

Mongolia - European Community

Multiannual Indicative Programme

2007 - 2010

Country/Sub-Region: **Mongolia**

Budget Years: **2007-2010**

Legal Base: **DCI - Development Co-operation Instrument**

Cost of Order: **€14 million**

Programming Service: **DG Relex H 2**

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SUMMARY

The primary goal of the Strategy Paper 2007-2013 is to support poverty alleviation in Mongolia through sustainable rural development. This builds on the satisfactory results of the previous Country Strategy 2002-2006, which also focused on this sector. Additionally, external evaluations of the outgoing strategy concluded that continued engagement in the rural development sector should be envisaged.

The EC will therefore focus on helping to meet the pressing need to improve living conditions, create sustainable employment and promote decent work in the Mongolian countryside and to slow down the rural exodus to a few cities, in particular Ulaanbaatar. Human resource development is part of this strategy, since Mongolia has a young population that needs improved education and vocational training. Ways of increasing trade and economic cooperation should also be examined.

This Multiannual Indicative Programme, rooted in the orientations of the new Strategy Paper 2007-2013, covers the period 2007-2010. Within the broad area of rural development, the preferred approach is to work in collaboration with other key development partners in the sector. A stand-alone project managed by Commission services cannot be ruled out, as circumstances might evolve over the coming years. Furthermore, around 20% of the overall indicative budget for Mongolia is reserved for other complementary actions, particularly in the fields of education and vocational training or trade and economic cooperation. These will be identified at a later stage, depending on new developments as well as available human and financial resources. In view of the evolving situation both in Mongolia and in the EU, flexibility is needed in order to be able to reallocate funds to alternative actions within the framework of the Strategy Paper.

1. INDICATIVE BUDGET

The financial allocation for the 2007-2010 period is at least €14 million.

	<u>Planned*</u>
Alleviating Rural Poverty	80%
Other actions	20%
Thematic or Regional Programmes	5 million (estimate**)

* Indicative percentages

** This does not represent any budget allocation. Mongolia's effective share in Thematic and Regional Programmes will depend on the allocation mechanisms of each programme - these usually require that eligible proposals from different countries compete for limited funds. The estimate is based on Mongolia's past track record with comparable EC programmes - the final outcome might be significantly higher or lower.

2. FOCUS ON ALLEVIATING RURAL POVERTY

2.1. Strategy Context

Mongolia is a sparsely populated, land-locked, developing country with 2.7 million inhabitants. The transition from central planning to a market economy and democracy since 1990 has been accompanied by a significant exodus from rural areas. Half of Mongolia's population lives in rural areas, but the harshness of traditional rural life makes more and more people move to the few cities.

Agricultural production still accounts for some 20% of GDP and is dominated by nomadic herding. The sector is frequently affected by natural disasters, such as extremely severe winters (*dzuds*) and droughts. These cause major damage to agricultural production and have a serious impact on the well-being of the rural population. Mongolia has experienced several years of consecutive *dzuds*, whereas such disasters only used to occur every 50 years before. Thousands of families lost all their animals and moved to the cities in search of new livelihoods. The 'ger' areas of Ulaanbaatar (informal settlements in the suburbs mostly made up of traditional tents) have grown significantly, creating numerous social problems and pushing the city's infrastructure to its limits. Deprived of their animals as their main source of food, transport, heating material and money, former herder families often slide into extreme poverty. Those who stay in the

countryside are not necessarily better off and many struggle to survive with small herds and poor access to public services.

Poverty and inequality are thus serious problems in urban and rural areas. The rural poor are particularly vulnerable to major risks such as natural disasters, loss of employment and rising costs for healthcare and education. The intention of this Multiannual Indicative Programme is to support the efforts of the Mongolian Government towards poverty alleviation in rural areas, as expressed inter alia in the 2003 Economic Growth and Poverty Reduction Strategy and the 2004 Government Action Plan. It also responds to the challenge of achieving the Millennium Development Goals and is expected to be in line with the National Development Strategy 2020 that is currently under preparation.

Poverty reduction was pursued in Mongolia through the National Poverty Alleviation Programme 1994-2000, which was supported by a range of multilateral and bilateral donor agencies and international NGOs. The Programme provided support to local governments for the rehabilitation of social and economic infrastructure, but its achievements in reducing rural poverty were limited. Based on the experience of the National Poverty Alleviation Programme, the World Bank initiated a 12-year-programme - the 'Sustainable Livelihoods Programme' (SLP) - which is now making a significant contribution to rural development. The first phase commenced in 2002 and is expected to end in 2007.

The SLP seeks to create income-generating assets for the rural poor and to reduce their vulnerability. This is achieved through activities in three areas, namely pastoral risk management, micro-finance and a local initiatives fund. Activities have been trialled in 8 provinces during the first phase and the Government is committed to scaling up the programme to all 21 provinces for the second and third phases. The first component aims at reducing the vulnerability of herders and enhances their resilience to drought and *dzuds* by risk forecasting, contingency planning, grazing and pasture management, as well as improved hay and fodder stocks. It develops an integrated strategy for managing risks in pastoral livestock production. The second component seeks to improve access by the poor to financial services. The third component is aimed at improving the access of the rural poor to basic infrastructure by supporting local community investments.

The EC is considering aligning its support for the continuation of the SLP with that of other donors. Alternatively, co-financing another multi-donor programme or a stand-alone project managed by Commission services cannot be ruled out, as circumstances might change over the coming years. For example, a possible follow-up to the current Animal Health and Livestock Marketing Programme (cf. National Indicative Programme 2004-2006) might become necessary later on. Other actions, such as participation in a sector-wide approach on education or reinforced trade and economic cooperation are also considered. (cf. section 2.3.). The following section describes the currently favoured options (as they are known at the time of writing). This should not pre-judge the project/programme identification which will have to take place at a later stage and will take a fresh look at different options within the framework of the Strategy Paper 2007-2013.

2.2. Main Actions

2.2.1. Objectives

The overall objective is to alleviate poverty in selected rural regions of Mongolia.

The specific objective is to build sustainable opportunities for income generation for poor and vulnerable people in rural areas and to improve their access to social services.

2.2.2. Expected Results

The aim of the EC's intervention is to achieve results such as the following:

Pastoral risk management

Development and introduction of a nation-wide pastoral risk management system adapted to specific local conditions and aimed at reducing the impact of natural risks on rural livelihoods.

Micro-finance

Development of a sustainable system for providing affordable micro-finance services to low-income households in rural areas to enable them to diversify their sources of income and manage risk without needing to liquidate assets.

Local initiatives

Enhancement of results-oriented spending at local and community level, particularly with respect to local infrastructure creation and improving social services provision.

2.2.3. Activities

The first phase of SLP continues to support initiatives started under the National Poverty Alleviation Programme and has piloted new investment and capacity building initiatives in 8 provinces. Within the pastoral risk management component, herder groups have engaged in the repair and construction of winter and spring shelters, production of hay and fodder as well as storage of emergency food reserves. Seasonal use of pasture has been introduced and pasture maps drawn up in order to improve pasture management. As part of the micro-finance outreach component, commercial banks and non-bank financial institutions have received loans, and about 10,000 sub-loans were disbursed at the county-level or below. Funds from the local initiative component have been used for the rehabilitation of wells and schools, the provision of basic hospital equipment etc.

The activities of the second and third phase of the SLP will build upon the experience gained during the first phase and will be identified in cooperation with the beneficiaries at the project formulation stage.

The second phase - to which the government of Mongolia has already indicated its commitment - will scale up the programme from the 8 pilot provinces to all 21 provinces. The EC intends to play an active part in the design of this second phase. Based on the

experience from the first phase, successful initiatives under the pastoral risk management, micro-finance and the local initiative fund components are to be extended. New components might be added during the appraisal process and the EC will emphasize capacity building aspects, in particular in areas which require functioning institutions nationwide, for example animal diseases that can be transmitted to humans. Synergies with other programmes, in particular the EC Animal Health and Livestock Marketing Programme, should also be pursued in this context.

Phase three would then focus on fine-tuning of the technical and institutional innovations for long-term sustainability and institutional reforms. Strengthening of the institutions is a key component of the whole programme, for example through the SLP local initiatives component where communities decide in a transparent and inclusive way on the use of available funds, thus enhancing local decision making capacities.

2.2.4. Implementation

The SLP is supported by the World Bank and implemented by the Mongolian Government under the Household Livelihoods Support Programme Office at national level. It reports to a national committee chaired by the Prime Minister. EC support to rural poverty alleviation would be aligned with that of the World Bank and other donors and detailed implementation procedures will be developed by the EC accordingly.

In the event of unforeseen difficulties with the SLP, the EC may also consider co-financing another multi-donor programme or funding a stand-alone project (cf. section 2.1.).¹

2.2.5. Cross-cutting Issues

Environment

Environmental aspects will be given due consideration in accordance with EC and World Bank rules. The EC Country Environmental Profile of June 2005 describes the environmental situation in Mongolia and a summary is annexed to the Strategy Paper 2007-2013.² One of its key messages is that current pasture management in Mongolia is accelerating land degradation through overgrazing, due to the concentration of herds around provincial and county centres. Improved pasture management, which is one of the aims of the SLP, would reduce the extent and severity of land degradation. However, further studies on this topic might be necessary.

¹ Cooperation with the Mongolian government and multilateral donors such as the World Bank would, of course, always take place in accordance with the EC Financial Regulation (1605/2002, in particular Art. 163-166) and should make use of accelerated decision making procedures (such as the 'habilitation procedure') wherever possible.

² The full Country Environmental Profile is available at http://europa.eu.int/comm/external_relations/mongolia/intro/index.htm

Gender

As a legacy of the socialist past, women play an active role in Mongolian society and generally have the same rights as men. Many mid-level positions in administration and business are held by women, whereas top-level jobs continue to be a male domain. The rates of educational enrolment are higher for women than for men, one explanation for this being that boys run a higher risk of dropping out of secondary education, since they are often asked to help the family with herding or informal mining. The programme tries to balance gender representation in project implementation, e.g. through adequate representation of women among clients of micro-credit services. Projects are expected to enhance opportunities for both male and female participants.

2.2.6. Assumptions and Risks

It is assumed that the World Bank will prolong the SLP as one of their most successful programmes in Mongolia; that other key government actions will be implemented as planned and continue to provide reliable framework conditions for rural development; that pastoral risk management systems operate without state intervention; and that other donor programmes do not lead to damaging overlap in the provinces where projects are implemented.

The risk is that the government may change current policies, for example the promotion of decentralised fiscal management. This might limit the availability of budgetary resources for local governments and could endanger the sustainability of the local funds initiative. However, it would seem that the SLP is broadly supported by all political parties. Lastly, large-scale *dzuds* (harsh winters) could cause severe livestock losses and overwhelm fragile capacities, at a time when pastoral risk management strategies are not yet fully established.

2.2.7. Main Indicators

Indicators should incorporate the adoption of improved strategies by targeted households and individuals relating to pastoral risk management, security of livelihood and diversification, and the construction, rehabilitation and maintenance of demand-driven local infrastructure.

Indicators for Phase II

- Phase I activities scaled up nation-wide.
- Public institutions being gradually consolidated and their use by targeted poor improved.
- Effective sustainable livelihood strategies to improve long-term outcomes at household and community levels.

Indicators for Phase III

- Targeted beneficiaries have built and maintained human, social, physical, natural and financial assets.
- Mechanisms and strategies implemented to reduce vulnerability and risks, e.g. a significant number of households use micro-finance facilities.
- Public and private sector support strategies implemented, e.g. regulatory framework adapted.

2.2.8. Co-ordination

The EC will co-ordinate its support with other donors in the sector with a view to enhancing impact and results.

2.2.9. Indicative Timeframe

The Sustainable Livelihoods Programme is divided into three phases, each lasting four years. Each phase builds upon the performance of previous programme components and the pace of institutional reform and capacity-building at all administrative levels. The first phase commenced in 2002 and is expected to finish in 2007. For the second (2007-2010) and third phases (2010-2013) the programme will be reviewed and adapted as appropriate. The EC intends to participate in the preparations, and an initial financial commitment is envisaged for 2007 subject, of course, to possible changes during project/programme identification and formulation or unforeseen events.

2.3. Other Actions

Around 20% of the overall indicative budget is earmarked to support and accelerate Mongolia's international integration in order to overcome the 'terror of distance'. This will be achieved through supporting education or economic and trade cooperation (examples: trade facilitation, quality management, conformity assessment, statistics, trade-capacity building, export diversification, improving competitiveness of the private sector). The final choice will have to focus on the area where EC resources are likely to have the highest impact, which also depends on available human and financial resources.

3. ALIGNMENT, HARMONIZATION AND CONSULTATION

3.1. Dialogue with the Government / Alignment to National Policies

The Ministry of Finance is the Mongolian Government's principal co-ordinator for all matters related to donor assistance, and it maintains regular contacts with the EC. Consultations took place at the annual EC-Mongolia Joint Committee in March 2005, and also in the Sub-Committee on Trade and Investment. Additional consultations were held during the EC programming mission in June 2005, leading to the priorities outlined in this Multiannual Indicative Programme and the corresponding Strategy Paper

2007-2013, which reflect the broad consensus reached between Mongolia and the European Commission as confirmed at the EC-Mongolia Joint Committee in June 2006.

3.2. Consultations with Civil Society

The June 2005 programming mission also discussed the future orientation of EC-Mongolia cooperation with international and national non-governmental organizations, such as the WWF, Open Society Forum (formerly the Soros Foundation) or World Vision. Ways for civil society to play an active role in EC cooperation activities were and will be examined, inter alia through calls for proposals under thematic budget lines.

3.3. Harmonization and Co-ordination with Member States and other Donors

All resident Ambassadors of Member States in Ulaanbaatar were consulted during the programming mission in June 2005. There was broad agreement on the proposals put forward. It was acknowledged that, wherever possible, donors should try to move towards sector-wide approaches or programmes. Member States also stressed that an appropriate EC presence in Mongolia would be very useful in terms of visibility, efficiency and co-operation among Member States.

The UN and the World Bank hold regular meetings with donor representatives in Mongolia in order to facilitate donor harmonisation. Unfortunately, before June 2006 the EC had no permanent presence in Mongolia and was unable to take part in these meetings on a regular basis. Meetings were held with relevant bilateral and multilateral donor agencies during the June 2005 programming mission and afterwards. Again, all parties agreed that donor co-ordination was essential in view of the numerous ongoing projects in Mongolia.

3.4. Consultations with Other Stakeholders

Discussions with other stakeholders (project beneficiaries, local government, consultants) supported the continued focus on rural development. The EC programming mission visited the Sustainable Livelihoods Programme in the field, and would like to thank the project team and the beneficiaries in Erdene County for their substantive information and friendly hospitality.

4. ANNEX: LIST OF EC PROJECTS 2000-2006

The following table lists all EC projects in Mongolia since 2000.

Project Title	Grant amount (million EUR)	Executing Agency	Period of implementation
TACIS			
SME Development-PHASE II	1.000	ICON-INSTITUT GMBH, Germany	01/2002 - 12/2003
Integrated Crop & Livestock Production Project Mongolia	2.900	Agroconsult, Austria	03/2002 - 03/2005
Supervision of Supply and Implementation of Zamyn Uud Transshipment Facility	0.399	ETC Transport Consultants, Germany	02/2003 - 02/2004
Manager's Training Programme MTP III	0.200	Management Akademie Niedersachsen, Germany	09/2003 - 12/2004
Development of Agricultural Services	1.636	IAK Agrar Consulting GmbH, Germany	07/2004 - 12/2006
Development of Agricultural Services (Block Equipment)	1.200		end before 01/2006
Establishment of a Collection and Distribution Network	1.139	ABG GmbH, Germany	05/2004 - 12/2006
Establishment of a Collection and Distribution Network (Block Equipment)	0.700		end before 01/2006
Reform of the Official Statistics, Statistics 8	0.165	IDI, Ireland	04/2005 - 03/2006
Institution Building Partnership Programme 1+2 (IBPP 1+2)			
IBPP 1: Tuv Aimag Heating	0.200	Braecke Municipality, Sweden	01/2003 -01/2005
IBPP 1: Safer Sex Mass Media Campaign	0.200	AIDS Foundation East-West, Amsterdam, NL	01/2003 -01/2005
IBPP 1: Institutional Strengthening of the Association of Parents with Disabled Children	0.100	Save the Children, UK	01/2003 -12/2004
IBPP 2: Expanding and Strengthening the Civil Society Response to the Sexual Health Needs of Vulnerable Communities	0.200	International HIV/AIDS Alliance, UK	01/2004 - 01/2006
IBPP 2: Private and Public Waste Partnership	0.200	Provincial Government of Carinthia, Environment & Technology, Austria	01/2004 - 01/2006
NGO Co-Financing			
Développement de Soins de Santé Primaires pour les Populations Rurales du Selenge en Mongolie	0.749	Santé Sud, France	04/2003 - 06/2006
Développement de Soins de Santé Primaires pour les Populations Rurales du Selenge en Mongolie	0.409	Santé Sud, France	01/2007 – 12/2010
Sécurisation du Niveau de Vie des Eleveurs de L' Arkhangai en Mongolie	0.465	Vétérinaires Sans Frontières, France	11/2004 -11/2006
Quality Pre-School Education and Capacity Building ('Block Grant 2004')	1.000	Save the Children, UK	04/2006 - 03/2009
TEMPUS			
Under- and Post-graduate Curriculum Development of the Orthopaedic and Traumatological Surgery (adult and infant)	0.365	Université de Paris, Département de Chirurgie Infantile Orthopédique, France	2001-2003
Quality and Safety in the Tile Agro Food Chain	0.198	Universiteit Gent, Faculty of Agricultural and Applied Agricultural Sciences, Belgium	2002-2004
Promotion and Development of Animal Hair Based Industry	0.420	Deutsches Wollforschungsinstitut & Ecole Nat. Sup. des Industries Textiles	09/2003 - 09/2006

Project Title	Grant amount (million EUR)	Executing Agency	Period of implementation
Agricultural Economics and Land Law in Mongolia (Tempus Programme)	0.247	Scuola di Admin. dell'Universita di Torino & Universidad de Sevilla	09/2003 - 09/2006
Tourism and Hospitality Studies in Central Asia	0.494	Erasmus Hoogeschool, NL	09/2003 - 09/2006
Higher Education Programme	1.000	Commission HQ, DG EAC	02/2005 - 12/2009
ECHO			
Emergency Assistance	1.875	Mission East	2000
Humanitarian Assistance for Snowfall Victims	0.370	International Federation of the Red Cross	2001
Assistance to 1000 Family Victims of the <i>Dzud</i>	0.360	Premiere Urgence	2001
Mongolia Relief for Snowstorm Disaster	0.300	World Vision	2001
Emergency Assistance	0.700	International Federation of the Red Cross	2003
Emergency Assistance	0.300	Action Contre La Faim	2003
Mongolia Community Vulnerability Reduction - Hay Preparation in Six Different Regions	0.200	International Federation of the Red Cross	04/2005 - 02/2006
Integrated Programme on Food Security and Nutritional Activities in Ulaanbaatar City and Bayan Ulgii Aimag	0.500	Action Contre La Faim	11/2004 - 11/2005
Improve Mongolian Herders' Preparedness to Future Climatic Stresses and Shocks	0.300	ADRA	11/2004 - 11/2005
Disaster Preparedness	0.900	Action Contre La Faim / ADRA	11/2005 - 01/2007
ALA			
Asia-Invest: ECOPROFIT for Sustainable Mongolian Entrepreneurship	0.200	Centric Austria International, Mongolian Chamber of Commerce and Industry, Cork Institute of Technology (Ireland)	01/2006 - 07/2008
Asia-Invest: Strengthening the Mongolian National Chamber of Commerce and Industry in a Network with European Business Intermediaries	0.143	Foundation for Economic Development and Vocational Training/SEQUA (Germany), Mongolian Chamber of Commerce and Industry, Institute for Economic Promotion of the Austrian Federal Economic Chamber	01/2006-12/2007
Asia-Invest: ALLIANCE - Support to Mongolia's agriculture associations in the sustainable development of Geographical Indications	0.272	Campden & Chorleywood Research Association (UK) - OriGIn (Spain), Sustainable Development Association (UK), Mongolia National Chamber of Commerce and Industry	11/2006 - 05/2008
Asia Pro-Eco: Improvement of District Heating Systems in Urban Centres in Mongolia	0.490	GTZ project 'Utilisation of Renewable Energy in Mongolia', Energy Agency (Austria), Erstes Nuernberger Oekozenrum (Germany), Energy Association (Mongolia), Municipal Government of Zavkhan province	12/2006 - 11/2009
Asia Trust Fund: Creation of Geographical Indications in Mongolia	0.114	International Trade Centre (ITC)	03/2005 - 12/2005
Asia Trust Fund: International Trade and Market Research Centre	0.085	International Trade Centre (ITC)	03/2005 - 02/2006
Asia Trust Fund: Enhance Mongolian exports through Geographical Indications and GSP+	0.185	International Trade Centre (ITC)	07/2006 - 06/2007
Animal Health and Livestock Marketing*	9		2007 -

* See National Indicative Programme 2004-6: 'Enhance the Export Potential of Agricultural Products'.