



UNITED STATES  
DEPARTMENT OF STATE



**USAID**  
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## MONGOLIA

# U.S. FOREIGN ASSISTANCE PERFORMANCE PUBLICATION Fiscal Year 2009

Mongolia has a population of less than three million, the lowest population density of any country in the world. Landlocked between Russia and China, it faces a cold, dry, harsh climate and short growing season. Despite growing opportunities for economic prosperity, the extent to which many Mongolians have been able to take advantage of these opportunities has been limited, especially in rural areas, where 39 percent of the population lives.

On the positive side, Mongolia has achieved considerable progress since breaking from its Soviet past in 1990. Since then, it has successfully transformed its political system into a democracy, conducted a series of elections and peaceful changes of government, introduced a large degree of political openness, and made major progress in transitioning to a market economy. This transformation has been accompanied by the emergence of a dynamic civil society, increasing investment levels, and positive overall economic growth.

Major challenges, however, remain. Economic growth slowed in 2008 with the collapse of copper and other commodity prices, and in 2009, Mongolia endured the effects of the global financial crisis in areas such as banking and employment. The percentage of Mongolians living below the poverty line remains high, and income inequalities have worsened due to the global crisis. Much work remains to firmly establish laws, policies, and institutions to support an open, democratic, and market-based society. Major obstacles include weak democratic institutions; ongoing issues related to accountability, transparency, and corruption; economic policy challenges; the need to strengthen institutions essential to supporting private sector-led economic growth; and a lack of economic opportunities for marginalized Mongolians.

### **FY 2009 FOREIGN ASSISTANCE GOALS**

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In FY 2009, foreign assistance programs funded by the United States Government (USG) focused on fostering economic growth, improving governance, and building capacity within the security sector.

The USG portfolio of assistance to Mongolia is mutually reinforcing. The United States Agency for International Development (USAID) works in collaboration with the U.S. Department of State to implement a set of activities in the political, judicial, and economic realms. These activities

strengthen Mongolia's ability to attract long-term foreign investment and enhance the efforts of other USG agencies with programs in Mongolia. The USG's Millennium Challenge Corporation signed a Millennium Challenge Account Compact with Mongolia in 2007 to upgrade Mongolia's railway system (a component dropped in FY 2009), advance land privatization and registration, improve the quality of and access to vocational training, and extend labor force productivity through improvements in health. USAID programs and the Millennium Challenge Account Compact cover different sectors but work in tandem. For example, USAID activities address corruption and strengthen corporate governance, both areas that will have positive impacts on Compact efforts.

The USG portfolio of foreign assistance to Mongolia is in transition. In FY 2009, four major USG foreign assistance projects in Mongolia phased out: two business development services projects that provided financial and technical support for marginalized Mongolians, a judicial reform project, and a parliamentary and political party reform project. Continuing into FY 2010, USG assistance will sharpen its focus on strengthening the capacity and professionalism of Mongolia's armed forces, anticorruption, and the promotion of private sector-led economic growth through improvements in economic and trade policy, as well as improvements in specific sectors, including energy, mining, and the financial sector.

## **HIGHLIGHTS BY PROGRAM OBJECTIVE**

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### **Mongolia's Armed Forces**

FY 2009 was a banner year in advancing USG peace and security objectives in Mongolia. Mongolia offered to expand its support of Operation Enduring Freedom in Afghanistan, planning to provide training to the Afghan National Army as well as to provide forces for site security missions. Advance Echelon elements of the Mongolian Armed Forces deployed to Afghanistan in FY 2009 to prepare for main body deployments in November 2010. In addition to planning for and participating in the seventh iteration of the Peacekeeping Training Exercise Khaan Quest in Mongolia, the Mongolian Armed Forces also participated in the first-ever iteration of GOBI WOLF, a whole-of-government disaster response exercise. In total, 1,219 Mongolian soldiers and officers received professional military education, technical or related training in FY 2009.

### **Judicial System**

Since 2001, USAID has been the lead donor helping Mongolia to implement a comprehensive set of reforms to create an effective, accountable, and equitable justice system. These reforms focused on enhancing court administration and management of court caseloads, strengthening legal professional standards, supporting public education and awareness of the workings of the justice system, and promoting the judicial system's independence, accountability, and transparency. These activities ended in March 2009, having made important contributions to improving the rule of law in Mongolia. The judiciary enjoys greater respect within the community, greater independence, and is no longer viewed as simply an instrument of state power. Mechanisms designed to ensure high ethical standards among judges and prosecutors are in place, and new institutions have been created, equipped, and trained to investigate wrongdoing among justice sector officials.

### **Political Institutions**

In March 2009, the USG completed a project to increase and sustain the transparency of electoral processes, strengthen political institutions, establish and embolden governing procedures in Mongolia, and advance citizens' engagement in the political process. The project had notable successes, furthering campaign-finance reform legislation and augmenting the quality of monitoring

of national elections. It increased women's participation in the political process as active citizens, political party members, and prospective candidates. USG support had notable success in assisting Mongolia's parliament to improve legislative oversight, reinforcing the capacity of parliamentary staff to conduct research, and enabling members of parliament to carrying out representative responsibilities more effectively.

### **Anticorruption**

USAID's anticorruption activities in Mongolia started in late 2005, and continued to make progress in three areas in FY 2009: investigating, prosecuting, and securing convictions in corruption cases; strengthening the commitment to anticorruption reform within the Government of Mongolia; and maintaining public awareness and media attention on corruption issues. The Independent Authority Against Corruption – created with USAID funding – nearly doubled the number of corruption cases that resulted in convictions, while making major strides in spearheading the investigation and prosecution of over 150 corruption cases. It also expanded its reach into rural areas where local organizations and authorities nationwide formed a rural anticorruption network. USAID worked with leading Mongolian Government ministries to formulate anticorruption action plans. One result of this was the nearly unprecedented dismissal of 15 public officials who failed to comply with income and asset disclosure regulations. USAID assistance kept corruption concerns in the media spotlight, while maintaining public awareness about continuing corruption problems and efforts to address them. USAID support to maintain public awareness and media attention on corruption issues contributed to increased public awareness of corruption, and fueled citizen action not to pay bribes, as measured through national surveys on corruption.

Unfortunately, passage of a National Amnesty Law in July 2009 negated much of the investigatory and prosecutorial work initiated under USAID's partner, the Asia Foundation, which had conducted excellent anticorruption work since 2006. Mission review of its anticorruption activities going forward is currently in process.

### **Economic Opportunities for Underserved Populations**

In FY 2009, USG foreign assistance expanded opportunities for viable commercial activity both in rural and peri-urban areas. These areas were specifically targeted as undergoing rapid economic transitions with markedly higher rates of both unemployment and under-employment. The scarcity of businesses and limited economic activity in these areas means there are few opportunities for the population to become economically independent. USG projects here focused on increasing the capacity of Mongolians to initiate and expand small businesses, providing skills training, running a service to match unemployed workers with potential employers, and facilitating small loans. In March 2009, USAID completed two projects directed at underserved populations – one working in peri-urban areas, and the other working in the rural Gobi region. The successes already achieved will continue because many of the activities initiated by both projects are now receiving further funding from the U.S. Department of Agriculture.

### **Facilitating Trade**

Improving Mongolia's prospects for trade has been an important goal of USG programs. USAID has supported the development of a working consensus on policies, strategies, institutional responsibilities, laws, and regulations to facilitate large private sector investment in Mongolia, especially in transport, energy, and logistics infrastructure. Improvements in these areas will serve Mongolia well as it moves to develop its mining sector, a highly lucrative source of trade income given the country's vast mineral reserves. In FY 2009, USAID created a strong foundation for

forming partnerships between the public and private sectors, where such partnerships are seen as an effective way to leverage additional investments, especially in infrastructure. USAID worked closely with the authorities responsible for customs and inspections of goods crossing Mongolia's borders, developing systems for reducing risk in customs inspections and enhancing public knowledge about customs procedures. At a policy level, USAID advanced the progress of key trade legislation in the parliament.

### **Financial Sector**

At the start of FY 2009, Mongolia's financial sector faced major barriers to the provision of financial services for broad-based growth, including high interest rates, lack of long-term capital and reliable credit information, and barriers to loan foreclosure and asset recovery. The onset of the global and domestic financial crisis exacerbated the problem; liquidity in the system dried up, and non-performing loans grew to nearly 20 percent.

The USG responded to these challenges in close coordination with the Mongolian Government and international financial institutions such as the World Bank. USAID funding supported assessments and action plans for troubled banks, while working with the authorities to review key laws governing the financial sector. The private sector took the lead in formally registering the Credit Information Bureau – an organization developed with USAID assistance – to help reduce lenders' risk and loan losses over time. USAID supported the formation of the Mongolia Mortgage Corporation to reduce lending risks and increase the ability of banks to provide affordable long-term loans to businesses and homebuyers. Another institution developed with USAID assistance in FY 2009, the Mongolia Corporate Governance Development Center, promotes good corporate governance among Mongolian companies, which is fundamental to developing a base of transparent, well-managed companies providing financial services.

### **Energy Sector**

The energy sector is unusually important for Mongolia because of the extreme climatic conditions that prevail. Energy demand is growing rapidly with the expansion of the mining and construction sectors, particularly in urban areas such as Ulaanbaatar. To meet increasing demand and to reverse the long-standing degradation of its current generation, transmission, and distribution facilities, Mongolia must attract substantial private investment. The consequences of not upgrading the sector include both near-term and long-term dampening of economic growth, increased potential for power and heat failures, and continued degradation of air quality and associated health concerns.

In FY 2009, USAID continued to be a key supporter of Mongolia's Energy Regulatory Authority, now widely considered the best and most independent regulator in Central Asia. USAID remained an important member of the Energy Working Group, the main body responsible for national-level coordination of energy policy. FY 2009 saw successes in energy pricing reforms that USAID helped to initiate. These reforms should reduce the growth in energy demand, improve economic incentives for energy efficiency, improve technical and operational efficiency, and increase market incentives for investment in the energy sector using clean energy technologies. In a similar vein, USAID funded an effort to restructure the electricity market that the Mongolian authorities and private sector energy companies began implementing in FY 2009.