

PL 115-12



**United States Agency for International Development**

---

***Results Review and Resources Request***

**USAID/Mongolia**

**March 1996**

# Table of Contents

---

SECTION I: FACTORS AFFECTING PROGRAM PERFORMANCE . . . . .	1
Overall Progress in the USAID/Mongolia Program . . . . .	3
SECTION II: STATUS OF THE MANAGEMENT CONTRACT . . . . .	6
A. Strategic Objective Changes or Refinements . . . . .	7
B. Special Concerns or Issues . . . . .	8
C. Regulation 216 Issues and Schedule . . . . .	8
SECTION III: PROGRESS TOWARD ACHIEVEMENT OF STRATEGIC AND SPECIAL OBJECTIVES . . . . .	9
A. Special Objective 1 - Energy . . . . .	9
1. Summary of Performance Data . . . . .	10
2. Analysis of SO Progress and Significant Achievement . . . . .	11
3. Expected Progress in 1997-1998 . . . . .	12
B. Strategic Objective 1 - Economic Growth . . . . .	13
1. Summary of Performance Data . . . . .	14
2. Analysis of SO Progress and Significant Achievements . . . . .	16
3. Expected Progress in 1997-1998 . . . . .	17
C. Strategic Objective 2 - Democracy . . . . .	18
1. Summary of Performance Data . . . . .	21
2. Analysis of SO Progress and Significant Achievements . . . . .	23
3. Expected Progress in 1997-1998 . . . . .	24
SECTION IV: RESOURCE REQUIREMENTS . . . . .	27
A. Program Resources . . . . .	27
B. Operating Expenses and Staffing . . . . .	30
C. Technical Support Needs from the RSM/EA and USAID/W . . . . .	30
ANNEXES	
A. Strategic Objective Trees . . . . .	32
C. Budget Tables:	
Table 1: Performance Monitoring Plan . . . . .	36
Table 2: All Resources Table . . . . .	36
Table 3: Funding Scenarios by Objective . . . . .	37
Table 3.5: Funding Scenarios by Objective and Intermediate Result . . . . .	37
Table 4: Global Field Support . . . . .	38
Table 5: Staff Requirements by Objective . . . . .	38
Table 6: Operating Expense Requirements . . . . .	38

## Acronyms and Other Terms

---

ADB	Asian Development Bank
Aimag	Mongolian province-level unit of government
ANE	USAID Asia/Near Bureau
CDIE	USAID Center for Development Information and Evaluation
CINGOs	Citizen Initiated Nongovernmental Organizations
CP	Congressional Presentation (USAID reporting document)
DAI	Development Alternatives Inc. (USAID contractor)
EPSP	Economic Policy Support Project (USAID/Mongolia project)
ESF	Economic Support Funds (Type of U.S. development assistance funding)
FSN	Foreign Service National
F SVC	Financial Services Volunteer Corps (USAID grantee)
FY	Fiscal Year
GOM	Government of Mongolia
Great Hural	Mongolian National Parliament
IMF	International Monetary Fund
IR	Intermediate Result (USAID reengineering term)
IRI	International Republican Institute (USAID grantee)
IQC	USAID Indefinite Quantity Contract
JICA	Japan International Cooperation Agency
MNDP	Mongolian National Democratic Party
MPRP	Mongolian Peoples Revolutionary Party
MSDP	Mongolian Social Democratic Party
NGO	Nongovernmental Organization
NXP	Nonexpendable procurement
OE	USAID Operating Expenses
PSC	Personal Services Contractor
RSM/EA	USAID Regional Support Mission for East Asia
RHUDO	USAID Regional Housing and Urban Development Office
SIDA	Swedish International Development Agency
SO	Strategic Objective (USAID reengineering term)
SOAG	Strategic Objective Agreement (USAID reengineering term)
SpO	Special Objective (USAID reengineering term)
Som	Mongolian county-level unit of government
TACIS	Technical Assistance to the Commonwealth of Independent States (European Union development project)
TAF	The Asia Foundation (USAID grantee)
Tugrik	Mongolian Unit of Currency (482 tugriks = \$1.00 in March 1996)
UNDP	United Nations Development Program
UNHCR	United Nations High Commission for Refugees
USDH	U.S. Direct Hire Employee

## **SECTION I: FACTORS AFFECTING PROGRAM PERFORMANCE**

Located between Russia and China, Mongolia is as large as the continental United States east of the Mississippi with large expanses of sparsely populated, arid and mountainous territory. Mongolia is essentially a pastoral nation and its main wealth lies in its vast (and growing) livestock herds. Nonetheless, the country also has a substantial urban population, with one-quarter of Mongolia's 2.2 million residents living in the capital, Ulaanbaatar and another quarter living in the next three largest cities. Annual population growth is over 2.7%, one of the highest in East Asia and over 40% of the population is less than 15 years old.

About 80% of Mongolia's land is suitable for animal husbandry. Intensive crop cultivation is limited by its high altitude (over 5,000 feet on average) and its cold and sharply fluctuating temperatures which limit the growing season. Mongolia's mineral resources include coal, iron, tin, copper, gold, silver, tungsten, zinc, fluorspar, and molybdenum, as well as semiprecious stones. About 20% of the population remains without electricity. However, the sizable potential for hydro- and wind-generated electricity has not been tapped, and petroleum exploration is just being initiated.

Until its collapse, the Soviet Union considered Mongolia to be an important forward base in its often tense relationship with China. While the Soviet presence was resented by many Mongolians, the relationship brought many benefits to Mongolia and by the mid-1980s Soviet subsidies reached the equivalent of 30% of GDP. However, the collapse of the USSR and the end of Soviet subsidies, combined with Mongolia's extreme climate, geographic isolation and outdated capital stock, brought the country to the brink of disaster in the early 1990s. (It is estimated that GDP dropped by at least 25% between 1990 and 1993.) Only the rapid response of Western donors combined with the ability of many Mongolians to go "back to the land" prevented a catastrophe.

Although Mongolia has progressed economically and politically since the dark days of the early 1990s, the standard of living of most of its citizens is still well below the level it reached under Soviet dominance. A number of serious obstacles stand in the way of equitable, sustainable development in Mongolia. These obstacles include:

- The country's small population (2.2 million) and vast expanses limit the size of its internal markets. Mongolia's harsh environment, remote location and poor energy, transportation and communications systems have created a high-cost economy that makes it difficult to compete in international markets. (Nonetheless, because of the limitations imposed by Mongolia's population and geography, this latter route is the country's only viable economic growth strategy.)

- Continued Chinese suspicion about Mongolia's liberal economic and political policies limits access to what is potentially Mongolia's most important market. In addition, Mongolia's most direct access to the sea and to the potentially attractive markets of Southeast Asia also lie through Chinese territory.
- While Mongolia has taken limited steps to diversify its export and import markets, there continues to be a high level of economic integration between the economies of Mongolia and the former Soviet Union. (Mongolia, for example, remains dependent upon Russia for raw materials and spare parts.) The relative chaos and lack of economic progress in Russia constrains Mongolia's short-term development prospects and economic disengagement is likely to be a slow and costly process.
- While attitudes about the virtues of a command market economy have changed faster in Mongolia than in some of its Central Asian neighbors, some Government of Mongolia officials have been reluctant to relinquish the privileged position they occupied under the former command market regime. Hence, bureaucratic obstacles to economic freedom and a market economy remain.
- An additional reason that the government has sometimes been reluctant to make needed economic adjustments is that the transition to a free market economy has been very hard on the Mongolian people. (Poverty and unemployment did not really exist during the Soviet era, but now more than 20% of the population lives below the poverty line and unemployment stands at about 9%, not counting the large number of discouraged urban workers who have returned to the countryside. The average wage is now about \$35 dollars a month, less than half of what a family of four needs to live reasonably. Social services have also suffered and Mongolia's infant mortality rate has risen to 64 per 1,000 births.)

Despite these difficulties, Mongolia possesses a number of strengths that are helping it to address its development problems. Perhaps Mongolia's greatest strength is the populace's broad commitment to the development of democracy and a market economy. Mongolia is a country where the advice and ideas of donors are welcome. Another significant asset is Mongolia's human resource base. Mongolian society is young, highly motivated and relatively well educated (93% of the adults are literate and 88% have completed 8th grade). Other assets include well developed social infrastructure, extensive mineral wealth (including coal, copper and non-ferrous metals) and untapped agricultural potential.

These strengths have played a vital role in helping Mongolia to reverse its economic fortunes. According to the IMF, the economy grew by 2.1 percent in 1994 and by 6.3 percent in 1995.

A recent article in The Economist provided a good snapshot of recent development progress in Mongolia:<sup>1</sup>

*Mongolia is a changed land. The transition to a market economy has been painful, but the economy is now growing, unlike those in Mongolia's ex-Soviet neighbors in Central Asia. Inflation has slowed and the government of ex-communists is planning more reforms. It is also trying to deal with the social problems caused by liberalization.*

National stability is another important factor that can affect program performance and while Mongolia faces no immediate external threats, its status as a small buffer state between two of the largest nations in the world means that stability is something that Mongolia will never be able to take for granted. In the coming years the growth of democracy in Mongolia must be carefully paced. If the pace of reform is too slow there is a risk that the ruling Mongolian Peoples Revolutionary Party (MPRP) will become entrenched in power and follow the pattern seen in post-revolutionary Mexico which led to slow economic stagnation. On the other hand, if the pace of reform is too fast and democratically-elected governments begin to change in a frequent and disorderly manner, the communist government in China is likely to feel threatened and may be tempted to intervene in internal Mongolian affairs. Another more immediate, albeit less serious, threat to Mongolia's stability is associated with the upcoming elections for the Great Hural (national parliament) in June. Mongolia's two main opposition parties have agreed to cooperate in the election and to avoid fielding competing candidates. This is widely expected to undermine the ruling MPRP's grip on the Great Hural and has spawned concern that the MPRP may attempt to influence the election by gerrymandering Great Hural election districts.<sup>2</sup>

## **OVERALL PROGRESS IN THE USAID/MONGOLIA PROGRAM**

Since the program's inception in November 1991, USAID/Mongolia has focused its resources on promoting economic development and democracy, two of the Agency's principal priorities and two initiatives that are inextricably linked in Mongolia. (The economic growth component has had two distinct aims: stabilizing Mongolia's power production system and promoting market-oriented and private-sector led economic growth.) During the past year the principles of reengineering have been introduced into the Mission and this event has had a considerable, and unfolding, impact on the USAID/Mongolia program. With the assistance of USAID/Washington and the Regional Support Mission for East Asia, USAID/Mongolia has reformulated its strategic objectives, created strategic objective teams and is currently in the process of developing indicators to measure progress towards its strategic objectives.

---

<sup>1</sup> The Economist, December 23, 1995 - January 5, 1996.

<sup>2</sup> The Mission is actively engaged in an effort to monitor the coming election.

This report is thus being submitted at a time when USAID/Mongolia is in a period of transition. While it is possible to present and discuss the indicators that the Mission proposes to adopt to measure progress towards its strategic objectives and intermediate results, it is still too early to actually measure progress using these indicators. This report will therefore measure progress using more traditional yardsticks while outlining the new directions the Mission will follow in the coming year as it fully internalizes the principles of reengineering.

The discussion below summarizes the Mission's major recent programmatic achievements.

- **Energy.** Recent activities have helped the Mission in coming close to fully achieving its energy special objective/target of opportunity. The initiative has achieved its most important goal, namely, averting a medium- to long-term disruption in energy production. In addition, USAID/Mongolia has been successful in attracting other bilateral donors and the multilateral banks into the capital-intensive energy sector. The ADB has agreed to take on greater responsibility at Power Plant #3 and the Japanese have agreed to establish a maintenance and rehabilitation project at Power Plant #4. (Mongolia's power plants primarily generate two types of energy, electricity and steam heat, and these two plants account for more than 75% of the energy generated in Mongolia.) In addition, the World Bank, in conjunction with the Japanese, have agreed to take on responsibility for upgrading the Baganuur Coal Mine, Mongolia's largest coal mine and one of three principal sources of coal for the power plants. (One of the others is the Sharyn Gol Mine, which USAID will be assisting in upgrading during this last year of the activity. The second mine, Shivee Ovo is newer and smaller, and will be upgraded through a loan from the Japanese.)
- **Economic Growth.** After years of negative growth, Mongolia's economy has turned around: 1) GDP grew by 6.3% in 1995, 2) industrial output grew by 20.7% in real terms, 3) exports grew by 22% in real dollar terms, 4) the current account deficit declined to \$63.7 million and 5) the current budget surplus rose to 4.1% of GDP. Much of the credit for these improvements is attributable to Mongolian willingness to swallow the harsh medicine prescribed by the IMF. Nonetheless, the activities of USAID/Mongolia have also played a role. Examples of USAID's contribution to these developments include: 1) IMF endorsement of the Government of Mongolia's macro-economic plan which was heavily influenced by research and policy papers prepared by a USAID/Mongolia funded advisor in the prime minister's office; 2) a government decision to significantly expand its privatization efforts, based on findings from USAID/Mongolia-funded research; and 3) helping the Government of Mongolia to arrive at a solution to its enormous Russian ruble debt burden in a way that does not hamper future economic development.
- **Democracy.** Once again, while it is difficult to apportion credit, USAID/Mongolia's activities have significantly contributed to the institutionalization of democracy in Mongolia. In this regard, Mongolia has succeed in moving far faster than its Central Asian neighbors. The following events have occurred since 1990: 1) a new

constitution has been put into effect which guarantees basic democratic rights and protections; 2) a representative parliament has been created; 3) three free and fair national-level elections have been held; 4) a new, independent, judicial system has been established; and 5) a vibrant community of citizen-initiated nongovernmental organizations has emerged. Given the 1989 baseline of a completely controlled economy with an absence of democratic institutions, USAID can reasonably claim credit for catalyzing the process and moving it in a largely-positive direction consistent with U.S. interests. The Mission believes that its most significant recent contributions have been in the assistance it has provided to the creation of the independent judiciary and the robust NGO community.

USAID/Mongolia's programmatic successes can be largely attributed to the following factors: 1) the knowledge of, and access to, Mongolian society provided by the Mission's FSNs; 2) the availability of USAID programmatic resources and services tailored to the needs of small mission (i.e., Global Bureau programs and RSM/EA programs and support services); 3) careful selection of implementing organizations (partners) with proven track records; and 4) the development of excellent Government of Mongolia working relationships. Recent successes have also built upon, and benefited from, past Mission successes, particularly in the areas of economic growth and civil society. Similarly, the rapidly improving management abilities of Mongolian counterparts (due in part to USAID-financed training) has been an important contributor to the successful use of new equipment procured under the Mission's energy initiative.

Not surprisingly, the success of some Mission activities has been constrained by the obstacles to national development outlined earlier, especially the poor state of Mongolia's infrastructure and the government's reluctance to move quickly to implement changes likely to have painful short-term consequences. Obstacles on a more mission-specific level primarily revolve around issues related to the need to fill the second U.S. direct hire position. This position is critical if USAID/Mongolia is to take full advantage of reengineered systems in the Agency. These systems promise increased administrative efficiency and greater programmatic effectiveness to the Mission but are expected to require more careful monitoring of activity results if their full benefits are to be realized.

## **SECTION II: STATUS OF THE MANAGEMENT CONTRACT<sup>3</sup>**

Although USAID/Mongolia's strategy has undergone few substantive programmatic changes since it was last reviewed by USAID/Washington in April 1995, the introduction of reengineering has brought about some major changes in the language used to describe the program. Accordingly, the Mission believes that it is useful to review these changes in language before turning to the details of the progress it has made in achieving its SOs.

USAID/Mongolia's objectives, as presented in last spring's "Action Plan for FY95-FY97," and approved in April 1995 included a single SO, two associated program outcomes and a target of opportunity:

Strategic Objective 1: Strengthen the economic enabling environment which will promote market-oriented and private sector-led economic growth.

- Program Outcome 1: Establish and implement growth-oriented economic policies and business practices.
- Program Outcome 2: Enhance and deepen Mongolian participation in the democratic process.

Target of Opportunity 1: Strengthen energy production and management.

As a result of the introduction of the principles of reengineering in the Agency, the Mission recognized that there was a need to reexamine its strategic objective framework and to develop appropriate intermediate results and indicators. In the fall of 1995, teams were formed to examine the framework associated with the Mission's economic growth and democracy initiatives. Core team members were drawn from USAID/Mongolia and the RSM/EA. Extended members were also drawn from USAID/Washington and the Mongolian NGO community. Both teams decided to convert their respective program outcomes to full strategic objectives. The Mission decided against forming a formal team for its energy activity because it is due to end by September 30, 1996. Instead, an informal extended advisory group was created that draws its membership from USAID/Mongolia, the RSM/EA, ANE, and the Global Bureau in Washington. This group has made relatively few changes in the language of the energy activity other than converting it to a special objective in keeping with the new lexicon

---

<sup>3</sup> The guidance suggested that this part of the document appear as Section III. It has been pulled forward because USAID/Mongolia's strategic objectives have undergone considerable change since the submission of last year's action plan and because the details of these SOs continue to be refined even as this document is being submitted.

and developing a series of indicators to measure progress (largely retrospectively) towards meeting the objective.

These teams have only recently completed their efforts to redefine the Mission's strategic objectives and to define intermediate results in support of these objectives. Indeed, work on the development of indicators continues and baseline statistics are unlikely to be developed before the summertime. Thus, the results presented below should be considered tentative, subject to future (presumably minor) modifications.

## **II.A. STRATEGIC OBJECTIVE CHANGES OR REFINEMENTS**

USAID/Mongolia's new strategic objective teams began to work in earnest during November and December of 1995. The teams completed their efforts to define the new strategic objectives and frame intermediate results in January, although minor revisions in the intermediate results have continued until just prior to the preparation of the Mission's R4 document. The outcome of these deliberations are presented below:

Special Objective 1: Emergency support provided to the Mongolian power production system.

Strategic Objective 1: Policy and institutional framework conducive to rapid private-sector expansion created.

- Intermediate Result 1: Macro-economic management improved.
- Intermediate Result 2: Economic policy analysis improved.
- Intermediate Result 3: Asset/credit management among small commercial banks improved.

Strategic Objective 2: Gains in the transparency, accountability, competency and responsiveness of Mongolia's primary institutions of democracy consolidated.

- Intermediate Result 1: A robust and self-sustaining community of indigenous citizen initiated NGOs exists.
- Intermediate Result 2: Independent court and judicial system make and disseminate informed legal rulings.
- Intermediate Result 3: Electorate given access and a voice in national and local legislatures.

Because considerable work still remains to be done on the Mission's performance indicators, it will not be possible to use the indicators to report on results in this document, although the Mission fully intends to use them in next year's R4. Instead, the indicators will be presented for discussion purposes and more conventional narrative mechanisms will be used to report on programmatic results.

## **II.B. SPECIAL CONCERNS OR ISSUES**

USAID/Mongolia would like to take this opportunity to suggest that an evaluation of the Mission's energy project be scheduled after its completion on September 30, 1996. At a cost of \$38.5 million, this activity has succeeded in averting a medium- to long-term disruption in Mongolian energy production, an outcome that could have had catastrophic consequences for the people of Mongolia. The Mission believes that an evaluation of the activity could make an important contribution to the Agency's understanding of "emergency" development activities and to the success of follow-on activities being financed by the World Bank, the ADB and JICA, thereby helping to insure that USAID's investments in the energy sector will achieve lasting and sustainable results.

In addition, the Mission would like to make a few observations about its experience with the reengineering process that may have a bearing on other small missions. Because it is very small, USAID/Mongolia has found that it has taken extra time to introduce the principles of reengineering into the Mission. This is due, in large part, to the reliance on teams and teamwork under reengineering and the logistical problems associated with bringing together team members located in Ulaanbaatar, Bangkok and Washington. These difficulties have slowed the Mission's efforts to reformulate its strategic objectives and have delayed the Mission's customer survey. (A draft of the survey has been developed and the Mission expects to field it later this spring.) Nonetheless, USAID/Mongolia strongly endorses the concept of reengineering. The creation of SO teams has helped to bring additional creativity and experience to bear on the Mission's development activities. It has also helped to more narrowly focus these efforts and to encourage Mission staff to pay additional attention to the attainment of results. The Mission also believes that reengineering's emphasis on participation is well suited to Mongolia's relatively small population and the centralization of its key decision makers in Ulaanbaatar, making it possible to involve customers at all stages of the Mission's development activities.

## **II.C. REGULATION 216 ISSUES AND SCHEDULE**

The Mission has no outstanding Regulation 216 issues at the present time. The Mission intends to seek a categorical exclusion from the ANE Bureau Environmental Officer for activities under its Democracy and Economic Growth Strategic Objectives. It is anticipated that if new energy-related activities are undertaken after the end of the Morrison-Knudsen contract in May, these activities will require Regulation 216 review.<sup>4</sup>

---

<sup>4</sup> The initiation of such activities would require the creation of a new intermediate result under the economic growth SO and a possible change in the language of the SO itself.

## **SECTION III: PROGRESS TOWARD ACHIEVEMENT OF STRATEGIC AND SPECIAL OBJECTIVES**

This section is divided into three parts: the first examines progress and plans associated with the Mission's Energy Special Objective, the second examines progress and plans associated with the Economic Growth Strategic Objective, and third provides a similar review of the Mission's Democracy Strategic Objective.

### **III.A. SPECIAL OBJECTIVE 1 - ENERGY**

The \$38.5 million energy sector project has provided critical spare parts, technical assistance and training to shore up energy production at Mongolia's key power plants and coal mines. Over the last three years (i.e., the life of the current Morrison-Knudsen contract) approximately \$20 million has been spent on key spare parts and equipment, such as coal conveyor belts, truck tires, boiler components and other items. This equipment has enabled Mongolian coal mines and power plants to continue energy production services. In addition, the activity has provided more than \$250,000 for training Mongolians, both in the United States and in Mongolia, in power plant operations and management.

Listed below are some of the most significant procurement and training activities that have been undertaken by Morrison-Knudsen since the initiation of the current contract:

- Installation of a lighting system in Power Plant #3 which has improved visibility by 50%, thereby improving productivity and increasing plant safety.
- Purchase of ten modern electric welding machines for Power Plants #3 and #4. This acquisition greatly improved the speed and safety of welding operations in the plants. The purchase was supplemented by a highly successful, and well received, training program for welders. (Cracks in the boilers were greatly reducing plant efficiency.)
- Purchase of mechanical conveyor belt splice kits for Power Plant #3. Acquisition of these kits has reduced the time it takes to get a conveyor belt back in operation after a belt failure from 2 days to 4 hours, a major advance in avoiding crises in the winter heating months.
- Non-destructive examination of Power Plant #3 high pressure boilers. This half-million dollar activity was an essential step in getting the ADB to invest \$35 million to upgrade the boilers in Power Plant #3. As a side benefit, the power plant metallurgical engineering staff participated fully and received training in non-destructive examination techniques. This training, plus the examination equipment

left behind at the plant, should help plant staff to identify problems earlier and reduce the chances of catastrophic boiler failure.

- Replacement of boiler scaffolding systems in Power Plant #3. The pre-existing scaffolding system was old, unstable and unsafe. In addition, not all parts of the boiler system could be reached from the scaffolding and these areas had been left unmaintained for years. The new system permits more complete access and maintenance of the boilers.
- Purchase of circulating water pump motors. Acquisition of these motors doubled steam production at five of the eight Power Plant #3 turbine generators.
- Purchase of worker tools and maintenance equipment. More than \$1 million has been invested in tools and maintenance equipment under the project. In addition, a system of security controls has been instituted, significantly reducing the loss of equipment. These tools have improved the ability of workers to do their jobs and reduced the amount of time it takes to carry out vital plant functions. In a number of instances these purchases, combined with the expertise of project personnel, have made a major difference in plant operations. An example occurred in the winter of 1995, when the roof of Power Plant #3 collapsed and the temperatures in the plant dipped well below freezing. Due to the water freezing in the boiler instrument and control systems, the plant faced the prospect of a complete long-term shutdown. Technical assistance from project engineers combined with locally purchased canvas got the plant through the crisis. Later, the ADB underwrote the cost of a new roof for the plant.

The Morrison-Knudsen contract is scheduled to end in May 1996 and FY 1996 funds will be used to upgrade the productive capabilities of the Sharyn Gol coal mine through the purchase of earth moving and hauling equipment. Funds may also be used to maintain energy production at Power Plant #4 and in the provinces. In support of the latter task, and at the request of the Ministry of Energy, FY 1996 activities may include the purchase of much needed "mobile generators," which can be trucked into villages and small towns when existing and outdated generators break down. All activities will be accompanied by intensive training. USAID will closely coordinate its work with the Ministry of Energy, the World Bank, the ADB, the Japanese, and the TACIS energy projects. In doing so, USAID will continue to focus its activities on areas not being addressed by other donors. (In a change from previous years, USAID funds will not be used to purchase spare parts.) These activities will continue to provide USAID and the U.S. government with high visibility in Mongolia. Because of the slow engagement of other donors, USAID energy assistance will remain a lynch-pin in averting an energy crisis through 1996.

### **III.A.1. Summary of Performance Data**

As part of its efforts to implement the principles of reengineering, USAID/Mongolia has converted its energy target of opportunity to a special objective and assembled an extended advisory group from USAID/Mongolia, the RSM/EA and USAID/Washington to help guide the

achievement of the objective. (The Mission decided not to form a formal SpO team because the activity is scheduled to end September 30, 1996.) The advisory group has decided upon the following language and indicators for its energy special objective.<sup>5</sup>

Special Objective 1: Emergency support provided to the Mongolian power production system.<sup>6</sup>

- Indicator A: Number of megawatts produced annually (1990 baseline).
- Indicator B: Number of megawatts imported annually (1990 baseline).
- Indicator C: Number of power outages annually (1990 baseline).
- Indicator D: Percentage of the total potential power produced at Power Plant #3 and Power Plant #4 (baseline 1990).<sup>7</sup>
- Indicator E: Percentage of Mongolian households served by electricity (baseline 1990).
- Indicator F: Number of Mongolians provided with power plant operations and management skills training in Mongolia under the Morrison-Knudsen contract (includes Mongolian professionals working in the Morrison-Knudsen office in Ulaanbaatar).
- Indicator G: Number of Mongolians provided with power plant operations and management skills through training in the United States.

Data for Indicators A-D are available and will be compiled on an annual basis. The Mission will ask Morrison-Knudsen to develop the data for Indicators F and G and disaggregate them on an annual and gender basis. Indicator E (percentage of Mongolian households served by electricity) is more problematic. While this figure appears to be available on an annual basis in Ulaanbaatar, figures for aimags are thought to be less consistent. (It is believed that this indicator will show that after the problems in early 1990s, the level of electricity service delivery has recovered in Ulaanbaatar but continues to lag in the aimags.)

While it is entirely too early for USAID/Mongolia to measure SpO progress using these indicators, the Mission has spoken with Morrison-Knudsen about gathering these data and fully intends to present results based upon these indicators as part of next year's R4 document.

### **III.A.2. Analysis of SpO Progress and Significant Achievements**

The United States continues to reap benefits from its rapid response to Mongolia's energy crisis in the winter of 1991-92. The Government of Mongolia credits USAID/Mongolia's technical and procurement assistance with playing a vital role in helping to avert several life-threatening

---

<sup>5</sup> The special objective has no intermediate results associated with it.

<sup>6</sup> Targets for these indicators have not been established because the PACD for the SpO is only six months away. Indicators for the FY 1996 phase of the project will be added after final details of the activity are agreed upon.

<sup>7</sup> Together, Power Plant #3 and Power Plant #4 account for 75% of the power produced in Mongolia.

crises in the energy sector.<sup>8</sup> (Even a medium-term disruption in energy production during the winter heating season would cost lives, cripple fledgling businesses and industrial production, and severely weaken popular support for Mongolia's political and economic reform agenda.)

The most important goal of this activity (averting a medium- to long-term total disruption in energy production) has already been realized. In addition, USAID/Mongolia has been successful in attracting other bilateral donors and the multilateral banks into the capital-intensive energy sector. Other significant achievements include the following:

- Improved ability of managers, engineers and other staff at Power Plant #3 (responsible for approximately 35% of the power production in Mongolia) to anticipate and resolve problems.
- Improved coordination between raw material suppliers (coal mines) and the power plants #3 and #4 (collectively responsible for 80% of the power production in Mongolia).
- Improved safety conditions at power plants #2, #3 and #4.
- Stabilized production and increased efficiency at the Baganaur, Sharyn Gol and Shivee Ovo coal mines (collectively responsible for almost all of the power-related coal production in Mongolia).
- Increased awareness of free market-style operations (eg, pricing), which will improve production and distribution efficiencies in the future.

Procurement and technical assistance activities by the project contractor (Morrison-Knudsen) will end in May 1996. The Mission plans to expend FY 1996 funds by utilizing the services of the Global Bureau's engineering staff and the RSM/EA's contracting staff to develop terms of reference for a procurement services agent that will purchase U.S.-sourced equipment and supplies per the discussion above.<sup>9</sup>

### **III.A.3. Expected Progress in 1997-1998**

Activity under this special objective is scheduled to end on September 30, 1996. Nonetheless, strengthening energy production and management remains a critical element to sustaining the transition to democracy and economic stability. Should the current Congressional Presentation planning level of \$4.0 million hold, USAID/Mongolia will consider developing a small (\$1 million annually for three years) follow-on training activity focusing on techniques to bolster energy production and the day-to-day mechanics of power plant management.

---

<sup>8</sup> In a recent letter dated March 11, 1996 Energy Minister Jigjid thanked USAID saying that "*with [USAID's] funding we overcame the winter overloads without serious difficulties...*"

<sup>9</sup> Should items that require detailed engineering specifications be needed, Global Bureau engineering staff will utilize an indefinite quantity contract (IQC).

A second highly desirable activity, if the planning level holds, would be to develop an energy management and conservation technical assistance activity (also funded at \$1 million annually for three years). This activity would be designed to cut across ministerial lines and focus on energy management, donor coordination and policy intervention. The activity would include a planning unit which would facilitate development of energy strategies with emphasis being placed on coordination of donors, resource allocation in both power and coal sectors, conservation and alternative energy. Long-term strategy development would include hydro-electricity, alternative energy, as well as oil and coal powered systems. Energy conservation and demand-side management issues would be addressed as well as institutional strengthening and technology transfer.

If the Mission receives funds to undertake one or both of these activities, they would be included under the Mission's existing Economic Growth SO with one or two new intermediate results being added to accommodate them. (The Mission envisions drawing upon ANE and Global Bureau resources to help design these activities.) These new initiatives have the potential of having a considerable and lasting impact on Mongolia's energy production system. As this document was being prepared the Government of Mongolia announced plans to gradually raise energy prices to cover the full costs of energy production. These changes are likely to force the introduction of major changes in the way that energy production is managed in Mongolia. Thus, the timing of the training and technical assistance activities could not be better, permitting USAID to build upon its goodwill to effect permanent changes in the Mongolian energy production system (and perhaps create opportunities for U.S. businesses as well).

### **III.B. STRATEGIC OBJECTIVE 1 - ECONOMIC GROWTH**

Promotion of economic growth has been an objective of USAID/Mongolia since the inception of its program. The first USAID activity sought to support institutional reforms to enhance competitive markets and democratic processes and was undertaken by the University of Maryland's Institute of Institutional Reform and the Informal Sector (IRIS) under a Global Bureau buy-in. The initiative, which concluded in February 1996, was ultimately valued at \$2.6 million and included eleven two-week seminars held in both the United States and Mongolia. The seminars were attended by more than 150 key Mongolian decision makers (including the future Prime Minister) and covered such topics as: pricing, property rights, international trade, government budgeting, fiscal decentralization, business law, environmental law and insurance. Seminar participants were selected on their ability to effect change (i.e., their relative proximity to the decision-making process) in their respective policy domains.

Another activity, entitled "Support for Economic Transition," funded at \$2 million and initiated in May 1991, sought to assist Mongolia's transformation to a market economy and included three components: 1) technical advisory services, 2) short-term technical training in the United

States and third countries, and 3) long-term academic training in the United States.<sup>10</sup> This project, part of which was undertaken in cooperation with the UNDP, succeeded in providing key members of the Mongolian government with training in the mechanics of market economies and their regulation.

In April 1994, the Mission launched a \$400,000 activity implemented by Financial Services Volunteer Corp (FSVC) to address fundamental deficiencies in Mongolia's evolving economic regulatory and banking frameworks. The FSVC activity offered a wide-ranging series of in-country, commercial and international banking seminars and short-term training courses (taught by U.S. bankers) to help Mongolia's nascent banking community develop sound banking procedures and practices that are compatible with international standards. Training topics focused on banking issues affecting Mongolia's small- to medium-sized businesses such as credit analysis, trade finance, accounting, and asset-liability management. Through its 12 courses more than 120 bankers have been trained.

In July 1995 the Mission initiated the Economic Policy Support Project (EPSP), a \$7.5 million, five-year activity developed and implemented with the assistance of the RSM/EA. This activity will provide a diverse array of technical assistance and training opportunities (long- and short-term) that will empower both the public and private sectors to strengthen and deepen Mongolia's transition to a fully functioning market economy. At the Government of Mongolia's request, this activity has been located in the Office of the Prime Minister and serves as an intra-governmental resource for developing, debating, implementing and evaluating economic policies. Key entities from the private sector and academia (e.g., Mongolian Chamber of Commerce, Mongolian Bankers Association, NGOs and university professors) are also important participants in this policy dialogue. (New FSVC activities, focusing on Mongolia's small banks, are also being financed out of this project and there is a possibility that additional IRIS activities may also be financed by the project. Thus, EPSP is essentially synonymous with the Mission's Economic Growth Strategic Objective.)

### **III.B.1. Summary of Performance Data**

As has been discussed above, USAID/Mongolia raised its economic growth activities from a program outcome to a full strategic objective. To help guide the achievement of this SO the Mission has assembled a team from USAID/Mongolia, the RSM/EA and USAID/Washington. The team first met this past November and has tentatively upon the following language for the strategic objective and three associated intermediate results:

Strategic Objective 1: A policy and institutional framework conducive to rapid private-sector expansion created.

---

<sup>10</sup> A related activity, using RHUDO funds, sought to support housing privatization efforts and the construction industry.

- Intermediate Result 1: Macro-economic management improved. Activity in support of this IR was initiated in July 1995 by Development Alternatives Inc, (DAI).
- Intermediate Result 2: Economic policy analysis improved. Activity in support of this IR was also initiated in July 1995 by DAI.
- Intermediate Result 3: Asset/credit management among small commercial banks improved. Activity supporting this intermediate result was begun in January 1996 by FSVC.

The team has also tentatively adopted the following indicators to measure progress under this objective:

Intermediate Result 1:

- Indicator A: Current budget surplus. (Target: increase in the current budget surplus of 1% of GDP each year.)
- Indicator B: Consumer price index inflation. (Target: decline in inflation to 25% per year within two years.)
- Indicator C: Per capita income. (Target: a real growth rate of 3% annually.)
- Indicator D: Government budgetary or directed credit subsidization of the energy sector. (Target: Elimination of all state subsidization of the energy sector in two years.)
- Indicator E: Projected World Bank and IMF debt service/export ratios for Mongolia over the next 15 years. (Target: keep projections under 20% even under the most conservative export growth scenarios.)
- Indicator F: IMF approval of Mongolia macro-economic performance and disbursements of IMF credits. (Target: Continued IMF approval and disbursements throughout the period of the activity.)

Data for Indicators A-D are available and will be compiled on an annual basis. Indicator E projections are issued regularly and will be compiled on at least an annual basis. For Indicator F, the IMF reviews Mongolia's macro-economic performance on a quarterly basis but the annual review is most significant and the data for this indicator will be reported upon annually.

Intermediate Result 2:

- Indicator A: Institutionalization of an inter-ministerial macro-economic analysis group with representatives of the Ministry of Finance, Bank of Mongolia, National Development Board and Ministry of Trade and Industry, which will meet monthly to analyze and prepare reports on macro-economic trends for the government. (Target: monthly meetings and reports, covering at least four different areas of policy-making each year.)
- Indicator B: The creation and sustained maintenance of an economic database, and its maintenance. (Target: creation of this economic database.)
- Indicator C: The creation and sustained use of an economic policy library available to government policy-makers. (Target: Use of the materials in this library in the

preparation of at least 5 reports on economic policy issues in its first year, and 12 in its second year.

Indicators A-C are essentially yes/no propositions and progress toward their implementation will be reported on in memo format on a quarterly basis by one of the Mongolia-based team members.

While IR #2 is vital to the achievement of the SO, measuring the quality of economic policy analysis is difficult and does not lend itself well to statistical measurement. The team envisions supplementing these indicators with regular interviews of knowledgeable observers, particularly the World Bank, IMF and ADB personnel familiar with Mongolia. The team intends to develop a standardized questionnaire which it will field among these personnel on a semi-annual basis. The team also intends to explore whether more gender sensitive indicators might be developed through this approach.

Intermediate Result 3:

- Indicator A: Establishment of an asset-liability management committee in each of the three target banks to assist them in writing policies and implementing procedures to manage the major asset and liability components of the balance sheet.
- Indicator B: Credit-Loan Work-Out Committee's policies adopted to enable target banks to meet the Bank of Mongolia's capital reserve requirements. (Target: All target banks have at least 17% of all capital in capital reserve accounts.)
- Indicator C: Fewer loans meet the criteria for "non-performing loans." (Value of "Non-performing loans" at all target banks does not exceed 15% of the value of new loans made after April 1, 1996.)

Indicators A and B are essentially yes/no propositions and progress toward their implementation will be reported on in memo format on a quarterly basis by one of the Mongolia-based team members. Data for Indicator C will be compiled on an annual basis.

The team is still actively considering indicators for this intermediate result. Measuring the financial health of banks is a fairly advanced art and the IMF and World Bank actively collect what data that are available. The team intends to work with both of these organizations to establish additional indicators for this IR. Once again, the team also hopes to develop more gender sensitive indicators for this IR.

### **III.B.2. Analysis of SO Progress and Significant Achievements**

The Mongolian economy strengthened significantly in 1995, especially in the second half of the year. The following are some of Mongolia's very considerable recent economic achievements:

- GDP grew by 2.1% in 1994 and 6.3% in 1995 after four years of negative growth.
- Inflation fell to 53.1% in 1995, down from 66.3% in 1994.

- The Mongolian tugrik depreciated 15% vis-a-vis the dollar which has helped exports to remain competitive.
- Exports grew by 22% in real dollar terms which helped reduce the current account deficit to \$63.7 million.
- The current budget surplus rose to 4.1% of GDP.
- Industrial output grew by 20.7% in real terms.

These economic gains, though impressive, largely resulted from draconian measures taken by the Government of Mongolia to comply with the terms and conditions of the IMF's two-year old Economic Structural Adjustments Facility rather than GOM-initiated macro-economic planning and management. Nonetheless, these actions and results reflect the GOM's commitment to undertake difficult reforms.

While it is still too early to report on IR achievements based on IR indicators, USAID/Mongolia's economic growth activities have met with a large number of recent successes including the following:

- The IMF endorsed the GOM's macro-economic plan which was heavily influenced by research and policy papers prepared by the USAID-funded advisor. Failure to attain IMF endorsement would have resulted in the suspension of Mongolia's Economic Structural Adjustments Facility.
- Relying partially on USAID funded research, the GOM accepted recommendations to increase the number and proportion of state-owned enterprises to be privatized.
- USAID consultants helped the GOM develop an option to address Mongolia's enormous ruble debt burden without obstructing future economic development.
- Six long-term training candidates departed for U.S.-based Masters degree training. These individuals have contracts with the GOM to serve in key policy making positions upon their return to Mongolia.
- Through training and internships sponsored, Mongolian commercial bankers have gained experience in consumer, construction, and small business lending, as well as credit administration and asset-liability management. These new skills are enabling Mongolian banks to make lending decisions based upon analysis rather than state directives.
- The Mongolian Bankers Association has become a self-sustaining institution that serves as a forum for discussing public and private banking issues.

### **III.B.3. Expected Progress in 1997-1998**

Because virtually all of the activities under the Economic Growth Strategic Objective are less than six months old, USAID hopes to make significant progress toward its intermediate results in the coming year.

The following FY 1997 and FY 1998 results are expected to be directly attributable to USAID-funded activities.

Intermediate Result 1:

- The GOM will have developed and adopted an integrated approach to macro-economic planning that includes revenue-based budgeting, aid utilization, and monetary policy formulation (these features have been largely absent from previous planning process).
- A newly formed inter-ministerial macro-economic analysis group (comprised of the Ministry of Finance, Bank of Mongolia, National Development Board, Ministry of Trade and Industry, and State Statistical Office) will be meeting monthly to analyze economic trends and recommend corrective monetary/fiscal policies.

Intermediate Result 2:

- A second group of six Mongolians will have departed for Masters degree training in economics in the United States.
- Two Mongolian economists (working with the U.S. advisor) will have each shepherded one macro-economic policy reform (such as agriculture subsidies and environmental policy) through the GOM policy-making process.

Intermediate Result 3:

- Lending to small commercial enterprises will have increased because targeted banks will achieve and maintain a sufficient liquid assets/deposit ratio (20%) to permit increased lending.
- The number of non-performing loans will have been reduced (due to adoption of credit analysis policies) by 25%.

The news that the GOM intends to raise energy prices to match the costs of production bodes well for additional achievements under this SO during FY 1997 and 1998. This decision demonstrates a renewed willingness on the part of the GOM to make the difficult decisions necessary to set its macro-economic policies on the path towards sustainable development.

### **III.C. STRATEGIC OBJECTIVE 2 - DEMOCRACY**

Mongolia is presiding over an emerging market economy and a large portion of its populace is committed to democracy. Strong and influential segments of society, however, remain opposed to democratic reforms. The Communist Party, reconstituted as the Mongolian People's Revolutionary Party (MPRP), continues in power and holds 70 of the 76 seats in the Great Hural, Mongolia's national parliament. (While the President was elected with opposition support, he remains a member of the MPRP.) The MPRP's hold on power was further strengthened this past June with the creation of the State Control Committee, which has been made responsible for budgetary, auditing and management of state property. (A similar committee played a prominent role in government affairs during the communist period.)

In addition, democracy and its implications are still not fully understood by the public. Thus, the future of democracy in Mongolia is not assured. Without focused support, particularly in the areas of civil society, an independent judiciary and operations of elected representative bodies, Mongolian democracy will remain at risk. Even as this document is being prepared, important steps are being taken to advance Mongolian democracy but, at the same time, these steps are not without risks. In an effort to increase their chances of success in the upcoming June election, the two main opposition parties, the Mongolian Social Democratic Party (MSDP) and the Mongolian National Democratic Party (MNDP), have agreed to cooperate and to field only a single candidate from one party or the other in each election district. (The MSDP will field 50 candidates and the MNDP will field 26.) The MPRP is reported to believe that its iron grip on the Great Hural is likely to be endangered by the arrangement. (Together the two parties took 40% of the vote in the last parliamentary election.) This has spawned concern that the MPRP may attempt to influence the election by gerrymandering Great Hural election districts. The process of building a democratic society in Mongolia is thus at a critical juncture and continued USAID assistance is essential to see the reforms through.

The U.S. Government has been engaged in supporting Mongolia's democratic transition from the very beginning. In 1990, The Asia Foundation (TAF) initiated a program at the request of the Mongolian government using Congressionally-appropriated funds under the Asia Foundation Act of 1983. Direct USAID grant support to TAF began in 1991. The first phase of USAID support was designed to simply open the doors to the West and to allow Mongolians to study other democratic systems (not only in the United States, but also Europe and other democratic neighbors in Asia). This was accomplished cost-effectively through a structured series of seminars in Mongolia, organized study tours abroad for key government and non-government leaders, and by providing seed support for emerging citizen-initiated NGOs (CINGOs).

The Asia Foundation's current \$999,860 grant,<sup>11</sup> initiated in June 1993 and scheduled to end in June 1996, has been used to fund 35 separate activities to date, primarily in the areas of strengthening the new legislative and judicial branches of government in Mongolia, assisting in the development of citizen initiated NGOs and encouraging greater participation of women in politics. Listed below are some of TAF's more significant activities in these areas.<sup>12</sup>

- Organizing a seminar on government budgeting for 50 people including the Minister of Finance, Ministry staff, seven members of the Great Hural and Secretariat staff. This seminar played a critical role in introducing the public to budgeting issues and bringing these issues into the domain of public debate.
- Organizing an orientation program for 292 judges (virtually all of the judges in Mongolia) to provide them with a uniform understanding of the many new procedures mandated by the recently passed Law on the Courts. This activity permitted

---

<sup>11</sup> TAF has frequently used non-USAID/Mongolia funds to compliment Mission funding in its activities in Mongolia.

<sup>12</sup> Adopting a low-keyed approach, TAF has been particularly successful in incorporating large numbers of women into its activities, an outcome the Mission hopes to report upon more fully in future R4s.

Mongolia's new judiciary to start work on a common legal footing, an extremely important achievement in a country where rural courts are remote and communications are difficult.

- Organizing a nine-day civil code training program for 282 Mongolian judges hosted by the Mongolian Supreme Court. This activity provided Mongolia's judges with their first exposure to the new civil code and, through their sponsorship of this event, reinforced the Supreme Court's status as an independent branch of government.
- Sending ten Mongolian judges to a training seminar on economic and commercial law in South Korea with follow-on activities for fellow judges being initiated by the returnees.
- Organizing a U.S. consultancy hosted by the Consumer Protection Association of Mongolia to provide training seminars and one-to-one counseling for 50 NGOs designed to help strengthen these organizations.
- Assisting Mongolia's only parliamentary watchdog group in hosting a two-day seminar for parliamentarians, cabinet ministers and NGO specialists for a dialogue on developing and drafting an effective NGO law.
- Assisting in the implementation of six regional (i.e., within Mongolia) NGO management and leadership training seminars by the Mongolian Liberal Women's Brain Pool.
- Organizing a three-day Women in Politics Seminar which involved 80 Mongolian women and three trainers from the Philippines and Thailand and resulted in the development of a coordinated action plan by the women.
- Coordinating a study tour about comparative legislatures for parliamentary and presidential systems, which led to an amendment in the State Great Hural Law, reducing the number of committees from ten to six.
- Assisting a citizen initiated NGO to design and implement a comprehensive, nation wide, nonpartisan voter education project in preparation for the June 1996 parliamentary elections, the first time that Mongolian NGOs have become involved in nonpartisan election activities.

In addition to the TAF activity, approximately \$95,000 is available to Mongolia under a grant with the International Fund for Electoral Systems, through a combination of Mission and Global Bureau resources. This funding was originally proposed to support the upcoming 1996 election through voter education and technical assistance. Given the concerns associated with the parliamentary election in June and as a result of discussions held between the Ambassador and Margaret Carpenter during the Mongolian Consultative Group meeting in February, the Mission, working in close cooperation with the U.S. Embassy, has decided to undertake an election monitoring activity.<sup>13</sup>

Much remains to be done to create a fully democratic society in Mongolia. There continues to be widespread frustration with the fact that Mongolia's democratic institutions are still

---

<sup>13</sup> The precise details of this activity have not been decided upon at the present time.

technically weak and do not perform their roles effectively. Fortunately, however, most Mongolians recognize that it takes time to make lasting democratic changes.

### **III.C.1. Summary of Performance Data**

As part of its efforts to implement the principles of reengineering, USAID/Mongolia has converted its democracy program outcome to a full strategic objective. To help guide the achievement of this SO the Mission has assembled a team from USAID/Mongolia, the RSM/EA and USAID/Washington. The team first met this past December and has tentatively decided upon the following language for its democracy SO and three associated intermediate results:

Strategic Objective 2: Gains in the transparency, accountability, competency and responsiveness of Mongolia's primary institutions of democracy consolidated.<sup>14</sup>

- Intermediate Result 1: A robust and self-sustaining community of indigenous CINGOs exists.
- Intermediate Result 2: An independent court and judicial system make and disseminate informed legal rulings.
- Intermediate Result 3: The electorate is given access and a voice in national and local legislatures.

The team has also tentatively adopted the following indicators to measure progress under this special objective:<sup>15</sup>

Intermediate Result 1:

- Indicator A: Change in number of local chapters of key Ulaanbaatar-based CINGOs.
- Indicator B: Change in membership of Ulaanbaatar-based CINGOs both in the city and in local aimag chapters.
- Indicator C: Change in the number of advocacy, oversight, and/or civic education CINGOs.
- Indicator D: Change level of understanding and importance citizens place on CINGOs.
- Indicator E: Establishment of an indigenous development and support center for NGOs.
- Indicator F: Passage of a law favorable to the establishment, operation, and growth of NGOs.

---

<sup>14</sup> The team has decided to temporarily suspend work on IR #3 because insufficient funds were made available for FY 1996. If it appears that a higher level of funding will not be provided in the future, the team will consider permanently dropping the IR and changing the language of the strategic objective. Alternatively, the team may decide to raise IRs #1 and #2 to the SO level.

<sup>15</sup> The team recognizes that most annual measures of political change, particularly those relying on voter surveys, must be treated with caution because of the volatility of political opinions. Nonetheless, the team believes that over the medium- to long-term such variables are useful measures of political change.

Baselines for Indicators A, B and C will be developed by surveys of Mongolian CINGOs. Follow-up surveys will be made every two years. Wherever possible, data will be gathered on a gender-specific basis. The baseline and annual follow-up measurements of Indicator D will be made through a survey of the Mongolian public. The team envisions working with the Konrad Adenauer Foundation, which conducts regular surveys of Mongolian public opinion, on this indicator. Findings will be disaggregated by gender and other variables. Indicators E and F are yes/no variables (although subjective assessments of the quality of the institution/law will also be gathered). Progress toward their implementation will be reported on in memo format on a semi-annual basis by one of the Mongolia-based team members.

Intermediate Result 2:

- Indicator A: A regular system for the dissemination of legal information by the judiciary exists.
- Indicator B: Court decisions on specific cases are used as precedent for deciding future cases (i.e., establishment of a system of judicial review).
- Indicator C: Supreme Court interpretation of laws leads to amendment of those laws by the Great Hural.
- Indicator D: The budget for judiciary increases as percent of total government budget.
- Indicator E: Enhanced competence of judges in substantive areas of law.

Indicators A, B and C are yes/no variables (although subjective assessments of the quality will also be gathered). Progress toward their implementation will be reported on in memo format on a semi-annual basis by one of the Mongolia-based team members. Data for Indicator D will be taken from GOM budget documents and reported upon annually. As with most training indicators, measuring Indicator E will be challenging. The team expects that improved training will lead to increased specialization within the judicial system, reflecting the types of training received. The team intends to measure changes in this regard both at the system level and at the case assignment level. The team may supplement this measure with the development of an annual standardized interview protocol, fielded among knowledgeable observers of the Mongolian judicial system. The team also intends to explore whether more gender sensitive indicators might be developed through this approach.

Intermediate Result 3:

- Indicator A: Procedures created to allow the voting public easy access to sessions of the Great Hural.
- Indicator B: Great Hural members establish constituent offices in their districts.
- Indicator C: Great Hural members respond to written citizen inquiries in a timely and substantive manner.
- Indicator D: Direct election of local hurals initiated.
- Indicator E: Great Hural members' voting records published and disseminated and session transcripts are made available.
- Indicator F: Electorate recognizes elected officials.

Indicator A will be measured by tracking changes in access procedures. These changes will be measured through the use of a standardized interview protocol, fielded annually among knowledgeable observers of the Mongolian legislative system. Indicator B will be tracked by undertaking an annual survey of the number of constituent offices established by Great Hural members. (None currently exist.) Indicator C will be tracked by counting the number of Great Hural members that develop mechanisms to respond to constituents (information on the quality of the mechanisms will also be gathered). Once again, this will be done through an annual survey. Indicators D and E are yes/no variables. Progress toward their implementation will be reported on in memo format on a semi-annual basis by one of the Mongolia-based team members. Indicator F will be tracked by measuring the change in the proportion of the electorate that can identify their elected officials. The team hopes to attain annual measures of this indicator by adding a question that addresses this issue to the surveys conducted by the Konrad Adenauer Foundation. Wherever possible data will be provided on a gender-specific basis.

### **III.C.2. Analysis of SO Progress and Significant Achievements**

There is fairly uniform agreement that Mongolia has made major strides in establishing the basic institutions and processes necessary for democracy since 1990. The following are some specific examples of Mongolia's very considerable recent achievements:

- A new constitution has been promulgated which guarantees basic democratic rights and protections.
- A representative parliament (Great Hural) has been created which is composed of members elected by the citizens.
- An electoral system has been created which permits the public to regularly vote for the President of Mongolia and members of the Great Hural.
- Three free and fair elections (two for the parliament and one for the president) have been held since 1990.
- A new judiciary system with judges appointed by the President that reaches down to the aimag level has been created.
- A vibrant, advocacy-oriented community of non-governmental organizations has been created.
- And most significantly, these achievements have been attained with minimum of unrest and conflict.

While most of the credit for these successes belongs to the Mongolian people, USAID support has clearly helped to maintain forward progress in the Mongolian democratic transition. Given the 1989 baseline of a completely controlled economy with an absence of democratic institutions, USAID can reasonably claim credit for catalyzing the process and moving it in a mostly-positive direction consistent with U.S. interests.

The Mission believes that the most significant results associated with its funding have been in the areas of helping to create an independent judiciary and in establishing an environment suitable for a robust citizen-initiated NGO movement in Mongolia. Nonetheless, the indeterminate nature of USAID/Mongolia's recent contributions to democracy is a source of considerable concern to the Mission. As noted above TAF has initiated a total of 35 activities at a total cost of approximately \$375,000 (plus an additional \$360,000 in service and administrative costs). While the Mission feels confident that these activities have made a material difference in promoting democracy in Mongolia, the Mission has concluded that the large number and relatively small size of each activity makes it extremely difficult to measure this difference. The Mission has therefore concluded that the ability to measure future progress is going to require a more concentrated effort that narrowly focuses the Mission's program resources on a limited number of priority areas where USAID possesses comparative advantages.

### **III.C.3. Expected Progress in 1997-1998**

The ultimate customer of this strategic objective is the Mongolian electorate - those individuals on whose behalf a democratic state is supposed to govern. In particular, this strategic objective focuses on the role of young people and women, groups that are expected to play an increasingly important role in determining Mongolia's future. In the past, USAID/Mongolia has not had a direct relationship with its end customers and has relied on its partners to maintain these relationships. Therefore, USAID/Mongolia has not been widely recognized as being one of the leading donors in the field of democracy (although the role of its partners is recognized). The Mission has consequently decided to raise its profile in this sector by encouraging the new democracy team to adopt a more active role in managing achievements under this SO.

The team has thoroughly assessed the needs within the sector and determined where substantial donor support lies and where progress was taking place without outside assistance. In this process, it developed the three intermediate results that will guide the Mission's activities in the field of democracy over the next six years. Expected progress towards these results during 1997-1998 is presented below.

IR #1: Creating a robust and self-sustaining community of indigenous CINGOs. NGOs as independent nongovernmental organizations are a recent phenomenon in Mongolia. Although there is a long history in most communist countries of mass organizations, the citizen-initiated nongovernment organizations have only been in existence since 1990. CINGOs, such as the Woman Lawyers Association, Liberal Women's Brain Pool, Women for Social Progress and others are influencing the way government operates in Mongolia through voter education, lobbying those who control access, and helping to empower Mongolians to initiate needed reforms. The potential for CINGOs is evident worldwide, such as South Africa, Sri Lanka, and the Philippines, and the issues related to their development are well understood by USAID.

Since 1990 many CINGOs have been formed. However, they lack the organizational, technical and financial strength necessary to sustain themselves. USAID has the expertise and results can be demonstrated in relatively short periods of time. Specific anticipated achievements during the 1997-1998 time period include increasing the overall number and membership of CINGOs, particularly those engaged in advocacy, oversight, and civic education. In addition, the team hopes to foster the creation of a support center for NGOs and the passage of legislation favorable to the establishment, operation and growth of NGOs. On a more general level, the team hopes to increase citizen understanding of the importance of NGOs. (Fully meeting these goals is expected to require the six years allotted to this strategic objective.)

IR #2: Creation of an independent court and judicial system that makes and disseminates informed legal rulings. The needs of the court system and judiciary are enormous and several donors are attempting to address parts of these needs. The Asian Development Bank recently published a needs analysis of Mongolia's legal system that recommends training, material and technical assistance in all areas and outlines existing donor support for individual areas. Based upon the results of this analysis the team has decided to focus on one critical unmet need: creating systems for the dissemination of consistent and informed legal rulings within the court and judicial system.

The interpretative role of the courts is still not recognized by the legislative or executive branches. This is an important check on the powers of these branches and the creation of a system of consistent and informed legal rulings is an essential prerequisite. Specific anticipated achievements during the 1997-1998 time period include creating a system for the dissemination of legal information within the judicial branch, increasing the budget for the judiciary and improving the competence of judges. (Full and complete achievement of these goals is expected to require the six years allotted to this strategic objective.)

IR #3: Electorate is given access and a voice in national and local legislatures. The reform process in elected bodies has not reached the constituents of elected members. Despite the appearance of democracy through the Great Hural, mystery continues to shroud the process and voters remain uninformed. While the Great Hural has established an administrative secretariat capable of facilitating increased openness and access, it continues to operate in secrecy. This IR seeks to open up the Great Hural and lower-level representative bodies and to create structures that engender greater communication and participation. Specific anticipated achievements during the 1997-1998 time period include the opening of legislative sessions at the national, provincial and local levels to the public, the establishment of district constituent offices and service procedures by members of the Great Hural, and greater public recognition of elected representatives at the national, local and provincial level. (Full and complete

achievement of these goals is expected to require the six years allotted to this strategic objective.)

In and of themselves, the achievement of these three intermediate results will not be enough to meet the strategic objective. Other results are necessary for achievement of the SO, but are the responsibility of other donor groups or the GOM itself. These are listed below to demonstrate how USAID's efforts will fit into the larger effort to achieve the strategic objective. USAID/Mongolia does not envision funding any of these other intermediate results. However, should there be major deviations in planned donor programs that result in the neglect of one or more of these IRs, the SO team will review its plans and possibly make adjustments.

- IR #4: Political parties operate effectively and are responsive to constituent needs. (Achieved by the Konrad Adenauer Foundation, IRI and others.)
- IR #5: Human rights, broadly defined, are recognized and protected. (Achieved by UNHCR and other UN organizations, with assistance from Amnesty International and Freedom House).
- IR #6: Access to media and press freedoms protected and expanded. (Achieved by Scandinavian governments.)
- IR #7: Labor unions provide basic benefits and representation to membership. (Achieved by the International Labor Organization.)
- IR #8: Tertiary legal education institutions reformed and producing competent lawyers. (This is a long-term goal extending well beyond the life of the SO. Results are expected to be partially achieved by the ADB and European donors.)
- IR #9: Public administration reformed government-wide. (This is a long-term goal extending well beyond the life of the SO. Results are expected to be partially achieved by UNDP and SIDA.)

As has been discussed elsewhere in this document, the SO team has decided that if sufficient funding for the democracy SO is not forthcoming, the team will consider permanently dropping IR #3 and raising IRs #1 and #2 to the SO level. Nonetheless, the team and the Mission wishes to emphasize that there are enormous payoffs to be had by the achievement of IR #3.

## **Section IV: RESOURCE REQUIREMENTS**

### **A. PROGRAM RESOURCES**

USAID/Mongolia activities have been financed almost entirely out of Economic Support Funds since the inception of the program in 1990. These funds are made available on a year-to-year basis, limiting the ability of the Mission to engage in program resource planning. Although the Mission believes that a compelling case can be made for a continued USAID presence in Mongolia and expects ESF funding to last through at least 1999, the level of such funding can not be estimated with any confidence. With these uncertainties in mind, USAID/Mongolia's programming resource needs are presented below. The requests represent the Mission's best estimate of what it will take to meet its strategic objectives. (See Table 2, Table 3 and Table 3.5 in Annex B for additional details.)

The Mission has chosen to use \$4 million for planning purposes for FY 1996, 1997 and 1998. This figure was confirmed for FY 1996 at the recent Consultative Group meeting in Tokyo and therefore the Mission believes it is a more appropriate figure to use than the suggested 75% of CP level. The same figure is used for FY 1997 and FY 1998 because the Mission believes that it is the minimum required to be responsive to the economic and democratic transition currently underway in Mongolia.

Special Objective 1: Energy. Activities under this special objective will end September 30, 1996. The Mission is not requesting any additional funds in support of this SpO because it believes that the objective of the activity, stabilizing the power production system in Mongolia until other donors were in a position to assist, has been met. However, energy continues to be a critical issue in Mongolia's transition and the Mission believes that considerable benefits would accrue from the small targeted energy training and technical assistance activities outlined in Section III.A.3 above. The Mission proposes to undertake these additional activities as part of its Economic Growth Strategic Objective and they are discussed further under this SO.

Strategic Objective 1: Economic Growth. It is anticipated that the Economic Policy Support activity will be USAID/Mongolia's principal development assistance initiative during FY 1997 and 1998. The Mission is requesting a total of \$3.150 million for this strategic objective in each of these two years. The discussion below presents the Mission's program funding request by intermediate result:

- Intermediate Result #1: Under present plans, the Mission's macro-economic management activity is scheduled to last for a minimum of three years, with the

initiative's expatriate advisor being funded for the first two years of the activity. The costs of this advisor and his Mongolian staff of economists have been forward funded and no additional funds are requested for FY 1997. However, additional funds will be needed for the Mongolian staff in FY 1998. In addition, the Mission intends to consider extending the expatriate advisor for one year and the Mongolian staff for two years, depending on the outcome of an evaluation of the activity which will be conducted in the fall of 1996.

The activity has already met with considerable success and the Mission believes that the presence of the expatriate advisor has played a critical role in this past success. Further, the mission believes that the presence of an expatriate advisor is critical to the future success of the activity. Accordingly, the Mission intends to ask for \$550,000 for this activity in FY 1998.

In the event of budget cuts, scaling back this activity would be very difficult. It is already funded at a level very close to the minimum feasible. While it might be possible to reduce the staff of Mongolian economists from two to one, any additional cuts would greatly reduce the effectiveness of the expatriate advisor or require his departure. Therefore, if the Mission were asked to absorb a 10%-30% budget cut in FY 1997 or FY 1998, it would seek to absorb these cuts by reducing activities under IR #2 and IR #3.

- **Intermediate Result #2:** As part of its efforts to improve economic policy making in Mongolia, the Mission is sending six Mongolians to the United States for long-term advanced (Masters degree level) economics training. The Mission intends to ask for \$1.2 million (\$600,000 annually) for additional economics training in FY 1997 and FY 1998. These funds will be used to provide similar training for six additional Mongolians in each of these years.

Given the discrete nature of the individual training activities, it would be possible to cut this activity without undermining its overall integrity. Providing training for one less person each year would save nearly 17% of the cost of the activity and save \$100,000 annually.

- **Intermediate Result #3:** The Mission also hopes to provide \$550,000 in FY 1997 to continue its activities to improve Mongolia's small banks. (Not all of these funds would necessarily be provided to FSVC.) By the end of that year the Mission anticipates that this activity will have achieved its intended results and that no further funding will be needed.
- **New Energy Activities:** The Mission intends to ask for \$1 million each for energy power plant management training activity and an energy technical assistance activity. Thus, the Mission intends to ask for a total of \$2 million for energy activities in both 1997 and 1998. (See Section III.A.3 for a discussion of these activities.)

Although the Mission feels that \$1 million each is the most appropriate level for these activities they could probably be designed to produce useful results at a funding level as low as \$900,000 for the technical assistance activity and \$500,000 for the training activity.

If the Mission had to absorb a 10%-30% cut in this strategic objective, an amount equal to in either FY 1997 or 1998 the mission would opt to scale back the scope of its training activities under IR #2 and the energy training activity and slightly scale back funding for its energy technical assistance activity. (It would keep its macro-economic and its banking activity and its energy technical assistance activity at full funding.) More specifically, the Mission would reduce the number of individuals sent for advanced economics training in the United States from six to three, thereby saving \$300,000. The Mission would also reduce funding for its energy training activity from \$1 million to \$750,000 - \$500,000. The balance of the cut would come by reducing funding for the energy technical assistance activity from \$1 million to \$910,000. (See Table 3.5 for additional details.)

**Strategic Objective 2: Democracy.** An estimated \$4 million over six years in either DA or ESF program resources is required to deliver the results presented in the Democracy Strategic Objective. This level of funding is comparable to the funding levels in the Central Asian Republics, such as Uzbekistan and Kyrgyzstan, where U.S. strategic interests and democratic transition issues are considered to be similar. The Mission is requesting a total of \$850,000 for this strategic objective in FY 1997 and 1998. Obligations are tentatively planned through a Strategic Objective Agreement (SOAG) signed with the Government of Mongolia.

- **Intermediate Result #1:** The Mission intends to seek funding of \$400,000 for this intermediate result in both FY 1997 and 1998. The Asia Foundation has already been working in the civil society arena for six years and believes that it can achieve the announced intermediate result in six years at the proposed level of funding.
- **Intermediate Result #2:** The Mission will continue its long-standing support for judicial training under this SO. The Mission intends to work closely with the ENI Bureau to achieve this IR and \$250,000 will be sought for it in both FY 1997 and 1998.
- **Intermediate Result #3:** Some concerns have been raised about the ability of the Mission to achieve this intermediate result. While the Mission is cognizant of these concerns it believes that achievement of this IR would go a long way towards institutionalizing democratic processes in Mongolia. Accordingly, the Mission proposes to develop and finance a two-year \$200,000 per year demonstration activity to work towards this IR. At the end of two years, the activity will be evaluated and, depending on the findings, the activity will either be continued or the funds will be shifted into IRs #1 and #2.

If the Mission had to absorb a 10%-30% cut in this strategic objective in either FY 1997 or 1998 the Mission would choose to drop intermediate result #3 first. While there is a risk of failing to achieve this IR and the Mission will make its budget decisions accordingly, it wishes to emphasize that there are enormous payoffs to be had if this IR could be achieved. At the deeper 30% level, the Mission would also reduce the funding for its civil society activity from \$400,000 to \$200,000. (See Table 3.5 for additional details.)

## **B. OPERATING EXPENSES AND STAFFING**

USAID/Mongolia currently has an authorized staff level of two USDH and six FSN PSCs. However, the second USDH position is vacant at the present time, significantly complicating the workload of the office. A full complement of staff will be necessary to allow for proper monitoring, evaluation and support of Mission activities. This vacancy is critical for the workload and we hope that all efforts will be made to fill it as soon as possible.

The Mission's operating request for FY 1996 is \$521,600. Approximately 60% of this figure is attributable to the cost of office operations, particularly TDY support from Bangkok and Washington as well as communications expenses. These expenses are a product of the Mission's small size and relatively remote location. Other OE expenditures are relatively low. The costs of keeping a USDH at post are extremely low (apartments typically rent for \$660 per month) and it is possible to hire extremely well qualified FSN professionals for salaries under \$6,000 annually.

USAID/Mongolia has taken a number of steps to reduce its operating expenses in the past year. The Mission has reduced NXP procurement, rented an apartment for TDYers which has the potential for saving as much as \$3,500 per month in hotel costs and initiated lower-cost Kallback services for international communications. In addition, the Mission believes that as soon as the second USDH arrives at post, the savings in TDY costs will more than offset the costs of keeping this individual in the field, permitting a reduction in OE costs in future years. Thus, filling the second USDH position and straightlining FY 1996 OE levels should allow the Mission to carry-out its activities effectively. (See Table 5 and Table 6 for additional details.)

## **C. TECHNICAL SUPPORT NEEDS FROM USAID/W, THE RSM/EA AND OTHERS**

USAID/Mongolia has made use of Global Bureau field support in the past and has been highly satisfied with the results. The Mission is currently considering buy-ins to Global activities under its economic growth and democracy initiatives, utilizing a buy-in to the G/EG/EIR IRIS contract to help improve economic policy analysis and the G Bureau IFES contract to assist in election monitoring in the up-coming June 1996 parliamentary election. No firm decisions, however,

have been made about the use of the IRIS contract at the present time.<sup>16</sup> In addition, if budgetary planning levels hold, the Mission hopes to draw upon Global Bureau (and ANE Bureau) resources to help design the two proposed energy activities and perhaps assist in refining the indicators associated with both the economic growth SO and the democracy SO.

Plans to meet technical support needs from the RSM/EA for FY 1996 were made at the East Asia Planning Conference in October 1995. The Mission anticipates that plans to meet future technical support needs will be arranged at future planning conferences.

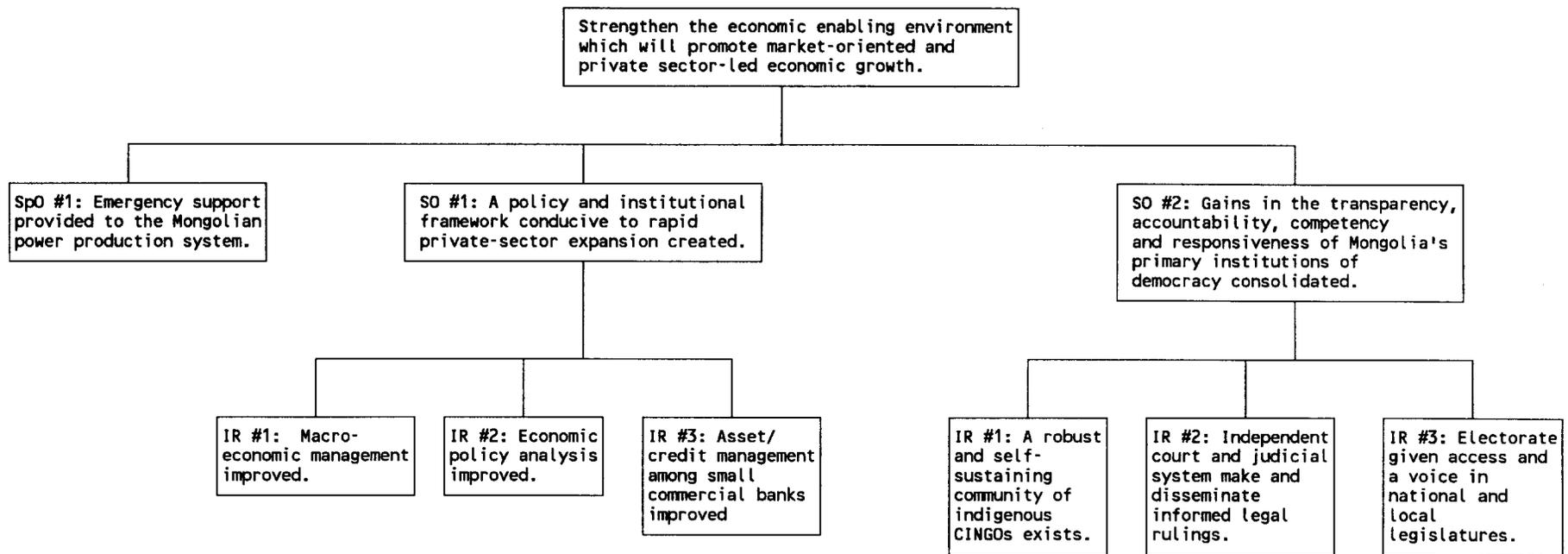
In addition, the Mission is considering buying into the ARD/Checchi Contract with ENI/DG/RLG to provide judicial training for Mongolian judges. A dollar amount has not yet been set for the activity. The Mission also intends to ask the ANE Bureau, perhaps in cooperation with CDIE, to conduct an evaluation of its energy sector activities after they conclude at the end of the fiscal year.

---

<sup>16</sup> As noted earlier, the IFES buy-in is a democracy sector "target of opportunity" that falls outside of the domain of Mission's Democracy SO.

## ANNEX A

### USAID/MONGOLIA STRATEGIC OBJECTIVE TREE



## Special Objective #1:

Emergency support provided to the Mongolian power production system.

Indicator A: Number of megawatts produced annually.

Indicator B: Number of megawatts imported annually.

Indicator C: Number of power outages annually.

Indicator D: Percentage of the total potential power produced at Power Plant #3 and Power Plant #4.

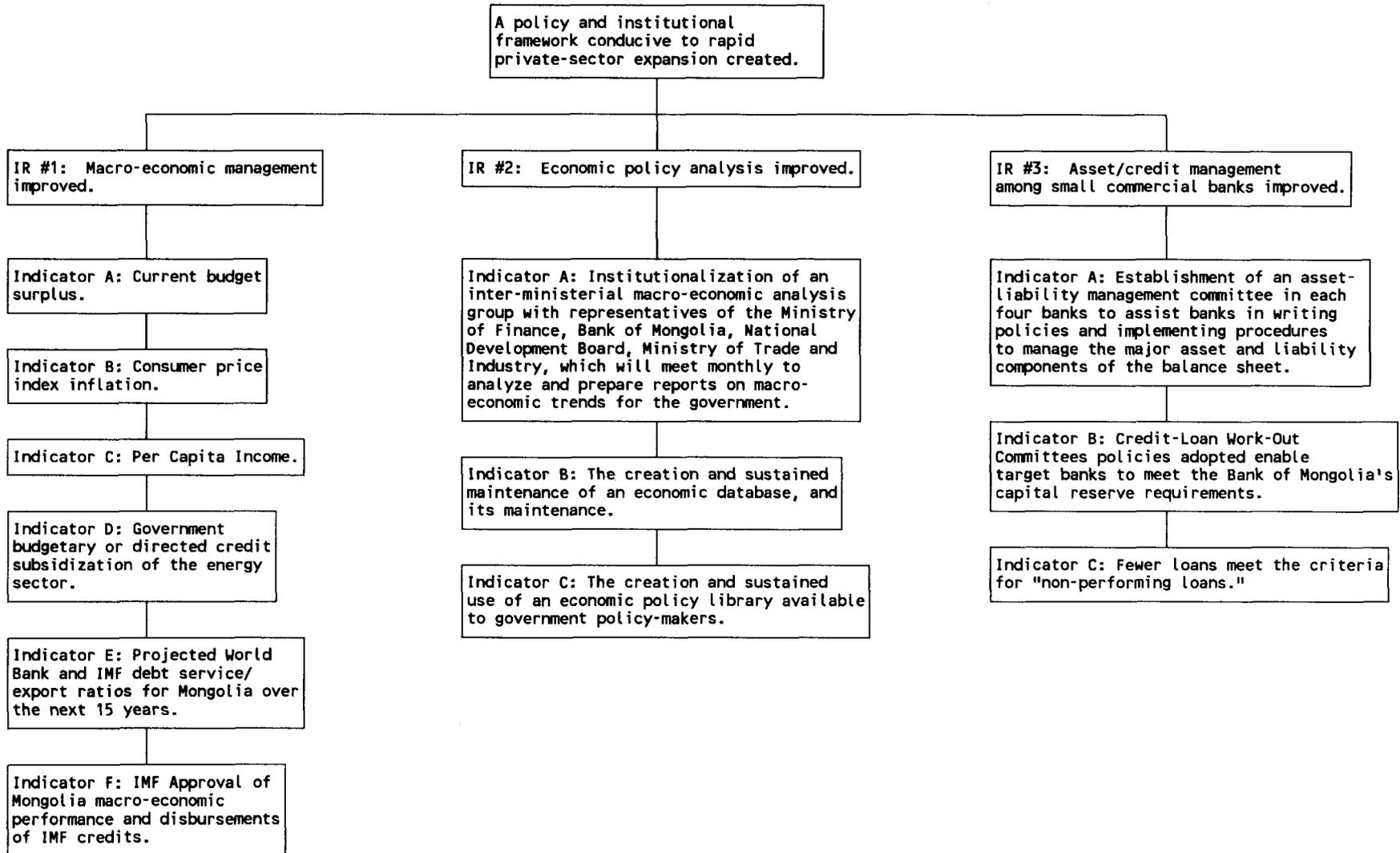
Indicator E: Percentage of Mongolian households served by electricity.

Indicator F: Number of Mongolians provided with power plant operation and management skills training in Mongolia under the MK contract.

Indicator G: Number of Mongolians provided with power plant operations and management skills through training in the United States.

6  
1/20

## Strategic Objective #1:



## Strategic Objective #2

Gains in the transparency, accountability, competency and responsiveness of Mongolia's primary institutions of democracy consolidated.

IR #1: A robust and self-sustaining community of indigenous CINGOs exists.

Indicator A: Change in number of local chapters of key UB-based CINGOs.

Indicator B: Change in membership of Ulaanbaatar-based CINGOs both in Ulaanbaatar and in local aimag chapters.

Indicator C: Change in the number of advocacy, oversight, and/or civic education CINGOs.

Indicator D: Change in level of understanding and importance citizens place on CINGOs.

Indicator E: Establishment of an indigenous development and support center for NGOs.

Indicator F: Passage of a law favorable to the establishment, operations, and growth of NGOs.

IR #2: Independent court and judicial system make and disseminate informed legal rulings.

Indicator A: A regular system for the dissemination of legal information by the judiciary exists.

Indicator B: Court decisions on specific cases are used as precedent for deciding future cases (i.e., establishment of a system of judicial review).

Indicator C: Supreme Court interpretation of laws leads to amendment of those laws by parliament.

Indicator D: Budget for judiciary increases as percent of total government budget.

Indicator E: Enhanced competence of judges in substantive areas of law.

IR #3: Electorate given access and a voice in national and local legislatures

Indicator A: Procedures created to allow voting public easy access to observe parliament in session.

Indicator B: Great Hural members establish constituent offices in their districts.

Indicator C: Great Hural members respond to written citizen inquiries in a timely and substantive manner.

Indicator D: Direct election of local hurals initiated.

Indicator E: Publication and dissemination of Great Hural members' voting records and session transcripts are available.

Indicator F: Electorate recognizes elected officials.

## ANNEX B: BUDGET TABLES

**Table 1:** Given the recent formation of its strategic objective teams, USAID/Mongolia is only in the preliminary stages of gathering SO performance data. Hence, it seemed premature to attempt to provide these data. The Mission fully intends to submit these tables as part of next year's R4 document.

**Table 2:**

### All Resources Table USAID/Mongolia

Objective	FY 1996 <sup>1</sup>	FY 1997 Base <sup>2</sup>	FY 1997 Base-20%	FY 1998 Base-10%	FY 1998 Base-30%
Sustainable Development (DA)	0	0	0	0	0
Economic Support Funds (ESF):					
Sp0 1: Energy	2,900,000	0	0	0	0
Field Support	0	0	0	0	0
SO 1: Economic Growth	700,000	3,150,000	2,560,000	2,835,000	2,205,000
Field Support	0	0	0	0	0
SO 2: Democracy	400,000	850,000	680,000	765,000	595,000
Field Support	0	0	0	0	0
TOTAL	4,000,000	4,000,000	3,200,000	3,600,000	2,800,000
Total Field Support	0	0	0	0	0

<sup>1</sup> The \$4,000,000 figure used here was confirmed at the recent Consultative Group meeting in Tokyo. The Mission feels it is a more appropriate figure to use for planning purposes the suggested 75% of CP level.

<sup>2</sup> The \$4,000,000 figures used for 1997 and 1998 are the minimum required, the Mission believes, to be responsive to the economic and democratic transition currently in progress in Mongolia.

**Table 3:**

**Funding Scenarios by Objective**

Objective	FY 1996 <sup>1</sup>	FY 1997 Base <sup>2</sup>	FY 1997 Base-20%	FY 1998 Base-10%	FY 1998 Base-30%
Sp0 1: Mongolian energy production system reformed. ESF	2,900,000	0	0	0	0
SO 1: Policy and institutional framework conducive to rapid private-sector expansion created. ESF	700,000	3,150,000	2,560,000	2,835,000	2,205,000
SO 2: Gains in the transparency, accountability, competency and responsiveness of Mongolia's primary institutions of democracy consolidated. ESF	400,000	850,000	680,000	765,000	595,000
<b>GRAND TOTAL</b>	<b>4,000,000</b>	<b>4,000,000</b>	<b>3,200,000</b>	<b>3,600,000</b>	<b>2,800,000</b>

<sup>1</sup> The \$4,000,000 figure used here was confirmed at the recent Consultative Group meeting in Tokyo. The Mission feels it is a more appropriate figure to use for planning purposes the suggested 75% of CP level.

<sup>2</sup> The \$4,000,000 figures used for 1997 and 1998 are the minimum required, the Mission believes, to be responsive to the economic and democratic transition currently in progress in Mongolia.

**Table 3.5:**

**Funding Scenarios by Objective and Intermediate Result**

Objective	FY 1996 <sup>1</sup>	FY 1997 Base <sup>2</sup>	FY 1997 Base-20%	FY 1998 Base-10%	FY 1998 Base-30%
Sp0 1: Mongolian energy production system reformed.	2,900,000	0	0	0	0
SO 1: Policy and institutional framework conducive to rapid...					
IR #1 Macro-economic mgmt:	700,000	0	0	550,000	550,000
IR #2 Economic Policy:	0	600,000	300,000	600,000	300,000
IR #3 Banking Reform:	0	550,000	550,000	0	0
Energy Training Activity:	0	1,000,000	750,000	750,000	500,000
Energy TA Activity:	0	1,000,000	910,000	1,000,000	910,000
SO 2: Gains in the transparency, accountability, competency...					
IR #1 Civil Society:	200,000	400,000	400,000	400,000	200,000
IR #2 Independent Courts:	200,000	250,000	250,000	250,000	250,000
IR #3 Legislative Access:	0	200,000	0	0	0
<b>GRAND TOTAL</b>	<b>4,000,000</b>	<b>4,000,000</b>	<b>3,160,000<sup>3</sup></b>	<b>3,550,000<sup>4</sup></b>	<b>2,710,000<sup>5</sup></b>

<sup>1</sup> The \$4,000,000 figure used here was confirmed at the recent Consultative Group meeting in Tokyo. The Mission feels it is a more appropriate figure to use for planning purposes the suggested 75% of CP level.

<sup>2</sup> The \$4,000,000 figures used for 1997 and 1998 are the minimum required, the Mission believes, to be responsive to the economic and democratic transition currently in progress in Mongolia.

<sup>3</sup> The target figure for the 20% cut is \$3,200,000. Thus, this figure slightly exceeds the target.

<sup>4</sup> The target figure for the 10% cut is \$3,600,000. Thus, this figure slightly exceeds the target.

<sup>5</sup> The target figure for the 30% cut is \$2,800,000. Thus, this figure slightly exceeds the target.

**Table 4:** USAID/Mongolia has made use of Global Bureau field support in the past and has been highly satisfied with the results. The Mission is currently considering buy-ins to Global activities under its Economic Growth and Democracy SOs, but no firm decisions have been made at the present time.

**Table 5:**

**Staff Requirements (FY 1996)**

Staff	Sp0 1 Energy	SO 1 Economic Growth	SO 2 Democracy	Other (Admin)	TOTAL
USDH 2.00	.50	.75	.50	.25	
FSN - OE	-	-	-	3.00	3.00
FSN - Prog.	1.00	1.00	1.00	-	3.00
<b>TOTAL</b>	<b>1.25</b>	<b>2.00</b>	<b>1.50</b>	<b>3.25</b>	<b>8.00</b>

**Table 6:**

**Operating Expense Requirements (FY 1996)<sup>1</sup>**

OE/Trust Funded Levels by Major Function Code	FY 1996 TOTAL
U100 USDH	41,200
U200 FSN Direct Hire	0
U300 Contract Personnel	39,600
U400 Housing	35,700
U500 Office Operations	324,000
U600 NXP	81,100
<b>Total Mission-Funded OE</b>	<b>521,600</b>
<b>Amount Trust Funded</b>	<b>0</b>

PD-ABM-592  
141 11 02



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

Date: March 25, 1996

MEMORANDUM

TO : See Distribution  
FROM : Maryanne Hoirup-Bacolod, Mongolia OIC  
SUBJECT: Agency Review of the Mongolia R4

Attached is the Mongolia Results Review and Resource Request (R4). Please review and provide issues by E-Mail to James Fremming in ANE/SEA by **COB Monday, April 8**. It is critical for us to receive your issues by the due date so that we can elicit mission feedback prior to the issues meeting.

The Review Schedule is as follows:

	<u>Date</u>	<u>Place</u>	<u>Time</u>
R4 Issues Meeting	April 16	Rm. 3524	9am-11am
R4 Senior Level Review	April 18	Rm. 3524	2pm-4pm

The focus of R4 reviews is on the mission's progress toward achieving strategic objectives and associated budget implications. In general, the standard R4 review is not a forum to reopen larger strategic decisions which were made during previous Agency wide strategy reviews. The reporting cable (STATE 146289) which records the agreements resulting from the previous Action Plan review is attached.

We request that each office submit an issues paper which collectively represents the office's issues and concerns. Issues should be presented clearly and succinctly in one, (maximum two) sentences. A brief discussion may follow the issue, if necessary, and should not exceed a brief paragraph (or approximately 4 sentences). This should be followed by a recommendation or options; again, no recommendation or option should be longer than a sentence. Long technical descriptions in the issues paper are discouraged.

In addition, we are requesting that the representative for each office be prepared and empowered to discuss and resolve these issues during the course of the meetings. At the conclusion of the DAA-chaired meeting, the desk officer will summarize the decisions made at the meeting and agreement will be asked of the office representatives present.

A reporting cable will be prepared and sent to the mission within 2 weeks of the final meeting. Both internal ANE offices and central Bureaus (M, PPC, G, BHR) will be given 5 days to clear, in writing, any reporting cable to allow the Bureau to respond to the field in a timely manner. A more detailed memo regarding ANE's R4 Submission and Review Procedures can be obtained from ANE/SEA or the geographic office, upon request.

Attachment: **R4 Document**  
**Country Program Action Plan Cable**

APPR: MC ( )

DRAFT: CD ( )

CLEAR: CB ( )

UNCLASSIFIED

CLEAR: JS ( )

CLEAR: LM ( )

AID/ANE/EA:CDOWNEY: CBD/ANE/SEA:CSUGGS:RPT.CAB

CLEAR: SR ( )

05/1/95 202/647-4517

AID/AA/ANE:MCARPENTER

CLEAR: ( )

AA/PPC:CBRADFORD

PPC/PC:JSCHLOTTHAUER

DAA/ANE:LMORSE

M/B/PA:SRYNER

ANE/EA:JGILMORE (DRAFT)

ANE/SEA:DDIJKERMAN

ANE/EMS/RGRAY

STATE/EAP/CM:PNEUREITER

G/PDSP:GSTANDROD

ROUTINE ULAANBAATAR

ROUTINE BANGKOK

AIDAC

E.O. 12356: N/A

TAGS:

SUBJECT: MONGOLIA ACTION PLAN REVIEW REPORTING CABLE

I. SUMMARY. DURING OAR/MONGOLIA'S PROGRAM WEEK, APRIL 17-20, 1995, THE AGENCY REACHED AGREEMENT ON THE FY 1996-98 ACTION PLAN AND PROGRAM PRIORITIES FOR MONGOLIA, SUBJECT TO THE COMMENTS OUTLINED IN SECTION II; AND PENDING COMPLETION OF OUTSTANDING ACTIONS OUTLINED IN SECTION III BELOW. UNTIL FORMAL REDELEGATION OF AUTHORITIES TO IMPLEMENT THE ACTION PLAN UNDER A RE-ENGINEERED AGENCY SYSTEM, THE OAR MUST CONTINUE TO REQUEST AD HOC DELEGATIONS OF AUTHORITY WHEN REQUIRED. WHEN RE-ENGINEERED SYSTEMS ARE IN PLACE, ANE WILL WORK WITH THE OAR TO DEVELOP A FORMAL RE-ENGINEERED MANAGEMENT CONTRACT AS NECESSARY. END SUMMARY.

II. GENERAL AGREEMENTS

IT IS IMPORTANT TO THE U. S. GOVERNMENT THAT MONGOLIA SUCCEED IN ITS TRANSITION TO A DEMOCRATIC GOVERNMENT AND PRIVATE SECTOR ECONOMY. TO THIS END, THE USAID PROGRAM IN MONGOLIA PROVIDES CRITICAL SUPPORT FOR THIS COUNTRY. WHILE THIS IS AN IMPORTANT ESF COUNTRY, IT IS POSSIBLE

UNCLASSIFIED

THAT SHORTFALLS IN ESF FUNDING MAY COMPROMISE ATTAINMENT OF FRAMEWORK OBJECTIVES OUTLINED BELOW, GIVEN QUESTIONABLE AVAILABILITY OF ALTERNATIVE FINANCING.

A. STRATEGIC FRAMEWORK AND RESULTS MANAGEMENT

1. CONTINGENT UPON FUNDING LEVELS, THE OAR/MONGOLIA WILL IMPLEMENT THE FOLLOWING STRATEGIC FRAMEWORK.

1A. SO1. GREATER CONTRIBUTION OF PRIVATE SECTOR TO ECONOMIC GROWTH.

1A1. PO1.1 IMPROVED ECONOMIC POLICIES AND POLICY ANALYSIS.

1A2. PO1.2 SELECTED BARRIERS TO SME DEVELOPMENT REMOVED.

1A3. PO1.3 EFFECTIVE COMMERCIAL BANKING SECTOR ESTABLISHED.

1B. SO2. MORE RESPONSIVE SELECTED DEMOCRATIC INSTITUTIONS AND PROCESSES.

1B1. PO2.1 TO STRENGTHEN THE MULTI-PARTY ELECTORAL SYSTEM.

1B2. PO2.2 TO INCREASE THE INDEPENDENCE AND EFFECTIVENESS OF CIVIL SOCIETY.

1B3. PO2.3 TO INCREASE THE INDEPENDENCE AND EFFECTIVENESS OF THE JUDICIARY.

1C. SO3 MORE RESPONSIVE UTILITY SYSTEM.

1C1. PO3.1 IMPROVED ENERGY POLICY.

1C2. PO3.2 IMPROVED ENERGY MANAGEMENT.

1D. TO1 EMERGENCY ENERGY SUPPORT.

1.1 TECHNICAL ASSISTANCE

1.2 COMMODITIES

2. INDICATORS AND TARGETS IN THE MANAGING FOR RESULTS (MFR) FRAMEWORK WILL BE COMPLETED, IN COLLABORATION WITH USAID/W, AND SUBMITTED TO USAID/W BY AUGUST 1995.

3. IN RESPONSE TO QUESTIONS ABOUT PROGRAMMING UNDER REDUCED BUDGET SCENARIOS, THE OAR/MONGOLIA PROPOSED THE FOLLOWING SHORTFALL CONTINGENCIES.

3A. AT \$10 MILLION ESF AND \$.8 MILLION DA, IMPLEMENT FRAMEWORK AS OUTLINED ABOVE, INCLUDING ECONOMIC GROWTH, DEMOCRACY, UTILITY SYSTEM AND ENERGY EMERGENCY ACTIVITIES.

3B. AT \$5 MILLION ESF AND \$0.8 MILLION DA, IMPLEMENT ECONOMIC GROWTH, DEMOCRACY AND ENERGY EMERGENCY ACTIVITIES--BUT NOT UTILITY SYSTEM SUPPORT.

3C. AT \$2 MILLION ESF AND \$0.8 MILLION DA, IMPLEMENT, ECONOMIC GROWTH AND DEMOCRACY--BUT NO ENERGY--ACTIVITIES. OR, AS AN ALTERNATIVE, IMPLEMENT DEMOCRACY AND ENERGY EMERGENCY--BUT NO ECONOMIC GROWTH AND UTILITY SYSTEM ACTIVITIES.

3D. THE AGENCY'S PREFERENCE FOR PROGRAMMING AT THE \$2.8 MILLION LEVEL IS ECONOMIC GROWTH AND DEMOCRACY BUT NO ENERGY ACTIVITIES. OAR/MONGOLIA'S SPECIFIC PROPOSAL FOR BUDGET ALLOCATIONS SHORT OF THE \$10.8 MILLION REQUESTED (FOR FY 1996) WILL BE PRESENTED TO USAID/WASHINGTON FOR APPROVAL DURING BUDGET REVIEWS IN JUNE 1995.

#### C. TACTICS

##### 1. ECONOMIC POLICY SUPPORT PROJECT (EPSP) AND DEMOCRACY ACTIVITIES.

THERE WAS CONCERN THAT THE SCOPE OF THE EPSP PROJECT WAS NOT BROAD ENOUGH TO SERVE AS A FUNDING MECHANISM FOR DEMOCRACY ACTIVITIES. THERE WAS ALSO CONCERN THAT IMPLEMENTING A NEW DEMOCRACY PROJECT WOULD INCREASE THE OAR'S MANAGEMENT BURDENS. IT WAS AGREED THAT A NEW DEMOCRACY PROJECT WOULD NOT BE DEVELOPED AND DEMOCRACY ACTIVITIES COULD BE FUNDED THROUGH BUY-INS TO GLOBAL PROJECTS, OR, IF NECESSARY, THE EPSP COULD BE AMENDED. HOWEVER, UNDER RE-ENGINEERING, FUNDING WILL BE BASED ON STRATEGIC OBJECTIVES, NOT ON PROJECTS, SO THE CONCERN WILL NO LONGER BE RELEVANT ONCE THESE NEW PROGRAMMING APPROACHES ARE APPROVED.

##### 2. CURRENT ENERGY SECTOR PROJECT.

COMPLETING THE U.S. GOVERNMENT'S \$35 MILLION COMMITMENT TO THE ENERGY SECTOR PROJECT IS A HIGH PRIORITY FOR FY 96 FUNDS. THE USAID REPRESENTATIVE WILL PREPARE A PROPOSAL OUTLINING THE MOST EFFICIENT APPROACH TO BRINGING CLOSURE

TO THE CURRENT ENERGY PROJECT, USING \$3 MILLION IN EMERGENCY ENERGY FUNDING. THIS PROPOSAL WILL:

(A) ASSESS THE SITUATION IN MONGOLIA WITH REGARD TO COMMODITY PROCUREMENT VERSUS TECHNICAL ASSISTANCE IN LIGHT OF THE SIGNIFICANT ISSUES AROUND THE HIGH COST OF COMMODITY PROCUREMENT, AND WHETHER TECHNICAL ASSESSMENTS AND TRAINING IN PLANT AND SYSTEMS MANAGEMENT ARE MORE APPROPRIATE.

(B) RECOMMEND THE MOST COST-EFFECTIVE WAY TO MANAGE THE PROCUREMENT PROCESS IF COMMODITY PROCUREMENT IS PROPOSED AS THE BEST OPTION.

(C) RECOMMEND HOW COORDINATION AMONG DONORS CAN BE IMPROVED TO FACILITATE BETTER CONTINGENCY PLANNING AND COLLABORATION IN THE ENERGY SECTOR.

## B. RESOURCE MIX

### 1. FUNDING.

IT IS POSSIBLE THAT FUNDING SHORTFALLS MAY COMPROMISE ATTAINMENT OF THE FRAMEWORK IN SECTION II, PARA. A, ABOVE. IF ESF RESOURCES ARE CUT, OBTAINING ALTERNATE FINANCING FOR THE PROGRAM WILL BE DIFFICULT GIVEN USAID'S RIGOROUS POLICY ON ALLOCATION OF DISCRETIONARY DA RESOURCES BASED ON PERFORMANCE AND GLOBAL IMPACT, AND QUESTIONS ABOUT THE USE OF FREEDOM SUPPORT ACT (FSA) FUNDS FOR MONGOLIA.

(NOTE: WHILE LEGISLATIVE LANGUAGE DESIGNATES MONGOLIA AMONG THE COUNTRIES ELIGIBLE TO RECEIVE FSA FUNDS, FSA FUNDS CAN NOT BE USED FOR MONGOLIA WITHOUT A CHANGE IN USAID POLICY RELATED TO THE USE OF THESE FUNDS.)

### 2. STAFF

THE SECOND STAFF POSITION IN THE OAR WAS ESTABLISHED TO MANAGE THE ECONOMIC POLICY SUPPORT PROJECT (EPSP). TIMELY PLACEMENT OF PERSONNEL FOR THIS POSITION IS CRITICAL TO ENSURE EFFECTIVE IMPLEMENTATION OF THE STRATEGIC FRAMEWORK OUTLINED ABOVE, AND ADEQUATE MANAGEMENT OVERSIGHT OF THE MONGOLIA PROGRAM.

### 3. RSM SUPPORT.

SUPPLEMENTAL INFORMATION PROVIDED BY THE RSM ON ITS PLAN FOR SUPPORT TO THE OAR/MONGOLIA WILL BE ADDED TO THE MONGOLIA ACTION PLAN. THIS INFORMATION INDICATES THAT RSM STAFF AND PROJECT RESOURCES WILL SUPPORT THE OAR/MONGOLIA

PROGRAM. HOWEVER, DETAILS ON THE LEVELS OF EFFORT TO BE PROVIDED WERE NOT PROVIDED. RSM WAS ASKED TO PROVIDE THIS INFORMATION DURING THE UPCOMING REVIEW OF ITS STRATEGY AND ACTION PLAN.

#### 4. GLOBAL BUREAU SUPPORT.

A MOU WITH GLOBAL'S DEMOCRACY CENTER FOR PROGRAMMING \$75,000 IN FY 95 HAS BEEN DRAFTED. OAR/MONGOLIA WILL EXPLORE ADDITIONAL WAYS TO UTILIZE GLOBAL SUPPORT IN THE DEMOCRACY, ECONOMIC GROWTH AND ENERGY SECTORS.

#### D. DONOR COORDINATION.

CONCERN WAS EXPRESSED THAT THE OTHER DONORS WERE NOT RESPONDING AS QUICKLY AS EXPECTED TO THE NEEDS IN THE ENERGY SECTOR. THIS PUTS ADDITIONAL PRESSURE ON USAID TO SHORE UP THE SECTOR UNTIL OTHER SUPPORT IS IN PLACE. FUNDING FROM BOTH THE ASIA DEVELOPMENT BANK (ADB) AND THE JAPANESE HAS BEEN CONSIDERABLY DELAYED. IT WAS NOTED THAT BOTH THE WORLD BANK AND THE ADB WERE DEVELOPING LONG-TERM PLANS FOR THE ENERGY SECTOR, BUT THE STATUS AND CONTENT OF THE PLANS WERE NOT KNOWN TO USAID. IT WAS AGREED THAT GREATER SPECIFICITY ABOUT THE TRANSITION FROM USAID TO OTHER DONOR SUPPORT IN THE ENERGY SECTOR IS REQUIRED. ALSO, MORE DONOR COORDINATION AND CONTINGENCY PLANNING SHOULD BE TAKING PLACE, PARTICULARLY SINCE THE NEXT CONSULTATIVE GROUP MEETING FOR MONGOLIA WILL NOT TAKE PLACE UNTIL THE SPRING OF 1996.

THE USAID REPRESENTATIVE AGREED TO INCLUDE THE ISSUE OF DONOR COORDINATION IN HIS PROPOSAL TO USAID ON THE ENERGY SECTOR. HE WILL OUTLINE THE CURRENT STATUS OF OTHER DONOR ACTIVITY, AS WELL AS HIS SUGGESTIONS FOR IMPROVED DONOR COORDINATION. IN ADDITION, G/ENV/ENG WILL PROVIDE AN UPDATE ON THE STATUS OF THE WORLD BANK'S AND ADB'S PLANS FOR MONGOLIA'S ENERGY SECTOR.

#### E. PIPELINE ANALYSIS.

A PIPELINE ANALYSIS WAS PREPARED AND ADDED TO THE ACTION PLAN. IT WAS PRESENTED AT THE ACTION PLAN REVIEW MEETING. IT WAS NOTED THAT THE PIPELINE, THOUGH WITHIN ACCEPTABLE AGENCY GUIDELINES, MAY NOT HAVE ADEQUATE FUNDS TO MEET USAID'S STRATEGIC OBJECTIVES FOR MONGOLIA IF FUNDING LEVELS ARE GREATLY REDUCED.

#### III. OUTSTANDING ACTIONS.

IN SUMMARY, THE FOLLOWING ACTIONS ARE TO BE TAKEN:

(A) BY AUGUST 1995, OAR/MONGOLIA WILL SUBMIT ITS COMPLETED PERFORMANCE MONITORING PLAN (INCLUDING REFINED INDICATORS AND TARGETS).

(B) THE GLOBAL DEMOCRACY CENTER, IN CONJUNCTION WITH ANE/SEA, WILL UNDERTAKE A RAPID DEMOCRACY ASSESSMENT (ONE PERSON FOR 2-3 WEEKS) IN JULY 1995 TO ASSIST THE USAID REPRESENTATIVE IN REFINING THE PROGRAM OBJECTIVES UNDER STRATEGIC OBJECTIVE 2--MORE RESPONSIVE SELECTED DEMOCRATIC INSTITUTIONS AND PROCESSES--AND THE RELEVANT INDICATORS AND TARGETS.

(C) THE USAID REPRESENTATIVE WILL SUBMIT TO USAID/WASHINGTON IN ONE MONTH (BY JUNE 1, 1995) A REPORT WHICH WILL OUTLINE HIS PLAN FOR ONGOING ENERGY SECTOR ACTIVITIES AND DONOR COORDINATION RELATIVE TO THE ENERGY SECTOR.

(D) G/ENV/ENG WILL PREPARE AN UPDATE FOR THE ANE BUREAU AND THE OAR ON DONOR COORDINATION ISSUES -- SPECIFICALLY, THE CURRENT STATUS OF THE WORLD BANK'S ENERGY SECTOR STUDY AND THE ASIAN DEVELOPMENT BANK'S LEAST-COST EXPANSION MODEL. THIS REPORT WILL BE FORWARDED TO THE OAR BY MAY 15, 1995.

(E) THE MISSION WILL CONTINUE TO WORK WITH AND RECEIVE SUPPORT FROM THE GLOBAL DEMOCRACY, ENVIRONMENT (ENERGY) AND ECONOMIC GROWTH CENTERS. DIALOGUE WITH EXPERTS IN THE THREE SECTORS IS PARTICULARLY VITAL TO THE MONGOLIA PROGRAM. OAR/MONGOLIA WILL EXPLORE THE FURTHER USE OF GLOBAL PROJECTS TO CARRY OUT ITS STRATEGIC OBJECTIVES AND DEVELOP MOU'S AS APPROPRIATE. YY