

Mongolia

The Development Challenge: Mongolia, a remote and sparsely populated country, provides an important and increasingly rare example in Central Asia of how to manage a difficult economic transition within a democratic political framework. It shares long land borders with a rapidly emerging China to the south and the resource-rich Siberian region of Russia to the north. Mongolia's success, though fragile, offers an important beacon of hope for other countries attempting to make the difficult but all-important transition from dictatorship to democracy.

Politically, Mongolia's transition to democracy is a remarkable achievement with ramifications that go well beyond its frontiers. No less than nine elections have been held over the last decade, three each at the local, parliamentary and presidential level. Governments have been elected to power in free and fair elections and, then, peacefully relinquished that power in response to subsequent elections. This record stands in stark contrasts to its five Central Asian neighbors, each of which is still governed by the same ruler who assumed power when those countries gained independence following the break-up of the Soviet Union more than ten years ago.

Economically, Mongolia's harsh climate, small market and lack of infrastructure present formidable challenges. However, here too the direction and pace of change has been encouraging. Well over 70 percent of the Mongolian economy is now in private hands, up from virtually nothing ten years ago. Total GDP is estimated at \$1 billion, or around \$450 for each of the 2.4 million people who live in the country. Mining, tourism, construction and light industry offer significant potential. The debt burden is a growing concern and will soon reach \$1 billion, equivalent to the country's annual GDP. Official economic growth rates have hovered at around one percent in recent years, partly on account of successive periods of drought and hard winter that have decimated Mongolia's important livestock sector. Some argue that the official figures do not adequately reflect Mongolia's thriving "underground" economy or the contributions made by a growing number of Mongolian workers in Korea, Taiwan and elsewhere who send funds to relatives back home.

U.S. interests in Mongolia stem largely from its strategic location; its important role in contributing to stability in a potentially volatile part of the world; and the strongly positive example it sets in promoting economic reform and democracy. A successful Mongolia has important and highly positive implications for a huge swath of neighboring Central Asian countries stretching from Kazakhstan to Afghanistan. Mongolia's strategic location between Russia and China, two traditional rivals that are also nuclear powers and important players on the global stage, further adds to its significance. Finally, the unusually positive relations that Mongolia maintains with both North and South Korea position Mongolia to make a positive and constructive contribution as a "role model" for North Korea when it eventually emerges from the isolation maintained over many decades.

The USAID Program: USAID-funded programs are tightly focused on two key objectives, namely building a market economy and consolidating a true democracy. Specific activities focused on civil society have important implications for economic growth. Similarly, programs that address economic concerns have a direct impact on Mongolian as a newly emerging democracy. Government as well as non-government institutions are heavily involved. Unlike some donors, USAID also works closely with Mongolia's private sector.

Judicial reform is the single largest program within USAID/Mongolia's democracy portfolio. Most importantly, the country's new civil and criminal codes need to be effectively implemented. Beyond that, USAID supports greater transparency and accountability in the judiciary, a prospect aided by a new initiative to automate courtrooms across the country. Other programs work to make parliament more transparent and political parties more effective in the lead-up to national elections in summer 2004.

Activities aimed at promoting sustained economic growth operate at both a policy and grassroots level. Interventions in the banking sector have been especially successful. As a result of USAID assistance, Mongolia's largest bank (Trade and Development Bank) was privatized. In addition, the bank with the

most extensive branch network (Agricultural Bank) now stands at the brink of privatization. Significant work is underway aimed at commercializing Mongolia's all-important energy sector. USAID also works directly with private Mongolian companies involved in tourism and cashmere production. Remaining activities focus on business development in rural Mongolia and in the growing number of "peri urban" districts growing up near Mongolia's urban centers as a result of migration from the countryside. Underlying all these programs is a strong interest in promoting transparency and ensuring that the Mongolian public has access to information about issues that are vital to the country's future.

Other Program Elements: On occasion, bilateral resources are supplemented by additional funding from USAID/Washington. For example, USAID/Mongolia routinely processes Washington-funded trainees to attend short-term courses at the U.S. Telecommunications Training Institute (USTTI). Similarly, a rural lending initiative that was launched with mission support and then merged with a UNDP-supported program to found the XacBank received more than a \$1 million under an competitive grants program managed out of Washington. Also, a new linkage involving Mongolia's Energy Regulatory Authority (ERA) and the Minnesota public utilities commission is funded out of global resources.

The USAID mission works closely with the Embassy country team to integrate foreign assistance programs with broader USG objectives.

Other Donors: The "alphabet soup" of foreign donors working in Mongolia partly reflects the relative success that the country has enjoyed in recent years, especially in terms of its ability to effect both economic and political reforms simultaneously. Efforts to strengthen coordination have improved in recent years, though regrettably duplication and overlap sometimes occur.

The Asian Development Bank (ADB) is the single largest multilateral donor, followed by the World Bank. Other multilateral donors include the European Union and various United Nations agencies. The European Bank for Reconstruction and Development (EBRD) is launching its first technical assistance program, one that focuses heavily on commercialization and the private sector. There are indications that the EBRD will eventually launch a lending program as well.

Japan is Mongolia's major bilateral source of loan as well as grant assistance. Programs cover a wide range of areas, including infrastructure and education. The U.S. ranks a distant second in terms of its development assistance, followed by a German aid effort that focuses on conservation and renewable energy. Many other donors also offer more limited support to Mongolia, including the Netherlands (environment and rural development), Australia (scholarships), Canada (urban and rural development), India (information technology), Russia (humanitarian aid), China (housing) and Korea (health).

Finally, non-governmental organizations (NGOs) such as the Soros Foundation and World Vision make useful contributions to Mongolia, each managing annual development programs valued at approximately \$3 million. Numerous other NGOs from the U.S., Japan, Europe and elsewhere also provide important support, especially in the social sectors.

Mongolia PROGRAM SUMMARY

(in thousands of dollars)

Accounts	FY 2001 Actual	FY 2002 Actual	FY 2003 Prior Request	FY 2004 Request
Economic Support Fund	11,974	12,000	12,000	10,000
Total Program Funds	11,974	12,000	12,000	10,000

STRATEGIC OBJECTIVE SUMMARY				
438-001 Economic Growth				
ESF	8,974	8,000	8,500	7,300
438-002 Democratic Transition				
ESF	3,000	4,000	3,500	2,700

Data Sheet

USAID Mission:	Mongolia
Program Title:	Economic Growth
Pillar:	Economic Growth, Agriculture and Trade
Strategic Objective:	438-001
Status:	Continuing
Proposed FY 2003 Obligation:	\$8,500,000 ESF
Prior Year Unobligated:	\$0
Proposed FY 2004 Obligation:	\$7,300,000 ESF
Year of Initial Obligation:	FY 1994
Estimated Completion Date:	FY 2009

Summary: USAID's assistance promotes sustainable private sector economic growth by providing help to new entrepreneurs and businesses in both rural and urban Mongolia. Programs stress the adoption of competitiveness strategies and seek to improve micro and macro level economic management to improve economic management; make private Mongolian companies and sectors more competitive; inform Mongolians about a market economy; and expand economic opportunities for all Mongolians.

Inputs, Outputs, Activities:

FY 2003 Program:

USAID Mongolia is drafting a new Country Strategy for 2004 through 2008. The current strategy ends in FY 2003. The new strategy will include continued focus on private sector growth; strengthened emphasis on policy implementation; and greater attention to the public education aspects of the economic restructuring process. Strong emphasis will be placed on building competitiveness and on ensuring greater economic opportunities for all Mongolians.

Improved Enabling Environment for Private Sector Growth (\$3,500,000 ESF). USAID will consolidate its privatization, competitiveness, and economic restructuring programs into a new initiative organized around competitiveness issues and focused on improving the enabling environment for private sector growth. The program will include the placement of an economic advisor in the Prime Minister's office to work with line ministries and with parliament, as well as technical assistance and training activities, aimed at implementing policy reform and improving economic management. Energy and financial services will likely receive special attention. The new program will include a public education component to promote public-private sector dialogue and engage the public in broader discussions on the country's economic future. The contractor and potential sub-contractors responsible for implementing this program will be selected under a competitive bidding process launched in late February 2003 and completed by August 2003.

More Competitive Industries and Sectors (\$1,000,000 ESF). Effective policy formulation and implementation is vital to an emerging new Mongolian and the various players involved in key industries and sectors need to work together to strengthen Mongolia's international competitiveness, in tourism and cashmere. A new initiative launched in summer 2003 will provide technical assistance, training and other assistance with a view toward increasing Mongolian competitiveness. The program will include a strong emphasis on public-private partnerships, with a view toward ensuring that both the government and the private sector pursue a common vision.

Expanded Economic Opportunities for Rural and Urban Mongolians (\$4,000,000 ESF). USAID will expand its programs in the Gobi region and in "peri urban" areas by launching training programs targeting hundreds of new entrepreneurs and individuals who have been marginalized by Mongolia's economic restructuring process. The goal of these programs will be the expansion of small businesses in the Gobi region and business development in the peri urban districts that have emerged as rural Mongolians migrate to the urban centers of Ulaanbaatar, Darkhan and Erdenet. The Gobi Initiative will address

rangeland management concerns--a key resource for sustainable development in Mongolia. Small-scale lending operations will receive support. Finally, innovative information dissemination activities through publications such as the Rural Business News and radio programs such as MarketWatch, WeatherWatch and Herder from the Future will be placed on a more sustainable footing. Mercy Corps will maintain its lead role in the Gobi Initiative in partnership with Land O'Lakes and PACT. CHF International will take the lead in expanding economic opportunities in peri-urban areas.

FY 2004 Program:

Improved Enabling Environment for Private Sector Growth (\$2,600,000 ESF). USAID will maintain its strong focus on competitiveness and improved economic management, based on "lessons learned" during the first year of its new economic policy initiative launched in late summer 2003. A deepened involvement in the public information aspect of policy dialogue will be stressed in FY 2004.

More Competitive Industries and Sectors (\$1,200,000 ESF). Based on the results of the first year of implementation, USAID will deepen its involvement in key natural resource based sectors, including cashmere and tourism. USAID may broaden its involvement to include other areas in which value is added and Mongolia has some prospect of being internationally competitive over the short to medium term.

Expanded Economic Opportunities for Rural and Urban Mongolians (\$3,500,000 ESF). USAID will continue to promote sustainable business development activities in rural and urban Mongolia. Successful programs will be expanded to other geographic areas. Efforts will be made to promote synergies and build linkages between USAID activities in rural Mongolia and those focused on the growing number of Mongolian migrants who are moving into urban Mongolia from the countryside.

Performance and Results: USAID programs have had substantial impact over the past year. USAID played a key role in privatizing the Trade and Development Bank, Mongolia's largest commercial bank. The winning bid of \$12.2 million was by a US-led consortium that promised to invest another \$24 million in Mongolia over the next two years. The Agricultural Bank--boasting the largest branch network in Mongolia--is poised for privatization in early 2003. The USAID-funded management contract that restored the Agricultural Bank to solvency remains highly profitable and has recorded more than 370,000 loans to herders, pensioners, consumers and small businesses over the last two years.

The XacBank--a new private bank formed in January 2002 as the result of two separate micro finance programs, one supported by USAID and the other by UNDP--has emerged as a growing source of micro credit for Mongolians in all regions of the country. By the close of 2002, XacBank has 10,000 active clients and an outstanding loan portfolio exceeding \$4 million. Both the government and other donors have lauded USAID's important role in shaping major improvements in Mongolia's financial sector over the past two years. USAID contributions to the turn-around of the AgBank have been widely recognized, including in recent feature stories in the Far Eastern Economic Review and the Asian Wall Street Journal.

Other achievements include the establishment of a fiber promotion board as the custodian of a planned new collective mark for Mongolian cashmere and the continued growth in membership of the Mongolian Tourism Association from less than ten two years ago to almost eighty today. A new corporate income tax model has improved the government's ability to undertake economic analysis. The Prime Minister's new web page (www.open-government.mn) continues to facilitate dialogue on economic issues among the wider Mongolian public and is providing a forum, particularly for younger Mongolians, for their ideas on the important economic issues facing the country.

US Financing in Thousands of Dollars

Mongolia

438-001 Economic Growth	DA	ESF	FSA
Through September 30, 2001			
Obligations	5,569	18,848	14,289
Expenditures	5,569	11,461	12,307
Unliquidated	0	7,387	1,982
Fiscal Year 2002			
Obligations	0	8,015	0
Expenditures	0	5,926	1,475
Through September 30, 2002			
Obligations	5,569	26,863	14,289
Expenditures	5,569	17,387	13,782
Unliquidated	0	9,476	507
Prior Year Unobligated Funds			
Obligations	0	0	0
Planned Fiscal Year 2003 NOA			
Obligations	0	8,500	0
Total Planned Fiscal Year 2003			
Obligations	0	8,500	0
Proposed Fiscal Year 2004 NOA			
Obligations	0	7,300	0
Future Obligations	0	0	0
Est. Total Cost	5,569	42,663	14,289

Data Sheet

USAID Mission:	Mongolia
Program Title:	Democratic Transition
Pillar:	Democracy, Conflict and Humanitarian Assistance
Strategic Objective:	438-002
Status:	Continuing
Proposed FY 2003 Obligation:	\$3,500,000 ESF
Prior Year Unobligated:	\$0
Proposed FY 2004 Obligation:	\$2,700,000 ESF
Year of Initial Obligation:	FY 1996
Estimated Completion Date:	FY 2009

Summary: USAID's efforts to consolidate Mongolia's transition to democracy largely entail technical assistance and training aimed at reforming the judicial sector and making parliament and various competing political parties more effective. In addition, computer and other equipment, together with appropriate training, are being provided to Mongolian courtrooms to introduce transparency and accountability and improve efficiency.

Inputs, Outputs, Activities:

FY 2003 Program:

The current USAID strategy covers the period FY 1998 through FY 2003. A new document is now being drafted, one that will provide strategic direction for FY 2004-FY 2008. The main directions of that new strategy as it relates to democracy and good governance are already clear. First, USAID plans to deepen and possibly broaden USAID activity related to judicial reform. Second, efforts to improve political processes related to both parliament and the various political parties will continue, at least through the summer 2004 elections. Across the portfolio, USAID will also look for opportunities to strengthen accountability, transparency and broader public involvement on issues that are vital for maintaining and sustaining democracy in Mongolia.

Comprehensive Legal Reforms Implemented (\$2,800,000 ESF). USAID will assist Mongolian institutions to create and implement a continuing legal education program that helps shape a more competent, independent, ethical, transparent and effective judiciary. It will expand the number of courts benefiting from its ongoing computer automation program to encompass those handling at least 80 percent of the national case load. It will offer technical assistance across a full spectrum of judicial issues that affect Mongolia, with a view toward ensuring greater transparency and independence for the Mongolian judicial system. It will advise, provide equipment and help train the staff of a new anti-corruption unit in the prosecutor's office responsible for investigation and prosecution of crime within the judicial sector. Finally, it will carry out a continuing public information program designed to inform Mongolians about changes in the legal and judicial framework and the role that they can play to ensure effective implementation of these changes. The USAID-funded judicial reform program is implemented by the National Center for State Courts (NCSC) in partnership with PACT.

Political Processes Made More Effective and Transparent (\$700,000 ESF). USAID will provide technical assistance and training to a wide spectrum of political parties in the lead-up to the next national elections, scheduled for summer 2004. Basic information on formulating positions, raising funds, promoting grassroots support and running effective election campaigns will be provided. USAID will also provide additional assistance to parliament with a view toward expanding public hearings and ensuring greater public involvement in and knowledge about the workings of parliament. Programs related to parliament and political party development are implemented by the International Republican Institute (IRI).

FY 2004 Program:

Comprehensive Legal Reforms Implemented (\$2,200,000 ESF). Virtually every courtroom will be computerized to the extent justified by its case load, location, willingness to implement reforms and access to the internet. This in turn will make a major contribution toward the more transparent and efficient administration of justice in Mongolia. USAID will support the full range of continuing legal education administered by Mongolian institution(s) in cooperation with the World Bank-financed building of a Judicial Research and Training Center. USAID will consider expanding the focus to include broader anti-corruption programs. It may expand training programs into other others with a view toward promoting judicial independence in Mongolia.

Political Processes Made More Effective and Transparent (\$500,000 ESF). Ongoing programs focused on parliament and political party development will be assessed following elections scheduled for summer 2004. Depending on that assessment, new programs will be shaped to respond to the needs and requirements of a new parliament. Efforts to promote transparency and greater sector involvement will almost certainly continue.

Performance and Results: Judicial reform is slow and requires a long-term commitment to achieve lasting results. The launch of a new automated case management system in 2002 was an especially notable development. Five pilot courts participated, representing both urban and rural jurisdictions. A key feature was the introduction of public access terminals, resulting in an unprecedented increase in transparency and accountability.

In addition, USAID cooperated with Germany to design and implement a series of training sessions aimed at introducing judges and other members of the judiciary to new civil and criminal codes that became effective in September 2002. Almost all of Mongolia's more than 300 judges participated. Also in connection with the new civil and criminal codes, USAID helped launch a national media campaign to help educate the broader public about Mongolia's changing judicial environment.

Finally, the presence of three long-term legal advisors provides important opportunities to comment and shape pending laws and legislation as they relate to the judiciary. During 2002, such advice strengthened transparency under a new ethics code, reduced opportunities for corruption under a new law on courts, promoted greater certainty in commercial transactions under a new civil code and protected the rights of citizens accused under a new criminal code. This kind of advice provided by on-site advisors who have become increasingly familiar with Mongolia's legal landscape does more than any number of workshops or study tours to help shape the country's legal system during a critical period in its development.

The smaller parliamentary and political party development program was revitalized in May 2002 with the signing of a new three-year agreement with the International Republican Institute (IRI). In September, IRI established a working group involving Mongolian parliamentarians. This, in turn, led to parliament's first ever committee hearings, in this case involving the proposed judicial budget.

US Financing in Thousands of Dollars

Mongolia

438-002 Democratic Transition	DA	ESF	FSA
Through September 30, 2001			
Obligations	1,442	5,287	1,728
Expenditures	1,442	3,095	1,073
Unliquidated	0	2,192	655
Fiscal Year 2002			
Obligations	0	3,994	0
Expenditures	0	2,391	655
Through September 30, 2002			
Obligations	1,442	9,281	1,728
Expenditures	1,442	5,486	1,728
Unliquidated	0	3,795	0
Prior Year Unobligated Funds			
Obligations	0	0	0
Planned Fiscal Year 2003 NOA			
Obligations	0	3,500	0
Total Planned Fiscal Year 2003			
Obligations	0	3,500	0
Proposed Fiscal Year 2004 NOA			
Obligations	0	2,700	0
Future Obligations	0	0	0
Est. Total Cost	1,442	15,481	1,728