

Mongolia

The Development Challenge: Mongolia, a remote and sparsely populated country, provides an important example to other countries in East Asia, Central Asia and elsewhere on how to manage a challenging economic transition within a democratic political framework. It shares long land borders with China to the south and the resource-rich Siberian region of Russia to the north. Mongolia's progress in recent years offers an important beacon of hope for other countries attempting to make a similar transition.

Politically, Mongolia's transition to democracy is a remarkable achievement with ramifications that go well beyond its frontiers. Nine elections have been held over the past 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 following the outcome of subsequent elections. Upcoming parliamentary elections, scheduled for June 2004, will provide an important test of the extent to which democracy is truly taking root in Mongolia.

Economically, Mongolia's harsh climate, small market and lack of infrastructure present formidable challenges. However, here too the direction and pace of change have been encouraging. Approximately 80% of the Mongolian economy is now in private hands, up from virtually nothing at the beginning of the 1990s. Total GDP is estimated at \$1 billion and per capita income is estimated at \$450. Mining, tourism, construction and light industry offer significant economic potential. Over the past year, international investor interest in mining increased significantly.

After several years of economic stagnation and decline, economic growth rates approached 4% in 2002 and are expected to exceed 5% in 2003. This encouraging development suggests that Mongolia's hard-won economic stability is beginning to have positive impact. A vibrant "underground" economy and informal remittances from the estimated 70,000 Mongolians working overseas in South Korea, Taiwan, Japan, Germany, the United States and elsewhere perhaps make the actual figures even higher. At the same time, the growing international debt burden--now approaching \$1 billion, or the equivalent of the country's annual GDP--is cause for concern.

U.S. interests in Mongolia stem largely from geo-political considerations: its important role in contributing to stability in a potentially volatile part of the world; the positive example it sets in promoting economic reform and democracy; and its visible support for the United States in the continued war on terrorism. Most notably, during the past year a Mongolian peacekeeping contingent consisting of approximately 200 soldiers arrived to assume duties in southern Iraq. At the same time, smaller numbers of Mongolian advisors have helped train members of the new national army in Afghanistan.

A successful Mongolia has important and positive implications for a number of other countries in East and Central Asia, ranging from Vietnam 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, adds to its significance. Finally, the links that Mongolia maintains with North and South Korea position Mongolia to make a positive and constructive contribution as a potential "role model" for North Korea when that country eventually emerges from the isolation that it has maintained over the past many decades.

The USAID Program: A new five-year USAID strategy for Mongolia was approved in Washington in May 2003 and took effect on October 1, 2003. This document sets the stage for a tightly focused program that directly addresses two of Mongolia's most pressing concerns: sustainable private sector led economic growth and more effective and accountable governance. Every USAID activity, whether funded bilaterally or through various Washington-managed mechanisms, helps advance at least one of these two objectives.

Judicial reform is the single largest program within USAID/Mongolia's "good governance" portfolio. Following the introduction of new civil and criminal codes in September 2002, USAID assisted in a series

of training and outreach programs involving every judge in the country. Simultaneously, USAID/Mongolia improved case management and court administration, introduced new approaches to continuing legal education and helped address corruption in the legal sector. As a result, courtrooms responsible for 80% of Mongolia's caseload now have been fully automated. At the same time, USAID/Mongolia provides political party training as well as assistance to the Mongolian parliament.

Activities aimed at promoting sustainable private sector-led growth operate at a policy level, a company level and a "grassroots" level. As a result of USAID/Mongolia assistance, two of Mongolia's three largest banks--the Trade and Development Bank and the Agricultural Bank--were privatized during FY 2003. Together, the sale of these two banks provided nearly \$20 million to the government while holding out the promise of another \$40 million in private investment. Significant work is also underway aimed at commercializing and ultimately privatizing Mongolia's energy sector.

USAID/Mongolia's newest program--the Economic Policy Reform and Competitiveness project-- provides training and advisory services to both government institutions and private firms. At the same time, business training provided through the GER Initiative (aimed at rural migrants displaced to urban areas) and Gobi Initiative (aimed at rural Mongolians, especially those living in the Gobi region) help extend knowledge and familiarity about the market economy to a much larger segment of the population.

Other Program Elements: The USAID/Mongolia program is a vital part of the Mission Performance Plan (MPP) developed by the Embassy country team. In addition, several USAID/Washington-funded programs have been launched, all of which contribute to the new USAID country strategy for Mongolia. The growing list of such activities include a grasslands management program in eastern Mongolia; a support grant to XacBank, a pioneering microfinance institution; an energy partnership between the Delaware public utilities commission and its Mongolian counterpart; non-governmental organization (NGO) strengthening related to human rights and rural development; and a variety of information technology (IT) initiatives. Finally, monetization of the U.S. Department of Agriculture wheat program is providing significant additional development resources, especially to NGOs working in rural areas.

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. In recent years, a number of "non traditional" donors have provided assistance to Mongolia. In fact, six of the sixteen bilateral donors represented at the most recent Consultative Group donor meeting in Tokyo on Mongolia included countries in which USAID either has had or still has development assistance programs--Hungary, Russia, South Korea, Turkey, India and Egypt.

Japan is Mongolia's largest bilateral source of both loan and grant assistance. Programs have included a variety of infrastructure and education programs. The United States ranks a distant second in terms of development assistance, followed by a German aid effort of roughly comparable size that includes programs in legal reform, energy, conservation and regional economic development. Many other donors offer limited support to Mongolia, including India (education and IT development), Australia (scholarships), Canada (NGO development), Russia (scholarships), Luxembourg (banker training) and Korea (training for civil servants).

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. Finally, NGOs such as World Vision and the Soros Foundation make a variety of useful contributions. In fact, with annual funding levels now approaching \$10 million, World Vision has recently emerged as one of the largest providers of foreign assistance to Mongolia.

Mongolia PROGRAM SUMMARY

(in thousands of dollars)

Accounts	FY 2002 Actual	FY 2003 Actual	FY 2004 Current	FY 2005 Request
Economic Support Fund	12,000	10,000	9,941	10,000
Total Program Funds	12,000	10,000	9,941	10,000

STRATEGIC OBJECTIVE SUMMARY				
438-001 Private Sector-Led Economic Growth				
ESF	8,000	7,300	7,241	7,500
438-002 More Effective and Accountable Governance				
ESF	4,000	2,700	2,700	2,500

Mission Director,
Jonathan Addleton

Data Sheet

USAID Mission:	Mongolia
Program Title:	Private Sector-Led Economic Growth
Pillar:	Economic Growth, Agriculture and Trade
Strategic Objective:	438-001
Proposed FY 2004 Obligation:	\$7,241,000 ESF
Prior Year Unobligated:	\$0
Proposed FY 2005 Obligation:	\$7,500,000 ESF
Year of Initial Obligation:	FY 1994
Year of Final Obligation:	FY 2009

Summary: A new USAID country strategy was approved in Washington in May 2003 and took effect starting October 1, 2003. The document provides the framework for the USAID program in Mongolia over the next five years. Based on that strategy, the main focus of USAID activity will be to (a) make it easier for private businesses to operate; (b) improve the competitiveness of private Mongolian firms and industries; and (c) expand the range of business opportunities that are available for poorer Mongolians living in both rural and urban areas of the country.

Inputs, Outputs, Activities:

FY 2004 Program:

USAID will pursue opportunities and address constraints at three main levels. First, policy advice and training will improve macro economic management as well as the business environment in which private companies operate. Second, partnerships with individual firms and industries will make Mongolian businesses more competitive. Third, less advantaged Mongolians will participate in a broader range of business development initiatives.

Improved enabling environment for private sector growth (\$2,600,000 ESF). The new USAID-funded Economic Policy Reform and Competitiveness (EPRC) project is the main mechanism for addressing macro economic issues and improving Mongolia's investment climate. Working closely with the Prime Minister's office, the program will build on Mongolia's credible macro economic performance over the last two years. Specific advice and training will focus on the financial sector (including banking, insurance and mortgages); trade and investment (including opportunities in Europe and East Asia); energy (including commercialization of the energy sector); and the overall business climate (including steps to improve the regulatory environment and make it more efficient). The EPRC project is implemented by Chemonics in partnership with The Asia Foundation, The Services Group (TSG) and PA Consulting.

More competitive industries and sectors (\$1,400,000 ESF). Uniquely, EPRC works with the government on policy issues while also helping individual Mongolian firms and sectors to become more competitive. This approach strengthens private-public sector partnerships. It also develops links between the abstract policy decisions made by government and the real world of private entrepreneurs. Initial efforts focus on cashmere and tourism. Other areas such as light industry, meat and information technology will be considered. The central organizing theme will be to make Mongolia more competitive. The EPRC project is implemented by Chemonics in partnership with The Asia Foundation, The Services Group and PA Consultants.

Expanded opportunities for marginalized Mongolians (\$3,241,000 ESF). Phase II of USAID/Mongolia's long-standing Gobi Initiative will be launched in early 2004. As with Gobi I, that program will focus on business development in the Gobi region. Dozens of herder groups will benefit, along with current and potential entrepreneurs living in Mongolia's small provincial towns. Communications and outreach will continue, further expanding an audience of readers, listeners and viewers that now measures in the hundreds of thousands. At the same time, the Ger Initiative focused on the "peri-urban" fringes of

Ulaanbaatar, Darkhan and Erdenet will continue. Here too, the emphasis is on practical approaches that expand businesses, links them to financial services and helps generate new jobs. The Gobi Initiative is implemented by Mercy Corps International, with PACT taking a lead role on all media services. The Ger Initiative is implemented by CHF.

FY 2005 Program:

Programs undertaken in FY 2004 will be strengthened and expanded. They include:

Improved enabling environment for private sector growth (\$2,800,000 ESF). Following parliamentary elections in June 2004, USAID will work closely with the new government to strengthen Mongolia's economic performance and expand trade and investment. Mongolia's rapidly growing minerals sector will almost certainly continue to change the country's development terrain. USAID will assist by promoting policies that build on the strengths of Mongolia's emerging private sector while also promoting broad-based economic growth.

More competitive industries and sectors (\$1,600,000 ESF). Partnerships with private sector firms, companies and sectors will be further expanded, in part by deepening support for groups that can speak for business as a whole. USAID also expects to support establishment of an innovative new Mongolian Business Trust that provides business services, advocates policy reform, promotes competitiveness and receives private sector support.

Expanded opportunities for marginalized Mongolians (\$3,100,000 ESF). Business services will reach more Mongolians living in urban as well as rural areas. In particular, USAID will identify current and potential entrepreneurs, provide training, develop business plans, expand marketing and help access financing. Outreach programs will also expand, covering not only the print media but also radio and television. This will help ensure that Mongolians everywhere can access the kind of information needed to make a market economy work efficiently.

Performance and Results: USAID programs had substantial impact in FY 2003. Results in early FY 2004 have also been encouraging. For example, USAID advisors helped privatize two of Mongolia's three largest banks--Trade and Development Bank (TDB) and the Agricultural Bank. Together, the sales provided the government with nearly \$20 million while holding out the promise of additional \$40 million in private investment in coming years. TDB was bought by a US/Swiss consortium, while Agricultural Bank was purchased by a Japanese company. Also, by December 2003 the government-owned insurance company, Mongol Datgal, was in the process of being sold to a Russian group for \$5.8 million, five times the minimum asking price. With each successive privatization, the process becomes more competitive and attracts more investor interest.

Other achievements during FY 2003 included the registration of a collective mark for Mongolian cashmere that is now being introduced in international markets; a strengthened Energy Regulatory Authority as a catalyst for commercialization within Mongolia's energy sector; and improvements in the Prime Minister's open government web site (www.open-government-mn), an increasingly useful tool for both dialogue and transparency.

Finally, the GER Initiative and Gobi Initiative report considerable impact at a grassroots level. FY 2003 marked the start of the new GER Initiative, focused on "ger communities" surrounding Mongolia's three largest urban centers--Ulaanbaatar, Darkhan and Erdenet. Already, the program has helped create five new businesses, expand 37 existing businesses, facilitate 100 jobs and provide \$100,000 in new investment. Staff also successfully promoted a 25% reduction in interest rates to first time clients at several banks. Meanwhile, the Gobi Initiative is pioneering important changes in attitudes and approaches to business in rural Mongolia. During FY 2003, an additional 33 cooperatives were formed, bringing the total to 57. Innovative media programs also continued, including Rural Business News (the largest circulation periodical in Mongolia) and several radio programs such as MarketWatch, WeatherWatch, PolicyWatch and Herder from the Future.

US Financing in Thousands of Dollars

Mongolia

438-001 Private Sector-Led Economic Growth	DA	ESF	FSA
Through September 30, 2002			
Obligations	5,569	26,863	14,289
Expenditures	5,569	17,387	13,782
Unliquidated	0	9,476	507
Fiscal Year 2003			
Obligations	0	7,300	0
Expenditures	0	5,625	506
Through September 30, 2003			
Obligations	5,569	34,163	14,289
Expenditures	5,569	23,012	14,288
Unliquidated	0	11,151	1
Prior Year Unobligated Funds			
Obligations	0	0	0
Planned Fiscal Year 2004 NOA			
Obligations	0	7,241	0
Total Planned Fiscal Year 2004			
Obligations	0	7,241	0
Proposed Fiscal Year 2005 NOA			
Obligations	0	7,500	0
Future Obligations	0	0	0
Est. Total Cost	5,569	48,904	14,289

Data Sheet

USAID Mission:	Mongolia
Program Title:	More Effective and Accountable Governance
Pillar:	Democracy, Conflict and Humanitarian Assistance
Strategic Objective:	438-002
Proposed FY 2004 Obligation:	\$2,700,000 ESF
Prior Year Unobligated:	\$0
Proposed FY 2005 Obligation:	\$2,500,000 ESF
Year of Initial Obligation:	FY 1996
Year of Final Obligation:	FY 2009

Summary: A new USAID country strategy was approved in Washington in May 2003 and took effect starting October 1, 2003. The document provides a framework for the USAID program in Mongolia over the next five years. Based on that strategy, the main focus of USAID activity related to "good governance" will be to effectively implement a comprehensive set of legal reforms and to work to ensure that the political process in Mongolia is more competitive, effective, and transparent.

Inputs, Outputs, Activities:

FY 2004 Program:

During FY 2004, USAID will address concerns related to good governance at two main levels. First, the lion's share of our funding will focus on the all-important area of judicial reform, a sector in which USAID already plays a leadership role. Second, USAID will promote political processes that are more competitive, effective and transparent.

Comprehensive legal reform (\$2,000,000 ESF). The USAID-funded Judicial Reform Program (JRP) is a comprehensive, far-reaching initiative that touches on nearly every facet of the legal system in Mongolia. Working closely with the General Council of Courts, the program will provide hands-on policy advice and training aimed at strengthening court management, introducing new approaches to legal education, curbing judicial corruption, improving legal ethics and informing a wider public about Mongolia's changing legal environment. By the end of the year, virtually every courtroom in Mongolia will have been automated. JRP is implemented by the National Center for State Courts in partnership with PACT, which plays a lead role in implementing outreach and public information programs.

More competitive, effective and transparent political processes (\$700,000 ESF). In the lead-up to the June 2004 parliamentary elections, USAID programs will maintain the party development focus that was established two years ago. The ruling Mongolian People's Revolutionary Party (MPRP) controls 72 out of 76 parliamentary seats. It also exerts overwhelming political dominance at both a national and local level. Given this situation, much effort has centered on making the democratic coalition more effective and the MPRP more open and transparent. The upcoming elections will provide an important "test" of the extent to which opposition political parties can compete more successfully. It will also reflect the extent to which democracy is rooted in Mongolia. At the same time, USAID will maintain links to parliament, promote open hearings and prepare the new parliament to govern more effectively. Stand-alone programs related to transparency, women's issues, corruption and capacity building related to good governance might also be considered. At this point, both the political and parliamentary strengthening elements of the USAID portfolio are implemented by the International Republican Institute (IRI).

FY 2005 Program:

FY 2005 will mark a significant "transition" year for USAID activity related to democracy and governance in Mongolia. First, it will signal the end of the initial phase of the ongoing judicial reform program. Second, it will mark the conclusion of the current IRI grant focused on strengthening political parties and making parliament more effective.

Comprehensive legal reform (\$2,100,000 ESF). A follow-on legal reform program will almost certainly be introduced, even as the current effort winds down. The JRP program will have made significant advances in establishing an appropriate legal framework, introducing new approaches to legal education and improving courtroom management and administration. However, considerable work will still be needed to effectively implement that framework and further "embed" it into the Mongolian system of governance. Depending on progress in private sector-led economic growth, the USAID judicial reform program may be reshaped to more directly address issues related to commercial law and the legal aspects of a market economy. There may also be a need to develop broader program initiatives related to transparency and corruption.

More competitive, effective and transparent political processes (\$400,000 ESF). What happens in the June 2004 parliamentary elections (as well as the presidential elections that follow) will to a large extent determine USAID programs in this area in FY 2005 and beyond. In the immediate aftermath of the elections, USAID will likely concentrate on helping the new parliament become more open and effective. Depending on the outcome of the elections, USAID may reduce the level of training and technical advice provided to political parties, while at the same time considering support in potential new areas such as media, women's education, civic education, corruption and NGO development.

Performance and Results: The mid-term evaluation of JRP issued in November 2003 provides a detailed account of program implementation so far. Among other things, it notes that JRP is a "highly respected partner in judicial reform among both Mongolian and international stakeholders" and "has made a significant contribution to the progress of reform." As the project passes its mid point, one especially notable achievement is the fact that nearly three quarters of the Mongolian caseload has now been automated. Each automated courtroom includes a public access computer, further reflecting JRP's strong interest in promoting access as well as transparency.

Training has also improved considerably, due in large part to innovative donor coordination as well as the introduction of new training concepts. At this point, virtually every judge in Mongolia has participated in at least one JRP-provided training program. More than 600 other legal professionals have also been involved. A new national legal training facility, funded by the World Bank, will open in 2004. Continuing legal education provided by that institution will draw significantly on concepts and approaches developed under JRP.

Other JRP-led results include the development of a new judicial ethics code, the formation of a special prosecutor's office focused on judicial corruption and the launch of a variety of public outreach and information programs. Among other things, the latter initiative developed a popular bi-weekly television program that presents changes in the criminal code to a wider audience. Recent surveys suggest that this program has become the third most popular television drama in Mongolia.

As noted, the June 2004 parliamentary elections will provide an important test of the extent to which political processes in Mongolia have become more competitive, effective and transparent. Local (provincial and below) elections scheduled for approximately three months later will provide a second important test. Recent survey research and anecdotal evidence suggests that the June 2004 elections will result in a parliament that is more politically diverse and better reflects a wider range of viewpoints. The new parliament will also inherit some useful precedents. For example, the current parliament has experimented on a few occasions with open hearings, setting an important example that needs to be further expanded by the new parliament.

US Financing in Thousands of Dollars

Mongolia

438-002 More Effective and Accountable Governance	DA	ESF	FSA
Through September 30, 2002			
Obligations	1,442	9,281	1,728
Expenditures	1,442	5,486	1,728
Unliquidated	0	3,795	0
Fiscal Year 2003			
Obligations	0	2,700	0
Expenditures	0	2,851	0
Through September 30, 2003			
Obligations	1,442	11,981	1,728
Expenditures	1,442	8,337	1,728
Unliquidated	0	3,644	0
Prior Year Unobligated Funds			
Obligations	0	0	0
Planned Fiscal Year 2004 NOA			
Obligations	0	2,700	0
Total Planned Fiscal Year 2004			
Obligations	0	2,700	0
Proposed Fiscal Year 2005 NOA			
Obligations	0	2,500	0
Future Obligations	0	0	0
Est. Total Cost	1,442	17,181	1,728