

## **SECTION C - DESCRIPTION/SPECIFICATIONS/STATEMENT OF WORK**

### **I. CONTRACT OBJECTIVE**

This Mongolian Economic Policy Reform and Competitiveness (EPRC) activity will contribute to two broad, interrelated objectives:

- Accelerate and deepen the policy liberalization process in Mongolia
- Promote increased competitiveness in the Mongolian economy

The activity builds on two ongoing activities that have shaped both policy and private sector development in Mongolia: the Economic Policy Support Project (EPSP) and The Competitiveness Initiative (TCI). Within the USAID/Mongolia results framework, both activities contribute directly to the achievement of Strategic Objective One (SO1): Accelerate and Broaden Environmentally Sound Private Sector Growth. EPSP is scheduled to end on September 30, 2003. The Competitiveness Initiative is scheduled for completion on August 30, 2003.

As shown below, EPRC has clearly defined components and will be focused on achieving measurable results. However, it is also designed to have sufficient program flexibility to respond rapidly and effectively to “windows of opportunity” such as new market or business opportunities, new economic reform opportunities or requirements, as well as unexpected domestic, regional or international economic and business developments. As such, the contractor for EPRC must have a high level of managerial and technical competence in core program component areas, while maintaining sufficient flexibility to respond to critical USAID, Government of Mongolia (GOM), private sector and NGO program assistance needs on a “demand-driven” basis.

USAID/Mongolia encourages the contractor to take an innovative approach to the implementation of program activities, bringing to bear international best practices and new ways of doing development business. Also consistent with USAID/Washington’s Global Development Alliance (GDA) Initiative, the contractor should seek appropriate opportunities to use EPRC as a catalyst to mobilize the resources of private corporations, foundations, universities, and other non-government organizations interested in working in Mongolia. This could be accomplished through strategic alliances, and leveraging additional intangible and/or parallel financing resources, but consistent with USAID policies and regulations.

### **II. BACKGROUND**

#### **a. Introduction to Mongolia**

Mongolia is a large land-locked country of just over 600,000 square miles -- about the size of Alaska. It shares long land borders with a rapidly emerging China to the south and the resource-rich Siberian region of Russia to the north. The capital, Ulaanbaatar, is over 4,000 feet above sea level. Because of its elevation and distance from any ocean or sea, Mongolia has a harsh continental climate, marked by numerous high-pressure systems and severe cold much of the year. With its approximately 2.4 million people, Mongolia has one of the lowest population densities in the world.

Rapid political changes in 1990-91, particularly the dissolution of the Soviet Union in 1991 and the termination of all Soviet assistance to Mongolia shortly thereafter, provided the backdrop and initial impetus for Mongolia's efforts to develop a market economy. By the mid-1990s, Mongolia appeared to have survived the most difficult elements of the transition. Improved macro-economic management seemed to be having positive impact, especially in terms of exchange rate stabilization and decreases in inflation.

Politically, Mongolia has achieved a remarkable and largely successful transition toward a parliamentary democracy. Over the past decade, the country has had nine elections, three each at the local, parliamentary and presidential level. Governments have been elected to power in free and fair elections -- and then have peacefully relinquished power in response to subsequent elections. This political stability has helped create the opportunity to sustain sound macro-economic management.

## **b. Overview of Mongolian Economy**

### **1. Economic Review**

In 1990, the collapse of Mongolia's centrally planned economy caused an economic shock of enormous magnitude. Over the next three years, GDP fell by over 24 percent, inflation rose to three digits, factories and budgetary organizations shed thousands of jobs, and real incomes decreased by one-third. However, as indicated above, by the mid-1990s, bold new market-oriented economic policies were having an impact. These policies had as their focus, the following:

- Development of a strong private-sector led economy emphasizing privatization of state-owned assets and an improved private business start-up environment;
- Macroeconomic stabilization, to overcome the large imbalances inherited from the planning era; and
- Structural reforms to support accelerated growth, with an emphasis on liberalizing the energy, communications, and financial sectors.

As a result, after years of decline, official GDP increased by 6.3 percent in 1995, followed by increases of 2.4 percent in 1996 and 4.0 percent in 1997. Economic growth slowed to 1.1 percent in both 2000 and 2001, in part due to the impact of severe natural disasters (dzud) in the past two winters, drought in the summer of 2001, and the unfavorable global economic environment. In 2001, agricultural output declined by 17.2 percent despite the strong performance in the non-agricultural sectors, where for example, industry grew by 11.9 percent -- driven by manufacturing (20 percent), construction (12.4 percent) and mining (8.5 percent). The service sector registered 10 percent growth due mainly to wholesale and retail trade, development of financing services, and expansion of transport and communications.

The 2001 fiscal deficit was reduced to 5.3 percent of GDP compared to 6.8 percent in 2000. Moreover, despite an increase in public wages and pensions, and a sharp increase in prices of meat, fuel, and utilities, the monetary policy of the Bank of Mongolia managed to keep inflation under control with the consumer price index growing at 8.0 percent in 2001. More recently, signs of an increase in the budget deficit are causing concern.

The external debt remained significant, with the gap between investment (28 percent of GDP) and domestic savings (18 percent of GDP) financed by external assistance. Exports were

severely affected by unfavorable international market conditions for the three major commodities (copper, gold, and cashmere) which collectively account for about 80 percent of the country's total exports. Consequently, exports in 2001 decreased by 14.2 percent. In the same year, the current account deficit was 15 percent of GDP, a slight improvement over 2000 due to a reduction in imports of approximately 10 percent.

Today, Mongolia is one of the most open economies in Asia. The importance of the private sector in the economy has been continually growing, stimulated by increased private sector credit (140 percent in 2001), privatization of state-owned enterprises, and the establishment of new private companies. The share of the private sector in GDP has grown from 4 percent in 1990 to 73 percent in 2000. Moreover, there is a large and vibrant informal sector in Mongolia, whose size is estimated to be over 20 percent of GDP. Reforms in the finance sector have exceeded virtually all expectations while energy sector reforms have met with modest success. Efforts to improve the legal and regulatory system to support greater market-oriented growth are underway. Foreign investment has increased but unfortunately remains low.

In the near term, the World Bank and the Asian Development Bank expect GDP to rise by a modest 3 percent in 2002 and by 5 percent in 2003. It is expected that financial stability will be maintained through a continuation of tight monetary policy, although there are worrying signs that the budget deficit may be increasing. Finally, there should be further expansion of the private sector as additional finance and industrial enterprises, as well as the delivery of some social services, are privatized

## **2. Economic Challenges**

Mongolia has made considerable progress in achieving macroeconomic stability. However, severe problems remain. While GDP growth has begun to increase after several years of stagnation, fiscal performance is coming under increasing pressures. Promises of continuing salary wage increases for government workers loom as a growing issue. Weak tax administration contributes to widespread distortions throughout the economy. Corruption continues and is possibly a growing concern. The high debt burden is emerging as a critical issue, one that must be addressed with sound management and more rigorous analysis. The Government's new land privatization bill is facing opposition. Rising concerns about the rapid pace of urbanization will need to be addressed. Foreign investment is far too low to raise the economic growth rate to levels consistent with sustained employment and improvements in quality of life.

As in many former communist countries in transition, Mongolia is struggling with the enormous challenge of improving performance across a range of areas necessary to expand growth rates. Among these are anti-corruption, tax reform, macro-economic policy, small business development, commercial law, law enforcement, competition and trade policy, enterprise privatization and restructuring, banking reform, and land use administration. While the Government has made significant progress in advancing the reform agenda, such progress tends to reflect only the very early stages of reform. Not only do these advances remain fragile and subject to backtracking, but there is a continuing need for providing the Government with high quality and timely analytical and policy formulation expertise in order to deepen the reform process. In recognition of this need, a few organizations are exploring ideas for the establishment of some type of "think tank." However, the concept to date is vague and undeveloped. Since its initiation almost a decade ago, EPSP's primary counterpart has been the Office of the Prime Minister. There is broad consensus that this longstanding EPSP arrangement remains extremely valuable and should be retained.

In addition to the need for policy-related design expertise, more attention must be focused on the problems which impede policy implementation. These problems have an enormous impact on a country's level of competitiveness, and require that more attention be paid to microeconomic reform, legal and regulatory frameworks, the competence of government, and on competitiveness strategies. For example, it is not uncommon for line ministry staff to be entirely unprepared to administer improved policies and laws – often for which regulations and administrative guidelines have yet to be developed. Moreover, mechanisms to engage the Mongolian public in discussions of policy and administrative issues are weak and function poorly. The lack of adequate public participation and debate mitigates against developing the consensus needed to accelerate the reform agenda and ensure meaningful and sustained policy implementation. In a similar vein, information on important reform issues is often poorly shared among government agencies that should be involved. As a result, some initiatives may be too narrowly defined and/or lack broad-based support.

Many of the national-level policy issues mentioned above have a direct influence on Mongolia's economic competitiveness. However, as has been demonstrated by other countries which have undergone structural adjustment reforms, government reforms alone do not necessarily translate into rapid and sustained growth. With very limited free market experience, Mongolian entrepreneurs and business associations have had little exposure to the tools necessary for improving productivity and exports – keys to Mongolia's growth. From an industry perspective, Mongolian entrepreneurs and representative associations often lack appropriate business and sector development strategies. As a result, they have difficulty attracting new customers, improving the quality of their products, knowing their customer base, aggressively marketing products, and building a better dialogue with government. Any approaches to increasing Mongolia's economic competitiveness will need to take into account the country's small and relatively undeveloped private sector.

### **c. USAID Program**

#### **1. USAID Program Summary**

USAID's challenge in Mongolia is two-fold. First, it aims to help develop a sustainable market-based economy. Second, it is attempting to strengthen a stable democracy. Every USAID-funded activity in Mongolia is organized around at least one of these two mutually re-enforcing goals.

The current USAID strategy in Mongolia covers the five-year period 1999 through 2003. A new strategy covering the period 2004 through 2008 is presently being prepared and will most certainly echo the same broad themes. Under the strategy, the objectives of the USAID program concentrate on the critical key issues facing Mongolia, namely the shift to a market economy and the further consolidation of the country's democracy. All USAID activities are organized around at least one of these two mutually reinforcing themes which, in turn, comprise USAID Mongolia's two strategic objectives. The new strategy will likely involve a reformulation of the two existing strategic objectives and their accompanying intermediate results. However, the two areas of primary focus will likely remain unchanged.

**Strategic Objective One (438-0101)** -- "Accelerate and Broaden Environmentally Sound Private Sector Growth," consists of four main Intermediate Results (IR).

- Intermediate Result 1 - Transfer Productive Assets to Private Ownership
- Intermediate Result 2 - Increase the Efficiency of Financial Markets
- Intermediate Result 3 - Improve the Business Environment
- Intermediate Result 4 - Improved Management of Natural Resource Base for Long-Term Sustainable Use

The first IR supports the Government of Mongolia's (GOM) privatization program. The second IR is being accomplished through a broad-based policy reform effort with an emphasis on liberalizing the financial and energy sectors. The third IR provides the framework for assisting private Mongolian companies involved primarily in the tourism and cashmere industries. It also addresses business development constraints in rural provinces and in the ger districts of Darkhan and elsewhere. The fourth IR involves a large rural development effort focused on Mongolia's Gobi region. The Mongolian Policy Reform and Competitiveness activity will contribute predominately to the achievement of the first three IRs.

**Strategic Objective Two (438-0201)** -- "Consolidate Mongolia's Democratic Transition," consists of two main activities, one focused on judicial reform and the other emphasizing parliamentary strengthening and political party development. Regarding judicial reform, training and technical assistance is focused on: (a) expanding access to justice; (b) improved court management; better judicial sector administration; (c) improved ethics and discipline; and (d) development of a sustainable mechanism for continued legal education, among others. Parliamentary strengthening support has as its focus technical assistance and training to: (a) make the economic and budget committee more effective; (b) improve consultations with stakeholders; (c) standardize legal drafting procedures; and (d) improve parliamentary rules and procedures.

## 2. Strategic Objective One Results

The following section provides a summary of USAID program results during the current strategy period under the Strategic Objective One. Much of what has been accomplished, particularly under the first three IRs, is attributable to the three ongoing activities scheduled to end in Fiscal Year 2003: the Economic Policy Support Project, The Competitiveness Initiative, and the privatization activity. Other major activities contributing to the achievement of the IRs are the Gobi Initiative implemented by Mercy Corps in partnership with Land O'Lakes and PACT, and SEED (Support to Enterprises and Economic Development) implemented by CHF International.

**IR 1 - Transfer Productive Assets to Private Ownership:** Since 1998, under the privatization program, technical assistance provided by Bearing Point (formerly Barents) has been instrumental in the sale of 47 government-owned enterprises through a sealed-bid auction process that raised more than \$15.4 million in revenue for the state. Additionally, that program played an important role in the preparation of the country's Privatization Guidelines for 2001-2004. The guidelines were approved by parliament in January 2001, setting in motion international tenders for the sale of four large public enterprises: Gobi Cashmere (Mongolia's largest cashmere company), the Trade and Development Bank (Mongolia's largest commercial bank), the Agricultural Bank (boasting the largest branch network of any bank in Mongolia), and the Mongol Daatgal (the country's largest insurance company). The Trade and Development Bank (TDB) was successfully privatized to a US-European consortium that paid approximately \$12.1 million for the bank in December 2002. The Agricultural Bank is on the verge of being privatized following the conclusion of the tender process in January 2003, with the highest bidder--a Japanese-led group--offering to pay \$6.8 million for the bank. The State Property Committee is also proceeding with its efforts to privatize a number of other government-owned

companies, including an oil company (NIC), a cashmere company (Gobi Cashmere) and an insurance company (MobiDatgal). The USAID-funded privatization activity is scheduled to end on June 30, 2003. Further USAID support for privatization could be addressed under the EPRC activity, if appropriate.

Under the Economic Policy Support Project (EPSP), technical advisors have assisted the Government in taking the initial steps required for the commercialization of Mongolia's energy sector. As such, the stage is set for the eventual privatization of at least some power utilities. These initial steps include the legal establishment of the Energy Regulatory Authority (ERA), formal staffing and launching of ERA operations; unbundling of generation, transmission and distribution functions into 18 separate entities; and ERA approval of the first energy licenses and tariff submissions. However, much difficult work lies ahead. In particular, the ERA must assert real independence from the Ministry of Infrastructure. It must also demonstrate skill and professionalism as it responds to the requirements of energy producers; meets the needs of energy consumers; and expands its essential role in organizing and maintaining the regulatory framework for the energy sector. USAID expects to continue its support to the energy sector in an appropriate manner.

**IR 2 - Increase the Efficiency of Financial Markets:** EPSP efforts led to the complete turnaround of Mongolia's Agricultural Bank during 2001. The bank has the largest network of branch offices in the country and plays a critical role in providing badly needed financial services to rural Mongolia. In the summer 2000, the bank was technically bankrupt and faced liquidation. Beginning in the fall of 2000, an EPSP senior bank consultant was installed as the Bank's Chief Executive Officer, followed by the posting of another EPSP senior expert to serve as the Chief Operating Officer. The new management had a clear mandate to run the bank on commercial lines. By January 2001, the Bank had achieved profitability, and had opened 67 new offices (bringing the total number of branch offices to 336), hired 360 new employees, made more than 43,000 loans and opened 51,000 new deposit accounts. By January 2002, the Bank was paying the government more than \$50,000 a month in taxes. Among the current challenges will be for the GOM to privatize the Bank as part of an ongoing effort to consolidate and sustain the gains that have already been achieved.

The merger of the USAID-supported Goviin Ekhlel with the UNDP-supported Golden Fund for Development in January 2002 represents another important achievement in expanding Mongolia's financial sector. In this case, the Gobi Initiative played a catalytic role in launching this important new micro-finance effort. At the time of the merger, Goviin Ekhlel had made more than \$1.2 million in loans while maintaining an impressive track record of no arrears, no losses and no defaults. The merger resulted in the establishment of XacBank, an important new source of financial services for rural Mongolia. By January 2003, the tender process for AgBank was being successfully concluded, with a Japanese-led group offering to pay \$6.8 million for the bank.

**IR 3 - Improve the Business Environment:** All SO-1 activities are designed, in one way or another, to improve the business climate in Mongolia. First, at the grassroots level, the Gobi Initiative has emerged as a key player in rural Mongolia. Focused on the vast Gobi region, it sets an example that other donors are watching closely and in some cases emulating. The successful launching and implementation of "Cashmere Market Days" ranks among the several achievements of the program, allowing herders to sell cashmere directly to traders at premium prices. Similarly, regular readers of rural *Business News* and listeners of *Market Watch* (two media activities initiated by USAID with large audiences) received a steady stream of information on prices as well as on how a market economy works. The Gobi Initiative is also

helping to establish numerous new small businesses. Finally, a new business development program implemented by CHF International in the ger districts of Dakhan, Erdenet, and Ulaanbaatar has been launched.

Second, at the enterprise level, the Competitiveness Initiative (TCI) works closely with private Mongolian companies involved in two sectors that offer much promise for the future -- tourism and cashmere. The fact that TCI ensured Mongolian representation at adventure tourism fairs in Chicago and elsewhere was almost certainly a catalyst in increasing the number of visitors to Mongolia. TCI also places emphasis on training, such as improving the skills of guides, tour operators' management, drivers, cooks and accommodation staff, as well as on technical support to tourism companies on product development, marketing, and business plan development. TCI support for the previously moribund Mongolian Tourism Association increased paid membership from six to more than ninety. Overall, the tourism cluster has outperformed targets for increasing international tourist arrivals in all markets except the United States. With regard to cashmere, efforts are concentrated on developing a licensed trademark that would promote Mongolian cashmere as an upscale, quality product. TCI efforts have improved the supply of raw materials through technical support for herders, strengthened raw material procurement through cashmere market days, and with help from the Gobi Initiative, organized countryside events where herders can market their products directly to private buyers. In prior years, TCI's technical support also assisted Mongolia's important meat sector.

Third, at the macro level, the Economic Policy Support Project offers a flexible, quick-response mechanism for addressing major policy issues facing the country (see Section 3, below). Many of these policies have important implications for business development and private sector expansion.

#### **IR 4 - Improved Management of Natural Resource Base for Long Term Sustainable Use:**

The Gobi Initiative has emerged as the primary Mission tool for addressing this element of the strategy. The Gobi network is focused on six aimags representing some one third of rural Mongolia. It involves relationships with approximately 500 herder groups representing 5,000 families and a total population of some 20,000.

### **3. Economic Policy Support Program (EPSP)**

Since its launching in June 1995, the Economic Policy Support Program (EPSP) has helped shape some of the most significant economic policy decisions taken by the Government of Mongolia. Indeed, its technical support resulted in much of what was achieved under IR-1 and IR-2 and made substantial contributions to IR-3. EPSP's dual purposes are to assist the Government of Mongolia in the design and implementation of economic policy, and to strengthen the policy-making capacities of Government officials.

EPSP services include economic policy advice to the Prime Minister across a wide range of topics, including monetary and fiscal policy, foreign debt management, tax reform, energy policy, privatization, pension policy, investment attraction, land reform and strategy advice on key sectors of the economy. When warranted, EPSP has brought in long- and short-term technical experts to address sector problems, such as for the bank restructuring program, and the energy sector commercialization and regulatory reform efforts described above.

EPSP has also worked toward encouraging a more informed policy debate through establishing the USAID Resource Center designed to help expand discussion on policy issues to a broader

audience. In a similar vein, the project produces the Monthly Economic Review, which is distributed to key decision-makers inside and outside government. It also supports the Prime Minister's web page designed to solicit feedback on economic policy and other issues ([www.open-government.mn](http://www.open-government.mn)).

#### **4. The Competitiveness Initiative**

Launched in June 2000, The Competitiveness Initiative (TCI) is a three-year activity directly contributing to IR-3. Its broad objective is to support the development of "achievable growth strategies for the private sector and to support private initiative." TCI's focus is on developing better business strategies and the provision of technical assistance and training to both businesses and industry-related organizations. As shown above under IR-3, TCI efforts have emphasized the cashmere and tourism industries, although initially, work was performed in the meat-exporting cluster.

Within the cashmere cluster, activities have centered on improved industry communication, promotion of a fiber promotion board, the launching of a "Collective Mark," retail channel identification, fiber testing, and cashmere cluster coaching. For the tourism cluster, the emphasis has been on destination marketing, upgrading of marketing skills, event management implementation, tourism association capacity building, trade fair participation, and tourism cluster coaching. Meat cluster activities have included seminars in such areas as sanitary and phytosanitary topics and national export models, export market studies, domestic standards and quality inspections and meat cluster coaching. Efforts in the meat cluster were discontinued in the summer of 2002.

#### **d. Other Donor Assistance**

Mongolia receives more than \$300 million in foreign aid each year, one of the highest per capita assistance levels in the world. Although donors profess a commitment to coordination, much more needs to be done. Increasingly, donor "fatigue" is a common refrain. Some progress is being made through Consultative Group (CG) meetings which help promote coordination at a macro level. Sector-specific meetings on important topics such as energy and information technology are also held. Nonetheless, major program designs should reflect a better understanding of coordination concerns.

USAID is committed to a pragmatic, results-oriented approach that gives the U.S. assistance effort influence within the donor community well beyond the size of its budget. USAID plays a catalytic role in addressing some of the major issues in the country, including privatization, rural finance and democracy. For example, USAID's Gobi Initiative represented the first significant donor program outside the capital city, providing a model for other donors to follow. Similarly, its new SEED (Support to Enterprises and Economic Development) program provides the first serious and systematic approach to business development in the growing number of ger districts surrounding major cities and towns. Every major USAID-funded initiative in Mongolia includes examples of cooperation with one or more other donors.

The Asian Development (ADB) is the single largest multilateral donor. Other multilateral donors include the World Bank, International Finance Corporation, European Union, and various UN agencies. The European Bank for Reconstruction and Development (EBRD) will soon begin providing advisory services and would like to start a loan assistance program once its Board approves.

Japan is Mongolia's major bilateral source of loan as well as grant assistance. Both the United States and Germany provide substantial grant assistance to the country. A number of other donors provide modest amounts of additional support. These other donors include Sweden (governance); Netherlands (energy conservation); Canada (rural and urban development); Korea (energy and health); the Czech Republic (health); Russia (humanitarian aid); China (housing); and India (information technology). Another possible and relatively unusual donor nation is the United Arab Emirates (UAE), which recently offered to help finance a hydroelectric plant in the countryside.

Nongovernmental organizations (NGOs) such as the Soros Foundation and World Vision make important contributions to Mongolia, each managing annual development programs valued at around \$3 million. Numerous other NGOs from the United States, Japan, Europe, and elsewhere provide important support, especially in the social sectors.

**NOTE: ADDITIONAL RELEVANT DOCUMENTS ARE APPENDED TO THIS SOLICITATION AND ARE FOUND IN SECTION J OF THIS SOLICITATION.**

### **III. ACTIVITY DESCRIPTION**

#### **a. Approach**

**Flexibility and Creativity:** The Economic Policy Reform and Competitiveness (EPRC) activity will be USAID/Mongolia's primary implementation vehicle for achieving its economic growth objectives in Mongolia. EPRC is designed to permit a small USAID staff to administer a substantive policy and competitiveness support program geared to deepening and accelerating the economic reform process. Based on experience here in Mongolia and elsewhere, USAID recognizes the need for flexibility and creativity in the Contractor's approach in order to achieve meaningful and sustainable results.

**Linkages and Synergies:** The EPRC approach will retain certain positive elements of the EPSP and TCI while providing greater emphasis on synergies between policy design on the one hand, and private sector growth and expansion, on the other. In this way, EPRC will incorporate a coordinated strategy toward policy reform and private sector development, encompassing macro, micro and business strategy elements. Enhancing economic competitiveness will be an overarching theme for EPRC.

**Issues of Competitiveness Theory:** There are different views about competitiveness theory and its applicability to Mongolia, given the nascent development of its private sector and private sector support institutions. Offeror proposals should help address practical implementation issues as they relate to the early stages of improving Mongolian economic competitiveness. For example, how does a clustering approach work when there is only a limited number of industry groups? What technical support, if any, should EPRC provide to business support organizations and individual firms that are only in the formative stage of development? Mongolia's small population and large physical size are only a few of the characteristics that make it difficult to generalize about how competitiveness experiences applied elsewhere should be applied here.

**Strategic Approach:** At the policy level, EPRC will support policy changes that cause sustainable economic growth and increase economic resiliency. Its activities will influence Mongolian competitive structure in ways that increase economic efficiency, increase investment opportunities, improve inter- and intra-sector trade efficiency and business efficiency. EPRC activities may address any issue at any appropriate level that is seen to be impeding growth. The following concerns have been identified, as an illustrative list of areas where EPRC could be involved.

- tax reform
- macro-economic policy
- energy sector policy reform and restructuring
- legal and regulatory frameworks in the commercial sectors
- economic competitiveness and competitive structures
- trade policy
- enterprise privatization and restructuring
- financial sector and banking reform
- land use constraints

Similarly, EPRC will continue to be a demand-driven process, building on the cluster approach and a results-oriented agenda to improve cluster competitiveness. The broad range of potential interventions in contrast to the limited resources available to EPRC, requires a strategic framework that identifies priority interventions necessary to achieve EPRC objectives in a cost efficient manner.

**Teamwork:** USAID has chosen to pursue a more synergistic approach to achieving its broader strategic objective in the economic growth area. This comprehensive pursuit applies as well to all other USAID activities, such as those associated with the second USAID strategic objective: Consolidate Mongolia's Democratic Transition. USAID recognizes that meaningful success in one SO cannot occur in the absence of progress in the other. Few would argue, for example, that sustained economic growth can occur in the absence of effective legal administration or controls on corruption. The critical importance of the interplay between these two strategic objectives warrants particularly strong teamwork and coordination efforts from the EPRC Contractor and its staff.

**Premium on Management:** The EPRC design embodies a dynamic approach over an extended period. This will involve an ever shifting combination of more general assistance, such as for broad strategy advice at the highest level of the Government, to highly specific support, possibly for narrow recommendations on tax levies, and/or for firm-level marketing assistance. USAID recognizes that such an approach will impose a significant management burden on the EPRC Contractor.

**Donor Coordination:** Most of all donors to Mongolia concede that a more concerted effort must be made to coordinate and, to the extent possible, integrate their development initiatives. Due to its relatively small size in Mongolia, USAID has made a major effort to design its activities in conjunction with other donor programs. This, together with the fact that USAID can operate more rapidly and with greater flexibility than most other donors, helps explain why USAID has succeeded in having a development impact in Mongolia far beyond the level of financial resources available for programming. For example, the successful and innovative USAID-financed management contract with the Agricultural Development Bank has had a demonstration affect throughout the financial sector, setting in motion a series of further bank

privatizations and sector reforms. The IMF and World Bank supported the effort by including critical conditionalities in their reform agenda with the Government of Mongolia, which ensured, *inter alia*, the independence of the USAID management contract from political interference. The impact of the successful turn-around of the Bank is being felt even outside the financial sector, with a similar performance management model for the Mongolian International Airline now under consideration by another donor. The EPRC design builds on this experience base and expects that the lessons learned will be applied to new interventions as they are conceived and implemented.

**Transition:** Finally, EPRC, building as it does on two activities coming to end in Fiscal Year 2003, will require a transition plan to ensure the continuity of worthy activities, while concurrently reviewing the policy and institutional landscape so as to establish an analytical and strategic rationale for activities over the medium to long-term.

**Indicators and Targets:** Under Section E.4 “Performance Evaluation Criteria,” discusses impact measurement at three levels: Agency level, strategic objective level, and activity level. At the strategic objective level, it states, *inter alia*, that the Contractor will assist the Mission in identifying indicators and targets under the new USAID/Mongolia strategy covering the period 2004 through 2008. As such, the strategic objective indicators listed in the above referenced section are not to be viewed as fixed but rather as illustrative.

**N.B. These indicators can be used by offerors as a guide in the development of their proposals.**

At the activity level, (Section E.4.C) results will be assessed in conjunction with the expected results of each Annual Workplan.

**Management Plan:** . This Plan describes how the project will be managed, i.e., oversight, , administration and overall management of the EPRC. The Plan shall: (a) include position descriptions for long-term personnel; (b) discuss the roles of proposed subcontractors; (c) discuss the support activities of home office staff, including capabilities in commodity procurement, backstopping field personnel, training, etc; (d) discuss the roles and authorities of the Chief-of-Party and Deputy Chief-of-Party; and (e) discuss the overall management approach toward planning and implementing a complex activity such as the EPRC .

**Life-of-Contract Implementation Plan:** This plan lists down the major tasks and major activities that the project proposes to implement and describes how they will be carried out or completed, i.e., by discussing the proposed indicators, benchmarks and targets. This plan may, as the need arises, have to be substantially modified during the implementation of the contract.

## **b. Major Tasks**

The Contractor will be responsible for these interrelated categories of tasks:

- Policy Analysis, Formulation and Implementation Support
- Consensus Building, Public Education, and National Dialogue
- Cluster Development and Support
- Internship Program
- Synergy with USAID and Other Donor Activities

- Monitoring, Assessing and Reporting on Results

### **1. Policy Analysis, Formulation and Implementation Support**

This task category will include: (a) policy analysis and advocacy aimed at articulating the advantages and disadvantages of various policy options for improving the competitiveness of the Mongolian economy; (b) policy formulation; (c) legislative and regulatory drafting; and (d) technical and managerial policy implementation support. The Contractor shall:

- As required, assist the GOM to identify, prioritize and design approaches to increase the competitiveness of the Mongolian economy;
- Formulate and guide the overall EPRC policy analysis and reform program including identification of policy impediments to balanced growth;
- Assist in setting an agenda and strategy to advocate and enact policy and legal/regulatory changes needed to increase the competitiveness of the Mongolian economy.
- Conduct the necessary analysis or other measures relating to specific impediments that are found to be of strategic importance;
- Assist in the policy implementation process, including legislative and regulatory technical support, along with line-agency and/or other entity implementation support as appropriate;
- Prepare statements of work, performance plans, monitoring and quality control for work performed by consultants or subcontractors; and
- At the request of USAID/Mongolia, provide guidance on statements of work, performance plans, and monitoring and quality control systems for economic policy-related work carried out by USAID.

### **2. Consensus Building, Public Education and National Dialogue**

To be successful, EPRC will require that a broad spectrum of players within Mongolia have an enhanced understanding of critical economic, policy and competitiveness issues. Government and community leaders, at the national and local levels, will need to be more thoroughly educated on the benefits of a public-private dialogue, as well as of the need for certain reforms in support of Mongolian economic competitiveness. Implementation of these reforms will be driven to some degree by popular understanding and support, and in particular, the clarity of the message translating policy change into economic benefits for the average Mongolian. To the extent that there is a broad consensus and support for the reform agenda, the odds of sustainable and effective policy reforms will be greater. In this regard, the Contractor shall:

- Develop and implement a public education/consensus building strategy targeting national decision-makers, the business community, local government and community leaders, academic institutions, and representatives of civil society, among others. The approach should be directly linked to the policy reform and competitiveness agenda.

Expected results will include increased support and understanding of necessary policy reform and competitiveness initiatives; active engagement and participation of all relevant segments of Mongolian society; and increased capacity of Mongolian professionals and firms to carry out public education campaigns in support of economic reform and public-private dialogue.

### **3. Cluster Development and Support**

There is some debate about the appropriateness of applying competitiveness theory, without modification, to Mongolia, given its many unique characteristics.

**N.B. In their response to this task area, offerors are encouraged to not only consider their knowledge of economic competitiveness theory and implementation experience elsewhere, but also reflect on how this knowledge and experience can best be applied in the Mongolian context.**

**The following tasks are illustrative, and offerors are encouraged to refine, modify and reorganize them in accordance with their own vision of how to improve economic competitiveness in Mongolia.**

Illustrative Contractor tasks include:

- Undertake a comprehensive technical review of cluster development and support issues in Mongolia; prepare an updated support strategy for selected clusters.
- Working with each selected cluster, identify, design and implement those critical initiatives for each cluster which are consistent with the objectives of EPRC. Sub-projects may be of long-or short duration, of modest or relatively high cost, and involve any mix of expatriate and local experts.
- All sub-projects will be presented for USAID review and approval prior to start up, summarizing potential cluster impacts, duration, leverage needs (both within the USAID portfolio and with other donors), and total resource requirements.
- Identify an appropriate role, if any, for EPRC to strengthen the capacity of business representative associations and individual entrepreneurs;
- Increase local availability of fee-based services for export promotion and identification of strategic partnerships for assisting clusters and enterprises; and
- Administer a small grants program to support cluster development:
  - (a) The Contractor should make up to \$500,000 available in small grants to support projects in support of cluster development;
  - (b) Establish criteria and assist in the selection of proposed projects to be supported by the small grants. Criteria should include the ability of the proposals to leverage non-USAID resources, particularly those that demonstrate investment from the target clusters, and the promise of ultimate self-sufficiency.

#### **4. Internship Program**

Even though the Government of Mongolia is committed to continued economic and political reform, government officers and non-government professionals often lack many of the skills, attitudes, and basic knowledge necessary to implement policy reforms. A separate USAID-financed program is already in place through the Academy for Educational Development (AED) to provide long-term training to build capacity for Mongolia's future decision-makers in key policy areas. Under this task, the Contractor shall:

- Develop and implement a short-term mid-career internship program in Mongolia in which both government officers and non-government individuals are assigned, for periods of up to approximately six months, to work in EPRC areas of focus.

Expected results will include a cadre of promising mid-level professionals that, together with those participating in the AED long-term program, will be positioned to help ensure the continuity of EPRC-type efforts beyond the expiration of the contract.

## **5. Synergy with USAID and Other Donor Activities**

Since the EPRC approach takes a holistic perspective to enterprise and economic development, the Contractor will need to ensure that the greatest level of cooperation possible takes place both with other USAID activities and with other donor initiatives that may be pertinent to this effort. In this regard, the Contractor shall:

- Develop and make use of a complete inventory of other USAID and other donor activities in Mongolia that already are or have the potential to serve the interests of each cluster selected for support;
- Develop and implement plans for coordinated action among USAID implementers that address key constraints to Mongolia's competitiveness at both the national and cluster levels;
- With regard to coordination with other donor activities, the Contractor will advise USAID of opportunities to leverage activities aimed at specific issues/needs (e.g., credit lines and market development), as well as identify and advise USAID of critical policy issues which may be recommended for conditionality in World Bank or IMF loans.

## **6. SO1 Monitoring, Assessing and Reporting**

Under this task category, the Contractor shall:

- Produce routine and special assessments of policy reform and improved economic competitiveness (including "success stories) for use by USAID, as called for by the EPRC Cognizant Technical Officer (CTO). This will require systematic tracking, monitoring, and diagnostic evaluation of economic policy and competitiveness issues and developments as they relate to EPRC objectives;
- At the request of the CTO, provide guidance on statements of work, performance plans, and monitoring and quality control systems for economic policy and competitiveness-related work carried out under other USAID activities;
- Assist USAID/Mongolia in the development, review, and modification of selected performance indicators under the new USAID/Mongolia strategy currently under development;
- Collect data for selected performance indicators twice yearly, using that data to monitor progress in meeting targets;
- Respond to USAID requests for special activities and preparation of special reports and policy analyses; and
- Provide USAID liaison support in communicating/disseminating information about EPRC in the following areas: program/activity design, audio-visual presentations, speeches, talking points, and briefings.

## **c. Key Activity Partners and working Relationships**

### **1. Government and Private Sector Partners**

EPRC's primary counterpart will be the Office of the Prime Minister -- as has been the case for EPSP in the last several years. Within this arrangement, EPRC will work with various government, civil society, and private sector partners based on specific policy and competitiveness issues. Participating government ministries (including, as appropriate, their departments, agencies and boards) may include Finance and Economy, Food and Agriculture, Industry and Trade, Infrastructure, Social Welfare and Labor and the Central Bank, among others. Private sector partners may include, but not be limited to, various business support associations and industry representative groups that reflect the interests of selected clusters and that have the potential to advocate for reforms and advance the interests of their members. Enterprises themselves will be essential partners of EPRC as they benefit from technical assistance to achieve higher levels of productivity, develop new and higher value added products, and attract new customers. Wherever feasible, other bilateral donors or multilateral financial institutions will be included as partners.

### **2. USAID**

USAID will provide technical direction as required, provide consent to proposed subcontracts, review all annual work plans (as well as any interim plans submitted by the Contractor), provide payment functions under the contract, conduct periodic evaluations of Contractor performance, and periodically assess the impacts of the activity.

In carrying out the contract, the Contractor will report and receive direction from the USAID cognizant technical officer (CTO) who shall be officially designated by the Contracting Officer.

### **3. Donor Coordination**

Donor coordination will be an important part of EPRC in the overall effort to promote policy change (see III.B.5, above). Coordination will be a joint responsibility of the Contractor's staff and USAID/Mongolia. Coordination may include EPRC participation with other bilateral donors and/or multilateral financial institutions on ad hoc advisory committees. It could also entail formal and informal information exchange between EPRC partners and other bilateral donors and multilateral financial institutions. EPRC results will be enhanced by a reciprocal flow of information between donors and EPRC partners.

## **d. Technical Assistance Team**

**THE FOLLOWING IS AN ILLUSTRATIVE MIX OF THE REQUIRED LEVEL OF EFFORT (LOE) . THE RESULTANT CONTRACT WILL BE A COMPLETION TYPE, THEREFORE, THE LOE IN THE WINNING OFFEROR'S FINAL PROPOSAL WILL NOT BE INCORPORATED INTO THE CONTRACT.**

Approximately 825 person months of USAID-financed technical assistance is envisioned. This includes approximately 600 person months of long-term technical assistance and an estimated 225 person months of short-term expertise. Of the estimated level of effort for long-term technical assistance, approximately 240 person months has been allocated for off-shore expertise and 360 person months for locally hired professionals. Examples of where long-term

expertise may be required include such areas as macro- and micro-economic policy reform, economic analysis, energy sector policy and restructuring, economic competitiveness, sectoral strategy development, business marketing, public/private sector policy dialogue, and finance sector reform. Examples of where short-term technical assistance may be required include: tax reform, energy sector analyses, legal and regulatory frameworks, trade policy, enterprise privatization and restructuring, financial sector and banking reform, and land use. Additionally, short-term expertise may be required in support of specific productive and service sectors such as livestock/meat, cashmere, and tourism.

The following list depicts a possible make-up of the technical assistance team. Note that the listing of individuals is illustrative. Offerors submitting proposals for implementation of the project will be free to propose alternative arrangements:

- Chief-of-Party (60 person months)
- Deputy Chief-of-Party (60 person months)
- Competitiveness Specialist (48 person months)
- Energy Specialist (36 person months)
- Policy Implementation Advisor (36 months)
- Long-term Locally hired Professional Expertise (360 person months)
- Short-term expertise (225 person months)

(1) The following are key personnel:

(i) Chief of Party (COP)

The COP should possess the intellectual and leadership qualities necessary to develop and articulate a "vision" for EPRC. He/she must have a degree in the field relevant to the objectives of EPRC and the requisite policy expertise for EPRC to successfully achieve meaningful and sustainable results in the areas of macro and micro economic analysis, policy formulation, and advocacy. He/she must have extensive policy-related experience with counterparts at the highest levels of government and the private sector, preferably in countries undergoing the transition away from command-control economies. Demonstrated success in identifying and addressing policy implementation constraints, as well as with promoting public/private sector dialogue to advance the economic reform agenda is also required. Superb technical expertise combined with extraordinary communication skills are essential for this position. It is recommended that he/she have at least 10 years of experience in managing large, multi-faceted development projects.

(ii) Deputy COP

The Deputy COP should possess a combination of technical familiarity and management skills that spans the subject areas covered by EPRC, and in-depth experience in at least one of the major areas of EPRC involvement. The candidate should be able to demonstrate that he/she has the requisite experience to: (a) effectively backstop and reinforce the other long- and short-term EPRC specialists; (b) ensure that synergies among EPRC elements are capitalized upon; (c) ensure that EPRC's focus remains on achieving results; and (d) manage an effective monitoring and reporting system. A minimum of five

years of experience in managing complex developing country programs where multi-disciplinary short- and long-term technical assistance services are an integral component, is desirable. Work experience in countries undergoing the transition away from command-control economies is desirable.

(2) Other long term staff:

(i) Competitiveness Specialist:

It is recommended that the candidate possess a minimum of three years experience in implementing industry clustering approaches to competitiveness, and at least five additional years experience in implementing private sector growth activities in a developing country environment, preferably in countries in transition to free-market economies. Previous experience should demonstrate the ability to (a) establish effective public-private coalitions; (b) successfully address specific challenges to growth; and (c) define a consensus "vision" of sector growth strategies. Candidate should possess the breadth of experience to be able to effectively adapt competitiveness theory to the Mongolian context.

(ii) Energy Specialist:

It is recommended that the candidate possess a minimum of five years managing a small or medium power (and preferably heat) company/unit in a regulated energy environment. Management experience in both the generation and distribution is required. He/she should also have a track record in improving the operating and financial performance of a utility under challenging conditions. Experience in coaching and monitoring for utility management in a less developed country context is highly desirable.