



This action is funded by the European Union

ANNEX 5

of the Commission Implementing Decision on the Annual Action Programme 2015 Part III and 2016 Part II in favour of the Asia region to be financed from the general budget of the European Union

Action Document for "Trade Related Assistance for Mongolia (TRAM)" project

1. Title/basic act/ CRIS number	Trade Related Assistance for Mongolia (TRAM) CRIS number DCI-ASIE/2015/038-191 financed under Development Cooperation Instrument			
2. Zone benefiting from the action/location	ASIA, Mongolia The action shall be carried out at the following location: Mongolia, with the project team based in Ulaanbaatar.			
3. Programming document	Regional Asia Multi-Annual Indicative Programme 2014-2020			
4. Sector of concentration/ thematic area	Regional integration (including trade)			
5. Amounts concerned	Total estimated cost: EUR 5.0 million Total amount of EU budget contribution EUR 5.0 million The contribution is for an amount of EUR 2 663 104 from the general budget of the European Union for 2015 and for an amount of EUR 2 336 896 from the general budget of the European Union for 2016, subject to the availability of appropriations following the adoption of the draft budget and the budget			
6. Aid modality and implementation modality	Project Modality Direct management / procurement of services			
7. DAC code(s)	331 Trade Policy and Regulations and Trade Related 33110 Trade Policy and Administrative Management 33120 Trade Facilitation			
8. Markers (from CRIS DAC form)	General policy objective	Not targeted	Significant objective	Main objective
	Participation development/good governance	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Aid to environment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality (including Women In Development)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Trade Development	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

	Reproductive, Maternal, New born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Main objective
	Biological diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

SUMMARY

The Mongolian economy and external trade is dominated by mining, based on very rich endowments with natural resources. However, to advance broad-based inclusive and sustainable development, it will be essential to diversify the economy activities, in particular improving opportunities for the dispersed rural population and the large share of the population moving to the cities, especially Ulaanbaatar.

With a limited domestic market, an export oriented diversification strategy will be key in a country like Mongolia. This is fully recognised by the government as reflected in the GAP 2012-2016 which constitute the overarching development framework. The plan outlines core sectors to focus and further development as a part of a job creation agenda.

The recent government restructuring now means that the responsibility for trade policy lies with Ministry of Industry (MoI). This paves the way for an effective coordination with domestic measures to strengthen competitiveness. MoI is in the process of drafting a new Industrial Policy together with a strategy implementation plan, where initial focus will lie on strengthening areas where Mongolia has comparative advantages, but the draft policy is not yet available for consultation.

The present project will assist Mongolia with strengthening the capacity for further develop appropriate export development strategies and translate this into actual implementation through inter-governmental coordination and enhanced engagement with private sector organisations, in line with the guiding policy framework; and support the commitments made by Mongolia under the WTO Trade Facilitation Agreement.

The proposed intervention would also be highly complementary to the EU interventions in the focal sector Diversification and Employment Creation, as the core element of the various interventions is the strengthening of domestic productive capacity.

The project will take a product/sector based approach focusing on strengthening export performance and capacity in sectors/areas where Mongolia has (latent) comparative advantages.

A Financing Agreement will be signed with the Government of Mongolia. For the nature of this type of support, a centrally managed service contract would be the preferred modality. To ensure effective results and building sustainability, the wide engagement with actors outside government would be essential, notably business associations and think tanks. We foresee to cover such activities within a single service contract to keep management simple and coordinated.

1 CONTEXT

1.1 Sector/Country/Regional context/Thematic area

Mongolia's trade profile is highly determined by its landlocked position between China and Russia. Its exports are heavily dependent on China. The latter buys more than 90% of Mongolia's exports. China is also a major supplier of imported goods and services to Mongolia, along with Russia. The country is dependent for more than 50% of its imports on its two big neighbours and in 2014, it signed a partial scope agreement with each neighbour.

EU-Mongolia trade has intensified in the recent years. However, the EU remains a minor trading partner of Mongolia (only accounting for 5.4% of the country's total trade in 2012). Less than 2% of Mongolia's exports went to the EU that year (mainly textiles and related articles, live animal and animal products and, to a lesser extent, mineral products and raw hides and skins), while only 7.3 percent of Mongolia's imports originated from the EU (mostly machinery and equipment).

Since 2013, its macroeconomic outlook has been clouded by growing external imbalances, which have been exacerbated by the recent drop in investor confidence (caused by a foreign investor-Mongolia State dispute in the mining sector). Moreover, there have been deteriorations in the control of government spending, with unsustainable external indebtedness, increasing non-performing loans of the banking sector and a twin deficit in the current and fiscal accounts. WB Governance Indicators also point out a poor level of government effectiveness in Mongolia and confirm difficulties in controlling corruption. Political instability has further undermined the implementation of much needed reforms and the predictability of trade and investment policies.

1.1.1 Public Policy Assessment and EU Policy Framework

The General Action Programme 2012-2016 (GAP), which is the overarching development framework of Mongolia, outlines a series of principles to boost the economy in a self-sufficient and internationally competitive way, provide better paid jobs, and to uplift public-private partnerships to improve the business environment. The key objective of the plan is to decrease the dependency on the mining sector through economic diversification. The GAP already identifies specific products/sectors with trade potential (e.g. wool, cashmere, livestock rearing, meat and milk, raw leather, tourism sectors). At present, there is no comprehensive export strategy or trade strategy currently in place.

Although the plan sets a very comprehensive vision of Mongolian economic development, the concrete implementation arrangements are weakly developed, there is no clear link to the required budgetary resources and a monitoring framework have not been clearly elaborated.

With the government restructuring end of last year, the newly created Ministry of Industry (MoI) received a clear mandate to develop and implement trade policy. This will create a better basis for a coordinated effort to strengthen the trade policy environment and efforts to improve domestic productive capacities. The MoI is in process of elaborating an industrial policy document, soon to be discussed in parliament. Although it remains very general, there is an explicit intention to create the conditions for diversified exports and to support the production of higher value and export-oriented products. Adoption is foreseen in the second half of 2015. The Ministry is also in process of elaboration a strategic implementation plan for the Industrial Policy. The MoI have informed key orientations of the trade related aspects would be product/sector based approach in line with the GAP, focus on further strengthening consultations with private sector as well as pursuit of public private cooperation. Trade

Facilitation has a prominent role and Mongolia is currently clarifying how to proceed with measures defined in the context of Bali TF Agreement.

Currently there is a Working Group (WG) preparing a "National Quality Plan" (supported by the EU funded SMMS project). The Mongolian Agency for Standardisation and Metrology (MASM) chairs the WG. Mongolia never had a quality plan before. The plan should be finished by the end of 2015. MoI, MoFA and GASI are also members of the WG. There is a subcommittee working on the identification non-food priority sectors. Some preliminary outputs of the work may be presented in August. The project should take in consideration the National Quality Plan and consider supporting its implementation.

This Trade Related Assistance initiative is framed in the focal area "regional integration (including trade)" of the Regional Asia Multiannual Indicative Programme (MIP) 2014-2020. The project would also be highly complementary to actions undertaken under the national MIP 2014-2020 and would allow support to trade aspects of the Partnership and Cooperation Agreement (PCA). Mongolia is not member of any regional trading group. Trade figures for Mongolia¹ show a high dependency on the two large neighbours China and Russia, which significantly conditions its trade profile. The focus of this TRA would rather be on enhanced diversification of exports both market and product wise, seeking for a varied integration of the country in the world trade.

This initiative also reflects the principles set out in "Agenda for Change" since it will contribute to improve the economic governance and will ultimately fosters *"inclusive and sustainable growth for human development"*. Together with other EU initiatives already being implemented in Mongolia (see section 3.2) it is also in line with the principles and actions put forward by the communication *"A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries"*. For example, *focus on employment creation, inclusiveness and poverty reduction* by concentrating on non-mining sectors that are more employment intensive and by probably working with sectors that deeply penetrate into the rural areas –e.g. cashmere/wool, dairy, meat- where Mongolia shows the highest poverty rates); *a differentiated approach to the private sector*, by supporting some specific sectors and intermediary organisations that operate at national and local level; *create opportunities through market-based solutions*, by supporting Mongolian products/sectors with a clear potential for exports; *put strong emphasis on results*, by focusing the work on products/sectors that could generate concrete business opportunities, and by strengthening the capacities of the MoI on results measurement and impact assessment as part of the institutional strengthening.

1.1.2 Stakeholder analysis

Since December 2014 the newly created **Ministry of Industry (MoI) was created by took over the responsibility** for Mongolia's domestic and international trade issues from the abolished Ministry of Economic Development, as well as the responsibility for promoting SMEs (formerly under the purview of the Ministry of Labour), light and heavy industry (including agro-industry except meat processing). A (relative small) trade department has been established, also building on resources from MoED.

¹ China buys more than 90% of Mongolian exports and is also a major supplier of imported goods and services to Mongolia, along with Russia. The country is dependent for more than 50% of its imports on its two big neighbours.

Other important trade-relevant public bodies are the Ministry of Food Safety and Agriculture (MFSA), the Customs Administration, the Mongolia Agency for Standardization and Metrology (MASM), the General Agency for Specialized Inspection (GASI), the Invest Mongolia Agency, the Authority for Fair Competition and Consumer Protection (AFCCP). The Prime Minister's Office, the Ministry of Foreign Affairs, the Minister of Mongolia (position created in Dec. 2014 in charge of major infrastructural and investment projects, but without a Ministry assigned to his portfolio) may also play a role in trade related issues.

The MoI has responsibility for coordinating trade policy issues among these public stakeholders. However, there is no formal/permanent coordination mechanism operating at the moment. When a situation requires involvement of several public institutions, ad-hoc working groups are created to solve the problem. Consultation with the private sector also takes place in an ad-hoc basis, and most of the time is limited to the most influential organisations (e.g. MNCCI, BCM).

On the side of the private sector, the most relevant organisation is the **Mongolia National Chamber of Commerce and Industry** (MNCCI). It has a number of trade support functions, including issuing certificates of origin, registration of patents and trade-marks, arbitration of foreign trade and investment disputes, neutral inspection of quality, quantity and completeness of export/ import items, etc. There is an export promotion department with limited capacity for promotion activities and market intelligence. The MNCCI will be a key counterpart in the project.

Developing and implementing a product/sector based trade strategy will also require the engagement with sectorial organisations. A number of **Sectorial Associations** exist in Mongolia, including the Mongolian Wool and Cashmere Association, the Mongolian Meat Association, the National Association of Mongolian Agricultural Cooperatives, the Mongolian National Mining Association, etc. Although individual capacity assessments are not available, in general count with very limited human and financial resources which usually constraints their capacity to fully assume their mandate and/or influence the policy making process.

Intermediary organisations should be the main driver for changing and enhancing the level of export in specific sectors/products. To do so, a dedicated component will address their specific needs and liaise it to the policy level. They also contribute to guaranteeing the sustainability of the action. Their continuity may somehow counterbalance the instability observed in the public institutional framework in the last years.

Some think tanks and policy research institutes can also provide support to the government in analytical research and advocacy, for example: the Economic Research Institute (ERI), the Faculty of Law and the Faculty of Business and Economics of the Mongolia National University, the Economic Policy and Competitiveness Research Centre (EPCRC), the Think Tank for Landlocked Least Developed Countries (LLDCs), etc.

1.1.3 Priority areas for support/problem analysis

The overarching strategy of the project is to support MoI in further develop appropriate trade strategies as well as promote the effective implementation of these through coordinated engagement with other public and private stakeholders. Some of the key challenges impeding Mongolia's ability to participate successfully in international trade result from its geographic and economic characteristics and its current trade relations: its land-locked situation, great commercial dependence from its neighbours China and Russia, extreme weather with very

low temperatures in the winter, high transport costs, limited size of the economy, small internal market with reduced purchase power, economy not very diversified and not very competitive, negative effects of the Dutch disease due to the bloom of the mining sector in recent years, high dependency on few commodities –particularly in the mining sector–, limited availability of skilled labour, etc. Core challenges are the following:

- **The institutional framework (public and private) should be strengthened:** the reshuffling of portfolios and the movement of staff and brain drain from the public sector weakens the institutional framework and encourages the loss of institutional memory. Analysts affirm that political instability will still be present in the short and mid-term. Coordination among all stakeholders should also be reinforced since it has been identified as one of the significant deficiencies in planning and implementing trade-related actions. In general, non-state actors are weakly organised although some of them (e.g. MNCCI and BCM) have a strong support base and access to the government. A general problem for non-state actors is that they have low financial resources and few permanent staff members. Moreover, they have a lack in understanding international trade issues.
- **The capacities for trade policy analysis, formulation, implementation and mainstreaming of trade should be enhanced.** Trade does not seem mainstreamed into a poverty reduction and economic development strategy. More general there is no industrial policy in place right now (although a new industrial policy is in the legislative pipeline) but instead a series of sector policies, which cannot adequately tackle the multidimensional nature of horizontal cross-cutting issues which impact trade competitiveness and performance. Clearly defined export strategy, industrial policy, trade policy, economic diversification policy, etc. and stronger economic analysis, regulatory and legal impact assessments are needed, as well as deeper knowledge of trade related areas.
- **Mongolia's trade profile should be diversified in both, geographical markets and products:** Mongolia's exports are heavily dependent on China, which together with Russia is also a major supplier of imports. Mongolia's economy shows a relatively low level of diversification, as well as limited development of supply chains, outside the mining sector and to a lesser extent, textiles and clothing sectors.
- **There should be improvements in trade facilitation:** While customs modernisation has been supported by donors, it has identified a number of areas where they will need assistance in order to implement the WTO Agreement on Trade Facilitation. Customs appears to require capacity building including for instance in the area of the Authorized Economic Operators (AEOs) and risk management.

2 RISKS AND ASSUMPTIONS

Risks	Risk level (H/M/L)	Mitigating measures
Political and economic instability may divert attention away from the elaboration and implementation of effective trade policies	M	The project will be centrally managed and will incorporate a certain degree of flexibility so as to be able to respond to effective demand and potential changes in the institutional framework. The fact that the project will target both public and private stakeholders and can adjust focus would be a way to mitigate this risk.
Low level of ownership and low absorption capacity of	M	A great share of the project is focused on public and private capacity building. A product/sector based

the institutions involved (somehow linked to the first risk listed) may reduce the interest for the project and consequently diminish its impact.		approach would allow achieving tangible and more concrete results in a shorter term, which would strengthen the interest of the involved institutions. Assisting the institutions in being better organized will have a positive impact in their capacity to absorb the technical assistance provided. Strengthening donor coordination mechanisms and division of labour would also help to avoid saturating the absorption capacity of institutions.
Institutional restructuring and potentially high turn-over of staff may render capacity building activities less sustainable.	M	The project will aim at strengthening delivery around articulated trade development strategies, involving a broad range of public and private stakeholders thus creating capacity that partly transcends specific staff and institutions.
Increased protectionism, e.g. as a consequence of the deterioration of the political situation	L	The project will mitigate this possible concern by highlighting to public and private organisations the advantages of developing Mongolian foreign trade. Through support to MoI, discussions of the advantages and disadvantages of different trade strategies will be targeted.

Assumptions
Although the macroeconomic framework and the political situation seem to remain unstable in the short and mid-term, the overall situation will not deteriorate to a level that would derail the implementation of this initiative. There will be continuity in the strategic outlook toward trade.
The institutional framework is very volatile but trade competencies will always be clearly assigned (now to the MoI). Even if another ministry takes over the trade issues in the future, there will be always an identifiable counterpart to work with. A certain degree of openness of the relevant Ministry must be guaranteed. Staff involved in trade issues will remain linked to their function retaining some institutional memory.
There is no open confrontation between the most relevant private sector organisations with the public sector. Public-private partnerships may not be strong right now and there is a fertile ground for them to be further developed.
The international economy is not faced with a new downturn, and the risks associated with the Eurozone are controlled and that balanced growth is restored in the world economy.

3 LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

3.1 Lessons learnt

In a presumably unstable economic and political/institutional context, the project should have a high degree of flexibility to adapt to changing political and institutional landscapes. There are higher chances that interventions at macro level would be diluted in this background and therefore the project will seek to have impact at meso and micro levels, empowering local actors, encouraging public-private partnerships, generating real opportunities for the economic actors respecting, at the same time, the competences of the public bodies.

In weak institutional environments, successful approaches to trade development have often been achieved through focussing on specific prospective products and then aiming at removing specific barriers as opposed to broad based institutional improvement. Good examples include the development of cut flower industry in East Africa, Mangoes from Mali, and Asparagus from Peru. All cases demonstrate the need for clear public lead in providing specific infrastructure, removing barriers but also the importance of private sector organisations in advancing coordination, engagement with the public sector as well as creating and sustaining sector capacities and quality of products.

Mongolia has recently concluded an FTA with Japan. Apart from an obvious interest from Japan in easing access for its cars, machinery, etc., the agreement may also strengthen access to raw materials. From a Mongolian development perspective, the agreement will also facilitate Japanese investment in the country with potential of strengthening export capacity and employment creation.

The EBRD project on support to SME has been found to strengthen business advice to enterprises. Recommendations include having a stronger engagement with the relevant ministries on improving business environment.

An important lesson learnt from other EU projects in Mongolia is the difficulty to engage in long term strategy and policy discussions with the local counterparts. Indeed, most Mongolian public organizations work without a clear strategic framework; they mainly plan their work reacting to short term needs. This deep capacity building problem could only be tackled by the project in a partial way.

3.2 Complementarity, synergy and donor coordination

The proposed intervention would be complementary to other EU funded projects, in particular

- The project "Support to the modernisation of Mongolia's Standardisation System" (SMMSS) is aimed at improving the adoption of international recognised standards, leading to development of some value chains and improved export capacity of the private sector to comply with market regulations abroad. The lack of capacity to comply with international standards was pointed out as one of the obstacles of Mongolian companies to export. The project will work in close coordination with SMMSS.
- The project "Economic Governance for Equitable Growth" (EG4EG) will strengthen policy implementation and governance, which will be aligned with the objectives of this project. Some of its activities will prepare the ground for the implementation of the TRAM project
- The upcoming EU funded "Support for employment creation in Mongolia" (SECiM) will work on SME development and employment creation using a value chain approach with a focus on light industries in agriculture and rural development: livestock and vegetables sectors). While SECiM is focused at the value chain level, the project proposed will work at the policy level to make sure that the legal framework does fosters the development of the value chains.
- The "SME Support" programme, implemented by EBRD, will expire but activities may continue with a project funded under the blending facility. It lends advisory support and provides financial instruments for SMEs which are ready to export.

- The "Technical and Vocational Education and Training" (**TVET**) project will enable key stakeholders to provide technical and vocational education and trainings in a way that is responsive to the needs of a rapidly changing labour market and economy.

Other donors: The **World Bank** may revisit plans to support export promotion facility in 2015. The **Asian Development Bank (ADB)** will implement a one year USD 0.5 million programme starting in the second half of 2015 entitled "Building Trade Policy Capacity: Formulating an International Trade Policy". It will support the MoI in policy design to contribute to a more stable and predictable environment for importers and exporters. This project will lay foundations and analytical work for the proposed initiative. **IFC** and **ADB** support the Mongolian Customs with the Automated Customs System and to improve risk management and transparency in customs control. The Gesellschaft für Internationale Zusammenarbeit (**GIZ**) is providing assistance to the Ministry of Justice and Home Affairs in legal drafting. It also provided assistance in the past to the Ministry of Economic Development (responsible at the time for the trade policy) in negotiation training. **GIZ** supports the Mongolian National University School of Economics and Business and also funds competitiveness studies carried out by the EPCRC. **GIZ** is proposing to support Invest Mongolia in 2014 for the implementation of the new investment law. In the past it also supported MNCCL. An update of the status of other donor's projects will be carried out during the inception phase to guarantee coordination and complementarity and encourage synergies.

There is no formal **donor coordination** group specifically for trade and private sector development activities. There are relatively few donors present in Mongolia, which may facilitate the task of coordinating actions. As part of the institutional strengthening, the project will provide advice and build capacities in the MOI to set up a donor coordination scheme in the field of trade.

3.3 Cross-cutting issues

The comparative analysis of the products/sectors to be prioritized will include criteria to guarantee that cross-cutting issues are taken into consideration. **Gender equality** and **environment protection** are particularly relevant in agriculture and agro-industrial activities. The project will likely focus on agriculture-related products/sectors and the activities will seek to create value in sectors with relatively high female participation. In doing so, the project will seek to minimise negative impact on water, land (particularly grasslands, as Mongolia hosts the last great grasslands of Asia) and air (including greenhouse gas emissions from soils). In addition, all trade strategies and policies supported by the project will include environmental impact assessments and will be designed aiming at reducing the carbon footprints in trade (if deemed appropriate, introduction of green/fair trade schemes, GIs, etc.).

Fostering **good governance** is a key-crosscutting concern that will be addressed by technical assistance provided by the project to the public and private sector organisations. Consultative and participatory processes will be reinforced in policy formulation and implementation in order to improve accountability, transparency, predictability and participation. **Corporate social responsibility** and **sustainable development** policies will be particularly targeted to the private sector organisations. Positive impact for **most vulnerable groups**, specifically employment, is as well a particular point of attention to be addressed.

The programme will support in particular the business community in implementing better monitoring and control mechanisms to ensure the effective implementation of international standards and measures on the topics mentioned above. It will build/strengthen public private dialogues and possibly partnerships in this area. This will be done in close co-ordination and

collaboration with relevant agencies operating in the related areas such as the ILO/IFC better work programme and international certification programmes.

The programme will include assessments of how increased trade in targeted sectors impacts on employment, poverty and environmental conditions.

4 DESCRIPTION OF THE ACTION

4.1 Objectives/results and options

The **overall objective** of this project is to enhance Mongolia's international trade and economic diversification and to contribute to sustainable economic growth and development of the country, with the ultimate goal of reducing poverty and external vulnerabilities.

The **specific objective** is to strengthen capacities and to support Mongolian public institutions and private sector for effective trade policy initiatives with a special focus on specific products/sectors with high potential, to effectively participate in the world economy.

The expected **results** are:

- **Result 1: Enhanced policy dialogue and government capacity and processes for trade policy formulation and negotiation.**
- **Result 2: Effective implementation of concrete measures to reduce trade costs, including mainstreaming of trade policy in other sector policies.**
- **Result 3: Strengthening of the institutional capacity of the private sector intermediary organisations and other trade-related non-state actors, with a view to effectively support private enterprises as well as engage effectively with relevant government interlocutors.**

The capacity building to relevant public and private organisations for trade policy formulation, implementation and monitoring and the promotion of public-private partnerships focused on products/sectors that show high potential for trade in Mongolia should lead to more concrete and immediate results (i.e. business creation and value addition in these sectors), and will contribute to encourage sustainability of the action.

Even though the political context seems to remain rather volatile in the short and mid-term, it is essential to work with the public sector. Sustainability will also be stimulated by working with private organisations as well. The potential negative impact of political volatility can be mitigated by a strong involvement of the private sector organisations. Working with both, public and private institutions is essential and therefore one of the main features of this product/sector approach will be to strengthen Public-Private Partnerships.

4.2 Main activities

The **main activities** foreseen for each result are:

- **Result 1: Enhanced policy dialogue and government capacity and processes for trade policy formulation and negotiation.**
 - Support to the strengthening of trade related public institutional framework (particularly the MoI) in their capacity in trade policy analysis, formulation, implementation and monitoring.

- Support the MoI to assess and identify non-mining products/sectors with export potential, including consultation with other line ministries engaged in trade related issues and with private sector organisations.
 - Review or formulate trade related legislation and policies, particularly those directly linked to the products/sectors identified.
 - Improve analytical capacity of line-ministries engaged in trade related issues by building skills and providing assistance in technical areas to improve transparency and clarity of policies, and to ensure enactment and implementation of laws.
 - Carry out studies on trade related issues to support public institutions in policy formulation and implementation.
 - Support to the MoI to set-up and lead a permanent coordination mechanism involving all relevant public organisations on trade issues in Mongolia to promote a comprehensive approach to trade issues and to improve the services that the public administration provides to the private sector.
 - Provide advice and build capacity in the MoI to set-up and lead a donor coordination scheme among all donors and other actors providing support to Mongolia in the field of trade.
- **Result 2: Effective implementation of concrete measures to reduce trade costs, including mainstreaming of trade policy in other sector policies**
 - Identify and assess the most relevant trade facilitation issues related to the products/sectors with export potential identified in Result 1.
 - Support to Customs for the adoption of EU requirements for customs matters (such as Authorised Economic Operators) and improve cooperation in customs administration matters, as well as better facilitate trade through the implementation of a range of measures that ease the rapid movement of legitimate import and export of goods and services.
 - Enhance the capacity of relevant Government and Customs staff in provinces and at borders on risk management systems, post-clearance audit systems, advance ruling, procedures for expedited shipments, implementation of WTO FTA, and EU GSP measures.
 - Support the commitments made by Mongolia under the WTO Trade Facilitation Agreement.
 - Assistance to Invest Mongolia agency to improve the services it delivers to the private sector.
- **Result 3: Strengthening of the institutional capacity of business associations and other intermediary organisations, with a view to support export development as well as engage effectively with relevant government interlocutors.**
 - Support capacity building for business associations on public-private dialogue to bridge the current advocacy weaknesses between non-state actors and the government.

- Provide assistance to private sector organisations to take advantage of international market opportunities (e.g. through the utilisation of GSP+ preferences in particular) by bridging trade information weaknesses through activities aimed at raising awareness on customs matters, standards, rules of origin and market intelligence on the EU market. Attention will be given to the associations based in regions, not only in the capital.
- Support engagement with corresponding business organisations in targeted export markets to facilitate effective exchange and understanding of requirements for market access
- Assess the viability/suitability of defining certification schemes to promote trade of the identified products/sectors with export potential.
- Support to elaboration of business guides for the products/sectors identified, training activities etc.

4.3 Intervention logic

In the Mongolian context, where exports are highly concentrated in minerals and towards one big neighbouring country and where the last year have seen the vulnerabilities linked to such concentrations, there is a strong rationale for diversification of exports for two main reasons: reducing risks and promoting a more inclusive growth model, as non-mining sectors would have much greater employment creation opportunities.

The project seeks to advance this agenda by assisting core stakeholders in reducing trade costs, broadly considered. This will in particular be advanced through three elements: enhancing Ministry of Industry in analysing and prioritising interventions, supporting implementation of targeted measures to implement this agenda –including enhancing coordination and cooperation among key government bodies–and last, working effectively with business associations and other private sector organisations to facilitate an effective public private partnership for enhanced export capacity.

The outcome these elements should achieve would be increased exports capacity in targeted sectors where Mongolia has comparative advantages but facing particular constraints or barriers. This could in particular be sectors such as leather, dairy, wool/textiles, but the country has also seen recent success in some less traditional sectors, for example solar panels. Ultimately these sectors are labour intensive and through expanding markets through exports, wider sharing of economic benefits could be achieved.

Essential to the success will be that effective public-private cooperation be achieved focussing of such strengthening of export capacity and lowering of trade costs. Two core risks stand out: that government in facing of resurgent mining interest may not maintain interest in the diversification agenda and that instability of government (frequent staff changes, etc.) makes government interventions less effective. Both elements are sought to be mitigated in the project design in the sense that the implementation may, to a certain extent, shift focus in the relative emphasis on support to public sector and private sector organisations.

5 IMPLEMENTATION

The project will be implemented in **direct management** by the EU Delegation.

5.1 Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 184(2)(b) of Regulation (EU, Euratom) No 966/2012.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4.2 will be carried out and the corresponding contracts and agreements implemented, is 72 months from the date of entry into force of the financing agreement..

Extensions of the implementation period may be agreed by the Commission's authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute technical amendments in the sense of point (i) of Article 2(3)(c) of Regulation (EU) No 236/2014.

5.3 Not applicable to project approach.

5.4 Implementation modalities

5.4.1. Procurement (direct management)

Subject in generic terms, if possible	Type (works, supplies, services)	Indicative number of contracts	Indicative trimester of launch of the procedure
Technical Assistance (including visibility)	Services	1	2 nd quarter 2016

5.5 Scope of geographical eligibility for procurements/grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply.

The Commission's authorising officer responsible may extend the geographical eligibility in accordance with Budget Article 9(2)(b) of Regulation (EU) No 236/2014 on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

5.6 Indicative budget

Module	Amount in EUR thousands	Third party contribution
5.4.1.1. – Procurement (direct management)	4,700,000*	N.A.
5.9. – Evaluation, 5.10. - Audit	200,000	N.A.
Contingencies	100,000	N.A.
Totals	5,000,000	N.A.

* Communication and visibility will be included in the contract of the Technical Assistance (5.4.1.1).

5.7 Organisational set-up and responsibilities

A Project Steering Committee (PSC) will be established to provide strategic guidance and ensure coherence and coordination between the different activities of the project.

The PSC will be jointly chaired by a representative from MoI and a representative from the EU Delegation responsible for Mongolia. It will meet at least two times per year.

Members of the PSC will be agreed upon by the co-Chairs and will include representatives from other key beneficiary ministries, other important trade-related public bodies, and key intermediary organisations.

The Technical Assistance Team (TAT) will be attached to the MoI and will mainly support the Trade Policy and Coordination Department.

Since the technical assistance will be provided to public (mainly the MoI) and private bodies (particularly the MNCCI), a member of the TAT may also be placed in the MNCCI. This will encourage the coordination and dialogue between the relevant public and private bodies in the field of trade.

The contract may also include short term technical assistance, which could be provided to other trade related public institutions or private sector organisations.

The technical assistance contract may also contain an allocation for a number of smaller studies to be paid as lump sums inside the overall technical assistance contract. The focus of these studies could include sector analysis, specific support to business associations, training packages, etc.

5.8 Performance monitoring and results reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the logframe matrix. The report shall be laid out in such a way as to allow

monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

The capacity building provided by the project to the relevant government bodies will include development and/or strengthening of adequate monitoring mechanisms.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

5.9 Evaluation

Having regard to the importance of the action, a mid-term and a final evaluation will be carried out for this action or its components via independent consultants contracted by the Commission. The mid-term evaluation will be carried out for learning purposes, in particular with the view of possible adjustments to the implementation and focus of the project. The final evaluation will be carried out for accountability and learning purposes, in particular to assess the specific and wider impacts of the trade development activities.

The Commission shall inform the implementing partner at least 1 month in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Indicatively, two contracts for evaluation services shall be concluded under a framework contract in the 4th quarter 2018 (mid-term evaluation) and the 4th quarter 2020 (final evaluation).

5.10 Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

Indicatively, one contract for audit services shall be concluded in 4th quarter 2020.

5.11 Communication/visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action the start of implementation.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.