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**Investing in  
Human Capital:**

**Mongolia's  
Transition to a  
Market Economy**

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## **EXECUTIVE SUMMARY**

Mongolia is at a critical juncture in its economic development. After three centuries of feudalism under the Chinese followed by seven decades of a command economic structure, Mongolia has decided to vigorously pursue market capitalism. Mongolia faces both challenges and opportunities as it transforms its economy from one that is centrally planned to one that is market oriented.

Mongolia has embarked on the most ambitious attempt at political and economic reform of any of the former communist countries. Unlike some other nations struggling to make the same transition, Mongolia appears to have discarded the debate between reformers and the old guard about whether to change. Rather, the debate is about how fast to change. The country has demonstrated the determination to discard the centrally planned economic system and create an environment for the market economic system; however, reforms are being introduced according to political dictates and at a rate that far exceeds the absorptive capacity of an economy lacking even the most basic market institutions.

Mongolia should capitalize on its strong base of human capital and vast natural resources, and concentrate on production in its areas of comparative advantage — animal husbandry and agroprocessing industries. The Mongolians are acutely aware that if they are to succeed in transforming their economic system and become part of the global economy, they will require knowledge, information, and skilled and experienced managers. The significant and widely recognized need for the development of managers and modern technical personnel represents an important opportunity for U.S. assistance to Mongolia.

To facilitate the economic transition, the U.S. government intends to provide assistance to the Mongolian government as it adopts democratic values, liberalizes its domestic markets, privatizes its state-owned enterprises, and creates an operating environment conducive to promoting the private sector. The principal goal of A.I.D. assistance to Mongolia is to support economic reforms that will spur the adoption of market-oriented policies and encourage the growth of a dynamic private sector.

## **CONCLUSIONS**

The management training needs of Mongolian enterprises fall into three categories: entrepreneurs and small businesses, state-owned enterprises, and the financial sector.

Most private enterprise in Mongolia falls under the category of small business. Entrepreneurs and small business owners primarily need information support, assistance with contacts, networking, and representation as a group in legislative and other policy arenas. They seek training in practical, immediately useful skills. Their primary interests are how to find capital, partners, and markets for their products and how to keep up with the changing financial and legal regulatory environment.

Most of the companies in Mongolia are state-owned enterprises. The government proposes to privatize more than half of them. As Mongolia's economy shifts away from a command economy the need is urgent to train the top managers in the workings and demands of the market economy and equip young managers with needed skills to operate in the market economy. Managers in the state-owned enterprises need management training in financial management, business planning, marketing, human resource management, and production control. There is also a critical need for information. Few state-owned enterprises have adequate information on the business, legal, institutional, and economic environment outside of Mongolia.

The management training needs of the financial sector reflect the economic transition combined with the deregulation of the banking system. Training needs of the banking system include both practical training and management skills. Practical training needs include financial accounting, credit analysis, teller operations, risk management, asset valuation, foreign exchange transactions, trade financing, back office operations, securities training for capital market transactions, deposit management, branch banking, computer training to develop management information systems, developing new banking products, and how to market bank services. In addition to banking skills, there is demand for management skills such as management organization in developing a branch banking network and personnel training for branch managers.

The fledgling capital market sector requires primarily practical training in the operation and regulation of a stock exchange. Similar to banks, training needs include financial accounting and real estate and corporate asset valuation. Brokerage houses require training in retail services and in back office operations.

An analysis of the needs of these target categories is presented in Section Two of the document.

## **RECOMMENDATIONS**

In view of the limited resources available for training and institutional support, a catalytic approach to assistance is recommended. The types of assistance provided should have a multiplier effect, either by leveraging other funding sources or by building specific capacities in institutions that are well placed to make a key contribution to management training and management performance in Mongolia.

At the same time, support to institutions should be defined in terms of time and expectations so that clear outputs, mutually understood, derive from each assistance package. Undefined core support to institutions should be avoided. Instead, outputs that can be achieved through existing structures within specified time horizons should be identified. The type of support should be tailored to these limited, but clearly delineated, objectives.

Mongolia is at a crucial juncture economically and emphasis should be given, though not exclusively, to activities with the potential for rapid impact that can stimulate the emergence of a functioning private sector. Within this context, however, stress should be placed on beneficial impacts that can continue to be sustained in the absence of continued foreign assistance.

Due to the weak and incipient training infrastructure in Mongolia for both formal and executive training, foreign assistance should focus on retooling and strengthening the teaching quality of local institutions. Such an approach will be more efficient and cost effective than providing direct training to Mongolian managers. In addition, to ensure sustained services to the private sector, assistance should concentrate on building institutional capability of private sector support organizations.

U.S. assistance should continue to be coordinated with that of other donors. In addition, where feasible, assistance packages should use ongoing U.S. assistance projects or programs to leverage resources and minimize start-up time.

Recommendations for A.I.D. assistance for management training in Mongolia are summarized below for the three institutional categories: training institutions, private sector support organizations, and the banking and finance sector. To maximize the resources of the A.I.D. assistance to have the widest possible impact, it is recommended that A.I.D. assistance be applied to institution building for training institutions and private sector support organizations. The banking and financial sector is singled out from other sectors of the economy for direct assistance due to its special technical needs. Recommendations for each of these institutional categories are grouped by four types of assistance — scholarship assistance, technical assistance, commodities, and language training. These recommendations are presented in greater detail in Section Four of the document.

## **Training Institutions**

### **1. Scholarship Assistance**

- Establish two types of scholarship programs. A short-term nondegree program to provide training for midlevel and senior instructors who are currently teaching business courses and a long-term degree program to develop instructors in fields currently not taught in Mongolia.
- Arrange internships for the instructors participating in the scholarship programs that will augment the theoretical educational experience with practical experience in a market economy.

## **2. Technical Assistance**

- Provide technical assistance to train Mongolian managers and instructors until the scholarship instructors can return to Mongolia and begin courses.
- Review and evaluate the curriculum of the major training institutions to determine the types of courses and commodities best suited for each institution.
- Design short programs tailored to the needs of entrepreneurs and small businesses as well as the needs of state-owned enterprises undergoing privatization.
- Develop business consulting support services.
- Upgrade libraries and language laboratories.

## **3. Commodities**

- Provide a one-time input of audiovisual, office, and computer equipment.
- Provide books and reference material.

## **4. English Language Training**

- Provide language training in English to support overseas training of faculty.

## **Private Sector Support Organizations**

### **1. Scholarship Assistance**

- Provide internships, tailored to specific needs, for senior officers of private sector support organizations and professional and industry associations.

### **2. Technical Assistance**

- Establish and develop private sector support organizations and associations.
- Develop an information clearinghouse between private sector and training institutions.
- Establish business libraries/data banks and an information center for small businesses.
- Establish business incubators.
- Conduct study tours for selected industries.

**3. Commodities**

- Provide computer hardware and software, office equipment, and training materials support to selected private sector support organizations.

**4. English Language Training**

- Provide English language training to support opportunities for overseas training.

**Banking and Finance Sector**

**1. Scholarship Assistance**

- Provide short-term training for central bankers.
- Establish training and internships for commercial bankers.

**2. Technical Assistance**

- Develop procedures and operations for banking activities.
- Provide assistance in restructuring and privatization of the commercial banks.
- Establish a bankers' association.

**3. Commodities**

- Provide computer hardware and software and office equipment for the bankers association.

**4. English Language Training**

- Provide language training in business English to support overseas training as well as to support managers with international roles.

## **INTRODUCTION**

### **U.S. ASSISTANCE TO MONGOLIA**

Mongolia is at a critical juncture in its economic development. After three centuries of feudalism under the Chinese followed by seven decades of a command economic structure, Mongolia has decided to vigorously pursue market capitalism. Mongolia faces both challenges and opportunities during the transition from a centrally planned economy to a market-oriented economy.

To facilitate this transition, the U.S. government intends to provide assistance to the Mongolian government as it adopts democratic values, liberalizes its domestic markets, privatizes its state-owned enterprises, and creates an operating environment conducive to promoting the private sector.

The principal goal of A.I.D. assistance to Mongolia is to support economic reforms that will spur the adoption of market-oriented policies and encourage the growth of a dynamic private sector. Economic assistance to Mongolia will focus on food aid; development of human resources for a free market economy through training in management, banking, economics, and privatization; and discrete interventions in environment and health. The U.S. government's policy towards Mongolia is to coordinate its assistance with that of other donors, particularly the multilateral agencies.

In FY 1991, U.S. assistance included emergency support for food, medicine, spare parts, and machinery through the winter; technical assistance for institutional reform; educational scholarships; and English language and computer training.

To target and design a multiyear assistance program for maximum impact, A.I.D. commissioned a study of the management training needs in Mongolia.

### **PURPOSE OF THE STUDY**

This report presents the findings and recommendations of the management training needs assessment conducted in Mongolia in August and September 1991. The objectives of the assignment were:

- To examine human resource constraints on the development and sustained growth of a market economy;
- To assess the capacity of in-country training resources to deal with identified constraints; and

- **To recommend a multiyear strategy that will address training needs as the country makes the transition to a market-oriented economic system.**

**The study was conducted in three phases. The first phase involved a review of relevant documents to provide an understanding of the following critical factors: background to the Mongolian economic transformation, characteristics of the Mongolian private sector, and descriptions of the key subsectors and institutions in the public and private sectors that play critical roles in the development of a market economy.**

**In the second phase, a two-person team spent three weeks in Mongolia interviewing enterprise managers and entrepreneurs, as well as leaders of training institutions and private sector support organizations, to establish the foundation for the assessment. The team also met with government officials and members of the donor community to discuss related issues. The third phase consisted of analyzing the findings, making recommendations, and preparing this report.**

**A more detailed description of the report methodology is provided in Annex II of this report.**

## **SECTION ONE**

### **BACKGROUND: ECONOMIC AND POLITICAL LIBERALIZATION IN MONGOLIA**

**Mongolia, unlike most reforming socialist countries, is undertaking two radical changes simultaneously: the introduction of a pluralized democratic system and the adoption of a market-oriented economic system. For a country lacking recent capitalist traditions or experience with free markets, Mongolia has tackled the reform process with zeal. It is moving toward a market economy faster than any of the other former Soviet Bloc countries.**

#### **PAST LIBERALIZATION IN MONGOLIA**

**Mongolia has long been an isolated country. For 70 years it was heavily reliant on the Soviet Union (Mongolia was often referred to as the sixteenth republic of the Soviet Union): Soviet technical and financial assistance helped build an industrial base, and production, transportation, and communication systems became increasingly integrated with the Soviet Union. Mongolia supplied the Soviet Union with raw materials such as minerals and animal products and in return the Soviet Union provided Mongolia with consumer goods, energy, and equipment. The balance of payments always favored the Soviet Union because Soviet goods had higher valued-added content. The Soviet Union subsidized Mongolia's budget deficits, which only increased Mongolia's dependence.**

**During the 1970s and early 1980s, the increases in domestic subsidies and capital investment resulted in growing budget deficits that were entirely financed through external sources. Mongolia's trade deficit also continued to widen. The most significant economic event during this period was that the Soviet Union's subsidization of the budget deficit changed from grants to loans (though at concessional rates) and Mongolia quickly accumulated large external debts.**

**In the late 1980s, Mongolia implemented a new strategy of economic restructuring similar to the Soviet policy of perestroika. Under this strategy the role of state planning was limited to setting overall investment policy while the ministries and state committees were responsible for its implementation. State enterprises were granted significant autonomy in the areas of wages, personnel, production, profits, and investments. This new authority was often not exercised due to the lack of knowledge and experience of managers.**

**Although most of the measures continued to aim principally at improving the efficiency of the command economy, small steps were taken to move the economy towards the private sector. Farmers were allowed to market freely any production in excess of quotas. Private sector activity was first permitted through the establishment of cooperatives.**

The year 1990 was a watershed year for Mongolia both politically and economically. The country changed its system of government, forsaking communism for democracy. The country's first multiparty election were held in mid-1990, and the newly formed government included members of all parties in key positions. The fundamental political transition of 1990 along with clear indications from the Soviet Union that it was unwilling to serve as the financial prop for Mongolia's economy produced an unambiguous commitment by the government to move to a market economy. The reformist government under the leadership of P. Orchirbat embarked on a comprehensive program to transform the economy into a market-oriented system over three years. The program aimed to expand the role of the private sector, diversify the economic base, and promote exports with hard currency countries. As a first step, the government eliminated all restrictions on private ownership of livestock herds. Farm and retail prices were raised and subsidies were eliminated on imported goods as well as subsidies to selected state enterprises.

Since adopting market capitalism, a flurry of legislative activity has attempted to create the environment for the private sector in record time. In the past nine months the government has ended price controls on agricultural and consumer products, and enacted revised banking, tax, corporate, and petroleum industry laws. New legislation has been established for privatization and a bankruptcy code. Accounting and auditing guidelines are under preparation.

Unlike some other nations struggling to make the same transition, Mongolia appears to have discarded the debate between reformers and the old guard about whether to change. Rather, the debate is about how fast to change. The enthusiasm with which Mongolia has embraced market capitalism is unquestioned; however, reforms are being introduced according to political dictates and at a rate that far exceeds the absorptive capacity of an economy lacking even the most basic market institutions. For example, privatization is proceeding although there are no accounting guidelines and no way to value assets properly.

## **OUTLOOK FOR CONTINUED DEVELOPMENT OF A MARKET ECONOMY**

Changes aimed at liberalization, deregulation, and decentralization have also wrought potentially destabilizing inflation, balance of payments deficits, and rising unemployment.

Mongolia's immediate concern is to get through the coming winter and avoid further deterioration of the economy. In the first eight months of 1991, both food production and industrial production dropped by 10 percent compared with the same period of 1990. Foreign trade, which was hard hit this year by the change to convertible trade with the Soviet Union, plummeted by 54 percent. Shortages of everything from fuel and electricity to food and consumer goods are acute. Food and fuel are being rationed. The lack of hard currency to purchase spare parts and raw materials has forced state factories to close down part of their production lines and some factories have shut down completely. Industrial production has fallen significantly due to power outages caused by the rapid deterioration of Soviet Union-built electric power plants. Unemployment has doubled to 12 percent since 1990. Inflation is running at around 200 percent per year. Foreign exchange reserves, estimated at a modest \$120 million

a year ago, have plunged as the government has purchased food and consumer goods in an effort to cushion the populace from a decrease in the standard of living.

Concerns about unemployment, industrial dislocation, and a lower standard of living, if restructuring is vigorously pursued, will create pressure to slow the economic reforms. Addressing these problems in an environment of rising expectations for a better life represents a major challenge for the fledgling democratic system.

Mongolia is currently facing a severe balance of payments deficit. Unofficial figures provided by the government place the deficit at 15 percent and it is expected to grow over time. The deficit is due to three main factors:

- Mongolia's principal export markets have disappeared overnight. Mongolia traded almost exclusively with other members of the Council for Mutual Economic Assistance (CMEA). The Soviet Union and the former socialist countries of Eastern Europe accounted for over 90 percent of Mongolia's foreign trade, but now have economic difficulties of their own in transforming their economies;
- Imports, which were previously based on a barter system with the CMEA countries, now have to be made at world market prices and in hard currency; and
- The Soviet Union is no longer subsidizing Mongolia's deficits.

In addition to the deficit, other complications affect the economic outlook. The lack of a modern infrastructure, especially communications and transportation, is a vestige of Mongolia's isolation that makes it difficult to conduct business by Western standards. Virtual collapse of the former Soviet Union distribution system has continued to impede imports and has contributed to difficulties with exports. Disruptions to foreign trade have reduced the availability of spare parts and hampered industrial production. Capital and credit are in short supply, particularly foreign currency.

Mongolia has embarked on the most ambitious attempt at political and economic reform of any of the former communist countries. The country has demonstrated the determination to discard the centrally planned economic system and create the environment necessary for the market economic system. Its willingness to make the necessary adjustments to a market economy will require patience, discipline, and austerity. Mongolia must make use of its strong base of human capital and vast natural resources, and concentrate on production in its areas of comparative advantage — animal husbandry and agroprocessing industries.

The Mongolians are acutely aware that if they are to succeed in transforming their economic system and become part of the global economy, Mongolia will require knowledge, information, and skilled and experienced managers. The significant and widely recognized need for the development of managers and modern technical personnel represents an important opportunity for U.S. assistance to Mongolia.

## **SECTION TWO**

### **THE PRIVATE SECTOR ENVIRONMENT**

This section examines management training needs of Mongolian enterprises, with particular reference to the private sector. The first part of the section describes the private sector, including constraints to its development. The second part of the section focuses on selected target groups for management and technical training assistance and their particular training needs.

#### **DESCRIPTION OF THE PRIVATE SECTOR**

Until July 1990, the private sector was banned in Mongolia. With the adoption of a market-oriented economic system, the private sector has been openly accepted and encouraged. A quasi private sector emerged in 1988 with the introduction of private cooperative ventures that began to operate in the service and trade sectors.

The number of private firms and cooperatives is difficult to estimate with accuracy. Although over 3,000 cooperatives (loosely defined as a group of owners/operators) have been registered, only 2,000 are reportedly operational. It is estimated that there are around 2,000 private companies (generally companies with one owner) operating in Mongolia. The fledgling private sector provides only 2-3 percent of Mongolia's GNP. The private sector employs 17,000-30,000 people. Most of the cooperatives and private firms are in the services sector, which is made up of retail shops, beauty shops, tailor shops, and cafeterias.

The Mongolian government realizes that the private sector is a key element for economic recovery and has lifted many legal restrictions on private enterprise. Several laws have been promulgated during the past six months that have shifted the country toward the market-oriented economy. The Law on Corporate Association, for example, went into effect in March 1991 and allows all enterprises to participate in free market practices (such as setting prices, marketing goods, making investments, hiring and firing) and to conduct foreign trade.

The passage of these laws resulted in a rapid increase in the number of private enterprises. Smaller companies are being formed, either from scratch or from privatization of state-owned small companies that have been auctioned off since July 1991.

These laws along with incentives and a more liberal political climate have encouraged a limited number of foreign joint ventures from China, Hong Kong, Japan, South Korea, Singapore, and Canada.

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## **Constraints to Private Sector Development**

Although the government has lifted many legal restrictions on private enterprise and recognizes that the private sector is a fundamental ingredient for economic recovery, privatization efforts and companies operating in the private sector face many obstacles. The most significant of these are listed below.

- **Lack of capital and credit constraints:** Capital and credit are major needs, including access to domestic sources of funds and, particularly, to hard currency. State-owned enterprises (SOEs) have more readily available access to commercial loans and hard currency for imports of Western capital goods than do private companies. Some commercial banks are not making credit available to the private sector because of a lack of understanding of the private sector.
- **Lack of accounting standards:** Accounting standards have not been established in Mongolia. There is no mechanism for valuing enterprise assets to create shares. The lack of a Western financial accounting system combined with arbitrary and artificial values attached to inventories and obsolete equipment make it difficult to determine the value of a business.
- **Inadequate transportation network:** Mongolia has a poor transportation infrastructure that creates problems transporting raw materials and finished goods both internally and externally. Transportation links to the country are through Soviet and Chinese territory. Mongolia lacks its own outlet to the sea. The most accessible seaport for Mongolia is the Chinese port of Tianjin (1,000 kilometers from the border). Rail transport is hampered by the fact that the railway gauge for Mongolian railroads is the same as the Soviet Union, which is wider than that of China and therefore incompatible. This limitation plus the lack of cargo containers and lack of "roll-on, roll-off" facilities means that cargo between Mongolia and China must be unloaded and reloaded at the border. Mongolia has 42,000 kilometers of roads, of which only 1,500 kilometers are paved. Outside of Ulan Bator, there are few paved roads. Furthermore, with only 27,000 trucks, there are a limited number of vehicles for transportation. Air transport, although fairly reliable, is expensive, suffers from aging equipment, and provides a limited number of flights.
- **Outmoded technology and equipment:** Many of the state-owned companies are operating with outmoded technology. Although the equipment may be 10-15 years old, the technology that the old equipment is based on is likely to be 20-30 years old. In many factories, 70-80 percent of the equipment needs to be replaced or renovated.
- **Inadequate business infrastructure:** The premises for factories and stores are insufficient. Spare parts are in short supply or not available. Mongolia lacks an efficient telephone service. Virtually all communication with the outside world goes through Moscow and is limited to telephone and telex. There are no fully operational fax machines in the country. Electrical power supply is unreliable. In

general, water is abundant in the north of Mongolia but lacking in the southern part of the country. In addition, Mongolia does not have an adequate number of skilled accountants, lawyers, and bankers to support the private sector.

- **Uncertain economic climate:** Continual changes in legal and financial regulations create an environment in which it is difficult for businesses to operate or plan for the future. Laws are often too general. Administrative directives are issued to "clarify" the law but these are confusing and in some cases appear to contradict the law itself.
- **Attitudes:** After 70 years of rhetoric on the evils of private enterprise, a general suspicion of private entrepreneurs lingers in Mongolia. Positive reinforcement is needed for future entrepreneurs. In addition, a poor attitude has developed in the workplace under the command economy. The emphasis has been on producing given quantities of goods with little attention to quality, leading to a lack of a market-oriented work ethic.
- **Legal system:** The commercial legal system in Mongolia is still developing and lacks a reliable mechanism for enforcing contracts and resolving disputes. There is no familiarity with how to form private sector companies (partnerships, limited liability companies, corporations) or how to deal with bankruptcy and company insolvency.
- **Lack of managerial skills:** Having operated under a command economy for 70 years, there is a lack of knowledge of the market economic system. The private sector lacks management, financial, and organizational skills.
- **Lack of marketing ability and mechanics:** Marketing is a big void in firms. Under the command economy the marketing function was separated from production. SOEs produced goods and a state distributing company or import-export company handled the marketing. As a result, enterprises had no opportunity to develop marketing as a business skill. The lack of marketing ability includes lack of know-how about pricing, information, strategy, advertising, distribution, and quality of goods.
 

Recently, the Mongolian government allowed all firms to do their own marketing. Two problems have arisen. First, to engage in foreign marketing, firms must have a license. Many companies have experienced lengthy delays in obtaining a license. Second, for either domestic or foreign marketing, Mongolian firms lack basic marketing information such as costs of goods, pricing, or transportation. There is a lack of market research knowledge.
- **Lack of information:** Mongolian owners and managers lack sufficient information on the changes in the laws and legal regulations as well as a corresponding understanding of how the laws and regulations will affect their business. There is no adequate forum or method to disseminate publicly the changes in the financial and legal system.

## **SELECTED TARGET GROUPS FOR ASSISTANCE**

In our assessment of management training needs in Mongolia we contacted 43 companies, banks, business associations, and private sector support organizations and 9 Mongolian government ministries and agencies. A broad cross section of companies was approached in the agribusiness, financial, industrial, commercial, and service sectors including mining, tourism, food processing, consumer products, construction, and light manufacturing. The types of companies visited included private entrepreneurs in small businesses, cooperatives, large state-owned companies, foreign joint-ventures, and a newly privatized company.

In determining which companies would be key to Mongolia's transition, we were guided by our concern with expanding the private sector, employment creation, and generation of foreign exchange. We focused our analysis on three segments of the economy that cut across several sectors — entrepreneurs and small businesses, SOEs, and banking and finance.

The private sector currently consists of fledgling small businesses and entrepreneurs, most of which have commenced operations during 1991. The private sector is expected to be the driving force in generating employment opportunities. SOEs were examined because they currently constitute over 95 percent of the business sector and the government of Mongolia proposes to privatize several of them over the coming months. To address the need for foreign exchange generation we looked at export-generating companies including mineral extraction, agroprocessing, as well as tourism. Companies involved or planning to be involved in exporting cut across both small businesses and SOEs. The banking and financial sector was surveyed because this sector is the foundation of a free market economy and provides credit for the private sector to operate.

Management training needs of Mongolian firms were examined for three target groups:

- **Entrepreneurs and small businesses;**
- **State-owned enterprises; and**
- **The financial sector.**

### **Entrepreneurs and Small Businesses**

Most private enterprise in Mongolia comes under the category of small businesses. Small businesses tend to be owned and operated by someone with an entrepreneurial spirit. In most cases the companies in this sector employ less than 20 workers. They generally operate in the sectors of light industry (processing of animal products, garments, electronic assembly) and service (retail shops, restaurants, dry cleaning, beauty salons, tailoring). The businesses can be characterized as low-capital-intensive activities. The major constraints faced by this category include lack of premises in which to operate, lack of credit, and lack of information.

## **Training Needs for Entrepreneurs and Small Business**

The primary interests of this group are how to find capital, partners, and markets for their products and how to keep up with the changing financial and legal regulatory environment. Although the need for training was cited in such areas as finance and accounting, marketing, business planning, management policy, and how to negotiate contracts, the owners of small businesses were more concerned with the day-to-day operation of their businesses and with basic information. Entrepreneurs consistently stressed that management support must be practical with immediate application and should address specific problems rather than generic issues. On-site training was indicated as a possible approach, with evening courses as an alternative to minimize the time away from running the business.

An overriding concern of entrepreneurs was the need for information and contacts. These needs included information on:

- Mongolian legal and financial guidelines and regulations and how these affect their business;
- The Mongolian market (export and import procedures, transportation costs, prices);
- Foreign markets (customs regulations, prices, tariffs, transportation costs, dispute settlement);
- How to establish contacts with foreigners and access foreign markets, technology, and capital;
- How to negotiate joint-venture or licensing contracts; and
- Where and how to obtain credit.

In summary, entrepreneurs and small business owners primarily need information support, assistance with contacts, networking, and representation as a group in legislative and other policy arenas. They seek training in practical, immediately useful skills.

## **State-Owned Enterprises**

Most of the companies in Mongolia fall into this category. The government proposes an ambitious program to privatize over half of the SOEs. The constraints faced by SOEs include lack of qualified managers, old technology and inefficient equipment, lack of business skills, and a poor work ethic. This segment also shows the most promise for generating exports. Some of the SOEs will become part of the private sector, whether by sale through an auction process (for small- and medium-sized companies) or sale of shares (for large enterprises) and the rest will remain owned in whole or in part by the government. All these firms have management training needs.

For 70 years, the Mongolian economy was oriented toward a centrally planned system of quotas, large production units, artificial prices, and widespread subsidies. As Mongolia's economy shifts away from a command economy, the top managers urgently need training in the workings and demands of the market economy and young managers need skills to operate in the market economy.

One business area in which SOEs were found to have rudimentary skills was accounting. Most of the accountants in companies are essentially bookkeepers, but many of the SOEs were familiar with basic cost accounting concepts such as fixed and variable costs, direct and indirect costs, and how to allocate costs to determine the total cost of a manufactured product.

Foreign joint ventures have a built-in advantage in being able to provide management training internships abroad to employees as well as provide temporary visiting managers for on-the-job training in Mongolia. Mongolian companies without a foreign joint venture partner need a clearinghouse to arrange similar opportunities abroad for their employees.

### **Training Needs for State-Owned Enterprises**

The major management training needs for SOEs are listed below.

- **Marketing:** Basic marketing concepts are absent including quality, distribution, pricing, market segments, and strategy. SOEs, regardless of size, lack knowledge on how to price their products. Furthermore, most companies operate in a closed domestic market where they enjoy dominant positions. Exports, which were limited to the Soviet Union, Eastern Europe, and China and were the result of government agreements, did not require marketing and were channeled through government import-export organizations.
- **Strategic and business planning:** Under the command economy, government authorities imposed planning. Since planning was not part of the company responsibility, there is little understanding of the difference between strategic planning and operational plans. There is little comprehension about contingency planning. Companies do not know how to develop a business plan and to gain access to capital.
- **Financial management:** Many companies have no financial planning process or capital budgeting procedures. Long-term budgeting and forecasting are unknown. There is no capacity to assess investment options for cash surpluses. Companies lack the knowledge of using accounting information as a management tool for decision-making purposes.
- **Organization of a firm:** SOE managers are engineers and economists whose main method of motivation was to exceed production quotas. They lack an understanding of how to structure the organization of the firm in a rational way that creates

motivated managers out of engineers and that allows for the delegation of management responsibility, accountability, and authority.

- **Information sources:** Few SOEs have adequate information on the business, legal, institutional, and economic environment outside of Mongolia. The need for information includes how to access foreign markets, technology, and capital, as well as information on regulations, prices, and demands of Western markets.
- **Production process management:** Although the SOEs generally have a high degree of engineering and technical knowledge, research and development skills are lacking. Under the command economy the production functions had no contact with the marketing function, raw material supply, or overall planning. Management organizational skills are needed within the SOE in managing the process of production from idea generation through research, development, engineering, production, and sales. This grouping also includes needed skills for quality assurance of production and raw material and finished goods inventory control.
- **Human resource management:** Major SOEs have no career planning or unified management training plan for different categories of management. This problem is an outgrowth of the time when the path to senior management depended on politics. Also in this grouping is the need for incentives, performance appraisal, labor administration, and skills for negotiation and conflict management.
- **Language training:** Language training is needed to support overseas training and to support managers with international marketing and financial roles.

## **Finance Sector**

This category includes the fledgling commercial banking system and the nascent stock market.

### **Banking System**

The banking system was decentralized in May 1991 with the enactment of the Banking Law. Until this time, Mongolia had one bank, the State Bank of Mongolia, which performed both central bank and commercial banking functions. The banking structure is now a two-tier system with a central bank and commercial banks. Under the banking law the State Bank of Mongolia was split into three parts. The central banking functions were consolidated under the Mongol Bank and two former departments of the State Bank of Mongolia were spun off into separately capitalized state-owned commercial banks: State Bank of Mongolia - International and the Investment and Technological Innovation Bank. In addition, the branches of the State Bank of Mongolia were transferred to the commercial banks with the Mongol Agricultural Cooperative Bank getting the majority of the branches.

The Mongol Bank, which began operations on June 1, 1991, is the central bank of Mongolia and as such focuses on monetary and fiscal policy issues as well as monitors and supervises the commercial banks.

There are eight commercial banks in Mongolia. They are as follows:

- **State Bank of Mongolia** does all the foreign trade financing for Mongolia and controls the foreign exchange operations. In addition, the State Bank acts as an agent for the Mongol Bank to manage and safeguard the foreign exchange reserves of Mongolia.
- **Investment and Technological Innovation Bank** finances capital construction projects.

The other six commercial banks are joint-stock companies, but the majority of the shareholders are state-owned enterprises.

- **Mongolian Cooperative Bank** has three branches and primarily finances light manufacturing and service cooperative ventures.
- **Mongol Dzatgal (Insurance) Bank** with 15 branches has a diversified loan portfolio, financing a broad cross section of businesses.
- **Mongol Bank for Transportation** finances road and bridge construction.
- **Mongol Agricultural Cooperative Bank** has the largest branch network in the country with 350 branches and primarily finances agricultural cooperatives.
- **People's Bank of Mongolia** was formed from the savings banks in Ulan Bator and handles most of the government accounts.
- **Mongol Industrial Bank** provides banking services to the industrial sector. Like the Mongol Bank for Transportation, it is a sector specific financial institution.

All of the commercial banks engage in rudimentary domestic commercial banking operations, which consist of mainly taking deposits and making loans. None of the banks provides checking account service. Commercial banks also have been allowed to engage in brokerage activities for security transactions.

Although Mongolia permits foreign banks to establish joint-venture or wholly owned operations in the banking sector, currently there are no foreign joint-venture banks in Mongolia.

## **Constraints Facing the Banking System**

The major constraint facing the banking sector in Mongolia is the lack of banking expertise. Under the command economy, the commercial bank function of the State Bank mainly consisted of being a conduit of funds for projects approved by government ministries (often based more on social or development aspects than credit considerations) and handling foreign currency transfers. Hence no system of traditional, formal financial analysis of credit applications has been developed to evaluate projects or calculate loan repayments based on cash flow projections. The banks lack the basic banking skills of credit analysis and have not developed proper credit policies and procedures including loan monitoring techniques and workout procedures. None of the six new commercial banks create loan loss reserves as provisions for bad debts. In addition, the banks are unfamiliar with how to market bank services, how to develop new products, and what teller services are. There is no concept of auditing in Mongolia. Deregulation of the banking sector has led to a need for knowledge about credit risk management, corporate and retail banking products, foreign exchange transactions, and security transactions.

A principal problem facing the State Bank, the Investment and Technological Innovation Bank, and the Mongol Agricultural Cooperative Bank is that a substantial portion of their loan portfolio consists of nonperforming loans of state-owned companies.

Another problem of the commercial banks is a lack of funds to meet loan demand. In some cases commercial banks have ceased lending operations due to lack of funds. Savings mobilization is low because of low deposit interest rates that are significantly below the inflation level, currently around 200 percent per year.

A significant shortage of computer hardware prevails throughout the banking sector. The computers operate only as personal work stations and are not connected as part of a local area network. Furthermore computer skills are weak. The central bank estimates that about 30 percent of its personnel can use computers. Training is needed for spreadsheet analysis.

The commercial banks lack a large branch network. There are around 400 bank branches in Mongolia. Mongol Agricultural Cooperative Bank has 350 branches. The branches of the other commercial banks, all of which are committed to entering the retail market, range from none to 20 branches.

In addition to the problem of creating branch networks and establishing systems that allow integration with the head office, Mongolian bankers are uncertain of the legislative and economic framework to be developed. The Ministry of Finance is developing new accounting guidelines and audit regulations for companies as well as for banks. The new Banking Law that became effective in May 1991 does not provide controls on lending policies or guidelines for capital adequacy and liquidity ratios. There is no banking association that could provide services to its members such as representation, information, and training.

Most of the personnel of the commercial banks were previously employed by the commercial banking department of the central bank before the banking system was decentralized.

Their educational backgrounds ranged from training abroad in the Soviet Union or Eastern Europe in international relations or economics to training in Mongolia at the Mongolian State University or the Finance Technicum (renamed the Economic College). The Economic College introduced a bank training curriculum in September 1991. Mongolian State University also offers a banking course. The Mongolian banks have not developed in-bank training for their staff nor have they devoted attention to career development programs.

### **Stock Market**

In October 1991 Mongolia plans to open a stock exchange in Ulan Bator to assist in the privatization of large state enterprises. At first the only instruments to be introduced will be vouchers for the purchase of the SOEs. Later, the government plans to introduce treasury bills. The stock exchange will be a self-governing and self-managing institution, independent of the government. Each aimag (Mongolia is made up of 18 aimags or provinces) will have a brokerage operation.

The initial group of stockbrokers was selected from a training course that was open to everyone. Of the 300 individuals who participated in the course, two-thirds were women. The training consisted of two months of lectures by foreign advisors on the privatization process and financial and capital markets. In addition to the lectures, the trainees were introduced to simulation exercises. At the end of the lecture series, an exam was given to the trainees. The top 60 persons who passed the exam were granted a broker's license. These 60 people also were given advanced training to be managers. The remaining 240 will form the foundation for backroom operations for the brokerage firms and the stock exchange. Future trainees are expected to come from the Economic College and Mongol State University. The Economic College introduced a brokerage training curriculum in September 1991.

### **Training Needs for the Finance Sector**

The Mongolian banks reported management training needs that include both practical training and management skills. Practical training needs are financial accounting, credit analysis, bank services such as teller operations, risk management, asset valuation, foreign exchange transactions, trade financing, back office operations, securities training for capital market transactions, deposit management, branch banking, computer training to develop management information systems, developing new banking products, and how to market bank services. In addition to banking skills, there is demand for management skills such as management organization in developing a branch banking network and personnel training for branch managers. Language training was also emphasized as necessary for foreign exchange and trade finance departments, correspondent banking relationships, and overseas training.

The fledgling capital market sector primarily requires practical training in the operation and regulation of a stock exchange. Similar to banks, training needs include financial accounting and real estate and corporate asset valuation. Brokerage houses require training in retail services and in back office operations.

**Although donors such as the World Bank, International Monetary Fund, and the Asian Development Bank plan to provide training and advisors to the Central Bank and the capital market, these donors have not developed programs for the commercial banks.**

## **SECTION THREE**

### **OVERVIEW OF TRAINING INSTITUTIONS AND PRIVATE SECTOR SUPPORT ORGANIZATIONS**

**This section describes the major public and private sector training institutions that were examined as well as the existing private sector support organizations.**

#### **TRAINING INSTITUTIONS**

Although Mongolia is highly literate and places a strong emphasis on education, Western business training is very new. Existing educational institutions are in the process of altering curricula from the economics and production management of the command economy to the business administration of the free market economy. At this writing, there is virtually no track record to gauge either the effectiveness of what is presently offered or the potential of existing programs. To date, one private business school has been established.

When examining the training capacity of the institutions, one important caveat is their lack of virtually all the advanced analytical tools that are taken for granted in Western business institutions, such as decision theory, operations research, simulation, goal seeking, skills to analyze the operating environment such as macroeconomic analysis, and unstructured skills such as team building and conflict resolution. This unfamiliarity with analytical tools is understandable, however, given that the command economy simply did not lend itself to such analysis. These skills will have to be acquired and adapted as Mongolia moves through the development process, and will need to be taught to Mongolian businessmen and businesswomen. Some of the basic management tools and techniques are already available and are being taught, such as bookkeeping, records management, management accounting, some financial accounting, production management, and some personnel management. There is also a fair amount of on-the-job training at the technical and production levels.

No training institution has yet focussed on establishing a formal monitoring and evaluation system to assess the quality and appropriateness of their training. Informally, there is considerable information flow between firms and training establishments, especially SOEs, regarding the progress of student interns during their in-company training. This informal information flow has the potential to be developed into a formal evaluation system.

The financial sustainability of the training institutions is a key consideration before the decision to provide assistance is made. At present, tuition rates do not reflect the unsubsidized costs and overheads of training schools, and it is very much open to question whether rates will reflect these costs in the near term. A similar concern is raised with regard to whether private sector support organizations are sustainable on the basis of current member fees and charges for services. For the past 70 years, education in Mongolia has been free. Today, training institutions are charging token fees. Given the history of very deep subsidization of prices for

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products and services, coupled with today's annual inflation of over 200 percent, it is almost impossible to put a realistic market price on training. In the immediate term, it appears that education/training will continue to be substantially free. As the economy moves through the next five years of transition, however, financial sustainability, based on market prices for services, should become increasingly possible.

Eight training institutions and three business associations were identified as exhibiting the highest potential for playing an important role in future management training for private sector managers. The 11 institutions are classified into four categories:

- Institutions of higher education (4);
- Established Mongolian management training institutions (3);
- Small business training center (1); and
- Business associations (3).

These institutions provide virtually all of the formal degree, diploma, and postgraduate management training in Mongolia, as well as a substantial majority of the short courses or executive management training. Table 1 summarizes the institutions and associations described above in terms of the range of training programs offered.

Four institutes of higher education and one private business school are recommended as candidates for assistance: Economic College, College of Commerce and Business, Mongolian Technical University, Mongol State University, and Mongol Business School. These institutions exhibited the greatest dynamism and highest potential for success in training future business owners and managers. The Institute of Administration and Development Management (IAMD) was omitted from the selection because it has been and is currently a recipient of significant donor assistance. It is also considered the premiere management training institution in Mongolia. Mongolia's private sector, however, has much greater needs than any one institution can fill. Therefore, the assessment team sought out other institutions with potential to meet the variety of training requirements of a growing private sector.

### **Institutes of Higher Education**

Mongolia has two universities and two colleges that offer management programs. All of the institutions are located in Ulan Bator. Each school has recently undergone radical transformations in their course offerings. Both of the colleges changed their names and reorganized in the spring of 1991 to reflect the transition to a market-oriented economic system. This is the first year for the new business courses. The long-term degree courses in business began only in September 1991.

**TABLE 1**  
**MANAGEMENT TRAINING INSTITUTIONS IN MONGOLIA**

	<b>Formal Degree or Certificate Program</b>	<b>Short-Term or Executive Training</b>	<b>Information Seminars/ Workshops</b>	<b>In-Company Consulting</b>	<b>Company Internships</b>	<b>ELT</b>
<b>INSTITUTES OF HIGHER EDUCATION</b>						
Mongol State University (Economic Education and Research Institute)	●	● (1)		● (1)		
Mongolian Technical University	●				●	
Economic College	●	●			●	●
College of Commerce and Business	●	●			●	
<b>ESTABLISHED MONGOLIAN MANAGEMENT TRAINING INSTITUTIONS</b>						
Institute of Administration and Management Development (IAMD)	●	●	●	●	●	●
Mongul Business School	● (1)	●		●		
Academy of Social Science Research	●	●				
<b>OTHER</b>						
Training Center of Ministry of Labor		●	●			

(1) Planned Activity of Institution

The Ministry of Education supports these institutions financially. Tuition is free, whether full time, part time, or postgraduate. Entrance, based on qualifying examinations, is competitive. Those institutions that offer short courses in management charge a fee; in some cases these classes are deliberately offered to produce revenues.

The description of the four institutions presented below is divided into sections on organization; program scope, objectives and curricula; financing arrangements; university linkages; resources and needs; and future plans. In addition to the formal degree or certificate programs offered by all the schools, some institutions provide short-term or executive training, placement of students in companies for internships, and English language training (ELT). Further, one university has plans to offer consulting services to companies.

### **Economic College**

**Organization.** Formerly the Finance Technicum, which prepared accountants for Mongolia, the Economics College was reorganized in February 1991. The college inherited 300 students enrolled in the Finance Technicum. It has 37 faculty members and draws on other institutions and the business community for part-time lecturers.

**Program Scope, Objectives, and Curricula.** In the autumn of 1991, the college initiated one long-term and two short-term training programs. It will also open its own language laboratory for English Language Training.

A three-year, full-time course of business studies leading to a baccalaureate degree began on September 1, 1991. The second year of the course will include a three-week internship in a local business, while the third year will entail an eight-week internship. The curriculum includes four options: accountancy, taxes (for revenue agents), banking (for bank staff), and investments (stock brokerage).

Students are drawn from those candidates who have successfully completed secondary school and who have passed an entrance exam. For the new course of study, the College accepted 240 students out of some 900 applicants, 90 percent of whom were from Ulan Bator (10 percent from rural areas) and 60 percent of whom were women.

The College developed its own curriculum, using American and Japanese curricula as models. Each option has a common first year of study that covers general liberal arts topics, followed by a second year of basic business and economic topics as well as a few courses specific to the option chosen. The third year entails concentration in the option chosen. Although the curricula are comprehensive, the options appear to be laden with economics courses with little immediate relevance to the student's specialty and work (for example, "Organization of Monetary Supply" for accountants).

A series of one-month courses in accountancy to retrain some of Mongolia's 15,000 accountants began in October 1991. The college plans to retrain 60 accountants per month until July 1992, when it will evaluate this short-term program.

At the same time, a series of one-month special courses for tax collectors started. At the time of the assessment, the College was uncertain as to the number of tax collectors who would receive training in each session.

On September 1, 1991, a language laboratory for English Language Training was opened. The College has two British teachers (Volunteer Service Organization — one English language teacher and one teacher of international trade) and plans to have some English language teachers from IAMD assist at the College.

**Financing Arrangements.** The annual budget is TG7 million (about US\$175,000) which covers salaries and overhead. The cost of tuition of the baccalaureate program is TG10,000 (about \$250) per student.

**Linkages.** The College has established a link with Chung-An University of South Korea, under which an exchange of faculty will start in January 1992. The linkage also includes a total of 12 person-months of training of Mongolian professors, the provision of textbooks, and help with the language laboratory.

**Resources and Needs.** Following is a brief description of the College's resources, both human and physical, as well as resource needs which were observed and discussed:

**Resources:**

- 37 faculty members.
- Its own building with classrooms, library, language lab, dormitory facilities.
- 20 personal computers — IBM compatible "knock-offs" from Singapore and South Korea — with no hard drive and only able to accept 5 1/4 floppy disks; five printers, but a lack of ribbons and paper; most necessary software except for spreadsheet.
- A library of 14,000 volumes, of which only one book is in English; most are in Russian or Mongolian transliterated in Cyrillic script. The library has no dictionaries or any texts in English.

**Needs:**

- Training of faculty so that they acquire real knowledge and experience in the workings of the free enterprise system. Faculty should be increased from 37 to 60.
- Audio-visual equipment, Western business texts, and most educational materials: case studies, simulations, role playing materials, business journals, and newspapers. The library needs to be supplied with sufficient business textbooks and cases in English, as well as business publications and reference works so that the library is

an integral part of the combined business administration and English language training system the college will offer.

- Office equipment and supplies, for example, telex, photocopier and office supplies; a fax when fax lines become available.
- Upgrade of computers to accept 3.5" diskettes; spreadsheet software, computer ribbons, paper.

**Future Plans.** If the new three-year program is successful, the administration of the College wants to develop an MBA program. Looking out five years, the College would like to train chief executive officers from both the private and public sectors.

### **College of Commerce and Business**

**Organization.** Formerly the Trade Technicum, the College of Commerce and Business was reorganized in January 1991. The College has 70 teaching staff and uses 10-20 part-time personnel from other educational institutions. The College works under the aegis of the Ministry of Education, which finances its operation, and the Ministry of Trade and Industry.

**Program Scope, Objectives, and Curricula.** Until the reorganization, the College attracted graduates of secondary schools to a 3.5-year program in trade and commerce, at the end of which the student received a certificate. Currently, there are 700 students in this program, which offers internships in business in each year of study. The internships are 1.5 months in year one, two months in year two, and two internships of one month each in year three. Approximately 200 students enter this program each year.

The College also offers a one-year trade course in which there are 300 students, and a variety of short-term courses that 200 students attend.

In September 1991, the College changed the thrust of its program, instituting a new curriculum whose object is to offer an educational program somewhat akin to a B.B.A. with very modest concentrations in marketing and international trade and in bookkeeping. Examination of the curriculum highlighted the need to inculcate the basics of the market economy into the course content. In fairness, the College demonstrated the same degree of understanding of the requirements of a business education (free market economy) as do the other Mongolian educational/training institutions.

**Financing Arrangements.** The annual budget is TG12 million (about US\$300,000) paid for by the Ministry of Education. The Ministry of Trade and Industry recently helped finance the purchase of 10 computers. Tuition is free.

**Linkages.** To date, the college has no linkages with foreign universities; however, it will seek donor assistance beginning in the autumn of 1991.

**Resources and Needs.** Following is a brief description of the college's resources, both human and physical, as well as resource needs that were observed and discussed:

**Resources:**

- 70 full-time teaching staff; 10-20 part time staff; 10 English teachers (7 Mongolians, 1 Peace Corps Volunteer, and 2 non-Mongolian English speakers).
- Three buildings with 40 classrooms, and other rooms that could be used for a language laboratory and workshops; two apartment buildings are used as dormitories.
- 10 computers; limited amount of educational materials and limited library facilities.

**Needs:**

- Training of the professional staff in the basics of the operation of the free enterprise system and in the basic business functions of management, marketing, and financial management.
- Educational materials and audio-visual equipment described under the Economic College above.
- Educational materials necessary to furnish students with texts, publications, and materials; establishing a library as an integral part of a combined business administration and English language training system.
- Equipment for a language laboratory.

**Future Plans.** The College intends to expand the new curriculum into one that will permit it to offer a bachelor's degree in business administration.

### **Mongolian Technical University (MTU)**

**Organization.** Established in November 1969 as the Mongolian Polytechnic, it became Mongol Technical University in 1991 and separated from Mongol State University as a distinct entity. Today it has nine faculties with 47 specialties in the engineering sciences. The university has two branches in Ulan Bator as well as a branch in Darhan. There are 3,500 students in five-year courses of technical study.

**Program Scope, Objectives, and Curricula.** MTU's objective is to produce engineers and technicians over a broad range of the engineering sciences. Most graduates go on to work in industry. The principal areas in which courses of study are offered are construction, food

processing, geology/mining, light industry (principally process industries — wool, leather and textiles), wood processing (basic wood products), water supply, and energy.

Over the years, MTU has been in close touch with various industries through its internship programs. Recently, however, student internships have been severely cut back due to a lack of raw materials in many industries.

The University's administration recognizes its main curriculum problems as an overemphasis on theory, the inability to keep up with technological change, and a general lack of knowledge of how business operates in a free market context.

**Financing Arrangements.** MTU is financed by the government.

**Linkages.** MTU's linkages with other technical institutions are in the former Soviet Union and Eastern European countries. MTU is looking to establish linkages with institutions and companies in developed market economies in order to acquire research laboratories in technological areas, as well as in business management, business economics, and information management.

**Resources and Needs.** Following is a brief description of the university's resources, both human and physical, as well as resource needs which were observed and discussed:

**Resources:**

- A faculty of 400 full time professors.
- 240 classrooms and 60 laboratories, which were antiquated and not equipped to do modern applied research.
- 40 personal computers of which only four have hard disks.

**Needs:**

- Training of the faculty in the basics of the functioning of the free market system as well as in the advances in various technologies and how these are integrated into modern production operations.
- Modern, appropriate laboratory facilities. For example, in the food processing area they have no capacity for doing food engineering, new product development, packaging, labeling, and simple food technology such as how to keep noodles from breaking in the production process.
- English language training for both faculty and students.

**Future Plans.** The administration of MTU sees the university as the future technological information center for Mongolia, as well as its primary applied research center.

### **Mongol State University (Economic Education and Research Center)**

**Organization.** Mongol State University (MSU) was the first university in Mongolia, and has been the main source of management training for the country. MSU has educated 60 percent of the managers of SOEs as well as numerous lawyers, economists, and social scientists. Until end-1990, Mongol State University had faculties in economics and commercial economics. At the beginning of 1991, with the change from a planned economy to a market economy, MSU consolidated the two departments into the Economic Education and Research Center (EERC) and gave the new department a measure of autonomy. The department currently has 700 students and 60 teachers. It occasionally employs part-time lecturers from IAMD.

**Program Scope, Objectives, and Curricula.** Currently, the university offers five programs: natural science, economics, social science, languages, and a preparatory course for training abroad. The University offers a mixture of programs, ranging from a five-year baccalaureate and a three-year masters degree to short-term (1.5-3 month) evening classes. The previous curriculum in economics and commercial economics extended over five years. With the establishment of EERC, a transitional program was created of 4.5 years. This program shifts the educational focus from the economics of a planned economy to market economics and basic business functions.

Following several core courses, a student can specialize in management, banking and finance, statistics, or accounting. The teaching methodology used is the lecture format.

The department has established a business training center that will offer a 1.5 year full time training/retraining program to prepare middle and senior level managers for higher positions in their firms. This program was scheduled to begin in December 1991. The initial group of managers to be trained at the business center will number 30, with tuition paid by their firms. The center will have three or four full time faculty members as well as some part-time faculty members drawn from the business community. The EERC also plans to use the center for short-term business training.

**Financing Arrangements.** The department's annual budget is approximately TG2 million (about US\$50,000). Education is free for Mongolian students not affiliated with a firm (private or public sector). For those who are affiliated with firms, the firm pays TG90,000 (about \$2,250) for the full 5- or 4.5-year program.

**Linkages.** No specific linkages have been made, although the university has had visits from the universities of Washington, Indiana, and Montana. Individual lecturers have been sent to Japan, the United Kingdom, France, and South Korea for training in market economics.

**Resources and Needs.** The department has the following human and physical resources, as well as the following resource needs:

**Resources:**

- 60 full-time faculty; some part-time faculty.
- Sufficient classrooms; 20 computers and one VCR.
- MSU itself teaches foreign languages including English, Russian, and Chinese.
- The University has taken active steps to bring its staff up to speed in the fundamentals of the market economy and the English language. These steps include obtaining three Peace Corps Volunteers to teach English, and inviting a U.S. professor of marketing to lecture at the economic education and research center. Professors are taking English in the evenings so they can understand market economy educational materials. English language teachers are translating U.S. business texts into Mongolian.

**Needs:**

- Short-term training of the faculty on reorientation to the market economic system.
- Dormitory space for those managers who study full time at the business training center.
- Business educational materials and reference materials.

**Future Plans.** In the immediate future, the department is considering setting up a marketing laboratory and a macroeconomics lab. It also plans to offer consulting services to firms, and has begun to recruit faculty and outsiders to serve as consultants. The department feels that in four years it will be able to offer postgraduate studies in macroeconomics, statistics, marketing, and management.

**Established Mongolian Management Training Institutions**

Three training institutions fall into this category. We include all three in this overview, even though we recommend A.I.D. assistance to only one — the Mongol Business School. These institutions provide a mix of degree or certificate programs, short-term or executive management training, information seminars and workshops, consulting services to companies, placement of students in companies for internships, and English language training.

**Mongol Business School**

**Organization.** The first private business school in Mongolia, started one year ago, it has four professors and three programs, two of which are operative.

**Program Scope, Objectives, and Curricula.** The school intends to remain small, but offer high-quality, pertinent, and practical education. There will be three training activities, a long-term basic program and two short-term programs.

The principal program of the school will be a one-year program that covers the basic business functions with a fair amount of management study (management theory, organization of the firm, management psychology). This course of study will be introduced in 1992 for 20-25 students who already hold a university degree. The Business School has not yet decided whether it will formalize the postgraduate course of study as a degree program.

The second program, already operative, entails short-term training upon special request from businesses. The short term training has involved two-week sessions for state enterprises and private firms to introduce them to the basics of the market economy as well as to treat the question of privatization of SOEs. In collaboration with the Chamber of Commerce and Industry, the Business School conducted a short-term training session on marketing and foreign trade for the owners of private concerns. To date, the school has held five short-term sessions with 100 participants at each session. The school is using the short-term training to attract students for the longer basic program outlined above.

The third activity, already operative, is consulting for companies. To date, the school has completed two consulting assignments and has two more underway. The assignments run for one to two months and have covered leasing and the various ways to privatize a firm.

**Financing Arrangements.** The fees for the basic program have not yet been set and appropriate consulting rates are still being determined. The school charged TG500 (about \$12.50) per participant for the two-week training sessions. The school administrators have not been able to produce a realistic budget because a number of key cost elements are unclear, for example, what to pay part-time professors and the lack of permanent premises.

**Linkages.** None to date.

**Resources and Needs.** The school has the following human and physical resources, as well as resource needs:

**Resources:**

- Four professors and rented space for classrooms.

**Needs:**

- Educational materials; the faculty have none and are copying whatever materials they can obtain, and translating English and Russian materials into Mongolian.
- Equipment (educational and office) — audio-visual, one microcomputer, and software, printer, photocopier, office supplies.

- English language training for faculty and students.

**Future Plans.** The school plans to conduct 10 short-term training courses in 1992. The results of the basic program will be evaluated before making additional plans.

### **Institute of Administration and Management Development (IAMD)**

**Organization.** Established in 1990, IAMD operates directly under the aegis of the Prime Minister's office. It engages in three main activities: training, research, and consulting. Headquartered in Ulan Bator, IAMD has four regional centers that offer only short-term courses of no more than one month in duration. Each regional center has one English instructor, a computer instructor, and two economics/management instructors. In Ulan Bator, IAMD has three departments: economics, management, and computers/informatics; it also has a small ELT department.

**Program Scope, Objectives, and Curricula.** IAMD has both a short-term and a long-term program. The short-term courses range from one week to three months, and are usually held in the evening. These courses cover the basics of a market economy, business planning, marketing, computer training, and issues of privatization. To date, 500-600 people have taken short-term training at the Ulan Bator facilities. The regional centers have trained an average of 100-150 students per center. Marketing, financial management, and ELT draw the most participants.

Long-term training in business administration began in September 1990 with 70 students in the full-time one year course and 30 students in the part-time or correspondence course, which extends over two years. The diploma granted is "somewhat close to a BBA." Teaching formats include lectures, case studies, role playing, simulations, teams, and the use of computers

For the September 1991 academic year, 120 students were selected from 300 applicants (80 entered the one-year course and 40 entered the two-year course). Of these new students, 20 were from the private sector, 70 came from Ulan Bator, and 50 were from rural areas. Qualifications are a university degree, work experience, entrance examinations (general knowledge and psychological), and applicants must be under 35 years of age. Students come from the private sector, cooperatives, SOEs, and from the government.

IAMD also has a modest research activity which looks principally at ways of switching from a command to a market economy.

Its third activity, which in part derives from the research activity, is management consulting. IAMD states that it has carried out consulting activities for more than 40 SOEs and government agencies as well as five private firms. The assignments have included financial management, production management, marketing and organizational behavior, and the modernization of technology. The private firms mainly received assistance in how to organize themselves.

IAMD states that it follows up on the progress of its students, once they have finished their training.

**Financing Arrangements.** IAMD's annual budget is approximately Tg 4.5-5.0 million (about \$125,000) and the government finances most of its operating costs. For long-term training, fees are nominal — Tg3,000/year/student, while the actual cost is Tg200,000 for the program (whether one year full-time or two years part-time). Fees for short-term training range from Tg75 for one week to Tg300 per month. For consulting activities, contractual agreements with clients cover the cost of the consultants and some of IAMD's overhead.

**Linkages.** IAMD has a formal linkage with The Institute of Public Administration (from the United States) which has agreed in principal to an exchange of lecturers and students, and to providing IAMD with books and educational materials — assuming U.S. funding can be obtained. Informal linkages include exchange of lecturers with Manchester University (from the United Kingdom), with the Swedish School of Public Administration, and a teacher who does postgraduate studies at the University of Maryland. There are also informal ties with institutions in Italy, Austria, India, Germany, Japan and Malaysia.

**Resources and Needs.** Following is a brief description of IAMD's human and physical resources, as well as resource needs:

**Resources:**

- **Facilities:** 14-15 classrooms; small English language training center; library needs to be developed — has only 300-350 books in English; some educational materials have been translated into Mongolian (Cyrillic).
- **Staff:** 30 full-time professors; 20-25 part-time lecturers; a permanent UNDP English language trainer; 10 foreign lecturers for the 1991-1992 school year; one or two Peace Corps Volunteers.
- **Equipment:** 20 IBM compatible computers; some audio-visual capacity.
- **New facilities under construction;** should be completed in 1993/1994 to handle 200 students full time and 800 part time; will also include dormitory and language lab.

**Needs:**

- **Curriculum development and 10-15 professors sent for postgraduate degrees in United States/United Kingdom/Japan;** English language training for all professors.
- **Expansion of library in its selection of English language educational materials.**

**Future Plans.** By 1994, IAMD wants to have 200 students in an MBA program and 800-1,000 students per year in short-term training courses. In the future, the institute wants to

have a small training center in each aimag, retaining the current four centers for special training. IAMD, at this point, has no intention of becoming private.

### **Academy of Social Science Research**

**Organization.** This institution (formerly the Higher Political School) previously prepared officials for government work, much as a national school of public administration. It has now become a research and training institution.

**Program Scope, Objectives, and Curricula.** The academy retrains government officials and some SOE managers in international law, marketing, management, business administration, and economics for a free market environment. It offers postgraduate short-term (30-45 days) training, one-year courses for administrative managers, and is planning a masters degree program in public administration. Some form of training is offered 200 students each year.

**Research.** The academy is linked to the parliamentary affairs office and works on research topics such as power sharing and the structure of government, as well as on the market economy. The research targets mainly political science and social questions.

**Financing Arrangements.** The academy's annual budget is TG10.6 million (\$265,000). The annual fee for a student is TG16,000, and the academy gives generous stipends to students (1.5 times the stipends provided by other institutions).

**Linkages.** Contacts with foreign academic institutions is one of the academy's future priorities.

**Resources and Needs.** Following are the academy's human and physical resources, as well as resource needs:

#### **Resources:**

- **Facilities:** 24 classrooms, 5 auditoriums, cafeteria, dormitories; language laboratory.
- **Staff:** 60 full-time professors and researchers; 100 assistants.
- **Equipment:** sufficient computers and audio-visual equipment.

#### **Need:**

- **Retrain teaching staff in the fundamentals of free enterprise.**
- **Reference and educational materials.**

## **Other Institutions**

A training center established by the Ministry of Labor to provide specialized training for small businesses is neither an academic institution nor a business association. The center offers short-term courses and information seminars targeted specifically to entrepreneurs and small business managers. Three research institutes were examined to determine their suitability and capability for management training. The assessment team decided that these institutes were not appropriate vehicles for management training. See Annex I for descriptions of the research institutions indirectly linked to the private sector.

### **Training Center (Ministry of Labor)**

**Organization.** Operating under the aegis of the Ministry of Labor, the training center was established in October 1990 for small-scale enterprises and went into operation in February 1991. Its objective is to train entrepreneurs and managers who want to start their own firms or expand their firms.

**Program Scope, Objectives, and Curricula.** The center offers a variety of short-term courses ranging from three- to seven-day programs on practical finance, statistics, and accounting for the small firm to courses of one to two months on basic management, marketing, legislation, and organizational and financial structure of the small firm. Courses are also offered in international business relations and business psychology. The short courses (three and seven days) are offered 10 times per year, while the slightly longer courses are held eight to ten times per year. To date, the center has trained approximately 400 people, of whom one-half were from Ulan Bator. The most popular courses were marketing, management, and legislation.

The center uses a mixture of full-time and part-time instructors. Businessmen also serve as part-time lecturers. Although the training center has no formal system of obtaining feedback from former students, it gets some feedback on a voluntary basis. Teaching methods are largely limited to lectures, discussion groups, and business games. The principal problem is the lack of teachers who really understand free enterprise and how it works.

Comments from former students indicated that courses on starting a firm were good as a general introduction, but additional training was required for the new entrepreneurs to really understand how to establish and run a business. Students felt that the courses were useful to the extent that they made people aware of the private sector and the market economy, but that the instructors have little if any practical experience and teach theory only from what they have read.

**Financing Arrangements.** The training center's annual budget is TG250,000-300,000 (about \$7,500). The fee for the one-month course is TG1,000 per participant.

**Linkages.** The International Labour Organization is working to get donor assistance through the Government of the Netherlands to equip and strengthen the center. The center has no contacts with foreign training institutions.

**Resources and Needs.** The center has the following human and physical resources, as well as resource needs:

**Resources:**

- **Facilities:** an office, a teachers' room and two classrooms.
- **Staff:** six full-time professors and two part time.
- **Equipment:** two personal computers; one photocopier; a few translated Russian business texts.

**Needs:**

- **Educational materials and audio-visual equipment.**

**Future Plans.** The Ministry of Labor wants to strengthen the Center's ability to deliver appropriate training for small businesses. It also wants to strengthen its computer capacity.

## **PRIVATE SECTOR SUPPORT ORGANIZATIONS**

This section describes five private sector support organizations (PSSOs) in Mongolia. Only one, the Chamber of Commerce and Industry, was operating prior to 1990. The one existing professional organization linked to the private sector, the Association of Mongolian Lawyers, was founded in 1956. The assessment team selected those PSSOs that appear to have the most potential to leverage the assistance they receive to reach the greatest number of members, to provide the full range of appropriate services, and to play an important role in creating an environment conducive to the success of the private sector.

### **Chamber of Commerce and Industry (COCI)**

**Organization.** Prior to 1989 the Chamber of Commerce and Industry operated under the aegis of the Ministry of Foreign Trade. Its members were mostly state organizations and industrial enterprises. On July 1, 1989, the Chamber became an "independent public organization." Mongolia's move toward a market economy has changed the makeup of its membership. At present its members number 250, of which 10 percent are private firms, 15 percent cooperatives, and 75 percent state enterprises. The Chamber has 20 full-time paid employees responsible for the management of the organization, as well as 50-60 full-time personnel who handle trade fairs/exhibitions and deal with import contracts.

**Services.** The Chamber provides a variety of services for its members, including performing an advocacy role on behalf of its members vis-a-vis the government regarding the laws and regulations that affect business, helping member firms with the conditions and terms of import contracts, and helping member firms establish contacts with foreign firms.

The Chamber also runs trade fairs and exhibitions, and arranges seminars by international lecturers on topics such as the Generalized System of Preferences (GSP) and the General Agreement on Tariffs and Trade (GATT).

The Chamber of Commerce wants to develop and expand the services it offers its members, especially in foreign trade, training sponsorship, business information, and the imbalance in treatment of public sector and private sector firms (for example, in rationing of critical raw materials).

**Financial Arrangements.** The Chamber's yearly budget is TG600,000 (about \$15,000), and just covers salaries and rent. The budget is financed from a variety of sources, including yearly membership fees from state enterprises (TG2,000), cooperatives (TG1,000), and private firms (TG1,000). It also collects representation fees from foreign firms to register patents and trademarks, participant fees from fairs and exhibitions, and sells printed information to member firms on foreign companies looking to sell or invest in Mongolia.

**Linkages.** The Chamber of Commerce and Industry has established contacts with chambers of commerce from the following countries: Great Britain, Japan, USSR, South Korea, Germany, and the American Chamber in Hong Kong. There is a long-term agreement with the London (United Kingdom) Chamber of Commerce for a mutual exchange of economic information on each country. There is an annual round table meeting for U.K. and Mongolian firms, as well as individual U.K.-Mongolian enterprise meetings. Protocols to exchange information have been established with Chambers in the United States, South Korea, and Austria. COCI also has set up linkages with the Japanese and South Korean Trade Promotion Agencies.

**Resources and Needs.** The Chamber has the following resources at its disposal:

**Resources:**

- **Facilities:** rented office space from the Ministry of Trade and Industry; a library with little supplier and market information, little in the way of foreign country trade regulations, and no ability to access foreign data banks.
- **Equipment:** telex, one IBM compatible personal computer with only word processing software, an aging photocopier.

**Needs:**

- **To be organized and trained as an effective member-service-oriented organization.**

- Train staff in the laws and regulations which guide international trade.
- Library to be supplied with a variety of current business information (supplier sources, market information, contact information, and business publications) from both the developed world and from current and prospective foreign trade partners.

### **Association of Mongolian Private Enterprise Managers (AMPEM)**

**Organization.** Established in October 1990, this business association membership consists of 800 private firms, most of which are small-scale enterprises. Approximately one quarter of the firms are engaged in light industry, while the remainder are in the service sector. Some members are actively engaged in business while others are not. AMPEM is headquartered in Ulan Bator with a permanent staff of six. The association has seven branch offices in Ulan Bator as well as in the other major cities of Mongolia.

The Association's objectives are to help member firms set up and conduct business and to provide contact with foreign firms. On the legal side, its objectives are to provide member firms with legal assistance and to represent its members' interests in legal areas such as civil and labor law, and bankruptcy; tax areas such as company taxation and customs; and other business areas such as privatization and foreign investment.

**Services.** The Association's current activities encompass the provision of information on technology and business contacts (both domestic and foreign). It has also established a foreign trade company to engage in trade/barter for members' raw materials and spare parts needs and as an outlet for member firms' production.

AMPEM provides consulting services for start-up companies, in other words, how to set up a company, including registration procedures and forms, as well as legal considerations. It also provides assistance to member firms in obtaining bank credit, technology, and markets for their products.

The Association has held short-term training (four 1-2 week seminars for 20-30 participants in each session) on market economics, management, and forming a company. The cost per participant was TG250, which covered the cost of the teacher and rental of space for the seminar.

**Financial Arrangements.** Member firms pay an initiation fee of TG500 (about \$12.50) plus an annual fee of 0.5 percent of profits. The association's only current source of funds are membership fees.

**Linkages.** The International Labour Organization has indicated an interest in providing training and commodities and is currently trying to find a donor to finance this assistance.

**Resources.** AMPEM has minimal resources. Its permanent staff of six is stretched trying to provide the services to members using four rented offices and one telephone.

**Future.** AMPEM feels it has a future role in providing training to its member firms in the following areas: how to conduct a business; management, strategic, and long-range planning, marketing, and financial management; the use of human resources, including personnel management; how to conduct foreign trade and associated regulations; and how to establish and operate a joint venture.

### **Union of Production Cooperatives (UPC)**

**Organization.** The Union of Production Cooperatives was established in March 1990 and currently has 2,000 members. Approximately 55 percent of the member co-ops are engaged in the small-scale manufacture of consumer goods and food stuffs, 20 percent in restaurants and cafeterias, 20 percent in retail shops, and 5 percent in construction and building materials. Of the 2,000 member co-ops, about 20 have partial foreign ownership, some as joint ventures. The UPC headquarters has six full-time employees.

The UPC operates as an umbrella over the aimag (18) and city (4) associations of co-operatives.

**Services.** The UPC has an advocacy role, representing its members' interests vis-a-vis the state and provides input into Mongolian economic policy when that policy concerns the co-operatives. It also has a coordinating role when its members wish to engage in foreign trade, and it provides information exchange on technology between member co-ops. The UPC has links with three "affiliated" organizations:

- Horshoimpex -- a company which buys and sells goods for the cooperatives and acts as a broker between foreign companies and cooperatives.
- Horshobank (Cooperative Bank) -- a commercial bank established in 1990 to provide credit to cooperatives.
- An agency that publishes a newsletter for cooperatives.

UPC has arranged some short-term training for its members in how to conduct a business and marketing at both IAMD and at MSU. It also serves as a link between the cooperatives and educational/training institutions.

**Financing Arrangements.** The UPC is self-financed. Each aimag and city has an association of cooperatives that sets its own fees. For example, the Ulan Bator association charges an initiation fee of TG500 and an annual fee of TG2,000. Each aimag and city association pays annual dues of TG1,500 to the UPC.

**Linkages.** The UPC is working with the International Labour Organization to find a donor country to establish, equip, and staff a training center starting in 1992 (at an estimated cost of \$1.7 million). A funding request for the equipment has been made to the Danish aid agency.

### **Association of Mongolian Lawyers (AML)**

**Organization.** Established in 1956, the AML had its first free elections in December 1990. The 3,000 membership of the AML is extremely broad, including lawyers (state and private civil attorneys), advocates (criminal lawyers), academic researchers, professors and police officers. Each aimag has an AML branch. The headquarters office has a staff of six.

**Services.** AML provides consulting services to companies on how to establish a company and how to resolve disputes. The consulting services are paid for by the client companies. In the future the AML wants to perform legal work for state enterprises in connection with their privatization.

**Financing Arrangements.** AML's yearly budget is TG100,000 (about \$2,500), which comes from member fees (TG12-20 per member based on salary), activities, and a magazine published by the Association.

**Linkages.** AML was a member of the International Lawyers Association in 1978/79, but since then have not been able to afford the annual fee, which now is \$1,800. The Association would like to join the Law Association for Asia and the Pacific.

**Needs.** Training needs of the legal profession span all elements of commercial law, corporation law, including how to establish and organize a firm (sole proprietorships, partnerships, limited liability concerns, and corporations), contract law, and bankruptcy law. With regard to foreign trade, the profession needs to know how to negotiate and conclude foreign contracts as well as the different types of foreign law that pertain to arbitration clauses, and agency law and operations (how to work as an agent for a foreign company).

### **Mongolian-American Trade Association (MONAM)**

**Organization.** MONAM is a nascent foreign trade organization that was established in April 1991. The membership consists of 48 organizations and 267 individuals. The aim of the association is to establish and promote trade and commercial ties between Mongolia and the United States and Canada.

**Services.** The association provides several services to its members primarily related to information and advice on economic, cultural, legal, and regulatory matters. MONAM works to match Mongolian companies with U.S. and Canadian firms searching for partners in trade and investment. The association holds seminars for its members on a variety of business subjects and conducts classes on business English and the use of computers.

**Financing Arrangements.** MONAM is not self-financed.

**Linkages.** None to date.

## **SECTION FOUR**

### **RECOMMENDATIONS**

Mongolia's rapid transition to a market economy emphasizes the significant gap between the need for training at all levels of the economy and the traditional training provided by Mongolian institutions. Management and technical training needs are acute in the government, the state-owned enterprises to be privatized, productive enterprises (state, cooperative, or private), and private sector support organizations. To date, the Mongolian educational system has been tightly controlled by central government authorities and the traditional academic institutions are scrambling to catch up to the changes in the economy. Traditional training institutions must undergo a lengthy process of upgrading faculty skills, revision of curriculum, updating textbooks, and teaching materials.

The rapidity and extent of the economic transformation in Mongolia will be determined to a great degree by how quickly the human resource skills can be harnessed for the emerging private sector. The Mongolian government recognizes that the lack of appropriately trained people is a serious obstacle to economic transformation and that immediate steps are necessary to rectify this disparity.

This section, organized into three parts, presents the recommendations stemming from the assessment of training needs and resources in Mongolia. The first part lays out general premises, or design parameters, that will influence the selection of assistance options and implementation mechanisms. The second part reviews recommended assistance in a matrix that matches three institutional categories (training institutions, private sector support organizations, and the finance and banking sector) with four potential categories of assistance: scholarships (including internships), technical assistance, commodities, and language training. The third part addresses the implementation mechanism of the training strategy and the need for future identification and coordination of assistance opportunities.

#### **DESIGN PARAMETERS**

Several premises guide these recommendations. Most important, in view of the limited resources available for training and institutional support, is a catalytic approach to assistance. The types of assistance provided should have a multiplier effect, either by leveraging other funding sources or by building specific capacities in institutions that are well placed to make a key contribution to management training and management performance in Mongolia.

At the same time, support to institutions should be defined in terms of time and expectations so that clear outputs, mutually understood, derive from each assistance package. Creation of new organizational mechanisms or undefined core support to institutions should be avoided. Instead, outputs that can be achieved through existing structures within specified time

horizons should be identified. The type of support should be tailored to these limited, but clearly delineated, objectives.

Mongolia is at a crucial juncture economically and as such emphasis should be given, though not exclusively, to activities with the potential for rapid impact that can stimulate the emergence of a functioning private sector. Within this context, however, stress should be placed on beneficial impacts that are sustainable in the absence of continued foreign assistance.

Other important design parameters include the following:

- Foreign assistance should focus on retooling and strengthening the teaching quality of training institutions in view of the weak and incipient training infrastructure in Mongolia for both formal and executive training. Such an approach will be more efficient and cost effective than providing direct training to Mongolian managers;
- Support to small businesses, which comprise the majority of Mongolia's private sector, should be emphasized and training for this group should include access to information and contacts;
- The emerging banking system in Mongolia has special training needs that affect the economy across all sectors. The banking sector can be both a recipient and beneficiary of training;
- English language training (especially business English) is of great importance both for managers with international roles and for persons who will be involved with overseas training or internships;
- When feasible, assistance packages should use ongoing U.S. assistance projects or programs to leverage resources and minimize start-up time. Examples would include the Financial Services Volunteer Corps, Peace Corps, International Executive Service Corps, and Entrepreneurs International; and
- U.S. assistance should continue to be coordinated with that of other donors.<sup>1</sup>

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<sup>1</sup> The UNDP has unofficially taken the lead in coordinating assistance to Mongolia. The United States is the major donor planning assistance in the area of management training to the private sector. Multilateral donors such as the International Monetary Fund, the World Bank, and the Asian Development Bank will provide advisors and assistance to government agencies including the central bank. As mentioned in Section Three, most bilateral donors are proposing to provide support to one training institution or private sector support organization (Sweden, Denmark, Netherlands) or offer several scholarships for managers (United Kingdom, India, Germany).

In September 1991, a meeting of multilateral and bilateral donors was held in Tokyo. The donors agreed to provide Mongolia with \$155 million in emergency assistance for the coming winter. A donor meeting was held in Ulan Bator in October 1991 to examine long-term assistance to Mongolia. This meeting, hosted by the UNDP, looked at assistance requirements by sector.

## **THE RECOMMENDATIONS MATRIX**

Recommendations for A.I.D. assistance for management training in Mongolia are summarized in the matrix of Table 2. To maximize resources to achieve the widest possible impact, it is recommended that A.I.D. assistance be applied toward institution building for training institutions, private sector support organizations, and the banking and financial sector. The banking and financial sector is singled out from other sectors of the economy for direct assistance because of its special technical needs. Recommendations for each of these institutional categories are grouped by four types of assistance — scholarship assistance, technical assistance, commodities, and language training.

The inclusion of a recommendation means that it is an appropriate and significant opportunity to consider, though not necessarily an immediate priority. The exclusion of an item does not mean that such aid would be ill advised but rather that it is of secondary merit at this time. Each of the recommendations is subsequently elaborated upon by institutional category. The recommendations are divided by type of intervention: immediate or short-term assistance (0-2 years) or medium-term assistance (3-5 years). When possible, recipient organizations have been identified.

All of the institutions in these three categories can and will address the needs of the three target groups described in Section Three of the report — Entrepreneurs and Small Businesses, Export Firms, and State-Owned Enterprises. The relationship between the assistance to the institutional categories and the beneficiaries of the impact of the assistance is depicted in the matrix of Table 3, Primary Beneficiaries of Assistance. Following Table 3 is a description of each institutional category and the types of assistance recommended for immediate/short-term and medium-term implementation.

### **TARGETED ORGANIZATIONS AND INTERVENTIONS**

#### **Training Institutions (Table 2, Column 1)**

Mongolia has a small group of training institutions, most of which are trying to make the transition in curricula and teaching from the command economy to the free market economy. The major obstacle facing the institutions in making this transition is that they have little or no operational history in understanding and teaching the elements of Western business administration. Directional focus is generally an amalgam of U.S. and Japanese generic business curricula, with insufficient attention paid to the specific and differing requirements of various business functions and the business skill needs of those who, after training, will carry them out. Thus, the training of faculty in critical subjects and the development of appropriate, targeted, practical curricula are key for the creation of a private sector that will grasp the fundamentals of business administration and the driving forces of free enterprise.

TABLE 2

**MONGOLIA MANAGEMENT TRAINING NEEDS ASSESSMENT**  
**Recommendations for Assistance**

Type of Assistance	Training Institutions	Private Sector Support Organizations	Banking and Finance Sector
Scholarship Assistance	<ul style="list-style-type: none"> <li>• U.S. training and internships for key faculty/instructors</li> <li>- Retooling midlevel and senior instructors (short-term, non-degree for management, marketing, management accounting)</li> <li>- Preparing young faculty (long-term degree for corporate finance, organizational behavior, strategic planning)</li> </ul>	<ul style="list-style-type: none"> <li>• Provide internships, tailored to specific needs, for senior officers of PSSOs/industry/professional associations</li> </ul>	<ul style="list-style-type: none"> <li>• U.S. training for central bank operations</li> <li>• U.S. training and internships for selected commercial bank activities</li> </ul>
Technical Assistance	<ul style="list-style-type: none"> <li>• Update faculty/instructors in key subjects and support curriculum improvement</li> <li>• Design short programs tailored to needs of SSEs, and needs of SOEs undergoing privatization</li> <li>• Develop and support business consulting expertise</li> <li>• Upgrade libraries and language laboratories</li> </ul>	<ul style="list-style-type: none"> <li>• Establish/develop associations (e.g., Chamber of Commerce, exporters, small business, accounting, legal, and industry associations)</li> <li>• Develop information clearinghouse between private sector and training institutions</li> <li>• Establish business libraries/data banks; info center for SSEs</li> <li>• Establish business incubator</li> <li>• Study tours for selected industries</li> </ul>	<ul style="list-style-type: none"> <li>• Develop procedures/ and operations for banking activities</li> <li>- Commercial bank organization</li> <li>- Back office operations</li> <li>- Bank products</li> <li>- Bank services</li> <li>- Credit for SSEs</li> <li>• Establish association for bankers</li> <li>• Provide support for privatization of commercial banks</li> </ul>
Commodities	<ul style="list-style-type: none"> <li>• Training hardware/software educational materials support</li> <li>• Office equipment and supplies support</li> </ul>	<ul style="list-style-type: none"> <li>• Office equipment, computers, training materials for PSSOs</li> <li>• Business information: contacts, sources, markets, prices</li> </ul>	<ul style="list-style-type: none"> <li>• Office equipment, computer and software for bankers association</li> </ul>
Language Training	<ul style="list-style-type: none"> <li>• English language training to support overseas training of faculty</li> </ul>	<ul style="list-style-type: none"> <li>• English language training to support overseas training of PSSO and association officers</li> </ul>	<ul style="list-style-type: none"> <li>• English language training to support overseas training and to support managers with international roles</li> </ul>

**TABLE 3**  
**MONGOLIA MANAGEMENT TRAINING NEEDS ASSESSMENT**  
**Primary Beneficiaries of Assistance**

Institutional Category	Entrepreneurs and Small Businesses	Export Firms	State-Owned Enterprises
Training Institutions	<ul style="list-style-type: none"> <li>• Special/basic business functional needs of the start-up firm. Tailored short-term courses and business curricula targeting this audience</li> <li>• Consulting expertise</li> </ul>	<ul style="list-style-type: none"> <li>• Training tailored to the export sector</li> <li>• Consulting expertise</li> </ul>	<ul style="list-style-type: none"> <li>• Retraining senior and middle level economists and engineers to become managers, marketers, and financial officers</li> <li>• Intensive short-term training for CEOs/senior managers</li> <li>• Consulting expertise</li> </ul>
PSSOs	<ul style="list-style-type: none"> <li>• Support and outreach services</li> <li>• Special info centers</li> <li>• Business incubator</li> <li>• Special training for new entrepreneurs</li> <li>• Rapid response of training institutions to small business specialized training needs</li> </ul>	<ul style="list-style-type: none"> <li>• Operational association of exporters</li> <li>• Information on markets, regulations, foreign trade, product prices</li> <li>• Rapid response of training institutions to exporters specific needs in mechanics of foreign trade and market prospects</li> </ul>	<ul style="list-style-type: none"> <li>• Professional association of bankers</li> <li>• Rapid response of training institutions to SOE training needs: the retooling of command economy economists/engineers into managers and marketers</li> </ul>
Banking/Finance	<ul style="list-style-type: none"> <li>• Credit services for small businesses, including business proposal preparation, evaluation, monitoring, and workout procedures</li> </ul>	<ul style="list-style-type: none"> <li>• Trade financing: export pre- and post-financing, insurance, bridge loans</li> </ul>	<ul style="list-style-type: none"> <li>• Corporate restructuring</li> <li>• Capital structure financing</li> <li>• Bank service needs</li> </ul>
Other	<ul style="list-style-type: none"> <li>• Specialized study tours</li> <li>• Specialized industry training</li> </ul>	<ul style="list-style-type: none"> <li>• Specialized study tours</li> </ul>	<ul style="list-style-type: none"> <li>• Specialized study tours</li> <li>• Specialized industry training</li> </ul>

Recommended assistance to this category of institutions covers the following spectrum of support:

### **Immediate/Short-Term Interventions**

#### **Scholarship Assistance:**

1. ***Scholarships.*** Mongolian instructors need to be trained in the west so that they understand the typical curriculum and teaching materials used in a business training institution. Providing training for professors and teachers from major training institutions involves a dual approach of scholarship assistance and internships. Two types of scholarship programs should be established. One scholarship program would provide training for midlevel and senior instructors currently teaching business courses. This training would involve a short-term (6-18 months) nondegree course of study, primarily in marketing, financial management, and organization and management of the firm. These are subjects currently being taught at formal training institutions and informal executive training courses. This facet of the training strategy should include three groups of 10 faculty members each to be retooled, requiring an average of 12 months over a three-year period.

To address the demand for management training in business fields that are not currently offered in Mongolia, it is necessary to begin the development of a long-term degree program for future instructors. Scholarship training of this type is needed particularly in management (long-term and strategic planning, organization of the firm, operational management), organizational behavior, marketing (all of the basic tools from market research to product pricing strategies), corporate finance (particularly asset management and the investment decision), financial accounting, and the uses of management accounting as a tool for operating efficiency and cost control.

Due to the length of time involved in the training, it is recommended that this scholarship program be developed for formal institutions of learning, such as colleges and universities. The scholarship training will consist of degree programs (Ph.D. and M.B.A.) and should be provided to recent graduates of universities and to junior faculty members who would be trained in one of the new subject areas with the goal of creating new courses at Mongolian colleges or universities upon their return from the scholarship program.

The scholarship programs should be targeted at Mongol State University, the Economic College, and the College for Commerce and Business. These scholarship programs will have a double multiplier effect because instructors will train future managers as well as train other instructors.

2. ***Internships.*** In conjunction with the scholarship programs, internships should be arranged for the instructors participating in the programs. The aim of the internships is to augment the theoretical educational experience of the instructors with practical experience in a market economy, including exposure to the corporate work ethic. The internships would be two to four months in length and would commence immediately following completion of the scholarship program or operate in conjunction with the scholarship program. These internships also should be tailored with the objective in mind of creating consulting capacity within this group.

The option to provide training to existing managers through the scholarship/internship route was considered, but rejected because it lacked both cost-effectiveness and a multiplier effect. In addition, most top managers could not afford the time away from their jobs. Business training experience also suggests that training individuals in enterprises, as distinct from work groups, has little effect on organizational performance.

#### **Technical Assistance:**

1. *Training Trainers/Developing Business Curriculum/Developing Business Consulting Expertise.* In addition to the establishment of scholarship and internship programs to strengthen training institutions, two short-term technical assistance programs should be implemented simultaneously to update faculty and instructors in key subjects and to support curriculum improvement. The first form of technical assistance involves bringing professors and business persons from the United States as lecturers to train Mongolians. Team teaching with Mongolian instructors should be encouraged in order to have a multiplier effect. Mongolian instructors would learn non-lecture-types of pedagogical techniques such as case studies, simulation, gaming, and decision making. This technical assistance would act as a bridge by providing training to Mongolian managers and instructors until the scholarship instructors return to Mongolia to create and begin teaching managerial courses.

The second type of technical assistance would entail a review and evaluation of the curriculum of the major training institutions. The curriculum should be analyzed to determine the course content as well as types of materials used (for example, texts, case studies, and computer programs). This analysis will determine the types of courses and commodities best suited for each institution.

Mongolia lacks consulting businesses, which are a key ingredient in providing services to a modern private sector business infrastructure. To address this gap, assistance will be given to the development of business consulting expertise. The U.S. faculty, as part of its task of updating the instructors, will work with Mongolian faculty to advise small businesses, export firms, and SOEs in the process of privatization on solving business development problems. Such assistance will help build a reservoir of consulting expertise that will be increasingly needed as Mongolia makes the transition to a market economy.

The technical assistance for updating the current faculty, analyzing the curriculum of training institutions, and developing business consulting expertise should be primarily targeted to Mongol State University, the Economic College, the College for Commerce and Business, Mongol Technical University, and the Mongol Business School.

As a corollary to training trainers and developing curricula, linkages between these Mongolian training institutions and U.S. universities would be made. Over the term of the training program, U.S. faculty would monitor and follow up the progress made by the Mongolian faculty and the new curricula.

2. *Develop Tailored Short-Term Programs.* Selected training institutions will be given short-term assistance of three months in developing training programs for new and existing small businesses in basic business skills, emphasizing the development of the business proposal, its

feasibility, the market to be reached, and the business plan that will make the proposition bankable.

Short-term assistance will also be given to the training institutions for the retraining of SOE economists/engineers into managers, marketers, and financial officers. Assistance will be given to develop intensive, short-term (seminar-type) training of CEOs and senior managers of SOEs in the process of privatization.

3. Upgrade Libraries/Language Laboratories. Short-term assistance will be given to upgrade libraries and language laboratories at training institutions so that the libraries are an integral, functioning part of the business curricula.

#### **Commodities:**

Commodities, such as proposed below, are extremely important to the success of this training program for the obvious reason that both Mongolian training institutions and private sector support organizations lack most of the necessary equipment and educational materials. Commodities are also important since they are tangible, visible, and can be delivered and put to use immediately. This category of assistance can be rapidly dispensed, generates immense goodwill, demonstrates a quick and tangible response to the host country's needs, serves as a catalyst for recipient country institutions to take part seriously in complex assistance programs, and helps to cement good relations between the host country and the United States.

Training Materials and Hardware/Software Support to Selected Training Institutions. As noted in the technical assistance category, the type of commodities (equipment as well as materials) will be determined after the evaluation of the training institutions.

a. *Audiovisual, office, and computer equipment:* All the training institutions except Mongol State University require one-time inputs of audiovisual equipment, computer software for business analysis purposes, photocopiers, and even office supplies.

b. *Educational materials:* All the training institutions recommended for support require basic business texts, subscriptions to business publications, and case studies. This support will be on a one-time basis to prepare the institutions for the new business skill subject matter they will be delivering.

#### **English Language Training:**

Training in English, particularly business English, is urgently needed by all the target categories of assistance. The training institutions need English training to be able to assimilate the training opportunities in Mongolia and the United States, to work with U.S. counterparts on curriculum design and educational material adaptation, and to rapidly develop consulting expertise. The other two target groups, PSSOs and the Finance and Banking sector, as well as the ultimate beneficiaries (small businesses, export firms, and SOEs) also require English language training if they are going to be able to tap foreign markets, deal with correspondent banks, and negotiate with foreign suppliers and potential investment partners.

ELT is being undertaken by the Peace Corps, UNESCO, The British Council, and two or three religious organizations. The Peace Corps and UNESCO programs are slated to increase in size next year. A.I.D. should collaborate closely with the three donor organizations to determine where and to what extent these teachers will fill the need to prepare rapidly the Mongolian private sector in business English.

UNESCO's ELT is especially interesting since it tailors English training (English for Special Purposes or ESP) to special business and financial sector needs, such as their English courses for the Central Bank and for the Privatization Committee. Currently, the UNESCO project is teaching English for negotiating purposes. In the autumn of 1991, the project began training English teachers at Mongolia's Institute of Foreign Languages. The project needs English language teaching materials for specific business courses, such as marketing, corporate finance, and management.

### **Medium-Term Interventions**

#### **Scholarship Assistance:**

1. ***Scholarships.*** The faculty retooling and long-term degree programs described under the immediate/short-term interventions will continue into the medium term.
2. ***Internships.*** Tailored internships will continue into the medium-term, as business administration curricula become more advanced and more specific. Examples of more advanced internships might include hands-on experience in using internal accounting information for internal auditing purposes, and as a management tool for decision making and budgeting. As part of human resource management, participatory budgeting would be a useful internship, not only for the budgeting process, but also for the management process of delegating both responsibility and authority — an action that many Mongolian business owners and senior management are often reluctant to take. Other advanced internships might center on corporate finance, ranging from innovations in inventory management to how the corporation is structured financially. Internships should also include the use of financial simulation techniques such as sensitivity analysis and goal seeking. In the management area, the establishment of profit and cost centers and the decision to centralize or decentralize operations could be useful subjects for internships. These internships would be especially useful in the strengthening of consulting capacities, particularly when dealing with the larger, privatized SOE.

#### **Technical Assistance:**

***Training Trainers/Developing Business Curriculum.*** In the medium term, U.S. faculty will monitor and follow up the progress made by the Mongolian faculty with their new curricula and their new training aptitudes. The U.S. faculty will also help with further curriculum development and adaptation as well as with further trainer training to enable the Mongolian faculty to move into more advanced business administration topics. This activity should tie in with the U.S. internships discussed above. The medium term would also be the appropriate time frame to institute faculty exchanges between U.S. and Mongolian training institutions.

## **Private Sector Support Organizations (Table 2, Column 2)**

Mongolia has only three established private sector support organizations at this point in the economic transition. There are no industry associations yet and only one, somewhat moribund, professional association, the Mongolian Lawyers Association. For the most part, associations have yet to be created. As a rule, PSSOs play an important role in leveraging assistance. Their roles include representation and advocacy of members, dissemination of information, and provision of training and assistance. They also can have an important effect on government policy; for example, an exporters' association would have an important voice in setting Mongolia's economic policy because of the economic importance this sector holds for the country.

**Recommended assistance to this category of institutions covers:**

### **Immediate/Short-Term Interventions**

#### **Scholarship Assistance:**

1. *Create Internships for Specific Needs.* Short-term (one-month) internships tailored to specific needs will be made available for senior officers of PSSOs, industry, and professional associations (once the industry and professional associations are organized and operative — see technical assistance below). The purpose of the internships will be to introduce and train the officers in the operations of member, service-oriented business and professional associations and to establish the linkages between the appropriate U.S. and Mongolian associations.

#### **Technical Assistance:**

1. *Develop Organizations.* The Chamber of Commerce and Industry and the Union of Production Cooperatives (UPC) have been selected for assistance. The Chamber was selected because it has the largest membership in Mongolia and includes companies of all types and sectors. It should be the focal point of services to all Mongolian businesses. The Union of Production Cooperatives, while recently established, focuses on the burgeoning private sector, which consists mainly of entrepreneurs and small businesses that require special attention.

The first requirement of the two business associations is that they be properly organized to offer a full range of appropriate services to their members and create an outreach capability. The second requirement is that internal (to Mongolia) and external linkages be established. Data banks will be established at each association to address the major constraint of the business community of Mongolia, which is lack of knowledge of and access to both domestic and foreign market, supplier, and business contact information. The groundwork for a future exporters' association and for other key industry associations will be laid through The Chamber of Commerce and Industry. This category of assistance could be carried out by the International Executive Service Corps or the appropriate American chamber of commerce. An option would be UNCTAD/GATT's (Geneva) service, which specializes in business association organization and assistance.

UPC will receive assistance in developing curricula and training trainers so that it can reach a large number of its small business members. The vast majority of its members will need training in how to establish and organize their firms, how to prepare a business proposal, including feasibility and market studies, as well as in the basic business functions of management, marketing, and financial management. This training will be necessary if they are to qualify for bank credit. As part of the assistance, UPC will hold workshops on the above subjects for its members toward the end of the first year of assistance, with another six workshops to be held in the second year of assistance.

Both of these business associations will have the key role in being information clearinghouses between the private sector and the training institutions. They will ensure that the private sector is aware of the full range of training opportunities provided by the training institutions as well as provide feedback to the training institutions on the training requirements of the private sector.

Two professional associations need to be created — one for bankers and a second for accountants. The bankers' association will require internal and branch organization, establishment of member services, a data bank, linkages with foreign bankers' associations, and the establishment of links with the Central bank and the Ministry of Finance regarding changes in laws. Assistance to the bankers' association could be provided by the American Bankers' Association. The accounting association will require internal organization, establishment of member services, a data bank, the establishment of Accounting Principles and Practices, the setting of auditing standards, and a mechanism to have continuing input into accounting and tax codes. This association could be assisted by and linked to the American Bankers' Association and the American Institute of Certified Public Accountants (AICPA). An alternative to the AICPA is the Institute for Management Accountants.

The Mongolian Lawyers Association needs to be reorganized and rejuvenated into a functioning, effective professional organization. It requires assistance with reorganization, member services, and the creation of a data bank. A critical area of assistance will be training in civil and commercial law, as well as the more specific area of corporation law, contracts, and bankruptcy. Assistance and linkages could be provided by the American Bar Association.

2. Set Up Study Tours for Selected Industries. Observation tours of three to four weeks in the U.S. would be planned for the appropriate industry association officials and business leaders in selected industries including agribusiness, construction, food processing, and tourism. The purpose of the observation tours will be to acquire the requisite technological and business information, opportunities to see these technologies in operation, and opportunities to meet with U.S. trade association and business counterparts.

3. Establish Business Incubator. It is recommended that assistance be furnished to the Chamber of Commerce and Industry and/or to the Union for Production Cooperatives to establish a business incubator in Ulan Bator. An incubator would include 20-30 small and medium businesses, some of which would be in the same industries, preferably linked upstream and downstream (in other words, one firm's finished output would be another firm's semifinished input), and some of which would provide necessary services (office, consulting, maintenance, security) to firms producing or assembling products. The municipal government

of Ulan Bator would provide the land and buildings, as well as assure all utilities, roads, and communications facilities, for which the members of the incubator would pay usage fees.

### **Commodities:**

Computer Hardware/Software, Office Equipment and Training Materials Support to Selected Private Sector Support Organizations. Both the Chamber of Commerce and Industry and the Union of Production Cooperatives will require a microcomputer in support of their data banks and to access other databases as well as the appropriate software to allow them to provide member services rapidly. In addition, both organizations need office equipment and supplies, and a range of business information including supplier sources, markets, product prices, and business publications. UPC will require business educational materials as part of its training efforts for new or existing small-scale entrepreneurs. The other associations will require essentially the same commodities, differing only insofar as professional information and publications are concerned.

### **Language Training:**

See Training Institutions: Immediate/Short-Term Interventions above.

### **Medium-Term Interventions**

#### **Scholarship Assistance:**

Internships. Under the auspices of their respective industry associations, selected owners and senior managers of privatized SOEs and private firms would be provided short-term internships with comparable U.S. firms through the Entrepreneurs International Program. An option would be internships in Mongolia at firms which are upstream/downstream of the firm receiving the internship so that both firms' owners and managers may profit from a better understanding of how each operates, the constraints each faces, and what each requires of the other as members of a "chain of activity" operating in a market economy. Such an option would be particularly appropriate for the construction and the agribusiness industries because both involve a long chain of direct and ancillary business activities from the raw material to the final consumer. Another option is to have the internship take place in an Asian country with a level of development that Mongolia may be able to achieve over time. This option would enable the interns to establish contacts with suppliers and markets.

#### **Technical Assistance:**

1. Extend Private Sector Support Organization Linkages. Limited short-term support to extend the outreach of the PSSOs and professional associations to regional and local chambers/chapters.
2. Train Trainers in Skills Specific to Certain Industries. To follow up the observation tours recommended in the immediate/short-term time frame, industry association trainers and certain faculty from Mongolian Technical University would receive short-term training in Mongolia in current construction and food processing technologies and processes. Examples of the type of training that could be offered are food processing (quality control, sanitation, food preservation,

storage, packaging, and marketing); and construction (energy efficient construction techniques and materials, building finance, job planning, critical path method, job costing, negotiation skills, and subcontracting networks).

3. *Set Up Study Tours for Selected Industries.* Under the auspices of the industry associations, tours would continue at the rate of one per year for the appropriate association and industry members.

### **Banking and Finance Sector (Table 2, Column 3)**

As in most other former command economies, Mongolia's economy lacks an effectively functioning financial sector. The commercial banks have only recently been established. They have been inadequately capitalized, have little concept how to mobilize savings, and do not have sufficient funds to meet demand. Hence it is extremely difficult for the productive sectors in Mongolia to obtain credit and financial services which are necessary to operate in a market economy.

Mongolia has immediate training and technical assistance needs if its banking sector is to function effectively. The major constraint facing the banking system is the lack of trained personnel. Banks have little capability to do basic credit analysis since until very recently they did not have to — the government simply told the central bank to lend to the state enterprise, and the government assumed the risk. Banks lack operational policies and techniques. Bankers require training in both practical and management skills.

Recommended assistance to the banking sector covers the following:

#### **Immediate/Short-Term Interventions**

##### **Technical Assistance:**

1. *Develop Procedures and Operations for Banking Activities.* The most effective way of addressing this urgent short-term need is to engage the services of a U.S. commercial bank or bank consulting company to do the necessary training and technical assistance in Mongolia in order to get the Mongolian banks functioning as they should in the minimum amount of time. The major areas that require policies, procedures, and training include:

- Front office and back office operations;
- Credit analysis;
- Lending to small-scale enterprises;
- Trade financing; and
- Savings mobilization

For each of these areas, the bank specialists should establish and organize units and procedures, and carry out the associated training, not only of the staff who will function in the department, but also of the bank trainer who will be responsible for training future bank employees. The training portion of this technical assistance could be coordinated to all employees of commercial banks under the auspices of the to-be-created association for bankers.

2. **Bank Privatization.** U.S. specialists should be engaged to give assistance to the central bank and the commercial banks themselves in the financial and management restructuring of the commercial banks, and in their start-up and development.

3. **Establish Bankers' Association.** This has been addressed in the recommendation for organizational development under the immediate/short-term intervention for technical assistance of the private sector support organizations.

#### **Commodities:**

The banking association will require a one-time input of office equipment and supplies, a computer, and software.

#### **Language Training:**

The candidates for short- and long-term U.S. training outlined below under Medium-Term Interventions will have to be near-fluent in English to take advantage of the training and internship opportunities. English language training, including business/financial English, should start immediately in those banks and financial institutions whose staff will be the recipients of this training. For ELT to be effective, a minimum of nine months of training is necessary. USAID should pursue this intervention in conjunction with the UNESCO-ESP program.

### **Medium-Term Interventions**

#### **Scholarship Assistance:**

1. **Training for Central Bankers.** The central bank primarily requires training in monetary and fiscal policy and bank supervision. The multilateral agencies plan to provide advisors to the central bank in Mongolia whose task will include on-the-job training. This training could be supplemented by attendance at central bank seminars such as those conducted by the Federal Reserve Bank of New York.

2. **Training/Internships for Commercial Bankers.** As the development of the banking sector warrants, short-term training and internships in selected areas of commercial banking, and in the establishment and operations of financial markets, including nonbank financial intermediaries, will be offered to the newly emerging commercial banks. The locus of internships and short-term training would be U.S. commercial banks, specialized banks, brokerage houses, and selected U.S. government agencies that deal with this sector.

**Technical Assistance:**

1. **Training in Topical Banking Subjects.** Training would be provided in subjects that address specific future Mongolian needs, and where U.S. banking technical assistance has a comparative advantage over other countries. Two such areas are training in the creation and marketing of financial products, and in venture capital operations.

**IMPLEMENTATION**

Management training will be one of the most important A.I.D. programs in Mongolia in the coming years. The size of the program and the rapid changes taking place in Mongolia add to the importance of being able to reassess the country's management training needs and to adjust the program accordingly through the life of the program. Needs will change from the present assessment, as will the available implementation opportunities and mechanisms. Among the tasks to be addressed in implementing the management training program are:

- Ongoing review and recommendations of types of assistance to meet opportunities suggested in this report (such as English language training assistance) as well as opportunities not anticipated in this assessment;
- Organizing and managing the selection process for scholarship and internship candidates;
- Managing in-country short-term technical assistance and purchase of commodities;
- Monitoring donor assistance, and coordinating reports to U.S. agencies providing assistance;
- Directing technical assistance to Mongolian training institutions and private sector support organizations; and
- Coordinating with other donor programs in Mongolia which are involved with management training.

**ANNEX I**  
**MONGOLIAN RESEARCH INSTITUTES**

## **MONGOLIAN RESEARCH INSTITUTES**

### **Institute for Market Research**

Established in May 1990 and operating under the auspices of the Ministry of Trade and Industry, the Institute has three divisions and a staff of 30 professionals.

The Economic Policy Division helps draft economic legislation, e.g., the consumer protection law, the civil code, the property law and laws on economic associations. This division also works on economic policies such as trade liberalization studies and privatization issues.

The Marketing and Pricing Division studies domestic and foreign markets in order to identify market trends and prospects.

The third division is the Investment and Information Service Center, which deals with foreign investments and related informational matters.

The Institute will be working with the World Bank on structural reform, however it states that it does not have the in-house expertise to assess and set implementation guidelines for structural reform.

### **Institute of Economics**

Formerly, the Institute reported to the State Planning Commission and the Academy of Sciences. As of 1991, it now reports only to the Academy of Sciences and thus has gained some autonomy. The Institute has a staff of 50 (researchers and support staff), recently cut from 100.

A theoretical research organization, the Institute is trying to expand its knowledge of Western economic theory. It has a yearly budget of TG1,400,000 (about \$ 35,000) which is used mostly to pay salaries.

The Institute used to do sectoral studies, but because of budget and personnel cutbacks, it now just carries out studies of general economic policy. Most studies are performed by the Institute staff on their own initiative. The government periodically asks the institute to make recommendations on inflation, fiscal and monetary matters, and supply and demand policies. The Institute has little experience with the free market economic system and have no linkages with foreign institutions at present.

The Institute lacks textbooks, economic journals, and literature. Its staff needs training in free market economics, marketing, and English.

## **Institute of Science and Technology Development**

Established in 1986 under the Ministry of National Development, its mandate is to carry out basic science and technological research, applied science and technological research, and help set scientific and technological policy for Mongolia. The institute does some work for the government under contract and some they do on their own initiative.

The Institute's work in basic scientific research is in the fields of plasma, laser, and ultrasound research, as well as in the area of membrane (filtration) research. The work in the first three areas has potential application to corrosion prevention and the surfacing of spare parts to prevent corrosion.

The Institute states that it lacks an appropriate mechanism to put their research into application. Thus they have difficulty making their results known to the business world. They also state that they have no idea of international product standards. Furthermore, they lack testing laboratories and thus no way of telling if products meet world standards.

**ANNEX II**  
**PROJECT METHODOLOGY**

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## **PROJECT METHODOLOGY**

This study was commissioned by the Bureau for Asia/Private Investment of the U.S. Agency for International Development ("APRE/A"). The purpose of the study was to develop a multiyear management training strategy that would address the key human resource constraints in Mongolia's transition from a command economy to a market economy. The strategy was to promote human resources development within the private sector by a combination of both short- and long-term academic training and technical assistance in Mongolia and in the United States.

The study was conducted by a three-person team that consisted of an economist, a private sector analyst, and an education and training specialist. The fieldwork was carried out during a three-week period in August and September 1991. The project embodied three phases using the following methodology:

**Phase 1: Literature Review/Key Sector Selection.**

The first phase involved a review of relevant documents to provide an understanding of the following critical factors: (1) background to the Mongolian economic transformation, (2) characteristics of the Mongolian private sector, and (3) descriptions of key sub-sectors and institutions in the public and private sectors that play critical roles in the development of a market economy (see Annex III for bibliography). On the basis of the literature review and in consultation with APRE/A, the team decided to concentrate the management training appraisal on several segments of the economy that were determined to be key to Mongolia's near term economic transformation. The segments identified were entrepreneurs and small business, state-owned enterprises, exports, and finance and banking.

**Phase 2: Fieldwork: Key Private and Public Sector Players/Support Organizations/Educational and Training Institutions.**

A two-person team carried out the fieldwork over a three-week period. The team interviewed 40 companies from the agribusiness, financial, industrial, commercial and service sectors (see Annex II for list of firms and contacts). A broad cross section of companies were visited including private entrepreneurs in small and medium-sized businesses, cooperatives, large state-owned companies, and foreign joint-ventures.

The team met with nine Mongolian government ministries and agencies to ascertain training requirements and the mechanisms for coordinating donor assistance for management training. Other key donors and international organizations were interviewed to round out the perspective of private sector training needs.

On the training resource side, the team interviewed eight training institutions and three business associations to assess their capabilities to provide management training in business and technical skills. These organizations ranged from educational institutions of higher learning such as colleges and universities to specialized management training institutions. Private sector support organizations were examined for the types of business services provided to their member firms as well as their capability to deliver management training.

Although most of the companies and training institutions were located in Ulan Bator, the fieldwork involved a visit to the district of Bayantsogt.

At the conclusion of the fieldwork, the team presented a briefing on the findings of the study to the U.S. ambassador to Mongolia.

**Phase 3: Findings/Recommendations/Strategy.**

Findings from the fieldwork were analyzed, from which recommendations were made for a multiyear managerial and technical skills training strategy. The strategy addressed both immediate/short-term needs and medium-term needs and recommended appropriate interventions. A report on the findings and recommendations was prepared for APRE/A.

**ANNEX III**

**PERSONS CONTACTED FOR MANAGEMENT TRAINING ASSESSMENT  
IN THE PEOPLE'S REPUBLIC OF MONGOLIA**

**PERSONS CONTACTED FOR MANAGEMENT TRAINING ASSESSMENT  
IN THE PEOPLE'S REPUBLIC OF MONGOLIA**

**I. Government of the People's Republic of Mongolia**

**Ministry of Education**

**Norovyn Urtnasan  
Baterdene**

**Ondrakh**

**Minister  
Office of Professional  
Education  
Office of External Affairs**

**Ministry of Foreign Affairs  
Luvsantserengiin Orgil**

**Ministry of Trade and Industry  
Tsekengav**

**Deputy, Production Policy  
Department**

**Ministry of Finance**

**Dalrain Davaasambuu  
Dolgoryn Solongo**

**Oyongil**

**Deputy Minister  
Economist, Foreign Economic  
Relations Department  
Financial Education Department**

**Ministry of Labor**

**Khuyagin Ganbaatar  
Namjiliin Hanoi**

**Byanbar**

**Vice Minister  
Director, Center for Small  
Industries  
Employment Division**

**State Commission for Privatization**

**Yo. Gerelchuluun  
D. Bailykhoo**

**Secretary  
Advisor**

**Mongolian Stock Exchange**

**Naidansurengiin Zoljargal**

**Chairman**

**Bureau of Mines**

**Chimed-Ochiryn Batsandag**

**Chief Engineer, Technical and  
Technological Division**

**The Bank of Mongolia**  
N. Zhargalsaikhan  
S. Sergelen  
Department

**Governor**  
**Officer, Foreign Relations**

**II. Government of the United States**

**Embassy of the United States of  
America (Mongolia)**

Joseph Lake  
Thomas Dowling  
Kimberly Kirkman

**Ambassador**  
**Political Officer**  
**Officer**

**Peace Corps**

Alan Swanson  
Chuck Howell  
H.W. Guy Seay

**Mongolian Desk Officer**  
**Director, Mongolia**  
**Administrative Officer,**  
**Mongolia**

**U.S. Agency for International Development**

Diane Blane  
Denny Robertson  
Randy Yamada  
  
Donna Stauffer  
Paul Cohn  
Robert L. Freidline

**APRE/PD/ODR**  
**APRE/PD**  
**OIT/PETA Field Training**  
**Advisor**  
**Mongolian Desk Officer, APRE**  
**Mongolian Desk Officer, APRE**  
**Acting A.I.D. Representative**

**III. Educational and Training Institutions**

**Institute of Administration and  
Management Development**

Dagvadorjiin Tserendorj  
Badarchiin Enkhbat

**Rector**  
**Liason Officer**

**Institute of Economics**

Luusandorj

**Rector**

**Economic College**

Rinchinnjamyn Amarjargal  
Bathojag

**Rector**  
**Vice Rector**

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**Institute for Market Research**  
**Sambuugiin Demberel**  
**Damdinsurengiin Batbayar**

**Director**  
**Economics Policy Division**

**Mongol State University**  
**Daichagiin Dorji**  
**Mekey**  
**T. Dorj**

**Rector**  
**Deputy Rector**  
**Director of the Economic Department**

**Mongol Business School**  
**B. Erdenesuren**  
**S. Dorjsuren**

**Director**  
**Vice Director**

**Training Center of the Ministry**  
**of Labor**

**Ulzii-orshikh Basangiin**  
**Batar**  
**Bethe**

**Director**  
**Teacher**  
**Teacher**

**Mongolian Technical University**  
**Chilhaajavyn Avdai**  
**Samdangyin Dashdavaa**

**Rector**  
**Vice-Rector**

**College of Commerce and Business**  
**Zhabzangiin Sukhbaatar**

**Director**

**Academy of Social Science Research**  
**(formerly the Higher Political School)**

**Gombyn Mijegombo**  
**Baasanjav**

**Rector**  
**Deputy Rector for Training and**  
**Research**

**Institute of Science and**  
**Technology Development**  
**Dorjin Nyamaa**

**Managing Director**

### IV. Private Sector Support Organizations

**Mongolian Chamber of**  
**Commerce and Industry**  
**Begzsuren Delgersuren**  
**Tserendash Altantuya**  
**David Khurts**

**Vice Chairman of the Presidium**  
**Officer**  
**Secretary-in-charge of the**  
**Arbitration Court**

Mongolian Union of Production Service Cooperatives Puntsagiin Jasrai Dorjiin Ganbaatar	President Manager of Cooperatives and Small Enterprise Development
Association of Mongolian Private Enterprises Managers Dagdanghyn Jantsan	Vice-President
Mongol-American Trade Council (MONAM) G. Bayart	Director
Central Council of the Federation of Mongolian Trade Unions Shilegiin Batbayar	President
Association of Mongolian Lawyers Baatarjav	President
<b>V. Financial Institutions</b>	
State Bank of Mongolia A. Minzh Naidansurengiin Zolzhargal	Director of Trade Finance Director of Correspondent Banking and Market Policy
Investment and Technological Innovation Bank Yadamjaviin Deriilaamyatav	Executive Director
Mongolian Cooperative Bank Mejed Terbish	General Director
Mongol Daatgal Bank (Insurance Bank) Ts. Tsend B. Bazarraghaa	General Director Deputy Director
Mongol Bank for Transport (Autobank) Danzanbalzhir Naidansuren	General Accountant Economist

Mongol Agricultural Cooperative Bank  
 Avarzed  
 Gomboragchaа  
 Director  
 General Accountant

Commodity Exchange Company "Attila"  
 Avirmediin Unenburen  
 Gurzhavyn Tsog  
 Radnaabazaryn Erdene  
 General Director  
 Commerce Director  
 Technical Director

Mongol Daatgal (National Insurance  
 and Reinsurance Company)  
 Tsultemyn Tsend  
 General Director

**VI. Mongolian Companies**

Bayantsogt State Farm  
 Chimidbaldiryг Hishigdalai  
 Chairman

Has Holdings Co. Ltd.  
 Enkhsaikan  
 Owner

Mongolian Geological and Geophysical  
 Exploration Company, Ltd.  
 A. Gurragchaа  
 M. Saandar  
 D. Tsedenbaljir  
 Uranchimeg  
 Badamhand  
 Enhkekeg  
 Chairman  
 Director, Technical Manager  
 Marketing Manager  
 Project Manager  
 Financial Manager  
 Economist

Lavai  
 Dorjgotovyn Bajandalai  
 General Director

S.J. Company  
 Amgalan  
 Vice President

2nd Knitting Factory  
 Ayushiin Zumaa  
 Director

Brick Processing Company  
 Och. Naidanzhav  
 Ch. Baatarsuren  
 General Director  
 Chief Engineer

Mongolminimetal  
 Turtogtokh Yangingiin  
 Deputy of General Director

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<b>Mongolian Electronics Corporation (MONEL) Sh. Yalalt</b>	<b>President</b>
<b>Mongolimpex Dagvyn Batmunkh</b>	<b>Vice President</b>
<b>Hurai Coporation (Desk-top publishing) D. Batzuli</b>	<b>Vice President</b>
<b>Mongolian Petroleum Company (MGT) B. Dendevchuluun D. Jargal-Saihan</b>	<b>Vice President Economist</b>
<b>Tsaidam Company (Glue Factory) Zhamtsiin Galindev</b>	<b>General Manager</b>
<b>Undral Company (Sewing Company) Badamyn Otgonjargal</b>	<b>General Manager</b>
<b>Bayanjurkh Cooperative (Cafeteria) Altangerel</b>	<b>General Manager</b>
<b>BAT Cooperative (Construction) Sukbaatar</b>	<b>Chief Engineer</b>
<b>Mongonsor Cooperative (Furs) G. Batbayar</b>	<b>General Manager</b>
<b>Horse Power International Ltd. (Conglomerate) Zoriglon Gombo</b>	<b>Director</b>
<b>Medical Factory of the Ministry for Health (Pharmaceutical) S. Baljin</b>	<b>Deputy Director</b>
<b>Devshil Company (Conglomerate) D. Tumurbaatar B. Erdenekhuyag</b>	<b>President Director</b>
<b>Tushig (Private Law Firm) D. Hurts</b>	<b>Chairman</b>
<b>Meat Processing Factory Lhachib-bal</b>	<b>Chief Engineer</b>

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<b>Soap Factory</b> Cherenbatyn Baterdene	<b>Director</b>
<b>Bolor Cooperative (Dry Cleaning)</b> B. Batbayar	<b>Director</b>
<b>Mongol Print Corporation</b> Nyamaagiin Enkhbold	<b>General Director</b>
<b>Juulchin Foreign Tourism Corporation</b> G. Batsukh B. Purevdalai	<b>Chairman</b>
<b>Bayshur Company (shoe repair/tailor/ laundry and drycleaning/beauty salon/retail store)</b> Bayarjargal	<b>Supervisor</b>
<b>Gobi (cashmere/camel hair/wool)</b> Ch. Tumenbayar	<b>Chief Engineer</b>
<b>The Baking and Candy Kombinat</b> N. Yaoamsuren	<b>Chief Engineer</b>

**VII Other Organizations**

<b>World Bank</b> David Pierce  Paul M. Cadario	<b>Division Chief, China and Mongolia Department Principal Country Officer, China and Mongolia Department</b>
<b>IRIS Center</b> Charles A. Cadwell	<b>Director</b>
<b>Mongolian-US Council</b> David Urubshurow	<b>Director</b>
<b>International Foundation</b> Gene Downey	<b>Vice President</b>
<b>Riggs Asia Limited</b> William L. Valentin	<b>Managing Director</b>

<b>United Nations Development Program</b> Benjamin Brown Marta Ruedas	<b>UNDP/New York</b> Programme Officer
<b>International Finance Corporation</b> Andreas Raczynski	<b>Deputy Director, Engineering</b> Department
<b>Embassy of Japan (Mongolia)</b> Kikuchi	<b>Second Secretary, Economic Section</b>
<b>Amicale Industries</b> Boris Shlomm	
<b>The International Securites</b> Consultancy Limited John J. Kolosky	<b>Associate Consultant</b>
<b>British Embassy (Mongolia)</b> J.L. Hartley	<b>Second Secretary</b>
<b>Embassy of the Federal Republic of</b> Germany (Mongolia) Henriette Thiel	
<b>Institute of Economics</b> Luusandorj	<b>Rector</b>
<b>Institute for Market Research</b> Sambuugiin Demberel Damdinsurengiin Batbayar	<b>Director</b> Economics Policy Division
<b>Institute of Science and</b> Technology Development Dorjin Nyamaa	<b>Managing Director</b>
<b>ESP Institute (UNESCO)</b> Ian Kidd	<b>Project Director</b>
<b>CUNY, Brooklyn College</b> Gregor Lazarcik	<b>Professor</b>
<b>Rensselaer Polytechnic Institute</b> Alexej Wynnyczuk	<b>Professor</b>

**Cornell University**  
**George J. Staller**

**Professor**

**United Nations Secretariat**  
**Jozef van Brabant**

**Department of International  
Economic and Social Affairs**

**Mongolian Mission to the  
United Nations**  
**Munk Orgil**

**Third Secretary**

**Embassy of the Mongolian People's  
Republic (United States)**  
**Nadmidyn Bavuu**

**Trade and Economic Counselor**

**ANNEX IV**  
**BIBLIOGRAPHY**

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