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DEVELOPMENT COOPERATION INSTRUMENT

MONGOLIA



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MID TERM REVIEW
NATIONAL INDICATIVE PROGRAMME
2011-2013

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PART I – Executive summary

1. Mongolia is a vast and resource rich country embarking on its chosen path of **political pluralism** and **economic diversification**. As the 19th largest country in the world it occupies the strategic crossroads between the fast growing markets of China and Russia. Mongolia is also at a historic economic turning point poised to change from a largely pastoral society into a society where revenues derived from huge mining operations drive the growth of industry and service sector.
2. A key question is which **strategic path** Mongolia will follow. It could either exploit this unprecedented opportunity for growth to develop a sustainable and equitable economic system or if this blessing becomes a curse, Mongolia could slide down the path of less successful countries.
3. Mongolia has recognised the need to face and overcome these challenges. Following vigorous debates in the public arena Mongolia's Parliament, the State Great Khural adopted its ambitious **National Development Strategy** (NDS) for 2021 in January 2008. The NDS focuses on 6 priority areas, including (i) achieving MDGs, (ii) developing an export-oriented, knowledge based economy, (iii) exploiting strategic minerals, (iv) developing regions to reduce urban-rural disparities, (v) halting ecosystem imbalances and (vi) consolidating democracy and stamping out corruption.
4. Challenges include how to deploy financial and human resources to translate this blueprint into reality and how to balance competing priorities of economic growth, social development, bridging the urban-rural divide and environmental protection.
5. The Country Strategy Paper (CSP) drafted under the Development Cooperation Instrument (DCI), before the adoption of the NDS, focuses primarily on **rural development** and identifies other areas including vocational education and training as well as institutional capacity building.
6. The Multi-annual Indicative Programme 2007-2010 earmarked €14m or €3.5m per annum. €10m has been allocated to rural development to help sustain livelihoods in all of Mongolia's Soums. Proposals for the remaining €4m, essentially to help develop the capacity of SMEs, are under examination.
7. Prior to the preparation of the MIP for 2011-2013, the CSP underwent a **mid-term review**, which drew the following conclusions: (a) importance of focal and non-focal areas identified, (b) need for strong engagement with Mongolian counterparts both in Ulaanbaatar and at provincial level at the Aimags and Soums, (c) strong donor coordination (d) fine tuning is required to align the MIP with commitments and actions under the NDS.
8. Government officials both at central and provincial level, donors and civil society confirmed the importance of **rural development** and flagged up **environmental challenges** from desertification, deforestation and dust storms to overgrazing and the loss of biodiversity.
9. In addition stakeholders voiced concerns that Mongolia does not have adequately qualified and trained people in both the public and private sectors. **Human capital** needs to be further developed if the economy is to be diversified. Increased industrialisation, exploiting minerals and attracting inward investment will require new skills. Advancing up the value chain requires appropriate know-how that Mongolia is currently lacking.

10. In order for Mongolia to meet future human resource challenges it also requires a competent and non-political **administration** with capability for analysis, forward thinking, policy formulation and enforcement.
11. In order to pursue its quest for **light industrialisation** Mongolia needs a workforce with appropriate technical and managerial **skills**, a **regulatory framework** that addresses issues of product safety, local or international sanitary requirements, labour standards as well as competitiveness and access to **credit for SMEs** (over 95% of all businesses).
12. The new MIP proposes to build upon **existing development** cooperation both under the ALA and DCI regulations, especially in the **area** of vocational education and training within rural **development** where the EC has acquired a strong presence and a comparative advantage towards other donors. The emphasis will change to encompass support to Mongolia in its transition and share EU experience in terms of standards and norms in the political, economic area.
13. One nexus to explore is the overlap between rural **development and protection** of the environment as environmental degradation and overgrazing lead to poverty and migration to urban centres. Development of human resource capacity in both the private and public sector must also be explored. For the period 2011-2013 the European Commission proposes to allocate €15m under the DCI bilateral envelope, which is a marked increase to €5m per year.
14. The proposed allocation (subject to modification during identification and formulation phase) is as follows:

MIP 2011-2013 (€15m)		Indicative amounts	%
Focal Sector: Human resources development in rural areas			
Activity I. Vocational training for rural development			
Supporting Technical Vocational Education and Training for sustainable livelihoods and protection of environment		€7m	47%
Activity II. Supporting governance, democracy, human rights and institutional reforms			
Supporting public sector capacities at central and provincial level		€8m	53%

PART II – Conclusions of the MTR process

2.1. Political, economic, social and environmental developments

2.1.1 Political situation

1. Following its break with seven decades of Communist rule in 1990, Mongolia has made steady, at times faltering, progress on its chosen path of political pluralism and economic reforms. Challenges include how to (i) make mining-led economic growth sustainable and inclusive by assisting in providing relevant skills, (ii) deliver effective public services, and (iii) combat environmental degradation.
2. Given its geographical location between Russia and China and the proximity to Central Asia, Mongolia stands out as an example of a relatively democratic multi-party political system.

However, as a resource rich developing country (with significant copper, coal, gold, uranium and other mineral resources), Mongolia faces considerable governance challenges. A \$4 billion mining deal was signed recently and more considerable mining deals are expected to be finalised by the Government in the coming years. Mongolia has therefore enormous potential for development. However, there are serious risks involved, in particular the ability and capacity of the public and private sector to manage and exploit future mining revenues for the benefit of the whole population.

3. The Anti-Corruption Law and Anti-Money Laundering Law were adopted in 2006 and led to the establishment of a new Anti-Corruption Agency. However, the Agency lacks resources and the full commitment needed for effective prevention and investigation of corruption cases. The 2007 Corruption Perception Index (CPI) by Transparency International rated Mongolia at the 102nd out of 180 countries surveyed. In 2009 Mongolia ranked 120th. This is a fall of 17 places from 2005¹. One opportunity is to reinforce the Mongolian Anti-Corruption Agency with know-how for the effective prevention and investigation of corruption cases.
4. Since turning towards democracy in 1990, Mongolia has, in principle, acknowledged the concept of human and civic rights. Although the country has a vibrant civil society and a vocal media, certain challenges remain, especially within the police and security sector. President Elbegdorj, despite domestic opposition from some quarters, declared a moratorium on the use of death penalty in January 2010 which indicates that the situation in this regard is improving.
5. The May 2009 Presidential elections mark a milestone in Mongolia's journey towards political pluralism. Opposition candidate (and twice former Prime Minister) President Elbegdorj, from the Democratic Party, who ran on an anti-corruption and wealth distribution ticket, was peacefully elected in May 2009. The President, who has a largely ceremonial role, cohabits with the Prime Minister from the long ruling ex-Communist Mongolian People's Revolutionary Party (MPRP). Despite a win by a narrow margin, the election results were quickly accepted by the ruling party. This contrasts with the contested elections held in June 2008, which resulted in deaths and injuries. Although a power sharing deal has been done between the main parties there are cleavages especially between rural and urban factions. A new Prime Minister Mr Batbold was elected by the Parliament on 29 October 2009, taking over from his predecessor who resigned for health reasons.
6. Mongolia wishes to balance relations with Russia, its main energy supplier, and China, its main export market. It is pursuing a 'third neighbour' policy as it tries to diversify away from political and economic dependence on its powerful neighbours. Mongolia is courting other players including the US, Japan, South Korea and the European Union.
7. The cornerstone for Mongolia's long term development is the National Development Strategy (NDS), based on the Millennium Development Goals, drafted by the Government and approved by the State Great Khural in January 2008. The aim is to reach the MDGs by 2015 and to develop Mongolia into a middle income, knowledge based country by 2021. However, the implementation of the NDS and the related sectoral strategies, most of which are still being created, are still at a starting stage, with the government seeking donor support for the focal areas.

¹ It is to be noted, though, that the number of countries ranked has grown since mid-1990's.

8. Mongolia has expressed a desire at the highest political level to reach European standards and norms and draw from the experience of transition countries in Central and Eastern Europe who acceded to the EU. President Elbegdorj in his meeting with President Barroso on 2 February 2010 reiterated Mongolia's wish to apply European norms especially in the political and social arena including the provision of public services, education, legal systems and how to do business.

2.1.2 Economic situation

9. Though the GDP per head is relatively low (US \$1,737), Mongolia is a resource rich country – especially as regards minerals and other natural resources. While approximately 35% of its 2.7 million population live below the poverty line, Mongolia has over 40m livestock and has significant reserves of untapped copper, gold, uranium and coal.
10. The global financial and economic crisis has impacted Mongolia's socio-economic development negatively. Economic growth is expected to be negative against the period of substantial growth in previous years (5,6% in 2003; 10,6% in 2004; 7,7% in 2005; 8,4% in 2006; 9,9% in 2007; 9,0% in 2008). Mongolia also witnessed a series of negative consequences including shrinkage of the industrial sector, the collapse of the construction sector, increased number of non performing loans leading to a banking and financial sector crisis and increased unemployment.
11. Inflation rocketed to more than 34% in the summer of 2008, but with falling import prices of food and basic consumer products the high inflation rate decreased significantly in 2009 showing a negative trend in September and October 2009. According to recent trends, the inflation rate is expected to be around 5.7% by the end of 2009. Commodity prices have also held up increasing the value of exports of minerals.
12. It is estimated that Mongolia's minerals cover 25% of the total territory and comprise 80 different mineral commodities. In 2008 inward investments in the minerals sector accounted for 60% of total FDI. Mining of minerals contributed 27.4% to Mongolia's GDP in 2007. This number is likely to increase drastically in coming years.
13. Mongolia is increasingly attracting the attention of Russia and China as well as other foreign investors interested in exploiting its minerals. A deal with Ivanhoe/Rio Tinto to extract copper and gold in Southern Gobi was concluded on 6 October 2009 and could herald rapid economic changes. Populist politicians have been promising cash handouts of up to 1,5 million MNT each to voters. The Law on Human Development Fund, which creates a legal environment for citizens to receive a share from revenues gained from mineral wealth, was adopted by the Parliament on 18 November 2009. The windfall tax, a serious concern for potential foreign investors, would be cancelled by January 2011.
14. Mongolian authorities acknowledge that the full exploitation of the minerals potential is hampered by
 - (a) considerable investment needs and weak financial system,
 - (b) lack of infrastructure
 - (c) high transportation costs and
 - (d) lack of adequately trained and specialized workforce.

15. Looking forward, the Government has recognized that economic diversification is a pre-requisite to shield the pace of economic and social development from the vulnerability inherent to the mineral sector as the latter becomes a strategic priority.

2.1.3 Social situation

16. A major challenge for the Mongolian government is to reduce poverty while increasing economic growth. The transition towards a market economy compounded by an often harsh climate and environmental pressures have led to substantial unemployment, increased migration to urban centers and increasing social inequality. The universal social system is under considerable strain. Social and child benefits have been identified by the government as the most likely areas of spending cuts required to reduce budget deficit.
17. Mongolia continues to be a poor country in the Medium Human Development category as defined by the UNDP. In the latest Human Development Index, Mongolia ranked 115th out of 180. However it has a relatively high human development ranking compared to its GDP per capita. It ranks particularly high on adult literacy and school enrollment vis-à-vis its overall ranking. However, the health care system and other social services have considerably deteriorated since the political changes in 1990, and the Government has its work cut out to revamp the system.
18. Population growth has slowed down to 1.4%, but Mongolia is still a young country with 33% of the population aged under 15 and 59% under 25. A pressing problem is providing adequate education and job opportunities for Mongolia's youth. There is a widening mismatch between educational supply and market demand. A number of talented students are either not using their skills or leaving to work abroad, contributing to the brain drain.
19. During the Communist era, Mongolia had a strong vocational training system (TVET – technical and vocational education and training) backed by the Soviet Union. After the political changes in 1990, the system collapsed due to lack of funding. The remaining vocational education facilities are inadequate to respond to the rapidly transforming needs of the country.
20. The capacity of this system to teach core technical skills and provide critical labor information is weak and old-fashioned, training equipment is limited and outdated, and instructors are ill-prepared to teach. Public-private partnerships that would give students access to high quality, demand-driven training, are largely absent, and certification systems are substandard.
21. As a result, Mongolia imports skilled labour from other markets (such as China), leaving high rates of unemployment among unskilled Mongolians, especially youth. This phenomenon has negative effects on economic opportunities for Mongolians and raises the new social challenge of a large number of unemployed and frustrated youth.

2.1.4 Environmental situation

22. Mongolia is strongly dependent on the environment due to the relative importance of agriculture. Natural resources are fragile and affected by human activity and extreme natural conditions such as harsh winters (dzud), hot summers, and low rainfall.
23. The unpreparedness to dzuds killed about a fifth of the country's livestock which decreased to 25 million heads, down from 32 million in 1999. Livestock has recovered to over 40 million heads, but adverse weather conditions continue to be a serious risk for animal husbandry which is still a vital sector of the country's economy.
24. Mongolia is home to some of the last remaining populations of a number of animal species and sub-species internationally recognized as threatened or endangered. Mongolia's diverse and distinctive vegetation includes over 100 plant species that are listed in the Mongolian Red Book as rare or endangered.
25. During the transition from the Socialist system to an open market democracy, Mongolia's natural resources have been heavily exploited. Forestry reserves have radically diminished - adding to the climate change, loss of livelihoods and biodiversity, and enforcing the extreme climate conditions. Biodiversity has decreased due to loss of habitats, extreme climatic conditions due to the climate change, ineffective land use patterns, and illegal hunting.
26. Urban environment in the capital Ulaanbaatar and – to a lesser degree in a few secondary cities - has deteriorated due to migration leading to overpopulation, air and soil pollution, and lack of urban planning.
27. Both rural and urban environmental protection require strong measures to e.g. fight the air and soil pollution in Ulaanbaatar which has become a major issue of public outcry, to protect biodiversity and to protect and rehabilitate pasturelands. The Green Party has also lobbied actively against the draft law on manual gold extraction. Artisan miners use illegal strong chemicals (e.g. cyanide, mercury) to separate gold from soil without control or safety measures.
28. For more information, a separate environmental profile is attached.

2.2. New EC/EU policy initiatives and commitments

29. EC policy commitment, in particular in the areas such as climate change, food security, aid effectiveness and regional cooperation, are highly relevant to Mongolia. Cross-cutting issues, including environmental issues and gender equality are mainstreamed in the response strategy.
30. There has been a good development of bilateral trade relations between EU and Mongolia despite the global economic crisis with 10% growth in trading volume in 2008, while Mongolian exports to the EU have increased by nearly 60% between 2004 and 2008.
31. The GSP+ preferential regime for Mongolian exports to the EU has been extended on 1 January 2009 for another 3 years and, according to latest figures, Mongolian exporters made good use of the regime in 2008 by increasing the utilization rate to 87% of eligible exports, albeit mostly still focused on textile / cashmere exports.

32. **Climate change** is a major aspect of both EU internal and external policy. Mongolia is a country heavily affected by this phenomenon due to its vulnerability to extreme climatic conditions. Impacts such as drought and mass migration of rodents are already common in Mongolia. Thus, the Mongolian political leadership (Government and President) strongly support international initiatives to reduce the speed of the climate change and even attempt to take a leading role regionally on the climate / environment related issues.
33. On 10 September 2009, EC adopted a Communication COM (2009) 475/3 entitled 'Stepping up international climate finance: A European blueprint for the Copenhagen deal' which argues for international finance to help developing countries combat climate change. It recognizes that the financing issue is central to prospects for reaching an ambitious agreement in Copenhagen.
34. Mongolia has great potential in developing its mining, livestock (especially wool and meat) as well as tourism industries. However, partly due to the lack of transport infrastructure and a relatively low quality of products, these markets are currently not fully exploited. Recent developments, such as the signature of the Civil Aviation Agreement with the EU in April 2009, and the foreseen development of the railway system, may open new doors for the economic development. However, the future depends on governance performance, ability to adopt international standards and management of the big infrastructure programmes.

2.3. Results, Performance and Lessons learned

35. Donor coordination in Mongolia has room for improvement and the division of labour has been identified for ensuring effective coordination at Member States level. During the MTR mission in September MCC, ADB, WB, EBRD along with a number of government institutions and non-governmental organisations were consulted in order to avoid overlaps in the MIP planning. There are bi-annual Ministry of Finance – World Bank organised donor meetings and monthly donor-Government discussion events organised by UNDP. Sectoral coordination is still being developed with sectoral donor-Government working groups in certain areas (ADB and JICA are co-chairs for the working group on Education; the WB and the Netherlands are co-chairs for the working group on Environment and Rural Development).
36. The EC regularly consults with the key donors, such as EU Member States (MS), the World Bank, ADB, US, EBRD, GTZ and Japan, during the missions to Mongolia from the Beijing Delegation.
37. Donors are supporting the government to create sector strategies for the implementation of NDS, but the progress has been relatively slow. According to donors, the NDS also lacks tangible baseline data, time schedule and budget. Baseline data and the coordinating capacity of the Government also have space for improvement.
38. The MIP 2007-2010 allocates €14m for Mongolia, 10 M€ of which has been committed to co-finance the second phase of the Sustainable Livelihoods Programme (SLP II) implemented by the World Bank (2008-2012). This is a follow-up programme of SLP phase I that the World Bank funded as the only donor, and it will extend the best practices and lessons learned during SLP I to a nationwide scale. Japan has also committed funds to support certain activities of the programme.

39. Monitoring and evaluations show that the programme has been successful in the following areas:

- Pastoral risk management: Herders are increasingly able to manage environmental and financial risk associated with pastoral livestock production;
- Community Initiatives Fund: Villagers and townships are empowered to identify and implement projects for their local development plan.
- Microfinance: poor rural populations have an easier access to financial services.

40. In addition to the two ongoing bilateral programmes, there are a number of thematic and regional projects ongoing in the social sectors (education, health), rural development, and trade and environment related aspects.

41. An evaluation of development cooperation in Mongolia in early 2009 made the following recommendations which are taken on board for the new MIP:

- Target: Closely monitor the financial and economic crisis and its impact social impacts amongst the vulnerable and poor.
- Platform: Create and support a platform (forum) for social dialogue and for the development of relations between civil society, donors and GoM.
- Other areas: Consider complementary EC funding for rural sector development using other available EC instruments and potential for co-financing, supporting a common objective – poverty alleviation in rural areas.
- Upscale: Revise the commitment of EC in MIP 2011-2013 in line with growing needs and potential of Mongolia and in line and scale with efforts of MS.
- Aid effectiveness: Evaluate closely EC strategy performance with reference to Paris Declaration and define structures, tools and measures to support aid effectiveness and coordination.

2.4. Quality improvements

42. Policy Coherence for Development aims at maximising the contribution of EU policies other than development cooperation to help developing countries' progress towards the MDGs.

- Coherence – the area of concentration is support for the government's poverty reduction strategy with emphasis on rural development, in line with the government priorities set out in the NDS.
- Concentration – Under the current CSP, projects need to be streamlined from covering different sectors to concentrate on three focal sectors. The EU Delegation ensures during programme identification that activities are aligned with government's development strategy and other donors.
- Coordination – Activities are aligned with other donors where possible as well as with the government's development strategy. EC programmes under CSP support country ownership and reinforce the use of country systems.

The EC cooperation strategy is in line with the horizontal priorities such as climate change, migration, regional cooperation, aid for trade, gender equality and drugs. The bilateral programme will, together with the foreseen thematic programmes, such as the NSA/LA, EIDHR and regional budget lines, cover a vast range of issues. However, considering limited financial resources of the EC compared to major donors in Mongolia, the expectations must be kept realistic.

2.5. Consultations with civil society

43. Mongolia has a vibrant civil society. There are no reports on Civil Society Organisations (CSOs) being harassed by the Government in Mongolia.
44. The EC Delegation in Beijing conducts regular missions to Mongolia at various levels, and meetings with CSOs is a normal part of the visits. Thanks to these meetings, the Delegation has gained valuable information about the Mongolian civil society and created lasting connections.
45. Typical requests from CSOs to the EC include support to the democratic and legal processes (e.g. electoral support), capacity building as well as funding for activities in the social sectors. During the Strategy Paper Mid-Term Review Mission a specific round table was organised for CSOs and information sessions are organised each time a call for proposals on the EC thematic budget lines is launched.

2.6. Conclusions

46. Although the CSP remains valid, fine tuning of programming is required to take account of rapid change in society and economic structure of Mongolia brought about by massive mining deals that facilitate the growth of supporting services and industries. One nexus to explore is the overlap between rural development, protection of the environment and developing the human resources capacity in both the private and public sector.
47. The EC-Mongolia cooperation in these areas has provided good results during the TACIS, ALA, and recently DCI framework, as well as under the thematic and regional budget lines. Despite the limited funds available, the cooperation in the focal sectors, particularly on rural development (considered in a wide sense, including not only agriculture but also general rural income generation and environmental protection), has been successful so far.
48. In addition, there have been successful programmes funded under thematic and regional budget lines e.g. on trade related assistance. Continuation of cooperation on rural development, environmental protection, and private and public sector development, with capacity building as a key method of implementation, is recommended in order to build on the past positive experiences. Rural development and environmental resources are key assets for Mongolia's future development, while considerable gaps remain in the private sector development and the public sector management and governance. These are areas where the EC can have comparative advantage as a donor and where European research may provide a strong constructive contribution.

PART III – The Indicative Programme for 2011-2013

3.1 Main priorities and goals

49. The primary and overarching objectives of EU development cooperation are the eradication of poverty for sustainable development, the pursuit of the **Millennium Development Goals** (MDGs), and the promotion of good governance and the rule of law. The strategic overall objective of the CSP 2007-2013 is poverty alleviation and income diversification in rural areas for steady income generation.
50. Mongolia has expressed, at the highest political level, its desire to achieve European common principles, norms and standards and to cooperate on the exchange of information and sharing of experience with a view to introduction and implementation. Mongolia wishes to strengthen the dialogue and cooperation with European authorities including the exchange of experts, information and expertise.
51. Consistent with these objectives, future EC cooperation should support Mongolia in its transition and share experiences in terms of European standards and norms. Assistance should foster sustainable development through **vocational education, training and capacity building**. Cooperation on research can also be envisaged.
52. The total bilateral DCI budget allocation for Mongolia for the period 2011-2013 is **€15 million** over three years, i.e. an average of € 5 million a year.

3.2 Focal Sector: Human Resources Development

(i) Description/rationale

53. Mongolia is still dependent on its **rural economy**. Agricultural production corresponds to 19% (2008) of the GDP, making it the second most important economic sector after mining. Agriculture provides livelihood to approx. 40% of the population.
54. Mongolia is witnessing large **internal migration** from rural areas to urban centres. Nearly half of its population lives in the capital Ulaanbaatar and a few other urban centers. Lack of opportunities and social services in rural areas, especially cold winters experienced in recent years and volatility of prices of agricultural products have accelerated this process.
55. EC interventions aim at **improving living conditions, quality of public administration and income generation** opportunities in rural areas and contribute to preserving the Mongolian rural lifestyle. In particular employability of the rural youth must be seen not only in terms of skill endowment, but also in terms of entrepreneurship and SME fabric in rural areas. Accordingly, skills development should also encompass managerial-type skills needed to underpin SME development. Actions should continue to support SME development, job creation and income generation especially in rural areas, building and complementing assistance under the previous MIP 2007-2010.
56. The EC has previous experience and comparative advantage in the rural development sector based on the past TACIS interventions and the ongoing Animal Health and Livestock Marketing Project (AHLM) and SLP II. Other major donors in the Mongolian context, such as the World Bank, FAO, Germany, the Netherlands and the Czech Republic, continue working in the rural

development sector, and the inputs of the various donors will continue to be coordinated in this area to prevent overlapping.

Activity I. Vocational training for rural development

57. There is a stringent need to improve the technical skills and productivity of the labour force to meet current and future market demands (e.g. construction, mining, mechanics, agriculture and related rural services).
58. Bearing in mind the high level of poverty in Mongolia's rural areas, an EC intervention should include direct support to the very poor and vulnerable in the form of well-targeted EU scholarship schemes.
59. Donors such as the US (Millennium Corporation Account), ADB (Asian Development Bank), Japan (JICA), Korea (KOICA), Russia and Germany (GTZ) are active in this sector. However, from consultations with stakeholders emerges a clear need for additional inputs. The EC contribution is expected to build and add on existing initiatives, creating income opportunities for rural and peri-urban disadvantaged strata of the population. This area has been identified as a key for resolving future societal and economic challenges Mongolia is facing.
60. Opportunities currently provided by modern Information and Communication Technologies (ICTs) should be explored, especially for mobile nomadic groups. A combination of distance learning, printed materials and visiting teachers could contribute to guarantee uniformly high standards of accessibility and of quality. Developing and piloting innovative systems through adequate investments in ICT might represent an interesting and innovative way towards basic service delivery in such a context. This contribution, building on experience, would pave the way towards further economic diversification investments in future.
61. In addition, EU support could also include training on the prevention and control of communicable and non-communicable diseases, in particular through facilitating the implementation of international health treaties to which Mongolia is a party.

(ii) General/Specific objectives

62. The overall objective of EC interventions will be to support the economic development and human capital potential of the Mongolian government and population by providing **vocational education and training** responsive to the needs of a rapidly changing labour market of a country undergoing a transition from a traditional rural economy to a modern market economy.
63. There are several specific objectives:
 - O-1. Support the **implementation** of the national Technical and Vocational Education Training (TVET) programme at **national and regional level**.
 - O-2. Support the development of national and regional **stakeholders** in TVET (institutions and schools, central and regional administrations, employers' platforms, quality assurance bodies etc, as defined in the national strategy).
 - O-3. Gradually developing a National **Qualifications Framework** which will form a bridge between the labour market, SMEs and TVET.

O-4. Improve **income generation opportunities** and living conditions in rural areas through capacity building for local authorities and access to upgraded vocational education and training services (including adults) for the population as well as for SMEs.

O-5. Establish sustainable dialogue platforms between relevant EU and Mongolia counterparts providing a long-term mechanism for **consultation** and exchange on development and management of VET systems.

(iii) Expected results

Main expected results are:

- A. Direct support and strategic advice provided to national TVET sector (to be revised during identification and formulation):
 - Advice and recommendations to government bodies in charge;
 - Workshops on the TVET working group to review reform progress;
- B. Increased performance of key TVET institutions in selected sectors (especially relevant to rural development):
 - improve quality through curriculum development and training of teachers and trainers;
 - assist in drafting institution development plans and in their implementation;
 - capacity building for civil servants at provincial level
 - twinning with corresponding institutes in the EU
 - identified skills demand and labour market needs
- C. Foundations laid for National Qualifications Framework (NQF) as a bridge between the labour market and TVET
 - strategic advice on NQF structure, functions and mechanisms;
 - facilitate NQF institutional development;

(iv) Indicators of achievement

Although details will be fleshed out at the subsequent identification phase, possible indicators grouped under main results clusters, include the following:

- A.1* Regular meetings and exchanges with National bodies in charge of TVET
- A.2* Performance of public administration at provincial level improved
- B.1* Number of beneficiaries (including female beneficiaries) trained
- B.2* Number of trained professionals that are employed (either self-employed or employee) in their field of training.
- B.3* Number of SMEs created by the trainees
- C.1* Public-private partnerships in TVET established in one or more sectors
- C.2* Progress achieved in development of NQF

Activity II. Supporting governance, democracy, human rights and institutional reforms

(i) Description/rationale

64. Mongolia has a literacy level of 98%, which is comparable to any EU Member States. During Socialist times, there was a strong state-run, Soviet-supported system for building the capacity of the civil service. Large parts of the Mongolian elite were educated in the Soviet Union and the satellite countries in Eastern Europe. After the political changes in 1990, this system faded away and other foreign (Western) scholarship systems became available but usually accessible only by the elite.
65. The capacity of **public administration** is thus facing **multiple challenges**. The Soviet/Eastern European educated generation with technical skills is gradually retiring, in addition, their skills and methods do not always meet today's needs, while most of western educated young professionals do not return to Mongolia, particularly to rural areas. This has left to a **gap of capable and knowledgeable professionals** in numerous fields.
66. Building capacity at both central and provincial level is equally important, as both levels eventually condition the effectiveness and efficiency of each other. It is acknowledged that the high rate of turnover of public officials and civil servants, linked to political considerations, is a challenge to good governance. This issue needs to be tackled in any EC intervention at the institutional level.
67. Capacity building has always been an over-arching principle of the EC-Mongolia cooperation. Considering the limited resources available, and the EC long-standing experience in capacity building for developing economies, maximum benefits can be reached through this approach.
68. Moreover, EU Member States have substantial experience in capacity building for the public service and Mongolia would greatly benefit from this knowledge.
69. EC interventions should be identified with the Mongolian partners in view of the desire for capacity building in a number of areas *inter alia* the following:
 - Trade and Investment: support to economic and social development and the integration of Mongolia in the world economy
 - Statistics: collection, storage and usage of statistics in particular for macro-economics and social indicators
 - Customs: including the enforcement of customs rules and the prevention, investigation and repression of customs offences

(ii) General/Specific objectives

The General objective is to support Mongolia in its transition towards an **efficient service oriented government**. The specific objectives are:

1. To assist the Government to improve responsiveness and performance of its administration and public service system based on the five principles of **governance** (openness, accountability, effectiveness, coherence, participation);

2. To establish **sustainable dialogue platforms** between relevant EU and Mongolia counterparts providing a long-term mechanism for consultation and exchange on public management and good governance.

(iii) Expected results

The project will support the reform process at two levels:

- □ policy/legislative development at central government level (central administrations);
- □ policy enforcement at local government level (including administrations and public sector units).

Within each pilot province, target institutions of government could be identified.

Thematic Area I - Support to Service Oriented Management

1. Developing capacities for optimisation of structures, functions and processes; optimisation of human resources, including building capacities of leaders, middle-managers, administrative staff in different regional contexts (westerns, central and coastal areas) and levels of government; strengthening of professionalism in public service;

2. Building dialogue mechanisms between administrations, public sector units, citizens and non-state actors.

Thematic Area II – Enhancement of the Civil Service and HR System

This thematic area aims to assist in the enforcement of the Civil Service Law, definition and implementation of Human Resource policies in public and private organisations as relevant to the mandate of the main Beneficiary of the project. It will focus on legislative development and enforcement of strategies, improving professionalism in public service, mainstreaming of cross-cutting issues (gender, transparency, accountability, equity and equality) both in policies, implementing regulations, in the professional code of civil servants, in the development of staff performance management and assessment models.

Thematic Area III - Development of Quality Management and participatory Institutional Performance Assessment Frameworks and Associated Policies

This thematic area will focus on researching, modelling and testing of innovative systems for

1. Internal quality management and quality control in public administrations and public sector units;

2. Assessing/Reviewing of performance of local public authorities in delivering services for local communities, thereby contributing to accountability and responsiveness in public management, increased public trust in local government and proximity of citizens to government (G2C/C2G). Eventually, this component will contribute to institutionalise such models into government practice(s).

(iv) Indicators of achievement

- From a citizen viewpoint, improved efficiency, accountability and responsiveness of public administrations/public sector units in managing and delivering services to citizens.

- sound Human Resource and civil servants policies are defined, professionalism in the civil service is improved, civil service performance is enhanced (as measured ad hoc assessment frameworks).



Annex 1: Mongolia summary table at a glance

Annex 2: Country governance profile

Annex 3: Donor coordination matrix

Annex 4: Description of the MTR document drafting process

Annex 5: Mid-term review checklist

Annex 6: Country environmental profile

Annex 7: List of Abbreviations and acronyms