

**Country Strategy Paper (2002-2006)**

**Tacis National Indicative Programme (2002-2003)**

**MONGOLIA**

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## SUMMARY

The Mongolia CSP was adopted by the Commission on 27 December 2001 and provides the strategic framework within which European Community (EC) assistance will be provided for the period 2002-2006. The CSP follows the guidelines set out in the Framework for Country Strategy Papers, and takes its basis from the Regulation<sup>1</sup> for the provision of assistance to the partner countries in Eastern Europe and Central Asia. The CSP constitutes the Indicative Programme as described in article 3.2 and 3.3 of the Regulation and revises and updates (as foreseen in article 3.6 of the Regulation) the Indicative Programme for 2000-2003 adopted in 2000. The CSP sets out EC cooperation objectives, policy response and priority fields of cooperation based on a thorough assessment of policy agenda and political and socio-economic situation of Mongolia. The National Indicative Programme (Chapter 6 of the CSP) sets out the response in more detail, highlighting objectives, expected results and conditionality for Tacis in the priority areas of cooperation for the period 2002-2003.

Mongolia is fully implementing the Trade and Cooperation Agreement signed with the EC. It has gone through its transition process rapidly despite handicaps such as being a land-locked country surrounded by two big neighbours, and having a huge territory without infrastructure and suffering the consequences of the Asian and Russian crises as well as natural disasters. It has demonstrated a clear commitment to democratisation, the rule of law and the respect of human rights and has twice achieved a change of government in a peaceful manner. It has taken important decision moving its economy from a centrally planned economy to a market-oriented economy (including accession to WTO). The main challenges for the coming years faced by Mongolia are to overcome the problems of the agriculture and livestock sectors (following in particular the very hard winters in the last years), to tackle the issue of poverty reduction and to fight against corruption.

Within this context and taking into account the objectives set up in the Trade and Cooperation Agreement, the EC through its Tacis programme can most effectively assist Mongolia in meeting those challenges by focussing on rural development as a priority sector.

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<sup>1</sup> (Council Regulation (EC, EURATOM) No 99/2000 of 29 December 1999 concerning the provision of assistance to the partner States in Eastern Europe and Central Asia), (Council Regulation (EC, EURATOM) No 99/2000 of 29 December 1999 concerning the provision of assistance to the partner States in Eastern Europe and Central Asia),

## 1. EU/EC COOPERATION OBJECTIVES

### 1.1. General objectives

The EU's cooperation objectives are to build a relationship with Mongolia in which the respect of democratic principles and human rights and the transition towards market economy are fostered and supported. The objectives are based on the Trade and Cooperation Agreement that provides the legal framework for bilateral dialogue and sets out economic and trade relationship between the EU and Mongolia. The objectives are also based on the EU and EC treaties, which stipulate the underlying objectives for EU's external relations, inter alia, promoting international cooperation, contributing to the harmonious development of the world trade, developing and consolidating democracy and the rule of law, maintaining the fight against world poverty and strengthening of security of the Union in all ways.

Tacis is the main financial instrument supporting the implementation of the Trade and Cooperation Agreement. The legal basis for the Tacis assistance is the **regulation (99/2000) for the provision of assistance to the partner countries in Eastern Europe and Central Asia**. The objective is to strengthen democracy and the rule of law, to promote the transition to a market economy and to consolidate it and to strengthen administrative capacity of the country in the capacity linked to the implementation of the agreement, particularly in the areas of trade and internal market.

### 1.2. Specific objectives

Mongolia is far away from the EU territory and its bilateral trade with the EU represents less than 0.01% of EU total external trade with a EUR115 million turnover in 2000 (see table in annex). **A major EU objective in its bilateral relation with Mongolia is the implementation of the Trade and Cooperation Agreement.**

Mongolia has made huge efforts to achieve its reforms toward democracy and market economy. The EU recognises **Mongolia's commitments and progress** in implementing reforms towards democracy and a market economy, **an example of good practice**. However, it is clear that many reforms still need to be further pursued in the coming years. The EU therefore has the **objective to help Mongolia succeed in consolidating its transition process and to help the country to overcome the handicaps** linked with its difficult climate conditions, the immensity of its territory with poor infrastructure, its location as a landlocked country and its status as a developing country. The EU wants **to assist Mongolia in its long-term development process**. In doing so the EU will closely link its assistance with other donors (bilateral as well as multilateral).

As a political partner of Mongolia, **the EU wants also to help the country diversify its bilateral relations**, in offering closer cooperation through the Commission delegation accredited in Ulaanbaatar and with the support of its Member States represented on the spot or accredited to Mongolia.

## 2. POLICY AGENDA OF MONGOLIA

The government of Mongolia has recently adopted key objectives for a 4 years Action Programme that aims mainly to:

- continue and deepen the economic reform and ensure higher and sustained economic growth oriented towards export-led products;
- respect and preserve education and culture and promote human resource development;
- improve the living standard of people by promoting equitable distribution of wealth and income and developing an effective system of social welfare;
- adopt and implement a regional development concept and on this basis, narrow the gap between living standards in the rural and urban areas; formulate and effectively implement a social and economic development policy, tailored to the specific conditions of Mongolia, and set up a highly efficient and accountable governance system.

In addition, a "Good Governance for Human Security Programme" (GGHSP see annex 2) was adopted during winter 2000-2001. In 11 priority actions, this programme will support policy formulation and will provide priority objectives for the implementation of the Action Programme.

The Mongolian Government, with International Financial Institutions (IFI) support, is also promoting a Poverty Reduction Strategy (PRS). It is developed in an interim Poverty Reduction Strategy Paper (iPRSP) presented in an early version to the international donor community in a meeting in May 2001 in Paris. The final version was endorsed by the boards of the World Bank and the International Monetary Fund respectively on 27<sup>th</sup> and 28<sup>th</sup> September 2001. This strategy will address mainly priority 6 of GGHSP but will also be mainstreamed through all the GGHSP other priorities. As 36% of the population of Mongolia is presently below the poverty line, the government's ambitious target is to reduce poverty to half of its present level by 2004. Therefore all policies and programmes to be developed should be pro-poor.

## 3. COUNTRY ANALYSIS

Area (km <sup>2</sup> )	Population (million) 1999	GNP/capita (USD) 1999
1,567,000	2.6 million	350 US\$
Real GDP growth rate year	Real level of 1999 GDP as % of 1989 GDP	Inflation rate 2000
3.0%	n.a.	11.6%

**Mongolia is a vast, sparsely populated country, situated between Russia and China.** With an area of 1.6 million square kilometres, Mongolia is the seventh largest country in Asia and the 18<sup>th</sup> in the World. It has a population of 2.6 million in 2001. Mongolia is

well endowed with natural resources, but which are difficult to exploit due to the extreme weather conditions and a lack of infrastructure. The country possesses more than 32 million head of livestock, and there are sizeable reserves of copper, gold, coal and other minerals. Prospects for crude oil production in commercial quantities are encouraging. The Mongolian economy is relatively diversified. Agriculture accounts for close to one third of GDP, industry and construction for 27.5% and services about 40%. Mining, mainly copper, provides an estimated 27% of the economy's export earnings. Industry includes wool and cashmere processing, leather goods production, food processing, and construction.

### 3.1. Political situation

#### 3.1.1. Political issues

**Mongolia has made important progress since 1990 in consolidating its democratic institutions.** Early in 1992, a new Mongolian Constitution was adopted enshrining human rights and the ownership of land and other property. This constitution gives powers to the President and to the Parliament with a new single chamber 76-seat national assembly, the Great Khural (Ikh Khural), to which the government is responsible.

Since the transition process started and up to the end of 2000, three parliamentary elections and twopresidential elections took place with high turn out. Each time, they resulted in a change of majority in the Parliament or the appointment of a new President. It seems that the electorate is prepared to deliver a very stiff lesson when it is unhappy with the performance of its elected representatives.

In July 2000, the **Mongolian Peoples' Revolutionary Party (MPRP)**, the former Communist Party in the opposition since 1996, won 72 of the 76 seats in the Parliament. The international community assessed this general election positively as free and fair. A new Government led by Nambar ENKHBAYAR, MPRP leader, was appointed with the aim "to put in place good governance, to efficiently develop and implement state policies, effectively serve the people, meet their basic needs and establish justice".

Presidential election in May 2001 resulted in the **re-election of the incumbent President** who was the former leader of the MPRP. In this election different candidates were competing in an open manner.

#### 3.1.2. Governance, human rights and social issues

**The overall human rights record is good in Mongolia.** However, it has to be noted that there have been shortcomings, ranging from the murder of a potential Prime Ministerial candidate, low level prison conditions including deaths of prisoners due to tuberculosis as well as low level infringements of human rights. The death penalty is still carried out.

Despite some minor problems, freedom of speech and press exists in Mongolia, which has led to an increasing variety of newspapers and other publications representing major political party viewpoints as well as independent views. Freedom of association exists in Mongolia as well as freedom of religion even if religious groups must register with the Ministry of Justice. The Constitution provides for these rights, and the Government respects them in practice. Many non-governmental organisations (NGOs) exist in Mongolia. They are working in different fields and have developed many activities to protect for example human rights and freedom of expression.

The social system has deteriorated drastically during the last 10 years **and a significant part of the population is living below poverty level**. This has had an adverse effect on the capacity of the population to defend their rights and to make full use of them.

The Mongolian Constitution provides men and women with equal rights in all areas and, both by law and practice, women should receive equal pay for equal work and have equal access to education. Women are actively involved in economic life even at high level (for example the former Foreign Minister was a woman). However, due to changes arising from the transition process in the Mongolian society, women are suffering directly from economic changes such as inflation, job losses and lower spending on social and educational programmes. They also suffer from the consequences of male alcohol abuse, which is high in Mongolia. These problems come back to the major issue of poverty alleviation.

The authorities have put the issue of good governance as a key priority of the new government. This decision is important because **corruption is a growing problem** in Mongolia leading to uncertainty for the population and discouragement for the investors, both national and foreign. Public opinion polls and surveys have identified customs, the courts and the police as the most corrupted institutions in Mongolia.

### *3.1.3. Foreign policy and trade issues*

The main challenge of **Mongolian foreign policy** is to keep **a good balance between the Mongolia's two big neighbours, Russia and China**. Therefore, Mongolia has chosen to open itself up to the broader world by strengthening its bilateral ties and engaging more actively in various multilateral processes. The objective is that enhanced cooperation with others, including civil societies, is the only way of allowing Mongolia to develop an independent foreign policy. Mongolia is therefore looking very much to develop relations with other partners such as the EU, the US or Japan.

Multilateral relations are mainly linked with trade and economic assistance. Mongolian foreign economic activities are focused on enhancing the country's potential, increasing exports, developing economic infrastructure and producing import-substituting goods. The overall objective is to modernise the economy and develop export-oriented industries such as food and mining based on raw materials available in the country. In enhancing its export potential, Mongolia wants to promote cooperation with foreign countries and potential investors in the fields of processing mineral resources, including gold, copper, molybdenum, uranium, and in the area of processing agricultural raw materials. It is the reason why Mongolia joined, on 29 January 1997, the **WTO** (the first Tacis country to do so) and is trying to develop actively its economic relations with trading partners.

### *3.1.4. Bilateral issues*

Mongolian bilateral relations with the EU are based on **the Trade and Cooperation Agreement**, which was signed on 16 June 1992 and entered into force in March 1993. The Agreement includes a commitment to protect human rights. In their trade relations, the two Parties shall accord each other most-favoured-nation treatment.

The international trade of Mongolia has been growing steadily in recent years, with the EU taking approximate 9% of its exports (EUR 50 million in 2000) and accounting for 8% of its imports (EUR 65 million in 2000). EU exports to Mongolia vary, with machines and food being the most important, while agricultural products and textiles

such as cashmere account for more than 90% of imports into the EU. Textile trade between the EC and Mongolia is now fully liberalised following Mongolia's accession to WTO in 1997. However, as an effect of both Russian and Asian crises, bilateral trade between the EC and Mongolia has been decreasing since 1998.

### 3.2. Economic situation

#### 3.2.1. *A country in transition*

Mongolia began its **transition from a centrally planned economy to a market-oriented economy in 1990**. The disintegration of the USSR and of the socialist trading system, threw the Mongolian economy into difficulty. Russia's decision to trade only on a hard currency basis was particularly devastating especially because Mongolia imports most of its energy. In addition, Russian assistance to Mongolia stopped rapidly in the early nineties. These, among other factors, led to a decline of GDP up to 1993. In response to this situation, prices and tariffs were liberalised and it was decided to implement policies to move to a free exchange rate system, create a new social welfare system, and accelerate restructuring and privatisation activities. Tight monetary and fiscal policies were also put in place to enable macro-economic stabilisation by decreasing hyperinflation as well budgetary and current account deficits. Within the framework of legal reform, new legislation on economic relations such as budget, taxes, foreign investment, foreign currency, statistics, social insurance and the regulation of unfair competition were passed and implementation began.

As a result of these policies, Mongolia started gradually to recover. The GDP growth rate was 2,3% in 1994, 6,3% in 1995 and 2,4% in 1996 and since then it has continuously been over 3% annually. The inflation rate has been reduced from 325% in 1992 to 50% in 1996 and 44% in 1997 while in the last few years it has been kept at mostly at a single digit level (for example 6% in 1998, and 7.6% in 1999). From 1994, the trade balance became positive and the total turnover of foreign trade increased. The balance of current expenditures and revenues started to be positive and the overall budget deficit started to decline. The foreign exchange reserves in 1999 reached US\$ 116.9 million compared to US\$ 4.6 million in 1992.

Intensification of structural reforms led to **large-scale privatisation in various sectors** such as construction, trade and livestock production. This resulted in private sector production being equivalent to 70% of GDP in 1999 compared with 10% in 1990.

In 2000, the economy continued performing much below potential with real GDP growth estimated to have fallen to about 1% due to the severe terms of trade shocks and the effects of a harsh winter in 2000, and a slight deterioration in the current account balance. With the resumption of stabilisation and reform measures after the installation of the new Government, prospects for stronger economic performance have improved.

#### 3.2.2. *A difficult economic situation*

However, as a whole, the **economic and social situations remain difficult**. There are many urgent remaining problems: the budget deficit remains large, the situation is still deteriorating in the field of energy, raw material processing, land cultivation and some social aspects. The collapse of the command economy and the subsequent steps in the transition to a market economy, including privatisation, led to severe unemployment, as

well as to reduced public provision of health, education, and other social services, weakening the scope of the social safety net.

In response, the Government made some attempts to develop alternative approaches, such as social insurance and health insurance programs. Despite these measures, the social safety net remains inadequate for the many who have lost their jobs. Since 1995, the proportion of people living below the official poverty line has remained high, at about 36 %, while both the depth and severity of poverty have increased. The poor, especially small livestock herders, the urban poor and street children, are highly vulnerable to even minor external shocks, adverse weather patterns, and negative effects of the transition process. Actual unemployment is estimated to be between 200,000 to 300,000 out of a total working population of 1.2.

The Government's expansionary policy stance in 2000 including fiscal and monetary expansion had three adverse consequences: an increase in domestic inflation, a worsening of the current account balance, and a continued build-up of external debt. The declining trend of inflation was reversed: from 7.6% in 1999, it rose to 11.6% in 2000. The increase in food prices was particularly sharp, with the price of meat alone rising by about 30 percent. This had an adverse effect on the living standards of the urban poor, who spend most of their income on food. The current account deficit remained high at close to 15% of GDP in 2000.

Large current account deficits in recent years have led to a rapid accumulation of external debt, which almost doubled from \$532 million in 1996 to about \$935 million in 2000, an amount close to 100% of GDP. About 53% of this debt is owed to multilateral institutions, 40% to bilateral institutions, and the remainder to commercial sources. Much of Mongolia's bilateral debt is owed to Russia and countries of the former Soviet Union, and most of it is not serviced.

The new Government, elected in July 2000, aims to achieve macro-economic stabilisation. It plans to reduce the fiscal deficit from about 11% of GDP to 7.4% in 2001. **This would enable Mongolia to lay the foundations for faster and sustained economic growth over the medium term.**

Domestic economic performance was mixed in 2000, prospects for 2001 remain uncertain. The losses to the animal husbandry sector from two consecutive harsh winters and from the recent outbreak of foot-and-mouth disease have taken a heavy toll. Real GDP growth is likely to be no more than 1.5% in 2001 and about 4% in 2002; these estimates are subject to a large margin of error. While gross domestic investment is expected to stabilise at a more sustainable rate of about 25% of GDP, gross domestic savings should gradually rise from about 19 % of GDP in 2000 to about 22 % in 2002. Both these elements should contribute to a decline of the current account deficit to about 10% in 2002.

In addition, the external economic environment is likely to be slightly more favourable in 2001 and 2002 than in the recent past. The prices of copper and cashmere, two of the most important export items, have improved on the international market, which should reverse the deterioration in the terms of trade since 1999, thus easing the balance-of-payments situation. Moreover, growth in the Russian economy has accelerated, which should provide a positive external impetus. With the reduction in the current account deficit, growth of the country's external debt is likely to be contained to modest levels.

While year-on-year inflation peaked at 15.5% in mid-2000, and fell to 8% in December 2000, inflation re-accelerated in early 2001 under the impetus of overdue increases in energy tariffs and the harsh winter related decline in meat supply, together with recent wage and public pension increases. However, the stabilisation measures should again lead to a decline in inflation in the second half of 2001, achieving an inflation rate of 6% in 2002. Higher growth and lower inflation should enable some dent to be made in the unemployment and poverty figures.

### 3.3. Progress in democratic reforms

In contrast to some of the other transition countries, Mongolia allows democratic debate, free and fair elections leading to a peaceful "*alternance*" process. It is important to note that all of the elections have taken place completely within the constitutional framework. Changes in political leadership illustrate also this success in democratisation of political life which has been welcomed by the international community including the EU. It has been achieved despite the fact that Mongolia is a land-locked developing country facing extremely difficult problems such as poverty or natural disasters such as severe drought or bad winters.

The **consolidation of a stable, multiparty, parliamentary democracy is one of Mongolia's most notable achievements in the transition process.** This achievement is all the more impressive considering that democratic institutions have no precedent in Mongolian history. Mongolia is not returning to institutions that previously existed as is the case in some of the Central and Eastern European countries. In Mongolia, these institutions are completely new, yet they have been consolidated swiftly and effectively. It would seem that certain fundamental elements of Mongolian culture, including egalitarian values (such as social consensus of the population) and a widely held vision of what constitutes fair and just institutions, underpin a democratic political culture.

### 3.4. Sustainability of current policies

Any **improvement in the economic outlook depends on the Government's commitment to effective economic management,** which in particular should focus on progressively reducing the fiscal deficit.

While direct subsidies to non-financial state enterprises have largely stopped, indirect subsidies through preferential input pricing, non-collection of debts, and exemptions from import duties have increased in recent years. The Government needs to make a concerted effort to contain these costs. Therefore, **fiscal consolidation is required to reach sustainability.** Although the 2001 budget plans a significant reduction in the fiscal deficit, it makes very little effort to contain government spending, where the key challenge is to contain current expenditures, especially wages, goods, and services (which together constitute about 17 % of GDP), and indirect subsidies to state enterprises.

Strengthening agriculture, which is likely to minimise supply-side shocks to a predominantly agricultural economy, requires immediate attention from the new Government. Bad weather over the past two years has caused severe harm to the sector and to the people who depend on it. Although the Government has taken measures to promote broad-based agriculture - including deregulation of agricultural prices, privatisation of livestock, and liberalisation of agricultural trade - the sector faces various constraints. Many of the new private owners have little knowledge of how to manage their assets in a market economy. The supply of critical support services, previously

organised and controlled by the Government, has deteriorated and left a vacuum that the private sector has not yet adequately filled. Inadequate rural finance and marketing facilities have further hampered the sector's development.

Despite a very low population density of about 1.5 people/km<sup>2</sup>, human activities in Mongolia are exerting pressures on land. **Overgrazing** is one issue, which has to be solved in order to overcome the effects of natural disasters. The objective to develop sustainable agriculture for the coming years has to take into account this.

Compared with other small transition economies, Mongolia has made significant progress in laying the foundations for the development of a private sector, which now accounts for about 70% of GDP. Despite this progress, the lack of clearly defined property rights, especially with regard to land, is constraining private sector efficiency. The fact that land leases are not transferable impedes infrastructure development on leased land. Similarly, the prohibition of private ownership of cropland impedes investment in agriculture.

### 3.5. The rural sector

#### 3.5.1. *Potentials and constraints*

Rural areas host half of Mongolia's population. Agriculture employs almost half of Mongolia's working force and accounts for 30% of GDP. The sector is dominated by herding, which, together with cropping play a key role in the country's economic development. However, the sector faces severe climatic constraints affecting the food security situation hampering sustainable development of the country.

**Livestock.** Herding remains the backbone of the economy. The size of the national livestock herd reached for example 32.8 million by the end of 1998, that is around 15 heads of livestock per habitant. This sub-sector plays an important role, with animal breeding representing for many people the only source of food, transport, heating material, purchasing power (cash/barter), and thereby indirectly access to medical services and education.

**Agriculture.** Before 1990, Mongolia produced sufficient quantities for its own domestic consumption of flour, potatoes, vegetables and animal fodder, while surpluses of other crops were exported to the Soviet Union, North Korea and Vietnam. These included **But the sector suffered badly in the early 1990s and particularly from the drought and harsh winters in the last two years.** The harvest is now only 40 % of pre-1990 harvests. Mongolia now needs to import 40 per cent of her cereal needs simply to feed the population - a factor that contributes to a lack of food-security. As stagnation of the agro-industry is continuing and key consumption items of the population, such as flour, and other products are imported, it needs to be developed.

**Food security situation.** With a Mongolian diet dominated by meat and dairy products, usual food security mechanisms have been disrupted to a large extent by two subsequent drought. According to nutritional surveys, although there is no obvious increase in acute malnutrition, high levels of chronic malnutrition can be witnessed, and the number of families living in extreme poverty with almost no resources has increased in rural regions. The situation is not expected to improve in the medium term. The severe winter and the drought in 2000 and 2001 have adversely affected the regeneration of pastureland and the weakened livestock have not been able to gain enough weight and body fat to survive the forthcoming winters. The summer grazing pastures have been reduced and the

yearly preparation of winter hay has been limited throughout the country. A high number of households have had to move to other regions, adding a further burden on the already over-stretched capacities of the grazing areas available. If extreme weather conditions are recurrent and basic structural problems remain unresolved, more than 500,000 people may have to face food shortages, and will be affected by the loss of their livelihood in the longer term.

**Forests and the environment.** Mongolia has relatively low forest cover with just over 10 percent of the country under forest. The forests are mainly located in the northern parts of the country, along the Russian border, forming a transition zone between the Siberian taiga and the Central Asian steppe. There are also significant areas of arid forest and shrub land in the southern and southwestern parts of the country. All forests and land in Mongolia are State-owned. Mongolia has developed a land area under formal protection, in a network of around 40 parks and reserves. Fires destroy significant areas of forest and steppe woodland each year. Deforestation in the certain part of Mongolia, overgrazing of pastures, and efforts to increase grain and hay production by ploughing up more virgin land has resulted in increased soil erosion, both from wind and from the heavy downpours of the severe thunderstorms that bring much of Mongolia's rain. In the south, the desert area of the Gobi has expanded, threatening the fragile Gobi pasturelands. This has resulted in an environmental problem faced directly in particular by the most vulnerable people in these areas.

### 3.5.2. *Consequences of the reforms*

Mongolia has carried out major reforms in agriculture, including privatisation, deregulation of product prices, and liberalisation of trade. However, the agricultural sector suffers from low productivity. As the privatisation of cattle was seen as a good perspective for earning a living, most Mongolian families were encouraged to acquire a small, i.e. non-sustainable number of livestock. Many of the new farm owners know little about managing assets in a market economy; this lack of experience in livestock management have led them to being unable to deal with the consequences of both the harsh winters and the drought. This has resulted in the loss of most, if not all, of their livestock, leaving them without a basis for a sustainable income. The supply of critical support services, previously provided by the state, has deteriorated. In addition the financial sector provides very little lending in rural areas. In the livestock sector, the problem is compounded by overgrazing as a result of a big increase in herds and a large number of inoperative stock-watering wells.

Recent measures to reform the land tenure regime focused on amending the Land Law to allow for the transfer of leases, establishing a national land information system, and approving the draft Land Privatisation Law and the Land Ownership Law (which were submitted to Parliament in 1997 but have yet to be approved).

## 3.6. **Medium term challenges**

**The main task facing Mongolia is to bring down the high poverty rates,** in part caused by the low-growth of recent years and by a weakened social safety net. Besides fiscal consolidation and restoration of macro-economic stability, progress in poverty reduction over the medium term will depend crucially on the Government's success in generating faster economic growth and employment, and in strengthening overall standards of governance. A better sharing of growth all over the country supported by an

improved regional policy required in order to avoid discrepancies that could lead to social dissatisfaction. **This policy should be applied to priority rural areas .**

### *3.6.1. Improve the social sector*

Mongolia needs to maintain macro-economic stability in order to avoid the social consequences of high inflation rates or external bankruptcy. Therefore, Mongolia has to overcome temporary difficulties with minimum effects for the people and the society. In particular, it has to improve social infrastructure - at least health and education - both in quality and quantity.

### *3.6.2. Foster employment*

**A strategy of generating faster growth and hence employment** over the medium term should rely primarily on **improving the productivity of investment**, both in the public and private sectors. At more than 25% of GDP, Mongolia's investment rate compares favourably with that of many developing countries with similar incomes. However, the productivity of that investment (as measured by the capital-output ratio) is low and falling. A combination of low energy prices, production inefficiencies, and inadequate application of commercial principles in financial relationships between enterprises has led to a massive build-up of operational deficits that are financed by inter-enterprise arrears and borrowings from the domestic banking system. To improve investment returns, restructuring state enterprises is crucial, and the new Government has committed itself to this, including some privatisation. The medium-term strategy to reform them will concentrate on improving technical efficiency, strengthening internal enterprise governance, and imposing market discipline.

### *3.6.3. Improve good governance*

**Efforts to strengthen overall governance standards** should focus primarily on reforming the civil service, improving public sector management, and establishing a legal infrastructure to support the private sector and a market economy. At present, the structure and functioning of the civil service are highly centralised, with pay and benefits centrally determined and a single annual entrance examination. New management methods and regulations are required, in particular a more performance-based approach. Recognising this, the Government has embarked on a 10-year program of public administration reform. In order to promote private economy and the overall it is necessary also to develop an independent and reliable statistical system.

### *3.6.4. Enable private sector investments*

**Improved productivity of private investment** requires reforming and restructuring the financial system. Despite recent measures to strengthen the banking system, including the liquidation of two large, insolvent banks, the doubling of minimum capital requirements, and the revocation of licenses of banks that do not meet minimum capital requirements, further measures are needed. These include curtailing public sector borrowing from the banks, phasing out the Government's role as owner of the banking system, and reinforcing its role as an arm's length banking regulator.

### 3.6.5. *Support to the rural economy*

Attention should be paid to provide assistance to Mongolia in the rural sector in order to **minimise the effect of potential natural disasters**.

As Ulaanbaatar is attracting more migration from the countryside (the capital city already houses one quarter of the population and the forecast is that it will rise to 50% in the medium-term), measures need to be taken urgently to reverse this trend. Living security and employment generation will be important to resolve this problem.

## 4. OVERVIEW OF PAST, ONGOING AND PLANNED COOPERATION ISSUES

Mongolia benefited from 1991 to 2000 from the permanent and active support of the international donor community. More than USD 2.6 billion has been committed, evenly divided between loans (USD 1.34 billion) and grants (USD 1.30 billion including technical assistance amounting to USD 688 million).

### 4.1. EC assistance

#### 4.1.1. *Early stage of transition: Asia, Latin America Programme*

Prior to the political reforms of 1990, relations between the EU and Mongolia were extremely limited. Since then, however, these relations have developed fairly rapidly and positively. **The first EU mission visited Ulaanbaatar in October 1990** to open discussions on cooperation and the possibility of concluding a trade and cooperation agreement. In January 1991, Mongolia entered into the EC's GSP arrangement. The EC delegate in Beijing was accredited in Mongolia in May 1991, whilst the Mongolian ambassador to the EC presented his credentials in November 1992.

In 1992-1993, Mongolia received nearly ECU 8.0 million in technical assistance under the Asia Latin America Programme (ALA).

#### 4.1.2. *Core of EC assistance Tacis programme*

Mongolia was included in the European Community Tacis Programme in 1994. Therefore, **most of the € 49.2 million EC assistance provided to Mongolia was by Tacis**. The budget allocation for Tacis assistance to Mongolia from 1994 to 2000 was about € 34.5 million.

The Indicative Programme (IP) 1994/1995 identified one focal sector, Human Resource Development, and two secondary sectors, Small and Medium Enterprises (SME) - with emphasis on the agro-processing sector - and Energy.

Within the framework of the second IP 1996/1999, a coordinated strategy for Tacis intervention was proposed which aimed at supporting three axes of the reform programme of Mongolia. i) Structural and Institutional Reform, ii) Enterprise and Financial Development and iii) Infrastructure Development.

The 2000-2003 Tacis IP adopted in 2000 identified the three following priority areas of cooperation. (1) **Rural Development**; (2) **Support to the Private Sector and Assistance for Economic Development**; and (3) **Support in Addressing the Social Consequences of Transition**.

The latest Tacis AP, was approved by the Commission in November 2000, and amounted to € 6 million. It has just started to be implemented following endorsement by the Mongolian authorities in early 2001. In order to concentrate activities it was decided to implement projects only in **two main priority areas of cooperation (rural development and development of the private sector)**.

Mongolia has also actively participated between 1994 and 2000 in the Tacis Small Project Programme (Tempus, Lien, City Twinning, Productivity Initiative Programme, ESSN, Statistics, and Customs). For example the activities in the field of customs include areas such as Customs legislation, Customs Control, Customs Clearance, post clearance audit and IT. However it is clear that Mongolian legislation does not yet meet the needs, neither of the Customs administration, nor of the business community at national and international level.

Mongolia has been formally part of **Tacis regional programmes**. However, as this country has been far away from the core of these programmes, it has never been deeply involved. In TRACECA, an exchange of information has been formalised, but Mongolia has not signed the Multilateral Agreement on Transport, which aims to assist partner countries improve trade access to world markets in secure and sound conditions. In addition, it has not become party to the Inogate Umbrella Agreement.

**In 1995, Mongolia was included in the Democracy Programme.** Projects were implemented since then providing assistance in:

- reforming public management;
- increasing theoretical and practical knowledge of democracy;
- fostering pluralism in society;
- supporting NGO activities; and
- transferring know-how to associations and coalitions by introducing democratic principles and laws.

#### *4.1.3. EC humanitarian assistance: ECHO*

**ECHO** provided exceptional assistance to cover the most urgent humanitarian needs created by the drought and the harsh winters 1999/2000 and 2000/2001 (the worst winters for 30 years). The adverse weather conditions affected over 50% of herder households (more than 500,000 people) in almost all provinces, with Western and Central Mongolia being particularly affected. Nearly 10% of livestock (livestock being practically the sole means of income for the rural population) was lost. In response, ECHO committed 1.875 MEURO in 2000, and an additional 1.03 MEURO in 2001. The aid operations funded provided mostly emergency food assistance but also - though to a lesser extent - basic medical aid and agricultural inputs (animal fodder, vegetable seeds) to the most vulnerable groups affected.

#### *4.1.4. Research and technological development programmes*

Mongolia is participating in the EU's Framework Programmes activities, in particular INCO-Copernicus projects. Of particular significance is a project funded by Community budget on monitoring the extent and causes of desertification by remote-sensing and geographical information system applications. As the European Research Area and the new Framework Programme 2002-2006 will have twofold objectives for the Newly Independent States (NIS) and Mongolia : stabilise research potential and tackle problems of mutual interest where

research can provide appropriate solutions and responses (i.e. health and environment). These objectives are of particular interest for Mongolia and can be achieved by strengthening partnerships and exchanges with the scientific communities of the European Union".

4.1.5. *Tables***€49.2 million Total EC grant assistance since 1992 in Mongolia****(In million ECU/EUR)**

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	TOTAL
ALA/Tacis	8		8		9.5		11		6		42.5
ECHO		1.8	2.0						1.9	1.0	6.7

EC assistance in Mongolia is a relatively modest; however, the EU has gained experience through its various means that could be developed in a more integrated manner. Apart from ECHO short-term humanitarian aid, EC assistance should provide longer-term development assistance. It has to be noted that the activities developed in recent years in the field of agriculture and rural development have been successful.

**4.2. International Financial Institutions assistance**4.2.1. *IMF*

The **International Monetary Fund** (IMF) has consistently supported Mongolia's efforts to promote more rapid economic growth and poverty reduction. It has approved several Enhanced Structural Adjustment Facilities (ESAF), the last one was approved in June 1999. The anti-poverty focus has been recently strengthened with the replacement of the old ESAF by the Poverty Reduction and Growth Facility (PRGF). The first Fund-supported PRGF was approved on 27<sup>th</sup> September 2001 by the IMF board, following the adoption by the Mongolian authorities of the nationally owned Interim Poverty Reduction Strategy Paper (I-PRSP). A first draft of this document was introduced to the international community by the government of Mongolia during the last Consultative Group held in Paris on 15-16 May 2001. A full PRSP is to be prepared by the Government before end of September 2002.

4.2.2. *World Bank*

The **World Bank** has from 1991 to the end of August 2001 committed loans amounting USD 271.7 million out of which USD 153.2 million has been disbursed. Nine projects, covering activities in various sectors such as education or social infrastructure, are implemented. The objective of the World Bank in Mongolia is to promote equity in development through direct poverty alleviation assistance, to ensure continued support to the most vulnerable groups, to support medium-term macro-economic stabilisation and thus lay the foundation for broad-based economic growth and improved living standards, to facilitate private sector development and associated employment and income-generation opportunities; to develop infrastructure to support private sector growth and market development, contribute to increased foreign investment and global integration; and to improve the living conditions of the poor by improving access to services and increasing efficiency gains, particularly in energy and water supply.

With the support of the **IMF** and the **World Bank**, Mongolia has been able to mobilise the international community of donors through various donor conferences (for example in

June 1999, \$360 million were mobilised during the seventh donor meeting). The last Consultative group, in Paris on 15-16 May 2001, was successful; the international community renewed its support to Mongolia pledging \$320 million for the period July 2001-June 2002. The EU Member States and the Commission have actively participated in the various conferences.

#### 4.2.3. *ADB*

The most important donor is the **Asian Development Bank** (ADB) which has committed from 1991 to 2000 more than USD 469 million to 25 projects in sectors such as transport and communication, energy, rural economy, agriculture and natural resources) as well as social infrastructure (including education). In addition, ADB has provided technical assistance grants for 89 projects amounting to USD 45 million. The ADB has signed in November 2000 with the authorities of Mongolia an agreement for the opening of a Resident Representative Office in Ulaanbaatar expressing the importance ADB attaches to this country. As the ADB rededicated itself to the fight against poverty by adopting a new poverty reduction strategy in 1999, Mongolia was the first ADB member country to sign a Partnership Agreement with the bank, which sets specific targets for poverty reduction and improvements in social indicators over the medium term. This commitment to fighting poverty has been renewed since then by the new Government.

ADB adopted in May 2000 a new country operational strategy for Mongolia entitled “A Poverty Reduction Strategy for ADB Operations in Mongolia (2000 - 2005)”. It stresses the need to foster economic growth and to incorporate elements of good governance in any project supported by ADB, whose operations in Mongolia are now focused on five sectors 1) financial sector, with the objective to remove the single most important barrier to private sector investment and savings - the fragile and thin banking system - and to develop micro-finance, 2) agriculture, in order to generate employment and income, 3) public sector in assisting the authorities to become more supportive of private-sector-led growth and to improve service delivery by delegating responsibilities to lower levels of the Government, 4) social sector, including education, health, and social protection which have the potential to empower the labour force, maintain standards of health and education, and make health and education services more widely available and 5) urban development sector in order to support health improvement and enhance living conditions.

#### 4.2.4. *EIB and EBRD*

Mongolia is eligible for **European Investment Bank** (EIB) loans, but so far no project has been agreed. Mongolia became a member country of the **European Bank for Reconstruction and Development** (EBRD) in October 2000. However, its Board decided that it would not be part of the Bank’s recipient members (“Countries of Operations”). Therefore, its support will remain though Technical Cooperation in areas such as SME development and promotion of investment climate for private sector operations. .

### 4.3. **Bilateral assistance**

#### 4.3.1. *Japan*

Among bilateral donors, **Japan** is the most important both with loans (mostly for infrastructure projects) and grants (used for technical assistance and training activities in

Japan). Japan's assistance to Mongolia is primarily focused on (1) Building and upgrading economic infrastructure to promote industry (rehabilitation of infrastructure, including energy, transportation and communication) (2) Intellectual support and human resources development for the transition to a market economy (3) Revitalisation of agriculture and livestock industry and (4) Support for basic human needs (education, health and medical services, and water supply).

#### 4.3.2. *US*

**U.S.** assistance to Mongolia was initiated in November 1991 as a response to the government of Mongolia's decision to move to a free market economy and a multi-party democracy in a buffer country between Russia and China. Therefore, US assistance focuses mainly on promoting sustainable free-market economy and democracy. USAID has been providing support to the energy sector since 1992 including major rehabilitation of power plants and coal mines and assistance to help the Mongolian government programme to initiate energy pricing reforms and other interim and long-term capital improvements that will restore adequate energy services. USAID is also assisting Mongolia to establish and implement sound, growth-oriented, economic policies and practices in the areas of banking, pensions and privatisation of state-owned enterprises. Mongolia has also benefited from USAID's democracy programme of voter education, promoting public participation in civic affairs, encouraging the decentralisation of government and providing parliamentary training. The objective is to improve the quality of governance in Mongolia and create a level playing field conducive to free and fair elections.

#### 4.3.3. *EU Member States*

**Germany**, the most active EU Member State in Mongolia, has supported projects since June 1991 in many fields mainly through GTZ and KfW. Germany is supporting the finance and private sector including SME credit scheme, promoting environmental protection and resource conservation and is promoting assistance in the field of rural development, telecommunication and energy supplies. These efforts aim to support the country's economic reform and general political and social stabilisation. The main goal is to improve the population's economic situation.

Other EU Member States such as **Sweden, France, the Netherlands and the UK** are also active with grant money. Some are also providing soft loans such as **Italy and Spain**. Some of them, which were very active in Mongolia until recently, have reduced or redirected their activities. **Denmark** for instance have moved its activities from government to government aid to grant support through NGO's operating in Mongolia. The overall tendency is a disengagement from EU bilateral agencies.

#### 4.4. Donor coordination

Since Mongolia has been actively supported by a large number of donors from the start of its transition process, and as the volume of assistance increases and becomes more diversified, donor coordination is a key issue. In the past this coordination moved from one ministry to another without informing the international community. Following the 2000 Parliamentary elections, the Ministry of finance and economy is now responsible for collecting and integrating data, concluding contracts and agreements and conducting overall management of Official Development Aid (ODA). The objective is to ensure better coherence between loans and grants as well as to improve internal coordination between the various governmental bodies involved. A new law is in preparation with Tacis support. It will provide the necessary legal framework for coordination of grant and loans approved by the authorities.

#### 4.5. Lessons learnt

Mongolia has already achieved some important objectives of its transition process. It needs to implement additional elements. Mongolia is a developing country and this is reflected in the needs for development assistance. Therefore, assistance should gradually shift from a technical assistance one to development assistance. This move has already started with the focus on **poverty reduction** agreed between the government and the donor community recently. In this context, the Commission is considering which legal basis provides the most suitable vehicle for this form of assistance.

**Donor coordination has already improved** due to Mongolian attention to addressing the problem. Considering the huge task ahead in terms of providing assistance to the country, it is still necessary to bear coordination in mind when designing new projects in Mongolia.

Up to now, she has received almost 50% in grant aid. The **need for further grant aid** is still strong.

Activities financed by Tacis have mostly been implemented as institutional strengthening and building projects at the ministerial level. Now it would seem appropriate to **widen the scope to include regional and local authorities**.

Recent **natural disasters** faced by Mongolia have shown that assistance needs to pay more attention to the **elimination of root causes**.

### 5. EC RESPONSE STRATEGY

Given the modest budget available for Mongolia under the Tacis Programme, the EU will focus on **one priority, rural development**. This represents a significant concentration relative to the current Indicative Programme which identified rural development, private sector development and addressing the social consequences of transition as priority areas. The projects to be developed will include as **crosscutting issues** support to the private sector, protecting the environment and addressing the social consequences of the transition. This is in line with the Poverty Reduction Strategy presented by the Mongolian authorities with the support of the international community of donors. It will also take into account the consequences for the environment of sustainable development in rural areas. **The main objective is to ensure long-term food security for the population**

**through improving the crop and livestock sub-sectors.** The strategy will aim at achieving efficiency and economic sustainability in rural development. This means in particular developing economic efficiency through **support to the development of private farming and food processing.** This would include development of market opportunities as well as training of rural people in modern and environmental friendly farming and breeding methods. The projects will be implemented at local level in the regions which have suffered the most from past natural disasters, as a follow-up to ECHO assistance, and taking into account social consequences of transition. The strategy will strengthen bilateral links between the EU and Mongolia through activities such as exchanges. Consequently the EU will continue in Mongolia certain activities in Small Project Programmes such as Tempus or Managers Training Programmes, policy advice or statistics.

## **6. NATIONAL INDICATIVE PROGRAMME**

### **6.1. Past assistance**

In the past, development of the rural economy has been a cornerstone of the EU assistance to Mongolia and it has assumed much higher priority recently. The European Commission has provided emergency aid, consisting of food, to the most vulnerable section of the community, mostly in the western regions which aimed at helping to meet the basic nutritional requirements for a two-month period. Agricultural inputs were as well distributed to selected households receiving food aid. Both the 1998 and the 2000 Tacis Action programmes, focussed on the field of rural development with projects in policy development, training and management support to agricultural enterprises in crop production, processing and distribution, amounting to €2.1 million (AP 1998), and in integrated crop and livestock production, amounting to €2.9 million (AP 2000). The first project has been running well and has been welcomed both by the authorities as well as the beneficiaries and the population at local level. The creation of Agricultural Extension Centres (AECs), which are providing services and training for farmers have proved their worth and are already self sustainable. Therefore, the Government of Mongolia has decided to expand this activity to other regions at its own cost. The new project in AP 2000, with its integrated approach, is based on the same philosophy. This is a natural progression involving both crops and livestock production. New activities have to be based on this successful approach enlarging again the activities to be developed both in terms of regions as well as scope.

### **6.2. Description**

**In 2002-2003, Tacis will develop further activities in the field of rural development. This priority area of cooperation will include three sub-areas (1) support to rural SMEs (agro-industry) (2) addressing the social consequences of transition (in particular employment generation in the chosen regions) and (3) protection of the environment (for example methods to avoid over-grazing).**

**As available means are limited, and needs huge, Tacis will seek synergies and complementarity with other donors and will work in selected regions in order to avoid duplication of effort.**

### 6.2.1. *Support to rural SME development*

Tacis will support the private sector **and in particular SME development** as well as the transition to a market economy. **This includes support (i) to a free market economy operating in a transparent regulated environment conducive to investment and (ii) to developing domestic supply (natural raw materials) for the processing industry including food industry).**

Mongolia has made significant strides in responding to market demands, particularly in the SME sector in the processing of agricultural products including food (agro-industries). However, the environment is still fairly inhospitable for SME development, lacking adequate legislation, business networks (both domestic and international) and the various support services, financial, legal and marketing. In particular, access to badly needed venture capital for the creation of new, and the continuing support of present, SMEs is lacking. Interest rates remain far too high, and repayment periods are far too short for SMEs to flourish. Continuation of the enterprise reform process, reinforcement of SMEs, strengthening of the banking system, and the development of securities and insurance markets are still required. Public and private investment in the SME sector could benefit from improved, reliable statistics on the growth of the economy.

Previous Tacis activity in this sector has emphasised: policy advice to the government in the promotion of SMEs, establishing and strengthening of an SME Development Agency and an Agro-processing Advisory Centre.

In order to assist the Government in its plans for SME development, Tacis will support **(1) training and strengthening of SMEs at regional and local levels; and (2) promotion of enterprise restructuring and privatisation;** private entrepreneurship will be promoted, as well as industrial cooperation and joint ventures between Mongolian and EU companies as key elements of economic development.

This will involve the transfer of know-how (using already existing or newly-created AECs), twinning, facilitating access to finance and management training initiatives. Encouraging both public and private investment and continued assistance in structural reforms will be critical elements in the realisation of this objective and key priorities for the next period of EU assistance to Mongolia. The activities will also involve the creation **of a network of cooperatives for animal products** in order to increase the efficiency of the collection and distribution systems.

### 6.2.2. *Addressing social consequences of transition.*

While aiming to consolidate and continue structural economic reforms, EU assistance will address the **social cost of the transition process in rural areas especially following natural disasters** such as the ones Mongolia has been recently facing. The target will be to support **herders to produce their own fodder** to overcome the consequences of future harsh winters and summer droughts, hence securing the survival of their animals. **A cooperative approach** will be encouraged.

In addition, EU assistance will aim to promote employment in the most needy rural areas where economic reforms have led to mass unemployment. This will be done, *inter alia*, through re-training of the most vulnerable farmers and herders. Assistance will also support the provision of basic social services, mainly at regional and local levels of government, to the most needy sections of society. In recognition of the scale of the problems to be addressed, and the limited resources available, actions will need to be targeted at limited and achievable objectives in providing technical assistance to social services such as healthcare institutions or education institutions in the rural areas.

#### 6.2.3. *Protection of the environment*

The environment in Mongolia is both harsh and fragile due to the climatic conditions. The increase in livestock population has had a direct effect on the ability of the herders to withstand shocks in a way that is compatible with the protection of the environment. The **overgrazing issue** is one that needs to be confronted urgently.

#### 6.2.4. *Seeking synergies and complementarity with other initiatives*

It will be of utmost importance to ensure synergies between assistance provided by the various donors involved in rural development.

**The Asian Development Bank** has a broad programme to “develop a more market-oriented, efficient and sustainable agriculture sector and reduce poverty by providing increased income opportunities”. It has three components:

- The production and marketing component, which includes assistance for a) expanding small scale horticulture production among vulnerable groups under the Green Revolution Programme, b) strengthening of veterinary services, c) rehabilitating wells in pasture areas, d) developing the cooperative system to provide better marketing and processing services to agricultural producers, and e) improving rural communication links including telephone and radio services;
- The credit component comprises support for a) a credit line for participating financial institutions (PFIs) to increase the availability of credit for agricultural purposes and b) capacity building for PFI staff and advice to potential sub-borrowers;
- The project management component includes support for the efficient management of project activities.

**IFAD** has agreed to offer a credit to the Government of up to USD 15 million for rural development in Mongolia with similar objectives as those of the EU. This has not, as yet been finally agreed by the Government of Mongolia but, should it be so, Tacis will provide technical assistance that in the Tacis selected region in the activities mentioned above could complement the credit agreed. **Potential Tacis involvement in cooperating with IFAD projects has to be decided when the exact description of IFAD activities are known and endorsed by the Mongolia authorities.**

**The World Bank** is currently negotiating in this field with the Government. Coordination has to be further developed in the coming period to avoid duplication of effort. **GTZ** is active in developing veterinary services and co-operatives in various provinces. Its projects will continue until 2005. Of several of these, Dornogobi is one.

**The European Community Humanitarian Office (ECHO)** has already tried - to the extend possible - to develop sustainable solutions for a more diversified food production. In particular, vegetables seeds (among other agricultural inputs) have been provided to vulnerable beneficiary households. Assistance will ensure a continuum of activities between the emergency response given by ECHO answer and more long term involvement by Tacis.

When the design of the various projects will have to be done it would important to get further information on activities in the chosen regions developed directly by EU Member States or indirectly by EU regions or EU Non Governmental Organisations.

#### 6.2.5. *Description of activities*

Two different, but closely related, activities are envisaged:

##### **Rural Rehabilitation**

Building on the experiences of the Crop Production and the expected results of the Integrated Crop and Livestock Production projects, Tacis will provide input in the following areas:

- **Veterinary services.** The objective will be to improve the quality of the breeding stock, health, survivability and quality of end product of the target group of animals.
- **Fodder production.** The objective will be to encourage the herders to produce fodder in sufficient quantity to tide them over the winter and to help to prevent large scale deaths during subsequent harsh winters.
- **Agricultural processing.** The objective will be to develop local agro-processing industries to provide value added goods *in situ* and increase employment locally.
- **Well rehabilitation.** The objective will be to rehabilitate a sufficient quantity of wells to ensure sustainable development of the pasture areas where the local population can have access to social infrastructure. This aspect should be considered in the context of overgrazing.

##### **Creation of a rural network.**

The objective will be **contribute to facilitating market access for farmers and herders for their produce.** Attention will be given to the development of cooperatives. They should also take into account the creation of self-sustainable AECs designed along the lines of those set up by the Tacis Crop Project.

### 6.2.6. *Scope of the Tacis activities*

#### **National Level.**

Activities will be developed at the national level in the form of policy advice to the relevant ministries.

#### **Regional Level**

Taking into account the planned activities of the ADB in four of the western regions and the needs of the south eastern region, it is proposed that, following dialogue with the Government, interventions will be implemented in: **Gobi-Sumber, Dornogobi and Sukhbaatar provinces**. The final selection will be made in close cooperation with the Mongolian authorities at a later stage. It will take into account the preparatory work already carried out by other donors (in particular activities developed by EU Member States) and their projects. Such a solution will provide visibility for Tacis.

### 6.2.7. *Counterparts and Beneficiaries*

The Partners will be the Ministries of Food and Agriculture and Industry and Trade and the Provincial Governors' Offices of the selected regions. The beneficiaries will be the inhabitants of the provinces.

### 6.2.8. *Expected Results and indicators*

The following matrix summarises expected results with respective indicators:

<u>Expected results</u>	<u>Indicators</u>
Provide a better veterinary service to herders	<ul style="list-style-type: none"> <li>- number of fully functioning veterinary centres and trained officers</li> <li>- number of herders having access to modern veterinary services</li> <li>- statistics proving healthier animals</li> </ul>
An increase in fodder production	<ul style="list-style-type: none"> <li>- increase in good quality fodder</li> <li>- diversification of fodder production</li> <li>- decrease in the number of animals succumbing to natural disaster</li> </ul>
Development and diversification of agro-processing	<ul style="list-style-type: none"> <li>- number of sustainable SMEs developed</li> <li>- number of jobs created</li> <li>- increase in value added</li> <li>- number of credits provided</li> </ul>
Well rehabilitation	<ul style="list-style-type: none"> <li>- number of rehabilitated wells</li> </ul>

	<ul style="list-style-type: none"> <li>- number of households having access to water</li> </ul>
Development of co-operatives for herders and farmers	<ul style="list-style-type: none"> <li>- increase in services provided</li> <li>- reduction in urban and rural price differential</li> </ul>
The standard of living of a large number of rural households will have been improved	<ul style="list-style-type: none"> <li>- number of households living standards improved by the activities</li> <li>- survey before and after projects to prove impact of the activities</li> </ul>

#### 6.2.9. *Environmental impact*

Appropriate resources will be provided to assess the impacts of each policy, legal, and organisational reforms on the environment; as well as for each component and planned activity. In addition, environmental awareness building will be part of all training programmes.

#### 6.2.10. *Risks and conditionalities*

There is a **risk that additional years of harsh winter could worsen the situation** and endanger the implementation of the programme. Indeed, Mongolia's unfavourable climate - the growing season only lasts four months each year; its geographical and infrastructure restrictions provide a difficult framework within which to work; this will have to be carefully addressed when planning projects.

A second risk could be **the lack of close cooperation of the central and regional administrations. Therefore, a renewed commitment to the reform process and a direct involvement of the local authorities will be requested.**

The following clause should be inserted in the memorandum to be signed with Mongolia: "Assistance in the period of 2002-2006 is provided on the basis of the existence of the necessary elements for the continuation of cooperation through assistance, in particular, respect of democratic principles and human rights, as well as the obligations of the Partner State as set out in the Trade and Cooperation Agreement."

## 7. BUDGET

The indicative budget for assistance to the country/programme for 2002-2003 is €6 million. This includes the rehabilitation of agricultural services at regional level (€2.8 million), the re-establishment of collection and distribution network at regional level (€1.5 million). This includes also the possibility for Mongolia to participate in the Small Project Programmes (€1.5 million) such as Tempus (€0.7 million), the Management Training Programme (€0.2 million) or Institution-Building Partnership Programme including statistics (€0.6 million). €0.2 million will put as a reserve for contingencies.

**Bilateral trade EU-Mongolia:**

(In million ECU/EUR)

	1993*	1994*	1995	1996	1997	1998	1999	2000
Imports from Mongolia to EU	20.0	31.8	31.3	36.7	33.1	30.7	40.0	50.0
Exports from EU to Mongolia	13.0	24.8	49.4	69.2	99.8	101.9	49.0	65.0
Balance	-7	-7	+18.1	+32.5	+66.7	+71.2	+9.0	+15.0
Trade turnover	33.0	56.6	80.7	105.9	132.9	132.6	89.0	115.00

\* 12 Member States

(Source: COMEXT, April 2001)

## **Good Governance for Human Security Programme**

### **GGHSP**

Through various resolutions of the Parliament and of the government, a "Good Governance for Human Security Programme" (GGHSP) was adopted during winter 2000-2001. This programme will support policy formulation, operationalisation and implementation of the priority objectives of the Action Programme. The GGHSP covers 11 priority actions that aim to:

- 1) facilitate stabilisation of the macro-economy, deepen the reform and intensify restructuring;
- 2) rehabilitate the banking and financial system;
- 3) facilitate economic growth by rehabilitating national industry and supporting export-oriented industry;
- 4) support regional and rural development and promote infrastructure development;
- 5) create an equitable social environment for human development, improve quality of education , health assistance and access to services at all levels;
- 6) reduce poverty and unemployment and improve the livelihood of the people;
- 7) implement environmental policy aimed at providing sustainable development and ecological balance by harmonising protection of bio-diversity with regional socio-economic development;
- 8) intensify land reform
- 9) improve the living environment of the citizenry by reducing air, water and soil pollution in urban areas and by recycling garbage and waste;
- 10) remove the governance crisis and create good governance for human security;
- 11) develop a democratic civil society with strong ethics that secure citizens' basic rights and fundamental democratic principles by facilitating the independence of the judiciary and a free mass media

## Selected economic and social indicators

## MONGOLIA

**GENERAL**

Area (square km):	1,567,000
Population 1999 (million):	2.6
Urban Population (1999) :	63.0 %
Life Expectancy (1999) :	62.5 years
Population growth rate (1990-99) :	1.9 %
Fertility Rate per woman ((1998) :	2.5
Human Development Index (HDI) Rank:	116

**ECONOMY**

Nominal GNP (1999) (US\$):	0.9 billion
GNP per capita (1999) (US\$):	350
GDP Breakdown by sector value added (1999):	
Agriculture:	33 %
Industry:	28 %
Services:	40 %
Real GDP growth rate (2000):	3.0 %
Estimated real level of 1999 GDP as % of 1989 GDP :	not available
Inflation:	
1997	36.6 %
1998	9.4 %
1999	7.6 %
2000	11.6 %
External debt stock: (1999: US\$)	not available
Debt Service: (1999)	not available

(All figures for 1998 in million US \$)	(all figures in million for 2000, unless otherwise stated)
Exports of goods & services: 540	Exports to EC: 50 (9%)
Imports of goods & services: 672	Import from EC: 65 (8%)
Current account balance: -129	Trade balance with EC: -15
FDI: (1999): 30.4	FDI of European origin: n.a.

### ***Social Development***

Adult Literacy Rate:	62.3%
Primary Enrolment Rate (1997):	85 %
Secondary Enrolment Rate (1997):	56 %
Infant mortality rate (1999):	63 per 1,000 births
Under 5 mortality (1999):	80 per 1,000
Contraceptive prevalence rate:	not available
Access to essential drugs :	60 %
Access to safe water:	60 %
Access to sanitation:	30 %
Under 5 malnutrition (1998)	9 %
Number of doctors/100,000 people	: 243

*Sources: World Development Report 2000/2001; Human Development Report 2001; UN Economic Survey of Europe 2001 (1); Transition Report 2000 (EBRD); IMF World Economic Outlook (May 2001); World Bank website.*

