

USAID MONGOLIA

COUNTRY STRATEGIC PLAN

1999-2003

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I. EXECUTIVE SUMMARY

Mongolia has made significant progress in both its political and economic transformation from an authoritarian, communist state to a democratic, free-market economy. USAID has played an instrumental role in helping Mongolia through this difficult transition. While its political evolution appears more far-reaching than its economic transformation to date, Mongolia distinguishes itself among similar nations by its commitment to both democratic and private sector principles. Yet, the transformation is far from complete and the outcome far from assured.

Due to the election of the Democratic Coalition in 1996 and its mandate of accelerated economic reform, USAID has a very special window of opportunity to help Mongolia complete the transition. USAID can assist Mongolia to attain and sustain high levels of broad economic growth in the next decade and thereby demonstrate the fruits of a free-market democracy to its citizens. The current government has the political will to complete the process of privatizing the economy and spreading the benefits of resultant economic growth more broadly. Once accomplished, and with projected revenues from mineral resources, Mongolia should “graduate” from donor assistance during the next decade. Left behind will be a successful political and economic transition and an invigorated private sector.

The goal of the USAID country strategy for 1999-2003 is to help Mongolia establish a market-oriented and democratic society. Two strategic objectives have been identified: (a) The consolidation of Mongolia's democratic transition; and (b) the accelerated and broadened, environmentally sound private sector growth. The relationship between political and economic objectives is a salient feature of Mongolian society and USAID's program marries both objectives.

The democratic transition in Mongolia has been underway for almost ten years and has resulted in a new constitution; independent executive, legislative and judicial branches of government; guaranteed personal freedoms; decentralization of government; and the emergence of a civil society. USAID has played a key role, contributing to the growth of non-governmental organizations in Ulaanbaatar, and political party and legislative strengthening. However, the gains made to date could be eroded if continued support is not focused on remaining shortcomings. These revolve around the possible disaffection of rural Mongolians with the reform process and the dangers of a gradual regression into old ways of governing.

Mongolia's transition to democracy will be consolidated through two intermediate results. The first will establish the foundation for an effective rural civil society. Rural business associations, women's groups, local chambers of commerce, herders' associations, and progressive cooperatives will benefit from USAID assistance in selected regions with high growth potentials and demonstrate a bottom up approach to development heretofore untried in Mongolia. The second intermediate result will improve the effectiveness of Parliament and the judiciary. In order to safeguard against authoritarian recidivism, it is necessary to improve the effectiveness of an independent Parliament and judiciary, as well as associated political parties and the legal profession. By the end of this strategy, rural civil society organizations will have the capabilities to address and represent members' concerns. The Parliament, political parties, judiciary and legal profession will become more professional and more accountable to the people they serve. Support to these national democratic institutions should be completed over the strategy period.

Economic growth resumed in 1994, following years of contraction after the loss of Soviet subsidies and concessional terms for trade. Mongolia's sound performance under International Monetary Fund agreements has helped stabilize the economy and bring down inflation. Assistance to the Office of Prime Minister has allowed USAID to play an instrumental role in economic achievements to date. For example, USAID directly assisted Mongolia to eliminate all customs taxes and duties, giving Mongolia one of the world's most open trading regimes. Despite such accomplishments, economic growth is simply not occurring at a rate sufficient to raise living standards, extend benefits to a larger population, reduce vulnerabilities to external shocks, and ensure the consolidation of the democratic transition. To overcome this dilemma, Mongolia needs to improve efficiency throughout the economy and increase investment.

This will result in accelerating and broadening private sector growth. Four intermediate results have been identified. The first will transfer productive assets now under state control to private ownership; increasing the private sector's share of enterprises from 60% to 75% over the strategy period. These will be major state-owned enterprises involved in agriculture, industry, mining and infrastructure. This transfer will improve productivity through private management and increased competition. The second intermediate result will increase the efficiency of financial markets. This will be accomplished by privatizing banks, establishing independent and transparent capital market institutions, and putting the pension system on a sound financial footing. The third intermediate result will improve the business environment. This will be accomplished through improved policies, information, production practices and marketing; resulting in growing output and increased participation in the economy. The fourth intermediate result will improve the management of the natural resource base for long-term sustainable use. This will be done by addressing issues involved in pasture and crop land degradation and through better management and planning of the Lake Hovsgol region for sustainable development.

One of the key features of this strategy is focusing attention on rural Mongolia, where economic hardship is greatest, where the needs are significant, and where very little attention is being provided. Both democracy/governance and economic growth interventions will work in tandem to stimulate rural economic growth and rural civil society.

This strategy has been formulated assuming a resource level of \$48 million over the next four years. Two lower scenarios are also provided. Should resources fall below the medium level scenario (\$40 million), a significant modification of the program will be required. The strategy has also been formulated so that it can be managed with one U.S. direct hire officer, in addition to program funded USPSCs and FSNs. This management constraint, coupled with modest resource levels, dictates a highly focused program.

II. ASSISTANCE ENVIRONMENT AND RATIONALE FOR STRATEGY

A. Overview

Mongolia stands at a critical juncture in its transition to an open market and democratic society. Since 1991 the country has made significant strides in its political evolution and has begun its economic transformation. Although this dual transition has resulted in positive change, it remains incomplete. Political and economic reforms must be deepened and Mongolians need to realize the benefits of reform through an improved standard of living. Fortunately, the prospects for continued and deepened reforms are excellent, as the government is committed to accelerating the reform process.

Universally-recognized free and fair local, parliamentary, and presidential elections have been held over the past eight years. The Constitution ratified in 1992 guarantees basic democratic rights and political freedoms including freedom of movement, speech and assembly. A community of non-governmental organizations (NGOs) has emerged in Ulaanbaatar that represents citizens' interests and addresses topics such as political awareness and gender issues. Over 700 NGOs are registered with the Ministry of Justice, up from 7 in 1992, although only 50 are truly active. The current Democratic Coalition government was elected in 1996 on a platform of accelerated reforms. They have made dramatic progress in the past two years. The government has established macroeconomic stability, continued the privatization begun in 1991, liberalized basic food and energy prices, and abolished nearly all import tariffs.

Despite the gains made through these reforms, Mongolia still faces serious problems. Mongolia's low level of economic activity and its vulnerability to economic shocks represent a critical development challenge. In 1995 the World Bank estimated that 36% of the population lived below the poverty line¹. From 1991 to 1996, per capita expenditures on education and health fell 53% and 42% respectively, reducing both access to and quality of education and health services. Mongolia remains isolated due to poor transport and communication infrastructure that contributes to minimal integration into global or regional markets. Many key industries and sectors remain in state hands, including utilities, mining, industry and banking. While foreign investment has increased in recent years, it still stood at only \$41.6 million in 1997. The Parliament passed a number of commercial

A compelling case exists for USAID's active role in Mongolia's economic growth and transformation to a democratic society. USAID support over the strategy period will establish a viable basis for sustainable development, and begin to demonstrate tangible results of reform, especially in rural areas. The vision is that Mongolia will be able to sustain high levels of broad economic growth and thereby demonstrate the fruits of a free-market democracy to its citizens in the next decade. In five years, all important features of a fully-functioning and democratic market economy will be firmly in place, and the groundwork laid for increased economic activity and democratic governance in rural Mongolia.

¹ This is based on the Living Standards Measurement Survey data generated in 1995 by the World Bank. The Government of Mongolia uses its Household Budget Survey data to calculate poverty rates, resulting in a 19.6% incidence of poverty.

laws but ambiguity in wording and lack of information have led to interpretation and enforcement difficulties. Banking, legal and other institutions necessary for the smooth functioning of a private market economy and democratic society are still underdeveloped.

1. Economic Environment

Economic growth resumed in 1994, after years of contraction following the loss of Soviet subsidies and concessional terms for trade from the Council of Mutual Economic Assistance. Growth peaked in 1995 at 6.3 percent as a result of booming copper prices. After falling to 2.6 percent in 1996, Gross Domestic Product (GDP) growth recovered to 3.3 percent in 1997. Mining and services, particularly transport and communication, led economic growth, while most industrial production fell. Official unemployment grew by 15 percent from 1996 to 1997, reflecting the closure of several state-owned companies, decline in crop farming, breakdown of public services in aimags due to budget constraints, and reduction in civil service employment. Modifying this trend, particularly in Ulaanbaatar, is the growth of employment in the informal sector, brought about by ease of entry due to policy reforms². Although official estimates place unemployment at 7 percent of the labor force, the true number of unemployed is estimated to be over 20 percent.

Despite the privatization of 45 percent of state-owned enterprises (SOEs) and 72 percent of livestock that occurred in the early 1990s, the state is still deeply involved in the productive sectors of the economy. Agriculture constitutes a third of GDP. While the livestock subsector is largely privatized, the majority of farms and processing facilities remain controlled by state enterprises. Industry, including mining, which also comprises one-third of GDP, is still nearly two-thirds in state hands. Public enterprises dominate the transportation sector, while private enterprises dominate retail trade. Firms which are at least partially privatized tend to be more profitable than those which are 100 percent state-owned.

Mongolia's sound performance under International Monetary Fund (IMF) agreements has helped stabilize the economy. Because of the reliance on export revenues from copper, the drop in world copper prices is having a sharp impact on government revenues. Elimination of almost all import duties also created concerns for the budget. The Government of Mongolia (GOM) agreed to a new package of measures in May 1998 that included introduction of a value-added tax of 13 percent in July 1998, imposition of additional excise taxes on imported petroleum, and a new, IMF-mandated export tax on gold. This new package is a major step towards the establishment of a revenue base that is less dependent on copper. However, there are serious concerns regarding the impact of the gold export tax on private investments in mining.

The tightening of monetary policy in early 1997 contributed to exchange rate stabilization and the inflation rate decrease. Inflation remained over 50 percent per year until recently, but declined sharply in 1997 to 20 percent for the year. In the first eight months of 1998, inflation was at an annualized rate of 7.2 percent. A preliminary rate for 1998 is approximately 8 percent. The financial sector does not meet the capital needs of the country. The government intends to privatize

²Policy Research Working Paper, 1996. "The Size, Origin and Characteristics of Mongolia's Informal Sector During the Transition." James Anderson, the World Bank Development Research Group and Asian and Pacific Southeast Asian and Mongolia Country Unit, May, 1998.

the financial sector and has taken the initial steps to do this. In December 1996, the Bank of Mongolia closed two large insolvent banks.

Mongolia has adopted liberal trade policies and is a member of the World Trade Organization. Copper, which accounts for half of total exports, and cashmere are likely to remain the principal exports over the medium term, although other products such as leather goods, gold, and uranium are expected to expand. The decline in international prices of copper and cashmere worsened the terms of trade and adversely affected export earnings, a common problem for countries dependent on commodity exports. The economy will improve considerably if Mongolia can expand and diversify exports. The expectation is that mineral exports can displace the need for much donor assistance within the next decade.

2. Socio-political Trends

The 1992 Constitution transformed Mongolia into a presidential and parliamentary democracy. It provides for the independence of the President's office, the Prime Minister's office, the Parliament (State Great Hural), and the judiciary. It recognizes personal freedoms and the right of the people to participate in governing the state, as well as the duty of the state to ensure democracy, justice, and respect for the rule of law. The June 1996 Parliamentary elections brought the reformist Democratic Coalition to power, giving them 50 of 76 seats. The Coalition has only been in power for a short time, and lacks the political experience and established structures of the formerly communist Mongolian People's Revolutionary Party (MPRP) opposition.

Transforming socialist regimes can be broadly characterized along Chinese and Eastern European models. The Chinese model emphasizes economic liberalization over political openness while the Eastern European model simultaneously addresses political and economic reform. Mongolia has chosen the latter model, making it the only country in the Asia-Pacific region to do so.

Another important aspect of Mongolia's reforms has been the decentralization of state power to the aimag (provincial) levels and below. Decentralization encourages greater accountability of local government to communities, and given the dispersed population, is an important effort to match government to local needs. Mongolia's decentralization has only been partially achieved. Many of the legislative reforms regarding decentralization are on paper, but are not practiced. Budgetary independence and improved local capacity for planning, management and administration are needed for more effective local governance.

Mongolia has undergone significant political changes, but economic decline and the resulting social dislocations could challenge democratic reforms. Many aimag and soum (district) centers have significant levels of poverty. The government estimates that 41 percent of the very poor (those at less than 40 percent of the poverty line) live in aimag centers and 23 percent live in soum centers. The average per capita intake of calories has risen in recent years, but has not reached pre-transition levels. Privatization of SOEs and the collapse of inviable enterprises has led to the loss of jobs. Many households have returned to herding as a livelihood as other opportunities for employment are extremely limited. As a result, average output per herding household has declined significantly,

despite growing herds.

Other human development indicators are also suggestive of the country's tenuous state of affairs. Literacy rates, while high (above 95% for both males and females over 15 years of age), have decreased slightly. School enrollment rates have fallen throughout the country, particularly for boys, who are pulled out of school to assist with herding. Declining primary and secondary education enrollment is particularly detrimental to a country with 46 percent of its population 18 years of age or younger.

Maternal mortality was 1.77 per 1,000 births in 1996 nationwide, but masks the fact that the rate is twice as high in rural areas. While the rate is lower than in immediately preceding years, it is higher than the average rate of 1.4 per 1,000 births from 1985-1989. Infant mortality has fallen in the 1990s, but there is reason to believe that recording of deaths has lapsed. Again, large differences in infant mortality rates exist among cities, aimags, and soums. Respiratory infections cause half of all infant deaths and are a serious health concern for the entire population, comprising 32 percent of all major diseases in 1996. This reflects both environmental health problems as well as behavioral factors such as smoking. Incidence of sexually-transmitted diseases (STDs) is rising rapidly. It is estimated that nearly 650,000 Mongolians do not have access to safe water, and a further 522,000 have no access to basic sanitation.

The continued advancement of women is also under threat. Women and men enjoy equal status under the law and have received equal opportunities, by and large, for capacity building and human resource development. Although the Soviet system had guaranteed a certain percentage of women's representation at decision-making levels of government and enterprises, and Mongolian society does not discriminate against girls to the extent of many other developing countries, important power imbalances remain. Men hold dominant economic and political decision-making power. Women tend to be employed in lower wage sectors than men, have less job security, and are often overlooked for promotion. Since 1991, women have comprised more than 50 percent of the registered unemployed. Women, particularly in rural areas, are often unable to participate in social or political life due to the double burdens of work and home. Alcoholism is rampant and causes increased domestic violence. A 1995 survey found that one in three women in Ulaanbaatar suffered from domestic violence.

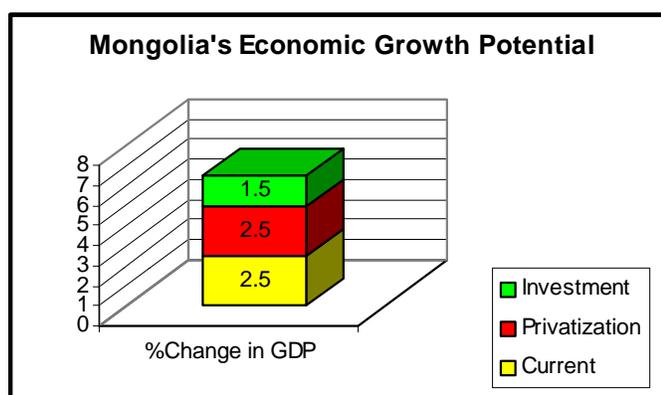
B. Development Constraints and Opportunities

Mongolia provides an excellent environment for assistance programs to support democratic institutions and economic growth. The dramatic political reforms of 1990 set the stage for a democratic transformation. Economic policies are largely in place for an equally dramatic economic transformation. The Democratic Coalition is committed to market principals and democracy and it is eager to follow through on its program of economic reforms.

Mongolia's macroeconomic stability, open trade and investment regime, and comparative advantage in copper, cashmere and other commodities auger well for economic growth. Mongolia has the potential to achieve economic growth rates rising to between 5 and 7 percent within the next five years. However, according to a recent study commissioned by USAID, with current trends in capital and labor productivity and investment levels, Mongolia's GDP is projected to grow at the

modest rate of 2.5 percent per year³. Under this low growth scenario, Mongolia would make little progress in reducing poverty or reducing the decline in social sector spending and services. Its ability to sustain its political and economic transition could be questioned.

Growth could be increased to nearly 5 per cent per year by improving the internal efficiency of Mongolia's economy through privatization and financial sector reforms. Privatization would lead to improved management, raising the productivity of capital and labor. Financial sector reforms, including bank privatization, would increase the efficiency of financial intermediation. Domestic savings would increase when a reformed financial sector offers better services, returns and safety. Successful reform and growth in Mongolia would attract foreign capital as well as technical and managerial expertise. Even modest increases in investment, combined with internal efficiency gains, could raise economic growth rates even further, to 6.5 percent per year. At these higher rates of growth, the economy would be able to raise the standards of living of more Mongolians and arrest the increase in poverty. The GOM would also be able to expand spending in the social sector to improve health and educational services that have deteriorated since the fall of the communist state.



USAID has the opportunity to help to shape dramatic democratic and economic developments in Mongolia. USAID enjoys an excellent working relationship with the GOM based on a track record of sound policy guidance. Furthermore, with a population of only 2.4 million, a small amount of assistance can reach significant numbers of people and make a significant impact. The window of opportunity currently available argues to intensify USAID assistance.

Substantial constraints remain to the realization of Mongolia's development potential. The foundations for a democratic, open market society are neither fully nor firmly in place. The country's rapid embrace of free market economic policies and resulting tensions at the intersection of new political institutions and an emerging civil society pose a threat to political stability.

Mongolia's Development Constraints:

- ▶ *Foundations for democracy not firmly in place;*
- ▶ *Economy inefficient with low investment levels;*
- ▶ *Economy vulnerable to external shocks;*
- ▶ *Poor communications and transport networks; &*
- ▶ *Environmental degradation.*

³Development Alternatives Inc. "Foster Economic Growth in Mongolia: Prospects and Policy Options", Stanley Black, Wing Woo, Neal Nathanson, William Bikales and Chimid Khurelbaatar, June, 1998.

Bringing the benefits of an open political system to people outside of the capital city is a major concern. Significant structural problems still exist within the institutions of government, and Mongolia's nascent civil society is not yet able to represent effectively the interests of the people.

While the Democratic Coalition government is committed to continued and accelerated economic and political reform, many of its members are young and inexperienced. Its position is often under challenge from the MPRP, which has been a political force for over 70 years. The executive, legislative and judicial branches of government do not fully appreciate the need to communicate effectively among themselves and with citizens. Citizens have few mechanisms through which their needs can be heard and translated into the policy-making arena and few mechanisms to ensure government accountability. The lack of faith in the judiciary suggests that the public is not convinced that they live in a society governed by the rule of law. Finally, citizens do not fully recognize their responsibilities in a democratic, open market society where the state no longer assumes the burden of providing for most of their needs.

Mongolia's poor communication and transport network increases the isolation of rural Mongolians, and constrains the free exchange of ideas that is so important to any modern, democratic society. Although the population is small, two-thirds live outside Ulaanbaatar, and 25 percent of those are dispersed in rural areas outside of aimag and soum centers. These factors make the provision of basic services in rural areas even more difficult. The danger exists that citizens, particularly in rural areas, may reject reform if they do not realize benefits.

The principal constraints to Mongolia's economic growth are inefficiency and low levels of investment. In order to realize Mongolia's investment potential, efficiency constraints must be addressed. Economic efficiency is constrained by: the pervasive role of the state in the ownership of productive assets and the regulation of private activity; a poorly functioning financial system; the breakdown of market institutions and essential services since the end of the Soviet era; poor transportation and communications; and human resource and technological gaps.

Mongolia is also vulnerable to external shocks which influence the pace of economic growth. The current financial crises in Asia and

Impacts of the Asian and Russian Financial Crises:

- ▶ *Lower prices for copper, cashmere and other exports;*
- ▶ *Reduced foreign investment and aid flows;*
- ▶ *Decline in government revenues;*
- ▶ *Slower growth;*
- ▶ *Persistent poverty;*
- ▶ *Reduced popular support for economic reforms.*

Russia are hurting export revenues and slowing new investment and aid inflows. The growth scenarios presented above assume that the world price of copper, Mongolia's principal export, will remain at the current, historically weak levels. The higher growth scenario assumes, conservatively, that foreign investment will increase from \$40 million to \$100 million per year over the next five years. If export revenues or capital inflows fall below these levels as a result of the current crises, short-term growth prospects will be adversely affected and it will take Mongolia longer to achieve its growth potential. This points to the need for further emphasis on growth and diversification of the Mongolian economy which will only be sustainable if resources are allocated more efficiently.

Finally, environmental degradation is a constraint to sustainable economic development. As herders seek the better services and markets of larger population centers, localized pressures on range land are increasing. Wells providing crucial water supplies for people and livestock are suffering from neglect. Inappropriate crop cultivation practices are contributing to soil degradation and erosion. Forests and protected park lands are also threatened by unsustainable and often illegal logging. The situation is compounded by the fact that Mongolia's environment is unusually fragile due to its geography and climate.

C. Relationship of the Strategy to U.S. Foreign Policy

USAID's strategy to accelerate private sector growth and consolidate gains in democratic reform complements U.S. Government objectives to support Mongolia's transformation into a democratic, prosperous and stable country. The Mission Performance Plan for Mongolia from 1998-2000 embraces USAID activities. The Department of State recognizes that the transition to a healthy and democratic political life and open economic system is on the cusp, and therefore strongly supports continued and increased assistance to Mongolia.

USAID's strategy directly supports several goals outlined in the Mission Performance Plan:

- Foster the development of representative democracy and the judiciary as well as a strong and participatory civil society including independent NGOs in rural areas.
- Strengthen the policy and institutional framework for accelerated broad-based private sector growth.
- Work with the GOM to eliminate non-tariff barriers to trade and investment such as outdated laws, lack of transparency, and corruption.
- Increase U.S. portion of Mongolia's imports through trade and investment-led growth.
- Enhance the role of women in Mongolian society.

D. Strategy Relationship to Host Country Priorities

USAID's proposed strategy supports the Government of Mongolia's priorities for strengthening democratic institutions and further liberalizing its economy. To ensure that democratic reform is sustained, the Government of Mongolia has placed priority on improving the legal and regulatory environment, decentralizing government, and training public officials who can support the reform process. USAID/Mongolia's strategy contributes to the GOM's priorities of strengthening the legal and regulatory environment and increasing the knowledge base and integrity of the judiciary. Strengthening local government is also an important feature of USAID's Rural Civil Society Program.

Macroeconomic stability is a necessary precondition for increased savings and investment, and USAID will continue to provide support in this area through its Economic Policy Support Project (EPSP). USAID's strategy in Mongolia also addresses the other two priorities through assistance for privatization, support for financial sector restructuring, and strengthening institutions that support the private sector. Through its privatization assistance, USAID will help eliminate inefficiencies endemic in state-owned enterprises, stimulate investment, and decrease opportunities for corruption. USAID's activities rural development activities directly supports the GOM's policy to expand economic and social development outside of the capital.

The Government of Mongolia intends to undertake a sweeping reform program that will dramatically transform their economy into a full-fledged market economy dominated by the private sector. Their strategy is based on three inter-related objectives: (i) establish macro-economic stability; (ii) reduce the size of the state; and (iii) foster private sector development.

The Government of Mongolia also desires to improve infrastructure for greater economic and social integration and support for private sector development. Road construction and communication development, particularly Internet service and satellite transmission systems to spread educational and economic information, are both priorities for the GOM. USAID will explore use of information technologies on a trial basis. However, improvement of Mongolia's transport network is outside of USAID's manageable interest, and the GOM intends to enter negotiations with the World Bank and Asian Development Bank (ADB) to address this priority. The Embassy may support local road and infrastructure development utilizing local currency generated through U.S. donated food programs.

E. Role of Other Donors

The Tokyo Donors' Meeting in October 1997 resulted in pledges of over \$250 million for 1998; 70 percent in the form of long-term soft loans and 30 percent as grant-in-aid. Japan, the Asian Development Bank (ADB), and the World Bank are the largest donors. The ADB has a lending program of approximately \$278 million over 1998-2001, and additional technical assistance grants of \$17 million. It is involved in energy, transport, agriculture, education, law, public administration and finance sectors. Japan's program of \$60 million in 1998 concentrates on energy and transport. The World Bank also focuses its loan assistance on energy (coal) and transport, and provides assistance to the banking and poverty alleviation areas as well.

Several other donors are active in Mongolia including the United Nations Development Program (UNDP), European Union's (EU) TACIS, Germany's GTZ and KfW, and France. Annex B summarizes major donor activities by sector. Many activities, particularly the few in rural areas, are pilot projects. USAID has chosen to work in areas with relative inattention from other donors, that complement other donor activities, respond to needs identified by the GOM, and take advantage of USAID's comparative strengths and expertise.

Despite large amounts of international assistance, the full benefits may not be realized due to lack of donor coordination, as donors may duplicate activities, miss opportunities to collaborate, or even worse, contradict or compete with each other. Donor coordination has recently taken on added

importance as the possibility of foreign aid cutbacks in Mongolia is faced, due to the Asian economic crisis. The GOM has recently voiced concerns over donor assistance, and has responded positively to USAID's offer to help with donor coordination.

F. Strategy Development Process

The strategy was developed in consultation with a number of customers, partners and stake-holders over the past year. These have included officials of the GOM at the national and local levels, international and local NGOs, American and Mongolian business leaders, and the Embassy.

USAID has established close relations with the Prime Minister's Office, the Ministry of Finance, the Bank of Mongolia, the Ministry of External Relations, the Ministry of Infrastructure Development, the Ministry of Agriculture and Industry, the Ministry of Health and Social Welfare, the Ministry of Justice, and the Ministry for Nature and the Environment; in addition to several parliamentary working groups. USAID has also consulted with the two major political parties, the Democratic Coalition and the MPRP, as well as important private sector supporting agencies such as the Board of Foreign Investment and the Mongolian Chamber of Commerce and Industry. All are knowledgeable of the existing USAID program and have been consulted on the directions the new program may take.

Over the past year, the USAID Mission Director and local staff have spent an average of five days each in ten of the eighteen aimags of Mongolia discussing rural development issues with local governments, NGOs, business people, herders and farmers in the aimag centers, selected soum centers, the rangeland and private farms. These discussions, along with analytical material developed by other donors and an advisory group consisting of a number of Ulaanbaatar-based NGOs and cooperative organizations, formed the basis for USAID's Rural Civil Society (RCSP) and Strengthening Participation and Institutional Capacities in Enterprise and Market Development in Rural Mongolia (SPICE) programs.

USAID/Mongolia also commissioned two studies to inform the strategy development process. One study explored options for raising Mongolia's sustainable growth rate by using a simulation model that projects growth under various policy and investment scenarios that increase the efficiency of capital and labor. The study also examined constraints to private enterprise growth. The second study assessed the current state of the environment, and identified the subsectors faced with the most serious problems. Other key documents were reviewed in preparation for the strategy, including recent assessments of gender issues and the democracy/governance environment in Mongolia, as well as various papers prepared by other institutions.

The Embassy has started a U.S. Business Council in Ulaanbaatar, consisting of U.S. business representatives working in Mongolia. USAID's participation in monthly meetings has been an extremely valuable source of information on both the policy environment for trade and investment, as well as the development of specific programs to assist the private sector and increase foreign investment.

III. PROPOSED STRATEGIC PLAN

A. Linkage of the Strategy to Agency Goals and Objectives

The Mission compared conditions in Mongolia to the standards in the six areas targeted as Agency goals--economic growth and agriculture, democracy and governance, human capacity development, population and health, environment, and humanitarian assistance. All Agency goals, with the exception of humanitarian assistance, revealed needs sufficient to warrant USAID attention. Based on extensive consultations with customers, partners and stakeholders and a review of donor programs, the Mission decided to focus its strategy on two mutually reinforcing Agency goals--broad-based economic growth and strengthened democracy and governance.

This strategy will focus on rural Mongolia, where three-fourths of population resides, reflecting the belief that economic gains must reach beyond the capital city, in order for a vibrant democracy to survive. This is a pioneering approach in Mongolia, and is a significant departure from previous USAID and other donor programs. However, the approach we are recommending is doable, and will have results by the end of the strategy period. USAID firmly believes that the time is right to begin work in rural Mongolia and that significant economic and social gains can be realized.

Due to the importance of ensuring that economic growth is sustainable, the strategy includes the promotion of environmentally-sound methods of accelerating economic growth.

USAID/Mongolia's strategy directly contributes to several Agency objectives including:

- strengthened and expanded private markets;
- enhanced agricultural development;
- expanded access to economic opportunity for the rural and urban poor;
- development of politically active civil society;
- more transparent and accountable government institutions; and
- strengthened rule of law.

While human capacity development and health protection are important issues in Mongolia, many donors, led by the EU, ADB, World Health Organization (WHO) and UNICEF, are active in this area. In the education sector, the ADB and EU support programs to strengthen capacity and address issues in basic and higher education. The UNDP supports pre-school education. The Soros Foundation is supporting curriculum reform in the social sciences and in secondary schools.

In the health arena, WHO holds training workshops for health care workers, teachers, and trainers at both central and aimag levels on immunization, reproductive health, diarrhea, acute respiratory infection, and STD awareness. WHO has also trained volunteers to improve community participation and supported the Ministry of Health in creating partnerships with the media and other organizations to create an informed citizenry. The ADB will soon begin a major health sector reform program.

UNICEF, with USAID support, has provided supplies and equipment for child immunization and respiratory disease treatment and education. Germany has helped revise training curricula in the area of reproductive health. To help address micronutrient deficiency, Japan and UNICEF supply equipment and support education and communication activities to promote use of iodized salt. Danish funding developed health learning materials. The UNDP is working to strengthen social

marketing of contraceptives.

Under the 1994 - 98 country assistance strategy, USAID has been providing emergency support to sustain electricity supplies through Mongolia's harsh winters as well as support for policy and institutional reforms. This assistance began in 1991, on the heels of the breakdown of Soviet control. In total, USAID has provided \$45.3 million in spare parts and fuel, and diesel generators to five aimag centers. Support to the Mongolian power production system is largely complete. USAID's focus in the energy sector is now shifting from relief to sustainable development, while other donors are helping to finance new investments in electricity generation.

B. Program Goals and Subgoals

The goal of the USAID/Mongolia Country Strategy Plan for 1999-2003 is “to establish a market-oriented and democratic society.” Two strategic objectives have been identified to realize this goal:

SO1: Consolidate Mongolia's democratic transition; and

SO2: Accelerate and broaden environmentally sound private sector growth.

Over the strategy period we expect the following to occur:

Civil Society Organizations will be addressing the economic needs of rural Mongolians, and rural Mongolia will be better integrated into the national economy.

Public trust in Parliament and the judiciary will improve due to increased professional and ethical standards.

Increased savings and investment will occur due to an efficient and transparent privatized banking system, establishment of an independent and transparent capital market authority, and pension reforms.

Three quarters of the economy will be in private hands and the private sector will be considered the true engine for sustained economic growth.

The Mongolian economy will be growing at a 5% rate and growth in most of rural Mongolia will be positive.

USAID/Mongolia's strategy is based on the belief that activities should capitalize on the synergies that exist between economic growth and strengthening democratic governance. A substantial body of scholarship demonstrates the importance of democratic governance to economic performance, and vice-versa. The

The strong will of the Mongolians make USAID's objectives more than a vague promise, but something which is within our manageable interest to achieve. Few, if any, countries where USAID programs are active provide this opportunity, and it would be a mistake to lower our sights in an environment which holds so much promise. Mongolia's decision to embrace democracy and the free market simultaneously provides a strong argument in favor of treating these as mutually reinforcing goals. Mongolia has the desire to reform and grow. USAID and other donor programs should provide needed support for Mongolia to achieve its objectives.

mechanisms by which an economy influences democratic governance include (i) providing neutral rules (the "rules of the game") and (ii) pluralistic structures which encourage actors to engage in business activity, thus providing a broader distribution of wealth and income. The strategy considers economic growth a necessary condition for democracy to flourish since it is the benefits of growth that the general populace expects to share. Indeed, a 1997 UNDP survey showed that the immediate hopes of Mongolians are to be employed and increase incomes. Economic growth also correlates positively with the private sectors' level of trust in government to carry out declared policies and to meet its obligations.

Just as democracy and economic growth are intertwined in Mongolia, so is the relationship between the environment and economic growth. This relationship and the importance of addressing environmental considerations to ensure long-term sustained economic growth.

C. Strategic Objective 1: Consolidate Mongolia's Transition to Democracy

1. Overview

The process of democratic transition in Mongolia has been underway for almost ten years and has resulted in a new constitution; independent executive, legislative and judicial branches of government; guaranteed personal freedoms; decentralization of government; and the emergence of a civil society in the form of non-governmental organizations. However, democratic institutions and processes remain fragile. Therefore, USAID will help consolidate Mongolia's transition to democracy over the next five years.

USAID MONGOLIA COUNTRY STRATEGY PLAN 1999-2003

Goal: To establish a market-oriented and democratic society

SO1: Consolidate Mongolia's
democratic transition

SO2: Accelerate and broaden
environmentally sound
private sector growth

IR1.1: Establish the foundation for
an effective rural civil society

IR2.1: Transfer productive assests
to private ownership

IR1.2: Improve the effectiveness
of Parliament and the Judiciary

IR2.2: Increase the efficiency
of financial markets

IR2.3: Improve the business
environment

IR2.4: Improve the management
of natural resource base for
long-term sustainable use

Two intermediate results will further consolidate Mongolia's transition to democracy:

The first intermediate result will "establish the foundation for an effective rural civil society" by assisting civil society organizations to provide services to members and to represent the interests of rural members to local and national government. By the end of five years, we would expect that:

- Rural business associations, chambers of commerce, cooperatives and other civil society organizations will be functioning in up to six economic growth centers. These are rural areas having an identified high growth potential from sources including livestock, food crops, agro-industries, mineral extraction, and ecotourism.
- The role of women in program areas will be enhanced through the support of women-based NGOs.

The second intermediate result will "improve the effectiveness of Parliament and the judiciary". These governmental institutions are essential to democracy and assistance will be provided to Parliament, political parties, the judiciary, and the legal profession. Over the strategy period, we expect that:

- Parliament and its political parties, and the judiciary and associated legal profession, will become more professional and more accountable to the people they serve. Parliament and political parties will be more representative of constituent interests, and the judiciary will better administer justice. Both will serve as effective counterpoints and checks to excessive executive government actions.

USAID support to Parliament, political parties, judiciary and legal profession should be completed over this strategy period.

2. Past Achievements

During the past five years, USAID was able to play an important role in supporting Mongolia's transition to a democracy. The viability of civil society organizations in Ulaanbaatar now appears assured; and the judiciary, Parliament, and political parties have received and benefited from essential technical support and training.

USAID, through supporting the work of The Asia Foundation, contributed to the growth and development of a number of Ulaanbaatar-based NGOs. As a result, many of the country's most dynamic NGOs developed the skills necessary to organize themselves effectively and to advocate for essential changes in government policy. Examples include passage of the country's NGO Law by Parliament in 1997; completion of the first draft of landmark domestic violence legislation by the Women Lawyers' Association; the

Mongolia's Democratic Record

- ▶ ***1992 Constitution guarantees personal freedoms;***
- ▶ ***3 free/fair Parliamentary and 3 Presidential elections;***
- ▶ ***Uncensored political debate and free media***

completion of the first citizen manual on the presidency; and establishment of an NGO network to monitor the government's implementation of the provisions of the U.N. Convention to Eliminate All Forms of Discrimination Against Women.

Working with the judiciary and Mongolian legal specialists, the International Development Law Institute (IDLI) drafted the country's first bench book to serve as reference material and a training guide for Mongolian judges, on various aspects of civil law in the Mongolian language. The document has been published and training in its use is underway. This activity will be completed in 1999, and already members of the judiciary have recognized this work as making an important contribution to the administration of justice.

USAID began supporting the work of the International Republican Institute (IRI) in 1996. IRI has taken the lead in the area of legislative development, basic skills related to parliamentary procedure have been taught, and public outreach efforts to constituencies have begun. Parliament and political parties have conducted town hall meetings, posted office hours, and now meet on a fairly regular basis with NGOs and other special interest groups. Work with the legislature and political parties has intensified in recent months, and greater emphasis is now being placed on the training of district representatives.

3. Problem Identification

While Mongolia has made substantial progress in its political evolution, the gains made to date could be eroded if continued support is not focused on remaining shortcomings. Mongolia's constitution which establishes individual rights and democratic institutions is only six years old, and there is little in Mongolia's history to assure a democratic future. While there is a general political will to adhere to democratic principles, the development of many of the institutions essential to a democracy is not complete. Economic and social policy-making comes from state organizations, created during the Soviet era when citizens rarely had an opportunity or the means to participate in decision-making and in a market economy. In such an environment, the dangers of a social backlash against reforms and sentiment in favor of a centrally-directed economy could increase. The election of an MPRP President in 1997 was an indication.

One major threat to a continued democratic outcome is public disaffection in rural areas. As noted earlier, poverty is still endemic in provincial and district centers due to economic decline and diminished public services. In a 1996 survey conducted by the UNDP for its Human Development Report for Mongolia, 35 percent of the respondents stated that the single most notable achievement of the transition was that life had become worse. In addition, all provincial governors, 80 percent of district governors, and 60 percent of subdistrict governors believed that social instability and disorder were major challenges of the future.

Despite the hundred fold increase in NGOs which are based in Ulaanbaatar, very few have the capacity to reach effectively beyond the capital. Local NGOs are beginning to emerge, but will need assistance to become effective agents in addressing the social and economic needs of rural Mongolia. The weakness of NGOs to address the economic and social problems of rural areas is a major weakness of civil society in Mongolia, and few donors provide systemic support.

A gradual regression into old ways of governing, or authoritarian recidivism, is the second threat to a continued democratic outcome. Governmental authority through the communist period resided theoretically in the Great Hural, controlled by its seven-member Presidium, and in the Council of Ministers. In fact, the MPRP monopolized power. Political competition and dissent were not tolerated, and the MPRP established a network of control over the media, the economy, and all aspects of public life. Today, the MPRP has become more liberal, but significant elements of the MPRP hold on to its old tenets. The party remains a major influence on public life in many parts of the country, particularly in rural Mongolia, reflecting its established network in the countryside and significant financial and organizational advantages over the country's smaller, less sophisticated parties currently comprising the ruling Democratic Coalition. It prevails in approximately 70 percent of the local and provincial legislative elections and in the recent presidential elections. Informal polling and interviews with rank and file members demonstrate remaining authoritarian attitudes. Irrespective of party, a lack of government transparency, arbitrariness in decision-making, and an unwillingness to reach out to the public to explain actions leads to mistrust among citizens for government.

Two threats to continued democratic government

- ▶ *Disaffected rural population; and*
- ▶ *Authoritarian recidivism.*

Mongolia's 1992 constitution established an independent legislature and judiciary to separate power, create checks and balances, and serve as a counterbalance to the executive branch of government. However, these institutions remain weak, as do associated political parties and the legal profession.

Parliament is still struggling to redefine its relationship with the citizenry, from one of paternal care to one of accountability and responsibility for creating the free market conditions for private businesses to grow. It is not exercising oversight of the executive branch effectively. Laws which it promulgates are generally considered to be too vague to meet the needs of citizens and the growing business community. The State Great Hural lacks committees that conduct business regularly, political caucuses that are effective conduits for policy development and legislative management, professional staff to organize and research policy issues, and effective mechanisms for monitoring government activities.

Political parties represented in Parliament are weak; unable to effectively communicate with constituents, reflect constituent interests, and send clear messages about what their government wishes to accomplish. Each party has differing requirements. The MPRP needs internal reforms to better reflect a democratic political party and interests of their local constituents. The Democratic Union Coalition needs to better develop and employ campaign management, communications and organization strategies for increasing contact with Mongolian voters.

The judiciary provides an important check on other branches of government. However, the judiciary and other members of the legal profession are equally weak. Most of the country's approximately 300 judges, 400 advocates, and 350 prosecutors have only minimal understanding of the country's new laws. This is a function of both the pace in which new legislation is being passed; but also the inability of the government to get these new laws and relevant interpretations to the judiciary, particularly in rural Mongolia. Other agencies involved in judiciary processes, such as

tax administration and customs and excise duties are also weak and are often accused of being arbitrary. Finally, the newly established enforcement agencies lack the know-how to adequately enforce judicial rulings.

4. Intermediate Results

USAID/Mongolia’s dual strategic objectives are mutually reinforcing and supportive of the goal “to establish a market-oriented and democratic society”. By establishing the foundations for rural civil society, the democracy strategic objective will stimulate rural economic growth. By improving the performance of the Parliament and the judiciary, economic laws and the business environment should be strengthened, leading to greater overall economic growth. Coupled with the work of other donors, particularly in the area of judicial training, in addition to, USAID’s efforts under the economic growth strategic objective, the proposed interventions will create the structural changes necessary to establish a market-oriented and democratic society. Two intermediate results are important to achieving this strategic objective of consolidating Mongolia’s transition to democracy.

IR 1.1: Establish the Foundation for an Effective Rural Civil Society. Civil society organizations are most effective when working, either directly or indirectly, in partnership with government, business, and other NGOs. Such partnerships are strongest when there is sufficient political will, popular support and ownership, and cost-effective implementation. Where successfully sustained over time, advances in people’s development is achieved because of improved capacity to articulate the interests of citizens in institutions, business, and local public agencies. These principles will continue to guide the program during the life of this strategy.

USAID’s support for civil society will focus on rural Mongolia over the strategy period. Civil society will be strengthened in rural Mongolia by stimulating economic growth through non-governmental organizations. Because of the large unmet needs, rural civil society activities will begin in selected economic growth centers. Over the life of the strategy, activities will expand to become a significant catalyst for change in Mongolia’s rural civil society. Gender concerns are fully integrated in this approach.

USAID’s work with rural civil society will facilitate a needed and desired transformation of institutional, community and individual behavior in Mongolia. In contrast to most initiatives undertaken by the government and other donors, it is a bottom up rather than top down activity. Business associations, women’s groups, local chambers of commerce, herder’s associations and cooperatives will benefit from assistance programs which will demonstrate how similar organizations in other parts of the world have managed themselves to effectively represent the interests of their members. This could include access to new skills and technologies, information about prices, and creating trade linkages.

Rural civil society objectives will be to:

- a) improve information flows among the private sector, NGOs and local governments;*
- b) support the development and growth of small, medium and microenterprises;*
- c) develop support organizations geared toward improving and expanding production and marketing of local goods and services;*
- d) insure the full participation of women in the development process; and*
- e) establish effective policy linkages between local groups and local and central government.*

This strategy diverges from the earlier one in that it transfers attention from Ulaanbaatar to the aimag and soum levels; where economic hardship is greatest, where the needs are significant, and where very little attention is being provided. The strategy focuses support on NGOs that are primarily engaged in business and economic activities because it recognizes the importance of stimulating economic growth in rural Mongolia as a way to address social and political problems. At the same time, the strategy seeks to enhance the role of women in rural Mongolia in order to increase their opportunities to better participate in democratic processes and contribute to greater economic growth. Significant progress will be achieved in establishing sustainable information systems, business organizations and women's civil society organizations. Local governments will be strengthened and will become more supportive of private sector models of development.

A vibrant rural civil society will mitigate against the rural disaffection noted above, as a threat to continued democratic government throughout Mongolia.

IR 2: Improve the Effectiveness of Parliament and the judiciary. In order to create effective safeguards against movements towards a more authoritarian state, it is equally necessary to improve the effectiveness of an independent Parliament and the judiciary, as well as associated political parties and the legal profession.

Parliament and political parties. This strategy seeks to institutionalize democratic practices in the form of a functioning legislature, viable political parties, and an accountable government.

As a result of this strategy, the State Great Hural will have the procedures and rules in place to allow for effective drafting, promulgation, and debate on legislation as well as for effective general oversight of government activities and reforms. Parliament and the government will also have a more constructive relationship and this will result in the effective development and implementation of reform laws. The members of Parliament will be true representatives of their constituents. These results will be accomplished over a four year period of assistance by IRI. In 1998, activities have concentrated on organizational restructuring and institutional strengthening. Starting in 1999, attention will shift to public outreach and communication. The year 2000 will focus on planning and preparing for the upcoming Parliamentary election campaign, and then working with newly-elected members of Parliament through the year 2001 on institutionalization of democratic and economic reforms.

Each of the country's political parties have great needs for assistance as articulated above. IRI will work with the Democratic Union Coalition to enhance cohesion and develop an organizational structure that will allow it to compete effectively with the Mongolian People's Revolutionary Party in the 2000 and 2001 national campaigns. Likewise, IRI will work with the MPRP so that it has a transparent structure that gains strength from grassroots organizations and so that it will have a campaign platform that supports the continuation of political and economic reforms. In 1998, activities will focus on political party organizational restructuring and institutional strengthening. Subsequently, IRI will work with the political parties to improve their capacity for communication, message development and dissemination, and media relations. As national elections near, the focus will move to campaign planning, party organization, and major issues of importance to voters.

Parliament and the major political parties may not become fully effective by the completion of the current program of support in the year 2001. The situation is compounded by Mongolia's poor communications infrastructure and roads network, making it difficult to reach district representatives and constituencies. Thus, an assessment will be made at that time whether further support over the strategy period for Parliament and political parties is warranted.

The judiciary and the legal profession. Prior to 1992 the judicial branch was a captive of the executive branch. The courts, particularly in the area of civil and business law, were simply an extension of the bureaucracy. Under the new constitution, although the role of the judicial branch has been elevated, it remains effectively under the jurisdiction of the Ministry of Justice, which through the General Council of Courts, oversees judicial administration. While judges and other legal professionals still lack the skills and knowledge necessary to support Mongolia's evolving legal structure, lack of confidence in the judiciary by the public is less a function of training than of judicial ethics. The effective development of a trained, independent and ethical judiciary lacks a vision and a strategy. There are currently three different proposals developed by the President's Office, the Supreme Court and the Constitutional Court which are seeking donor assistance. The field of judicial training has become overcrowded with several donors including the Asia Development Bank, the Soros Foundation, in addition to NGOs providing training. What is lacking is a vision and strategy for the development of the courts and an independent judiciary.

Legislation is now under way to transfer supervision of the General Council of Courts from the Ministry of Justice to the Supreme Court and the creation of a Judicial Council, which would be responsible for judicial administration; under the General Council of Courts. The legislation would make the Executive Director of the General Council of Courts independent. This legislation is important in that it will permit the further independence of the judiciary.

If this legislation is passed, USAID feels that assistance to the new General Council of Courts is warranted. The Soros Foundation plans to provide assistance to the reformed General Council of Courts if the necessary legislation is passed, and we have been discussing ways in which our respective organizations could collaborate to strengthen this potentially important institution. Soros plans to assist the General Council of Courts with the development of a Judicial Training Center. Both Soros and USAID feel that the development of a cohesive and agreed upon strategy for the development of the judiciary is important before any meaningful reform or development can take place.

USAID assistance will focus on assisting Mongolia to develop and implement an appropriate strategy for judicial and legal development. USAID should only work within the framework of a strategy since existing programs appear to address individual self interests on the part of both Mongolians and donors. Possible areas of support could include: the development of a legal information network, particularly for rural areas; provide support for the judiciary to improve standards and ethical performance; acquaint judges with western legal concepts; and help ensure that individual protections and human rights are incorporated into the legal and judicial system.

Outside of the formal judicial system, support may also be provided to establish a Mongolian Bar Association and an examination system for new lawyers to increase professionalism. Finally, activities would foster contacts for the Mongolian legal community with judges, bar associations

and other organizations in the United States. Given their majority presence within Mongolia's legal profession, women will benefit greatly from USAID's activities.

5. Critical Assumptions

Achievement of SO1 depends on three important assumptions. The first is that internal economic conditions in Mongolia improve. As noted earlier, poverty is still significant, but the economic reform program is beginning to have an impact by reducing overall price inflation and through easing entry barriers for enterprises and employment. The second assumption is that external relations with Mongolia's neighbors remain friendly, and that conditions in neighboring countries remain conducive to democratization in Mongolia. The third assumption is that Mongolians and the donor community can come to an agreement on the best way to ensure the long-term development of the judiciary and the legal profession.

6. Illustrative approaches

The Rural Civil Society and SPICE programs begin in FY 1998. They will strengthen the capacity of rural civil society organizations to represent the interests of their members. Illustrative approaches include:

- Providing support to rural business associations, chambers of commerce, herders associations and cooperatives in specific economic growth regions that have either an existing commercial focus or excellent business prospects. These groups might be engaged in cashmere production, processing and marketing or tourism development in the Gobi region; crop production in the central food region; and industrial and services development surrounding mineral deposits. Successful models will be expanded nationally in the latter part of the strategy period.
- Developing and disseminating information packages that assist rural civil society organizations better understand and participate in a market economy. Information partners might include the mass media, Internet service providers, universities, NGOs and consulting services. While initially focused on one or more growth centers, national expansion should be possible in one-two years.
- Training and demonstrating ways to increasing the capacity of local governments to promote private sector led business and economic growth. Privatization of local government managed veterinary services and regional livestock market development are two examples. Successful activities may begin national expansion at the end of the strategy period.
- Identifying national policies at the local level in need of reform to transform rural Mongolia, and developing capacity to advocate for change. These policy activities should have national impact over the five year strategy period.
- Supporting local women's organizations addressing issues involving business but also addressing other issues affecting women, such as domestic violence and women's legal

issues.

- Conducting attitudinal studies to develop a better understanding of public views on democracy, governance and economic growth in rural Mongolia. These studies will provide valuable information to stimulate public debate and reinforce the positions of pro-reform leaders and better target issues and constituencies more effectively.

The International Republican Institute's assistance to Parliament and political parties will end in FY 2001. Follow-on work may continue through 2003, and give sustained attention to:

- Supporting the development of effective communication between elected representatives and citizens.
- Developing effective avenues of communication and cooperation between the parliament and the government.
- Establishing professional, legitimate aimag-level representative offices.
- Exploring on a trial basis the use of information technologies to link district representatives in remote parts of the country with their counterparts in Ulaanbaatar and elsewhere. This would assist parties in developing coherent messages and platforms that can be communicated to citizens.
- Identifying and providing assistance in the drafting of specific pieces of legislation that focus on ethics in government or bills that will improve Mongolia's environment or economic growth. This would serve not only to produce clearly written legislation, but also to strengthen staff and parliamentary skills in the mechanics of legislative drafting.

IDLI's support for the dissemination and training in the use of bench books will terminate in FY 99. A new program for strengthening legal administration will be developed in FY 99 for implementation to begin in FY 00. Illustrative approaches include:

- Judicial exchanges through a U.S. law school or other qualified organization could focus on strengthening judicial ethics, independence and court procedures.

Exploring the development of a rural legal information system to share legal information and precedents with judges in the country's remote aimag centers.

Establishing an independent bar association to help institutionalize the rule of law. It would also encourage the legal profession to establish and uphold a common standard of ethics. Finally, it would create a vehicle to provide for continuing education and accreditation within the legal profession.

Judicial exchanges could focus on constitutional law approaches to the separation of powers, the role of courts, judicial review and supreme court decision making.

- Providing training and support to various judiciary enforcement agencies such as the Court Decision Enforcement General Agency, the Tax Authority and the Customs and Excise Authority.

7. Sustainability

Provided that democratic and economic reforms proceed apace, it is reasonable to expect that those civil society organizations identified by citizens as crucial to Mongolia's development will achieve financial sustainability, either from domestic resources or the revenues that they may generate. Rural non-governmental organizations will need to be responsive primarily to economic needs. This is where the most attention is focused and where there is the greatest need. Accordingly, the strategy emphasizes the development of business associations, chambers of commerce, etc. At the national level, it is safe to expect that, without donor assistance, many of the NGOs that have grown up in recent years will no longer be viable. However, those organizations providing needed services to members and citizens will be able to survive on local contributions and the revenues that can be generated by providing business, research and analysis services.

8. Partners

There are several major donors offering assistance programs in the areas of governance and democracy. As noted earlier, The Asian Development Bank plans to operationalize a Legal Retraining Center through the Mongolian Institute of Administration and Management. This Center will provide mid-career training for judges and lawyers. Germany, through the Konrad Adenauer Foundation, provides some assistance to Parliament. The United Nations Development Program is active in the training of journalists and in assisting the government's decentralization efforts. The Soros Foundation provides support in the uses of information technology and education and may be providing support to the General Council of Courts on the development of a Judicial Training Center.

The Government of Mongolia is a supportive and committed partner, having endorsed USAID's democracy program both formally and informally on a number of occasions over the past year. Discussions with a wide range of civil society organizations, in Ulaanbaatar and in aimag centers, have highlighted their enthusiasm and desire to work with USAID as it embarks upon its Rural Civil Society Program. No other donors are systematically engaged in strengthening rural civil society and its linkages to the economy.

The United States Embassy will be an important and natural partner in USAID's democracy program, as it plans to provide significant assistance over the next three years to support women's programs to aid the victims of domestic violence, develop gender awareness campaigns and to establish local networks on violence and related issues. USAID will work closely with the Embassy to ensure that efforts supporting women are complementary.

9. Roads Not Taken

Options examined outside of the proposed strategy included public administration reform,

civil-military relations, elections assistance, the print and electronic media, and decentralization.

- Public administration reform. This is a subject of donor interest. The ADB and the World Bank are providing technical assistance to the government in this area through a team of six expatriate and Mongolian specialists. Legislation guiding public administration reform is currently before Parliament but has been stalled by factional debate.
- Civil-military relations. The armed forces have not intervened in the political process, nor have they been called upon to play a political role. They are now under civilian leadership. No overt or systematic political abuse of the judiciary has been noted or alleged.
- Elections. The electoral apparatus is functional and adequate. Observers at recent elections reported smooth procedures and meticulous attention to procedural detail, including ballot box security and party poll watching. Election results are not questioned.
- The press. No political obstacles to reporting have been noted. A number of donors, including the UNDP and the Soros Foundation, are engaged in this area. However, as noted elsewhere, opportunities do exist to work with the print and electronic media in its coverage of governmental actions. Investigative reporting skills remain weak.
- Decentralization. The UNDP, UNESCO, and the ADB are all funding components of the government's decentralization plan, including a common management team.

10. How Results Will Be Measured

Measurement of democratic change in any society is a complex process. Effectively identifying results requires a combination of quantitative and qualitative indicators which allow an overall picture of the changes to emerge. Random surveys of citizens and their leadership are required, as are content analyses of position papers, news reports, and legislation passed.

Achievement of SO1, Consolidating Mongolia's Transition to Democracy, will be measured using three indicators: (a) Mongolia's multi-party system is soundly established; (b) rural citizens' perceptions about Mongolia's transition to democracy becomes more favorable; and (c) Parliament passes laws that directly benefit rural Mongolians. Because USAID is taking a leading position in promoting rural civil society, it will support periodic surveys of perceptions and reality regarding democracy and governance in rural Mongolia. However, USAID will rely on studies conducted by others (e.g. Asian Development Bank and Soros Foundation) and its own observations regarding larger trends in Mongolia's transition to democracy. Annex C, Results Framework and Performance Measures, also presents details on intermediate results indicators.

D. Strategic Objective 2: Accelerate and broaden environmentally sound private sector growth

1. Overview

This strategy will help accelerate private sector growth in Mongolia. The vision is to establish rapid, sustainable, economic growth reaching increasing numbers of Mongolians. Economic growth accelerating to between five and seven percent per year by the end of the strategy is achievable. It will require macroeconomic stability and openness to the global economy, increased efficiency in the allocation of productive resources, and greater investment in infrastructure and productive capacity.

It is not enough to focus solely on accelerating economic growth. Equal attention needs to be placed on achieving growth with equity. Without broad-based economic growth, high levels of poverty are likely to remain. Thus, broadening economic growth is critical to sustaining political support for Mongolia's transformation into a democratic and free market society. In Mongolia, broadening economic growth translates into increasing the level of economic activity and participation in rural areas, so that rural Mongolians realize the tangible benefits of free markets and democratic governance.

USAID will help to establish the policy and institutional foundation for more rapid, sustainable and broader-based growth. Four intermediate results will contribute to increasing economic efficiency, leading to increased economic activity and new investment.

- The first intermediate result will be to "transfer productive assets to private ownership." The base of productive assets in private hands will increase from 60 to 75% over the strategy period. The assets to be transferred will be major state-owned enterprises involved in agriculture, industry, mining, and infrastructure sectors. Moving these assets into private ownership will help to improve productivity through private management and increased competition. Privatization will also generate government revenues, contributing to macroeconomic stability in the near term.
- The second intermediate result will be to "increase the efficiency of financial markets." Banks will be privatized, an independent and transparent capital market authority will be established, and the pension system will be reformed.
- The third intermediate result will be to "improve the business environment". This will contribute to improved policies, information, production practices and marketing, resulting in growing output and increased participation in the economy.
- The fourth intermediate result will be to "improve management of the natural resource base for long-term sustainable use". The program will improve the use and management of pasture and crop land, as well as contribute to the sustainable development of the Lake Hovsgol region.

2. Past Achievements

USAID's (FY 94-98) Strategic Objective 1,

Over the next five years, achievement of these objectives will result in an increase in private-sector GDP to over 5 percent per year. It will assist Mongolia to stop the trend of increasing poverty. Additional achievements will include: an increase in exports, notably livestock products; increased foreign direct investment; increased domestic savings; and increased U.S. trade and investment.

"the creation of a policy and institutional framework conducive to rapid private sector expansion," has made significant contributions to improving economic policies and strengthening institutions. Major achievements supported by the Economic Policy Support Project include: elimination of all customs taxes and duties, giving Mongolia one of the world's most open trading regimes; shifting taxes from production to consumption, by reducing income taxes on small and medium enterprises and gaining approval for a Value-Added Tax; reforming energy pricing to recover costs of production and distribution; reversing a decline in savings and time deposits in commercial banks; and strengthening the legal and institutional framework to stimulate foreign investment, including the adoption of a new Mining Law. EPSP has also helped to lay the groundwork for bank restructuring, pension reform, capital market development, privatization of many of the largest state-owned enterprises, and public finance and administration reforms. In addition, EPSP is funding masters training in economics for 15 participants, and supporting short-term training and policy seminars for government advisors.

Despite the considerable accomplishments under the on-going project, much more needs to be done in the early years of the new strategy to ensure successful implementation of new policies, to capitalize on the current government's desire for taking the reforms further, and to assist the Mongolian people to realize the benefits of reforms, especially in rural areas. USAID has a rare opportunity to contribute to systemic change in Mongolia at the present time due to the aspirations of the Mongolian people, the exceptional political will and commitment of the current government, and the trust that has developed based upon USAID's strong track record of providing effective and timely assistance in the past..

3. Problem Identification

Economic growth is simply not occurring at a rate sufficient to raise living standards, extend benefits to a larger population, reduce vulnerabilities to economic shocks and ensure the consolidation of democracy. Manifestations of the weak economy include unemployment, poverty, food insecurity and gender disparities, especially in smaller and rural population centers. Per capita GDP increased by only 0.5 percent in 1996 and 1.2 percent in 1997.

The new strategy will address the two most critical problems at this juncture in Mongolia's economic growth: 1) the need to improve economic efficiency throughout the economy; and 2) the need for increased investment. Two other essential conditions for economic growth -- macroeconomic stability and liberal trade policies -- are largely in place. The GOM is receiving support from the IMF and other donors to maintain macroeconomic stability and to further refine trade policies; USAID will provide only limited assistance, where appropriate, to maintain sound macroeconomic and trade policies.

Economic efficiency and increased investment are subject to several important constraints.

Constraints to economic efficiency and investment:

- ▶ *pervasive role of state*
- ▶ *weak financial sector*
- ▶ *abrupt shift from socialist to free market services*
- ▶ *inadequate transport and communications infrastructure*
- ▶ *shortage of skilled and experienced managers and technicians.*

First, efficiency is hindered by the pervasive role of the state in many areas, despite the extensive reforms since 1991. State-owned enterprises still account for a significant share of economic activity. SOEs are especially important in the mining, industrial, utilities and financial sectors. State ownership perpetuates inefficient management, misallocation and sometimes misappropriation of resources, and taxes the financial and administrative capacity of the public sector. Favored business relationships between state-owned enterprises and banks undermine development of a competitive private sector. Furthermore, regulations, licensing requirements, taxes and uneven administration lead to increased costs of doing business in Mongolia and inhibit investment.

Second, Mongolia's financial sector fails to facilitate commercial transactions and is inadequate to stimulate savings and meet the capital requirements of a growing private sector. Of the approximately \$200 million total investment in 1997, only \$8 million was financed from financial institutions in Mongolia and no foreign banks are established in Mongolia. Payments systems are plagued by high costs and long delays. Over 25 percent of bank assets are non-performing. As a result, real interest rates are high, 35 percent per year, the ratio of currency holdings to demand deposits is extremely high and many Mongolians retain their savings in the form of livestock. In addition, to absorb pension investments and the listing of privatized and new companies, Mongolia must strengthen its Stock Exchange and assure its independence and transparency.

Third, the subsidized services, easily accessible credit, and collectivized and centralized collection and distribution systems of the Soviet-era disappeared abruptly and have not yet been replaced by private sector mechanisms. At the national level, the flow of business information, private sector advocacy and business support services are weak. Business associations are just beginning to address the needs of their members. Institutional linkages to promote international technology transfer, trade and investment are also poor. In general, civil society organizations and market institutions that support private sector interests and stimulate private sector activity are few, and those that do exist require both technical and financial support in order to be more effective. Linkages to similar international organizations are weak.

Fourth, inadequate transport and communication infrastructure not only isolates much of the population, it raises costs and inhibits investment and trade both within Mongolia and vis-a-vis the world. The density of paved roads in Mongolia is among the world's lowest. Energy production is inefficient, costly and harmful to the environment. Rural population centers suffer disproportionately from lack of energy services. Telecommunications are costly and inadequate to meet the needs of a growing economy; there are only 3.4 telephones for every 100 people throughout the country (7.65 in Ulaanbaatar) and the reliability of those lines is poor.

Fifth, while the population is highly educated and literacy rates are high, a shortage of skilled and experienced managers and technicians hinders the conception and implementation of needed business planning and enterprise restructuring. The productivity of capable Mongolians is reduced by lack of information and outmoded technology.

The problems outlined above are even more acute outside of Ulaanbaatar, where over two-thirds of the population reside. Infrastructure, information, management, technical and financial constraints are each significant in the rural economy, as is the weight of government budget and legal and

regulatory constraints. Over 45 percent of Mongolia's economically active population is engaged in livestock or crop production, logging, or agriculturally-based industry or services. Mechanisms for distribution, processing, collection and basic services are inefficient and often non-existent. Poor transport infrastructure makes it difficult for individuals to bring their goods to a large market area; few population centers are reachable by paved roads. Communications infrastructure is virtually non-existent in some rural areas; even residents of some soum centers must travel to the aimag center in order to make a phone call or mail and receive letters. The rural economy has even less access to the shallow financial sector; individuals in local areas repeatedly noted the near impossibility of obtaining loans. Business associations and other civil society organizations that support private sector development are only beginning to emerge in rural areas. As a result, productivity is low, costs of doing business are high, and economic activity is severely depressed. There is an urgent need to bring the benefits of economic reforms and democracy to the people of rural Mongolia. Otherwise, the risk of backsliding is real.

Livestock ownership has largely been privatized and the number of herders has increased, as other economic opportunities have declined. Livestock accounts for 25 percent of GDP and 20 percent of exports. Although herds are expanding rapidly, veterinary and other critical services are virtually non-existent. The collection of dairy products has collapsed so that industrial dairy production was only 6 percent of 1992 levels in 1997. Crop production, which accounts for 4 percent of GDP, suffers from low yields and high cost processing and marketing. Lack of technical and management knowledge to address these issues is another obstacle even more severe outside of Ulaanbaatar.

4. Intermediate Results

USAID Mongolia's Economic Growth and Democracy and Governance strategic objectives are mutually reinforcing and supportive of the goal, "to establish a market-oriented and democratic society. By expanding economic activity and reaching a broader population, this strategic objective will contribute to consolidating democracy. Three intermediate results are integral to the achievement of SO 2, "to accelerate and broaden private sector growth in Mongolia."

IR 2.1: Transfer Productive Assets to Private Ownership: Reducing the role of the state in economic activities is critical to increasing efficiency and attracting increased investment. Privatization will generate budget revenues, and reduce the demands of state-owned enterprises on government subsidies and public officials. Removing economic activities from the public sector also enhances accountability. USAID will support the GOM in its aggressive program to privatize the majority of its state-owned agricultural, industrial and service enterprises. USAID is also providing assistance in the restructuring and privatization of Mongolia's Energy Authority. This represents a shift in USAID's approach to the energy sector, from stop-gap measures to establishing a viable, energy production, transmission and distribution system.

Where utilities or other monopolies are privatized, USAID will provide assistance in establishing appropriate regulatory mechanisms. In the case of mining or energy company privatization, a significant by-product is likely to be investments in improved and more environmentally sound technologies. In the future, USAID may advise Mongolia on privatizing service delivery or the use of Build-Own-Operate or -Transfer (BOO/BOT) arrangements to increase efficiency and investment

in strategic sectors.

IR 2.2: Increase the Efficiency of Financial Markets: Improved performance of the financial sector is essential to stimulating increases in business activity, mobilizing domestic savings and attracting foreign investment. USAID will provide assistance for bank privatization, pension reform, and strengthening of the stock exchange. Privatization of the key banks is essential for introducing greater competition and efficiency into the banking system. A major concern is the current preponderance of bad loans; USAID will advise the Mongolian authorities on restructuring debt and improving the quality of lending. Improved operation of the financial system will lead to increased availability of and access to credit, and a reduction of credit costs.

The establishment of an independent and transparent stock market authority is necessary to secure investor confidence and create an effective market for shares in listed companies, many of which will soon be privatized. Pension reforms will also mobilize capital and contribute to sound fiscal management. In the future, USAID may assist Mongolia in the development of non-bank financial institutions, including rural credit institutions and leasing facilities, as other means of stimulating investment. Over time, these interventions will lead to increased economic activity and increased credit for rural populations.

IR 2.3 Improve the Business Environment: The development of an efficient and growing private sector requires appropriate policies, business information, access to knowledge and improved technologies, and reliable support services and input supplies. USAID will assist the GOM and civil society to identify and implement changes to policies and regulations that respond to the needs of a growing private sector. Assistance will also be provided on policies to increase the efficiency of the energy sector. An illustrative policy dialogue agenda is presented in Annex D. Civil society organizations and selected public institutions will be assisted to improve the flow of information on policies and markets and to strengthen business services. Private enterprises will receive training and technical assistance to improve management, production, processing and marketing practices.

The principal focus of this intermediate result will be on the strengthening of rural civil society to foster growth of rural enterprises. USAID and its partners will work with Mongolian entrepreneurs and Mongolian NGOs in selected aimags or economic regions to improve information flows, to increase production, processing and marketing of agriculturally-based products, and to develop support services. The SPICE program will aid newly privatized farms. Local currency generated through the Embassy's sale of PL 480, Title I wheat will provide financial resources to support Mongolian entrepreneurs and organizations.

Rural energy system constraints limit opportunities for rural economic growth. USAID has been heavily engaged in providing emergency energy assistance since 1992; first to keep the main power plants operating, and more recently to provide diesel generators for off-grid sites. These off-grid communities suffer greatly from lack of energy supplies, thereby depressing opportunities for business development. Thus, USAID is providing 18 gen-sets for five aimag centers. An evaluation of additional needs will be made in early FY 99 to determine whether additional generators should be purchased, assuming sufficient funds are available. To address the problem of insufficient and unreliable supplies of energy which exist in most rural areas, USAID will assist

Mongolian authorities in examining rural energy planning scenarios. Options to utilize photovoltaic solar power systems in select remote aimag and soum centers will be explored as a cost-effective and sustainable means of providing off-grid electricity. The installation of photovoltaic systems will complement the support for installing diesel generator sets. In addition, USAID has entered into an agreement with the U.S. National Renewable Energy Laboratory to develop a wind resource atlas and wind measurement program to determine possibilities of greater reliance on wind energy in the future.

At the national level, USAID will work with business associations, such as the Mongolian Chamber of Commerce and Industry, to improve business information, strengthen private sector advocacy, and provide business support services. USAID will also support investment promotion in collaboration with the Board of Foreign Investment.

This intermediate result has strong linkages to the democracy intermediate result to “establish the foundations for an effective rural civil society.” Planned work will increase participation at the local level and enable rural interests to advocate more effectively at the national level. Women should benefit from the improved business environment, by their participation and increased access to information, business services and credit. Women will also be given the opportunity to participate in and benefit from the transfer of productive assets to private ownership, the sale of state banks, and the improved capital markets and pension funds. Planning for these activities will pay particular attention to identifying and overcoming any constraints to women fully benefitting from this major shift in the Mongolian economy from public to private ownership. Furthermore, all training conducted in support of this Strategic Objective will be equally available to women.

IR 2.4 Improve Management of Natural Resource Base for Long-Term Sustainable

Use: Mongolia's agro-economy and ecotourism industry critically depend on the preservation of Mongolia's natural resource base. Two natural resource management areas are targeted in the strategy because of their importance to sustainable economic growth in rural areas, and their relative lack of attention by other donors and institutions.

First, land degradation poses a serious risk to livestock production in Mongolia, which is the mainstay of the rural economy. Pasture land is being degraded at an increasing rate for three main reasons: a) an increase in the number of livestock from 25.3 million head in 1990 to 30.5 million in 1997, precipitated largely by the collapse of communist state

Two Environmental Issues for Sustainable Economic Growth:

- ▶ ***land degradation***
- ▶ ***national parks conservation***

which sent unemployed urban workers back to herding; b) the relatively lucrative cashmere market causing livestock population to shift from sheep towards goats which degrade pasture more rapidly; and c) the disappearance of the state-run marketing system for livestock that led to the deterioration of infrastructure. This caused herders to concentrate around aimag centers to be near distribution systems, functioning wells, and veterinarian services. Through RCSP and SPICE, USAID can address pasture degradation by assisting communities to rehabilitate wells in under-utilized pasture areas, improving the health and quality of livestock herds, and developing management capabilities among herders, traders, processors, and government authorities. SPICE can also be used to address

cropland degradation through damaging or inefficient farming techniques, such as deep tilling, poor crop rotation, lack of chemical or organic fertilizers, and poor or non-existent pest control regimes.

Second, tourism has the potential to spur economic growth in rural Mongolia. The tourism industry was recently singled out for attention at Mongolia's second annual investors conference. Of the 100 million tourists visiting in the Asia-Pacific Rim annually, less than 17,000 visit Mongolia, earning the country a modest \$20 million. Yet, Mongolia offers a picturesque landscape, clean and unpolluted eco-systems and unique historical and cultural heritage of a nomadic civilization. To ensure a future for tourism, greater efforts need to be placed on protecting Mongolia's heritage.

One unique area that needs greater protection is the Lake Hovsgol region of Mongolia (which also borders the Lake Baikal region in Russia). The Government of Mongolia has recognized this unique region by recently declaring it a protected area. USAID will provide support to help turn this "paper" park into an effective and functional protected area, and a site for international tourism. This will require planning for the park's conservation infrastructure, integrating the park into the economic lives of nearby communities, and developing long-term funding mechanisms to sustain local management. USAID will help develop a comprehensive management and land use plan for the Park and surrounding areas, train and equip a professional team of park rangers to reduce poaching and protect wildlife habitats, train park staff in modern park management and environmental education techniques, provide training for local government officials and community leaders, and support important research on the ecology of the Park to generate baseline and continued monitoring data. Through RCSP assistance may be provided in developing sustainable tourism enterprises.

Partners will be sought, including U.S. conservation organizations, the Government of Japan (through the bilateral Common Agenda) and other donors working in the biodiversity field in Mongolia, such as the UNDP, GTZ, World Wildlife Fund, and the Governments of Finland and the Netherlands. The U.S. Peace Corps is providing volunteers to work on park administration, community development and English training, so they are natural partners for USAID in the years ahead.

5. Critical Assumptions

Achievement of SO 2 rests on three critical assumptions: First, that the GOM and the Great Hural continue to demonstrate the political will necessary to adopt and implement the government's ambitious policy and institutional reform program; second, that macroeconomic and world market conditions remain sufficiently stable to permit expanded economic growth; and third, that the GOM and other donors continue social safety-net programs and infrastructure investments to sustain democratic transition and facilitate economic growth. The first assumption is considered a safe one. The current government and a significant majority of Parliamentary members are deeply committed to accelerating the pace of economic reforms. Even the opposition MPRP argues only on the pace of economic liberalization, not its direction.

The second and third assumptions both depend on events external to Mongolia. Legitimate questions can be raised about the external environment facing Mongolia, given the economic and financial crisis presently engulfing large parts of Asia.

Lower commodity prices, the financial collapse in Russia, Mongolia's second largest export market, and weakening capital inflows, especially from Japan and Korea,

limit growth prospects between 1998 and 2000. Although these setbacks are unlikely to undermine the principal thrusts of this economic growth strategy, they may increase resistance to needed policy reforms, underscoring the importance of strengthening civil society to address the needs of a broader segment of Mongolian society.

Three Assumptions to Accelerate/Broaden Growth:

- ▶ *Continued political will;*
- ▶ *Macro and world economic conditions stable; &*
- ▶ *GOM and donors continue safety-net and infrastructure investments.*

Mongolia is also starting to witness a weakening of donor assistance in light of the Asian economic crisis. This will largely affect infrastructure projects, and not the social safety net programs in place. However, this could turn out to be a blessing in disguise in that it might force the Government of Mongolia to rely more on private capital, instead of foreign aid, for infrastructure investments. Section IIID(8), below, notes that certain donors discourage private investments in the energy sector. As another example, the Government of Korea had been planning to help modernize Mongolia's telecommunications networks, which are largely controlled and operated by the public sector, but the problems with the Korean economy have delayed these investments. Private telecommunications firms offering services could be enticed to enter the Mongolian market, if the GOM liberalized this sector.

In sum, while Mongolia will undoubtedly be adversely affected by the Asian economic crisis, this does not invalidate USAID's economic growth strategy. If Mongolia's economy is going to grow in the face of stiffening competition, greater efficiencies must be realized. And, to the extent that slower growth undermines support for needed reforms and capital inflows decline, the rural civil society activities will take on added importance as a means for increasing participation in the economy and maintaining social stability.

6. Illustrative Approaches

The Support for Economic Growth and Institutional Reform (SEGIR) Project will provide technical assistance for Mongolia's privatization program. Principal activities will include: support for the selection, preparation and privatization of approximately 12 of Mongolia's Most-Valued Companies; assistance in the sealed-bid auction of 200 or more large enterprises; public information and investor outreach; and needs assessment of business support services, as well as support for bank privatization.. Privatization work may be extended to other, strategic sectors; for instance in telecommunications, or to the use of build-own-operate or transfer arrangements. USAID privatization assistance helps to ensure competition and transparency in the sales of state-owned assets.

USAID will also support the restructuring of the energy sector and the development of an

appropriate regulatory authority through the EPSP Project. Mongolia's Energy Authority will receive assistance to separate the production, transmission and distribution functions and to put each function on a commercial footing. Privatization of all or part of the operations is under consideration.

Capital Markets will be supported through EPSP. EPSP will provide assistance to strengthen capital markets. Capital market reforms will entail the development and adoption of a new Securities Law, and establishment of an independent, transparent Stock Exchange and Securities Commission.

Pension reforms will be supported through the EPSP Project. Although Mongolia inherited a heavy burden of pension obligations with the demise of socialism, its relatively young population mitigates the burden. To its credit, the GOM is looking ahead to a time when the population ages and is establishing a mixed pay-as-you-go and partially-funded pension system. With USAID assistance, the GOM has developed a notionally-defined contributions system. EPSP will now assist the State Social Insurance General Office to expand its administrative capacities. Future assistance may involve development of laws and regulations governing operations of non-bank financial institutions such as rural credit institutions and leasing facilities.

The Rural Civil Society and SPICE Programs will stimulate growth in rural Mongolia. Over the life of the strategy, RCSP will expand to become a significant catalyst for change in the rural economy, with likely impacts on livestock and crop production, agro-industry and the rural service economy. Environmental concerns are fully integrated in RCSP. SPICE will complement the RCSP, providing U.S. expertise in such areas as improved forestry practices, no-till agriculture, and processing of livestock products. Rural development efforts will also be supported by PL 480 Title I sales proceeds.

A variety of arrangements will be established to improve Mongolia's business environment. Assistance to the Board for Foreign Investment may be provided through a grant to the Foreign Investment Advisory Service (FIAS), to strengthen investment promotion and simplify bureaucratic procedures facing investors. Technology transfer, trade and investment linkages will be supported through the Global Technology Network. Assistance to business associations, in collaboration with the Mongolian Chamber of Commerce and Industry, will strengthen capacity for policy advocacy, training, and information dissemination. EPSP will be used to assist the GOM to address additional policy constraints identified during implementation of this strategy. Training for customs officials, to make customs more effective and transparent, will be provided through an agreement with the U.S. Customs Service. Similarly, assistance in tax administration will also be reviewed. USAID/Mongolia will also seek support through other inter-agency agreements and centrally-funded programs, as needs are identified. Use of local consultants and pairing with international consultants will be pursued as appropriate.

USAID will continue with a limited long-term participant training program. Training will be focused on developing the human resource capacity to achieve our intermediate results and could include long-term training in such areas as: strengthening the legal framework, macroeconomic reform, policy development, environmental policy. Candidates from the government, the private sector and NGOs will be eligible. USAID plans on providing training for one to two participants

per year.

Midway through this strategy, USAID/Mongolia will analyze lessons learned from implementing the RCSP, SPICE and EPSP programs. Based on these assessments, more narrowly-focused activities may be developed as new starts. Such activities might include:

Sectoral policy reform initiatives revolving around livestock marketing;
rural finance institutional strengthening; and
development of commercial livestock and food sector opportunities.

7. Sustainability

SO 2 is designed to assist private enterprises, rural households and civil society organizations to become self-sustaining. Improved management and efficiency will foster growth in the private sector, raising incomes and reducing vulnerability and dependency. Civil society organizations will become sustainable and will, in turn, assist their clients and members to making many economic activities self-supporting. In the public sector, sustainability will be enhanced by rationalizing the role of government and privatizing state-owned enterprises, improving fiscal management, and through institutional and human resource development. Environmental sustainability will be addressed through civil society programs that support economic activities such as livestock and crop production and logging. Sustainable economic growth will also contribute to the sustainable development of democratic institutions.

8. Partners

The strong commitment of the GOM to market-oriented policy reforms and its concern that the benefits of economic growth be shared throughout the country have helped to shape this strategic objective. The strong emphasis on civil society is a response to the GOM's request for assistance in developing the rural private sector. The GOM has also turned to U.S. expertise in privatization, pension reform, information technology, and other areas.

Complementarity with other donors and the potential for leveraging their assistance have also influenced this strategy. The IMF's Enhanced Structural Adjustment Facility is the cornerstone of external support for macroeconomic stabilization, fiscal reform and supervision of the financial sector. Official grants and loans totaled \$140 million in 1997. The World Bank and the Asian Development Bank provide significant assistance for public administration reforms and restructuring of the financial sector. Together with Japan and Germany, they support development of infrastructure, notably energy and roads. The

Two areas of potential friction with other donors have been identified. The ADB, World Bank and Japan have been reluctant to move at the pace recommended by USAID and preferred by the GOM in coal, electricity, and financial sector reforms. In some cases, concessional loan agreements preclude privatization of state-owned enterprises, and may need to be revised. In others, multilateral lending may be counter-productive for a country that is trying to minimize external debts. The U.S. has voiced concerns on specific measures and is advising the GOM as it improves donor coordination.

UNDP leads poverty alleviation, micro-finance, and social sector efforts in rural Mongolia, while coordinating Dutch post-privatization assistance to companies. The German KfW has a credit program for small and medium enterprises, while GTZ is assisting in the privatization of veterinary services. The UNDP and Soros Foundation each facilitate public dialogue on economic policy issues. Finally, the European Union's TACIS Program is providing assistance to the Mongolian Business Development Agency, to provide business services.

Few, if any, Mongolian NGOs that are contributing to economic growth efforts are fully autonomous of the government. However, groups such as the Mongolian Chamber of Commerce and Industry represent potential partners in efforts to strengthen civil society and private enterprise. USAID support for rural civil society development will be path-breaking and is expected to lead the way to rural development activities for other donors.

9. Roads Not Taken

USAID's focus on increasing economic efficiency and investment through privatization, strengthening the financial sector and improving business services was selected after considering the options summarized below:

- **Mining:** Although mining represents one of the leading sectors of the economy and one with substantial growth potential, USAID advocates private sector approaches to developing this sector. Mining companies are on the list of companies to be privatized with USAID assistance, and the SO2 program will help to improve the environment for new investment. No other assistance is planned in this sector.
- **Transportation and Telecommunications:** USAID is prepared to support privatization of infrastructure if the GOM decides to move ahead on this agenda. Technical assistance on telecommunications policy could also be provided if requested. Given large capital investment requirements, however, USAID's limited resources preclude participation beyond policy advice. The GOM has turned to other donors for actual infrastructure.
- **Energy:** USAID has ended its commodity assistance in the energy sector in favor of efforts to put the sector on a financial sustainable footing and to rationalize energy production and use. Other donors, including the ADB and Japan, are supporting new investments in energy infrastructure.
- **Credit:** USAID considered establishing a credit program for small and medium enterprises. However, a precondition for an effective program is improved performance of the banking system, as planned above. KfW has attempted to provide credit to small and medium enterprises, but with little success. This issue may be revisited at the mid-point of the strategy.
- **Social Safety Net:** A review of social conditions show substantial poverty and pressing social needs. UNDP and other donors are providing social safety net assistance. USAID's comparative advantage in Mongolia is in providing assistance for sustainable economic development, to generate the resources to overcome poverty. Assistance to civil society

may also result in improved service delivery in the social sectors.

Water Pollution: The strategy will not address water supply and surface water pollution since these problems have been and are still receiving attention from other donors and organizations. Japan and the ADB are the main donors involved in wastewater and water supply. Environmental damage by mining and hazardous wastes are not typical areas of expertise for USAID, except for the promotion of industrial environmental technology and practices by the U.S.-Asia Environmental Partnership. This program has determined that the Mongolian economy is not yet at the proper stage of private sector and private investment development to warrant a program at this time. Urban air and solid waste pollution are not yet high priority problems outside of Ulaanbaatar.

10. How Results Will be Measured

The principal measure of achievement of the strategic objective will be growth in the private sector contribution to Gross Domestic Product. Growth in this measure will result from a shift of activities from the public to the private sector and through increased efficiency and investment in the private sector. In 1997, the private sector accounted for over 60 percent of GDP. Growth in private sector GDP is expected to exceed five percent per year, gaining a boost initially through privatization. A secondary measure, non-mining, private sector GDP growth will be used to isolate the effects of shocks in the mining sector and to represent the broad-based nature of USAID's strategy. Growth in this measure is also expected to exceed five percent per year. A third indicator, investment as a share of GDP, represents longer-term growth trends. The incidence of poverty will also be measured at the strategic objective level, as a more direct indicator of social impact. This indicator will be disaggregated by gender and, if necessary, by economic region. Because direct beneficiaries of rural activities will be economically-active populations, the effects on poverty reduction may lag. However, it is expected that USAID's activities will help to avert any increase in the incidence of poverty over the program period.

Additional indicators will be used to measure intermediate results and are summarized in Annex C. Information on strategic objective indicators is available from GOM, IMF and World Bank statistics. Intermediate results indicators may require limited surveys. Baseline data will be reported in the March 1999 Results Review and Resources Request (R4) submission.

E. Strengthening the Strategy with Internet Technologies.

The lack of information and difficulties with communications both internally and with the rest of the world have been cited as significant constraints to broadening and deepening civil society, strengthening political party outreach, improving governance, reaching and assisting rural populations, and supporting economic growth.

Fortunately, emerging information and telecommunication technologies (in particular the Internet) offer a "virtual space" to overcome these challenges. Given the outstanding level of literacy throughout both urban and rural Mongolia, the Internet offers a new tool for a foreign assistance program. The Internet itself, although at a nascent stage of development in Mongolia, is poised for

rapid expansion. One Internet Service Provider (established with US Government support) presently has 1,500 subscribers, and two other providers may soon be offering needed competition. Although the basic telephone system within Mongolia is controlled by a state monopoly, and suffers from being outmoded, unreliable and costly, technological solutions could be overlaid to allow greater use of the Internet.

Several donors and NGOs have been experimenting with utilization of Internet service within their programs, such as the United Nations Development Program and the Soros Foundation. USAID can learn from their experiences and design Internet service into existing and proposed programs to make them more effective. Examples of current opportunities include the following:

- a. Assist Parliamentarians to better communicate with constituents by establishing Internet services to their district offices;
- b. Assist the rural judiciary through the dissemination of laws, rulings and research;
- c. Assist Ulaanbaatar NGOs to strengthen their rural branches via use of Internet services;
- d. Support greater networking and collaboration among NGOs through use of the Internet;
- e. Support rural civil society democracy and economic growth programs by reducing the isolation of such communities with Internet services;
- f. Strengthen economic policy initiatives, ranging from privatization, trade and investment liberalization, deregulation of infrastructure and improving business environments by using the Internet for economic research, public transparency and advocacy, professional and institutional networking, distance consulting, and distance learning; and
- g. Incorporate distance learning opportunities for both democracy and economic growth programs via off-the-shelf Internet training programs in the U.S.

The general approach will be to carry out small experiments within existing and planned programs for the first two years of this country strategy. An assessment will then be made of the technical, institutional and financial viability of these interventions. Successful activities will be expanded more broadly in the latter years of the strategy, subject to the availability of funds.

IV. RESOURCE REQUIREMENTS

A. Program Funding

1. Funding Scenarios The rapid progress on democratic and economic reforms, and the commitment of Mongolia's current government, has resulted in effective use of U.S. assistance and argues for continuing support. The FY 1999 - 2003 strategy constitutes an important shift to a program entirely focused on sustainable development. The sound development prospects and growing bonds between the U.S. and Mongolia are the basis for this funding request.

Following the parameters issued by USAID's Asia/Near East Bureau, Annex E presents three resource scenarios for the country strategy covering FY 1999 to 2003: A high scenario of \$48 million, a medium scenario of \$40 million, and a low scenario of \$24 million. The three budget tables are broken down into the two strategic objectives and intermediate results as described in the strategy document. In addition, a line item estimates the costs of recruiting American PSCs to manage each of the strategic objective portfolios for the high and medium scenarios. The USPSC

positions are eliminated for the low budget scenario.

The strategy was formulated using the high budget scenario as a baseline. To USAID the timing of the funding is just as important as the amount of funding. The strategy was developed in order to capture the two year window of opportunity we believe exists while the Coalition Government is still in power. Therefore both the high and medium scenarios assume \$12 million for both FY 1999 and 2000. If funding drops appreciably below these amounts in the two year period, we will have missed the window and activities will either be delayed if the opportunity still exists or not started.

Under the high funding scenario, USAID would provide \$12 million a year between FYs 1999 and 2002. Over the strategy period this would amount to \$12.4 million for SO1 (about 25% of total resources. The lionshare of resources \$35.6 million would be devoted to SO2. Under this budget \$18.5 million (approximately 38%) of resources are devoted to rural Mongolia, through RCSP, SPICE, legal information network for rural judges, generator sets/renewable energy, and the Lake Hovsgol Park Management Program. Funding at the high level would provide the resources for USAID to fund a full array of activities which would support the achievement of our objectives.

Under the medium scenario, USAID would allocate \$40 million between FY 1999-2002. Funding is frontloaded with \$12 million per year for each of the first two years and \$8 million for each of the last two years. \$11.1 million (27%) would be programmed for SO1 activities and \$28.9 million for SO2. Under the medium scenario the amount allocated to rural Mongolia would decrease to \$16.5 million. Greater funding in the first two strategy years is absorbed with privatization and market policy activities. In the out years funding for Parliament and Political Party Support will be diminished, as would funding for renewable energy, Global Field Support for specialized assistance programs and new starts.

The low budget scenario straight-lines annual budget levels at \$6 million per year. This would represent a 50% reduction in the first two years, and a 25% reduction in the last two years, from the medium budget scenario. This scenario calls into question the ability of the U.S. government to respond to the current window of opportunity for rapid policy changes under the government of the Democratic Coalition. USAID would recommend this level of funding only if the GOM departed significantly from its economic reform program and it became apparent there was no way to get the Government back on course. Under the low budget scenario, USAID would fund a core program consisting of the current activities under the EPSP, modified privatization under SEGIR, a modified RCSP, SPICE and IRI. The low budget scenario would severely diminish the impact of RCSP, while delaying and reducing the impacts of other democracy/governance activities. The ability to affect policy change and especially privatization would be significantly reduced, with negative consequences on Mongolia's rate of economic growth. Direct assistance for private enterprise development, especially in rural areas, would be sharply curtailed, and the provision of additional generator sets and renewable energy programs would be dropped altogether. At this low level of funding there would be no need for PSC support.

B. Staffing and Operating Expenses

USAID/Mongolia has a small resident staff, composed of a Mission Director. He is currently

supported by one part-time, program-funded U.S. Personal Services Contractor (PSC), working out of Manila; and four Foreign Service National (FSNs) in Ulaanbaatar. Greater use of PSCs will take place as major portions of the program move into implementation. The Mission is in the process of recruiting an additional program-funded U.S. PSC to monitor and coordinate all economic growth activities and plans on recruiting an additional professional FSN for this same purpose. A second program-funded U.S. PSC will be hired later, essentially to monitor the RCSP SPICE and judicial support programs. This position will be supported by two FSNs. In addition to PSC support, USAID intends to enter into an agreement with a firm to verify the results under the RCSP and SPICE programs. Mongolia is too vast a country to believe results under these programs can be verified with limited staff. If both these programs proceed as expected, the verification contract would begin in late FY 1999. See Annex G for a proposed workload and staffing plan.

USAID/Mongolia relies on backstopping from USAID/Manila and USAID/ Washington. Backstopping support from Manila is of an administrative nature; covering accounting, contracting, legal and budget support. The U.S. PSC working out of Manila provides general program support to the Mongolia program. USAID/Washington assists the Mission with technical support, from both the Global and Asia/Near East Bureaus. Technical support has covered the energy sector, democracy and economic growth. During the strategy period we would expect the Washington role to remain the same. Assuming Mission is able to recruit two additional PSCs to monitor program activities, we would expect Washington resources to remain as they have been over the past strategy period. With significant backstopping roles for project managers of buy-ins, such as CEEPS and SEGIR and more limited monitoring and coordination roles by others.

USAID has discussed support issues with USAID/Philippines. Both missions are comfortable and satisfied with the current arrangements and both Missions recommend that Manila continue to supply the essential contracting financial management, administrative and legal support over the strategy period. We would support USAID/Philippines efforts to develop regional contracting mechanisms for Mission buy-in. Two areas in which we have discussed cooperation is with regional contracts for participant training and results verification as discussed above. Other areas will become apparent as the regional focus of the Philippines Mission take hold.

An illustrative Operating Expense budget is contained in annex F.. Almost 60% of this Operating Expense level is attributable to the cost of office operations, particularly communications and TDY support from Manila and Washington. These expenses are a product of USAID/Mongolia's small size and relatively remote location.

C. Management Considerations.

Careful attention is being paid to USAID's capacity to manage the proposed program, particularly given the modest limited USDH staff resident in Mongolia. Administrative support from Manila and limited technical support from Washington is critical and is assumed to remain available during the life of this strategy, as is the Operating Expense levels necessary for financial support. Even with this excellent backstopping, USAID needs to carefully consider ways of managing this portfolio to ensure both performance and results, and proper accountability of funds. Thus, the

following principles for program management will be followed: (1) phasing of activities for a steady workload; (2) use of procurement mechanisms which minimize workload; (3) use of contractors and grantees to assist with program management; and (4) careful attention on only the highest priority activities.

Phasing of activities. The following chart illustrates how the program essentially has a stable number of activities throughout the years. It assumes the medium funding scenario. Over this six year period, the number of activities either beginning, ongoing, or ending in any one year never exceeds nine. Twice the number of activities end over this period (12) than begin (6). While the earlier discussion notes the potential of continuing certain activities (e.g. political party and Parliament strengthening) beyond their current scheduled termination, more activities will end than begin over this six year time frame. Outside of what is already in the planning pipeline, USAID/Mongolia does not anticipate any new starts unless something else of comparable management intensity ends.

Activity/FY	1998	1999	2000	2001	2002	2003
DAI Contract	Ongoing	Ongoing	Ends			
SEGIR Privatization	Begins	Ongoing	Ongoing	Ends		
RCSP Program		Begins	Ongoing	Ongoing	Ongoing	Ends
SPICE Program	Begins	Ongoing	Ongoing	Ongoing	Ongoing	Ends
US Customs Service		Begins	Ends			
Aimag GenSets	Ongoing	Ends				
Participant Training	Ongoing	Ongoing	Ongoing	Ongoing	Ongoing	Ends
CTIS		Begins	Ongoing	Ongoing	Ongoing	Ends
FIAS			Begins	Ongoing	Ongoing	Ends
The Asia Foundation	Ends					
Lake Hovsgol		Begins	Ongoing	Ends		
IRI	Ongoing	Ongoing	Ends			
IDLI	Ongoing	Ends				
New judicial/legal			Begins	Ongoing	Ongoing	Ends
Total Activities	2 begin 5 ongoing 1 ends	4 begin 5 ongoing 2 end	2 begins 6 ongoing 3 end	6 ongoing 2 end	6 ongoing	6 end

Use of contractors and grantees. It will be equally important to ask the contractors and grantees implementing the new strategy to assume a greater role in program management. Consideration is also being given to obtaining the services of a firm (U.S. in joint venture with a local Mongolian partner firm) to monitor results being achieved in the RCSP and SPICE programs. This will relieve a heavy monitoring role for the Mission.

Select procurement instruments that ease administration. Only two major contracts will be required to implement this strategy. One is already in place for the EPSP program and another anticipated through the SEGIR project. The rest will be grants, cooperative agreements or buy-ins to other US Government agencies (e.g PASA with the Customs Service) or USAID centrally-funded activities (such as CTIS). These approaches minimize the bureaucratic burden of program implementation.

Annex A: ACRONYMS

ADB	Asian Development Bank
BOO/BOT	Build-Own-Operate/Build-Own-Transfer
EPSP	Economic Policy Support Project
ESF	Economic Support Funds
EU	European Union
FIAS	Foreign Investment Advisory Service
GDP	Gross Domestic Product
GOM	Government of Mongolia
IDLI	International Development Law Institute
IMF	International Monetary Fund
IR	Intermediate Result
IRI	International Republican Institute
MPRP	Mongolian People's Revolutionary Party
NGO	Non-Government Organization
NIS	Newly Independent States
PVO	Private and Voluntary Organization
RCSP	Rural Civil Society Program
R4	Results Review and Resources Request
SEGIR	Support for Economic Growth and Institutional Reform
SO	Strategic Objective
SOE	State-Owned Enterprise
SPICE	Strengthening Participation and Institutional Capacities in Enterprise and Market Development in Rural Mongolia
STD	Sexually-Transmitted Disease
UNDP	United Nations Development Program
USAID	U.S. Agency for International Development
WHO	World Health Organization

Annex B. Major Donor Activities
Economic Growth, Democracy/Governance, Environment

SECTOR	DONOR ACTIVITY	
Agriculture/Livestock	ADB	Agricultural sector program loan
	EU/TACIS	Training and management support to agricultural enterprises in crop development; policy advice to Ministry of Agriculture and Industry
	Germany	Strengthen livestock industry and extension services for family farms
	IFAD	Livestock development through a revolving fund for herders in Arhangai
	Japan	Study on strengthening of agricultural cooperatives
	UNDP	Agriculture management development
Economic Management		
Macroeconomic Policy	IMF	Enhanced Structural Adjustment Facility
Financial Sector	ADB	Strengthen supervisory skills and restructuring of Bank of Mongolia; improve accounting and auditing system; upgrade skills of commercial banks
	Germany	Establish audit supervisory body
	UNDP	Financial transparency and accountability
	World Bank	Banking and enterprise sector adjustment credit; strengthen capacity of domestic commercial banks and assist cash-strapped privatized firms with operational funds

Public Administration	ADB	Install government accounting, cash, debt and treasury management systems; provide training in government accounting practices and procedures (with World Bank and New Zealand)
	EU/TACIS	Public expenditure management training at the Institute of Administration and Management Development
	New Zealand	See ADB.
	World Bank	See ADB.
Business Services	EU/TACIS	Technical assistance to Mongolian Business Development Agency to support SME access to foreign investment; support for the establishment of regional business advisory centers
	Germany	SME credit program
	UNDP	Post-privatization assistance (in coordination with the Netherlands)
	World Bank	Technical assistance to Board of Foreign Investment
Infrastructure		
Energy/Power	ADB	Power rehabilitation and efficiency; energy conservation
	EU/TACIS	Implement energy conservation program and support use of renewable energy sources in rural areas
	Germany	Thermal energy emergency supply; train power station employees
	Japan	Rehabilitate power plant IV; rehabilitate coal mines
	S. Korea	Feasibility study of building a thermoelectric power plant
	World Bank	Coal project; improve electricity distribution in UB; selected rehabilitation of aimag energy systems

Telecommunications	ADB	Telecommunications loan
	France	Rehabilitation and extension of UB network
	Germany	Loan for development of a rural telecommunications system
Transport	ADB	Road development project; air navigation project, UB airport project
	Japan	Road construction, rehabilitate railway transportation, improve public transportation in UB
	World Bank	Transport rehabilitation project; first stage paper to assess sustainable investment levels in the sector, railway commercialization, and development of export corridors
Poverty Alleviation	ADB	Strengthen National Poverty Alleviation Program (NPAP)
	Japan	Rural finance
	UNDP	Microstart pilot project; support for women's activities under NPAP
	World Bank	UB development credit for SMEs; training of women to take advantage of microfinance opportunities
Environment	France	Rehabilitate water treatment plan
	Germany	Buffer zone development and nature protection; fire prevention
	Japan	Rehabilitate UB water supply facilities; grant to Institute of Geology and Mineral Resources
	UNDP	Biodiversity project, Mongolia Action Program for the 21st Century (MAP-21) projects; institutional development for environmental protection; community based rehabilitation of forestry areas

Democracy/Governance		
Decentralization	ADB	Institutional strengthening of local government in six aimags
	UNDP	Decentralization and democracy support
Legal/Judicial	ADB	Legal Retraining Center to train lawyers and judges
	Germany	Judicial training with emphasis on economic and commercial law
Parliament	Germany	Legislative drafting assistance to Parliament
Other	EU/TACIS	Work with the Women for Social Progress to strengthen participatory democracy
	Germany	Political party development
	UNDP	Capacity building of governing institutions (all branches of government); train journalists in UB and six aimags; support economic and social policy think tank
Other Social Sectors (human capacity development, poverty alleviation, health)	ADB	health sector resources development
	ADB	Education sector development
	EU/TACIS	Strengthen several universities and institutes
	ADB	Provincial towns basic urban services project

Annex C: Results Framework and Performance Measures

Indicator	Baseline	Target	Source
Strategic Objective 1: Mongolia's Transition to Democracy Consolidated			
Rural Civil Society Organizations (CSOs) effectively represent their interests to government [# coordinated, policy-oriented interactions rural CSOs have with government policy makers; "coordinated" means that the CSO collectively formulates a position and supports the presentation of its position to government.]	NA	Targets to be established in FY 99	RCSP: Rural CSO records, reports by legislature and government administrative units, interviews.
Public policies changed consistent with rural CSO advocacy. [# of policies/laws changed in accordance with rural CSO advocacy agenda (or proposed negative changes defeated)]	NA	Targets to be established in FY 99	RCSP: Rural CSO records, reports by legislature and government administrative units, interviews.
Level of confidence among rural citizens that legislature represents their interests of which: women [% of citizens who feel/agree that the legislature: a) has the capacity to represent their interests; b) has the independence and ability to check the executive branch; and c) adequately represents citizens' interests.]	Baseline survey in FY 99	TBD	Surveys of stakeholder groups or representative sample of rural citizens.
Competitive multi-party elections held. [Progress is indicated by the extent to which there is competition in the electoral system, i.e. two or more parties actively compete in local and national elections held through the strategy period.]	1996: Multi-party parliamentary and presidential elections	2000-2001: Multiparty elections at national and aimag levels	IRI; US Embassy
Voter turnout in national and local elections [If feasible, disaggregate by gender, rural vs. urban, and USAID's six aimags vs. others.]	1990-96: 90%	2000-2001: 65% or greater	

Indicator	Baseline	Target	Source
Intermediate Result 1.1: Foundation for an Effective Rural Civil Society Established			
CSOs in program areas providing those services that are essential to accelerating economic growth	NA	2003: TBD	RCSP
Rural civil society organizations in program areas operating in democratic manner, thereby representing the interests of their members	NA	2003: TBD	RCSP
Increased networking of rural civil society organizations, to better serve members, with: a) One-another b) Ulaanbaatar NGOs c) international NGOs	TBD	TBD	RCSP
Improved capacity of rural civil society organizations to represent rural business interests to policy makers. [Number and quality position papers presented to policy makers]	NA	TBD	RCSP
Intermediate Result 1.2: Improved Effectiveness of Parliament and the Judiciary			
Percent of legislation passing through Parliament which is not subject to amendment or subsequent judicial review	Baseline study in FY 99	TBD	IRI
Political parties have effective mechanisms for reaching citizens and translating their needs into the party's agenda	Baseline study in FY 99	TBD	IRI
Parliament develops mechanism for incorporating public input into the legislative process	TBD	TBD	IRI
Extent of judges' understanding and use of information contained in specialized bench books	Baseline study in FY 99	TBD	IDLI

Indicator	Baseline	Target	Source
Improved information service to the judges	1998: None	2001: Legal information network established	Contractor: TBD
Strategy for judicial development approved and implemented	1999: Strategy approved	2003: Targets TBD & met	GOM, Donor, Contractor
Public confidence in judiciary improved	TBD	TBD	Contractor
Strategic Objective 2: Accelerated and Broadened, Environmentally-Sound, Private Sector Growth			
Private sector GDP growth rate of which: Non-mining private sector growth rate	1997: 5.4% 1997: TBD	2003: 5% 2003: 5%	EPSP/State Statistical Office
Gross investment as share of GDP	1996: 19.2%	2003: 26%	IMF
Poverty head count (percent of population) of which: Women	1990-95: 36.3% TBD	2003: 30% TBD	UNDP
Efficiency of capital/labor improved	1998	TBD	EPSP analysis
Intermediate Result 2.1: Productive Assets Transferred to Private Ownership			
Proportion of economic activity in private sector	1995-97 average: 60.6%	2003: 75%	EPSP/State Statistical Office
Number of foreign owner/partnership for most-valued companies	0	12	Barents
Intermediate Result 2.2: Increased Efficiency of Financial Markets			
Net domestic savings as share of GDP	1996: 18.7%	2003: TBD	IMF
Stock market capitalization	TBD	TBD	EPSP
Bank credit (total value and number of loans)	TBD	TBD	EPSP

Indicator	Baseline	Target	Source
Financial Sector Policy Reform Index	TBD	TBD	EPSP
Foreign direct investment increased	1997: \$47 million	2003: \$100 million	State Statistical Office
Intermediate Result 2.3: Improved Business Environment			
Number of privately owned small/medium/micro enterprises and cooperatives	1996: TBD	2003: TBD	EPSP/State Statistical Office/US Embassy/Project analysis
Percent change in value-added livestock products	1999: TBD	TBD	RCSP/SPICE analysis
U.S. investment/dealership/franchises increased	1999: TBD	2003: \$100 million	EPSP/State Statistical Office/U.S. Embassy
Private Sector Policy Index including: improved policy framework for increased power sector efficiency	TBD	TBD	EPSP/RCSP/SPICE
Intermediate Result 2.4: Improved Management of the Productive Resource Base			
Number of farmer adapting no-till agricultural practices	1998: 0	TBD	SPICE
Number of commercial water drilling enterprises established	1999: TBD		RCSP analysis
Sustainable management plan for lake Hovsgol adapted and implemented	TBD	TBD	PASA
Approaches to sustainable tourism demonstrated in lake Hovsgol	TBD	TBD	PASA, RCSP

Annex D: Illustrative Policy Dialogue Agenda

Policy Objective	FY 98 - 99	FY 2000 - 03
A. Productive Assets Transferred to Private Ownership		
1. Privatize agricultural and industrial companies	a. Privatize Most-Valued Companies b. Privatize larger enterprises through sealed bid auctions	
2. Land privatization and land use	a. Privatize crop and urban land b. Simplify land use application and review process	
3. Energy privatization	a. Restructure and privatize functions of Energy Authority b. Adopt Energy Law providing for privatization and regulation of energy production, transmission and distribution	
4. Utilities and monopolies regulation		
5. Build-Own-Operate or Transfer	Enabling laws and regulations for BOO/BOT adopted	Implementation

Policy Objective	FY 98 - 99	FY 2000 - 03
B. Efficiency of Financial Markets Improved		
1. Bank privatization	<ul style="list-style-type: none"> a. Develop strategy for bank privatization. b. Privatize Reconstruction Bank. c. Privatize Trade Development Bank (American Investment) d. Improve payments systems e. Strengthen laws on collateral and bankruptcy 	<ul style="list-style-type: none"> a. Privatize ITI b. Reduce state holdings in commercial banks
2. Bank supervision and prudential regulation	Effective supervision and regulation (with IMF and ADB)	
3. Stock market and securities	<ul style="list-style-type: none"> a. Securities Law adopted b. Establish independent stock market and securities commission 	Implementation
4. Pension reform	Adoption and implementation of Pension Reform Program	Continuing implementation private pensions
5. Non-bank financial institutions	Develop laws and regulations conducive to the establishment of non-bank financial institutions	Effective implementation of NBFI laws and regulations in rural areas
6. Leasing	Establish laws and regulations conducive to the leasing of equipment	

Policy Objective	FY 98 - 99	FY 2000 - 03
C. Business Environment Improved		
1. Public sector finance and administration improved	<ul style="list-style-type: none"> a. Implementation of new Public Finance and Administration Law (with ADB) b. Improve management of government financial flows (monitoring, planning and debt management) c. Improve monitoring of monetary and foreign exchange flows d. Reduce dependence on privatization revenues for recurrent budget e. Rationalize aid coordination 	
2. Tax regime improved	<ul style="list-style-type: none"> a. Implementation of new VAT (with IMF and World Bank) b. Adjust (or index) corporate tax structure c. Improve/clarify local government revenue authority d. Streamline corporate tax reporting and payment e. Establish taxation policies for non-governmental organizations 	Expanded coverage of VAT (with IMF and World Bank)
3. Sound exchange rate management	Exchange rate monitoring	Policy for dealing with increasing foreign exchange earnings from oil and mineral exports
4. Effective facilitation of private sector development	<ul style="list-style-type: none"> a. Development of a private sector growth facilitation strategy b. Regularize and reduce administrative barriers to private sector activity 	
5. Trade and investment policy	<ul style="list-style-type: none"> a. Implement customs reforms b. Remove sales taxes on capital equipment imports c. Harmonize tax treatment of foreigners with international best practices 	a. Assist in compliance with World Trade Organization obligations (with Government of Germany)

ANNEX E: ALLOCATION OF FUNDS FY 99-02
(THOUSAND US DOLLARS)

Medium Scenario

	FY 1999	FY2000	FY2001	FY2002	TOTAL
SO1: Consolidate Mongolia's Democratic Transition					
IR1.1 Establish Foundation of Effective Rural Civil Society	1,400	1,400	1,500	1,500	5,800
Rural Civil Society Program	1,400	1,400	1,500	1,500	5,800
IR1.2 Improve Effectiveness of Parliament and Judiciary	450	1,400	1,300	1,300	4,450
International Republican Institute	450	450	0	0	900
New Starts					
Judicial and Legal	0	950	1,100	1,100	3,150
Parliament and Parties	0		200	200	400
USPSC	100	250	250	250	850
SUBTOTAL	1,950	3,050	3,050	3,050	11,100
SO2: Accelerate and Broaden Environmentally Sound Private Sector Growth					
IR2.1 Transfer Productive Assets to Private Ownership	4,200	2,900	0	0	7,100
Macro reform and program mgt	1,400	400	0	0	1,800
Privatization Program	2,200	2,200	0	0	4,400
Energy Restructuring	600	300	0	0	900
IR2.2 Increase Efficiency of Financial Markets	1,740	300	0	0	2,040
Pension Reform	800	0	0	0	800
Capital Markets Reform	290	0	0	0	290
Bank Privatization	650	300	0	0	950
IR2.3 Improve Business Environment	3,200	4,900	4,400	4,400	16,900
Rural Civil Society Program	550	1,300	1,050	1,050	3,950
SPICE	300	200	200	200	900
Business Development (CTIS)	500	500	300	300	1,600
FIAS	0	200	200	200	600
Customs Training (US Customs Service)	225	225	0	0	450
Aimag Generator Sets/Renewable Energy	1,425	1,377	0	0	2,802
New Starts (Business Services)	0	0	2,100	2,100	4,200
Global Field Support	0	898	350	350	1,598
Participant Training (AED)	200	200	200	200	800
IR2.4 Improve the Management of Natural Resource Base	660	600	300	300	1,860
PASA - Lake Khuvsgul	360	300	0	0	660
Rural Civil Society Program	200	200	200	200	800
SPICE	100	100	100	100	400
US PSC	250	250	250	250	1,000
SUBTOTAL	10,050	8,950	4,950	4,950	28,900
TOTAL	12,000	12,000	8,000	8,000	40,000

ANNEX E: ALLOCATION OF FUNDS FY 99-02
(THOUSAND US DOLLARS)

High Scenario

	FY 1999	FY2000	FY2001	FY2002	TOTAL
SO1: Consolidate Mongolia's Democratic Transition					
IR1.1 Establish Foundation of Effective Rural Civil Society	1,400	1,400	1,500	1,500	5,800
Rural Civil Society Program	1,400	1,400	1,500	1,500	5,800
IR1.2 Improve Effectiveness of Parliament and Judiciary	450	1,400	1,950	1,950	5,750
International Republican Institute	450	450	0	0	900
New Starts					
Judicial and Legal	0	950	1,450	1,450	3,850
Parliament and Parties	0		500	500	1,000
USPSC	100	250	250	250	850
SUBTOTAL	1,950	3,050	3,700	3,700	12,400
SO2: Accelerate and Broaden Environmentally Sound Private Sector Growth					
IR2.1 Transfer Productive Assets to Private Ownership	4,200	2,900	1,000	1,000	9,100
Macro reform and program mgt	1,400	400	0	0	1,800
Privatization Program	2,200	2,200	1,000	1,000	6,400
Energy Restructuring	600	300	0	0	900
IR2.2 Increase Efficiency of Financial Markets	1,740	300	0	0	2,040
Pension Reform	800	0	0	0	800
Capital Markets Strengthening	290	0	0	0	290
Other	650	300	0	0	950
IR2.3 Improve Business Environment	3,200	4,800	6,650	6,650	21,300
Rural Civil Society Program	550	1,300	1,050	1,050	3,950
SPICE	300	300	200	200	1,000
Business Development (CTIS)	500	500	500	500	2,000
FIAS	0	200	200	200	600
Customs Training (US Customs Service)	225	225	0	0	450
Aimag Generator Sets/Renewable Energy	1,425	1,377	1,000	1,000	4,802
New Starts (Business Services)	0	0	2,500	2,500	5,000
Global Field Support	0	698	1,000	1,000	2,698
Participant Training (AED)	200	200	200	200	800
IR2.3 Improve the Management of Natural Resource Base	660	700	400	400	2,160
PASA - Lake Khuvsgul	360	300	0	0	660
Rural Civil Society Program	200	300	300	300	1,100
SPICE	100	100	100	100	400
USPSC	250	250	250	250	1,000
SUBTOTAL	10,050	8,950	8,300	8,300	35,600
TOTAL	12,000	12,000	12,000	12,000	48,000

ANNEX E: ALLOCATION OF FUNDS FY 99-02
(THOUSAND US DOLLARS)

Low Scenario

	FY 1999	FY2000	FY2001	FY2002	TOTAL
SO1: Consolidate Mongolia's Democratic Transition					
IR1.1 Establish Foundation of Effective Rural Civil Society	400	1,000	1,500	1,500	4,400
Rural Civil Society Program	400	1,000	1,500	1,500	4,400
IR1.2 Improve Effectiveness of Parliament and Judiciary	450	1,100	1,300	1,300	4,150
International Republican Institute	450	450	0	0	900
New Starts					
Judicial and Legal	0	650	1,100	1,100	2,850
Parliament and Parties	0		200	200	400
USPSC	0	0	0	0	0
SUBTOTAL	850	2,100	2,800	2,800	8,550
SO2: Accelerate and Broaden Environmentally Sound Private Sector Growth					
IR2.1 Transfer Productive Assets to Private Ownership	3,000	1,800	0	0	4,800
Macro reform and program mgt	1,100	300	0	0	1,400
Privatization Program	1,300	1,200	0	0	2,500
Energy Restructuring	600	300	0	0	900
IR2.2 Increase Efficiency of Financial Markets	800	0	0	0	800
Pension Reform	800	0	0	0	800
Bank Privatization	0	0	0	0	0
Capital Markets Strengthening	0	0	0	0	0
IR2.3 Improve Business Environment	1,150	2,100	3,200	3,200	9,650
Rural Civil Society Program	250	1,500	1,100	1,100	3,950
SPICE	300	300	300	300	1,200
Business Development (CTIS)	400	300	300	300	1,300
FIAS	0	0	0	0	0
Customs Training (US Customs Service)	0	0	0	0	0
Aimag Generator Sets/Renweable Energy	0	0	0	0	0
New Starts (Business Services)	0	0	1,500	1,500	3,000
Global Field Support	0	0	0	0	0
Participant Training (AED)	200	0	0	0	200
IR2.3 Improve the Management of Natural Resource Base	200	300	300	300	0
PASA - Lake Khuvsgul	0	0	0	0	0
Rural Civil Society Program	100	200	200	200	700
SPICE	100	100	100	100	400
USPSC	0	0	0	0	0
SUBTOTAL	5,150	3,900	3,200	3,200	15,450
TOTAL	6,000	6,000	6,000	6,000	24,000 <small>mon729</small>

ANNEX F: USAID/MONGOLIA OPERATING EXPENSE BUDGET

USAID/Mongolia		Overseas Mission Budget																	
Org. No:	23438	FY 1998			FY 1999			FY 2000			FY 2001			FY 2002			FY 2003		
OC		Dollars	TF	Total															
11.1	Personnel compensation, full-time permanent	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
11.1	Base Pay & pymt. for annual leave balances - FNDH			0			0			0			0			0			0
	Subtotal OC 11.1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
11.3	Personnel comp. - other than full-time permanent	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
11.3	Base Pay & pymt. for annual leave balances - FNDH			0			0			0			0			0			0
	Subtotal OC 11.3	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
11.5	Other personnel compensation	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
11.5	USDH			0			0			0			0			0			0
11.5	FNDH			0			0			0			0			0			0
	Subtotal OC 11.5	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
11.8	Special personal services payments	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
11.8	USPSC Salaries			0			0			0			0			0			0
11.8	FN PSC Salaries	15.4		15.4	20.8		20.8	21.8		21.8	22.9		22.9	24.0		24.0	25.2		25.2
11.8	IPA/Details-In/PASAs/RSSAs Salaries			0			0			0			0			0			0
	Subtotal OC 11.8	15.4	0	15.4	20.8	0	20.8	21.8	0	21.8	22.9	0	22.9	24	0	24	25.2	0	25.2
12.1	Personnel benefits	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
12.1	USDH benefits	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
12.1	Educational Allowances			0			0			0	13.8		13.8	13.8		13.8	13.8		13.8
12.1	Cost of Living Allowances			0			0			0			0			0			0
12.1	Home Service Transfer Allowances			0			0			0			0			0			0
12.1	Quarters Allowances			0			0			0			0			0			0
12.1	Other Misc. USDH Benefits	7.2		7.2	8.6		8.6	8.6		8.6	8.6		8.6			0			0
12.1	FNDH Benefits	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
12.1	Payments to the FSN Separation Fund - FNDH			0			0			0			0			0			0
12.1	Other FNDH Benefits			0			0			0			0			0			0
12.1	US PSC Benefits			0			0			0			0			0			0
12.1	FN PSC Benefits	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
12.1	Payments to the FSN Separation Fund - FN PSC			0			0			0			0			0			0
12.1	Other FN PSC Benefits	1.6		1.6	1.7		1.7	1.8		1.8	1.9		1.9	2		2	2.1		2.1
12.1	IPA/Detail-In/PASA/RSSA Benefits			0			0			0			0			0			0
	Subtotal OC 12.1	8.8	0	8.8	10.3	0	10.3	10.4	0	10.4	24.3	0	24.3	15.8	0	15.8	15.9	0	15.9
13	Benefits for former personnel	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
13	FNDH	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
13	Severance Payments for FNDH			0			0			0			0			0			0
13	Other Benefits for Former Personnel - FNDH			0			0			0			0			0			0
13	FN PSCs	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
13	Severance Payments for FN PSCs			0			0			0			0			0			0
13	Other Benefits for Former Personnel - FN PSCs			0			0			0			0			0			0
	Subtotal OC 13.0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

ANNEX F: USAID/MONGOLIA OPERATING EXPENSE BUDGET

USAID/Mongolia		Overseas Mission Budget																	
Org. No:	23438	FY 1998			FY 1999			FY 2000			FY 2001			FY 2002			FY 2003		
OC		Dollars	TF	Total															
21	Travel and transportation of persons	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
21	Training Travel			0	10		10	10		10	10		10	10		10	5		5
21	Mandatory/Statutory Travel	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
21	Post Assignment Travel - to field			0			0			0	5.9		5.9			0	5.9		5.9
21	Assignment to Washington Travel			0			0			0			0			0			0
21	Home Leave Travel			0	5.9		5.9			0	5.9		5.9			0	5.9		5.9
21	R & R Travel	3.7		3.7			0	3.7		3.7			0	10.9		10.9			0
21	Education Travel			0			0			0			0			0			0
21	Evacuation Travel			0			0			0			0			0			0
21	Retirement Travel			0			0			0			0			0			0
21	Pre-Employment Invitational Travel			0			0			0			0			0			0
21	Other Mandatory/Statutory Travel			0			0			0			0			0			0
21	Operational Travel	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
21	Site Visits - Headquarters Personnel	27.7		27.7	30		30	35		35	30		30	35		35	25		25
21	Site Visits - Mission Personnel	37.6		37.6	35		35	40		40	35		35	40		40	30		30
21	Conferences/Seminars/Meetings/Retreats	9.3		9.3	9		9	9		9	9		9	9		9	9		9
21	Assessment Travel			0			0			0			0			0			0
21	Impact Evaluation Travel			0			0			0			0			0			0
21	Disaster Travel (to respond to specific disasters)			0			0			0			0			0			0
21	Recruitment Travel			0			0			0			0			0			0
21	Other Operational Travel			0			0			0			0			0			0
	Subtotal OC 21.0	78.3	0	78.3	89.9	0	89.9	97.7	0	97.7	95.8	0	95.8	104.9	0	104.9	80.8	0	80.8
22	Transportation of things	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
22	Post assignment freight			0			0			0	18.9		18.9			0	18.9		18.9
22	Home Leave Freight			0	18.9		18.9			0	18.9		18.9			0	18.9		18.9
22	Retirement Freight			0			0			0			0			0			0
22	Transportation/Freight for Office Furniture/Equip.	1.2		1.2	0.3		0.3	0.3		0.3	0.8		0.8	0.8		0.8	0.8		0.8
22	Transportation/Freight for Res. Furniture/Equip.	0.2		0.2	0.8		0.8	0.8		0.8			0	0.3		0.3			0
	Subtotal OC 22.0	1.4	0	1.4	20	0	20	1.1	0	1.1	38.6	0	38.6	1.1	0	1.1	38.6	0	38.6
23.2	Rental payments to others	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
23.2	Rental Payments to Others - Office Space	3.4		3.4	6.8		6.8	6.8		6.8	6.8		6.8	6.8		6.8	6.8		6.8
23.2	Rental Payments to Others - Warehouse Space			0			0			0			0			0			0
23.2	Rental Payments to Others - Residences	10.5		10.5	11		11	11.6		11.6	12.2		12.2	12.8		12.8	13.4		13.4
	Subtotal OC 23.2	13.9	0	13.9	17.8	0	17.8	18.4	0	18.4	19	0	19	19.6	0	19.6	20.2	0	20.2
23.3	Communications, utilities, and miscellaneous charges	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
23.3	Office Utilities	12.2		12.2	12.2		12.2	12.2		12.2	12.2		12.2	12.2		12.2	12.2		12.2
23.3	Residential Utilities	1		1	1		1	1		1	1		1	1		1	1		1
23.3	Telephone Costs	52.3		52.3	52		52	52		52	52		52	52		52	52		52
23.3	ADP Software Leases			0			0			0			0			0			0
23.3	ADP Hardware Lease			0			0			0			0			0			0
23.3	Commercial Time Sharing			0			0			0			0			0			0
23.3	Postal Fees (Other than APO Mail)	0.2		0.2	0.2		0.2	0.2		0.2	0.2		0.2	0.2		0.2	0.2		0.2
23.3	Other Mail Service Costs			0			0			0			0			0			0
23.3	Courier Services	0.4		0.4	0.4		0.4	0.4		0.4	0.4		0.4	0.4		0.4	0.4		0.4

ANNEX F: USAID/MONGOLIA OPERATING EXPENSE BUDGET

USAID/Mongolia		Overseas Mission Budget																	
Org. No:	23438	FY 1998			FY 1999			FY 2000			FY 2001			FY 2002			FY 2003		
OC		Dollars	TF	Total															
	Subtotal OC 23.3	66.1	0	66.1	65.8	0	65.8	65.8	0	65.8	65.8	0	65.8	65.8	0	65.8	65.8	0	65.8
24	Printing and Reproduction			0			0			0			0			0			0
	Subtotal OC 24.0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25.1	Advisory and assistance services	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
25.1	Studies, Analyses, & Evaluations	26.3		26.3			0	25		25			0			0			0
25.1	Management & Professional Support Services			0			0			0			0			0			0
25.1	Engineering & Technical Services			0			0			0			0			0			0
	Subtotal OC 25.1	26.3	0	26.3	0	0	0	25	0	25	0	0	0	0	0	0	0	0	0
25.2	Other services	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
25.2	Office Security Guards			0			0			0			0			0			0
25.2	Residential Security Guard Services			0			0			0			0			0			0
25.2	Official Residential Expenses			0			0			0			0			0			0
25.2	Representation Allowances	0.9		0.9	0.9		0.9	0.9		0.9	0.9		0.9	0.9		0.9	0.9		0.9
25.2	Non-Federal Audits			0			0			0			0			0			0
25.2	Grievances/Investigations			0			0			0			0			0			0
25.2	Insurance and Vehicle Registration Fees			0			0			0			0			0			0
25.2	Vehicle Rental			0			0			0			0			0			0
25.2	Manpower Contracts	7.5		7.5	7.5		7.5	7.5		7.5	7.5		7.5	7.5		7.5	7.5		7.5
25.2	Records Declassification & Other Records Services			0			0			0			0			0			0
25.2	Recruiting activities			0			0			0			0			0			0
25.2	Penalty Interest Payments			0			0			0			0			0			0
25.2	Other Miscellaneous Services	1.5		1.5	1.5		1.5	1.5		1.5	1.5		1.5	1.5		1.5	1.5		1.5
25.2	Staff training contracts	0.4		0.4			0			0			0			0			0
25.2	ADP related contracts			0			0			0			0			0			0
	Subtotal OC 25.2	10.3	0	10.3	9.9	0	9.9	9.9	0	9.9	9.9	0	9.9	9.9	0	9.9	9.9	0	9.9
25.3	Purchase of goods and services from Government accounts	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
25.3	ICASS	40.6		40.6	44.7		44.7	49.2		49.2	54.1		54.1	59.5		59.5	65.5		65.5
25.3	All Other Services from Other Gov't. accounts			0			0			0			0			0			0
	Subtotal OC 25.3	40.6	0	40.6	44.7	0	44.7	49.2	0	49.2	54.1	0	54.1	59.5	0	59.5	65.5	0	65.5
25.4	Operation and maintenance of facilities	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
25.4	Office building Maintenance	5		5	1.5		1.5	1.5		1.5	1.5		1.5	1.5		1.5	1.5		1.5
25.4	Residential Building Maintenance	0.7		0.7	10		10	1		1	10		10	1		1	10		10
	Subtotal OC 25.4	5.7	0	5.7	11.5	0	11.5	2.5	0	2.5	11.5	0	11.5	2.5	0	2.5	11.5	0	11.5
25.7	Operation/maintenance of equipment & storage of goods	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
25.7	ADP and telephone operation and maintenance costs			0	7		7	6		6	5		5	7		7	8		8
25.7	Storage Services			0			0			0			0			0			0
25.7	Office Furniture/Equip. Repair and Maintenance	1.4		1.4	1.5		1.5	1.5		1.5	1.5		1.5	1.5		1.5	1.5		1.5
25.7	Vehicle Repair and Maintenance	0.3		0.3	1.5		1.5	1.5		1.5	1.5		1.5	1.5		1.5	1.5		1.5
25.7	Residential Furniture/Equip. Repair and Maintenance			0			0			0			0			0			0

ANNEX F: USAID/MONGOLIA OPERATING EXPENSE BUDGET

USAID/Mongolia		Overseas Mission Budget																	
Org. No:	23438	FY 1998			FY 1999			FY 2000			FY 2001			FY 2002			FY 2003		
OC		Dollars	TF	Total															
	Subtotal OC 25.7	1.7	0	1.7	10	0	10	9	0	9	8	0	8	10	0	10	11	0	11
25.8	Substance and support of persons (by contract or Gov't.)			0			0			0			0			0			0
	Subtotal OC 25.8	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
26	Supplies and materials	23.2		23.2	26.9		26.9	33.2		33.2	27.4		27.4	32.8		32.8	24.1		24.1
	Subtotal OC 26.0	23.2	0	23.2	26.9	0	26.9	33.2	0	33.2	27.4	0	27.4	32.8	0	32.8	24.1	0	24.1
31	Equipment	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
31	Purchase of Residential Furniture/Equip.	1.6		1.6	3		3	3		3			0	3		3			0
31	Purchase of Office Furniture/Equip.	10		10	8.3		8.3	8.3		8.3	8.3		8.3	8.3		8.3	5		5
31	Purchase of Vehicles			0			0	25		25			0	25		25			0
31	Purchase of Printing/Graphics Equipment			0			0			0			0			0			0
31	ADP Hardware purchases	56		56	15		15	15		15	18		18	13		13	22		22
	Subtotal OC 31.0	67.6	0	67.6	26.3	0	26.3	51.3	0	51.3	26.3	0	26.3	49.3	0	49.3	27	0	27
32	Lands and structures	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
32	Purchase of Land & Buildings (& construction of bldgs.)			0			0			0			0			0			0
32	Purchase of fixed equipment for buildings			0			0			0			0			0			0
32	Building Renovations/Alterations - Office			0			0			0			0			0			0
32	Building Renovations/Alterations - Residential			0			0			0			0			0			0
	Subtotal OC 32.0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
42	Claims and indemnities			0			0			0			0			0			0
	Subtotal OC 42.0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	TOTAL BUDGET	359.3	0.0	359.3	353.9	0.0	353.9	395.3	0.0	395.3	403.6	0.0	403.6	395.2	0.0	395.2	395.5	0.0	395.5

**ANNEX G: PROPOSED WORKLOAD AND STAFFING PLAN
(FY2000)**

Job Titles/Areas of Responsibility	Mission	USPSC	USPSC	Senior FSN	FSN Project	FSN Project	FSN Project	Manila	FSN Admin	FSN Admin
	Director	SO1	SO2	Program Officer	Officer	Officer	Officer	Program Coordinator	Assistant	Assistant
Mission Management	40	0	0	25	0	0	0	0	0	0
Administrative Management	5	0	0	20	0	0	0	0	100	100
Program Development/Management/Administration	25	10	10	25	10	10	10	50	0	0
SO1- IR1.1 -Establish Foundation for an Effective Rural Civil Society	5	60	0	5	35	45	5	0	0	0
SO1- IR1.2 - Improved Effectiveness of Judiciary and Parliament	5	30	0	5	30	20	0	0	0	0
SO2-IR1.1 - Transfer Productive Assets to Private Sector	5	0	30	5	0	0	30	0	0	0
SO2-IR1.2 - Increased Efficiency of Financial Markets	5	0	10	5	0	0	25	0	0	0
SO2-IR1.3 - Improved Business Environment	5	0	45	5	0	15	20	0	0	0
SO2-IR1.4 - Improved Natural Resource Management	5	0	5	5	25	10	10	0	0	0
TOTAL Workload in Percentage (%)	100	100	100	100	100	100	100	50	100	100

ANNEX H CONSERVATION OF BIODIVERSITY IN MONGOLIA

I Introduction

Section 119 of the Foreign Assistance Act requires that all country plans include "an analysis of (1) the actions necessary in that country to conserve biological diversity, and (2) the extent to which the actions proposed for support by USAID meet the needs thus identified." Responding to this legislative requirement, this annex provides an overview of biological diversity in Mongolia and describes USAID's efforts to encourage its protection and sustainable use. Information within this document is derived from the following sources: (1) "Biodiversity Conservation Action Plan for Mongolia," Ministry for Nature and the Environment, 1997, (2) USAID/Mongolia-funded DAI report "Environmental Profile of Mongolia" 1998, (3) consultations with Ministry for Nature and Environment officials, both in Ulaanbaatar and Hovsgol, and (4) consultations with donor organizations and researchers both in and outside of Mongolia.

USAID proposes to promote biodiversity conservation and sustainable natural resource management in the Hovsgol lake region. The proposed activities will be managed under Strategic Objective 2 "Accelerate and broaden environmentally sound private sector growth," IR 2.4 "Improve management of natural resource base for long-term sustainable use."

II Background

A Status of Biodiversity in Mongolia

Mongolia lies within a transition zone of several Central Asian ecosystems. The Siberian taiga forests, Central Asian steppe, the Altai Mountains and the Gobi desert all converge within Mongolia's boundaries. These different ecosystems provide habitat for a variety of plants and animals, some of which are globally threatened. Enormous herds of the migratory Mongolian gazelle provide one of the last spectacles of mass migrations of ungulates on earth, rivaled in scale only by those taking place on the Serengeti plains of Tanzania.

In contrast to many of its neighbors, much of Mongolia's biodiversity is still relatively "healthy." However, Mongolia's ecosystems can be characterized as fragile (susceptible to changes in water availability and erosion) and as such are highly susceptible to irreversible loss of productivity and species richness. Unsustainable forestry practices and increasing levels of overgrazing threaten both Mongolia's forests and grasslands. For example, the number of livestock have increased from 25.8 million in 1990 to over 32 million at the end of 1998 and moderate levels of overgrazing are found on at least 35% of grasslands.

Mongolia has six natural zones: High Mountain, Taiga forest, Mountain forest steppe, Steppe, Desert Steppe, and Desert. The steppe and mountain forest regions are highlighted as two regions of World Wide Fund for Nature's (WWF) Global 200 bioregions. These are the Altai-Sayan Forest (ecoregion #73) and include the Hovsgol region and the lake/mountain region in western Mongolia. This ecoregion occurs in four countries: Mongolia, Russia, Kazakhstan and China, with the largest areas in Mongolia and Russia. These are some of the best intact examples of montane conifer ecosystems in Central Asia. The other bioregion is the Daurian Steppe (ecoregion #97) in

northeastern Mongolia, it is divided almost equally between Mongolia, Russia, and China. WWF characterizes this region as one of the best and most intact examples of Eurasian steppe and grasslands.

Endemism rates in Mongolia are low--9.4% in plants (229 species) and 7.6% in fish (5 species). Biodiversity conservation in Mongolia is regionally important as Mongolia's ecosystems are generally large functioning tracks of land that support a number of species that are often more threatened elsewhere in the region. Both the Bactrian camel (*Camelus bactrianus ferus*) and Snow leopard (*Unica unica*) have important populations in Mongolia.

Twenty-seven species are listed as threatened (vulnerable or higher) according to IUCN's criteria. Sixty-five species occur on CITES Appendix I or II. Of these, the Gobi bear (*Ursus arctos* spp.) is the most critically endangered. Additional important species include Asiatic wild dog (*Cuon alpinus*), Mountain saiga (*Saiga tatarica mongolica*), and Altai wild mountain sheep (argali) (*Ovis ammon*).

Data for plants are not given in the Mongolian Biodiversity Action Plan. However the Plan states that there are 845 plant species that are considered to have medicinal value, 68 that are important for their soil-binding qualities, and 120 species that are important food plants.

B Major Threats

The three major threats to Mongolia's biodiversity are summarized below.

Overgrazing Eighty percent (80%) of Mongolia's territory is grassland and desert scrub. The Mongolia Academy of Science estimates that 33.5% is overgrazed (higher estimates may be found in other accounts). Overgrazing leads to reduced grassland productivity caused by erosion and reduced species diversity. Desertification is a threat to both Mongolia's biodiversity and agricultural productivity.

Deforestation Forested land covers 7-11% of the country (depending on land classification techniques). Unsustainable logging practices, fire, and insect infestations are rapidly depleting many forest areas. Natural regeneration and planned reforestation rates are low. Illegal logging and livestock grazing in forested areas further exacerbate the problem. The issue of climate change is also of concern. The major forest species, Larch (*Larix siberica*, 61% of forest composition) grows on permafrost and as such is highly susceptible to melting of the permafrost and other potential effects of climate change.

Unsustainable Use of Wildlife Many wildlife species (i.e., bear and musk deer) are threatened by heavy poaching for the Chinese medicinal trade. In addition many ungulates (hoofed animals) are poached to augment food supplies. Wildlife protection laws are poorly enforced. Where exploitation is permitted, overharvesting is common due to poorly developed and poorly enforced harvest quotas. Indirect threats such as livestock overgrazing, deforestation, mining and increased agricultural water use lead to loss of habitat available to wildlife species. Pollution and overfishing threaten many of the river fish populations.

C Policy Framework for Conservation

Before 1995, GOM policies supported industrialization and economic development often irrespective of environmental impacts and consequences. Recently, GOM has developed a number of laws and action plans aimed at preserving biodiversity and land productivity. In 1995, GOM passed several laws to address natural resources and their use. These include Law on Forests, Law on Natural Plants, Law on Hunting, Law on Special Protected Areas, and several laws on the exploitation of water, plants, timber, and hunting. GOM has also made it a priority to put land under protected status (Strictly Protected Areas, National Conservation Parks, Nature Reserves, and Natural and Historical Monuments). Currently 38 protected areas occupy 11.1% of the country.

The Ministry for Nature and the Environment was re-established in 1992. In 1997, this Ministry produced the "Biodiversity Conservation Action Plan for Mongolia" (The Biodiversity Plan). In the preface to the report, Dr. Z. Batjargal, Minister for Nature and the Environment, stipulates "Biodiversity is one of Mongolia's priority issues" and further states "Conservation must be integrated into development which must be sustainable and compatible with the survival of living nature."

The Biodiversity Conservation Action Plan for Mongolia outlines seventeen (17) objectives/actions to improve biodiversity conservation within the country. These actions can be grouped under the following four general categories:

- Expansion of Mongolia's protected areas system,
- Improving the protection and management of the protected areas,
- Improving management of plant and wildlife species,
- Enforcing environmental laws

In addition to passing national legislation, the GOM has signed a number of major international environmental conventions: Convention on Biological Diversity (1993), Convention on Climate Change (1994), Convention on International Trade in Endangered Species (CITES) (1994), Convention on Combating Desertification and Drought (1996), and the Convention on Wetlands of International Importance especially as Waterfowl Habitat (1997). In accordance with the Convention on Combating Desertification and Drought, GOM MNE produced the "National Plan of Action to Combat Desertification in Mongolia" in 1997.

III Protecting Biodiversity in Mongolia

A Donor Efforts

There are a number of donor projects in Mongolia that address conservation of natural resources. The most significant include:

- UNDP/GEF - Mongolia Biodiversity Project and Steppe Biodiversity Project

These two activities are addressing protection needs as well as looking at effects of overgrazing. They focus on the eastern grassland area.

- **GTZ - Protected Areas and Buffer Zone Development Project**

This GTZ program is supporting development of models for protected area planning and management in the Gobi Gurvansaikan National Park and the Gorkhi-Terelj National Park/Khan Khentii Strictly Protected Area. Activities at the forested Khentii site include development of improved forestry practices and fire prevention.

B USAID Actions to Conserve Biodiversity

Approved and Ongoing Projects

The Strengthening Participation and Institutional Capacities in Enterprise and Market Development in Rural Mongolia (SPICE) program will support rural private sector development by transferring skills through a farmer to farmer program. Areas of concentration include (a) conservation tillage support through demonstration projects and training to improve and develop appropriate techniques for sustainable harvesting, and (b) improvement of health and quality of livestock to increase livestock productivity while at the same time improving pasturelands.

The Rural Civil Society Project (RCSP) is aimed at improving conditions for broad-based economic growth in the Gobi region of southern Mongolia. One of the principal aims of the program is to increase herder incomes through increasing the quality of cashmere production instead of quantity, thus lessening the impact of grazing on the Gobi in the long-term.

Lake Hovsgol Conservation and Development Project

The Lake Hovsgol project directly supports the Biodiversity Action Plan for Mongolia. The Action plan lists seventeen Objectives/Actions to assist in the conservation of Mongolia's natural resources. These actions are targeted at a country level. The proposed USAID project in Hovsgol addresses nine of these actions at the local level. In particular, the project will

- Establish a research program that improves knowledge of biodiversity and relevant threats,
- Support a nationwide information and monitoring system for biodiversity conservation,
- Establish a public information program to improve people's knowledge of biodiversity and the importance of conserving it,
- Support air, water, and soil pollution control,
- Prevent pasture deterioration through overgrazing,
- Establish effective land-use planning control and transportation planning to protect biodiversity,
- Support tourism while developing sensible regulations to protect biodiversity,
- Ensure that agriculture and forestry are carried out in ways compatible with biodiversity conservation,
- Identify and restore damaged lands.

The proposed project in Hovsgol region will work collaboratively with Mongolian national parks and associated Mongolian government agencies at the ministry level in Ulaanbaatar and at the

aimag and soum levels in the interior of Mongolia. The project will address issues related to natural resource use (including the sustainable harvesting and use of trees, fish, grasslands, berries, onions, and mushrooms, plants for medicinal use, ungulates, and water). In addition, the project will focus on developing improved land use management plans to encourage environmentally sustainable development and reduce land degradation and threats to water quality.

Technical assistance will address two components of timber harvest: 1) an assessment of how soum governments can generate income in other forms in lieu of timber permits, and 2) consultation with Park staff in boreal forest management to: a) develop a marking system to choose which trees can be cut, b) promote collection of felled branches, old stumps and loose material from plank production, c) promote the use of more energy efficient stoves and home construction materials, and d) address issues of forest regeneration and reforestation.

The project will provide technical assistance to Park staff to identify viable grazing areas near the park, develop stocking rates, and develop a monitoring system for the area's grasslands. Technical assistance will also address the development of sustainable harvesting techniques and rates for plants commonly collected for human use and will investigate the viability of propagating some plants.

Project technical assistance will work with Park staff to improve existing water quality monitoring systems and to develop a comprehensive plan to monitor water quality in several large flow streams and in the lake itself.

The proposed project complements existing work in the country without duplicating any efforts. There are no other donor projects currently underway in the Hovsgol area, although the WWF biodiversity project is working on an adjacent area to the west of Hovsgol as well as in the western lake/mountain region.

The Management Contract

The USAID/Mongolia Country Strategic Plan for FY 1999-2003 was approved at a senior review meeting on October 30, 1998

A reporting cable, dated December 15, 1998, notes agreements reached at that meeting

This Strategy, together with the Reporting Cable (attached, page i) and the Information Memorandum (attached, page ii) represent USAID/Mongolia's Management Contract with USAID/Washington.

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FY 1999-2003, REVIEW AND MANAGEMENT CONTRACT

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SECTION I SUMMARY
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1 USAID/MONGOLIA PRESENTED A FIVE-YEAR (FY 1999-2003) COUNTRY STRATEGIC PLAN FOR USAID/WASHINGTON REVIEW OCTOBER 27-30, 1998 THE STRATEGY FOLLOWED THE RECOMMENDATIONS OF THE PARAMETERS MEETING WHICH TOOK PLACE IN APRIL 1998 (STATE 099304), IT ALSO TRACKS NICELY WITH THE EMBASSY S MISSION PERFORMANCE PLAN THE STRATEGIC PLAN WAS DEVELOPED COLLABORATIVELY BY USAID/MONGOLIA, THE ANE AND GLOBAL BUREAUS, AND WITH EXCELLENT COLLABORATION WITH THE STATE DEPARTMENT IT PRESENTS A PROGRAM THAT IS SUPPORTED BY THE U S EMBASSY IN MONGOLIA, THE GOVERNMENT OF

MONGOLIA, AND OUR PARTNERS IN THE PRIVATE SECTOR AND THE NGO COMMUNITY WHO WILL ASSIST USAID IN IMPLEMENTING THE PROGRAM A SENIOR REVIEW WAS CHAIRED BY AA/ANE ROBERT RANDOLPH ON OCTOBER 30, 1998, WITH MISSION DIRECTOR EDWARD BIRGELLS REPRESENTING USAID/MONGOLIA THE STRATEGY WAS APPROVED, BASED ON THE AGREEMENTS AND DECISIONS OUTLINED BELOW THIS CABLE FORMALIZES A NEW MANAGEMENT CONTRACT BETWEEN USAID/MONGOLIA AND USAID/WASHINGTON AND REFLECTS THE OUTCOME OF THE VARIOUS DISCUSSIONS THAT TOOK PLACE DURING THE STRATEGY REVIEW PLEASE NOTE THAT THIS NEW CONTRACT CONSISTS OF THIS CABLE, THE COUNTRY STRATEGIC PLAN, AND THE OCTOBER 30, 1998 INFORMATION MEMO PREPARED FOR THE STRATEGY DECISION MEETING

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SECTION II AGREEMENTS AND DECISIONS

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2 MONGOLIA S COUNTRY STRATEGY REVIEW TOOK PLACE ON OCTOBER 30, 1998 WITH PARTICIPATION OF USAID MISSION DIRECTOR EDWARD BIRGELLS, AA/ANE ROBERT RANDOLPH (CHAIR), AND REPRESENTATIVES OF ANE, GLOBAL, PPC, M/B AND THE STATE DEPARTMENT THE STATE DEPARTMENT REPRESENTATIVE NOTED THAT THE MONGOLIA PROGRAM ENJOYS THE STRONG SUPPORT OF THE U S AMBASSADOR TO MONGOLIA AND THE SECRETARY OF STATE THE APPROVAL OF THE STRATEGY WAS UNCONDITIONAL, BUT REFLECTS THE FOLLOWING AGREEMENTS

(A) PERFORMANCE MONITORING

ACTION IT WAS AGREED THAT USAID/MONGOLIA WILL DEVELOP A FULL PERFORMANCE MONITORING PLAN, INCLUDING A COMPLETE RESULTS FRAMEWORK AND PERFORMANCE INDICATORS/TARGETS, AND WORK WITH THE ANE STRATEGY OFFICE, PPC, G/DG, G/EG AND G/WID TO CAPTURE THE BEST AGENCY EXPERTISE IN THESE SECTORS THE PLAN WILL BE COMPLETED BY JUNE 30, 1999 SO THAT THE MISSION CAN REPORT ON THE INITIAL RESULTS OF THIS NEW STRATEGY IN THE RESULTS REVIEW AND RESOURCES REQUEST

(R4) IN CY 2000 IT WAS ALSO AGREED THAT FUTURE R4 S WILL REPORT ON THE WAY USAID ACTIVITIES COMPLEMENT AND REINFORCE EACH OTHER AND THE EFFORTS OF OTHER DONORS, ESPECIALLY IN THE DEMOCRACY AND GOVERNANCE STRATEGIC OBJECTIVE

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(B) CRISIS AND CONFLICT MITIGATION

CONCERNS WERE RAISED OVER THE POTENTIAL FOR PROLONGED INSTABILITY WITHIN THE MONGOLIAN GOVERNMENT, BASED ON THE RECENT FOUR-MONTH GOVERNMENT STALEMATE AND THE

ASSASSINATION OF A CANDIDATE FOR PRIME MINISTER (SUBSEQUENT TO THE STRATEGY MEETING, ON DECEMBER 9, 1998, A NEW PRIME MINISTER WAS APPROVED AS THE NEW GOVERNMENT BECOMES OPERATIONAL, MORE WILL BE KNOWN ABOUT THE IMPLICATIONS FOR MONGOLIA S CONTINUED DEMOCRATIC DEVELOPMENT)

STATE AND THE MISSION RESPONDED THAT THERE IS NO POLITICAL UNREST IN MONGOLIA--ONLY A POLITICAL STALEMATE THE MISSION DIRECTOR NOTED THAT THIS SITUATION CAN CHANGE HE WILL EXPLORE THE APPLICABILITY OF AGENCY CONFLICT MITIGATION EXPERTISE TO THE CURRENT SITUATION AND WILL COLLABORATE WITH THE U S AMBASSADOR TO PROVIDE ASSISTANCE IN THIS AREA IF DEEMED NECESSARY

(C) JUDICIAL REFORM

IF PENDING LEGISLATION TO REINFORCE THE INDEPENDENCE OF THE JUDICIARY IS PASSED, USAID WILL CONSIDER PROVIDING SUPPORT IN THE AREAS OF COURT ADMINISTRATION AND JUDICIAL ETHICS

(D) BIOLOGICAL DIVERSITY

ACTION IT WAS AGREED THAT ANE/SEA AND G/ENV WOULD TAKE
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THE LEAD IN UPDATING ANALYSES OF THE ACTIONS NECESSARY TO CONSERVE BIOLOGICAL DIVERSITY IN MONGOLIA BUILDING ON THE RECENT ENVIRONMENTAL PROFILE OF MONGOLIA THIS ANALYSIS, WHICH WILL SATISFY THE REQUIREMENTS OF SECTION 118/119 OF THE FAA, WILL BE INCLUDED AS AN ANNEX TO THE MONGOLIA COUNTRY STRATEGIC PLAN AND IS DUE TO BE COMPLETED BY MARCH 31, 1999

(E) LAND TENURE AND USE

THE PROBLEM OF LAND DEGRADATION FROM OVERGRAZING BY LIVESTOCK WAS DISCUSSED DURING THE STRATEGY REVIEW THE LACK OF FORMAL LAND TENURE ARRANGEMENTS MAY EXACERBATE THE PROBLEM, BUT THE MISSION DIRECTOR INDICATED THIS IS NOT A PRINCIPAL CAUSE OF THE PROBLEM USAID WILL ADDRESS PASTURE LAND DEGRADATION THROUGH TARGETED RURAL DEVELOPMENT ACTIVITIES, WHICH MAY INCLUDE EFFORTS TO IMPROVE LAND TENURE AND MANAGEMENT PRACTICES, AS APPROPRIATE

(F) ENERGY

IT WAS AGREED, IF ADDITIONAL DIESEL GENERATORS ARE PURCHASED DURING THE STRATEGY PERIOD, USAID/MONGOLIA WILL UNDERTAKE AN ASSESSMENT TO DETERMINE THE ECONOMIC FEASIBILITY OF RETROFITTING (HYBRIDIZING) THE GENERATORS WITH RENEWABLE ENERGY (SOLAR) TECHNOLOGIES

(G) INITIAL ENVIRONMENTAL EXAMINATIONS

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USAID WAS COMMENDED FOR ITS COMMITMENT TO GREEN PROCUREMENT, THE USE OF COST-EFFECTIVE, CLEAN TECHNOLOGY OPTIONS, AS A POSSIBLE AVENUE FOR FUTURE ASSISTANCE IN THE ENERGY FIELD USAID WILL ADDRESS ENVIRONMENTAL CONSIDERATIONS IN ITS ASSESSMENTS OF BOTH NATIONAL AND RURAL ENERGY SYSTEMS USAID ACTIVITIES WILL AVOID ADVERSE IMPACTS ON SURFACE AND GROUND WATER REG 216 WORK ON THE NEW ELEMENTS OF THE MISSION'S PORTFOLIO--INCLUDING A FIELD REVIEW--WILL BE CARRIED OUT BY JUNE 30, 1999 THE ANE BUREAU ENVIRONMENTAL OFFICER WILL COORDINATE DIRECTLY WITH THE MISSION DIRECTOR ON TECHNICAL/PERSONNEL REQUIREMENTS AND TIMING OF THE FIELD REVIEW

(H) US-AEP

IT WAS AGREED THAT US-AEP WILL KEEP USAID/MONGOLIA INFORMED OF NEW TRAINING PROGRAMS AND INFORMATION SOURCES AND THAT THE MISSION WILL BE ELIGIBLE TO BUY IN TO THESE US-AEP RESOURCES

(I) GENDER INTEGRATION

IT WAS AGREED THAT USAID/MONGOLIA WILL CONTINUE TO CONSULT WITH ANE AND GLOBAL BUREAU GENDER ADVISORS OVER THE STRATEGY PERIOD TO ENSURE GENDER INTEGRATION IN ACTIVITY DESIGN, IMPLEMENTATION, AND FUTURE PLANNING

(J) TECHNICAL AND ADMINISTRATIVE SUPPORT COMMITMENTS

THE USAID/MONGOLIA PROGRAM RELIES ON TECHNICAL SUPPORT
FROM USAID/WASHINGTON AND ADMINISTRATIVE SUPPORT FROM
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USAID/MANILA THE MISSION DIRECTOR EXPRESSED HIS
APPRECIATION FOR THE EXCELLENT QUALITY AND TIMELINESS OF
THIS SUPPORT THESE RELATIONSHIPS ARE NOT EXPECTED TO
CHANGE, NOR ARE THE PROGRAM'S NEEDS EXPECTED TO INCREASE
OVER THE PERIOD OF THE STRATEGY USAID/MONGOLIA S
REQUIRED LEVEL OF SUPPORT FROM USAID/WASHINGTON AND
USAID/MANILA IS EXPECTED TO REMAIN UNCHANGED OVER THE
STRATEGY PERIOD

(K) BUDGETARY RESOURCES AND STAFFING

THE STRATEGY PRESENTED THREE FUNDING LEVELS THAT RANGED
FROM \$48 MILLION TO \$24 MILLION OVER A FOUR YEAR (FY 1999-
2002) FUNDING PERIOD THE HIGH SCENARIO OF \$12 MILLION
ANNUALLY WOULD PERMIT ACHIEVEMENT OF THE RURAL
DEVELOPMENT, FINANCIAL AND BANKING SECTOR REFORM, AND
ENERGY SECTOR PROGRAMS, AS DESCRIBED IN THE STRATEGY A
MID-LEVEL SCENARIO OF \$36 MILLION WOULD BE EFFECTIVE IN
ACHIEVING THE FIRST TWO COMPONENTS, BUT ONLY IF THE FIRST
TWO YEARS WERE FRONT LOADED WITH \$10 MILLION ANNUALLY,
FOLLOWED BY A GRADUAL DECLINE IN THE OUTYEARS IT IS
UNLIKELY THAT THIS SCENARIO WOULD PERMIT CONTINUED WORK IN
THE ENERGY SECTOR THE LOW SCENARIO OF \$6 MILLION
ANNUALLY WOULD DIMINISH USAID S ABILITY TO EFFECT CHANGE
IN RURAL MONGOLIA AS WELL AS LIMIT THE IMPACT THE PROGRAM
COULD HAVE ON ECONOMIC INDICATORS NATIONALLY

IN RESPONSE TO THE AA/ANE S QUESTION ON THE LIKELIHOOD OF
U S BUSINESS INVESTMENT OVER THE STRATEGY PERIOD, MISSION
DIRECTOR BIRGELLS RESPONDED THAT THERE ARE GOOD

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OPPORTUNITIES CURRENTLY UNDER REVIEW, PARTICULARLY IN THE
HEAVY EQUIPMENT AND POWER SECTORS G/EGAD S OFFICE OF
BUSINESS DEVELOPMENT WILL BE WORKING WITH THE MISSION AND
THE EMBASSY ON ALIGNING MONGOLIAN BUSINESS INTERESTS AND
COMPANIES WITH AMERICAN PARTNERS ON A RANGE OF COMMON
INTERESTS

THE MISSION DIRECTOR NOTED THAT THE PROGRAM COULD CONTINUE
TO BE MANAGED BY ONE USDH (MISSION DIRECTOR), BUT, IN

ORDER TO MINIMIZE OPERATING VULNERABILITIES, THE MISSION HAS OPTED TO HIRE ONE USPSC TO HELP MANAGE ITS ECONOMIC GROWTH PORTFOLIO AND MAY OPT TO HIRE A SECOND PSC EMPLOYEE AT A LATER DATE IF CIRCUMSTANCES WARRANT IT

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USAID'S STRATEGIC VISION FOR MONGOLIA
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3 USAID'S STRATEGIC VISION FOR MONGOLIA IS THAT IN FIVE YEARS MANY OF THE FEATURES OF A FULLY-FUNCTIONING MARKET ECONOMY (E G , A STRENGTHENED BANKING SECTOR, RELIABLE ENERGY SERVICE, A REGULATORY ENVIRONMENT FRIENDLY TO FOREIGN INVESTMENT, ADEQUATE TRANSPORT AND COMMUNICATIONS) WILL BE FIRMLY IN PLACE AND THE GROUNDWORK LAID FOR INCREASED ECONOMIC ACTIVITY AND DEMOCRACY AND GOVERNANCE IN RURAL MONGOLIA
ADDITIONAL CLEARANCES

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USAID/ANE/SEA EANDERSON (DRAFT)

USAID/ANE/SEA JWILSON (DRAFT)
USAID/ANE/ORA JGOODSON (DRAFT)
USAID/G/EGAD RMAESTRI (INFO)
USAID/G/PDSP RWHITAKER (DRAFT)
USAID/G/EGAD PFARLEY (INFO)
USAID/G/EG JTURK (INFO)
USAID/G/DG MMIKLAUCIC (DRAFT)
USAID/ANE/USEAP RYAMADA (DRAFT)
USAID/G/EGAD/BD/HMERRILL (DRAFT)
USAID/HCD EBROOKS (INFO)
USAID/G/ENV BSTONER (DRAFT)
USAID/G/ENV PFLANAGAN (INFO)
USAID/BHR/PVC LHARMS (DRAFT)
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SUBJECT MONGOLIA COUNTRY STRATEGIC PLAN ANNEX H
CONSERVATION OF BIODIVERSITY IN MONGOLIA

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1 ANNEX H OF THE MONGOLIA COUNTRY STRATEGIC PLAN WAS
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PREPARED TO SATISFY THE REQUIREMENTS OF SECTION 118/119 OF
THE FAA PER THE AGREEMENT REACHED ON OCTOBER 30, 1998,
IN THE REVIEW OF THE FY 1999-2003 MONGOLIA COUNTRY
STRATEGIC PLAN AND DOCUMENTED IN STATE 017837, G/ENV TOOK
THE LEAD IN PREPARING THIS DOCUMENT AND DELIVERED IT FOR
MISSION AND ANE BUREAU REVIEW WELL AHEAD OF THE MARCH 31,
1999 DUE DATE USAID/MONGOLIA AND THE ANE BUREAU THANK

80

G/ENV FOR THEIR ASSISTANCE IN MEETING THIS REQUIREMENT ANNEX (H) "CONSERVATION OF BIODIVERSITY IN MONGOLIA" WILL BE ADDED TO THE MONGOLIA COUNTRY STRATEGIC PLAN AS THE FINAL ANNEX THIS CABLE IS A FORMAL PART OF THE NEW MANAGEMENT CONTRACT BETWEEN USAID/MONGOLIA AND USAID/WASHINGTON THE FOLLOWING IS ANNEX H "CONSERVATION OF BIODIVERSITY IN MONGOLIA" IN ITS ENTIRETY

I INTRODUCTION

2 SECTION 119 OF THE FOREIGN ASSISTANCE ACT REQUIRES

THAT ALL COUNTRY PLANS INCLUDE AN ANALYSIS OF (1) THE ACTIONS NECESSARY IN THAT COUNTRY TO CONSERVE BIOLOGICAL DIVERSITY, AND (2) THE EXTENT TO WHICH THE ACTIONS PROPOSED FOR SUPPORT BY USAID MEET THE NEEDS THUS IDENTIFIED RESPONDING TO THIS LEGISLATIVE REQUIREMENT, THIS ANNEX PROVIDES AN OVERVIEW OF BIOLOGICAL DIVERSITY IN MONGOLIA AND DESCRIBES USAID S EFFORTS TO ENCOURAGE ITS PROTECTION AND SUSTAINABLE USE INFORMATION WITHIN THIS DOCUMENT IS DERIVED FROM THE FOLLOWING SOURCES (1) BIODIVERSITY CONSERVATION ACTION PLAN FOR MONGOLIA, MINISTRY FOR NATURE AND THE ENVIRONMENT, 1997, (2) USAID/MONGOLIA-FUNDED DAI REPORT ENVIRONMENTAL PROFILE OF UNCLASSIFIED

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MONGOLIA 1998, (3) CONSULTATIONS WITH MINISTRY FOR NATURE AND ENVIRONMENT OFFICIALS, BOTH IN ULAANBAATAR AND HOVSGOL, AND (4) CONSULTATIONS WITH DONOR ORGANIZATIONS AND RESEARCHERS BOTH IN AND OUTSIDE OF MONGOLIA

3 USAID PROPOSES TO PROMOTE BIODIVERSITY CONSERVATION AND SUSTAINABLE NATURAL RESOURCE MANAGEMENT IN THE HOVSGOL LAKE REGION THE PROPOSED ACTIVITIES WILL BE MANAGED UNDER STRATEGIC OBJECTIVE 2 ACCELERATE AND BROADEN ENVIRONMENTALLY SOUND PRIVATE SECTOR GROWTH, IR 2 4 IMPROVE MANAGEMENT OF NATURAL RESOURCE BASE FOR LONG-TERM SUSTAINABLE USE

II BACKGROUND

4 STATUS OF BIODIVERSITY IN MONGOLIA

MONGOLIA LIES WITHIN A TRANSITION ZONE OF SEVERAL CENTRAL ASIAN ECOSYSTEMS THE SIBERIAN TAIGA FORESTS, CENTRAL ASIAN STEPPE, THE ALTAI MOUNTAINS AND THE GOBI DESERT ALL CONVERGE WITHIN MONGOLIA'S BOUNDARIES THESE DIFFERENT ECOSYSTEMS PROVIDE HABITAT FOR A VARIETY OF PLANTS AND ANIMALS, SOME OF WHICH ARE GLOBALLY THREATENED ENORMOUS HERDS OF THE MIGRATORY MONGOLIAN GAZELLE PROVIDE ONE OF THE LAST SPECTACLES OF MASS MIGRATIONS OF UNGULATES ON

EARTH, RIVALED IN SCALE ONLY BY THOSE TAKING PLACE ON THE SERENGETI PLAINS OF TANZANIA IN CONTRAST TO MANY OF ITS NEIGHBORS, MUCH OF MONGOLIA'S BIODIVERSITY IS STILL RELATIVELY "HEALTHY " HOWEVER, MONGOLIA'S ECOSYSTEMS CAN BE CHARACTERIZED AS FRAGILE (SUSCEPTIBLE TO CHANGES IN WATER AVAILABILITY AND EROSION) AND AS SUCH ARE HIGHLY UNCLASSIFIED

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SUSCEPTIBLE TO IRREVERSIBLE LOSS OF PRODUCTIVITY AND SPECIES RICHNESS UNSUSTAINABLE FORESTRY PRACTICES AND INCREASING LEVELS OF OVERGRAZING THREATEN BOTH MONGOLIA'S FORESTS AND GRASSLANDS FOR EXAMPLE, THE NUMBER OF LIVESTOCK HAVE INCREASED FROM 25 8 MILLION IN 1990 TO OVER 32 MILLION AT THE END OF 1998 AND MODERATE LEVELS OF

OVERGRAZING ARE FOUND ON AT LEAST 35 PERCENT OF GRASSLANDS

5 MONGOLIA HAS SIX NATURAL ZONES HIGH MOUNTAIN, TAIGA FOREST, MOUNTAIN FOREST STEPPE, STEPPE, DESERT STEPPE, AND DESERT THE STEPPE AND MOUNTAIN FOREST REGIONS ARE HIGHLIGHTED AS TWO REGIONS OF WORLD WIDE FUND FOR NATURE'S (WWF) GLOBAL 200 BIOREGIONS THESE ARE THE ALTAI-SANYAN FOREST (ECOREGION #73) AND INCLUDE THE HOVSGOL REGION AND THE LAKE/MOUNTAIN REGION IN WESTERN MONGOLIA THIS ECOREGION OCCURS IN FOUR COUNTRIES MONGOLIA, RUSSIA, KAZAKSTAN AND CHINA, WITH THE LARGEST AREAS IN MONGOLIA AND RUSSIA THESE ARE SOME OF THE BEST INTACT EXAMPLES OF MONTANE CONIFER ECOSYSTEMS IN CENTRAL ASIA THE OTHER BIOREGION IS THE DAURIAN STEPPE (ECOREGION #97) IN NORTHEASTERN MONGOLIA, IT IS DIVIDED ALMOST EQUALLY BETWEEN MONGOLIA, RUSSIA, AND CHINA WWF CHARACTERIZES THIS REGION AS ONE OF THE BEST AND MOST INTACT EXAMPLES OF EURASIAN STEPPE AND GRASSLANDS

6 ENDEMISM RATES IN MONGOLIA ARE LOW (9 4 PERCENT IN PLANTS (229 SPECIES) AND 7 6 PERCENT IN FISH (5 SPECIES)) BIODIVERSITY CONSERVATION IN MONGOLIA IS REGIONALLY IMPORTANT AS MONGOLIA S ECOSYSTEMS ARE GENERALLY LARGE UNCLASSIFIED

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FUNCTIONING TRACKS OF LAND THAT SUPPORT A NUMBER OF SPECIES THAT ARE OFTEN MORE THREATENED ELSEWHERE IN THE REGION BOTH THE BACTRIAN CAMEL (CAMELUS BACTRIANUS FERUS) AND SNOW LEOPARD (UNICA UNICA) HAVE IMPORTANT POPULATIONS IN MONGOLIA

7 TWENTY-SEVEN SPECIES ARE LISTED AS THREATENED



(VULNERABLE OR HIGHER) ACCORDING TO IUCN'S CRITERIA SIXTY-FIVE SPECIES OCCUR ON CITES APPENDIX I OR II OF THESE, THE GOBI BEAR (URSUS ARCTOS SPP) IS THE MOST CRITICALLY ENDANGERED ADDITIONAL IMPORTANT SPECIES INCLUDE ASIATIC WILD DOG (CUON ALPINUS), MOUNTAIN SAIGA (SAIGA TATARICA MONGOLICA), AND ALTAI WILD MOUNTAIN SHEEP (ARGALI) (OVIS AMMON)

8 DATA FOR PLANTS ARE NOT GIVEN IN THE MONGOLIAN BIODIVERSITY ACTION PLAN HOWEVER THE PLAN STATES THAT THERE ARE 845 PLANT SPECIES THAT ARE CONSIDERED TO HAVE MEDICINAL VALUE, 68 THAT ARE IMPORTANT FOR THEIR SOIL-BINDING QUALITIES, AND 120 SPECIES THAT ARE IMPORTANT FOOD PLANTS

9 MAJOR THREATS

THE THREE MAJOR THREATS TO MONGOLIA'S BIODIVERSITY ARE SUMMARIZED BELOW

(A) OVERGRAZING EIGHTY PERCENT (80) OF MONGOLIA'S TERRITORY IS GRASSLAND AND DESERT SCRUB THE MONGOLIA ACADEMY OF SCIENCE ESTIMATES THAT 33 5 PERCENT IS UNCLASSIFIED

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OVERGRAZED (HIGHER ESTIMATES MAY BE FOUND IN OTHER

IS COMMON DUE TO POORLY DEVELOPED AND POORLY ENFORCED
HARVEST QUOTAS INDIRECT THREATS SUCH AS LIVESTOCK
OVERGRAZING, DEFORESTATION, MINING AND INCREASED
AGRICULTURAL WATER USE LEAD TO LOSS OF HABITAT AVAILABLE
TO WILDLIFE SPECIES POLLUTION AND OVERFISHING THREATEN
MANY OF THE RIVER FISH POPULATIONS
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III POLICY FRAMEWORK FOR CONSERVATION

10 BEFORE 1995, GOM POLICIES SUPPORTED INDUSTRIALIZATION
AND ECONOMIC DEVELOPMENT OFTEN IRRESPECTIVE OF
ENVIRONMENTAL IMPACTS AND CONSEQUENCES RECENTLY, GOM HAS
DEVELOPED A NUMBER OF LAWS AND ACTION PLANS AIMED AT
PRESERVING BIODIVERSITY AND LAND PRODUCTIVITY IN 1995,
GOM PASSED SEVERAL LAWS TO ADDRESS NATURAL RESOURCES AND
THEIR USE THESE INCLUDE LAW ON FORESTS, LAW ON NATURAL
PLANTS, LAW ON HUNTING, LAW ON SPECIAL PROTECTED AREAS,
AND SEVERAL LAWS ON THE EXPLOITATION OF WATER, PLANTS,
TIMBER, AND HUNTING GOM HAS ALSO MADE IT A PRIORITY TO

PUT LAND UNDER PROTECTED STATUS (STRICTLY PROTECTED AREAS,
NATIONAL CONSERVATION PARKS, NATURE RESERVES, AND NATURAL
AND HISTORICAL MONUMENTS) CURRENTLY 38 PROTECTED AREAS
OCCUPY 11.1 PERCENT OF THE COUNTRY

11 THE MINISTRY FOR NATURE AND THE ENVIRONMENT WAS RE-
ESTABLISHED IN 1992 IN 1997, THIS MINISTRY PRODUCED THE
"BIODIVERSITY CONSERVATION ACTION PLAN FOR MONGOLIA" (THE
BIODIVERSITY PLAN) IN THE PREFACE TO THE REPORT, DR Z
BATJARGAL, MINISTER FOR NATURE AND THE ENVIRONMENT,
STIPULATES "BIODIVERSITY IS ONE OF MONGOLIA'S PRIORITY
ISSUES" AND FURTHER STATES " CONSERVATION MUST BE
INTEGRATED INTO DEVELOPMENT WHICH MUST BE SUSTAINABLE AND
COMPATIBLE WITH THE SURVIVAL OF LIVING NATURE "

12 THE BIODIVERSITY CONSERVATION ACTION PLAN FOR
MONGOLIA OUTLINES SEVENTEEN (17) OBJECTIVES/ACTIONS TO
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IMPROVE BIODIVERSITY CONSERVATION WITHIN THE COUNTRY
THESE ACTIONS CAN BE GROUPED UNDER THE FOLLOWING FOUR
GENERAL CATEGORIES EXPANSION OF MONGOLIA'S PROTECTED
AREAS SYSTEM, IMPROVING THE PROTECTION AND MANAGEMENT OF
THE PROTECTED AREAS, IMPROVING MANAGEMENT OF PLANT AND
WILDLIFE SPECIES, ENFORCING ENVIRONMENTAL LAWS

13 IN ADDITION TO PASSING NATIONAL LEGISLATION, THE GOM HAS SIGNED A NUMBER OF MAJOR INTERNATIONAL ENVIRONMENTAL CONVENTIONS CONVENTION ON BIOLOGICAL DIVERSITY (1993), CONVENTION ON CLIMATE CHANGE (1994), CONVENTION ON INTERNATIONAL TRADE IN ENDANGERED SPECIES (CITES) (1994), CONVENTION ON COMBATING DESERTIFICATION AND DROUGHT (1996), AND THE CONVENTION ON WETLANDS OF INTERNATIONAL IMPORTANCE ESPECIALLY AS WATERFOWL HABITAT (1997) IN ACCORDANCE WITH THE CONVENTION ON COMBATING DESERTIFICATION AND DROUGHT, GOM MNE PRODUCED THE "NATIONAL PLAN OF ACTION TO COMBAT DESERTIFICATION IN MONGOLIA" IN 1997

IV PROTECTING BIODIVERSITY IN MONGOLIA

14 DONOR EFFORTS

THERE ARE A NUMBER OF DONOR PROJECTS IN MONGOLIA THAT ADDRESS CONSERVATION OF NATURAL RESOURCES THE MOST SIGNIFICANT INCLUDE

(A) UNDP/GEF - MONGOLIA BIODIVERSITY PROJECT AND STEPPE BIODIVERSITY PROJECT THESE TWO ACTIVITIES ARE ADDRESSING PROTECTION NEEDS AS WELL AS LOOKING AT EFFECTS OF
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OVERGRAZING, THEY FOCUS ON THE EASTERN GRASSLAND AREA

(B) GTZ - PROTECTED AREAS AND BUFFER ZONE DEVELOPMENT PROJECT THIS GTZ PROGRAM IS SUPPORTING DEVELOPMENT OF MODELS FOR PROTECTED AREA PLANNING AND MANAGEMENT IN THE GOBI GURVANSAIKAN NATIONAL PARK AND THE GORKHI-TERELJ NATIONAL PARK/KHAN KHENTII STRICTLY PROTECTED AREA ACTIVITIES AT THE FORESTED KHENTII SITE INCLUDE DEVELOPMENT OF IMPROVED FORESTRY PRACTICES AND FIRE PREVENTION

V USAID ACTIONS TO CONSERVE BIODIVERSITY APPROVED AND ONGOING PROJECTS

15 THE STRENGTHENING PARTICIPATION AND INSTITUTIONAL CAPACITIES IN ENTERPRISE AND MARKET DEVELOPMENT IN RURAL MONGOLIA (SPICE) PROGRAM WILL SUPPORT RURAL PRIVATE SECTOR DEVELOPMENT BY TRANSFERRING SKILLS THROUGH A FARMER TO FARMER PROGRAM AREAS OF CONCENTRATION INCLUDE (A) CONSERVATION TILLAGE SUPPORT THROUGH DEMONSTRATION PROJECTS AND TRAINING TO IMPROVE AND DEVELOP APPROPRIATE TECHNIQUES FOR SUSTAINABLE HARVESTING, AND (B) IMPROVEMENT OF HEALTH AND QUALITY OF LIVESTOCK TO INCREASE LIVESTOCK PRODUCTIVITY WHILE AT THE SAME TIME IMPROVING PASTURELANDS

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16 THE RURAL CIVIL SOCIETY PROJECT (RCSP) IS AIMED AT IMPROVING CONDITIONS FOR BROAD-BASED ECONOMIC GROWTH IN THE GOBI REGION OF SOUTHERN MONGOLIA ONE OF THE PRINCIPAL AIMS OF THE PROGRAM IS TO INCREASE HERDER INCOMES THROUGH INCREASING THE QUALITY OF CASHMERE
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PRODUCTION INSTEAD OF QUANTITY, THUS LESSENING THE IMPACT OF GRAZING ON THE GOBI IN THE LONG-TERM

17 THE LAKE HOVSGOL CONSERVATION AND DEVELOPMENT PROJECT DIRECTLY SUPPORTS THE BIODIVERSITY ACTION PLAN FOR MONGOLIA THE ACTION PLANS LISTS SEVENTEEN OBJECTIVES/ACTIONS TO ASSIST IN THE CONSERVATION OF MONGOLIA S NATURAL RESOURCES THESE ACTIONS ARE TARGETED AT A COUNTRY LEVEL THE PROPOSED USAID PROJECT IN HOVSGOL ADDRESSES NINE OF THESE ACTIONS AT THE LOCAL LEVEL

(A) IN PARTICULAR, THE PROJECT WILL

- ESTABLISH A RESEARCH PROGRAM THAT IMPROVES KNOWLEDGE OF BIODIVERSITY AND RELEVANT THREATS,
- SUPPORT A NATIONWIDE INFORMATION AND MONITORING SYSTEM FOR BIODIVERSITY CONSERVATION,
- ESTABLISH A PUBLIC INFORMATION PROGRAM TO IMPROVE PEOPLE S KNOWLEDGE OF BIODIVERSITY AND THE IMPORTANCE OF CONSERVING IT,
- SUPPORT AIR, WATER, AND SOIL POLLUTION CONTROL,
- PREVENT PASTURE DETERIORATION THROUGH OVERGRAZING,
- ESTABLISH EFFECTIVE LAND-USE PLANNING CONTROL AND TRANSPORTATION PLANNING TO PROTECT BIODIVERSITY,
- SUPPORT TOURISM WHILE DEVELOPING SENSIBLE REGULATIONS TO PROTECT BIODIVERSITY,
- ENSURE THAT AGRICULTURE AND FORESTRY ARE CARRIED OUT IN WAYS COMPATIBLE WITH BIODIVERSITY CONSERVATION,
- IDENTIFY AND RESTORE DAMAGED LANDS

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(B) THE PROPOSED PROJECT IN HOVSGOL REGION WILL WORK COLLABORATIVELY WITH MONGOLIAN NATIONAL PARKS AND ASSOCIATED MONGOLIAN GOVERNMENT AGENCIES AT THE MINISTRY LEVEL IN ULAANBAATAR AND AT THE AIMAG AND SOUM LEVELS IN THE INTERIOR OF MONGOLIA THE PROJECT WILL ADDRESS ISSUES RELATED TO NATURAL RESOURCE USE (INCLUDING THE SUSTAINABLE HARVESTING AND USE OF TREES, FISH, GRASSLANDS, BERRIES, ONIONS, AND MUSHROOMS, PLANTS FOR MEDICINAL USE,

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UNGULATES, AND WATER) IN ADDITION THE PROJECT WILL FOCUS ON DEVELOPING IMPROVED LAND USE MANAGEMENT PLANS TO ENCOURAGE ENVIRONMENTALLY SUSTAINABLE DEVELOPMENT AND REDUCE LAND DEGRADATION AND THREATS TO WATER QUALITY

(C) TECHNICAL ASSISTANCE WILL ADDRESS TWO COMPONENTS OF TIMBER HARVEST 1) AN ASSESSMENT OF HOW SOUM GOVERNMENTS CAN GENERATE INCOME IN OTHER FORMS IN LIEU OF TIMBER PERMITS, AND 2) CONSULTATION WITH PARK STAFF IN BOREAL FOREST MANAGEMENT TO A) DEVELOP A MARKING SYSTEM TO CHOOSE WHICH TREES CAN BE CUT, B) PROMOTE COLLECTION OF FELLED BRANCHES, OLD STUMPS AND LOOSE MATERIAL FROM PLANK PRODUCTION, C) PROMOTE THE USE OF MORE ENERGY EFFICIENT STOVES AND HOME CONSTRUCTION MATERIALS, AND D) ADDRESS ISSUES OF FOREST REGENERATION AND REFORESTATION

(D) THE PROJECT WILL PROVIDE TECHNICAL ASSISTANCE TO PARK STAFF TO IDENTIFY VIABLE GRAZING AREAS NEAR THE PARK, DEVELOP STOCKING RATES, AND DEVELOP A MONITORING SYSTEM FOR THE AREA'S GRASSLANDS TECHNICAL ASSISTANCE WILL ALSO ADDRESS THE DEVELOPMENT OF SUSTAINABLE HARVESTING TECHNIQUES AND RATES FOR PLANTS COMMONLY COLLECTED FOR HUMAN USE AND WILL INVESTIGATE THE VIABILITY OF

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PROPAGATING SOME PLANTS

(E) PROJECT TECHNICAL ASSISTANCE WILL WORK WITH PARK STAFF TO IMPROVE EXISTING WATER QUALITY MONITORING SYSTEMS AND TO DEVELOP A COMPREHENSIVE PLAN TO MONITOR WATER QUALITY IN SEVERAL LARGE FLOW STREAMS AND IN THE LAKE ITSELF

(F) THE PROPOSED PROJECT COMPLEMENTS EXISTING WORK IN THE COUNTRY WITHOUT DUPLICATING ANY EFFORTS THERE ARE NO OTHER DONOR PROJECTS CURRENTLY UNDERWAY IN THE HOVSGOL AREA ALTHOUGH THE WWF BIODIVERSITY PROJECT IS WORKING ON AN ADJACENT AREA TO THE WEST OF HOVSGOL AS WELL AS IN THE WESTERN LAKE/MOUNTAIN REGION
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U S AGENCY FOR
INTERNATIONAL
DEVELOPMENT

**INFORMATION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR
FOR ASIA AND THE NEAR EAST**

FROM Jon Breslar, ANE/SEA
Karen Turner, ANE/ESA

SUBJECT USAID Mongolia Country Strategic Plan --
Decision Meeting, October 30, 1998

An Issues Meeting on USAID Mongolia's proposed Country Strategic Plan for FY 1999 - 2003 was held on October 26. USAID Mongolia was represented by the Mission Director, Ed Birgells. The meeting was chaired by Jon Breslar, ANE/SEA. The following Bureaus and Offices were represented: Bureau for Policy and Program Coordination, Global Bureau, Office of Program Development and Strategic Planning and Centers for Democracy and Governance, Economic Growth, Environment, and Women in Development, ANE/ESA, ANE/SEA, ANE/AMS, ANE/ORA, USAEP, and, Department of State, Office of East Asia and Pacific Affairs.

A number of issues were discussed during the meeting. Several issues were resolved, in some cases resulting in proposed language for USAID Mongolia's Management Contract with the ANE Bureau. Four additional issues were identified for further discussion and resolution during the Decision Meeting. Each of these issues is reviewed below.

Issues Resolved

1 Relationship of Strategy to U S Embassy's Mission Performance Plan and the programs of other donors There was a rich discussion during the Issues Meeting on the complementarity of USAID's strategy with the programs of our partners. Ed Birgells explained how the Strategy embodies the priorities of the Government of Mongolia and the U S Embassy. The GOM and the U S share a concern over the effectiveness of donor programs in general and USAID is planning to provide assistance in donor coordination, at the request of the GOM. USAID has chosen not to work in areas such as child survival and primary education where other donors are active. In many of the areas where USAID will be working, the involvement and impact of other donors' programs are quite limited, as in the rural civil society area. There are some areas of more active overlap and coordination, such as judicial reform. In some cases, such as financial sector reform, there may be differences of approach that need to be worked

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through

2 Integration of gender concerns Ways in which gender considerations can be more effectively integrated into activities to increase participation in the political process, strengthen civil society, and foster economic growth were discussed during the Issues Meeting. Ed Birgells described the legacy of gender equity from the Soviet era and how it distinguishes Mongolia from other countries. It was agreed that there will be continuing consultation between gender advisors and USAID Mongolia's staff and implementing agencies at the activity design and implementation stages to ensure gender integration.

3 Land ownership and use Ed Birgells explained that the private ownership of land for industrial uses, housing and crop production is being addressed in Mongolia's Parliament. In contrast, control and management of range lands is governed by local traditions. Although the absence of formal private ownership and arrangements may prove to be problematic in the longer run, it is not a binding constraint to the sustainable development of the livestock sector at the present time. Moreover, privatization of range lands is a non-starter in the current political environment. Nevertheless, USAID will watch for signs of land degradation around urban areas and propose viable responses, when appropriate.

4 Biological diversity It was agreed that further analysis will be needed, building upon the recent Environmental Profile of Mongolia, first, to demonstrate the justification for working in the Lake Hovsgol National Park and, second, to satisfy legal requirements regarding the conservation of biological diversity (Section 119). ANE/SEA will ensure that analytical requirements are satisfied by March 1999.

5 Environmental considerations in the energy sector USAID Mongolia will address environmental considerations in its assessments of both national and rural energy systems. USAID Mongolia was commended for its commitments to 'green procurement,' the use of cost-effective, clean technology options, as a possible avenue for future assistance in the energy field.

6 Water resource management The importance of avoiding adverse impacts of USAID programs on surface and ground water was highlighted. It was agreed that the current Agency environmental regulatory process (Reg 16) provides an existing and effective mechanism for assuring that environmental concerns are adequately addressed. It should also be noted that the World Bank is providing technical assistance in water resource management.

7 Judicial reform Ed Birgells explained that future assistance to the judicial system requires a clear commitment of the Mongolians to reenforcing the independence of the judiciary. Pending legislation would take the judicial system out from under the control of the Ministry of Justice. If a satisfactory separation of powers is established, USAID will consider support on court administration and ethics.

Outstanding Issues

8 Issue Clarity and specificity of Strategic Plan

Discussion The following questions have been raised. Given recent Agency discussions about Strategic Objective levels and results, does the strategy document provide a sufficient basis to approve a management contract with the field which outlines just what USAID is trying to achieve in country within the resources requested? Are we comfortable enough with our analyses of constraints and opportunities to be able to make five-year projections about results? Does the strategy document provide sufficient clarity in the Democracy/Governance and Economic Growth strategic objectives on what USAID is really expecting to accomplish in the next three-to-five years? How do the DG and EG programs fit together?

USAID Mongolia used the opportunity of the issues meeting and side meetings to elaborate on points made in the strategy document and how the DG and EG elements of the program fit together. The receptiveness of Mongolians to civil society initiatives, and the early responses of the private sector to past economic reforms were highlighted. The centrality of the Rural Civil Society Program was discussed, along with the fact that its expected outcomes will become clearer once the grant or grants for implementation are awarded.

The lack of pre-defined targets for key indicators, including some at the strategic objective level was discussed at length. It was agreed that, while USAID Mongolia's vision of a democratic, free-market society with essential institutions in place is clear, further work is needed to provide notional targets for program results in 2003. USAID Mongolia is currently working with its contractors and grantees to improve performance measurement. The Mission also plans to contract with a consulting firm to complete results frameworks and elaborate a performance monitoring plan (PMP), to consolidate baseline data, and to report on program performance. The PMP will be established by summer 1999.

It was also suggested that, in future R4s, the Mission clarify the linkages between the two democracy and governance

intermediate results and the strategic objective This will entail reporting on how assistance to rural civil society, Parliament and political parties is contributing to Mongolia's democratic transition, and how the democracy and governance activities of USAID's development partners -- in areas such as public administration reform and decentralization are contributing to the achievement of SO 1

Recommendations That the strategic plan be approved, with the understandings that a) USAID Mongolia will adopt a Performance Monitoring Plan -- with completed results frameworks including indicators and targets -- by Summer 1999, and b) future R4s will report on synergies among USAID activities and with the efforts of other donors, especially in the context of the democracy and governance strategic objective

9 Issue Crisis and Conflict Mitigation

Discussion The Agency has recently made a strong point that in countries where crisis is possible, potential causes of conflict must be identified and mitigation approaches recommended The Mission has made a conscious analysis of the possibility for conflict in Mongolia

The potential resides in the tremendous dichotomy between incomes and economic opportunity in rural Mongolia as opposed to the capital, Ulaanbaatar The strategy identifies this constraint and has developed a program to try to mitigate these inequalities through the Rural Civil Society Program, which will foster rural civil society building and rural enterprise development This program will become operational in early 1999 and will initially focus on areas of the greatest economic potential, but over time will become national in focus if funding remains available to do so USAID's program does not have the potential to cause political or cultural conflict due either to the sectors or the geographical areas we are working in, or not working in This situation will be continuously monitored over the life of the strategy by both the Embassy and USAID With the organizations in place to implement the Rural Civil Society Program activities, resources can be shifted to areas of concern if warranted

A more serious area of potential conflict resides in the current political situation where party politics appears to be preventing the establishment of a new government The Mission views this as a serious area of concern and will begin discussions with the embassy and the GOM to take advantage of USAID contracting mechanisms for Alternative Dispute Resolution If requested by the GOM, USAID will make resources available to implement a program to attempt to end the current stalemate in government which has the potential to seriously hinder the advancement of

democracy in Mongolia

Recommendation That USAID Mongolia consider providing limited assistance to the Parliament and political parties on Alternative Dispute Resolution during FY 1999

10 Issue Budgetary Resources

Discussion The discussion of budget scenarios provides little information on the implications of different funding levels for program impacts and staffing requirements. The strategy (p 42, para 3) notes that the high scenario (\$48 million over five years) was used as a baseline. But, reviewers are left with little sense of what the impact and staffing needs might be under alternative funding scenarios. During the Issues Meeting, the history of Congressional earmarking for Mongolia was reviewed. Ed Birgells stated that two-to-three years of funding at the \$12 million level is necessary to carry out the program elaborated in the strategy document. If funding were to fall below \$35 million for the life of the strategy, it would not be possible to carry out the full program of activities described. He noted that the timing of resources was particularly important and the higher level of \$12 million in FYs 1999 and 2000 would be crucial to take advantage of the window of opportunity afforded by the financial sector and privatization reforms supported by the Democratic Coalition government.

Recommendation That the Management Contract cable identify budget thresholds that would significantly affect program impacts

11 Issue Staffing

Discussion Does the management plan provide for sufficient staff to manage and support the program activities described in the CSP (ANE/SEA)? USAID Mongolia is one of only two ANE Missions staffed with only one direct hire. Consequently, the Mission is dependent on Manila and Washington for technical and management support. Are the support expectations contained in the CSP realistic under the various funding scenarios?

Recommendation That USAID Washington reconfirm its commitment to support the Mongolia Mission, as described in the CSP and that support requirements of the Mongolia Mission will be taken into consideration in future reviews of USAID Philippine's staffing plans