

## Donors Endorse Mongolia's New Framework for Poverty Reduction and Pledge US\$335 Million for the Coming Year

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### **1. Brief overview**

The 10<sup>th</sup> Consultative Group (CG) Meeting for Mongolia was held on November 19-21, 2003 in Tokyo. Donors from 16 countries and 14 international organizations, as well as representatives of the private sector and civil society, met with Mongolian ministers and officials to review progress on the economy over the past year, to discuss critical issues facing the government in the coming year, as well as to improve implementation and enhance partnerships in order to achieve better results. Initiated by the Japanese government, these meetings began to be held in 1991 and Japan has hosted seven of the ten meetings that have taken place so far. It was decided that further meetings will be held in Mongolia, with the next meeting due to take place in Ulaanbaatar in November 2004. Donors pledged a total of US\$335 million to support Mongolia's development efforts in the coming year.

The meeting began with informal discussions on donor coordination and aid effectiveness over the past decade, with progress being made on key thematic discussions concerning the Millennium Development Goals (MDGs), governance, and urbanization. The two days of formal sessions were opened by the co-chairs, H.E. Ch. Ulaan, Mongolian Minister of Finance and Economy, Mr. Ian Porter, World Bank Country Director, and Mr. Masatoshi Abe, Senior Vice-Minister for Foreign Affairs, representing the hosts.

Mongolian Prime Minister Mr. N. Enkhbayar gave a closing address to the CG meeting, thanking the donor community for its generous support for the developmental efforts of Mongolia since the early 1990s and reconfirming his government's commitment to continuing its agenda for private sector-led growth and sustainable development. He also emphasized the need to shift from managing transition to managing sustainable development.

### **2. The Shift from Managing Transition to Managing Longer-Term Development**

At the meeting, the government of Mongolia presented its Economic Growth Support and Poverty Reduction Strategy (EGSPRS) - the government's own vision for growth, poverty reduction, and the achievement of the MDGs that will guide both its own programs and donor support. Delegates stressed that the government and donors must focus on translating the EGSPRS into specific sectoral and cross-sectoral implementation plans to boost economic growth and reduce poverty and rising inequality. Donors commended Mongolia's progress on stabilizing the economy and achieving continued improvements in economic growth; GDP growth in 2003 is projected to reach 5.3%.

Mr. Ch. Ulaan emphasized that the key challenge now for Mongolia is the implementation of the EGSPRS in order to support the shift of focus from managing the

transition to managing longer-term development. This longer-term development strategy will focus on ecologically and economically sustainable growth in agriculture, mining, industries involved in the processing of raw materials of agricultural origin, tourism and other services. The EGSPRS will form the platform for the medium-term strategy for Mongolia and it is vital to enhance not only the government's efforts to reduce poverty, but also the roles of NGOs and the private sector, which have begun to take the lead in the country's economic development process.

Delegates welcomed ongoing reforms in the public sector and encouraged the government to deepen public sector reforms and stressed the need for greater private sector-led investment and job creation in order to promote continuous economic growth. The importance of continued improvement in the investment and business environments for the private sector, ensuring fairness, transparency, and an appropriate regulatory framework, as well as continued attention to good governance was emphasized, along with the necessity of raising public sector productivity and efficiency, rationalizing the size of government, and improving transparency and accountability in the implementation of budgets. Other key issues include the development of a sound public investment program linked to the budgetary process that will prioritize investment, and achieving a more optimal mix of investment in key infrastructure and service delivery systems.

Delegates commended the government for its progress in judicial reform and encouraged it to build upon this, noting the importance of greater transparency, participation in and the dissemination of information to civil society, strengthened public complaint mechanisms, and the effective combating of corruption. Poor collaboration with civil society with regard to government policies, programs and interventions were condemned at the meeting, in the statement made by the representative of Mongolian civil society.

The government and donors emphasized the importance of rural development and service provision in order to reduce poverty and achieve the MDGs, and emphasized the necessity of addressing the needs of the most vulnerable groups, especially children in difficult circumstances. The UNDP's Mr. Hafiz Pasha, Assistant Secretary General and Regional Director for Asia Pacific, expressed his concern over the government's plan to privatize social services and underlined the need for the government to take on greater responsibility by setting and overseeing national standards to guarantee access by vulnerable citizens to quality health and education services. Furthermore, he highlighted the fact that many laws regulating the use of economic resources and services, which were adopted during the course of economic reform programs, hardly give any consideration to access by vulnerable groups to productive resources. In order to prevent further marginalization of these groups, which currently account for over a third of the population, it is important to ensure that they have access to productive assets, including information. Prior to the Constitution adopted in 1992, there were around 30 laws in Mongolia, mostly regulating administrative, family or criminal

matters, but now there are 264 laws regulating all aspects of life in Mongolian society.

Delegates also agreed that attention needs to be paid to the challenges of rapid urbanization and urban poverty. Donors commended the government's efforts in this area, including the fruitful dialogue during the June 2003 Ulaanbaatar City Development Conference. Internal migration from rural to urban areas, especially to Ulaanbaatar, has increased over the past 2-3 years due to livestock losses arising from consecutive dzuds in recent years and the lack of employment opportunities in rural remote areas; if this trend continues, half of the population will live in Ulaanbaatar by 2015. The majority of migrants is aged between 15 and 40 and represents a significant share of the urban unemployed. A representative of the ADB emphasized that the challenge for the government is to adjust the allocation of scarce resources in response to these population shifts. This migration may be viewed as an opportunity driven by market forces rather than a problem, with new residents driving economic growth in urban areas.

### 3. Coordinating Aid and Making it More Effective

Implementing the EGSPRS effectively will require more efficacious use of both domestic and external resources. As Mr. Hafiz Pasha (UNDP) noted, the EGSPRS allows all partners to make a start on making policy more coherent, even though it is not fully geared towards effective poverty reduction and the implementation costs of the EGSPRS and MDGs have yet to be estimated.

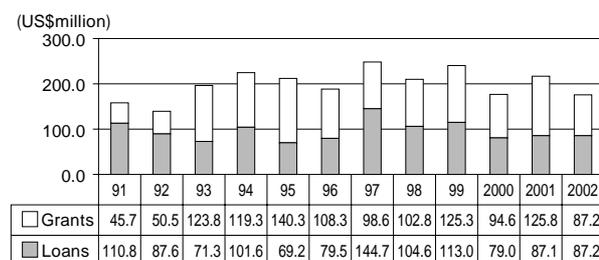
Mr. Motohide Yoshikawa, Deputy Director-General of the Economic Cooperation Bureau, Ministry of Foreign Affairs briefly outlined the ODA Japan has provided to Mongolia in the past and its role in the country's economic development since 1991. Mr. Yoshikawa said that Japan provided roughly 70% of major bilateral ODA and 43% of total ODA to Mongolia during the last decade, explaining that Japan's assistance was initially extended as a response to emerging needs faced by Mongolia in its political and economic transition period, while later assistance shifted its focus to medium- and long-term development needs, such as developing infrastructure in the energy, transport and telecommunications sectors, as well as funding human development. Furthermore, he stated that Japan has recently revised its ODA Charter to call for more effective and efficient implementation of its development assistance. Consequently, in consultation with the Mongolian government and other stakeholders, Japan is currently formulating a 5-year Country Assistance Plan for Mongolia, which is due to start in 2004. Mr. Yoshikawa also commended the plan for its timeliness and compatibility with the recently compiled EGSPRS.

During the CG meeting, the Ministry of Finance and Economy of Mongolia presented a report entitled "ODA Contributions and their Effectiveness for Mongolia". Mongolia began to receive ODA in 1991 and had received a cumulative total of US\$2.4 billion by the end of 2002; of this, grants accounted for 51.8% (Figure 1). In addition, US\$119.5 million was provided in the form of commercial loans.

In the report, the effectiveness of ODA was evaluated according to the 3 stages of economic development that

have been experienced since the country began its transition to a market economy. These are: (i) overcoming economic crisis: 1991-1993; (ii) establishing the basis for further economic growth: 1994-1999; and (iii) improving the economic structure and reducing poverty: 2000 onwards. It concludes that the ODA received by the Mongolian government was both necessary and generally effective. The report states that "Development assistance provided by the donor community has become "a germinating seed" for overcoming the economic crisis and the transition to a market based economy, and has thus played an important role as the basis for accelerating the transition process and establishing sound foundations for further development".

Figure 1. ODA Disbursements to Mongolia 1991-2002



Source: Ministry of Finance and Economy of Mongolia "Effectiveness and Contributions of Official Development Assistance for Mongolia" prepared for the Mongolia CG Meeting 19-21 November 2003, Tokyo.

Donor representatives also made statements regarding the effectiveness of aid to Mongolia based on their own evaluations, with mixed results. The ADB's Country Assistance Program Evaluation (CAPE) was carried out to evaluate the bank's activities in Mongolia in the past decade and examine the appropriateness of the projects and programs based on a sound strategy and timely sector analyses. According to the CAPE, ADB assistance to Mongolia lacked a guiding strategy in the early years and the focus was placed on urgent infrastructure rehabilitation. Although a multi-year strategy was formulated in the later stages, there was a clear gap between project design and analysis, as well as thematic and economic studies. Furthermore, it noted the existence of a problem with regard to donor coordination. This year, JICA, USAID and GTZ have all rolled out new strategies for their development assistance to Mongolia; the World Bank and ADB are going to do the same in the coming 6 to 8 months. "How well we coordinate our future work will be a major determinant of our effectiveness, I believe," said the ADB representative.

The UNDP representative emphasized that, "...loans without growth will ultimately lead to a credit squeeze, and potentially a debt crisis" and stressed the urgent need to avoid overlapping and conflicting donor-supported programs that are wasteful and place a heavy burden on the public sector, resulting in high transaction costs upon implementation.

Donors agreed that, although both bilateral and multilateral aid during the transition years in Mongolia has had a positive impact on the economy, the impact on longer-term poverty reduction and sustainable growth has

not lived up to expectations. This was due in part to the lack of proper aid coordination between the government and donors, as well as the government's limited capacity to utilize assistance effectively. Donors welcomed the government's decision to establish a working group to follow-up these issues.