

MONGOLIA CONSULTATIVE GROUP MEETING 2003
21 November, Tokyo, Japan
Agricultural Reform, from Survival to Development

Mr. Chairman, Distinguished delegates,
 Ladies and Gentlemen,

Thank you for giving me the opportunity to share our views on the current situation and future trends of the Agriculture sector of Mongolia.

In my remarks of today, I will briefly review Mongolia's accomplishment under the agricultural reform for this year, it's obstacles and future trend and roles of the stakeholders that is being supported by the Donor's community.

Even after the rapid decline, agriculture is remained as one of the major economic sectors of the country's economy, which accounts for one third of GDP.

Data	1991	1995	2000	2001	2002
Portion of Agricultural products in GDP	16.2	38.0	33.4	26.0	20.1
Percentage of the animal origin products among agricultural product	80.0	85.2	87.6	82.7	79.9

Agriculture provides over 40 percent of exports and is the single largest source of employment.

But the sector is highly prone to the natural disasters, badly influencing to the national economy.

weather conditions in 2003 the agricultural sector

is expected to grow by 4,8 percent this year. After several years of decline, wheat production reached 164.4

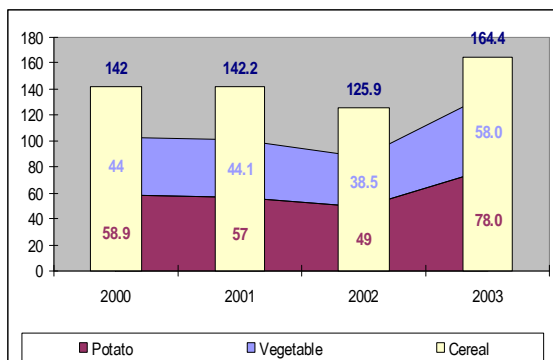
Table 1. Portion of Agricultural products in GDP

thousand tons in 2003, which is 40,000 tons more compared to the last three years. Particularly, wheat yield of 2003 was 2 times higher than previous year, even though the planted area was much smaller than previous years.

Data	1999	2000	2001	2002	2003 (est)
Total	4.2	-14.9	-18.5	-10.7	4.8
Crop Production	-6.7	-2.0	12.7	-6.1	13.9
Livestock	5.4	-16.2	-21.8	-11.7	3.9

The factors contributing to such a dramatic increase of agricultural production were a) more favorable climatic condition, b) government effort to create supportive regulatory environment and donor assistance through projects and programs by introducing new technology, seed purchase, well rehabilitation, development of irrigation schemes and dissemination of information to farmers.

Table 2. Real Growth of agriculture, in percentage



Crop harvest /thousand.ton/

Also, positive changes of rural people's psychology played important role in this growth.

Rural people are changing their old fashioned thinking inherited from the socialist period to market oriented initiatives and approaches. Farmers and herders are changing the psychology of "help me" or "feed me" and looking forward to improve their knowledge and skills to protect themselves from the possible risks.

Cooperative movement, land ownership, intensification of agro production and other positive developments are engine of transition from survival to development.

Compared to ongoing changes, the qualitative results not recorded in the statistics and there is high hidden economy in agricultural sector. Further development of the MIS is required to take correct decisions.

The Government of Mongolia is highly committed to expansion of the rural sector and to resource conservation efforts. Parliament of Mongolia approved an important laws for creating supportive regulatory environment of the agricultural sector. The example is “Land tenure law”.

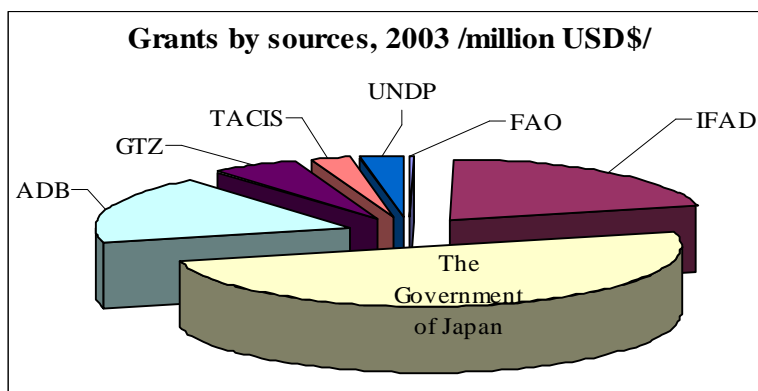
In view of the natural and climatic conditions and the changing socio-economic environment, Mongolian State Ikh Khural approved the revised “Government Policy on Food and Agricultural Sector” in June 2003.

This policy document provided the base for improving the legal environment and pursuing structural and management reforms in the food and agriculture sector. The policy measures will be undertaken in two stages up to year 2015.

The Government policy is aimed at ensuring sustainable development of the agriculture sector, boosting production, increasing efficiency, improving quality and security of food products, reaching self-sufficiency in domestic milk, flour, potato and other vegetable production, increasing exports and imports substitution of the food, creating more favorable conditions for rural population and coordinating activities among Government, individuals and legal subjects.

External Loans and Assistance in the Food and Agricultural sector

Since the beginning of Mongolia’s transition period Donors have provided significant support in the form of soft loan and grant funding. The external cooperation in the Food and Agricultural sector has been actively developed with International organizations such as FAO, the UN Food Program, UNDP, IFAD, WB, ADB, JICA, GTZ, TACIS and more than 10 countries including Japan, Germany, USA, Italy, Netherlands, France, China and Russian Federation.

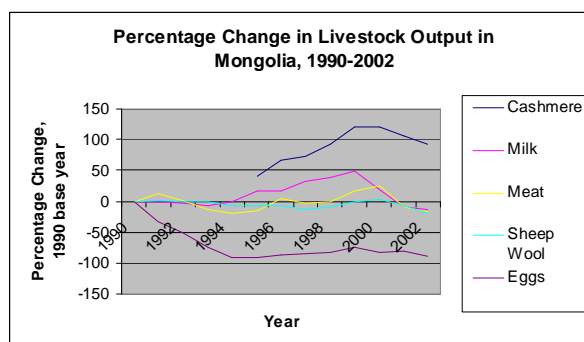
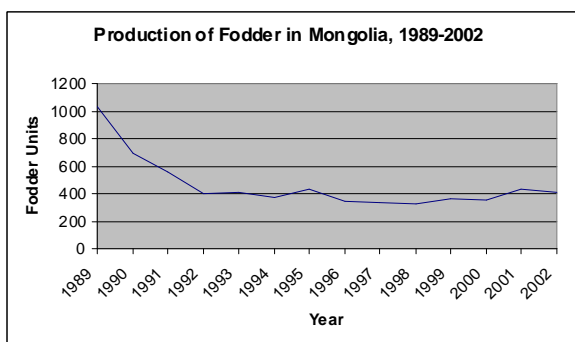
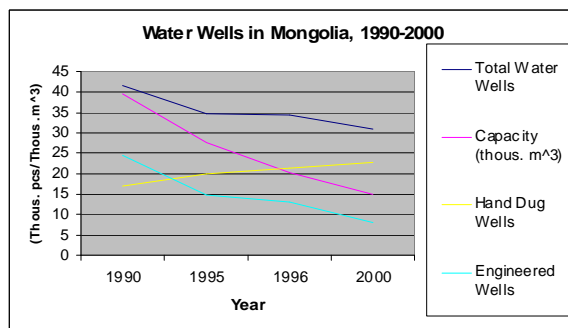
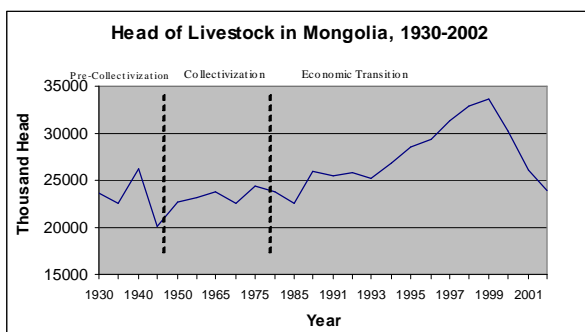


Donor activities have been operational long enough for important lessons to be learned. These lessons were shared at the Government/UNDP Rural Development Conference in May 2002. The lessons address project design and implementation approaches, system-level needs in rural areas and issues specific to agriculture.

In the last 10 years, the Food and Agricultural sector has received foreign loans and assistance totaling US\$145.7 million and 35 projects were successfully implemented in this sector. US \$35.0 million has received as loans, US\$9.2 million as technical assistance, US\$56.9 million as grant aid and US\$44.6 million through development study projects.

However, due to poor development of infrastructure, communication and transportation, there is a great difference in access to social services and living standards among rural and urban residents. Prices for livestock products and raw materials, which are the main source of income for rural population are decreasing in remote areas. Meanwhile, in the contrast, prices of consumer goods, transportation tariffs and cost of social services are dramatically increasing. Lack of livelihood supporting conditions in rural areas is a major cause for migration to urban areas. This situation will likely persist for some time in the future.

Livestock Sector Trends



Considering the above factors, the number of donor funded projects targeted at supporting livestock sector, namely UNDP “Sustainable Grassland Management” project, GTZ financed “Organized rural self-help” Project, TACIS “Integrated crop and livestock production” Project and JICA funded “Improving Rural Livestock farming system” development study are in the stage of successful implementation.

Food Industry

The food industry intensively developed in Mongolia in the 1960’s and the domestic production fully satisfied the country’s needs for the main food products and a surplus was exported. The total food products (in 1995 prices) was 110,113 million tugrik in 1990 and was reduced to 28,656 million tugrik or 3.8 times by 2000. Such reduction was caused by production malfunction owing to the shortages in raw materials and spare parts during the transitional period, which was preconditioned by internal and external situation and the country’s economic crisis.

Products	Measure unit	1999	2000	2001	2002
Flour	Thous.tn	67.3	40.2	37.7	49.6
Animal meat	Thous.tn	4.3	4.5	12.0	6.8
Exported meat	Thous.tn	15.0	16.7	16.0	20.0
Milk and dairy products	Mln.litre	1.6	1.5	1.2	3.2
Bread	Thous.tn	14.7	20.2	23.3	21.7
Bakery	Thous.tn	8.0	7.6	7.2	5.9

Table 3. Production of main food commodities

Remedial measures were undertaken to create a favorable business environment for private sector and utilize the portion of foreign loans and assistance on technical and technological renovation of production. As a result, the variety of food products has been increased, costs reduced to some extent and profits increased. These factors encouraged manufacturers. In the last two years the gross production output increased by 2,1-3,3% annually, and according to the preliminary estimates for 2002, it reached 30231,1 million tugriks, an increase by 1.6 billion tugriks or by 5,5% compared to 2000.

Contribution of ODA in the Food and Agriculture sector’s development in Mongolia

The loans and aid received since 1993 have made an important contribution to the realization of the Government policies and measures for the sector development. The impact of loan and aid can be summarized as follows:

- Strengthened the capacity for natural disaster mitigation and prevention in the agriculture sector;
- Strengthened rural banking and financial system in the sector;
- Built the capacity for overcoming difficulties caused by drought and dzud in Mongolia over the last 3 years;
- Improved Grassland management, livestock productivity and sustainability;
- Introduced advanced technology, irrigated crop farming and diversifying types of cultivations;
- Supported the Implementation of the Government programmes such as “Crop production Revitalization”, “Green revolution”, “White Revolution”, “Programme on Improving livestock health and reproduction”, “Cooperative development Programme”, “Fallow” and “Seed” sub-programmes;
- Improved rural water supply, pasture irrigation and scheduled utilization;
- Created the extension services;
- Promoted Movement of agricultural cooperatives;

The implementation of the strategy

Workshop “Current Situation and Future trends of Mongolia’s Food and Agriculture sector

A workshop on ‘Current Situation and Future trends of Mongolia’s Food and Agricultural Sector’ was successfully organized on 13 November 2003 by the Ministry of Food and Agriculture with the support of UNDP-Mongolia, World Bank and ADB Resident Representative offices in Mongolia. The workshop involved a broad range of stakeholders representing Parliament of Mongolia, Government Agencies, Ministries, International Organizations, Donor countries, NGOs, private sector as well as team members of International funded on-going projects within the sector.

The function proved to be a useful forum in which donors and other stakeholders - including our growing private sector--had an opportunity to hear the Ministry’s assessment of the sector performance and its future development options with a view to identify areas where further support may be appropriate. Based on the discussions and comments raised by the participants, the positive changes on people’s mentality has been appeared, especially changes from old fashioned thinking to more business-oriented mentality. This Workshop also enabled decision makers to identifying roles of Government and private sector toward future development in the sector.

Based on the comments at that meeting, there appears to be some misunderstanding as to the intent of Government’s “intensification” policies and I would like to take this opportunity to clarify the situation. At no time has government’s policy been to completely substitute an intensive system of agricultural production for the extensive natural pasture-based livestock sub-sector that is the basis of Mongolia’s comparative advantage. Extensive production systems enable herders to take advantage of the natural forage that would otherwise be wasted and minimizes production costs for herding families. We believe that the semi-intensification of certain agricultural activities (such as milk production, dairy processing and vegetable production) is appropriate in areas with adequate market access that typically, are found adjoining urban centers where food production for local consumption represents a market based opportunity.

At the meeting, we outlined its strategic documents for overall development as described in the various strategic planning documents and the need to provide a suitable environment to facilitate private investment in the sector - both in terms of legal and policy frameworks. Apart from the misunderstanding regarding the understanding of “intensification”, these are

broadly in line with the donors' perceptions in the livestock sub-sector. In the cropping sub-sector, there appears to be some divergence of opinion. During the course of the discussions, it became clear that the Ministry had considerable strategic thinking to do and more analysis of the impact of the self sufficiency policy. The pursuit of food self sufficiency can be achieved but the question remains "At what cost?". In order to assist in this assessment, we request your support through the provision of technical assistance in further capacity building within the Ministry to institutionalize this capacity as we see this as an ongoing requirement and an appropriate role of Government. Not only will this identify the public cost of policy decisions, but the improved capacity can assist in allocating limited consolidated revenue available within the sector and through an iterative process, assist in the future modification of strategic development plans.

The other area identified for assistance at the workshop was the need for increased information in rural areas. The workshop discussed a number of alternatives ranging from building the Agricultural Extension Centers to using NGOs and industry associations to enhance the flow of information to rural inhabitants. This is a complex area and requires more analysis as the Government does not want to inherit additional financial burdens but would like to respond to the idea that has been raised in this and on many other occasions. It comes at a time when structural adjustment is happening at great pace in the sector and when the information needs of those remaining in the industries are high as they readjust to market based, commercial operations.

Many of the presentations pointed to the needs for additional efforts in rural sector and future development of Food and Agriculture sector. These are:

- Build skills for herders, herders' groups and cooperatives on animal husbandry and land management;
- Establish Agricultural Extension Centers using NGOs and industry associations to enhance a flow of information to rural residents;
- Build better skills for in the government in these areas;
- Intensify certain agricultural production (such as milk production, dairy processing, or vegetable growing), especially in areas nearby urban centers where food production for local consumption represents a market-based opportunity;
- technical and environmental support of irrigated farms to build self sufficiency of strategic products,
- Promote rural economic growth through establishing sustainable grasslands management systems using a community-based approach;
- Establish livestock insurance system using index-based approach;
- Encourage economic development and sustainable resource use;
- Conduct further analysis in transportation, distribution and marketing systems;
- Regular information sharing meeting of sectoral projects at the ministry level to have a better coordination and harmonization of the donors activities and;
- Improved access to credit of highly profitable private sector of agriculture;

The Ministry of Food and Agriculture will incorporate comments and ideas raised from the workshop participants into future policy planning, and address issues aimed at ensuring sustainable development in the sector.

To achieve rural development and poverty reduction, the GOM needs to continue and accelerate its support to the development of a market-oriented, efficient and sustainable agricultural industry based on private sector with the continued support from Donors.

Again I would like to express my appreciation for donor's support to the development of the sector and look forward to its ongoing support. I raise these areas of cooperation, mindful of the fact that we are due to meet at the coming CG meeting in Japan where I look forward to discussing these matters with you in more detail.