

Chapter 4: DEVELOPMENT PROGRAMS IN MONGOLIA

A. Overview

249. This Chapter reviews the external assistance provided to Mongolia by the ADB, other IFIs, and bilateral donors from 1991–2002. In the first half of this period, during the initial transition to a market economy, considerable attention was given to emergency relief, fundamental policy change, and physical rehabilitation. During the second half, programs addressed the consequences of transition, including the change in the role of government institutions, the promotion of privatization and corporatization, the restructuring of remaining state-owned entities to attract private investment, and the regulation of business and the economy. The focus moved toward promotion of private sector capital and management to help diminish dependency of the economy on external loans and investment.¹⁶⁶ This assessment aims to assist in the development of a broad strategy for the next phase of ADB assistance.

250. ADB is the single largest multilateral donor in Mongolia and is followed by World Bank and a number of other multilateral institutions (EU, UN and EBRD). Japan is the largest bilateral donor providing loans and grant assistance. USAID ranks second in terms of development assistance followed by the German Government and other bilateral agencies. NGOs (e.g., the Soros Foundation) also provide development assistance (Appendix 10).

B. ADB Program

251. ADB has been a major lender to Mongolia over the 1991–December 2003 period. During this time, 34 loans¹⁶⁷ worth \$568.7 million were approved for 28 projects in agriculture, infrastructure (transport, energy, telecommunications), finance, education, and health, of which \$388 million was disbursed (Appendix 6). Additionally, TA grants of \$54.4 million were approved (Appendix 7). The Country Assistance Program is judged to have contributed significantly to transition, which was the primary goal of the first two Country Operational Strategies. Assistance helped prepare public infrastructure companies for privatization through their early restructuring and included significant private sector components. With respect to PSD, however, the strategy was imprecise.¹⁶⁸ With the possible exception of the Governance Reform Program and the early TAs in the fields of legal, taxation, and public administration reform, the ADB has not directly addressed business environment issues that constrain PSD. Moreover, the benefit of much early training and capacity building may have been lost due to public-sector staff turnover.

¹⁶⁶ This is especially crucial given the fact that the external debt currently stands at 88% of GDP although an anticipated higher growth rate in 2003 should improve the external debt–GDP ratio.

¹⁶⁷ All were financed from the Asian Development Fund, ADB's concessional lending window.

¹⁶⁸ The 1991 interim strategy, undertaken in a period of political and economic turmoil, envisaged that ADB should “address outdated technology, poor maintenance of equipment and shortages of skilled manpower” and that “the potential for assisting small and medium industries should be reflected in the ADB strategy.” This plan probably was ambitious given the reorientation required in economic policy and management and was never really activated. The 2000 Country Operational Strategy placed emphasis on removing barriers to private sector growth, generating large-scale employment by combining microcredit with labor market-related training, and promoting agro-processing. The strategy emphasized activities within the commercial or company level framework, rather than in the business environment.

C. Other Donor Programs

252. PSD has been the focus of many internationally financed initiatives once the immediate macroeconomic policy and emergency assistance projects began to be phased out in the mid-1990s. There does not seem to have been an overall strategy guiding this assistance although discussions during planning stages may well have resulted in a degree of collaboration and avoidance of excessive duplication. No review of donor experiences or of benefit monitoring and evaluation reports in the PSD field in Mongolia seems to exist, and the overall effect of this level of disbursement is unknown (Box 8).

253. Thematically, there has been a significant emphasis on assistance to SMEs through training, technological and managerial advice, promotion, and credit lines (JICA, GTZ, UNDP, EU TACIS, EBRD) (Appendix 11). Significant recent work in supporting the later stages of the privatization program and in preparing state-owned infrastructure companies for private sector involvement (USAID, World Bank, EBRD), reform and development of the agricultural sector (World Bank, EU TACIS, GTZ, UNDP, USAID), development of the tourism sector (USAID, UNDP, EU TACIS), reform and development of the financial sector (World Bank, USAID), reform and development of the education sector (World Bank, GTZ, Japan, NDF, Soros Foundation), and reform and development of the health sector (World Bank) has been accomplished.

254. Relatively little work has been done, however, in addressing the business environment and the public-private interface, whence many of the constraints to PSD arise. The major initiative in this area is the USAID-financed Economic Policy Reform and Competitiveness Project; with the notable exception of its management contract to restructure the Agricultural Bank of Mongolia, this project has relied on an advisory rather than on an executive framework. The executive framework, wherein the management of a bank was turned over to a contractor, brought tangible results, namely, the complete revitalization of a national banking franchise, which had a positive effect on the national economy. With respect to weak implementation of the rule of law generally, several donors are involved in this area (World Bank, USAID, GTZ) and a number are addressing issues related to tax policy and administration (World Bank, IMF, USAID, JICA).

255. Major private sector projects underway include the EU TACIS Integrated Crop and Livestock Production Project. USAID finances the Gobi Regional Economic Growth Initiative, the Privatization Program, the Economic Policy Reform and Competitiveness Project (successor to the Economic Policy Support Project), and the Competitiveness Initiative. World Bank continues to finance the PSD Credit and a number of initiatives in the infrastructure sector to prepare for private sector involvement, and UNDP with EBRD is supporting the ICT sector. JICA continues its Training Program on Strategic Business Management while GTZ continues its 8-year program to support SME development. EBRD is financing a Turn-Around Management project in a number of medium to large companies and is financing studies that are expected to be followed by management contracts in large SOEs such as MIAT (already underway) and Erdenet. Working with a number of small private enterprises, GTZ is administering an enterprise-restructuring project that was administered initially by UNDP and funded by the Dutch government.

D. The Need for Donor Coordination and Cooperation

Box 8: Private Sector Development: Lessons Learned to Date

World Bank has carried out extensive research into the success of various strategies to promote private sector development in transitional and developing economies. Principal findings are that assistance has been too focused on specific project interventions and that efforts to stimulate the investment climate have been undervalued or diverted by country programming concerns and weak execution. Where assistance to develop the investment climate was delivered effectively, results were very positive.

Privatization was broadly positive throughout the 1990s although postprivatization restructuring sometimes was hampered by soft credit conditions, and concentrations of shareholding often led to corporate governance concerns.

Direct support to firms did not succeed when the investment climate was poor, and credit lines operating in weak financial sectors or based on subsidised interest rates did not have a sustainable impact. Advisory services were of mixed quality and often reached only a small numbers of large firms, so that emphasis has now moved to the support of demand-responsive and market-based delivery systems for SMEs.

Infrastructure. Private sector involvement here has been more problematic, as governments often were unwilling to allow tariffs to rise to cover all costs, including those of capital and risk. Commercialization before privatization is recommended, but sound contracts, regulation, and operator capacity also are essential. Where successful, however, improved efficiency has been highly sustainable.

Social sectors. Evidence here is less clear-cut. Whereas institutional and management strengthening obviously are key, experience suggests that staff development sometimes is neglected. Donor assistance has neglected the financing aspects, and initiatives to mobilize social-sector finance are needed.

Source: Private Sector Development Strategy—Directions for World Bank Group, 2002.

E. Future Development Priorities

256. The Comprehensive Development Framework, drafted by the Government and the donor community, coordinates activities within a broad structure that presents priorities and records actions taken in specific sectors or on specific themes (Appendix 12). There has been a concerted attempt to move forward simultaneously on a number of fronts comprising structural reform (governance, justice, finance), human development (social sectors, human rights), physical infrastructure, and sector- or otherwise-specific themes. In the Comprehensive Development Framework, PSD comprises one of the last items listed.

257. Within the private sector category, key themes are those of promoting growth of export-oriented industries; identifying and decreasing red tape that unnecessarily impedes sector activities; improving corporate governance; privatizing the most valuable enterprises; developing the urban land market; and attracting foreign investment.

258. The Economic Growth and Poverty Reduction Strategy presents key policy directions of the Government for the medium term. Economic growth rate targeted at 5.5% per annum will be achieved through economic restructuring that will entail reforming the public sector, improving public expenditure management, and rationalizing social safety nets with the end in view of improving public-services delivery. The Government will implement policies aimed at accelerating private-sector-led economic growth through macroeconomic stabilization, low and stable inflation, development of competition, and appropriate monetary, credit, and tax policies to raise the living standards of the population.¹⁶⁹

¹⁶⁹ Government of Mongolia. 2003. *Economic Growth Support and Poverty Reduction Strategy*. Ulaanbaatar.