and new excise tax laws can be downloaded from the EPRC website ([www.eprc-chemonics.biz](http://www.eprc-chemonics.biz)) and the Open Government website ([www.open-government.mn](http://www.open-government.mn)).

### **B3. Multimedia national chat series of *Open Talks on New Tax Laws* held**

As part of the public educational campaign on the new tax laws that the General Department of National Taxation (GDNT) is conducting, EPRC assisted with the organization of two national multimedia chats sponsored through the *Open Government* (OG) website. The *Open Talks on Taxes* programs were carried live on national radio and television; citizens could ask questions to program participants through live telephone lines, short-text messages (SMS) via cellular phones, and the OG internet chat server.

#### ***Open Talks on Taxes: the Government answers***

The first national multimedia chat took place on 21 November and featured as guests government officials involved in the tax reform process. These included Members of Parliament Ch. Ulaan, Budget Standing Committee Chairman, L. Purevdorj, Parliamentary Tax Working Group Chairman, D. Ganhuyag and GDNT Director, L. Zorig.

Viewers and listeners submitted 237 questions to the guests; the majority of questions, 172, came in the form of SMS messages. Most of the questions asked to government officials were related to the following topics:



- Reduction of tax burdens on individuals, especially on lower salary individuals such as civil servants
- Reduction of tax burdens on businesses, including targeted support toward small and medium businesses
- Improvement in administration of tax laws
- Value added tax exemptions and registration threshold
- Tax amnesty
- Need for tax education materials, such as brochures

#### ***Open Talks on Taxes: the business' views***

The second national program was held one week later, on 28 November. In this chat business leaders answered questions from the public concerning the potential impact of the new tax laws on businesses and the economy, and expressed their views about the new tax laws.

Business leaders participating in this event included: Mr. M. Bold, General Director, XacBank, Ms. L. Erdenechimeg, General Director, Monos Pharm Trade Company, Mr. A. Gankhuyag, Finance Director, MCS Holding, Ms. D. Erdenechimeg, Director, DOT MN Company, and Mr. D. Bayasgalan, Director General, Golomt Bank.

Viewers and listeners submitted 130 questions to the guests; the majority of questions, 105, came in the form of SMS messages. Most of the questions asked of business representatives were related to the following topics:

- Value added tax exemptions and threshold: registration threshold is creating unfair competition for businesses
- Possibility of price cut for consumers goods and reduction on interest rates as a result of tax cut
- Improvement in tax administration
- Tax on livestock and herdsman families
- Reduction of tax burden on small and medium businesses
- Need for tax education materials



Judging from the questions received from audience and citizens, extensive basic education and information concerning taxes and new tax laws is required. The EPRC and GDNT will consider these facts in planning and undertaking other public education activities under the campaign.

#### **B4. Mongolian Mortgage Corporation office opened**

After obtaining legal registration on 14 November, *Mongolian Mortgage Corporation* (MIK) opened its first offices in the Tavan Bogd Plaza building and registered its domain name as [www.mik.mn](http://www.mik.mn). MIK's new telephone number is (976-11) 328267 and general inquiries can be addressed to [info@mik.mn](mailto:info@mik.mn). MIK staffers can be contacted at [ashidmaa@mik.mn](mailto:ashidmaa@mik.mn) and [khishigdulam@mik.mn](mailto:khishigdulam@mik.mn). MIK has now formal status and physical presence.

Standards for MIK's corporate communications, including alternative designs for logos, letterhead, business cards, and templates for a quarterly newsletter, presentations, fax transmittals, company introduction and compliment cards have been prepared for review and Board approval at the December meeting.



Recruitment and selection of staff positions for Operations Officer, Finance Officer, Accountant and Administrative

Assistant has been completed, with the latter position filled on 29 November. The Administrative Assistant will also act as the Secretary to MIK's Board of Directors and will be responsible for organizing Board meetings and following up Board decisions.

EPRC international expert, Angela Atherton—an investment banker and former senior officer of Fannie Mae—acting as an advisor to the *Mongolian Mortgage Corporation*, came on her second visit to Mongolia to help the company develop its initial management structure, policies and procedures.

Draft Corporate Governance Guidelines and the number and composition of the proposed Board committees were discussed at MIK's second Board meeting held on 23 November. The Board elected chairpersons for each Board committee who will appoint committee members

from the Board and outside members in the areas needing special expertise. The committees will have own charters defining the areas of purview and authorities.

### **B5. Cashmere brokers from EPRC's *Routes to Market* initiative come to Mongolia**

Based on feedback from export orders filled so far, Ray Eagleson, based in the United Kingdom, and George Segal from New York visited Mongolia during November to assist leading cashmere producers understand better and meet the exacting standards of the international fashion industry. Their visit was a follow-up of EPRC's *Routes to Market* initiative that successfully introduced Mongolian cashmere to leading global brand holders and retailers. With their assistance during 2006, EPRC client companies have exported in excess of US\$500,000 of cashmere products to new customers in Europe and the US.



Mongolian cashmere and cashmere products are gaining acceptance in international markets but the industry needs to address key deficiencies to compete successfully against the traditional producers in Italy and Scotland and China which is rapidly emerging as a producer of finished garments.

On 21 November, the experts offered a seminar to more than fifty executives and senior managers from Mongolia's leading producers and highlighted the barriers that needed to be overcome to ensure that Mongolian producers can maintain and take advantage of the new interest being shown by international customers. The experts cited easily avoidable mistakes that had adverse effects on export opportunities. Late delivery of samples, inconsistency, and a lack of attention to detail, were the most frequent problems. Poor finishing, which leads to the final "feel" of the garment was also a factor that contributed to the buyers' decision to place orders. The experts estimated that the size of these two key markets for cashmere was in excess of US\$ 500 million and Mongolian companies could significantly increase their market share if these problems were overcome.

Following the seminar, the experts visited all the leading producers and held meetings with international export marketing executives, designers, quality controllers and production managers. They stressed the need for the producers to work together to promote the image of Mongolian cashmere abroad and emphasized the role that the Mongolian Fibermark Society could play as a champion of Mongolian quality. They argued against Mongolia trying to compete on price alone, (cents per gram, the traditional practice) and rely instead on creative design and, most important, reliability.

### **B6. Energy Regulatory Authority to review benchmarking and develop performance agreements of licensee companies**

In an effort to reward performance, the Energy Regulatory Authority (ERA) is considering the preparation and negotiation of performance agreements of the seventeen primary energy company licensees.

During the last year and under the terms of their licenses the companies have been regularly reporting on the key performance indicators (KPIs) that the ERA developed. The ERA provides data on financial and operational performance that the ERA publishes in newspapers on a quarterly basis. Publication of the benchmarking and ranking of licensees make their performance transparent to the public but it is not enough.

The ERA believes that performance agreements are a logical next step to their current benchmarking monitoring as the current system does not have any financial consequences for licensees; it does not reward better performance or penalize poor performance.

Based on a recent EPRC analysis of its benchmarking program, the ERA is considering various performance indicators that focus on efficiency, service quality and customer service. It is likely that initial performance agreements for distribution/supply licensees will focus on customer service issues. These could include the ratio of metered/unmetered customers, implementation of procedures to notify customers of scheduled power disruptions, speed and efficiency of handling customer complaints, etc.

The ERA is in a good position to determine appropriate key performance indicators and benchmarks as licensee companies have been supplying these data as part of their license obligations. An improved benchmarking program will enable ERA to provide a more consistent comparison of financial performance with other Mongolian licensees as well as energy entities internationally.

In addition to a review of financial benchmarking, the project report prepared for the ERA contained re commendations for the preparation and content of performance agreements. Based on these, the ERA is considering negotiation of a performance agreement with two of the better performing licensees—a distribution and a generation licensee—as a pilot program.

**What is benchmarking?** Benchmarking of licensee companies compares their performance on key indicators—financial, operational, etc—against standards derived from international best practice.

EPRC has worked with ERA staff to improve the financial indicators used in its review and suggested that internationally accepted financial ratios such as liquidity, coverage, leverage, profitability, common size, and activity

**What are performance agreements?** Performance agreements are contracts between the regulator and each licensee to improve the licensee’s performance on specific benchmarks, with the potential for financial rewards for improvement and penalties for failure to improve, in such areas as efficiency, service quality, and customer service.

The key contents of a performance agreement include:

- Reference to the legal basis or authority of the regulatory agency to require performance agreements
- Applicable key performance indicators: the data to be measured and reported to the regulator
- Benchmarks or targets for the key performance indicators (KPIs)

+Measured customer satisfaction level	Financial reward or penalty (\$million)
72% or higher	10
71	8
70	6
69	4
68	2
67 to 61	0
60	-2
59	-4
58	-6
57	-8
56 or lower	-10

- A well-defined timeframe
- Consequences resulting from actual performance, e.g. formulas for financial reward and/or penalties.

Regulating agencies around the world use performance agreements to establish improvement parameters for specific benchmarks and to provide consequences for areas of under achievement. Detailed examples of performance agreements implemented in other countries were part of the report that the project prepared for the ERA.

**Performance agreement: An example from California.** The California regulatory authority has a performance agreement with the San Diego Gas & Electric Company concerning levels of satisfaction. The licensee company gets a financial reward or pays a penalty based on levels of measured customer satisfaction as shown below.

For example, if customer satisfaction is 71%, the company is granted a \$10 million reward; alternatively, if customer satisfaction is 57%, the company will pay \$8 million as a penalty. Performance agreements typically have a "dead band" area where there is no reward or penalty. In the table above, customer satisfaction ratings of 61 to 67 % will result in no reward or penalty.

#### **B7. GDNT continues tax inspectors' training on International Financial Reporting Standards**

On 22 November, thirty-five inspectors from the General Department of National Taxation (GDNT) attended a half-day workshop to review the latest amendments to International Financial Reporting Standards (IFRS) and their implications for implementing the new tax laws.

Organized at GDNT's request, the workshop continued on-going project support to develop GDNT's internal capability in accounting. The project organized two workshops in September 2006 for 300 tax inspectors and 50 senior tax inspectors representing all field offices in the country.



The half-day workshop on IFRS was part of a week-long workshop that GDNT organizes to train inspectors periodically prior to testing their knowledge and renewing their licenses. IFRS will be one of the topics in the examination. The project provided all inspectors with a manual, "International Accounting for Mongolia", which contains the latest changes in IFRS.

#### **B8. Project facilitates first meeting of Working Group to establish a single electronic window for trade facilitation**

The first formal meeting of the Working Group to establish a single window for foreign trade facilitation (SWTF) took place on 18 December 2006. Mr. Bayartsaikhan, Minister of Finance, acted as a chair of the first meeting.

The meeting was in response to Government Resolution 251 issued on 18 October through Ministry of Finance (MoF) to establish a working group (WG) to implement the concept of a

single window for trade facilitation. Decree 370 of 2006 of the Minister of Finance appointed the following members of the WG:

- Mr. Ch. Saikhanbileg, Director of the Information and Communications Technology Agency (ICTA) as Chair
- Mr. B. Battumur, Director of Customs General Administration of Mongolia (CGAM)
- Mr. B. Enkhmandakh, Vice Minister of the Ministry of Environment (MoE)
- Mr. S. Demberel, Chairman of the Mongolian National Chamber of Commerce and Industry (MNCCI)
- Mr. Ya. Sodbaatar, Vice Minister of the Ministry of Industry and Trade (MoIT)
- Mr. L. Zorigt, Director, General Department of National Taxation (GDNT)
- Mr. Enkhbayar J., Vice Director, State Specialized Inspection Agency (SSIA)
- Mr G. Gantumur, Director of the Mongolian Agency for Standards and Metrology (MASM)
- Mr. S. Altangerel, Director, IT Department, CGAM, as Secretary of the WG.



The agenda for the meeting included three main topics:

1. Presentation of international best practices and lessons learned in other countries on the implementation of an electronic single window for trade facilitation, a document that the project prepared at the request of the working group
2. Brief discussion of present status of the Mongolian trade environment and problems faced by government agencies involved
3. Presentation and discussion of a draft Action Plan that agencies developed with assistance from EPRC.

At MoF request, EPRC has been providing technical assistance to the WG. Efraín Laureano, an international expert on trade and investment, led project efforts in providing such assistance. The presentation made at the formal meeting of the working group summarizing the concept of a single electronic window, international experiences and lessons learned from Singapore, Mauritius, Malaysia, Ghana, Korea, and Guatemala and their application to Mongolia is available in Mongolian and in English at the following websites:

- Information and Communications Technology Agency (ICTA): [www.icta.gov.mn](http://www.icta.gov.mn)
- Customs General Administration of Mongolia (CGAM): [www.ecustoms.mn](http://www.ecustoms.mn)
- Mongolian National Chamber of Commerce and Industry (MNCCI): [www.mongolchamber.mn](http://www.mongolchamber.mn)
- EPRC project: [www.eprc-chemonics.biz](http://www.eprc-chemonics.biz)
- Minister Bayartsaikhan urged agencies involved to continue their efforts and coordinate their work through ICTA in the preparation of three documents:
  1. An inter-agency Memorandum of Understanding (MoU) to establish and implement the single window
  2. A National Program for establishing and implementing the single window
  3. A more detailed action plan.

### A single window for trade facilitation: the concept

A single window for trade facilitation would bring together all trade-related government agencies and private sector organizations and would help Mongolia speed up, simplify, and centralize all administrative trade-related processes, increasing transparency and efficiency in trade; it would boost the competitiveness of local firms by facilitating their connection to regional and international markets. Exhibit 1 shows how government agencies and the private sector are linked through the single window for trade.

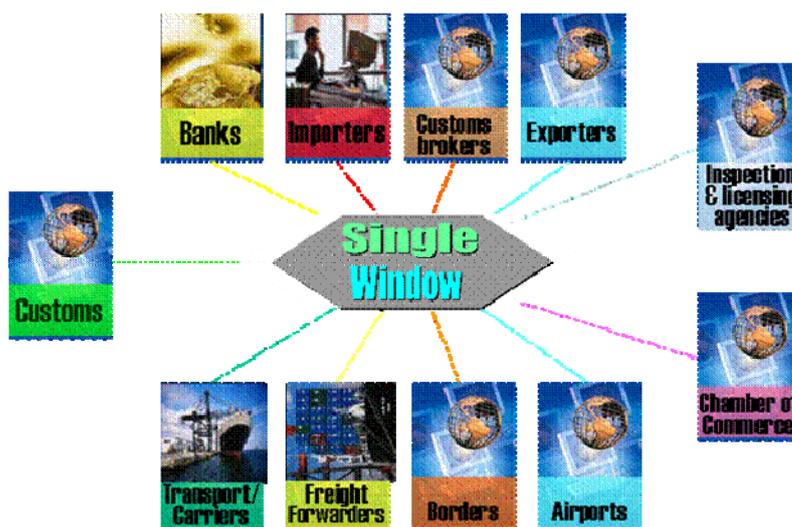
Facilitating the information exchange among the various government agencies and between the government and the private sector a single window for trade can bring tangible benefits to all parties involved in cross border trade by:

- Cutting transaction costs through reducing delays
- Faster clearance and release
- Predictable application and explanation of rules
- Improved trader compliance
- Enable the use of sophisticated “risk management” techniques for control and enforcement purposes
- Correct and increase customs revenue yields
- More effective and efficient deployment of resources.

According to the UN Center for Trade Facilitation and Electronic Business (UN/CEFACT), a Single Window facility should allow:

- Parties involved in trade and transport to lodge standardized information and documents with a single entry point to fulfill all import, export, and transit related regulatory requirements, allowing information to be submitted only once
- Sharing of all information concerning international trade transactions, supported by a legal framework that provides privacy and security in the exchange of information
- The addition of facilities to provide trade-related government information and receive payment of duties and other charges
- A single entry point to disseminate, or provide access to, the relevant information to participating governmental authorities or authorized agencies
- Coordination of controls and inspections of the various governmental authorities
- Promotion of trade capacity building through targeted training programs to businesses and traders.

**Exhibit 1: The single window: An organized network for the trading community**



*Adapted from Chawewan Kongcharoenkitkul 2006 Presentation on the ASEAN Single Window.*

### A single window for trade facilitation: the need for Mongolia

Improving the business environment is a never ending effort for countries that want to create better economic opportunities for its population by successfully competing in the global markets. While rules and regulations are necessary to ensure that markets function in an orderly manner, excessive and outdated regulations could actually stifle enterprises.

Even star performers such as Singapore—number one in rankings of the World Bank report on Doing Business for 2007—continue to make a concerted effort to cut red tape. Through public–private partnerships such as the Economic Review Committee, Singapore ensures that its rules and processes are continuously reviewed and updated to guarantee a business environment that is conducive to the creation and maintenance of a successful and competitive enterprise sector.

Similarly, other developing countries such as Georgia have shown that significant advances can be achieved in improving the business environment within a short period of time. With a concerted and decisive effort, Mongolia has the potential to join these global reformers and other top performers in the East Asian and Pacific region.

Mongolia has achieved remarkable progress in setting the foundations for a democratic, open–market economy. With the most difficult tasks of a democratic transition largely completed, Mongolia now needs to focus on developing competitive participation in the world economy. Comparisons of international rankings suggest that Mongolia needs to improve its administrative and regulatory environment for businesses, especially in the trade area, to grow and provide much needed employment.

Exhibit 2 shows Mongolia’s rank, out of 117 countries, in the 2006 Global Competitiveness Index (GCI) of the World Economic Forum (WEF).

On the positive side, Mongolia scores relatively well on “flexibility of wage determination” and “gross tertiary enrollment”, where Mongolia holds the 14<sup>th</sup> and 47<sup>th</sup> position in the world, respectively. Nonetheless, Mongolia scores are disappointingly low on other indicators: 111<sup>th</sup> on “efficiency of the legal framework,” 110<sup>th</sup> on “overall infrastructure quality,” and 107<sup>th</sup> on “irregular payments in imports and exports.”

As shown in Exhibit 3, a similar picture emerges when comparing Mongolia’s performance in the World Bank Doing Business Report for 2007, a survey that included 175

**Exhibit 2: Mongolia’s rankings on selected indicators of the World Economic Forum’s Growth Competitiveness Index**

Indicator	Mongolia’s rank
<i>Overall Global Competitiveness Index</i>	96
Efficiency of legal framework	111
Overall infrastructure quality	110
Irregular payments in imports and exports	107
Extent and effect of taxation	107
Ease of access to loans	105
Tax burden	97
Burden of government regulations	86
Gross tertiary enrollment	47
Flexibility of wage determination	14

**Exhibit 3: Mongolia’s rankings on selected indicators of the World Bank’s Doing Business 2007 report**

Indicator	Mongolia’s rank
<i>Overall Ease of Doing Business</i>	45
Starting a business	55
Dealing with licenses	34
Hiring and firing	61
Registering property	17
Getting credit	65
Protecting investors	19
Paying taxes	56
Trading across borders	162
Enforcing contracts	41
Closing a business	115

economies.

Although Mongolia performs relatively well on most indicators, the “trading across borders” indicator ranks Mongolia at the bottom; in the 162<sup>nd</sup> place.

Having successfully addressed the issues of “extent and effect of taxation” and the “tax burden” through the on-going process of tax reform, the government and the private sector need to collaborate again to achieve concrete improvements in the cross-border trade environment. While little can be done to change its geography as a land-locked country, much can be done to facilitate Mongolia’s competitive participation in the world economy. A single window to facilitate trade is such an instrument.

### **Requirements for successful implementation**

Much can be learned from the experiences of other countries in the implementation of single windows to facilitate trade. A recent assessment of the United Nations Center for Trade Facilitation and Electronic Business (UN/CEFACT) identified the following success factors:

*Political will.* The existence of strong political will on the part of both government and business to implement a single window is the most critical success factor. Thus, there is need for proper dissemination of clear and impartial information to all parties on the objectives, implications, benefits, and possible obstacles in the establishment of the single window.

*A strong lead agency.* Whether public or private, there is a requirement of a strong, resourceful and empowered lead organization both to launch the project and see it through its various development stages; this organization must have the appropriate political support, legal authority, human and financial resources, and links with the business community.

*Partnership between government and private sector.* A single window is a practical means of cooperation among government agencies and between government and private agents participating in trade. It presents a good opportunity for a public-private partnership in the establishment and operation of the system. Consequently, representatives from all relevant public and private sector agencies should be invited to participate in the development of the system from the outset.

*User friendliness and accessibility.* These are key success factors for a single window project. Comprehensive operating instructions and guidelines should be created for users. A “Help Desk” and user support services, including training, should be established. The Help Desk can be a useful means for collecting feedback information from users. The need for and value of practical training courses for users cannot be over-emphasized, especially given how long it takes exporters and importers to prepare trade-related documentation in Mongolia .

*Enabling legal environment.* Establishing the necessary legal environment is a pre-requisite for successful single window implementation. Related laws and legal restrictions must be identified and analyzed. For example, changes in legislation may be required to facilitate electronic data submission/exchange and/or electronic signatures. Further, regulations concerning the sharing of information among authorities and agencies, as well as organizational arrangements for the operation of a single window, including delegations of power and authority, need to be clearly set.

*Business model.* A decision on the business model to implement the single window should be reached as early as possible in the project. This could range from a system totally financed by government (e.g. the Netherlands) to an entirely self-sustainable private sector-led model (e.g. Mauritius, Guatemala). Also, possibilities for public-private partnerships should be explored if this is deemed a preferred approach.

*Communications strategy.* Establishing a proper mechanism for keeping all stakeholders informed on project goals, objectives, targets, progress (and difficulties) creates trust and avoids misunderstandings that can lead to the undoing of an otherwise good project.

**Implementing a single window for trade in Mongolia: Next steps**

With EPRC's assistance, a draft inter-agency MoU has been prepared, comments from the agencies incorporated, and is ready for formal review by the WG. The document to establish the National Program has been drafted and will be circulated for comments. Under ICTA's coordination, these documents are to be presented to the WG for review and approval prior to submission to the Government in the first quarter of 2007.

A more detailed action plan will be elaborated with inputs from representatives of the *Société Générale de Surveillance, SA* (SGS), a leading international operator and investor in successful electronic single windows for trade facilitation. Their visit to Mongolia, facilitated through EPRC, is currently scheduled to take place in mid February.

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

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### **A. Introduction**

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

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

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

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

PIR 1: Economic and trade policy environment improved

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

#### *Component 2: Energy*

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

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

#### *Component 3 Business competitiveness*

PIR 3: Priority sectors strengthened

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

#### *Component 4: National Dialogue*

PIR 4: National dialogue on enabling environment and competitiveness improved

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

The fourth component also includes project management activities.

## C. Work plan implementation

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

### C1. Economic and trade policy component

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

*Tax laws:* The Speaker of Parliament signed the PIT, CIT, VAT and Excise Tax laws and the State Information Gazette published the four laws, making them effective. EPRC prepared summaries of each of the laws for publication in national newspapers and worked with GDNT in publishing the complete text of each law in one national newspaper. The project also assisted GDNT with the preparation of a comparison matrix for each of the laws. The matrices will be used for public education, in addition to internal GDNT training.

*Tax reform facilitation:* The project advised several Members of Parliament and the General Director, GDNT, on the concepts and pitfalls of a potential tax amnesty program. The Ministry of Justice prepared a draft law on tax amnesty but Cabinet determined the law should be first reviewed and modified by the Ministry of Finance and GDNT.

*Tax law implementation:* EPRC continued supporting GDNT's internal training by presenting the accounting portion of the Department's internal training program. The project also advised GDNT on supporting regulations, and prepared and presented a revised consolidated personal income tax statement for use as a model for the final revised form(s).

*Improvement of National Accounts:* With assistance from an international expert, the project Economic Advisor continued to assist NSO with estimation of national accounts and methodology of GDP estimation. Under a Memorandum of Understanding, the advisors built a working group including NSO staff and two interns to gather and process data in compliance with international best practices and the UN SNA–93 requirements. As part of the national accounts reconciliation process, the team completed the Social Accounting Matrix (SAM) for 2005—the second SAM that NSO has produced—and made progress in adjustments to some of the national accounts aggregates. At a debriefing presentation, the team made recommendations to NSO management and procedures for the production of national accounts and outlined a short term plan of action prior to the next assignment scheduled for the first quarter of 2007. NSO has now accepted the need to improve estimations of its national accounts and GDP estimation in line with recommendations the project made over a year ago.

*Ministry of Industry and Trade Analysis Unit.* Through October and November, the project held weekly meetings with the Trade Analysis and Negotiation Unit (TANU) established at MoIT through a partnership with UNDP and GTZ. The working meetings were to prepare TANU's work plan for calendar year 2007 and preparation of a concept paper to justify a draft Government Decree to rationalize foreign trade policy making through the establishment of a proposed high-level Foreign Trade Policy Council (FTPC). By the end of the quarter, TANU's work plan was finalized and the concept paper for the decree to create the FTPC was complete and cleared by the Minister.

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

## C2. Energy component

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

*Consensus building:* Internal planning for this task and discussions with key stakeholders continued this quarter with meetings with the Ministry of Fuel and Energy (MoFE) and selected donors in preparation for the GoM/External Partners Technical Session that was held in Ulaanbaatar on 10 October. The process will involve all Mongolian stakeholders and donors regarding the importance of major upgrading of the sector and how it will benefit the GoM, industry and all citizens. An additional aspect is the development of a public education campaign that needs to be developed in concert with the ERA and MoFE.

*Master Plan:* The Research and Development (R&D) division of MoFE has undertaken a revision of the 2002 Energy Sector Master Plan. This task will dovetail with consensus building, above. With the assistance of a short-term expert, EPRC began in November to provide assistance to R&D on consensus building and on development of the public education campaign.

*Market design/tariffs:* The project completed the two-part tariff methodology; the Energy Regulatory Authority (ERA) has endorsed it and is now implementing it to develop generation company tariffs. Work on a recommended, new, bilateral contracts-based Market Design, including an implementation schedule, has been tabled because Mongolia will not introduce the new market until 2008.

*Energy legislation:* Parliament passed the Renewable Energy Law in December. The MoFE can now devote its attention on passing an Energy Law amendment. The Concessions Law concept paper remains with the Ministry of Justice for approval.

*ERA assessment:* With assistance from an international expert, EPRC completed an assessment of the ERA after five years of operation to pinpoint the progress, status and future needs. The assessment includes recommendations and an action plan for ERA.

*ERA benchmarking:* The project completed a report concerning financial indicators and performance agreements and submitted it to the ERA and other stakeholders for their review and comment. The report includes proposals and recommendations based on international best practices to improve the financial portion of the benchmarking program. Also included are sample performance agreements and other documents from other international venues. Recommendations have been made to the ERA regarding the technical indicator portion of the benchmarking program. Work also commenced regarding the initiation of a pilot program for development of Performance Agreements for two licensees.

*World Bank coordination:* Mr. Rivera's revised energy infrastructure and strategy paper was not delivered during the quarter. That paper will weigh heavily on the development of the master plan and the development of energy sector policy and strategy from now until 2040.

*Corporate Governance:* The project conducted a workshop on corporate governance for the State Property Committee (SPC) and the energy SOEs. Based on requests from the SPC, EPRC is also drafting terms of reference for establishing a Corporate Governance Center in Mongolia.

*Privatization:* The SPC has requested assistance to commence privatization of energy assets. EPRC is examining the request and will propose an approach in response to the SPC.

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

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

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

*Private equity fund:* EPRC is utilizing the Business Development Fund to co–finance the services of an international business law firm to assist Mongolian International Capital Corporation (MICC) with all legal matters necessary to raise and close the fund. With EPRC assistance MICC and Aureos Capital negotiated an agreement whereby Aureos will act as an advisor to MICC in their efforts to raise and manage an SME Private Equity Fund targeted at US\$25 million. This agreement will be signed in the first quarter of 2007. A Private Placement Memorandum is drafted and being circulated to potential investors. An initial US\$20 million of potential investment has been identified.

*Market linkages:* Cashmere brokers in US and Europe continued to liaise between potential buyers in these markets and cashmere producers in Mongolia. New lines were introduced into the UK (New and Lingwood) and Germany (Otto and Firma). In the U.S., one EPRC–assisted firm successfully delivered an order for 5,000 pieces (Philips Van Heusen) and received a follow up for 15,000.

*Support to cashmere garment producers:* The project continued to provide technical assistance to cashmere garment producers to improve productivity and quality. Client producers are now supplying sweaters that retail at US\$ 400 against an average retail price of US\$ 55.

*National Tourism Organization:* EPRC continued to provide technical assistance to the Ministry of Roads Transport and Tourism Strategy Consultative Group to formulate a mid term strategy (2007–2011). The strategy will provide for the creation of a national tourism organization, independent of government.

*Tsaatan Community (Reindeer People):* EPRC began a project in partnership with the “Itgel Foundation” to develop a Tsaatan Community Visitor Center. The center will be the focus of a community tourism initiative which will provide the opportunity for local management of visitor flow to the region and take full advantage of revenue–generating opportunities.

*Blueberries:* The project worked closely with client blueberry jam producer “Beneduct” and the Japanese importer “Pacific Trading” to overcome production problems delaying the delivery of the first order. Problems arose from the difficulty to de–stem blueberries, achieving consistent product characteristics and slow bottling. The company has so far invested US\$ 300,000 in new equipment to enable it to fulfill the Japanese order.

*Support to business associations:* The project conducted a survey to determine the effectiveness of business associations and business development service providers. Preliminary results from the survey indicate that they are generally ineffective in promoting their members interests. Over the next twelve months, EPRC will develop a program to strengthen four to six associations that exhibit the highest potential.

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

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

Exhibits II–5 and II–6, at the end of this section, summarize the cumulative obligations and disbursements of the Business Development Fund (BDF) and the Mongolian Competitiveness Fund (MCF) as of the end of the quarter. Disbursements of these funds were held back during most of the quarter as the original budget line item for them was fully obligated. Contract amendment # 8 finalized in December 2006 replenished funding for this budget line item and funds commitments will resume during next quarter.

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

As of 31 December 2006, BDF had obligated \$178,574.32 to help fund 19 engagements of assistance to individual client firms. These firms, in turn, had committed \$ 341,331.50 as co-payment contributions. Total value of projects leveraged through BDF funds was \$ 519,905.82 as shown in Exhibit II–5 at the end of the section.

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

At the end of the same period, MCF had obligated \$328,328.38 in commitments to support twenty–six agreements; client counterparts had committed an additional \$ 557,566.38 as co-payment for the projects. Total value of projects leveraged through MCF funding was \$885,894.76 as shown in Exhibit II–6 at the end of the section.

In summary, total funds commitments of BDF and MCF at the end of the quarter amounted to \$506,802, or 84% percent of the revised life–of–project budget of \$600,000 for these funds. Depending upon demand from clients, current budget funding for the MCF and BDF will enable the funds to continue throughout 2007.

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

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

*Making GDNT’s website taxpayer friendly:* In December, and at the request of GDNT, the project began an assessment of GDNT’s website to improve its usefulness to taxpayers and citizens. Objectives of the assessment are to redesign the website using a more secure content management system (CMS), streamline its contents to make it more user friendly, and provide Mongolian language tools to facilitate its management and administration. The project will coordinate closely with the Information and Communications Technology Agency (ICTA) to insure compatibility of standards to be used in the GDNT website relative to those that ICTA has developed for GoM websites. Development and implementation of the new design and management tools are projected for the next quarter.

*Public information campaign on new tax laws:* GDNT delivered the “Mongolian Taxes at a Glance” brochures—prepared with project assistance—to all MPs. The project continued working with GDNT on logistical planning for a newspaper and media campaign to educate the public on the new tax laws.

*Improved public communications:* Management of the *Open Government* website, along with the necessary equipment and furniture, was transferred to the Cabinet Secretariat on 11 October. On 24 October, the Cabinet Secretariat, EPRC and subcontractor The Asia Foundation signed a MoU to provide assistance with the development and implementation of a communications program for cabinet and ministries. Consistent with the MoU, the project—through The Asia Foundation subcontract—completed three training sessions for public affairs

officers of the Cabinet Secretariat and various ministries. A communications manual for public affairs officers has been drafted and will be finalized in the next quarter.

*Business Laws CD:* All laws, including the new tax laws signed during the quarter, were received, updated to incorporate amendments and translated. The CD will be produced and marketed during the first quarter 2007.

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

Exhibit II–7, at the end of this section, summarizes the number and types of project–supported or co–sponsored external events. A total of at least 235 participants attended 12 events sponsored or supported by the project with a total duration of 68.5 hours for an equivalent of 2,012 person/days (235 participants x 68.5 hours divided over 8 hours per day).

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

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

##### **E1. Emerging issues**

*Public communications strategy to build consensus on key energy sector policy and actions.* EPRC will exercise its best efforts to engage and educate policy makers, the public and media through a public communications campaign to bring energy sector issues to the forefront of attention. Thus far a working political and technical consensus around a long–term vision and strategic policy objectives for the sector have proven elusive despite many discussions and meetings held with different policy makers.

*Facilitate consensus of key stakeholders for the establishment of a separate, private sector–controlled company to run Credit Information Bureau.* EPRC will seek to work with the Bankers Association, the Bank of Mongolia, and other key stakeholders to develop such a consensus and prepare a viable plan for the transfer of the CIB to a separate company.

*Support the creation of a single electronic window for trade facilitation.* EPRC will continue to support the initial efforts of the recently established Working Group and act as facilitator and technical assistance provider during the beginning stages of this sensitive project that involves several GoM agencies and private sector organizations.

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

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

*Economic and trade policy component:*

- Support to Parliament, Ministry of Finance, and GDNT with analyses and technical advice on the additional tax laws scheduled for consideration during the Spring Session
- Participate with GDNT in the revision of regulations and tax reporting forms supporting the new tax laws, plus continuing assistance with a public education program for same
- Prepare and present a training session to the tax inspectors in conjunction with GDNT to identify issues and areas of concern
- Continued assistance to the National Statistics Office (NSO) with the improvement of national accounts and GDP estimations within the framework of the MOU between the agency and the project and additional data gathering and validation for the

implementation of a UN SNA–93–compliant tourism satellite account to measure the impact of the tourism services sector on GDP

- Continued assistance to the TANU of MoIT with the implementation of their work plan for 2007 and presentation of a proposed draft Cabinet Resolution on the creation of a Trade Policy Council
- Implementation of other scheduled work plan tasks.

*Energy component:*

- Continue but intensify consensus–building activities with MoFE, selected donors, GoM stakeholders and, when appropriate, the media.
- Prepare a draft concept paper for the master plan revision; continue assisting MoFE R&D on the concept paper and then the drafting of a preliminary version
- Continue Energy Law amendment assistance to MoFE in close concert with the World Bank and provide technical assistance as requested on other energy legislation
- Provide support to USAID in preparation for the GoM/External Partners Technical Meeting to be held in late March 2007
- Continue generation two–part tariff refinement and promulgation and begin same activity with distribution companies
- Maintain close coordination with the World Bank on energy issues
- Continue ERA benchmarking/performance measurement assistance on technical and operational benchmarks
- Review ERA Assessment Report recommendations with ERA and develop a list and schedule of tasks for 2007.
- Work with the State Property Committee (SPC) and State–Owned Enterprises (SOEs) on corporate governance and provide TORs for development of a Corporate Governance Center for Mongolia.
- Commence development of a public education program on energy issues in concert with ERA
- Implementation of other scheduled work plan tasks as programmed.

*Business Competitiveness component:*

- Support the Working Group to establish a single electronic window for trade facilitation, stakeholders, and educate the public to achieve a working consensus, leveraging the forthcoming visit of representatives of the *Société Générale de Surveillance, SA (SGS)*. Arranged by the project on a cost–sharing basis, the visit of SGS—a leading operator and investor in single electronic windows—the visit will help Mongolians become better acquainted with international best practices and lessons learned in such ventures.
- Design programs and provide TA to increase the capacities and effectiveness of selected business associations and representative groups based on the 2006/7 association survey
- Continue work to support the development of a mid–term tourism strategy and subsequent national tourism organization
- EPRC will continue to provide technical assistance to the portal company DOT.MN to enhance content management, internet marketing and search engine optimization
- Working with the Fibermark Society, EPRC will provide technical assistance and support international export initiatives for cashmere and natural fibers; the project will also continue to identify market opportunities for non traditional Mongolian products and work with companies to take advantage of those opportunities

- Provide continued management support to the Mongolia Mortgage Corporation (MIK) including hiring and training staff, organizing Board committees, completing a business plan and working towards a first swap securitization transaction
- The project will continue to support the development of the secondary mortgage market through initiating efforts to work with the BoM and/or third parties to provide credit enhancement, liquidity facilities and other possible forms of support
- Support stakeholders to ensure that proposed collateral and mortgage-backed securities legislation are appropriate and effective
- Assist MICC to establish a \$25 million SME private equity fund in conjunction with Asian Development Bank and Aureos Capital
- Work with stakeholders to gain consensus on a methodology for transfer of the Credit Information Bureau to the private sector
- Implementation of other scheduled work plan tasks.

*National Dialogue and project management component:*

- Continue work with GDNT on design and implementation of a public education on the new tax laws and tax return forms through taxpayer-oriented pamphlets on the laws, television spots, and workshops
- Assist GDNT with redesign and management plan of their website to improve its content and make it user friendly
- Develop a public communications strategy for the energy sector focused on consensus building and priority actions required in the next twelve months
- Production and release on CD and through websites of fully updated essential business laws of Mongolia in English and Mongolian, in a partnership with the National Legal Center (NLC) and through the sponsored internship program
- Continue dialogue with stakeholders and develop public communications campaign on development of a single electronic window for trade facilitation
- Implementation of other scheduled project tasks.

*Contract management:*

- Based on contract amendment # 8 finalized in December, work closely with the Mission on the preparation of the Annual Work Plan for 2007 (AWP-07) and programming of budget resources
- Conduct annual internal financial review through Chemonics/W to insure compliance with USAID and Chemonics policies and procedures
- Advertise and recruit for replacement positions of local economist and translator/interpreter
- Implement other scheduled project tasks.

Exhibit II-1: Economic and trade policy component - Quarterly Progress Report (October - December 2006)

PIR 1. ECONOMIC AND TRADE POLICY ENVIRONMENT IMPROVED

AWP-2006 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER RESULTS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<b>KRA 1.1. Sound macroeconomic policies developed and implemented</b>					
<b>A1. Fiscal and economic impact of alternative tax measures assessed</b> Development of economic, econometric, and accounting models to estimate fiscal impact of main personal income tax (PIT), corporate income tax (CIT) and value-added tax (VAT) as requested by Ministry of Finance (MoF), General Department of National Taxation (GDNT), Parliamentary Tax Working Group (PTWG), and Parliament Standing Committees on the Budget and on Economic Policy	>> >> >>	>> >> >>	X >> X	>> X >>	Completed. Calculations on impact of PIT, CIT and VAT submitted to PTWG, GDNT, and MoF.
<b>A1.1 Citizens' Guide to sources, composition of Mongolian tax revenues</b> Assistance provided to GDNT with the data processing, analysis, publication design, and layout of a user-friendly citizen's guide to sources and composition of Mongolian taxes		>> X	>> >> X		Completed, with distribution to all Parliament members, government officials and the public by GDNT.
<b>A2. Tax reform facilitation</b> Hold formal and informal meetings, produce briefings, examine data and models on request and as required with MoF and GDNT officers, MPs, private sector representative organizations, and NGOs to gather and divulge information on tax proposals and their implications	>> >> >>	>> >> X	>> >> >>	>> >> >>	As of year-end, four newly drafted tax laws were passed by Parliament with EPRC providing ongoing technical support and analyses via a series of weekend retreats. Matrices and summaries of each of the four new laws were completed and presented to GDNT (refer to Public Dialogue component).
<b>A3. Assistance provided with drafts of model tax laws and regulations</b> As requested, assist the PTWG, Budget and Economic Policy Committees, MoF, and GDNT with drafting amendments to laws and regulations to align Mongolia's policies with best international practices	>> >> >>	>> >> >>	>> >> >>	>> >> >>	No tax laws were considered during the fourth quarter. The project met with several MPs and GDNT to discuss pending laws and issues, including development of a tax amnesty program.

Exhibit II-1: Economic and trade policy component - Quarterly Progress Report (October - December 2006)

PIR 1. ECONOMIC AND TRADE POLICY ENVIRONMENT IMPROVED

AWP-2006 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER RESULTS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<p><b>A4. Assistance to GDNT with drafting selected model regulations and public hearing procedures</b></p> <p>Assist GDNT with drafting regulations for new CIT provisions such as loss carry-forward and deductions of business expenses, develop training materials on these two topics for tax inspectors and hold public hearings on the proposed new regulations; activity coordinated with the World Bank's GAP Project</p>			>> >> X	>> X >>	One training session was held to support the accounting portion of GDNT's internal training program. Provided initial comments to GDNT on the regulations, and presented a consolidated form for PIT reporting.
<p><b>B. Legal and regulatory framework for licensing and regulating commercial domestic air carriers</b></p> <p>Development of legal and regulatory environment for issuing and administering operating licenses for domestic air carriers</p>					Will be dropped in 2007.
<p><b>KRA 1.2. Trade and investment policies developed and implemented</b></p> <p><b>A. Trade Negotiations Participation, Implementation and Compliance Support Unit</b></p> <p><b>A1. Establishment of Unit</b></p> <p>Completed proposal, design and draft work plan and budgets during prior year work plan. Negotiated co-funding with UNDP and GTZ. UNDP is now providing funding for the unit as part of their landlockedness project.</p>	>> >> >>	>> >> X	>> >> X	>> >> >>	The Trade Analysis Unit (TANU) was officially launched 4 August and is now fully staffed. EPRC worked during the quarter with the Trade Unit and MoIT to complete a concept paper and draft Government Decree to create a Trade Policy Council.
<p><b>KRA 1.3. Policy formulation processes and organizational structures strengthened</b></p> <p><b>A. Assistance to the National Statistics Office (NSO)</b></p> <p><b>A1. Shadow economy survey and estimation of national accounts aggregates</b></p>					

**Exhibit II-1: Economic and trade policy component - Quarterly Progress Report (October - December 2006)**

*PIR 1. ECONOMIC AND TRADE POLICY ENVIRONMENT IMPROVED*

DELIVERABLES & BENCHMARKS					END OF QUARTER RESULTS
AWP-2006 ACTIVITIES	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
Process, document and analyze data collected from national household survey to provide estimates of informal economy and adjustments to national accounts, train NSO personnel on the methodology	>> >>	>> >> X	>> >> X		With assistance from a short-term national accounts expert, project continued to provide assistance to NSO on methodology and data sources for national accounts and GDP estimation. NSO and the project negotiated two internships for two NSO members to participate in the project. Project debriefed NSO management and staff on findings, recommendations, and a short-term plan of action. Project and NSO will work on TORs to implement recommendations during the next quarter.

**Exhibit II-1: Economic and trade policy component - Quarterly Progress Report (October - December 2006)**

*PIR 1. ECONOMIC AND TRADE POLICY ENVIRONMENT IMPROVED*

DELIVERABLES & BENCHMARKS					
AWP-2006 ACTIVITIES	Quarter 1	Quarter 2	Quarter 3	Quarter 4	END OF QUARTER RESULTS
<b>A2. Social Account Matrices</b> Assist NSO with production of SAMs on an annual basis	>> >> >>	>> X >>	>>	>> >> X	Completed. Task performed in conjunction with KRA 1.3 A2 above. The 2005 SAM is completed and pending final adjustments to be made at NSO.
<b>B. Summer Ger Camp on Finance and Economics</b> Design and execution of an intensive, hands-on curriculum on contemporary techniques of project feasibility and cost-benefit analysis, national accounts, and statistical analyses targeted to young professionals in the private and public sector		>> >> X	X >>		Completed. Nineteen attendees participated in the two-week summer ger camp concluded on 4 August.
<b>Other Areas: Respond to emerging policy reform initiatives</b> As negotiated and agreed upon and consistent with project policy support focus on laws, regulations, systems, and procedures directly affecting the business environment.	>> >> >>	>> >> >>	>> >> >>	>> >> >>	

**SYMBOLS:**

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

**Exhibit II-2: Energy component - Quarterly Progress Report (October - December 2006)**

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

DELIVERABLES & BENCHMARKS					
AWP-2006 ACTIVITIES	Quarter 1	Quarter 2	Quarter 3	Quarter 4	END OF QUARTER RESULTS
<b>KRA 2.1 National consensus on energy sector policy and strategy developed</b>					
<b>A. Working consensus facilitated</b> Meetings and workshops held to develop consensus on energy sector long-term policy and strategy with all stakeholders		>> >>	>> >> >>	>> >>> >>	Consensus-building work initiated with tech session in October. STTA commenced in December.
<b>B. Long-term energy sector policy and strategy developed</b> Assist MoFE and stakeholders with development of long-term sector vision, policy and strategy				>> >> >> >>	Same comment as above.
<b>C. Energy sector master plan updated</b> Assist MoFE with energy sector master plan update			>> >>	>> >> >>	Project prepared a white paper, with assistance from short-term technical specialist in December.
<b>KRA 2.2 Energy sector regulatory environment more transparent, market-oriented</b>					
<b>A. Cost-based tariff policy implemented</b> Assistance with implementation of International Accounting and Financial Reporting Standards ( IAFRS)-based Uniform System of Accounts (USOA) at all Central Energy System (CES) companies and through the Eastern energy System (EES).		>> >>	>> >> >X		Completed
Establish ERA licensee audit function	>> >> >>	>> X			Completed.
Assist the ERA with the implementation of two-part tariff methodology/structure and World Bank tariff policy development	>> >> >>	>> >> >>	>> >> >>	>> >> >>	Methodology completed. Implementation in progress.
<b>B. Energy sector bilateral market structure developed</b> Development of market Design, development of vesting contracts and other agreements and Implementation assistance of proposed market structure bilateral market structure			>> >> >>	>> >> >>	Work ongoing. Will continue intermittently until 2008.
Develop electricity market rules and operational procedures	>> W >X				Completed; awaiting approval for implementation.
Develop customer protection procedures					Completed.
Monitor ERA implementation of above rules and procedures and revise as needed	>> >>	>> >> >>	>> >> >>	>> >> >>	Continued activity through 2007 with assistance from short-term expert.

**Exhibit II-2: Energy component - Quarterly Progress Report (October - December 2006)**

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

DELIVERABLES & BENCHMARKS					
AWP-2006 ACTIVITIES	Quarter 1	Quarter 2	Quarter 3	Quarter 4	END OF QUARTER RESULTS
<b>C. Improved institutional capacity of ERA</b>					
Accounting system review and update to comply with IAFRS	X				Completed.
Implementation and training of audit department		>X			Completed.
Provide internships and training of regulatory auditors		X			Completed.
Facilitate domestic and foreign training of regulators and energy sector officers	>> >> >>	>> >> >>	>> >> >>	>> >> >>	Continuous activity.
<b>D. Improved legal and regulatory framework and policy environment</b>					
Assistance with development of a draft Concession Law	>> >>	>> >> >>	>> >> >>	>> >> >>	Concept paper in approval cycle at Ministry of Justice (MoJ).
Assistance with development of a draft Energy Law	>> >> >>	>> >> >>	>> >> >>	>> >> >>	Revision has been under discussion for many months and will continue into third quarter of 2007.
Assistance with development of a draft Energy Conservation Law					EPRC draft submitted in 2005. MoFE has suspended work until 2007. No further action is required at this time.
Assistance with development of a draft Renewable Energy Law	>> >> >>	>> >> >>	>> >> >>	>> >> PX	Parliament passed the law in December.
Assist energy sector state-owned enterprises (SOEs) to improve corporate governance and corporatization.			>> >> >>	>> >> >>	STTA now performing; will continue through 2007.
Refine ERA Docketing system		>>	>>>>>>>X		Completed.
Revise Grid Code and reconcile with Market Rules		>>	>> >> >>	>> >> >>	Assist MOFE as requested.
Long-term energy project planning					Draft TORs submitted to MoFE and accepted; LOE dependent on revised EPRC energy budget.
Review of power plant fuel contracts	>> >> >>	>> >> >X			Draft contract submitted to MoFE; no additional work planned.

**Exhibit II-2: Energy component - Quarterly Progress Report (October - December 2006)**

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

DELIVERABLES & BENCHMARKS					
AWP-2006 ACTIVITIES	Quarter 1	Quarter 2	Quarter 3	Quarter 4	END OF QUARTER RESULTS
<b>E. Assist the State Property Committee (SPC) with energy sector privatization</b>					
Assistance with tender preparation		>>	>> >>	>> >> >>	No activity requested and none planned until sometime in 2007.
Assistance with selection of transaction advisors					No privatizations in 2006.
Review of energy sector SOEs' reporting requirements to the ERA, SPC, Ministry of Fuel and Energy and Ministry of Finance			>> >>	>> >> >>	Pending completion of tariff system reporting requirements by ERA/EPRC. All CES entities except two have submitted 2005 financial statements in USOA format. Will reconcile requirements of MOF, MoFE and SPC with ERA to develop uniform reporting system.
<b>F. Capacity building at the National Dispatch Center (NDC)</b>	>>	>>>>>>>>	>>>>>>>>	>>>>>>>>	NDC hardware/software upgrades nearing completion. STTA performed a future needs assessment. Will require additional hardware and software. This task will continue well into 2007.
<b>KRA 2.3 Commercial orientation and practices at energy state-owned enterprises improved</b>					
<b>A. Implementation of tariff cost accounting methodology</b>					
Assist companies with the implementation of USOA chart of accounts workshops	>> >> >>	>> >> >>	>> >> >>	>> >> >>	Same as KRA 2.2, A above but for SOEs. Will continue into 2007.
Assist companies with account conversions	>> >> >>	>> >> >>	>> >> >>	>> >> >>	Same as above.
Assist companies with the implementation of the proposed two-part tariff methodology.		>>>	>> >> >>	>> >> >>	In progress; will continue through 2007.
<b>B. Implementation of customer service and complaint resolution procedures</b>					
Develop and implement Customer Service organization and procedures		>>	>> >>> >>	>> >>>>>	Work projected to begin in April/May 2007, with assistance from short-term technical expert.
Conduct ERA and in-company training workshops and seminars		>>	>> >> >>	>> >> >>	STTA will perform these tasks through 2007.

**Exhibit II-2: Energy component - Quarterly Progress Report (October - December 2006)**

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

DELIVERABLES & BENCHMARKS					
AWP-2006 ACTIVITIES	Quarter 1	Quarter 2	Quarter 3	Quarter 4	END OF QUARTER RESULTS
<b>KRA 2.4 Energy sector legal, regulatory, and financial environment improved</b>					
Continue potential investor due-diligence for the energy sector					Lead for this task transferred to EPRC Finance Team.
Assist GoM and ERA drafting and commenting on procedures, rules and regulations to improve investor friendliness and facilitate privatization		>> >>	>> >> >>	>> >> >>	Will continue through 2007
<b>KRA 2.5 Respond to emerging opportunities in the energy sector</b>					Intermittently as requested, negotiated and agreed upon and consistent with overall project purpose and objectives for the sector until 2008.
Facilitate Tavan Tolgoi development					No activity at this time pending GoM decision to proceed.
Permanent license terms and conditions					All permanent licenses issued.
Draft Regulation Contract					Need ERA guidance.
Rules and procedures for binding of licenses					Same as above.
Development of price cap methodology					Scheduled for 2007.
Implement ERA Docketing System					Same as above.

**SYMBOLS:**

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

**Exhibit II-3: Business competitiveness component - Quarterly Progress Report (October - December 2006)**

*PIR 3. PRIORITY SECTORS STRENGTHENED*

AWP-2006 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER RESULTS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<b>KRA 3.1 Enabling legal, regulatory, and business finance environment strengthened</b>					
<b>A. Credit Information Bureau</b> Assess current operations and recommend ways to obtain the necessary improvements and transition operations to the private sector		>>	X		Public presentation of initial findings delivered and report issued.
Subject to the recommendations of the assessment, provide appropriate support to implementation of the plan			>> >>	>> >> >>	Implementation of recommendations scheduled for next quarter.
<b>B. SME Private Equity Fund</b> Assist Mongolian International Capital Corporation in negotiations with international fund manager to reach agreement on support to MICC fund management company	>> >> >>	>> >> >>	>> >> >>	>> >> X	Advisory agreement with Aureos negotiated and to be signed in January ADB to conduct due diligence in February. Fund expected to close during the third quarter of 2007.
<b>C. Housing Finance Corporation</b> Facilitate negotiation of an MOU for private sector controlled Housing Finance Corporation	>> >> >X				MOU signed and working group established.
Assist HFC Working Group to establish and organize the HFC		>> >>	>> >> X		Founding agreement signed. Founding meeting held and Board of Directors established. EPRC staff member CEO ad Interim
Subject to request of HFC, assist to package and place first securitized instrument			>>	>> >> X	Assessment of feasibility completed and presentations made to MIK board and Bank of Mongolia management board. First transaction being prepared.
<b>D. Loan foreclosure and asset recovery procedures</b> Assist Ministry of Construction and Urban Development and bankers' working group with drafting of proposed amendments to laws and regulations to expedite loan foreclosures and asset recovery of non-performing loans					Project agreed with GTZ that the latter would take the lead on this activity.

**Exhibit II-3: Business competitiveness component - Quarterly Progress Report (October - December 2006)**

*PIR 3. PRIORITY SECTORS STRENGTHENED*

AWP-2006 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER RESULTS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<p><b>E. Country due diligence</b></p> <p>Using translations in the Essential Business Laws CD 2, conduct high level review and prioritize laws for amendments to improve business legal environment.</p>					Review and drafting of amendments will focus on EPRC priority areas of housing finance, export single window, credit information bureau and tax regulation.
<p><b>F. Single electronic window for trade facilitation</b></p> <p>After assessing interest of private sector to organize and participate in Business Competitiveness Roundtables, project concluded that these were premature and decided to focus, instead, on a recurrent theme that emerged in discussions with entrepreneurs: the facilitation of international trade through a single electronic window (SWTF).</p>			>>	>> >> W	In response to Government Resolution 251 issued on 18 October through Ministry of Finance (MoF) to establish a working group (WG) to implement the concept of a single window for trade facilitation and decree 370 of the Minister of Finance, the WG had first formal meeting on 18 December. At the request of MoF, EPRC has been providing technical assistance to the WG.
<p>Legal review of laws, draft amendments and submit to appropriate ministries or regulatory authorities</p>					
<p><b>KRA 3.2 Competitiveness of identified sectors improved</b></p> <p><b>A. Natural fibers</b></p> <p><b>A1. Market linkages</b></p> <p>Identify international markets for cashmere, camel, and other natural fibers. Establish customer requirements and disseminate throughout the industry Introduce cashmere processors to potential buyers through international trade missions and by invitation to Mongolia</p>	>> >X >>	>> >> >>	>> >> >X	>X >> >>	Three EPRC intermediaries in US, UK, and Berlin continue to maintain contacts with buyers and potential buyers, liaise with Mongolian producers, and continue to provide samples and trial orders. New linkages in Europe: KDW, Otto, Firma.

**Exhibit II-3: Business competitiveness component - Quarterly Progress Report (October - December 2006)**

*PIR 3. PRIORITY SECTORS STRENGTHENED*

AWP-2006 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER RESULTS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<p><b>A2. Firm support to market linkages</b></p> <p>Deploy consultants, advisors and technicians through BDF to ensure processors meet the requirements of customers identified through market linkages in terms of quality, consistency, delivery etc. Concentration on weaving, spinning and dyeing.</p>	>> >> >>	>> >> >>	>> >> >>	>> >> >>	Two of the intermediaries (see KRA 3.2A1) visited Mongolia to conduct seminars and meet with individual firms. The seminar and meetings discussed how Mongolian cashmere could be more responsive to the needs of international buyers in terms of quality and reliability.
<p><b>A3. Spinning capacity</b></p> <p>Support and encourage cashmere companies to introduce, develop and upgrade spinning capacities</p>	>> >> >>	>> >> >>	>> >> >>	>> >> >>	EPRC provided technical assistance to develop new spinning capacities in three cashmere companies, encouraging investment of US\$ 4 million.
<p><b>A4. Fibermark Society</b></p> <p>Reposition the Fibermark Society as the promotion agency for Mongolian cashmere and as the coordinator of pan industry initiatives</p>	>> >X >>	>> >> >>	>> >> >X	>> >> >>	Project encouraged cashmere companies to revive the Fibermark Society. In 2007 the Society will organize promotional events on behalf of the industry.
<p><b>A5. Market intelligence</b></p> <p>Collect, compile, and disseminate market information, design and color predictions and fashion trends.</p>	>> >> >>	>> >> >>	>> >> >>	>> >> >>	Project compiled "predictor packs" for 2007/8 seasons for distribution among the cashmere knitters.
<p><b>B. Tourism</b></p> <p><b>B1. Improved business practices, marketing and technical knowledge of cluster/sector firms</b></p> <p>Through the Mongolian Competitiveness Fund, initiate and develop group projects which lead to improved competitiveness of the group or sector. Examples of collaborative projects may include joint promotion, training activities, assistance to broaden role and services of trade associations etc.</p>	>> >> >>	>> >> >>	>> >>XX	>> >> >>	There were no new MCF tourism projects in this quarter as budget for the fund was fully obligated.

**Exhibit II-3: Business competitiveness component - Quarterly Progress Report (October - December 2006)**

*PIR 3. PRIORITY SECTORS STRENGTHENED*

AWP-2006 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER RESULTS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<p><b>B2. Improved Mongolia's tourism web presence: Establishment of a tourism portal</b></p> <p>Establish a portal company as a private entity, owned by the industry generating commercial revenues and profits. The portal will include tourist information and enquiries, booking and payments systems, and e-shopping.</p>	>> >W>>	>> >> >X	>>> >> >>	>> >> >>	Project provided technical assistance to portal company Dot.MN to develop linking strategies and design a portfolio of tours. In order to overcome the on-line payment problems Dot.MN initiated discussions with HSBC (Hong Kong) to open an off-shore merchant account to accept credit card payments.
<p><b>B3. Improved private sector advocacy and participation in tourism sector policy-making structures: Establishment of a national tourism organization (NTO)</b></p> <p>Provide advice and guidance and training on best international practice to officials of the Ministry of Roads, Transport and Tourism and tourism based trade associations.</p>	>> >> >>	>> W>>>	>>> >> >>	>> >> >>	The planned retreat to discuss the development of an NTO based on a study tour to Europe was delayed due to personnel changes in the Ministry of Roads, Transport and Tourism. The concept of the NTO has been generally accepted, but there are differences in opinion as to who should manage the organization. EPRC provided technical assistance to the National Tourism Strategy Consultative Group, and the Responsible Tourism Working Group.
<p><b>B4. Tourism satellite account (TSA).</b></p> <p>Provide technical assistance to the Ministry of Roads, Transport and Tourism and the National Statistics Office to establish a tourism satellite account within the national accounts system of Mongolia.</p>		>X	X> >> X		The second phase of the TSA project was further delayed due to the late arrival of data and its questionable accuracy. The first phase report lays down the framework for the creation of the TSA, but until the information provided by the National Statistics Office can be validated the project may be delayed again.

**Exhibit II-3: Business competitiveness component - Quarterly Progress Report (October - December 2006)**

*PIR 3. PRIORITY SECTORS STRENGTHENED*

AWP-2006 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER RESULTS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<b>B5. Improved tourist information services</b> Continued support of Tourist Information Center	W	>> >> >>	>> >> >>	>>	The Tourist Information Center curtailed its activities in line with the seasonality of the industry. EPRC has fulfilled its financial obligation to the TIC but will continue to provide technical support.
<b>B6. Improved sector legal and regulatory environment</b> Facilitate public dialogue to further review the current draft Tourism Law.			W		
<b>C. Quarterly performance reports of the <i>Mongolian Competitiveness Fund</i></b>  Report on MCF disbursements, commitments, and results	X	X	X	X	Cumulative and quarter results presented in separate Exhibit.
<b>KRA 3.3 State-owned enterprises prepared for privatization</b>					
<b>A. State Property Committee:</b> As requested by the Government of Mongolia and approved by USAID					No requests received from SPC.
<b>B. Employee Stock Ownership Plans</b> Subject to agreement on an appropriate candidate for, and in the context of, a pilot transaction develop guidelines, draft amendments to laws and regulations, and submit to appropriate ministries or regulatory authorities.					No suitable candidate companies agreed upon.
Subject to agreement on an appropriate candidate, assist a pilot ESOP in a company to be, or previously, privatized					
<b>KRA 3.4 Competitiveness of client business firms improved - <i>Business Development Fund</i></b>					
<b>A. Identify potential client firms and transactions</b>	>> >> >>	>> >> >>	>> >> >>	>> >> >>	On going. (See KRA 3.4 B & C, below)
<b>B. Transaction support</b> Assist client firm with implementation	>> >> >>	>> >> >>	>> >> >>	>> >> >>	There were no new BDF projects this quarter as budget for the fund was fully obligated.
<b>C. Quarterly performance reports of the <i>Business Development Fund</i></b> Report on <i>Business Development Fund</i> (BDF) disbursements, commitments, and measures of impact	X	X	X	X	Cumulative and quarter results presented in separate Exhibit.

**Exhibit II-3: Business competitiveness component - Quarterly Progress Report (October - December 2006)**

*PIR 3. PRIORITY SECTORS STRENGTHENED*

AWP-2006 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER RESULTS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<b>KRA 3.5 Respond to emerging opportunities to strengthen client firms or sectors</b> As negotiated and agreed upon and consistent with business development objectives to improve competitiveness of the business environment, sectors/clusters, and firms	>> >> >>	>> >> >>	>> >> >>	>> >> >>	EPRC continues to provide technical assistance to 'Beneduct' the blueberry jam manufacturer. Despite delays in fulfilling the order due to production difficulties, the importer has certified the jam for export and the first consignment to Japan will be early in 2007. There is renewed interest in pet food and queries have been received concerning mare's milk derivatives.

**SYMBOLS:**

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- X = Event, benchmark, task completion
- >> Indicates continuous activity
- W = Workshop

**Exhibit II-4: National dialogue component - Quarterly Progress Report (October - December 2006)**

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

AWP-2006 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER RESULTS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<b>KRA 4.1 Public disclosure standards improved</b>					
<b>A. Mandated periods of public discussion of proposed laws and regulations</b> Assist with drafting of revised cabinet resolution to require periods of public comment for proposed new laws, amendments, and regulations originating from ministries			>> >>		On hold.
<b>B. Improved public communications of Cabinet Press Office and Public Affairs Offices of ministries</b> Development of communications procedures manual for public affairs officers			>> >> >> >>		On going. Manual now expected early next quarter.
Training of Cabinet Press Office and Public Affairs officers of ministries on public communication procedures			>> >>	>> X X	Project, through TAF subcontractor, sponsored three training sessions of public affairs officers during the quarter.
Business competitiveness issues handled by Cabinet and ministries' press officers applying improved public communications practices				>> >> >>	Activity start up dependent on completion of manual and training.
<b>C. Technical and operational support of the <i>Open Government</i> website</b> Financial and technical support through subcontractor, The Asia Foundation (TAF), for OG management and operations, content provision, on-line postings of draft laws, amendments, regulations and the national budget	>> >> >>	>> >> >>	>> >> >>	>> >> >>	Two sets of TORs completed and sent to TAF in mid December for upgrading OG website: one for technical redesign and another for management and operations.
<b>D. On-line access to regularly updated business laws in Mongolian and English through the <i>National Legal Center</i></b> <b>D1. Internship program with the NLC</b> NLC professional staff work with EPRC advisors on "business laws project," upgrade their technical skills, and return to the NLC	>> >>	>> X >>	>> >> X	>> X	The internship is complete; the intern remains available on an as-needed basis to assist in production of the Business Laws CD.

**Exhibit II-4: National dialogue component - Quarterly Progress Report (October - December 2006)**

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

AWP-2006 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER RESULTS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<p><b>D2. Release of updated business-relevant laws</b> Business-relevant laws updated with current amendments, translated into English, made available on CDs, and posted on-line at the NLC Website in Mongolian and English</p>	>> >>	>> >> >>	>> >> X	>> X	All laws are translated and final review is near completion. Production will commence in January.
<p><b>E. Public presentations and discussion fora</b> Experts share their knowledge and findings on economic policy issues, best practices, and international experiences with the general public</p>	X X X	X X X	X X	X X XX	Four presentations made on: requirements of cashmere buyers in international markets, the Mongolian Mortgage Corporation (MIK), Mongolian energy sector corporate governance, and electronic windows for trade facilitation.
<p><b>F. Education campaign on new tax laws</b> Assistance provided to GDNT on design and implementation of national public education and information campaign to educate officials, citizens and businesses on the technical aspects of the new tax laws passed in Parliament during the last spring session.</p>			>>	>> >> >>	Summaries of the new PIT, CIT, VAT and Excise tax laws were prepared, approved by GDNT and published in national newspapers. The full text of each of the laws was published in one national newspaper.
<p><b>KRA 4.2 Mechanisms of public dialogue and citizen input on enabling business environment improved</b></p>					
<p><b>A. Monthly EPRC Newsletter</b> Monthly summary of significant project activities and brief discussions of relevant economic policy issues for the general public</p>	X X X	X X X	X X X	X X	Completed. Two project newsletters completed and distributed during the quarter.
<p><b>B. EPRC project website</b> Content provision, technical support and operations</p>	>> >> >>	>> >> >>	>> >> >>	>> >> >>	On going.

**Exhibit II-4: National dialogue component - Quarterly Progress Report (October - December 2006)**

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

AWP-2006 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER RESULTS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<p><b>C. National multimedia dialogue on financial and economic policy issues through television, radio, and internet chat server</b></p> <p>Nationally broadcast program sponsored through the <i>Open Government</i> website to provide citizens with opportunity to discuss currently relevant economic and financial policy issues with decision makers through a live question-and-answer format</p>		X		X X	The project worked closely with GDNT to organize two national multimedia programs (TV, radio, telephone lines and SMS) as part of the Open Government's Open Talks on Taxes series. In the first program, citizens asked questions about the tax laws to the GDNT Director, and three MPs; in the second, citizens asked the views of four leading local businesspersons.
<p><b>D. Competitiveness Roundtables to address country competitiveness bottlenecks</b></p> <p>Formation and technical support of private-public working groups to address specific issues of country competitiveness affecting the business environment; in partnership with the Mongolian National Chamber of Commerce and Industry (MNCCI) and the Open Society Forum (OSF)</p>		>>	>> >> X	>> >> >>	Concept of Business Roundtables dropped. Completed assessment of private sector interest to work on major country competitiveness issues and concluded that establishment of general competitiveness roundtables is premature. Focus shifted, instead, to facilitating trade through a single window by involving GoM agencies and private sector representative institutions. (Refer to KRA 3.1, item F)
<p><b>KRA 4.3 Coordination and cooperation with partners, foreign investors, bilateral and multilateral organizations improved</b></p> <p>Issue-driven information-sharing and coordination with donors, NGOs and international finance institutions to avoid duplication and minimize inconsistencies</p>	>> >> >>	>> >> >>	>> >> >>	>> >> >>	Coordination meetings held during the quarter with World Bank on tax administration, energy, and private sector development; with OSF on business roundtables, with UNDP on the Trade Analysis Unit (TANU) at MoIT, and with ADB on business development and private equity fund.
<p><b>KRA 4.4 Project performance and management</b></p> <p><b>A. Annual Work Plans and budgets</b></p> <p>Submission of annual work plan to USAID</p>					Responded to queries from RCO and prepared a series of revised budget projections for Contract modification # 8 that was eventually signed in December. Preparation of AWP-07 delayed until early next quarter to take into account new

**Exhibit II-4: National dialogue component - Quarterly Progress Report (October - December 2006)**

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

AWP-2006 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER RESULTS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<b>B. Quarterly Progress Reports</b> Submission of Contractor's progress reports to USAID	X	X	X	X	Completed. Quarterly Progress Report (QPR) for Jul-Sep-06 completed and delivered.
<b>C. Quarterly project performance indicators</b> Submission of Contractor's progress reports to USAID			X	X	Performance monitoring indicators developed in April for Key Results Areas (KRAs).
<b>D. Training database</b> Submission of information on training events and participants	>> >> >>	>> >> >>	>> >> >>	>> >> >>	On-going.
<b>E. Other reports on demand</b> Prepare and submit reports as required	>> >> >>	>> >> >>	>> >> >>	>> >> >>	On-going.

SYMBOLS:

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

Exhibit II-5: Business Development Fund (BDF) cumulative obligations and disbursements as of 31-Dec-2006

Client firm	Date of confid. agreement	Objectives of subcontract	Date BDF subcontract signed	Due completion date	Subcontract value (US\$)			BDF funds disbursed	Sector	Type
					Client contribution	BDF funds obligated	Total contract value			
<b>October - December 2004 Quarter</b>					<b>Totals:</b>	<b>7,862.00</b>	<b>10,000.00</b>	<b>17,862.00</b>	<b>10,000.00</b>	
Hotel Mongolia	30-Aug-04	Feasibility of outdoor zoo	1-Sep-04	1-Oct-04	7,862.00	10,000.00	17,862.00	10,000.00	T	PRO
<b>January - March 2005 Quarter</b>					<b>Totals:</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	
<b>April - June 2005 Quarter</b>					<b>Totals:</b>	<b>40,420.50</b>	<b>25,525.32</b>	<b>65,945.82</b>	<b>25,525.32</b>	
Altai Cashmere	6-Jun-05	TA and training in designing	6-Jun-05	30-Dec-05	7,527.50	2,509.17	10,036.67	2,509.17	NF	M&S
Eermel	14-Jun-05	TA in designing	14-Jun-05	14-Sep-05	17,120.00	7,243.15	24,363.15	7,243.15	NF	M&S
Darkhan Nekhii	3-Jul-05	Study tour -Turkey	3-Jul-05	15-Jul-05	15,773.00	15,773.00	31,546.00	15,773.00	ML	M&S
<b>July - September 2005 Quarter</b>					<b>Totals:</b>	<b>3,957.00</b>	<b>3,957.00</b>	<b>7,914.00</b>	<b>3,957.00</b>	
Tengerland	6-Jun-05	Market research, USA	1-Aug-05	10-Oct-05	3,957.00	3,957.00	7,914.00	3,957.00	NF	M&S
<b>October-December 2005 Quarter</b>					<b>Totals:</b>	<b>22,350.00</b>	<b>22,350.00</b>	<b>44,700.00</b>	<b>22,350.00</b>	
Eermel	14-Jun-05	Market readiness	6-Dec-05	18-Mar-06	21,100.00	21,100.00	42,200.00	21,100.00	NF	PRO/M&S
Technical Innovation	16-Dec-05	Investment proposal	12-Dec-05	10-Jan-06	1,250.00	1,250.00	2,500.00	1,250.00	O	FN

**Exhibit II-5: Business Development Fund (BDF) cumulative obligations and disbursements as of 31-Dec-2006**

Client firm	Date of confid. agreement	Objectives of subcontract	Date BDF subcontract signed	Due completion date	Subcontract value (US\$)			BDF funds disbursed	Sector	Type
					Client contribution	BDF funds obligated	Total contract value			
<b>January-March 2006 Quarter</b>					<b>Totals:</b>	<b>52,392.00</b>	<b>52,392.00</b>	<b>104,784.00</b>	<b>52,392.00</b>	
Altai Cashmere	6-Jun-05	Las Vegas trade show participation	12-Jan-06	25-Feb-06	6,873.00	6,873.00	13,746.00	6,873.00	NF	M&S
Gobi Corp		Las Vegas trade show participation	12-Jan-06	25-Feb-06	8,323.00	8,323.00	16,646.00	8,323.00	NF	M&S
MCCWC	6-Feb-06	Las Vegas trade show participation	12-Jan-06	25-Feb-06	6,873.00	6,873.00	13,746.00	6,873.00	NF	M&S
Eermel Co. Ltd	14-Jun-05	Las Vegas trade show participation	12-Jan-06	25-Feb-06	8,323.00	8,323.00	16,646.00	8,323.00	NF	M&S
MCCWC	6-Feb-06	Technical consultancy	27-Feb-06	14-May-06	22,000.00	22,000.00	44,000.00	22,000.00	NF	M&S
<b>Apr-June 2006 Quarter</b>					<b>Totals:</b>	<b>12,205.00</b>	<b>12,205.00</b>	<b>24,410.00</b>	<b>12,205.00</b>	
XasBank	24-Apr-06	Information system consultancy	24-Apr-06	11-Jun-06	12,205.00	12,205.00	24,410.00	12,205.00	O	PRO
<b>July-September 2006 Quarter</b>					<b>Totals:</b>	<b>202,145.00</b>	<b>52,145.00</b>	<b>254,290.00</b>	<b>51,728.00</b>	
MN Logistics	7-Jun-06	Sstart-up business plan for MN Logistics	7-Jun-06	15-Aug-06	\$ 1,750.00	\$ 1,750.00	\$ 3,500.00	\$ 1,750.00	O	M&S
Bukhug LLC	20-Jul-06	Broiler industry equipment assessment - Beijing	19-Jul-06	8-Apr-06	\$ 1,600.00	\$ 1,600.00	\$ 3,200.00	\$ 1,600.00	ML	PRO
MICC	25-Jul-06	Legal advisory services to MICC in establishment of SME Private Equity Fund	25-Jul-06	25-Jul-07	\$ 175,000.00	\$ 25,000.00	\$ 200,000.00	\$ 25,000.00	O	M&S

**Exhibit II-5: Business Development Fund (BDF) cumulative obligations and disbursements as of 31-Dec-2006**

Client firm	Date of confid. agreement	Objectives of subcontract	Date BDF subcontract signed	Due completion date	Subcontract value (US\$)			BDF funds disbursed	Sector	Type
					Client contribution	BDF funds obligated	Total contract value			
Mortgage Finance Company	1-May-06	Consulting services for establishment of second-tier mortgage finance company	1-May-06	5-Sep-06	13,750.00	13,750.00	27,500.00	\$ 13,750.00	O	M&S
Eermel Co.Ltd	14-Jun-05	Commissioning of new equipment and training of key engineers	11-Sep-06	29-Sep-06	5,600.00	5,600.00	11,200.00	\$ 5,200.00	NF	PRO
Beneduct	27-Jul-06	Technical assessment of food processing equipment	2-Sep-06	2-Sep-06	4,445.00	4,445.00	8,890.00	\$ 4,428.00	O	PRO

<b>Cumulative totals:</b>	<b>Client funds contributed</b>	<b>BDF funds obligated</b>	<b>Total value of contracts</b>	<b>BDF funds disbursed</b>
	341,331.50	178,574.32	519,905.82	178,157.32

**Sector codes:**

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

**Subcontract type code:**

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

**Exhibit II-6: Mongolian Competitiveness Fund (MCF) cumulative obligations and disbursements as of 31-Dec-06**

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

**Exhibit II-6: Mongolian Competitiveness Fund (MCF) cumulative obligations and disbursements as of 31-Dec-06**

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

**Exhibit II-6: Mongolian Competitiveness Fund (MCF) cumulative obligations and disbursements as of 31-Dec-06**

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

**July - September 2006 Quarter**

**Totals: 62,302.00 41,705.00 104,007.00 \$ 31,205.00**

Khentii Development promotion foundation	27-Aug-06	Khentii website project (2)	28-Aug-06	1-Sep-06	\$ 567.00	\$ 707.00	1,274.00	\$ 707.00		T	PRO, M&S
Chamber of Commerce and industry of Zavkhan aimag	10-Jul-06	Zavkhan webiste project	27-Jul-06	1-Sep-06	\$ 1,599.00	\$ 2,029.00	3,628.00	\$ 2,029.00		T	M&S
Cow Hide Tanneries group	28-Jul-06	Improvement of the export performance of Mogolian tanneries	27-Jul-06	1-Nov-06	\$ 38,100.00	\$ 25,500.00	63,600.00	\$ 15,000.00		ML	PRO, M&S
Chamber of Commerce and industry of Selenge	14-Aug-06	Selenge website project	14-Aug-06	31-Oct-06	\$ 514.00	\$ 544.00	1,058.00	\$ 544.00		T	M&S
World Capital Kharakhorum Association	15-Aug-06	Uvurkhangai aimag project	25-Aug-06	15-Oct-06	\$ 452.00	\$ 295.00	747.00	\$ 295.00		T	M&S
Tokyo group JATA 2006	1-Sep-06	Promotion of Mongolian tourism	5-Sep-06	26-Sep-06	\$ 21,070.00	\$ 12,630.00	33,700.00	\$ 12,630.00		T	M&S

**October - December 2006 Quarter**

**Totals: 6,666.00 6,000.00 12,666.00 \$ 2,000.00**

Mongolia Gateway Development Foundation	18-Oct-06	ICT sector report 2007	20-Oct-06	1-May-07	\$ 6,666.00	\$ 6,000.00	12,666.00	\$ 2,000.00		T	M&S
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<b>Cumulative totals:</b>	<b>Client funds contributed</b> 557,566.38	<b>MCF funds obligated</b> 328,328.38	<b>Total value of contracts</b> 885,894.76	<b>MCF funds disbursed</b> 313,642.77
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**Sector codes:**

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

**Agreement type code:**

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

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

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### **A. Introduction**

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

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

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

- Working in close coordination with the Regional Contracting Office of USAID, contract modification # 8 was finalized in December; the modification was based on recommendations from the external mid-term project evaluation to intensify work in the energy sector
- Preparation for and completion of the project portfolio review that USAID/Mongolia conducted and review of forthcoming changes in reporting requirements
- Temporary suspension during the quarter of further obligations from the Business Development Fund (BDF) to potential client firms and of the Mongolian Competitiveness Fund (MCF) to group and sector competitiveness projects until contract modification # 8 replenished funds for these budget line items in December.

During the quarter the Mission, Contracting Office, and project management completed all relevant and required contract actions as anticipated. Project expenditures began to get out of line relative to the existing life-of-project (LOP) budget as work in the energy sector intensified following recommendations from the mid-term project review and agreements reached with the Mission. Finalization of contract modification # 8 that added more funds into the contract corrected these temporary misalignments as well as allowed further disbursements of MCF and BDF funds to satisfy the existing pipeline of clients' requests.

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

### **C. Personnel**

All key contract personnel were at post and there were no changes in during the quarter.

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

Exhibit B-1 in Annex B provides a summary status of local staff as of the end of the reporting period. There were two changes in local staffing: Oyuntsetseg M., TRC Officer, resigned from her post on 13 October and the vacancy was internally filled by Khaliun Yu. Doljinsuren J., a local professional occupying the position of Economic Analyst resigned from the project on 17 November. Project management will advertise and recruit for a replacement.

#### **C2. Deployment of short-term expatriate technical assistance**

Fielding of short-term expatriate assignments was intensive during the quarter and proceeded according to work plan schedule. In addition to an on-going local short term assignment, eighteen short-term technical assignments were completed or initiated during the quarter.

Exhibit B–2 in Annex B provides details about the purpose of these assignments and dates of arrival and departure, as relevant.

#### **D. Status of subcontracts**

All subcontracts were in place and subcontractor performance proceeded according to schedule.

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

Exhibit II–8 shows the use of the USAID Training Resource Center (TRC) during the quarter. A total of seven events and 73 participants used the TRC for a total of 15.5 hours. The number of person/days of other uses of the TRC was 141 (73 participants x 15.5 hours divided over 8 hours).

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

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

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

Except for the temporary suspension of funding obligations from the BDF and MCF as all prior funds had been already committed, there were no significant problems materially affecting contract performance during the quarter.

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

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

- Work closely with the Mission on the preparation of AWP–07 and budget resource allocations now available with the finalization of contract modification # 8
- Revise life-of-project budget to take into account the last contract modification and work plan projections
- With fresh funds budgeted to the BDF and MCF funds through contract modification # 8, satisfy existing pipeline of applications and make further obligations
- Conduct annual financial review of project with Chemonics/W to insure on-going compliance with USAID regulations and Chemonics policies and procedures
- Identify and hire a local professional economist, preferably with expertise in international trade.





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

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## ANNEX A: SUMMARY PROJECT DESCRIPTION



**USAID**  
FROM THE AMERICAN PEOPLE



Economic Policy Reform and  
Competitiveness Project

### MONGOLIA ECONOMIC POLICY REFORM AND COMPETITIVENESS PROJECT

**Activity duration:**

17 September 2003 to  
16 September 2008

**USAID Contract No.:**

438-C-00-03-00021-00

**Implemented by:**

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

**Key personnel:**

Fernando Bertoli, *Chief of Party*  
Tim O'Neill, *Deputy Chief of Party and Financial Advisor*  
Janusz Szyrmer, *Policy Advisor*  
Bruce Harris, *Business Development Advisor*  
Russ Brown, *Energy Advisor*  
Larry Jensen, *Tax and Auditing Advisor*

**Objectives of the activity**

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

**Situation and solution**

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

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

**Results as of December 2006**

- **New tax laws:** Worked closely with Ministry of Finance, General Department of National Taxation, Parliament Standing Committees, and representative private sector associations, to assist with the formulation of competitiveness-based tax reform objectives, model draft laws, economic and fiscal impact analyses, as requested, of diverse tax scenarios; in June 2006, Parliament enacted new personal income, corporate income, VAT, and excise tax laws.
- **Ranking of Mongolia in the World Economic Forum's Growth Competitiveness Index:** As National Partner, had Mongolia ranked in 2005 for the first time.
- **Development of Social Accounts Matrices (SAMs):** Assisted the National Statistics Office with the first SAM for Mongolia for 2004 in order to bring its national accounts into closer compliance with UN SNA-93; currently finishing the 2005 SAM.
- **Establishment of a second-tier mortgage institution:** Ten private sector banks and The Bank of Mongolia have formed the Mongolia Mortgage Corporation (MIK)—the first second-tier mortgage institution of the country; MIK is currently working on structuring its first transaction.
- **Transition of Credit Information Bureau:** Conducted a feasibility analysis to transition the CIB; currently assisting stakeholders and The Bank of Mongolia with development of viable business plan.
- **Informal economy national survey:** Completed national survey of shadow and informal economy of 19,000 households in partnership with *National Statistics Office* and *Open Society Forum*.
- **Tourist Information Center:** Negotiated private-public partnership to establish Mongolia's first Tourist Information Center; GoM has now opened two more in Mongolia and one in Tokyo, Japan
- **Cashmere value chain analysis:** Conducted the first comprehensive value chain analysis of Mongolian cashmere leading to rethinking of current policies and strategies
- **Uniform Chart of Accounts (USOA) for energy sector companies:** In preparation for redesign of sector tariffs, financial statements for 2004 and 2005 are now compliant with International Accounting and Financial Reporting Standards (IAFRS) for energy sector companies
- **National multimedia chats:** Designed and implemented chats carried live through national television and radio, Internet chat server, open telephone lines, and SMS text messages to facilitate public policy dialogue between government officials and citizens.

Updated: Dec-06



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

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

**Exhibit B-1: Local long-term project staff as of the end of October-December 2006 quarter**

Employee name	Position	Start date	End date
<i>Professional Staff</i>			
Altansukh Tumenjargal	IT Specialist	10-Nov-03	
Amgalan Nordov	Energy Specialist	10-Nov-03	
Uurtsaikh Sanghi	Program and Operations Director	10-Nov-03	
Jigidmaa Dugeree	Business Development Advisor	8-Dec-03	
Indraa Bold	Business Development Advisor	5-Jan-04	
Odonmijid Ganbold	Accountant	27-Apr-04	
Ashidmaa Dashnyam	Business and Finance Specialist	10-May-04	
Doljinsuren Jambal	Economic Analyst	17-May-04	17-Nov-06
Gantuya Badamgarav	Business and Economic Analyst	24-Aug-06	
<i>Support Staff</i>			
Khaliun Yura	Administrative Assistant	26-Nov-03	
Oyuntsetseg Minjin	IT Assistant/Information Officer	12-Dec-03	13-Oct-06
Dulguun Baatar	Business Development Assistant	19-Sep-05	
Batmunkh Batsuren	Driver/Messenger	1-Feb-04	
Erdenebat Dangaasuren	Driver/Messenger	9-Feb-04	
Munkhsaikhan Dambiinyam	Accounting Advisor	26-May-04	
Munkhzul Janchiv	Project Administrator	18-Oct-04	
Tsolmon Tamir	Translator/Interpreter	22-Oct-04	
Batbold Gankhuu	Translator/Interpreter	13-Dec-04	
Otgontuya Dorjkhoo	Accounting Assistant	1-Mar-06	
Gundalai Batjantsan	Excel Programmer	14-Jun-06	
Naransaikhan Dashnyam	Receptionist	7-Sep-06	

**Exhibit B-2: Short-term technical assignments during the October–December 2006 quarter**

<b>Name</b>	<b>Purpose of assignment</b>	<b>Date of arrival</b>	<b>Date of departure</b>
Adrian Mummey	Content Management for tourism portal website	19–Jun–06	–
Betina Infante	Public communications procedures and training of public affairs officers and Cabinet Secretariat	14–Sep–06	31–Dec–06
Philip Thigpen	Securitization support to Mongol Bank	2–Oct–06	15–Oct–06
Angela Atherton	Securitization support to HFC – Phase 1	7–Oct–06	21–Oct–06
David Morse	ERA licensees benchmarking and performance measurement – Phase 2	27–Oct–06	14–Nov–06
Mary Webster	Corporate governance	28–Oct–06	18–Nov–06
Jina Dev	Project management	30–Oct–06	21–Nov–06
Andrew Baird	Survey on effectiveness of BDS and associations	11–Nov–06	24–Nov–06
Shoshana Hecker	Survey on effectiveness of BDS and associations	11–Nov–06	25–Nov–06
Angela Atherton	Securitization support to HFC – Phase 2	12–Nov–06	26–Nov–06
Douglas Bowman	Market design and tariff policy for ERA	13–Nov–06	22–Nov–06
Anna Ansmits	Assist NSO with national accounts and GDP estimation	16–Nov–06	17–Dec–06
George Segal	Support to cashmere exporters	18–Nov–06	25–Nov–06
Raymond Eagleson	Support to cashmere exporters	18–Nov–06	3–Dec–06
Cheryl Doty	Project budgeting and management	26–Nov–06	10–Dec–06
Peter Jezek	Energy sector master plan and consensus building – Phase 1	27–Nov–06	17–Dec–06
Efrain Laureano	Provide support to working group to establish a single window for trade facilitation	28–Nov–06	20–Dec–06
Andy Parkinson	Tourism portal	4–Dec–06	–
Mary Webster	ERA operations and assistance on corporate governance for energy SOEs	4–Dec–06	–

