



# *Economic Policy Reform and Competitiveness Project*

## QUARTERLY PERFORMANCE REPORT (October – December 2004)

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## ABBREVIATIONS AND ACRONYMS

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ADB	Asian Development Bank
AWP-04	Annual work plan for 2004
COP	Chief of Party
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
GDP	Gross Domestic Product
GoM	Government of Mongolia
IMF	International Monetary Fund
IR	Intermediate Result
IT	Information technology
LAN	Local area network
LOE	Level of effort
LOP	Life of Project
MoF	Ministry of Finance
MoFE	Ministry of Fuel and Energy
MoIC	Ministry of Industry and Commerce
MOU	Memorandum of Understanding
M&E	Monitoring and evaluation
NSO	National Statistics Office
OSF	Open Society Forum
P/Ds	Person/days
SO	Strategic objective
SOW	Scope of work
STTA	Short-term technical assistance
SPC	State Property Committee
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: EPRC PROJECT QUARTERLY PERFORMANCE REPORT (OCTOBER – DECEMBER 2004)

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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 2004.

The EPRC contract is a core activity of USAID/Mongolia to support the Mission's Strategic Objective 1, *Accelerate and broaden sustainable, private sector-led economic growth* and its Intermediate Results: Improved enabling environment for private sector growth (IR 1.1) and More competitive industries and sectors (IR 1.2). EPRC will contribute to two broad, interrelated project goals:

1. Accelerate and deepen the policy reform process in Mongolia
2. Promote increased competitiveness in the Mongolian economy.

The relationship between the Mission's strategic framework and the EPRC activity is summarized in the diagram below:

Expected project results include the following:

1. Priority policy issues identified and resolved
2. Priority clusters strengthened.

To achieve these results and meet the contract requirements specified by the categories of Contractor's tasks summarized in the adjacent text box, the IP organizes activities in four broad areas:

- A. Economic, trade, and financial policy support
- B. Energy sector reform support
- C. Business and sector/cluster development
- D. Cross-cutting activities: National dialogue and project management

Policy analysis, formulation, and implementation support activities to achieve Project Result 1, *Priority policy issues identified and resolved*, are subsumed under component A of the project. Energy sector reform activities are included under project component B and are also responsive to the achievement of Project Result 1.

Project component C, Business and sector/cluster development, include activities proposed to achieve Project Result 3, *Priority clusters strengthened*.

Project component D responds to the achievement of Project Result 2, *Improved national dialogue*, as well as cross-cutting activities of coordination with other USAID and donors' programs, management of the internship program, and project monitoring and reporting tasks.

Section I of the QPR summarizes significant accomplishments of the quarter:

- Completion of cost accounting workshops for tariff regulation in the energy sector
- Memorandum of Understanding signed to establish a Tourist Information Center
- Country risk and estimates of country risk premium for Mongolia
- Completion of design of funds to improve sector/cluster and firms' competitiveness: the *Competitiveness Fund* and the *Business Development Fund*

Section I also provides a summary of other activities implemented during the quarter.

Section II of this report presents results of work plan implementation for the quarter.

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

Annexes A, B, and C contain, respectively, an updated 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 2004.

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**

Project activities resumed an active pace after a relative lull due to the national elections. Contractor's efforts focused on resuming activities put on hold early in the quarter and focused on implementation of the Annual Work Plan for 2004 (AWP-04). By October, the rhythm of project activities was intense, especially in the area of economic policy support. The elaboration of a competitiveness-based tax reform program and intense discussions with the new government, in particular, took center stage during the quarter.

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:

- Public presentation of findings of feasibility analysis for a local private equity venture capital fund
- Industry workshop held on measures to mitigate impact of end of Multi Fiber Agreement on Mongolia's apparel industry
- Project presentation of proposed economic policy measures at Ikh Tinger Cabinet and Parliament retreat
- Workshops completed on account conversion and restatement of accounts in IAFRS format for the Central Energy System
- Project publicly launches the *Mongolian Competitiveness Fund* and the *Business Development Fund*
- *Open Government Website* sponsors first nationwide "super-chat" on the Government Action Plan for 2004-2008 over the Internet, radio and television
- Project assists Ministry of Industry and Trade with TIFA preparations.

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

#### **B1. Public presentation of findings of feasibility analysis for a local private equity venture capital fund**

On 13 October, the team of analysts conducting an initial feasibility analysis for a local private equity venture capital fund in Mongolia made a public presentation of their findings. Team leader, Mr Dennis Grubb, an investment banker and venture capital expert, presented the results of their work.

EPRC, The Open Society Forum and Mongolia Links Co. Ltd. sponsored and co-financed the study team that, in addition to Mr Grubb, included Ms. Ashidmaa Dashnyam, Finance and Business Specialist, EPRC, Ms. Munkhsoyol Baatarjav, Project Manager, OSF, and Mr. Enkhbayar Bayartogtokh on secondment from Mongolia Links Co. Ltd.

Based on an rapid analysis of companies with high-growth potential—initial “deal flow” assessment—and preliminary commitments from investors, the team concluded that a local private equity venture capital fund is feasible in Mongolia, provided that results from the next stages proved satisfactory.

More detailed profiles of the companies, their financials, and growth opportunities will next be required to solidify prospective commitments from investors and prepare a prospectus. The team concluded that, if findings from the next stages of feasibility analysis are positive, the venture capital fund could be functioning within one year.

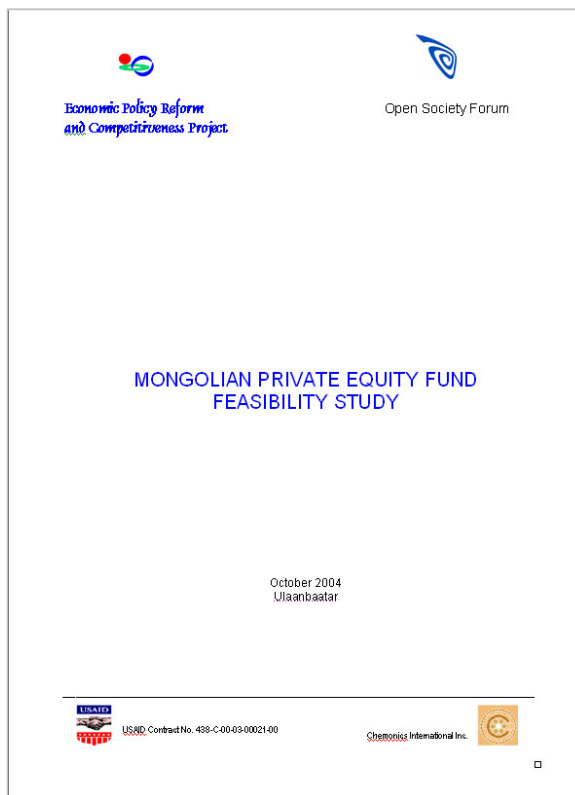
Although this initial feasibility analysis focused primarily on assessing potential deal flow and did not set out to canvass potential investors’ interest in capitalizing the fund, preliminary contingent commitments of approximately \$4m were obtained from anchor investors.

Based on these initial investors’ commitments and preliminary analysis of deal flow, the team recommended proceeding with the next stage that will focus on:

1. A “drill down” on companies with high opportunities for growth, including a detailed assessment of these opportunities, projected financial statements (income statements, balance sheets, cash flows, and rates of return), management profiles, and interest in potential equity and quasi-equity financing
2. Solidify commitments from initial anchor investors and obtain additional preliminary commitments from other investors, provided that the detailed analysis of potential deal flow in step one, above, is favorable
3. Refine the initial assessment of the legal and regulatory environment and define specific reform proposals for changes in the Company Law, Securities Law, and Stock Exchange, among others

It is expected that this next stage will take approximately ten weeks to complete from the date of initiation. The project is currently engaged in negotiating with potential partners to syndicate the costs of this next stage. The Board of Directors of OSF has made a preliminary commitment to continue its support and so has Mongolia Links Co. Ltd.

The second stage of the feasibility analysis will begin in January, in partnership with the Asian Development Bank, Mongolia Links Co., Ltd, and OSF. Focused on due diligence of potential investee companies, this second stage will be an “acid test” for the potential establishment of the fund. If eventually successful and operating with the discipline of private capital and professional



fund portfolio management, the fund will be a catalyst for enhanced growth opportunities for Mongolian businesses.

## **B2. Industry workshop held on measures to mitigate impact of end of Multi Fiber Agreement on Mongolia's apparel industry**

Apparel industry leaders and government officials met at the USAID Resource Center on 5 November to discuss measures proposed to mitigate the effects of the Multi Fiber Agreement (MFA) quota withdrawals.

At the meeting, Mr John T. Smith, an international textile expert engaged by EPRC, presented the findings of his report concerning the likely impact of quota withdrawals and suggested how both the Government and the industry might act to mitigate the effects.

The Multi-Fiber Agreement of 1974 (MFA) permitted the United States (US), the European Union (EU), Canada and Norway to maintain strict limits (quotas) on the amounts of textile and apparel products entering their markets, notwithstanding the general prohibition of the General Agreement on Tariffs and Trade (GATT) on import and export restrictions.

The US, EU, Canada, and Norway concluded a large number of bilateral agreements with developing countries, within the framework of the MFA, setting strict limits on imports of textiles and clothing. However, in order to secure agreement to the Uruguay Round of trade agreements (1994) and the establishment of the World Trade Organization (WTO) it was necessary for these countries to concede that GATT disciplines should be extended to include textiles and clothing. The system of quotas for fibers generally was agreed to be phased out over a ten year period under the Agreement on Textiles and Clothing (ATC).

Integration of products into a quota-free system has been taking place in four stages. The largest integration of quotas will occur on 1 January 2005 when about half of remaining products will have quotas removed. This last half is made up of the most sensitive products for the US, EU, Canada, and Norway—those which these countries make themselves domestically.

Mongolia has done little to prepare for the potential impact of the end of the quota system, notwithstanding the fact that the removal of quotas on 1 January 2005 is likely to prove costly for Mongolia in terms of textile and apparel exports and jobs which depend on these.

During his time in Mongolia Mr Smith visited 15 sewing factories and discussed options with the Ministry of Industry and Trade, the Textile Employers Associations and the trade unions. He reported that there were around 60 factories, accounting for around 20,000 jobs likely to be affected by quota withdrawals. Many

of the factory owners had still not decided whether they would or could continue to operate in Mongolia, the majority preferring to “wait and see” before taking any drastic action. Mr Smith stressed that, regardless of how the situation unfolded, the industry had to become more competitive to survive.



Government could help by reducing the tax burden faced by the business community. Mr Smith cited reductions in company tax rates, reduction of companies' cost structures by funding social security and other employee benefits from the central budget, and allowing legitimate business expenses such as employee training and marketing to be tax deductible. He also called on the Government to open a dialogue with the Chinese with a view to reducing the costs of transport through China. The cost of energy and particularly heating was another area of concern that needed to be addressed.

Turning to industry, Mr Smith suggested that there needed to be major changes in terms of products and processes in order for Mongolia to compete on the world stage. He expressed particular concern over the recent trend whereby the unit price of exported garments had been reducing. This trend, he said, needed to be reversed and companies should move away from mass market production and into more sophisticated and value-added production as many of the factories he visited had the skills and technology to make this change. He added that more emphasis needed to be placed on quality improvement, and be more pro-active in their marketing efforts.

His report is publicly available, in English and Mongolian, from EPRC.

### **B3. Project presentation of proposed economic policy measures at Ikh Tinger Cabinet and Parliament retreat**

At the Cabinet and Parliament Standing Committee Chairs and advisors weekend retreat held on Saturday, 9 October at Ikh Tenger, senior project team members presented economic policy measures for priority consideration during the early stages of implementation of the Government Action Plan 2004-2008 (GAP 2004-2008).

The economic policy measures proposed by the project derived from work done by EPRC on the Vision 2020 long-term economic development strategy prepared at the request of the Prime Minister's Office in May 2004 and are consistent with GAP 2004-2008.

The proposed measures included:

1. A "first stage" tax reform package that fosters job creation, formalization of employment and overall competitiveness of the economy
2. Drafting of a Concession Law to attract private foreign and domestic investment, in lieu of debt, in the energy sector
3. Improving transparency and public participation in the law-making process through retooling of the Open Government Web site
4. Fulfilling campaign commitments in a fiscally responsible way.

The project is currently providing technical support to diverse Cabinet, Parliament and ministerial working groups in the elaboration of detailed reform proposals and on their implementation.



#### **B4. Workshops completed on account conversion and restatement of accounts in IAFRS format for the Central Energy System**

Beginning on 6 October Central Energy System (CES) generating companies completed a six-day hands-on workshop on conversion of their accounting systems and restatement of their quarterly financials to International Accounting and Financial Reporting Standards (IAFRS).

The workshops used the Manual for Regulatory Cost Accounting recently completed by the project and released by the ERA. The Manual contains the new chart of accounts, account use instructions and descriptions of all relevant IAFRS standards currently issued and in force.

Approximately twenty-five participants, including representatives from the MoF, SPC, ERA, and energy generating companies received a total of 106 person-days of training.

Assistance to CES generating companies on accounts conversion and restatement of quarterly financial statements will continue through selective visits to individual companies as required. Mongolian accounting subcontractor, UB Audit, spent three days each at Darkhan, Erdenet, Power Plant # 2 and # 3 to assist them with the conversion of their 30 June 2004 mid-year statements to the new system. Power Plant # 4 followed during the first week of November. Also, during November and December, we assisted this group of companies with the restatement of the 2004 nine-month statements as a second practice run, before use of the new charts of accounts became mandatory on 1 January 2005.



#### **B5. Project publicly launches the Mongolian Competitiveness Fund and the Business Development Fund**

At an industry briefing held at the USAID Resource Center on 16 December, the project publicly launched two new funds designed to improve the competitiveness of Mongolian business. Aimed at business-based groups such as business associations and clusters, the Mongolian Competitiveness Fund will co-fund sector and cluster initiatives or private and private-public partnerships that seek to:



- Provide common access to resources, services, facilities, technologies, and information that demonstrably improve sectoral efficiencies in costs, market share, and foreign sales revenues by meeting international requirements for product, process, and service quality
- Promote Mongolia's brand image abroad, market the country as a destination, and develop awareness of Mongolian-branded products that demonstrably lead to increased foreign sales revenues
- Provide common access to resources, services, facilities, and information that demonstrably reduce business transaction costs or improve the business climate in the sector, cluster, and country
- Remove barriers and facilitate sector access to international markets.

The Business Development Fund is designed to assist individual businesses in:

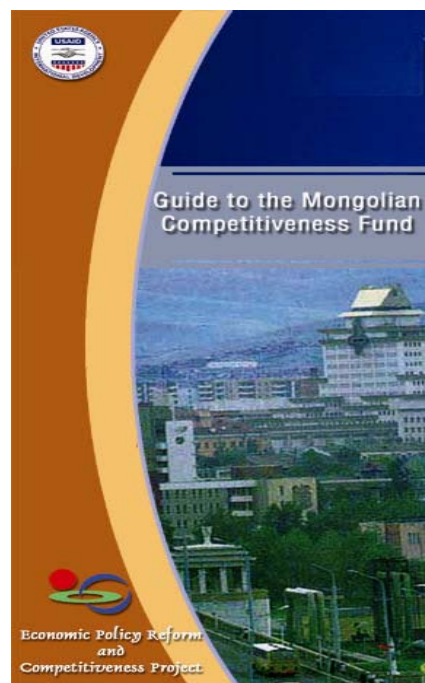
- Identifying target markets, distribution channels, buyers, distributors, and agents
- Conducting supply feasibility analysis and product development for the identified target markets
- Re-engineering of product lines according to target market requirements
- Transactions, contract negotiations, and financial structuring.

Both funds require client co-payment of at least fifty percent of the cost of the assistance, paid directly to the supplier of technical services engaged for the assignment. The funds do not cover normal, recurrent, operating expenses nor provide investment capital or loans.

Since the presentation of the funds on 16 December, eight additional meetings have been held at EPRC to address inquiries about the funds and assistance with potential interventions.

**B6. Open Government Website sponsors first nationwide “super-chat” on the Government Action Plan for 2004-2008 over the Internet, radio and television**

Culminating months of preparation by EPRC and subcontractor The Asia Foundation, Prime Minister Ts. Elbegdorj and Parliament Speaker N. Enkhbayar engaged in the first nation-wide “super-chat” over the Internet, national radio and television on Tuesday, 21 December.





The event, conceived and sponsored by EPRC, was broadcast on nationwide radio and television with an estimated audience of over 700,000 people in Mongolia. 216 questions came through the on-line chat services of the Open Government Web site—many from the twenty-three Internet cafes rented for this event from aimags throughout the country; 122 additional questions came in through live telephone lines.

The OG Web site received over 21,000 hits during the chat, with an estimated number of some 1,600 unique visitors. Chat participants posed questions over the Internet and phone lines about the new coalition government action plan. Questions raised by the nationwide audience included societal problems such as alcoholism, job creation, small business support, the influx of migrants to ger areas around the country's major cities, and energy prices.



Prior to the chat, the GAP had been posted in the OG site for two months, in Mongolian and in English, for public discussion. In addition, the GAP was also printed in newspapers for national circulation. A transcript of the program questions and answers is available on the project-supported Open Government Website, [www.open-government.mn](http://www.open-government.mn), with an English version to follow.

#### **B7. Project assists Ministry of Industry and Trade with TIFA preparations**

EPRC Trade Consultant Roger Freeman completed a five-week assignment to assist the Ministry of Industry and Commerce (MoIC) with preparations for the first meeting of the Joint USA-Mongolia Council on the Trade and Investment Framework Agreement (TIFA) signed last July between the two countries. He assisted MoIC with the preparation of briefing materials containing publicly available information and a draft agenda for the meeting but, as required by his terms of reference, refrained from providing advice on negotiations. Mr Freeman also recommended the creation of a Cabinet-level Trade Policy Implementation and Monitoring unit, supported by donors, to enhance Mongolia's capacity to conduct multilateral, regional and bilateral trade negotiations. Meetings held with donors found receptivity to the concept and further work on a proposal for the creation of such unit is scheduled for February.



## SECTION II: WORK PLAN IMPLEMENTATION

### A. Introduction

This section documents project implementation status of the current work plan—AWP-04—as of the end of the quarter. Part B of the section presents the framework of AWP-04 for the four project components: Economic, Trade, and Financial Policy Support, Energy Sector Reform Support, Business and Cluster Development, and Cross-Cutting Project Activities and Management. The framework contains objectives, projected annual results, and projected life-of-project (LOP) results for each component; the first column contains the objectives defined in the strategy, the second column contains the expected results at the end of the first annual work plan and the third column details the status at the end of the project.

Part C of the section contains detailed implementation status by project component.

### B. Work plan framework

The work plan framework for Economic, trade, and financial policy support is as follows:

A. ECONOMIC, TRADE, AND FINANCIAL POLICY SUPPORT		
Policy Support Objectives	Projected annual results	LOP Results
<b>A1. Development, maintenance, and implementation of sound macroeconomic policies to promote sustainable and equitable economic growth</b>	Fiscal and macroeconomic impact analysis of foreign debt service projections and policy options developed and presented.  Fiscal and macroeconomic impact scenarios of corporate tax reduction developed; policy options formulated and presented.	A stable and predictable macroeconomic environment, market-oriented, and promoting sustainable and equitable economic growth.
<b>A2. Development, maintenance, and implementation of trade and investment policies supportive of a competitive participation of Mongolia in the world economy</b>	Generic tariff and non-tariff barriers to Mongolia's trade expansion in Russian and Chinese markets assessed for bilateral and multilateral negotiations.  Improved information access available for entrepreneurs on foreign target markets' entry requirements and GSP applicable to Mongolian products.  Impact scenarios of the <i>Agreement on Textiles and Clothing (ATC)</i> and <i>Multi Fibre Agreement (MFA)</i> on Mongolian textiles quota-free access to U.S. markets and formulation of policy and industry options.	Generalized reduction of tariff and non-tariff barriers to trade with trading partners.  Mongolia utilizes existing trade mechanisms and/or negotiates better access of specific export products having an identified demand in trading partners' markets.  Trade and export strategy leads to negotiation of free-trade agreements (FTAs) with countries providing net advantages to Mongolia in terms of trade.
<b>A3. Reduction of transaction costs for businesses</b>	Assessment of Bank of Mongolia requirements, banking spreads, and formulation of policy instruments and plan of action to induce a reduction of commercial loan interest rates, consistent with a stable, market-oriented macroeconomic environment.  Field investigation of Russian and Chinese practices applied to the transit of selected Mongolian products and elaboration of GATT-supported procedures for negotiation at bilateral meetings.	Reduction of cost of loan capital to businesses.  Reduction of shipping transit times and costs for Mongolian exports.
<b>A4. Deepening and strengthening of the financial sector</b>	Policy framework and strategy developed to deepen the primary and secondary mortgage markets.  Assessment and plan of action prepared for stock market operations and development of equity products.  Implementation of insurance regulatory framework and strengthened sector supervision.	Expanded primary and secondary mortgage markets provide competitive loan products for residential and commercial financing.  Diversity of equity financial products available.  Strengthened regulatory and capacity to supervise a wider range of insurance products.
<b>A5. Response 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.	As defined and agreed upon for each initiative.

For the Energy sector reform support component of the project, the proposed work plan framework is shown below:

B. ENERGY SECTOR REFORM SUPPORT

Policy Support Objectives	Projected annual results	LOP Results
<b>B1. Development and implementation of a transparent, market-oriented regulatory environment to promote competitive and efficient delivery of energy services to consumers</b>	<p>ERA issues regulations and supervises implementation and use of cost-based standards for use by power generating companies .</p> <p>ERA issues and supervises implementation and use of IAS-compliant chart of accounts by power generating companies</p> <p>ERA has strengthened supervisory capacity to oversee power generating companies' implementation of cost-based tariffs and IAS-compliant chart of accounts</p>	The ERA has increased supervisory capacity to regulate a competitive, market-oriented, and transparent regulatory environment in the energy sector.
<b>B2. Development, maintenance, and implementation of commercial orientation and practices in energy generation and distribution companies in the sector</b>	<p>All energy companies are implementing cost-based tariff methodologies and IAS-compliant standard chart of accounts.</p> <p>Some distributions companies are implementing improved customer service practices (complaints management, billing and collection systems).</p>	Energy generation and distribution companies in the sector operate on a commercial basis.
<b>B3. Development, maintenance, and implementation of a legal, regulatory, and financial environment attractive to foreign and domestic private investment and management in the sector</b>	Measures identified and plan of action implemented through "country due diligence" assessment to make Mongolia's energy sector attractive to private foreign investment.	Foreign and domestic private investment transactions negotiated/concluded in the energy sector.
<b>B4. Response to emerging energy sector initiatives</b>	As negotiated and agreed upon and consistent with project energy sector focus on the regulatory environment, commercialization and attraction of private investment and management.	As defined and agreed upon for each initiative.

The corresponding framework for the Business and sector/cluster development component appears as follows:

C. BUSINESS AND SECTOR/CLUSTER DEVELOPMENT

Objectives	Projected annual results	LOP Results
<b>C1. Improved competitiveness of identified sectors/clusters</b>	Foreign target market niches for Mongolian products or services identified in the key sectors of tourism, cashmere, other textiles, meat and meat products, skins, hide, and leather.	Significantly improved access to and penetration of foreign markets through the introduction of best business practice, co-marketing initiatives, and technology/quality up gradation, across the sector.
<b>C2. Improved competitiveness of sector/cluster based firms</b>	Potential 'anchor firms' identified, recruited as clients, and receiving assistance from the Matching Grant Program (MGP). Dialogue initiated between anchor firms and foreign buyers.	Client firms increase sales and market share in export and export oriented markets, i.e., become more competitive.
<b>C3. Improved competitiveness of high potential client firms regardless of sector</b>	High potential firms identified, recruited, and receiving assistance from the BD program	Improved core business practices (marketing, production, financial and asset management) leads to increased sales, profitability, employment and investment) - the performance indicators.
<b>C4. Response to emerging opportunities to structure and facilitate public or private/public transactions</b>	As negotiated and agreed upon among the parties and consistent with project BD focus on improving competitiveness of firms, sectors/clusters, and country.	Value of transactions structured or brokered.

Cross-cutting activities such as national dialogue and project management constitute the fourth component of the project, as detailed below:

D. CROSS-CUTTING ACTIVITIES: NATIONAL DIALOGUE AND PROJECT MANAGEMENT

Objectives	Projected annual results	LOP Results
<b>D1. Improved public transparency, corporate governance and national dialogue</b>	<p>Not-for-profit organization, the "Mongolian Business Trust" (MBT) registered, operating as a party to BD transactions, providing value-added services to foreign investors and local businesses through the dissemination of information for businesses and con</p> <p>Continued support for the <i>Open Government</i> Web site operated through the MBT.</p> <p><i>The Mongolian Business Trust Quarterly Review</i> is available through a Web site and distributed electronically to subscribers, in English and Mongolian.</p> <p>Public speaking engagements and audience-targeted informal presentation and discussion opportunities by visiting experts, short-term consultants, and project staff are utilized.</p>	<p>A private-sector led, at least partially self-sustaining not-for-profit organization articulates business interests, develops positions on issues, promotes exports and foreign investment in the country, and provides value-added services to its members.</p> <p>Increased national dialogue on economic policy issues and government transparency.</p> <p>Business community, partners and general public are more informed on economic issues, policy options and the functioning of open market economies.</p> <p>World-class technical expertise shared with the general public, partners, and business community.</p>
<b>D2. Coordination and cooperation with partners, foreign investors, bilateral, and multilateral organizations</b>	<p>Regular meetings and discussions lead to identified opportunities to structure collaboration in mutually beneficial ventures.</p>	<p>Increased value-added of project technical assistance delivered through proper project positioning, collaboration, and leveraging of resources.</p>
<b>D3. Monthly EPRC Review</b>	<p>Coverage of project activities of general interest, issued monthly and distributed electronically in English and Mongolian.</p>	<p>Partners are well informed on project activities.</p>
<b>D4. Contract management</b>	<p>Quarterly Progress and Financial reports (QPRs), Annual Work Plans (AWPs), project inventory, training reports, and other contract reports submitted to USAID/Mongolia as required.</p>	<p>Project contractual requirements are met.</p>

## C. Work plan implementation

Substantive work was accomplished in all four project components during the quarter under review. Exhibits II-1 through II-4 present AWP-04 implementation details for each.

### C1. Economic, trade, and financial policy support

In addition to activities described in Section I, work of this project component during the quarter included the following:

*Budget size, capital investment, and economic growth: Recent trends in the Mongolian economy.* In connection with the project continuing analytical work in support of tax reform, the November 2004 Project Newsletter presented findings related to:

- Growth of budget size relative to GDP and the rest of the economy
- Budget investment relative to budget revenues and expenditures
- Trade deficit, foreign debt, and private domestic investment
- Gross capital formation relative to government and household aggregate consumption
- Company income taxes and companies' investment from own sources
- Net increases in banks' commercial lending and private domestic investment.

Based on this analysis, the conclusions were that:

- The size of the budget is increasing faster relative to the growth of the economy—above 40 percent of GDP
- The share of the budget devoted to investment has declined in the last three years
- Gross capital formation declined in 2003 to 87 percent of its 2000 level
- Company taxes paid and company income have increased but private domestic investment—both from companies' own funds and in the aggregate—have declined
- This decline in investment and capital formation has been accompanied by a substantial increase in banks' commercial lending.

Based on the analysis of these trends, the Newsletter article recommended that policy measures are needed to:

- Stop the shrinkage of domestic private investment and stimulate its gradual healthy expansion
- Reform of public finances to reduce the size of the budget
- Reorient budget expenditures towards capital investment and poverty reduction by promoting private-sector-led economic growth; it is firms that provide employment and pay taxes
- Implement a tax reform package to shift the tax burden away from investment and production/manufacturing towards consumption, property (real estate taxes) and rents generated from natural resource exploitation, abolish discriminatory provisions against domestic investors, allow deduction of legitimate business expenses, abolish taxes on income from interest and dividends, among others
- Avoid crowding out private investors by making public investments only in those sectors where private investment is unlikely to participate
- Reduce country risk premium by containing and eventually reducing foreign debt through the implementation of stringent procedures for foreign loans—including those of a concessional nature
- Focus on implementing measures to strengthen a “good investment climate” by improving budget transparency, speeding up privatization (enterprises, land and buildings), strengthening property rights (laws regulating property ownership and titling, mortgage, direct and indirect expropriation and interference of government bodies into the rights of owners and lenders, particularly under default and bankruptcy conditions), enforce transactions; strengthen the commercial code, corporate governance, business reporting and accounting standards, eliminate inconsistencies between international best practices (current International Accounting and Financial Reporting Standards–IAFRS) and Mongolian practices.

Current discussions within the coalition government to align the tax system with current international best practices reduce companies’ cost structures, taxes, the tax burden on lower–income–bracket employees, and shift the tax burden away from production and towards consumption are encouraging. A steady political will be required to enact a tax reform package substantive enough to begin to dismantle the current perverse system of incentives against competitiveness and largely responsible for the macroeconomic trends herein documented.

*Mongolian exports: Is the country exporting enough?* The December 2004 Project Newsletter presented trends in Mongolia’s foreign trade in connection with work in progress in support of tax policy reform.

Benchmarked against a group of South and East Asian countries, Mongolia’s per capita GDP performance over the 1992-2002 decade has been less than stellar. Mongolian GDP increased by 27% during that period; for Indonesia, Thailand and the Philippines GDP growth was around 40% while Vietnam, Maldives, Myanmar, and China doubled theirs. The relatively slow growth of the former countries may be partially explained by a severe East Asia financial crisis of 1997-98.

Exports of these countries during the same period have been growing much faster than GDP, increasing four to five times in Vietnam, Myanmar and Cambodia and doubling and tripling in China, the Philippines and Bangladesh.

In Mongolia, by contrast, the value of exports stagnated at the same level ten years later. That is, after a decade, the value of Mongolian exports—adjusted to U.S. inflation, as was done for the other countries—was practically the same.

As the extent and internal composition of foreign trade reflect the structure and performance of a national economy, the low rates of GDP growth and stagnant value of exports are causes of concern. While Mongolia has made substantial progress in institutional development and governance, foreign trade figures for the last decade suggest that these achievements have not yet been followed by equally impressive improvements in industrial structure and modernization of the economy.

Driven by recent increases in world prices for copper and gold, mining sector products are expected to account for two-thirds of the value of Mongolian exports in 2004. The share of products other than minerals and textiles has been declining. In 1995, meat, leather, agricultural products, and machinery accounted for 21.1 percent of the value of Mongolian exports; by 2004 the figure is expected to be 7.5 percent.

This suggests that Mongolia's export structure has become less diversified and more exposed to external shocks such as potential declines in world prices of gold and copper. Similarly, the end of the quota system for textiles and garments that was prevalent under the Multi Fiber Agreement is expected to lower the value of these Mongolian exports significantly in the coming years. This will make Mongolia's exports revenue more dependent on the minerals and metals sector, with all its attendant vulnerabilities.

The foreign trade data suggest that Mongolia is not exporting enough. An active policy promoting value-adding processing sectors, job creation, and export diversification is needed in order to reverse the current unfavorable trends.

Examples of some of the measures proposed in the article include:

- Improvements in the competitiveness of domestic manufacturing by shifting taxes away from labor employment (payroll taxes), investment and production (corporate income taxes) toward consumption (excises and non-tax charges), property (land, housing and commercial property taxes) and natural resource exploitation (licenses and royalties)
- Incentives for value-adding processing industries capable of generating employment
- Negotiation of bilateral agreements with main trading partners, including the costs of transit and diverse tariff and non-tariff barriers for Mongolian exports
- Further privatization of state-owned enterprises and attraction of private investment in infrastructure (energy, communications, water and wastewater services, and transportation)

*Tax reform.* In collaboration with multilateral agencies and bilateral organizations, EPRC continued to provide support for the tax reform package. The project worked closely with Parliamentary standing committees, Prime Minister's Office, MoF, Mongolian Tax Administration, business community, and NGOs.

Reform measures include improvements in fiscal transparency, increase of public consultations, changes in income taxation (both personal and corporate), increase of selected excise rates, broadening real estate taxes, discontinuation of export taxes, and abolishment of a number of distortionary tax privileges.



By early December, at the suggestion of EPRC, the GoM formally established a multi-party, joint Cabinet-Parliamentary Working Group on Tax Policy to examine and agree upon the tax reform measures proposed by the project. Given the time constraints to approve the national budget for 2005 in early December, the group agreed to work intensively after the holidays with the aim of having the finalized tax reform proposals submitted to Parliament in April.

The project, with short-term assistance, will work closely with the Tax Policy Group during the next quarter to support:

- Formulation of a detailed work plan to meet the April deadline for submission to Parliament
- Elaboration of main concept of the reform in the context of economic theory and broad international experience in tax reform in both developed countries and emerging market economies
- Design and use of quantitative models that would estimate fiscal effects of alternative tax reform measures
- Formulation of a proposal for a package of specific tax reform measures
- A public relations campaign involving different groups of stakeholders, including: public consultations and corrections to the package, if any, resulting from these consultations and working out a consensus among country's policymakers and legislators to achieve a "critical mass" of support for the package
- Enactment of the final tax reform package
- Assistance with the formulation of a proposal to improve tax administration (systems, resources, manuals and training of tax personnel) to be submitted for outside funding.

*Shadow economy survey in partnership with the Open Society Forum.* EPRC continued to collaborate with the OSF and the NSO on technical analysis of the shadow economy. A large shadow economy survey (15,000 households) was concluded during the quarter. The project also signed a subcontract with OSF for the production of data sets from the survey.

Exhibit II-1, at the end of this section, provides details on overall status of AWP-04 implementation in the Economic, trade, and financial policy support area.

## **C2. Energy sector reform support**

Highlights of energy sector work during the quarter, not detailed in Section I, included:

*Generation-company account conversions.* During 6 and 8 December, EPRC energy accountants Larry Jensen and Munkhsaikhan D. visited the five Central Energy System power plants to assist them with the finalization of their 9-month accounts from the old system to the new International Accounting and Financial Reporting Standards (IAFRS)-compliant accounting system. They reported that it was gratifying to see the extent to which the new system has been embraced there; these companies, on their own, are already proceeding to prepare new asset registers and valuation of assets, a step we had only envisioned for them to take during the second half of 2005.

*Tariff Approval Procedure.* As part of our public communications and improvement of transparency project with the ERA, the energy section delivered the draft procedure for Tariff Approval on 18 October 2004. This was followed by a presentation on the subject on the same day by our short-term consultant, Dr. Hasso Bhatia, explaining the procedure. The ERA intends to adopt the procedure shortly at one of its regular meetings.



*Television public forum on tariff increases.* On 1 December, Mongolian Television invited the ERA, the Ministry of Fuel and Energy (MoFE), and several industry and consumer representatives to discuss the proposed tariff increases. EPRC assisted the ERA in its preparations for the forum.

While many of the consumer representatives could understand the need for tariff increases, the government was pressed to improve efficiency, management and accountability to reduce costs of electricity and heat. Mr. T. Ochirkhuu, Minister for Fuel and Energy promised to renew the effort to cut costs. He also emphasized the need for the government to reduce its reliance on debt for power distribution project financing.

*ERA Licenses.* The project assisted the ERA with drafting of long term distribution and supply licenses for the Bagnuur Electric Distribution Company. In addition, the energy section delivered a draft procedure for the application and issuance of energy generating facilities' construction licenses. This is in response to the ERA having received its first private sector proposed independent power project, a 36 MW pump storage hydro electric facility west of Ulaanbaatar.

*2005 ERA Budget.* We reviewed and commented on the ERA's initial budget draft and will continue to work with them to develop a well thought out strategic plan and defensible budget for the coming year. Our focus is on improved transparency and verification of tariff requests.

*Support for USTDA Mission.* The project met with USTDA staff and provided background on the Mongolian energy sector. In addition, we arranged a meeting and provided background regarding a possible proposed feasibility study/master development plan for the Tavan Tolgoi coal/power/etc. project for a sub consultant of USTDA who is currently in Mongolia evaluating a variety of proposals in the mining sector.

*ERA decides to postpone implementation of the bilateral energy market.* After many months of discussions with the project, the ERA realized that the technical metering prerequisites for a bilateral contract market do not exist in Mongolia at this time. The ERA decided to table its proposal until at least the second quarter of 2005, after the World Bank has completed its market structure recommendations and the implementation workshop to be held in Washington in March 2005. The EPRC energy team is committed to prepare the concepts for bilateral agreements before that time, so that our Mongolian counterparts can learn about the contractual complexities of such a market structure.

*EPRC at the Third Annual Convention of the Mongolian Institute of Certified Public Accountants.* On 9 December, EPRC's Energy Accounting Specialist, Larry Jensen, gave a presentation entitled "Accounting in Mongolia, Yesterday, Today and Tomorrow" at a meeting of the Mongolian Institute of Certified Public Accountants. Nearly 500 Mongolian accounting professionals attended his presentation about developing accounting standards and the accounting profession in Mongolia. Mr Jensen's presentation was very well received, receiving many questions during and after the event.

*ERA conducts its first public hearing.* On 17 November, the ERA conducted its first major public hearing on proposed tariff increases for both electricity and heat for the Central Energy System. Approximately 250 representatives from the public and energy sector companies attended the hearing — the first open-to-the-public hearing on energy rate increases in ERA’s history.

During the scheduled two-hour session, an ERA spokesman provided a presentation of the facts and issues behind the intended increases. A number of industry representatives laid out their cases and approximately twenty representatives from the public were recognized to speak by the ERA’s Chairman. In addition, the regulators received written comments from other members of the public and committed to take all of these into consideration in their final decision.



This first public hearing on energy rate setting is a significant step towards improved transparency in regulations affecting the public and accountability by the sector companies. The event is a benchmark for the ERA on the use of procedures for public hearings developed closely with the project.

*Workshop conducted on “Consumer and Utility Rights and Obligations under Regulation”.* On 19 November 2004 EPRC’s short-term regulatory affairs consultant, Dr. Hasso Bhatia, provided his end-of-assignment workshop on Consumer and Utility Rights and Obligations under Regulation. The workshop culminated a six-week assignment during which he worked closely with ERA on procedures for public hearings, tariff approval procedures, inter-company and consumer dispute resolution, cold weather disconnection rules, and consumer education.

Approximately forty representatives from the ERA, sector companies, international consultants and consumer representatives attended the workshop.

Dr. Bhatia’s presentation covered issues such as:

- The purpose, principles, organization, and functions of a regulatory authority
- The mechanisms and means a regulatory authority has at its disposal and how these should be used to meet its responsibilities in balancing consumer and industry interests
- How the authority should communicate with the public to convey the principle of open and transparent regulation.



As he had done during several mini-workshops on individual procedures with the ERA and industry representatives, Dr. Bhatia stressed the need for a well-structured approach to assure equal opportunity regulation, providing procedures where all interested parties can have the opportunity to present their case, be heard and have their points of view fairly weighed against all other interests of responsible parties participating in the formal proceedings. It was stressed that decisions will not just be handed down, but that it is the authority's obligation to facilitate compromise among all parties and that these should agree to a joint solution. Similar procedures apply for the consideration of tariff cases as well as the resolution of disputes between sector companies and consumers, as well as among sector companies.

The presentation generated a lively discussion among workshop participants. The ERA is formally considering the adoption of these procedures developed closely with the project.

By the end of the quarter, Energy Sector Reform activities were proceeding on schedule while responding flexibly to emerging policy issues that needed to be addressed. Exhibit II-2, at the end of this section, provides details on AWP-04 implementation status for this component.

### **C3. Business and sector/cluster development**

Key activities of the Business and sector/cluster development during the quarter, not covered in Section I, included:

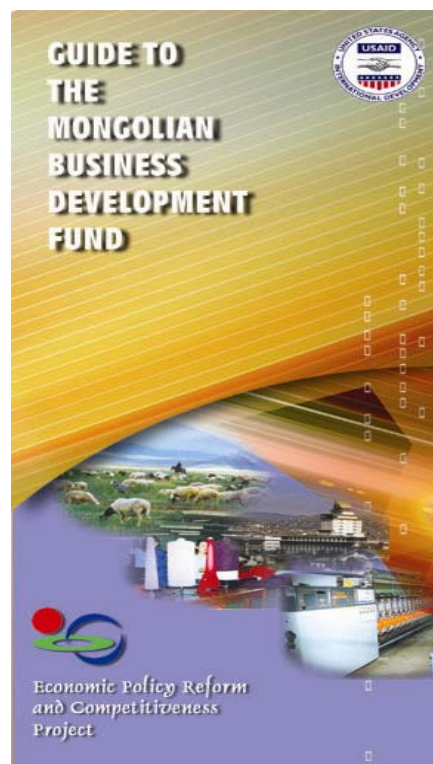
*Development of promotional materials and preparation of workshops on the Mongolian Competitiveness Fund and the Business Development Fund.* During the quarter, the BDS section worked intensively on the preparation of brochures and presentation materials for MCF and BDF. Public launching of these two funds took place in December, as reported.

*Draft Articles of Association discussed at Board meeting of the Tourist Information Center.* At a meeting held at EPRC on 22 December, current members of the Board of Directors of the Tourist Information Center (TIC) comprised of the Mongolian Tourism Association, Ministry of Road, Transport, and Tourism, Arts Council of Mongolia, PR Association, and EPRC (non-voting member) discussed and made revisions to the draft Articles of Association of the Tourist Information Center (TIC).

The parties agreed to meet again by 10 January to incorporate the changes into the draft TIC Articles with the aim to register the NGO and open its doors to the public and tourists by the start of 2005 tourist season. The Board of Directors also hopes to refine the Business Plan for the TIC developed earlier by an EPRC short-term consultant.

Under the auspices of the Ministry of Road, Transport, and Tourism a prime location for the TIC has been identified in the Post Office building on the Sukhbaatar square.

*Cashmere European Distribution Network.* In transit to the UK, EPRC's BD Manager, Bruce Harris, visited Berlin for



two days (in transit to UK) to review progress with regard to the proposed distribution hub. He visited the retail premises/showroom, the wholesale office, and met with interested parties. The showroom is located in the main shopping area of Berlin, opposite the planned *Berlin Fashion Center*. The Center began trading wholesale and via a web-site.

*Project negotiates and publishes articles in “Wool Record” magazine.* From October 2004, monthly issues of *Wool Record*, a respected international trade magazine, will carry Mongolian articles.

*First Mongolian Competitiveness Fund-supported project successfully concluded.* The first phase of a feasibility analysis for the importation and re-export of Siberian hides was successfully completed. The second phase, a pilot program to import 700 hides (to identify problems with Russian partners, logistics, and customs), was initiated in October.

*Third and final workshop on insurance products for the tourism industry completed.* On 25 October, and with the participation of twelve tour operators, the project concluded the series of workshops on the development of local insurance products for the tourism industry. During the next quarter, the project expects to work closely with the Mongolian insurance association and individual insurance firms to develop suitable products for the industry.

*Meetings with the Minister of Roads, Transport and Tourism.* The project held two meetings with the new Minister to discuss future collaboration, with special focus on three areas:

1. Amendments to the Tourism Law (incl. classification system), to be presented to Parliament, Winter Session
2. Establishment of a Tourist Information Center
3. Upgrading of the quality of tourism data.

*Tourism Law.* On 27 December, the Ministry of Road, Transport, and Tourism officially requested that EPRC join the working group on drafting the amendments to the current Tourism Law of Mongolia.

By the end of the quarter, BDS activities were proceeding as planned although progress was slow in the tourism sector. Although key actors agree with the need for a Tourist Information Center, collaboration is difficult as none wants to relinquish main control of a potential new entity.

Exhibit II-3, at the end of this section, presents details of the AWP-04 implementation of the BDS component.

#### **C4. Cross-cutting activities: national dialogue and project management**

Exhibit II-4, at the end of this section, provides details about additional activities conducted in this area, as follows:

*Support for the Open Government Web site.* On 1 October, at project premises, EPRC and The Asia Foundation (TAF) team members met with the Prime Minister’s public communications and legal advisors for a demonstration of new and planned features for the Open Government (OG) Web site. During October the project brought in house all technical support for the Ministers’ on-line chats held through the OG site, with the Minister of Environment holding the first chat from project premises on 22 October. A total of six on-line chats were held during the quarter, including a “super chat” involving the Speaker of Parliament and the Prime Minister on 21 December.



*Translation and OG posting of the Government Action Plan 2004-2008.* During the last week of October the project worked closely with the Public Communications PM Advisor and cabinet staff to update the Mongolian and English versions of GAP 2004-2004. These documents are currently undergoing final clearance from the Cabinet for posting in the OG site in early November.



*Mandated periods of public comment for draft legislation:*

The project continued to work closely with the National Legal Center and the Office of the Prime Minister to review existing regulations and propose amendments to require periods of public comment for successive drafts of proposed legislation.

*Project co-sponsors presentation by Standard & Poor's on "Essentials of Credit Rating".* Taking advantage of a Standard & Poor's (S&P's) team visit to Mongolia to assess the country's sovereign risk rating and Erdenet Mining Company, the only Mongolian company currently rated by S&P's services, the project co-sponsored a presentation on The Essentials of Credit Risk Rating on 27 October.

The event held at the USAID Resource Center was co-sponsored by EPRC together with Anod Bank, the Mongolia National Chamber of Commerce and Industry (MNCCI) and Exim Invest Co. Ltd. as part of the project continued work on Mongolia's country risk, risk ratings and premiums. The Standard & Poor's team included Ping Chew, Director, Sovereign & International Public Finance Ratings, Angela Hui, Director, Client Relationship Group, and Raymond Woo, Director, Corporate & Infrastructure Ratings.

The presentation was targeted to Mongolian commercial banks and large companies. The audience also included representatives of Mongol Bank, the MoIC, the MNCCI, USAID, US Embassy and Open Society Forum (OSF).

*Organization of five on-line chats through the Open Government Web site.* The project, working closely with TAF, organized and provided technical support for five Ministers' chats during the quarter.

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

Exhibit II-5 summarizes EPRC-sponsored public conferences, presentations, and training events held at the USAID Resource Center during the quarter.

A total of 287 participants attended twelve events sponsored by the project with a total duration of over 44 hours for an equivalent of 1,586 person/days (287 participants x 44.2 hours divided over 8

hours per day). Training for energy sector companies and regulators on regulatory cost accounting and IAFRS-compliant standard charts of accounts accounted for most of the training delivered.

## 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

*Privatization support.* Although not contemplated in the original scope of work for the contract, the project expects to begin work on privatization support during the next quarter, with support for this activity likely to continue during the year. Initiation of assistance to the State Property Committee (SPC) on the privatization of Gobi Cashmere Co. and drafting of a concession law to attract private finance into the energy sector and other infrastructure projects will become core activities during the next quarter.

*Tax reform.* The intensive work done in this area during the quarter under review is expected to continue during the next.

Exhibit II-5: Public conferences, presentations, and events held during the quarter (Oct - Dec 04)

No.	Event code	Date	Event	Target participants	No.of Atten.	Type of event	Location (city)	Duration (Hours)
1	ENER	6-8 Oct	Training of Regulatory Accounting	Financial officers of power plants in Erdenet, Darkhan and Ulaanbaatar, CHP and UB Audit	12	Training	Ulaanbaatar	2
2	ENER	20-22 Oct	International Accounting Standards Workshop	Financial officers of power plants in Erdenet, Darkhan and Ulaanbaatar, CHP, UB Audit	23	Workshop and Training	Ulaanbaatar	24
3	OGW	8-Oct	Online chat with Minister Munkh-Orgil	Ministry of Foreign Affairs, EPRC, TAF, press, media	14	Online chat	Ulaanbaatar	1.3
4	OGW	22-Oct	Online chat with Minister Barsbold U.	Ministry of Nature and Environment, EPRC, TAF, press, media	15	Online chat	Ulaanbaatar	1.3
5	BDS	25-Oct	Tourism & Risk Insurance	Tourist companies & Mongol Daatgal	18	Meeting	Ulaanbaatar	3
6	BDS	27-Oct	The Essentials of Credit Rating (Standard & Poor's)	Commercial bank, large companies, international organizations, Ministry of Industry and Trade	65	Presentation	Ulaanbaatar	2
7	OGW	5-Nov	Online chat with Minister Gandhi T.	Ministry of Health, EPRC Project, TAF, Press and Media	15	Online chat	Ulaanbaatar	1.3
8	OGW	19-Nov	Online Chat with Minister Nyamdorj Ts.	Ministry of Justice and Internal Affairs, EPRC Project, TAF, press and media	12	Online chat	Ulaanbaatar	1.3
9	OGW	3-Dec	Online chat with Minister Altankhuyag N.	Ministry of Finance	13	Online chat	Ulaanbaatar	1
10	EPRC	9-Dec	Proposal for Trade Policy Analysis and Implementation Unit	USAID, EPRC, donors and multilaterals	12	Presentation	Ulaanbaatar	2
11	BDS	16-Dec	Presentation on BDF and MCF	BDS, Government agencies, NGOs, donors, local private companies, press and media	58	Presentation	Ulaanbaatar	3
12	OGW	21-Dec	Multimedia and Internet chat with Prime Minister and Parliament Speaker on the Government Action Plan	EPRC Project, TAF, Government officials, State Great Khural, Mongolian Info Network, press, media	30	Online chat	Ulaanbaatar	2

**Totals 287**

**44.2**

Event codes: ENER = Energy Support  
 BDS=Business Development Service  
 OGW=Open Government Website  
 TAF=The Asia Foundation  
 EPRC=Economic Policy Reform and Competitiveness Project  
 BDF= Business Development Fund  
 MCF= Mongolian Competitiveness Fund  
 CHP=Combined Heat & Power

**Total person/days: 1,586**

## E2. Key actions for the next quarter

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

### *Economic, trade, and financial policy support:*

- Analysis of international experience and best practices on taxation to assist the GoM with the implementation of a tax reform package and development of economic/econometric/fiscal models to assess the effects of alternative tax policy measures
- Assistance to the joint Parliament-Executive Tax Policy Working Group in the elaboration of tax reform package
- Assistance to the joint Parliament-Executive Tax Policy Working Group in the elaboration of public consultation and communications strategy on proposed tax measures
- Assistance with TIFA in time for first meeting of Joint Council set up under TIFA Agreement and in the elaboration of a proposal for the potential establishment of a Cabinet-level unit to support trade negotiations participation, compliance, and implementation of trade policy
- Implementation of scheduled AWP-05 tasks.

### *Energy sector reform support:*

- Develop draft concessions law to attract private investment in the energy sector
- Continue support for implementation of a cost-based tariff methodology for energy sector companies based on Uniform System of Accounts (USOA) compliant with International Accounting and Financial Reporting Standards (IAFRS) and obtain Ministry of Finance approval mandating their use for energy sector entities in 2005 with focus on the Central Energy System transmission and distribution companies, the National Dispatching Center and the ERA.
- Support revision of Regulation # 8 from the Ministry of Finance concerning provisions on asset life and depreciation, making them compliant with IAFRS and applicable to all businesses—one of the “technical” reforms envisioned in the tax package being proposed to the GoM
- Continue development of a revised energy law to improve ERA independence, regulatory process transparency and decrease investor country risk
- Implementation of scheduled AWP-05 tasks.

### *Business development services:*

- Processing applications for both the *Mongolian Competitiveness Fund* and the *Mongolian Business Development Fund*
- Facilitating the creation of the *Mongolian Tourist Information Center*
- Completing a value chain Analysis of the cashmere sector and recommending interventions and actions to improve the competitiveness of the sector in world markets (to include in depth analysis of opportunities to develop the spinning sub sector)
- Reviewing the financial and technical status of the Gobi Corporation as the first step in the privatization process
- Conduct of the second stage of a feasibility analysis for the establishment of a local private equity venture capital fund
- As Partner of the World Economic Forum, conduct survey on country competitiveness in Mongolia to have the country ranked in the 2005 Competitiveness Index

- Project should be positioned to assist with new opportunities to export wool and/or woolen products to carpet producers, particularly in Middle East, and be ready to facilitate potential transactions
- Similar foreign interest in Mongolian meat exports (specifically Al Hal lamb and mutton) to Islamic communities in Gulf States and Malaysia have made the project aware of new market opportunities where it can assist by facilitating potential transactions
- Implementation of scheduled AWP-05 tasks.

*Cross-cutting issues: National dialogue and project management:*

- Signing of a Memorandum of Understanding (MOU) between the project and the National Legal Center (NLC) to improve on-line public access to updated business-relevant laws in English and Mongolian
- Preparation of proposal, with NLC, for submission to Cabinet's consideration to mandate periods of public consultation, posting, and review for proposed new laws and amendments
- Public rollout of the project Web site
- Selection, contracting, and fielding of long-term Corporate Finance Advisor to replace former Trade Advisor and Deputy Chief of Party who had to be evacuated for medical reasons
- Finalization of agreements concerning the project annual work plan for 2005
- Transfer of surplus equipment under contractor's custody as per approval obtained from the GoM and USAID
- Implementation of scheduled AWP-05 tasks.



**Exhibit II-1: Economic, trade, and financial policy support work plan implementation (Oct-Dec-04)**

*A. ECONOMIC, TRADE, AND FINANCIAL POLICY SUPPORT*

AWP-2004 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER STATUS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<p><b>A1. Development, maintenance, and implementation of sound macroeconomic policies to promote sustainable and equitable economic growth</b></p> <p><b>A1.1 Comparative assessment and benchmarking of corporate and VAT tax policies and administration, formulation of options and action plan</b></p>		>> >>	>> >X >>	>> >> >>	Completed reform proposal focused on reducing distortion effects of tax provisions on business, submitted proposal to GoM for inclusion in a 100-day reform program. Initial agreement on objectives of tax reform secured from Executive and Parliament. Continued technical work on tax reform package expected to continue through the next quarter.
<p><b>A1.2 Comparative assessment and benchmarking of income taxation, social contributions, pension policies and administration, formulation of options and action plan</b></p> <p><b>A1.2.1 Labor market and payroll fiscal charges: comparative analysis and proposal for reform</b></p> <p><b>Policy Brief: Fulfilling campaign commitments in a fiscally responsible way</b></p>		>> >> >>	>X >> X >>	>X	<p>Proposal completed and submitted. Technical tax committee organized by MoFE produced report and decision was made not to include tax reform package concurrent with the budget approval process. Multi-party, Parliament and Executive Tax Policy Working Group constituted in December at project suggestion. Project anticipates intensive work supporting the Tax Policy WG during the next quarter with the goal of having final tax reform measures submitted to Parliament in the spring session.</p> <p>Policy Brief prepared in late September and distributed at Cabinet, Chairs of Parliament Standing Committee, and policy advisors weekend retreat held on 9 October at Ikh Tinger.</p>
<p><b>A1.3 Comparative assessment and benchmarking of central budget expenditures, formulation of options and action plan</b></p>			>> >>	>> >> >>	Concurrent analyses in connection with A1.1 and A1.2.1 activities, as noted above.
<p><b>A1.4 Foreign debt service assessment, projections and policy options</b></p>					

**Exhibit II-1: Economic, trade, and financial policy support work plan implementation (Oct-Dec-04)**

*A. ECONOMIC, TRADE, AND FINANCIAL POLICY SUPPORT*

AWP-2004 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER STATUS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<b>A1.5 Real exchange rate management</b>					
<b>A2. Development, maintenance, and implementation of trade and investment policies supportive of a competitive participation of Mongolia in the world economy</b>					
<b>A2.1 Assessment of tariff and non-tariff barriers to trade in Russia and China.</b>					On hold until a decision is made concerning a proposed Trade Negotiations Participation, Compliance and Implementation Unit.
<b>A2.2 Utilization of Generalized System of Preferences (GSP) for Mongolian products</b>	>> >>	>> >> >>			Completed data compilation of Generalized System of Preferences (GSP) granted in the U.S.A., Japan, and the European Union as target export markets for potential Mongolian products. Release of user-friendly CD and Web-accessible database with search capabilities delayed as Trade Specialist was evacuated for medical reasons.
<b>A2.3 ATC and MFA impact analysis, scenarios, and policy and industry options</b>		>> >> X			Completed draft technical paper prepared on Impact scenarios of the Agreement on Textiles and Clothing (ATC) and Multi Fiber Agreement (MFA) on Mongolian textiles quota-free access to U.S. markets and formulation of policy and industry options.
<b>A2.4 Assessment of advantages and disadvantages of potential FTAs with Russia and China</b>					Formulation of trade policy options re potential FTAs with neighboring countries.
<b>A2.5 Trade policy and trade negotiations</b>					
<b>A2.5.1 Reduction of tariff and non-tariff barriers for Mongolian products with a BD-identified niche demand in specific target markets</b>	>>	X >> >>			Advice submitted to MOIT on tariff reduction application to be made to European Commission. MOIT made application on 25 March 2004. Negotiations have commenced.
<b>A2.5.2 Trade management capacity</b>	>> >> >>	X >> >>	>> >> >>	>> >> >>	Assistance to MoIT provided on an as needed basis.
<b>A2.5.3 Feasibility analysis of Free Economic Zones (FEZ) in Mongolia</b>	>> >X				Completed assessment of Mongolia's Free Trade Zones Program and site evaluations of proposed Zamyn-Uud and Altanbulag FTZ sites.
<b>Policy Brief on Free Trade Zones</b>		>X			Policy Brief on Free Trade Zones prepared and delivered.

**Exhibit II-1: Economic, trade, and financial policy support work plan implementation (Oct-Dec-04)**

*A. ECONOMIC, TRADE, AND FINANCIAL POLICY SUPPORT*

AWP-2004 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER STATUS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<b>A2.5.4 Assistance on FTAs (U.S. and other) and RTAs</b>		>> >X >>	>> >> >>	>> X >>	TIFA comments submitted to US Embassy. On going preparation of petitions to USTR to expand product coverage under the US GSP 2004 with MoIT submitted in May 2004.
<b>A2.5.5 TIFA assistance</b>				>> >X	Assistance provided to MoIT in preparation for the first Mongolia-U.S. TIFA Joint Council meeting scheduled for January 2005. Short-term expert assistance included initial discussions with MoIT, donors, and multilaterals concerning proposal for a Trade Negotiations Participation, Compliance and Implementation Unit. Further work on proposal scheduled for February 2005, after TIFA meetings.
<b>A3. Reduction of transaction costs for businesses</b>					
<b>A3.1 Review of nominal and real interest rates, Bank of Mongolia policies, banking spreads, and formulation of policy options</b>					
<b>A3.2 Transit of goods through Russia and China</b>				>> >X	Field investigation of Russian and Chinese practices applied to the transit of selected Mongolian products and elaboration of GATT-supported procedures for negotiation at bilateral meetings. Activity will be reprogrammed for AWP-2005 due to focus on assisting MoIT with preparations for TIFA negotiations with the U.S. and medical evacuation of Trade Specialist.
<b>A4. Deepening and strengthening of the financial sector</b>					
<b>A4.1 Insurance sector regulatory environment</b>					EPRC will focus its assistance on assisting insurance firms in product development and regulatory compliance. Under third financial sector loan agreement, ADB will take the lead in assisting GoM with regulation in the insurance and non-banking financial institutions.

**Exhibit II-1: Economic, trade, and financial policy support work plan implementation (Oct-Dec-04)**

*A. ECONOMIC, TRADE, AND FINANCIAL POLICY SUPPORT*

AWP-2004 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER STATUS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<b>A5. Response to emerging policy initiatives</b>					
<b>A5.1 Countries' best practices, development of economic &amp; financial models to inform the negotiation of stability agreements in the mining sector</b>		>> >X			As negotiated and agreed upon and consistent with project policy support focus on laws, regulations, systems, and procedures directly affecting the business environment.
<b>Policy Brief on Negotiation of stability agreements in mining</b>		>X			Completed assessment of Mongolia's mining sector competitiveness and framework for use of stability agreements at the request of MoFE.  Policy brief prepared and delivered.
<b>A5.2 Review and updating of Jan-03 draft <i>Economic Development Strategy for Mongolia through 2015</i></b>	>> >> >X	>>X			Completed third draft of a prioritized development strategy tentatively entitled <i>Mongolia: Vision 2020</i> .
<b>A5.2.1 Economic Development Strategy Technical Paper: Mongolia's foreign trade</b>		>> >X		X	Technical paper completed in draft form. Summary of findings presented in December 2004 Project Newsletter.
<b>A5.3 Shadow economy survey</b>		>> >> >>	>> >> >>	>> >> >>	Continued working with Mongolian <i>Open Society Forum</i> and National Statistical Office to review data collection instrument and results of field pre-testing of questionnaire. Began subcontract negotiations with OSF to conduct national household survey.
<b>A5.4 Economic policy reform agenda proposal for the new government</b>			>X	>> >> >X	Assistance to the GoM on defining economic policy reform agenda focused on private sector based economic growth and increased country competitiveness. Proposed economic policy reform agenda specified for the first 100 days.
<b>A5.5 Assessment of Mongolia's legal framework for concessions and draft Concessions Law</b>		>>	>> X >>	>> >> X	Initial assessment performed at the request of the Ministry of Justice.
<b>A5.6 Mongolia's country risk and country risk premium</b>		>> >>	X >> >>	X >> X	Released English version of technical analysis of Mongolia's country risk and country risk premium estimation. Draft translation into Mongolian completed. Meetings held with risk management unit of Mongol Bank, at their request, concerning scheduling of jointly-sponsored workshops on subject matter.

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Updated: 9-Jan-05

**Exhibit II-2: Energy work plan implementation (Oct-Dec-04)**

*B. ENERGY SECTOR REFORM SUPPORT*

AWP-2004 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER STATUS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<b>B1. Development and implementation of regulatory environment</b>					
<b>B1.1 Regulations and implementation of cost-based standards for sector companies</b>	>> >> >>	>> >> >>	>> >> X		New charts of accounts implemented at the Central Energy System generating companies. Held a 6-day training workshop for company accountants and others.
<b>B1.1.1 Cost-based tariff calculation by sector companies</b>	>> >> >>	>> >> >>	>> >> >>	>> >> >>	Completed assistance to generating companies on account conversions.
<b>B1.1.2 Assist ERA with implementation of an IAFRS-based Regulatory Accounting System</b>			>> >> >> >>	>> >> X	International Accounting and Financial Reporting Standards (IAFRS)-compliant uniform chart of accounts awaiting final sign-off from Minister of Finance.
<b>B1.2 Strengthening of ERA supervisory capacity</b>					
<b>B1.2.1 Development and support for ERA system for supervision of and implementation of a reporting system by sector companies.</b>		>> >>	>> >> >>	>> >> >>	Drafted and submitted for ERA adoption: public hearing procedure, consumer protection procedures, inter-company dispute settlement, proposals for cold weather disconnection rules and developed a consumer education program proposal.
<b>B1.2.2 Development and support for ERA's public information strategy</b>			>> >>	>> >> >>	Conducted several short workshops for stake holders and a one-day workshop including stake holders, the Ministry of Fuel and Energy and consumer representatives. The ERA used the proposed public hearing procedures to conduct its first-ever open to the public tariff hearing which was attended by about 250 people.
<b>B1.2.3 Develop public hearing process to hear sector company and consumer complaints</b>				>> >> >>	Same as above.
<b>B1.2.4 Assist ERA with review of temporary sector company operating licenses and develop long term licenses</b>			X X	>> >> >>	Provided the ERA with draft procedures for issuing construction licenses for independent generating facilities. Reviewed and commented on several new long-term licenses which were issued.

**Exhibit II-2: Energy work plan implementation (Oct-Dec-04)**

*B. ENERGY SECTOR REFORM SUPPORT*

AWP-2004 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER STATUS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<b>B2. Development and implementation of commercial orientation and practices in private sector companies</b>				>> >> >>	Assisted generating companies with implementation of new chart of accounts and accounting system conversion; introduced concepts of calculation working capital requirements and asset valuation. Assisted the Ministry of Finance with the drafting of new regulations on useful life and depreciation calculation for assets.  No action taken.
<b>B2.1 Billing and collection systems for distribution companies</b>					
<b>B3. Attractive environment for private investment in the sector</b>	>> >>	>> >> >>	>> >> >>	>> >> >>	Introduced the idea of privatization via concessions instead of asset sales to reduce investor risk and presented these at a cabinet retreat in October.
<b>B4. Response to emerging policy initiatives</b>					
<b>B4.1 Assistance to GoM in drafting energy sector legislation and amendments</b>	>> >> >>	>> >> >>	>> >> >>	>> >> >>	Worked with the Ministry of Fuel and Energy to set legislative agenda priorities for 2005: Concession Law, Energy Law, Energy Conservation Law and a law covering renewable energy.
<b>B4.2 On-demand assistance to ERA</b>	>> >> >>	>> >> >>	>> >> >>	>> >> >>	Continued support of World Bank projects on tariff design and market structure. Also assisted World bank with data collection for a major infrastructure status study.

**Exhibit II-3: Business development services work plan implementation (Oct-Dec-04)**

*C. BUSINESS AND SECTOR / CLUSTER DEVELOPMENT*

AWP-2004 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER STATUS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<b>C.1 Improved competitiveness of sectors/clusters</b>					
<b>C 1. 1 Natural fibers (cashmere)</b>					
<b>C1.1.1 Status assessment, strategy, and action plan</b>					
Review of available assessments and reports; site visits to firms, associations, and clusters; identification of supply chains, export capacities, and constraints; identification of anchor firms	>> >> >>				Completed.
Concise sector/cluster status report and proposed strategy elaborated	>>	X			Completed.
<b>C1.1.2 Support to sector/cluster associations</b>					
<b>Assistance to the FiberMark society</b>					
Point of sale (POS) marketing materials for Mongolian cashmere developed and distributed		>> >X	>> >X >>>		Completed.
Market Intelligence Unit established to disseminate information about target export market niches for cashmere			>> >> >> >X >>		FiberMark society gathering information and disseminating it through weekly newsletter.
Proposal prepared for membership of IWTO				>> >X	
Application prepared for the protection of geographical indication of Mongolian cashmere			>> >> >X		On going.
Cashmere Forum for cluster members conducted		>> X			Cashmere forum held on 6 July. Decision made to form a national cashmere working group.
<i>National Cashmere Working Group established</i>				> > X	On-going.
Proposal prepared for the accreditation of Textile Institute Laboratory		>> >>	>> >> X		Delayed due to Textile Institute; re-scheduled for 2005.
Facilitate the preparation of a Spring Fashion Show 2005				> >> >>	Preparations commenced.

**Exhibit II-3: Business development services work plan implementation (Oct-Dec-04)**

*C. BUSINESS AND SECTOR / CLUSTER DEVELOPMENT*

AWP-2004 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER STATUS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<p><b>C1.1.3 Improved marketing and distribution channels in target export niche markets</b>  <b>Mongolia' page in Wool Record:</b> <i>Monthly articles on cashmere and wool industry developments</i></p> <p><b>Berlin Distribution Center for Mongolian cashmere:</b> Identification and negotiation with partners, business plan developed, company formed and distribution center opened.</p>			>	> > >	<p>Articles written for inclusion in October and November issues</p> <p>Company, 'UB Concept' formed and registered in Germany. Trading commenced mid December 2004.</p>
<p><b>C1.1.4 Improved country competitive environment for the sector</b></p> <p>Mongolian baseline cashmere competitive value chain analysis completed: volumes, values, capacities, technologies, linkages, major players, profitability, taxation, regulatory, and policy issues at each stage</p> <p>Promulgation of findings and working cluster consensus on taxation, regulatory, and policy priority proposals for GoM consideration</p> <p>Implementation follow-up of taxation, regulatory and policy proposals; briefings to Executive and Parliament members and lobbying</p>			> >>	>X	<p>Delayed due to transfer of effort to MFA issues. Re-arranged for first quarter 2005 to coincide with on-going work in cashmere sector (Spinning Study and Gobi privatization)</p>
<p><b>C1.1.5 Improved business practices and technical knowledge of cluster/sector counterparts</b></p> <p><b>Internships Program:</b> Products or deliverables-based projects jointly designed with counterpart agency and implemented with counterparts' personnel seconded temporarily to EPRC</p> <p><b>Internship 1:</b></p> <p><b>Internship 2:</b></p> <p><b>Workshops, conferences and training:</b> To disseminate knowledge of best practices, improve technical and management skills</p> <p>Mongol Amicale, Customer Service training completed</p>	X			> > > > > > X> X>	<p>Completed.</p>



**Exhibit II-3: Business development services work plan implementation (Oct-Dec-04)**

*C. BUSINESS AND SECTOR / CLUSTER DEVELOPMENT*

AWP-2004 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER STATUS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<b>C1.1.6. Response to emerging opportunities for firm level transactions</b>					
Mongol Amicale, broking transactions with a Swiss distributor		>> >>			Negotiations failed due to inability of Mongolian processors to meet technical specifications
Eermel, design of a new collection, website, visitor center (potential for BDF)		>> >X			Waiting for commitment to 50% cost share
Altai cashmere, product development		>> >>			Completed.
<b>C1. 2 Tourism</b>					
<b>C1.2.1 Status assessment, strategy and action plan</b>					
Review of available assessments and reports; site visits to firms, associations, and clusters; identification of supply chains, export capacities, and constraints; identification of anchor firms	>> >> >>				Completed.
Concise sector/cluster status report and proposed strategy elaborated	>> X				Completed.
<b>C1.2.2 Support to sector/cluster associations</b>					
<b>Assistance to the Mongolian Tourism Association</b>					
- Insurance workshops		W W	W	W	Two workshops completed last quarter conjunction with Mongol Daatgal and MTA
-Trade show preparation workshops				W	
Dissemination of market intelligence	>> >> >>	>> >> >>	>> >> >>	>> >> >>	Continuous.
Assistance to MTA provided for the preparation of its 2005 business plan				>> >X	
Joint assessment of the current certification system			>X		Field trip undertaken with MTA and MTB. Surveyed 38 ger camps and over 100 international tourists. Recommendations now being collated for submission to new Ministry.
Trade show manual published			X		Manual prepared, will be published November.
Tourism inventory for Zavkhan aimag produced			>>	X	Cancelled due to lack of capacity.

**Exhibit II-3: Business development services work plan implementation (Oct-Dec-04)**

*C. BUSINESS AND SECTOR / CLUSTER DEVELOPMENT*

AWP-2004 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER STATUS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<p><b>C1.2.3 Improved marketing and distribution channels in target export niche markets</b></p> <p><b>Tourist Information Center (TIC):</b> Identification and negotiation with partners, concept and business plan developed and distributed to the tourism cluster, Memorandum of Understanding signed among partners, premises secured, NGO established and co-operation agreement signed, TIC opened</p>	>> >> >>	X >X >>	>> X >>	>X	TIC concept revived with help of new Ministry (MRTT). Structure agreed. TIC to be positioned in UB Post Office with information points at airport and rail station. NGO scheduled to be established during the next quarter.
<p><b>C1.2.4 Improved country competitive environment for the sector</b></p> <p><b>Tourism Law:</b> Draft amendments submitted to Mol</p> <p><b>Tourism sector data improvement:</b> Assessment, design, action plan, and resource requirements proposal prepared and submitted</p>			>> >>	X	EPRC invited on to tourism law working group. Amendments to go before Spring session of parliament. To be incorporated in TIC.
<p><b>C1.2.5 Improved business practices and technical knowledge of cluster/sector counterparts</b></p> <p><b>Internships Program:</b> Products or deliverables-based projects jointly designed with counterpart agency and implemented with counterparts' personnel seconded temporarily to EPRC</p> <p><b>Internship 1:</b></p> <p><b>Internship 2:</b></p> <p><b>Workshops, conferences and training:</b> To disseminate knowledge of best practices, improve technical and management skills</p>				> > > X X	
<p><b>C1.2.6. Response to emerging opportunities for firm level transactions</b></p> <p>Development of Safari Park concept for Ulaanbaatar (potential for BDF)</p>		>>>>	>>	X	STTA completed under BDF. Report and recommendations forwarded to client. Further action under review.

**Exhibit II-3: Business development services work plan implementation (Oct-Dec-04)**

*C. BUSINESS AND SECTOR / CLUSTER DEVELOPMENT*

AWP-2004 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER STATUS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<p><b>C1.3 Meat</b></p> <p><b>C1.3.1. Status assessment, strategy, and action plan</b></p> <p>Review of available assessments and reports; site visits to firms, associations, and clusters; identification of supply chains, export capacities, and constraints; identification of anchor firms Concise sector/cluster status report and proposed strategy elaborated</p>		>> >>	>> >>		
<p><b>C1.3.2 Support to sector/cluster associations</b></p> <p><b>Assistance to the Meat Producers Association</b></p> <p>Market Intelligence Unit established</p> <p>Analysis of barriers to export of meat and meat products to emerging markets and presented to the industry</p> <p>STTA to improve sanitary conditions in selected meat processing plants engaged</p>				X	
<p><b>C1.3.3 Improved marketing and distribution channels in target export niche markets</b></p> <p>Provide market information to meat processors in support of potential exports to Egypt and the Middle East</p>			>> >X		
<p><b>C1.3.4 Improved country competitive environment for the sector</b></p>					

**Exhibit II-3: Business development services work plan implementation (Oct-Dec-04)**

*C. BUSINESS AND SECTOR / CLUSTER DEVELOPMENT*

AWP-2004 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER STATUS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<p><b>C1.2.5 Improved business practices and technical knowledge of cluster/sector counterparts</b></p> <p><b>Internships Program:</b> Products or deliverables-based projects jointly designed with counterpart agency and implemented with counterparts' personnel seconded temporarily to EPRC</p> <p><b>Internship 1:</b></p> <p><b>Internship 2:</b></p> <p><b>Workshops, conferences and training:</b> To disseminate knowledge of best practices, improve technical and management skills</p>					
<p><b>C1.3.6. Response to emerging opportunities for firm level transactions</b></p>					
<p><b>C1.4 Leather</b></p> <p><b>C1.4.1 Status assessment, strategy, and action plan</b></p> <p>Review of available assessments and reports; site visits to firms, associations, and clusters; identification of supply chains, export capacities, and constraints; identification of anchor firms</p> <p>Concise sector/cluster status report and proposed strategy elaborated</p>		>> >>	>> >>		Completed
			>> >X		Completed
<p><b>C1.4.2 Support to sector/cluster associations</b></p> <p><b>Creation of and assistance to the Mongolian Leather Companies Association</b></p> <p>Association of Mongolian Leather Companies formed</p>		>> >> >> X			Completed.
<p>Cooperation agreements concluded</p>			>> X		Completed.

**Exhibit II-3: Business development services work plan implementation (Oct-Dec-04)**

*C. BUSINESS AND SECTOR / CLUSTER DEVELOPMENT*

AWP-2004 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER STATUS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<p><b>C1.4.3 Improved marketing and distribution channels in target export niche markets</b> Investigation into opportunities afforded through import of hides from Russia and re-export to Russian footwear industry</p>			>	> >	Visits to Russian footwear manufacturers and hide suppliers completed. Pilot program to take place next quarter.
<p><b>C1.4.4 Improved country competitive environment for the sector</b></p>					
<p><b>C1.2.5 Improved business practices and technical knowledge of cluster/sector counterparts</b> <b>Internships Program:</b> Products or deliverables-based projects jointly designed with counterpart agency and implemented with counterparts' personnel seconded temporarily to EPRC <b>Internship 1:</b> <b>Internship 2:</b> <b>Workshops, conferences and training:</b> To disseminate knowledge of best practices, improve technical and management skills</p>					
<p><b>C1.4.6 Response to emerging opportunities for firm level transactions</b></p>					
<p><b>C2. Sector/cluster transaction support: The Mongolian Competitiveness Fund</b></p>					
<p><b>C2.1. Assessment and fund design</b> Fund design requirements document completed based on local assessments; proposed objectives, operations, client eligibility, management and monitoring mechanisms agreed upon.</p>	>>	X >>	X		Completed.
<p><b>C2.2. Fund marketing and promotion</b> Marketing brochures, media materials and roll-out plan prepared Marketing workshops, seminars and press conferences delivered</p>			>>X W W		Completed. Regional meetings planned for 2005

**Exhibit II-3: Business development services work plan implementation (Oct-Dec-04)**

*C. BUSINESS AND SECTOR / CLUSTER DEVELOPMENT*

AWP-2004 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER STATUS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<b>C2.3. Client recruitment and transaction structuring</b> Clients assisted in project formulation, subcontracts negotiated, and projects monitored			>> >>	>> >> >>	First two transactions completed.
<b>C2.4. Quarterly report on fund management results</b> Quarterly report on transaction pipeline and transaction results			>>	X	Completed
<b>C3. Firm-level transaction support: The Mongolian Business Development Fund</b>					
<b>C3.1. Assessment and fund design</b> Fund design requirements document completed based on local assessments; proposed objectives, operations, client eligibility, management and monitoring mechanisms agreed upon.		>> >>	X		Completed.
<b>C3.2. Fund marketing and promotion</b> Marketing brochures, media materials and roll-out plan prepared Marketing workshops, seminars and press conferences delivered			>X >> W	W	Completed Completed. Regional meetings planned for 2005
<b>C3.3. Client recruitment and transaction structuring</b> Clients assisted in project formulation, subcontracts negotiated, and projects monitored			>>	>> >> >>	First transaction under way.
<b>C3.4. Quarterly report on fund management results</b> Quarterly report on transaction pipeline and transaction results					
<b>C4. Improved competitiveness of business environment</b>					
<b>C4.1 Inclusion of Mongolia in 2005 Microeconomic Index of Competitiveness</b>				>> >> X	Agreement signed with the World Economic Forum for project to be local partner to rank Mongolia on the 2005 Index.
<b>C4.2 Feasibility analysis for local private equity fund</b>			>> >>	>>>X	First stage feasibility completed in partnership with <i>The Open Society Forum and Mongolia Links Co. Ltd.</i> Favorable findings will lead to second stage study scheduled for next quarter.

**Exhibit II-3: Business development services work plan implementation (Oct-Dec-04)**

*C. BUSINESS AND SECTOR / CLUSTER DEVELOPMENT*

AWP-2004 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER STATUS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<p><b>C4.3 Improved legal and regulatory environment for businesses</b></p> <p><b>Updated, current business laws:</b> Releases of updated Mongolian versions and English translations of selected business relevant laws done in conjunction with the National Legal Center</p> <p><b>Country 'due diligence' analysis &amp; detailed change recommendations on laws, resolutions, and regulations:</b> Short-term corporate legal and investment advisory team works with Mongolian team on country 'due diligence' and produces list of changes</p> <p>Briefings, advocacy and implementation of business legal and regulatory reforms</p> <p><b>C4.4 Impact of the end of the Multifiber Agreement (MFA) on Mongolia's textile and apparel industry</b></p> <p>'Desk-top' analyses of potential impact of end of MFA on Mongolia</p> <p>Textile and apparel firm-level analyses of cost structures and competitiveness to prepare policy recommendations for GoM consideration.</p>		>>	>> >X >>	>> >> >>	<p><i>Essential Business Laws of Mongolia</i> released in mini CD by the National Legal Center and the project at the 7th Annual Investors' Conference on 14 September.</p> <p>Completed.</p> <p>International textile expert produced report with recommendations submitted to and discussed with industry and GoM.</p>

**Exhibit II-4: Cross-cutting issues: National dialogue and project management work plan implementation (Oct-Dec-04)**

*D. CROSS-CUTTING ISSUES; NATIONAL DIALOGUE AND PROJECT MANAGEMENT*

AWP-2002 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER STATUS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<b>D1. Improved public transparency, corporate governance and national dialogue</b>					
<b>D1.1 Mongolia Business Trust</b>					Concept proposed to be discarded. <i>Business Development Fund</i> has been created to assist individual firms. <i>Monthly Project Newsletter</i> and <i>Policy Briefs</i> have assumed role of promulgating economic policy issues. In addition, project Web site will provide access to project technical documents.
<b>D1.2 Open Government Website</b>	>> >> >>	>> >> >>	>> >> >>	>> >> >>	Changes implemented to make the <i>Open Government</i> Web site more useful. Assisted Prime Minister's Office in posting the Government Action Plan (GAP) for 2004-2008 and with translation and posting of English version of GAP.
<b>D1.2.1 Review of relevant laws and resolutions on law-making processes</b>		>> >>	>> >> X	>> >> X	Meetings held with Cabinet Legal Affairs Officer and National Legal Center to review GoM Resolution 2000-No 178 on Cabinet Procedural Rules, Law on Drafting and Submitting Laws & Other Resolutions of the Ikh Hural of 8 November 2001, Resolution of Ikh Hural of 21 June 2001, No. 61 and its Amendment of 13 May 2004 establishing legal process of law making. Draft prepared by TAF to mandate periods of public comment for new draft laws and amendments.
<b>D1.2.2 Proposal to Cabinet and Ikh Hural for improved public participation in law-making process and role of Open Government Website</b>			>> >> >>	>> >> >>	Working with Cabinet Legal Affairs Officer, the National Legal Center, and coordinating with USAID-supported IRI project, subcontractor TAF will initiate broader consultation and dialogue with Prime Minister, Ministers and MPs. Formal draft resolution expected to be submitted to Cabinet for consideration during next quarter.
<b>D1.2.3 Operations and maintenance of the Open Government Website</b>	>> >> >>	>> >> >>	X >>	>X XX X	Project assumed technical responsibility for hosting the on-line <i>Open Government</i> "chats" of GoM officials with citizens. Five on-line Internet chats held during the quarter: on 8 October with Minister of Foreign Affairs, Ts. Munkh-Orgil; on 22 October with Minister of Environment, U. Barsbold; on 5 November with Minister of Health, T. Gandhi; on 19 November with Minister of Justice and Domestic Affairs, Ts. Nyamdorj; and on 3 December with Minister of Finance, N. Altankhuyag. A sixth on-line event, conceived and organized by the project and supported by TAF, was a multimedia "super chat" featuring the Speaker of Parliament and the Prime Minister. The event, held on 21 December, reached an estimated audience of over 700,000 people.



**Exhibit II-4: Cross-cutting issues: National dialogue and project management work plan implementation (Oct-Dec-04)**

*D. CROSS-CUTTING ISSUES; NATIONAL DIALOGUE AND PROJECT MANAGEMENT*

AWP-2002 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER STATUS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<b>D1.3 Proposed EPRC Project Web site (in lieu of <i>The Mongolian Business Trust Quarterly</i>)</b>			>> >X	>> >> X	Project Web site, <a href="http://www.eprc-chemonics.biz">www.eprc-chemonics.biz</a> , available for internal use. Public rollout expected next quarter.
<b>D1.4 Speakers Program</b>	X X	X	>> X	X XX X	Project and <i>Open Society</i> forum presentation on 13 October of findings from first stage of private equity fund feasibility. Standard & Poor's <i>Essentials of Credit Rating</i> presentation co-sponsored by the project and partners on 27 October. Presentation of 5 November on measures to mitigate impact of end of Multi Fiber Agreement on Mongolia's apparel industry. Workshop on <i>Consumer and Utility Rights and Obligations under Regulation</i> conducted on 19 November. Public launching of MCF and BD funds on 16 December. Presentation at the Third Annual Convention of the Mongolian National Institute of Certified Accountants on 9 December.
<b>D1.5 Assistance to the GoM with the <i>Millennium Challenge Account</i></b>		>> >>			At the request of the Prime Minister's Office, project provided support on MCA indicators, eligibility requirements, and likely project selection criteria to the MCA Inter-Ministerial Working Group created by Cabinet resolution. Project involvement in MCA activities was stopped, following instructions for non-involvement by U.S. Government funded projects.
<b>D2. Coordination and cooperation with partners, foreign investors, bilateral, and multilateral organizations</b>					
<b>D2.1 Energy Donor Round Tables</b>	X	X	X		None held during the quarter.
<b>D2.2. USAID Business Development Projects Meetings</b>		X X	X X X	X X X	Monthly meetings held.
<b>D2.3 Millennium Challenge Corporation</b>	>> >>	>>			Intensive assistance provided to MCA Inter-Ministerial Working Group until USAID/W issued guidance of non-involvement
<b>D3. Monthly EPRC Review</b>	X X X	X X X	X X	X X X	Produced and distributed three issues of the EPRC Monthly Newsletter in English and Mongolian during the quarter, for a running total of eleven for the current AWP. (July and August 2004 was a single issue).

**Exhibit II-4: Cross-cutting issues: National dialogue and project management work plan implementation (Oct-Dec-04)**

*D. CROSS-CUTTING ISSUES; NATIONAL DIALOGUE AND PROJECT MANAGEMENT*

AWP-2002 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER STATUS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<b>D4. Internship program</b>					
<b>D4.1 On-line access to current business laws and English translations - National Legal Center</b>		>>>	>>>X>>	>>	After first release of <i>Essential Business Laws</i> CD last quarter, activity was put on-hold until MOU with NLC is signed and additional resources are identified and allocated.
<b>D5. Contract management</b>					
<b>D5.1 Quarterly Progress Reports</b>	X	X	X	X	Submitted Quarterly Progress Report for the July- September 2004 quarter.
<b>D5.2 Annual Work Plans and budgets</b>		>>>X		X	Annual Work Plan for 2005 submitted.
<b>D5.3 Training database</b>	>>>>>	>>>>>	>>>>>	>>>>>	Submitted reports as required.
<b>D5.4 Other reports on demand</b>		X X X	X X X	X X X	Monthly project status reports produced for USAID's COPs meetings.

File: QPR Oct-Dec-04.xls  
 Updated: 9-Jan-05

## **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**

Project management efforts during the quarter focused on:

- Conduct a project review as part of the Mission's annual project portfolio review and reach initial agreement concerning core activities and expected results for the forthcoming year
- Development of terms of reference and Mission agreement for the recruitment of a long-term Corporate Finance Advisor to replace a contract key personnel position; selection, and recruitment of two potential candidates for the position, and development of terms of reference for short-term technical assignments to be performed during the first quarter to evaluate the candidates
- Finalization of and agreement on procedures for the *Competitiveness Fund* for sector/cluster general support and the *Business Development Fund* for the provision of firm-level support
- Preparation and submission of project annual work plan for 2005 (AWP-05)
- Undertaking of technical support for the on-line Internet chats of the *Open Government* site, with six of them successfully concluded
- Completion of the development of the project Web site, loading of documents and scripts, and internal testing of [www.eprc-chemonics.biz](http://www.eprc-chemonics.biz)

By the end of the quarter the Mission and project management completed all relevant contract actions required as anticipated.

### **C. Personnel**

With the exception of one long-term expatriate who had to be evacuated for medical reasons during the preceding quarter, remaining key contract personnel were settled and work plan implementation proceeded smoothly. Project management identified and recruited replacements for local long-term personnel who resigned or whose employment contracts were ended.

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

Project management hired a replacement for a long-term local interpreter/translator who resigned to pursue graduate studies and hired another long-term local translator/interpreter, also as a replacement position. Exhibit B-1 in Annex B provides a summary status of local staff as of the end of the reporting period.

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

Fielding of short-term expatriate assignments proceeded according to work plan schedule. Eight short-term expatriate technical assignments were completed during the quarter. Exhibit B-2 in Annex B provides details about the purpose of these assignments, dates of arrival and departure.

## D. Status of subcontracts

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

## E. USAID Resource Center utilization

Exhibit III-1 summarizes use of the USAID Resource Center by external organizations during the quarter. Use was equivalent to 1,470 person/days.

**Exhibit III-1: Public conferences, presentations, and events held during the quarter (Oct-De**

No.	Event code	Date	Event	Target participants	No.of Atten.	Type of event	Location (city)	Duration (Hours)
1	DEC	19-Oct	Politics and civil society	NGOs	25	Meeting	Ulaanbaatar	4
2	USAID	09-Nov	Project Portfolio Review	Judicial Reform Project	14	Meeting	Ulaanbaatar	3
3	USAID	10-Nov	Project Portfolio Review	EPRC Project	14	Meeting	Ulaanbaatar	4
4	USAID	10-Nov	Project Portfolio Review	GER Initiative Project	11	Meeting	Ulaanbaatar	3
5	USAID	11-Nov	Project Portfolio Review	IRI Project	10	Meeting	Ulaanbaatar	3
6	SDC	22-24 Nov	Training for regional branches	Branches of the Social Democratic Center	47	Training	Ulaanbaatar	24
7	USAID	14-Dec	BBC Interview with Skip Waskin Representative of USAID	USAID, Correspondent of BBC	3	Interview	Ulaanbaatar	1
8	TMC	21, 23 Dec	Child labor	NGOs	42	Meeting	Ulaanbaatar	16
9	DEC	22-Dec	Presentation of book <i>Citizens and Taxes</i>	DEC, NGOs	30	Presentation	Ulaanbaatar	2

**Totals 196**

**60**

Event codes: SDC=Social Development Center

DEC=Democratic Education Center

TMC=Tegsh Mur Center

USAID=United States Agency for International Development

**Total person/days: 1,470**

## F. Budget status report

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

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

There were no significant problems materially affecting contract performance during the quarter.

### **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:

1. Finalization of agreements concerning project annual work plan main activities and expected results for 2005 (AWP-05)
2. Fielding of a one-year Accounting, Auditing and Tax Advisor, Mr Larry Jensen, as agreed with the Mission
3. Conduct of short-term technical assignments of proposed candidates for the long-term Corporate Finance Advisor; selection, contracting and fielding of selected long-term contract key personnel replacement
4. Public rollout of the project Web site at [www.eprc-chemonics.biz](http://www.eprc-chemonics.biz) to provide information about the project activities, results, and access to public technical documents and presentations
5. Signing of a Memorandum of Understanding with the National Legal Center to update essential business laws in English and Mongolian and make these publicly accessible through their Web site, with linkages from the Open Government Web site
6. Transfer of surplus equipment under contractor's custody, as agreed with GoM and USAID



## **ANNEXES**

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**ANNEX A: SUMMARY PROJECT DESCRIPTION**

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# ANNEX A: SUMMARY PROJECT DESCRIPTION

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## 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*  
Christopher Broxholme, *Deputy Chief of Party*  
Janusz Szyrmer, *Senior Policy Advisor*  
Bruce Harris, *Senior Competitiveness Advisor*  
Horst Meinecke, *Senior Energy Advisor*

## Purpose of the activity

Accelerate and broaden sustainable, private-sector-led economic growth through an improved enabling environment for private sector growth and more competitive industries and sectors.

## Project goals

1. Accelerate and deepen the policy reform process in Mongolia
2. Promote increased competitiveness in the Mongolian economy.

## Project vision

Support a competitive participation of Mongolia in the world economy.

## Project strategy

- Continuation of the development, maintenance, and implementation of sound, market-oriented macroeconomic, trade and investment, sectoral, and microeconomic policies that promote sustainable and equitable economic growth
- An enabling business environment and regulatory framework that fosters competition and attracts foreign investment and best business practices
- The development of private sector businesses and clusters focused on supplying the demand of target export and domestic market niches capable of turning and maintaining comparative advantages into competitive edges
- Continued national dialogue on building a national consensus to "put Mongolia on the world map" supported by government transparency and good governance business practices

## Project tasks

- **Policy analysis, formulation and implementation support:** This task category includes: (a) policy assessment and analysis; (b) formulation of policy options for improving the competitiveness of the Mongolian economy; (c) assistance in consensus building; and (d) technical and managerial implementation support.
- **Consensus building, public education and national dialogue:** EPRC supports an improved environment for government transparency and corporate governance by working with national decision-makers, the business community, local government and community leaders, academic institutions, and representatives of civil society using a consensus building strategy linked to policy reform and private sector led economic growth.
- **Cluster development and support:** EPRC works with individual firms and inter-related groups (clusters) in key industrial sectors to develop competitive, export-driven businesses. Priority sectors include cashmere, tourism, hides, skins, leather, meat, and textiles.
- **Energy sector support:** 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 environment attractive to foreign and domestic private investment.
- **Internship Program:** To improve the quality of economic, trade, and business decision-making, EPRC runs a small internship program where participants acquire first-hand experience in best practices by working side by side with experts on specific projects focused on improving the competitiveness of the Mongolian economy.



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

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

<b>Exhibit B-1: Local long-term project staff as of the end of October–December 04 quarter</b>			
<b>Employee name</b>	<b>Position</b>	<b>Start date</b>	<b>End date</b>
<i>Professional Staff</i>			
Altansukh Tumenjargal	IT Specialist	10-Nov-03	
Amgalan Nordov	Energy Specialist	10-Nov-03	
Uurtsaikh Sanghi	Operations Manager	10-Nov-03	
Jigjidmaa Dugeree	Business Development Advisor	8-Dec-03	
Indraa Bold	Business Development Advisor	5-Jan-04	
Odonmijid Ganbold	Accountant	27-Apr-04	
Ashidmaa Dashnyam	Financial and Business Specialist	10-May-04	
Doljinsuren Jambal	Economic Analyst	17-May-04	
Altantuya Dorjpalam	OG Website Coordinator	17-Nov-04	
<i>Support Staff</i>			
Khaliun Yura	Receptionist	26-Nov-03	
Oyuntsetseg Minjin	IT Assistant/Information Officer	12-Dec-03	
Odgerel Myagmar	Business Development Assistant	26-Jan-04	
Batmunkh Batsuren	Driver/Messenger	1-Feb-04	
Erdenebat Dangaasuren	Driver/Messenger	6-Feb-04	
Munkhtulga Khurelbaatar	Translator/Interpreter	18-Mar-04	12-Dec-04
Munkhsaikhan Dambiinyam	Accounting Specialist	26-May-04	
Munkhtuya Ganbaatar	Administrative Assistant	25-Aug-04	
Munkhzul Janchiv	Administrative Assistant	18-Oct-04	
Tsolmon Tamir	Translator/Interpreter	22-Oct-04	
Batbold Gankhuu	Translator/Interpreter	13-Dec-04	

**Exhibit B-2- : Short-term technical assignments during the October–December 04 quarter**

<b>Name</b>	<b>Purpose of assignment</b>	<b>Date of arrival</b>	<b>Date of departure</b>
Rup Khadka	Overview of the Mongolian tax system	26 Jul	15 Oct
Larry Jensen	Implementation of uniform system of accounts	15 Aug	16 Dec
Jeremy Burgess	Feasibility study for open zoo	28 Aug	1 Oct
Dennis Grubb	Feasibility study for establishment of equity fund	13 Sep	17 Oct
John Smith	Alleviation of the impact of MFA discontinuation	4 Oct	8 Nov
Hasso Bhatia	Development of ERA public communication strategy	10 Oct	26 Nov
Christie Sunwoo	Project management and administration	23 Oct	5 Nov
Roger Freeman	Preparation for negotiations on the TIFA	15 Nov	20 Dec