

MULTIANNUAL INDICATIVE PROGRAMME (MIP) FOR MONGOLIA 2014-2020

1. The overall lines for the EU response

1.1. Strategic objectives of the EU's relationship with the partner country/region

Over the past 20 years, Mongolia has transformed itself from a socialist country to a multiparty democracy with an increasingly expanding economy. Mongolia is at the threshold of a major transformation, driven by the exploitation of its vast mineral resources. The share of mining in GDP today stands at 20 percent, twice the ratio of a decade ago. The economy grew by 12.4 percent in 2012, and by 17.5% in 2011. GDP is expected to grow at a double digit rate over the period from 2013 to 2017, despite the unfavourable external environment.

This economic growth has translated into some benefits for the people of Mongolia and poverty decreased from 38.7 percent in 2010 to 27.4 percent in 2012. The 5th national Millennium Development Goals (MDGs) progress report from December 2013 acknowledges substantial progress made in regard to most MDGs – even though significant regional disparities and an urban-rural divide still prevail – and concludes that Mongolia is expected to achieve 71% of the global MDG targets by 2015.

Mongolia's geostrategic position between China and Russia, the fact that it is one of the few democracies established in Central Asia and the constructive role the country has played in multilateral organizations, are only a few reasons that further underline the country's strategic importance to the EU. Mongolia was accepted as a member of the Organisation for Security and Co-operation in Europe (OSCE) in November 2012. It also conducted a successful two-year Chair of the Community of Democracies. In addition to this growing international engagement, Mongolia constitutes a positive role model in Central Asia - with a multiparty system, media and a strong and active civil society. However, the mining boom and the fast economic growth of the last years have increased corruption cases which undermine the rule of law.

Environmental degradation is affecting the country's development and contributing to poverty levels, including e.g. land degradation, water pollution (associated to the mining industry and very low levels of sewerage coverage), air pollution in urban centres and deforestation. Moreover Mongolia is highly vulnerable to climate change as its economy depends on pastoral livestock, rain-fed agriculture and the uneven distribution of water resources.

While current trade between Mongolia and EU Member States is rather limited, focusing mainly on livestock related products (e.g. cashmere), the country owns some of the world's largest deposits of mineral resources, including copper, coal, rare earths and uranium, which is of strategic importance. Mongolia benefits of the EU's Generalized Scheme of Preferences (GSP+), allowing exporters to pay lower duties on their exports to the EU and as such giving them vital access to EU markets, further contributing to Mongolia's economic growth.

The Partnership and Cooperation Agreement (PCA) between Mongolia and the EU, including its Member States, was signed in April 2013. The PCA opens new, broad possibilities of cooperation between the European Union (EU), its Member States and Mongolia in many different fields, including political dialogue, human rights, development, trade and investment, agriculture, people-to-people contacts, energy, environment and climate change.

The EU aims to assist Mongolia towards further stabilising its democratic system and sustainable development in order for the country to fulfil its ambition of becoming a middle income country (MIC) by 2021 while successively adapting to relevant European norms and standards.

In accordance with the Agenda for Change, the EU will support the protection and fulfilment of human rights across all priority areas, to assist Mongolia in meeting its international human rights' commitments. The Government has so far neither taken a lead in donor coordination nor in initiating joint action plans with any donor concerning the implementation of aid effectiveness principles. In the absence of an EU Delegation in Ulaanbaatar and given the fact that programming cycles of other relevant donors, including of EU Member States where only Germany is a major donor, are not synchronized with the DCI, the conditions for Joint Programming are not there at present. Based on alignment with development strategies of the Mongolian Government, the EU will explore possibilities for a more coordinated approach with Member States and other donors. Germany's country strategy for cooperation with Mongolia ends in 2016; options for closer cooperation with large donors amongst member states will be explored between 2014 and 2017.

1.2. Choice of sectors

Mongolia is a resources driven economy with very high economic prospects and increasing revenue generation. The country's development is expected to increasingly rely on returns from the mining sector and there is a very high risk that Mongolia will chronically suffer from so-called Dutch disease, an economic condition in which a nation's economy becomes overly dependent on the export of natural resources, while the manufacturing and agriculture sector declines. As a remedy, Mongolia will need to look beyond the prospects of coal and copper mining that will increasingly drive its economic boom to find a more balanced and greener model of growth. Transparency and accountability of revenue generation and public spending are part of the solution, but the country also needs to put in place mechanisms to spread the benefits among the population. Investments in the social reform sector will be needed to ensure a more equitable and inclusive growth. Further attention must be given to the education system (including in vocational education), with the aim to work towards the diversification of the economy by creating skilled jobs and decent work outside the mining sector.

The two focal sectors for the country have been defined accordingly:

- **Improved governance of revenues for inclusive and sustainable growth**
- **Support for better employment opportunities**

While both sectors are in line with the objectives and priorities defined in the country, a properly elaborated strategic development framework for the country is still rather weak.

The *'Millennium Development Goals based Comprehensive National Development Strategy (NDS) of Mongolia' for the period 2007-2021* constitutes Mongolia's mid-term national development plan. The NDS attempts to outline the long-term development priorities and policies and describe implementation strategies and expected outcomes in two phases: 2007-2015, achieving MDGs and actively developing the country's economy and 2016-2021, making a transition to knowledge-based economy and developing Mongolia into a MIC.

The new Government that took office in 2012 has elaborated a Government Action Programme (GAP) 2012-2016. This GAP would seem to have been elaborated with little reference to the NDS and rather proposes a long range of specific activities that the new Government intends to implement. The GAP is not explicitly linked to funding requirements nor includes a monitoring framework. The GAP is organised along five overall objectives: 1) A Mongolia with jobs and income, 2) A healthy and strong Mongolia, 3) An educated and knowledgeable Mongolia, 4) A Mongolia in a safe environment, and 5) A free Mongolia. The first heading "A Mongolia with jobs

and income" provides a clear policy basis for the second focal sector whereas the governance agenda is included as a range of specific measures rather than articulated as a coherent agenda.

The choice of the focal areas has been discussed with Government and other donors, EU Member States and Mongolian civil society organizations (CSOs), consulted on various occasions during 2013. The focal areas further correspond to Mongolia's aim to learn from the experience of EU accession countries.

EU support for both sectors will be subject to standard EU environmental and climate screenings in view of addressing pro-poor environmental and climate change concerns in project/programme formulation and implementation.

In view of Mongolia's high exposure to environmental risks, resilience building, Climate Change Adaptation and Disaster Risk Reduction (DRR) will be integrated in the activities, where possible.¹

Focal Area 1: Improved governance of revenues for inclusive and sustainable growth (DAC 151)

The mining boom has increased public revenues and raised expectations of future higher levels of revenues. This obviously presents an opportunity for underpinning a broad based development agenda, but it also presents a number of challenges for reaching such an outcome. Increased capacity for managing the resource revenues as well as institutional arrangements to support inclusive and environmentally sustainable growth would be key elements.

Core challenges include the management of the revenue side as well as the three key aspects of public finance management (PFM): overall fiscal balance, allocation of funds among sectors (addressing priority areas) and effectiveness in the use of funds. Important initiatives have been introduced in Mongolia over the last years to strengthen the management and governance of mining revenues but the political economy has made implementation problematic.

The mining industry is one of the key drivers of environmental degradation in the country, affecting livelihoods (e.g. through land degradation and water pollution), health and biodiversity. At the same time the enforcement of the environmental legal framework remains inefficient.

Mongolia has signed up to and is seeking to implement the Extractive Industries Transparency Initiative (EITI). The country has developed a mid-term strategy (2010-2014), which includes broader objectives such as expanding the EITI to revenue disbursement, licensing, natural reclamation costs and contract transparency. Other initiatives to improve the management of the mining revenues in light of long term sustainable development include the plans for the establishment of a sovereign wealth fund (SWF) which could help in preserving part of the mining revenue for future use. Again, the governance of such a fund would be a central element in achieving the objective of advancing long term sustainable development. Mongolia introduced a fiscal stability law in 2010 putting limits on public deficits (max 2% of GDP) and overall levels of public debt (<40%) which would provide some overall boundaries for fiscal expansion. However, it would appear that there are substantial issues in regard to off-budget funding, including in relation to the proceeds from the Chinggis bond (representing 15% of GDP) launched in 2012.

There is no comprehensive reform agenda, neither for improving governance nor for enhancing capacity of the Government administration. The GAP reaffirms the principles of fiscal stability and

¹ Resilience building is an overarching goal as outlined in the European Commission's Communication on Resilience COM(2012)586 final and SWD(2013)227 final

various specific initiatives on improving PFM, e.g. for strengthening the planning investments on a five year basis.

The governance agenda in support of sustainable and inclusive development encompasses also improving policies and regulations in a number of areas, e.g. related to environmental protection, fiscal arrangements and spending policies. The focal sector foresees broad based support to build capacity in the Government administration, both at central and sub-national level, underpinning more adequate policies and regulation towards inclusive and sustainable development.

An area that has particular importance, both for fiscal sustainability and the wider sharing of benefits from the mining boom, would be the reform of the social protection system. The GAP 2012-16 stresses the need for renouncing the large scale social welfare policy by providing support only to those in need. Targeting of social welfare will require both the elaboration of strategies as well as concrete measures and systems to introduce and administer such targeted social welfare arrangements in an efficient manner.

Accordingly, EU's 2014-2020 cooperation focus is expected to remain on supporting the improvement of public financial management, with the aim to better manage income and expenditure of revenues generated particularly in the mining sector. Further assistance will be provided on capacity building to improve the formulation of policies and legislation in prioritized fields for economic, social and environmental governance (including support with the implementation of multilateral environmental and climate-related agreements) to support Mongolia in its aim to draw on European norms and standards including in the areas of competition policy and state aid control. Improved environmental governance will further substantially reduce the negative impact of mining industries on the environment. Special attention will be given to the support of national Social Sector Reform programmes. In the overall context and approach, EU's support to institutional and organizational development, capacity development and human resources management, will be of particular importance.

Focal Area 2: Support for better employment opportunities (DAC 113)

The second focal sector focusses on creating employment opportunities in the non-mining sector, in particular through a better skilled labour force. Several initiatives to strengthen linkages from mining operations and strengthen vocational training are being supported, both by donors and mining companies; hence the EU support will be focussed on the non-mining sector.

While exports from the mining sector have grown strongly over the last decade, exports from non-mineral sectors have remained more or less constant, representing, as of 2012 only about 10% of total exports, concentrated in a few products (textile products and natural stones)

Mongolia has difficult conditions for developing a broad based economic base, being cold, remote/landlocked and sparsely populated. While the country has managed a transformation from a centrally planned economy fairly well and undertaken measures to reduce regulation, there are still important barriers to development. The most recent World Bank enterprise survey lists access to finance, tax regime and availability of skilled labour as the modest reported obstacles. In the Doing Business Survey, Mongolia scores relatively well but less so in trade facilitation.

The GAP 2012-2016 puts the job creation agenda firmly in the center with the first of five sections focusing on creation of a Mongolia with jobs and income and with the defined target of creating 150,000 new jobs. The plan defines a number of sectors to be targeted for specific support measures, covering wool, cashmere and leather; livestock and dairy; tourism, bio-technology; import substitution and the service sector.

In particular there is a clear need for creation of new business and employment opportunities in rural areas which tend to lag behind in the economic development linked to mining. Support is needed to empower local nomadic communities to take an active role in the economic and social development of the rural areas. Design of effective rural development policies that would create jobs and slow-down the migration of rural population into the urban centres would contribute to a more balanced social and economic development of Mongolia. Where appropriate this could also include rural projects in culture and creative sectors as a lever for better employment.

Experience of recent years has shown that a piecemeal approach to employment promotion does not work, and that a first step is to integrate employment goals and targets in national development frameworks, economic policies, and sectoral strategies.

In line herewith, the GAP makes also reference to institutional measures such as integrating into a single structure the currently separate functions of employment, professional education and small and medium enterprises (SMEs) support. As mentioned the GAP does not present a coherent policy but rather a long list of actions, but the focus on job-creation through improving conditions for business and strengthening of vocational training is strongly represented.

Based on the revised 'Law of Mongolia on Vocational Education and Training' (2009), an ambitious 'Action Plan for Implementing Technical and Vocational Education and Training (TVET)' (2010-2013) was formulated, with the main objective to successfully establish competency-based training in TVET institutions, requiring new regulations, arrangements to engage with labour market stakeholders, implementation of competency based training according to standards. The Ministry of Labour has expressed its interest in the possibility of twinning arrangements between EU Member States organizations/institutions and Mongolian vocational training establishments.

The upgrading of skills will be combined with measures to strengthen the prospects for private sector development, including improving access to finance, better regulation and targeted business services.

2. Indicative financial overview

The indicative allocation for Mongolia is EUR 65 000 000 and the table below is based on this value.

No.	Focal Area / Sector	Indicative Amount (million EUR)	% of total
1	Focal Area 1: Improved governance of revenues for inclusive and sustainable growth (DAC 151)	34	52.3 %
2	Focal Area 2: Support for better employment opportunities	30	46.1 %
	Support measures	1	1.6 %
		65	100 %

3. EU support per sector

3.1 Improved governance of revenues for inclusive and sustainable growth (DAC 151)

Good governance remains a key issue in need of external support in Mongolia, subject to Government's commitment to seriously address governance issues, particularly within its

administration. The starting point for capacity development in Mongolia is rather low. Support should begin with a comprehensive capacity analysis in the targeted ministries and institutions, if sufficient awareness and ownership for such a process exists.

In 2014, the World Bank together with other donors started working with the Government to carry out the first ever Public Expenditure and Financial Accountability assessment (PEFA) in Mongolia, which would in due course provide a more accurate picture of PFM situation in the country, as well as a baseline against which to assess future improvements.

Better governance of revenues from extractive industries will have an impact on social policies, and will contribute to promoting a sound and predictable business, improving the investment environment and fighting corruption. Improved environmental governance will reduce the negative impact of mining industries on the environment.

3.1.1 Overall and specific **objectives**

The **overall objective** under Focal Area 1 is to *improve governance and distribution of revenues to advance inclusive and environmentally sustainable growth in Mongolia.*

This would be pursued through the following specific objectives:

Improved Public Financial Management (PFM), including Domestic Revenue Mobilization (DRM). EU cooperation will work on both the revenue side of PFM and DRM as well as on the expenditure side, which relates to the strategic allocation of financial and human resources and to service delivery. DRM is recognised as being crucial to create fiscal space for development-related public spending, reduce dependency on aid, and to the social contract between a state and its citizens. Support would also target the reinforcement of anti-corruption agencies.

Improved legal, social, economic and environmental governance, in support of inclusive and sustainable development, in particular drawing on EU practise where relevant. The focus will be on those policies and legislative reforms, which directly relate to inclusive and sustainable growth (e.g. good governance, environmental governance and rural development) and where the EU and its Member States have particular knowledge and/or experience, which could be adapted to the Mongolian context. The modernization and streamlining of the Mongolian public administration is key to enhancing governance in the country. Support may both be provided at national and subnational levels and it may include statistical capacity building to enhance comparability and compliance with international standards of Mongolian official statistics.

To support Social Sector Reform in Mongolia, with the aim to improve equity and efficiency in the provision of social protection, while supporting social inclusion and cohesion, as the essential underpinning of inclusive, sustainable growth and poverty reduction. The EU will support Mongolia in the challenges to design social protection programmes that are better targeted, to operate them with greater efficiency and in ways that are fiscally feasible and sustainable.

3.1.2. For each of the specific objectives the main expected **results** are:

Main expected results to be achieved with regards to **PFM** are:

- Strengthened policy-based budgeting.
- Strengthened public financial management systems for revenue collection as well as allocating, executing and monitoring public expenditures at both national and local level.

Main expected results to be achieved with regards to **improved economic, social and environmental governance**:

- Designed and implemented capacity building strategies at both national and local level.
- Elaborated and implemented policies and regulations according to international standards in strategic sectors.

Main expected results to be achieved with regards to **Social Sector Reform** are:

- Enhanced capacity of Ministry of Population Development and Social Protection (MoPDSP) and other relevant stakeholders to develop, implement, coordinate, monitor and evaluate the social protection system/programme.
- The necessary management tools, such as management information systems and costing tools, are developed and relevant staff within the MoPDSP trained to use and update them.

The EU further takes into account the important role CSOs will continue to play in Mongolia, particularly with regards to advocacy, awareness creation and service delivery in social sectors. The involvement of young people will be particularly promoted.

The main indicators for measuring the aforementioned results are contained in the sector intervention framework attached in the annex.

3.1.3. Donor coordination and policy dialogue are:

As indicated earlier, donor coordination and harmonization – both by Government and amongst donors – are still at an infant stage in Mongolia and the Government seems to have neither the capacity nor the ambition to address and alleviate this situation.

The EU is with a contribution of EUR 6 500 000 the largest donor to the 'Managing Natural Resources Wealth Topical Trust Fund', managed by the International Monetary Fund (IMF), which has assisted Mongolia in PFM related issues since 2012 and will continue to work until 2016. EU's future engagements in this field, along with other donors, will be largely guided by the 'Good Practice Note on Sequencing PFM Reforms' and related background papers, jointly published with IMF in 01/2013.

Key donors in Mongolia's social sector reform process are the Asian Development Bank (ADB) and the World Bank, which have lately provided policy advice towards the development of the Social Welfare Fund and the Social Insurance Fund. Germany was also involved in the reform of health insurance system.

3.1.4. The Government's **financial and policy commitments** are:

The Government commitment in relation to the wider governance agenda is linked to policy commitments rather than specific financial commitments. Prior to mobilization of large scale support for enhancing Government capacity, it would be essential to have a proper strategic framework for enhancing capacity and strengthening governance. Initial support would thus rather focus on selected areas and analytical work combined with efforts to support the elaboration of a wider capacity development strategy.

For the social policy reform, financial commitments to social payments have at times led to concern regarding financial sustainability. The GAP outlines the objective of *"renounce the large scale social welfare policy by providing support only to the needy children, the elderly and the disabled persons"*. It would be essential to maintain the dissociation of social welfare payments from electoral promises.

3.1.5. The overall **risk assessment** of the sector intervention:

A core risk in relation to advancing good governance is linked to the political economy of the management of the revenues from the mining sector. Spending pressures and targeting of the spending towards e.g. local constituencies are inherent features of the electoral competition in Mongolia. While there appears to be scope for advancing the good governance agenda in a piecemeal fashion it is not likely that a coherent strategy for this would emerge in the medium term. Support would thus have to be provided in an adaptable manner and initially focus on analytical support and specific actions where progress would be likely.

Enhancing the capacity of the public administration will be a core element of the good governance agenda. A key risk in relation to capacity building is the high turnover of public employees the country has seen in the wake of recent elections. Following the change of Government in 2012, all interlocutors talk about massive replacement of staff at all levels in Government combined with significant institutional changes. A future change in Government, e.g. following the election in 2016, may lead to similar staff changes. Capacity building support will be focused on enhancing institutional capacity and significant amount of the funds will only be mobilised post-2016.

Social policy and payments have been a highly politicised area and used as election promises with frequent policy reversals, veering from general coverage to targeted support and back. While there is overall agreement on the need for developing financially sustainable system of targeted social protection, the policy framework guiding the sector would still risk being subject to higher level political/populist influences. The risk of corruption is also high in Mongolia.

An internal risk is related to that fact that, in the absence of an EU Delegation in Ulaanbaatar, the identification/formulation and implementation of future projects under the Development Co-operation Instrument (DCI) 2014-2020 will have to be managed with the limited human/financial resources based in the EU Delegation in Beijing.

3.2 Support for better employment opportunities (DAC 113)

As outlined, one of the main challenges Mongolia will be facing in the coming years is related to the need to further diversify its economy and to stimulate private sector development. While the mining sector will generate employment for skilled workers, no sufficient number of jobs will be generated to satisfy the local demand. Further efforts will be needed in the coming years to invest in people and to create decent jobs and better employment opportunities also outside the mining sector.

3.2.1 The following overall and specific objectives will be pursued:

The **overall objective** under Focal Area 2 is to *increase employment opportunities, which are not harmful to the environment, to help reduce poverty and income inequality*

EU's support should focus primarily on those rural areas that do not benefit from the mining and construction boom. The EU has a long-standing experience in designing and implementing rural development programmes including job-creation and empowering local communities (e.g. the bottom-up "Leader" approach). This experience could be shared with the Mongolians and adapted to the local circumstances.

Specific objective 1 is to accompany the country in setting up a National Employment strategy (and related Skills Development Policy) addressing issues relating to SMEs in the non-mining sector.

In a wider sense, EU will assist Government in diversifying Mongolia's economy and in putting measures in place that will lead to the creation of more decent jobs for a better qualified labor force in the country. Investments in value chain development and value added approaches will be supported to develop more viable SMEs and cooperatives in rural areas, aiming to harness the opportunities offered by local, regional and globally integrated markets, with a special attention to the creation of green jobs and value-chains.

Specific objective 2 is to reform, strengthen and adapt TVET system to labour market needs and innovative businesses. Specifically, the EU will support Government in establishing an efficient, demand-driven and sustainable TVET sector throughout the country that contributes to the country's environmentally sustainable, low carbon and climate resilient development, responding to local needs as well as to regional and global opportunities for the Mongolian economy. Furthermore, the EU will continue supporting the Government in its aim to establish appropriate quality assurance procedures for assessment and certification.

The EU will explore options to deploy a higher percentage of funds through new financial instruments, such as blending grants and loans and other risk-sharing mechanisms, in order to leverage further resources, and respectively strengthen access to finance.

3.2.2. For the specific objectives the main expected results are:

Main expected results to be achieved with regards to enhancing employment are:

- National Employment Policy in place specifically addressing issues relating to employment creation in the non-mining sector
- Value chains in rural areas are supported
- Core constraints for SME development addressed, including enhancing access to finance for SMEs.

And with regards to the reform and strengthening of the TVET system:

- TVET centres/ institutions that have improved quality as part of wider employment strategy
- TVET graduates from all parts of society have enhanced employability prospect for decent jobs, including green jobs, based on the technical knowledge and practical skills acquired, which correspond to and are required at labour markets within and outside Mongolia.

Core activities would include technical assistance to analysis and elaboration of a national employment strategy, support to reorganisation and capacity building of employment and TVET policy, support to specific implementation initiatives, including matching grant schemes, blending arrangements etc.

The main indicators for measuring the aforementioned results are contained in the sector intervention framework attached in the annex.

3.2.3. Donor coordination and policy dialogue are:

As mentioned previously, Government has not yet taken any step towards taking the lead in and/or improving donor coordination and harmonization. However, the decision of the new Government to put the TVET Department and the SME Department under one roof within the Ministry of Labour gives some hope for better sector coordination. The EU is already working at the national level with the Ministry of Labour, a leverage that could be used to enhance donor coordination in the TVET and the SME sectors.

Other major donors in the TVET sector are currently Germany and Switzerland, with which the EU funded pipeline project will work closely, following a programmatic approach. Apart from this, ADB seems to foresee larger investments (via loans) to provide adequate infrastructure and equipment, which can satisfy future demands. Apart from the donors, private sector players, namely Rio Tinto, which owns the mining concession for the Oyu Tolgoi copper/gold deposit, have got increasingly involved in the TVET sector, with budget volumes exceeding those of bilateral donors.

Even though there are currently no formal policy dialogues established with Government one should generally foresee them in the coming years to further drive TVET and private sector development in the right direction. It would be further important that the EU, Member States and like-minded donors (e.g. Switzerland) increasingly "act as one", which would help to avoid duplications of efforts, omissions or contradictions and improve the impact and effectiveness of EU actions in the sector. The possibility of joint programming (e.g. with Germany and Switzerland) shall be envisaged to increase further coherence and synergies.

Complementary to that, the EU foresees further cooperation through the regional DCI 2014-2020 envelope regarding the strengthening of trade policy and wider global and regional integration, through more diversified and higher value added trade.

3.2.4. The Government's **financial and policy commitments** are:

With regards to TVET, the GAP foresees to *"take measures to establish direct connections between the vocation training centres and the potential employers"*. This is a field where the EU can share its lessons learned and experiences. The Government policy continues by outlining the need to *"integrate activities of vocational training"..."with the labour market demand and supply trends"*, which is in line with the approach chosen by the EU and its Member States.

The country has not yet developed a private sector development strategy and the current law concerning SMEs dates back to 2007. One of the most crucial aspects to support Mongolia's successful transition to a market economy is however private sector development. The new element of 'competition', both domestically and internationally requires companies to be innovative. Mongolia's economy is still dominated by large state-owned enterprises (SOE), their transformation is staggered and SMEs are only gradually developing. In the coming years, support measures will have to be introduced through specific public policies, targeted to consolidation of firms, capacity building, consultancy, data acquisition, applied research, technological development and the creation of new job opportunities.

3.2.5. The overall **risk assessment** of the sector intervention:

At macro-level, the core issue is Dutch disease/resource curse, the core outcome being that non-mineral sectors are depressed. This is linked to various factors, including appreciation of the currency, poor governance/lack of policy attention to this agenda. Mitigating measures include improved fiscal management and governance, which are among the aims that will be supported under focal sector 1.

Upgrading skills is just one element of strengthening private sector development (PSD) and job creation. Mongolia faces many constraints for the development of private sector, including high costs of external trade, poor utility services, etc. Mitigating measures will include seeking to

inscribe the support to diversification and TVET in a wider national employment policy, identifying the multitude of constraints.

Environmental degradation, natural hazards (such as landslides and permafrost) and climate change should be taken into account. They can have an impact on the feasibility and sustainability of new economic opportunities, especially those dependent on the use of natural resources and climatic conditions (e.g. agro-industry).

As identified above under the first focal area, the absence of an EU Delegation in Ulaanbaatar implies that, the identification/formulation and implementation of future projects under this sector will have to be managed with the limited human/financial resources based in the EU Delegation in Beijing.

4. Support Measures

An indicative **amount** of EUR 1 000 000 will be set aside for measures aimed at supporting the preparation and implementation of actions under the MIP, including through feasibility studies, consultation and planning workshops, outreach, audits, evaluations and other activities as necessary to ensure a high quality design and implementation of actions under the MIP.

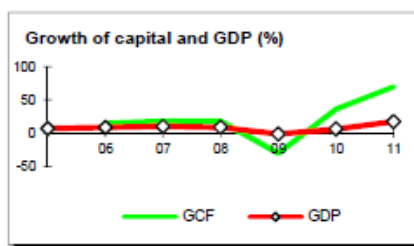
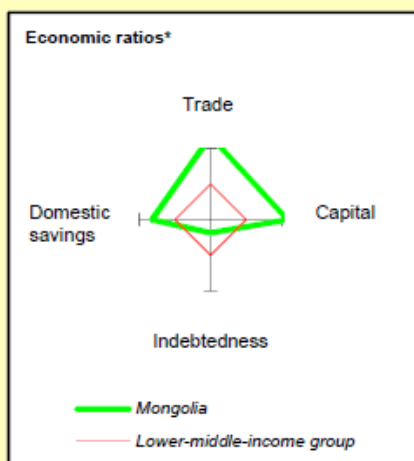
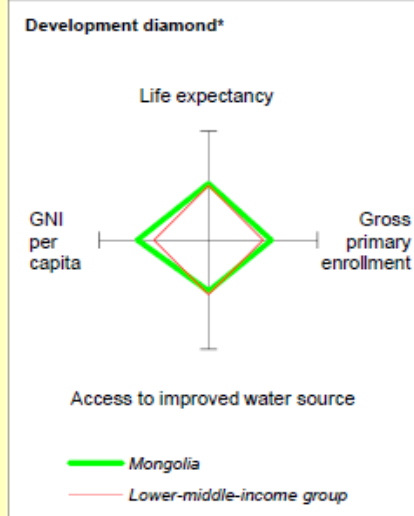
Attachments

1. Country at a glance (i.e. macro-economic indicators and indicators derived from the MDGs, as well as possible other indicators relevant for the country, including risk indicators for disaster prone countries)
2. Indicative timetable for commitment of funds
3. Sector intervention framework and performance indicators
4. Donor matrix showing the indicative allocations per sector
5. Abbreviations

1. Attachment 1. Country at a glance

POVERTY and SOCIAL					East Asia & Pacific	Lower-middle-income
Mongolia						
2011						
Population, mid-year (millions)		2.8	1,974	2,533		
GNI per capita (Atlas method, US\$)		2,310	4,248	1,772		
GNI (Atlas method, US\$ billions)		6.5	8,387	4,488		
Average annual growth, 2005-11						
Population (%)		1.6	0.7	1.6		
Labor force (%)		1.9	1.0	1.3		
Most recent estimate (latest year available, 2005-11)						
Poverty (% of population below national poverty line)		39	..	..		
Urban population (% of total population)		68	49	39		
Life expectancy at birth (years)		68	72	66		
Infant mortality (per 1,000 live births)		26	17	46		
Child malnutrition (% of children under 5)		5	5	24		
Access to an improved water source (% of population)		82	90	87		
Literacy (% of population age 15+)		97	94	71		
Gross primary enrollment (% of school-age population)		120	111	104		
Male		121	110	106		
Female		118	112	102		
KEY ECONOMIC RATIOS and LONG-TERM TRENDS						
	1991	2001	2010	2011		
GDP (US\$ billions)	2.4	1.3	6.2	8.8		
Gross capital formation/GDP	31.0	25.2	40.8	62.5		
Exports of goods and services/GDP	54.1	50.3	54.7	62.3		
Gross domestic savings/GDP	2.5	10.0	33.1	38.0		
Gross national savings/GDP	..	20.3	27.1	31.1		
Current account balance/GDP	-4.0	-4.9	-14.3	-29.3		
Interest payments/GDP	..	0.9	0.5	0.4		
Total debt/GDP	..	74.6	40.4	29.3		
Total debt service/exports	..	7.2	5.0	2.1		
Present value of debt/GDP	..	..	..	21.1		
Present value of debt/exports	..	..	..	33.7		
	1991-01	2001-11	2010	2011	2011-15	
(average annual growth)						
GDP	2.1	7.7	6.4	17.5	12.4	
GDP per capita	1.2	6.1	4.7	15.7	10.8	
Exports of goods and services	..	12.1	6.8	28.1	..	

STRUCTURE of the ECONOMY					East Asia & Pacific	Lower-middle-income
Mongolia						
(% of GDP)						
Agriculture		13.1	26.4	16.2	14.5	
Industry		38.1	25.2	37.5	36.3	
Manufacturing		18.8	9.5	7.3	7.1	
Services		48.8	48.5	46.3	49.2	
Household final consumption expenditure		76.5	73.2	53.1	49.0	
General gov't final consumption expenditure		21.0	16.8	13.7	13.0	
Imports of goods and services		82.5	65.5	62.4	86.8	
	1991-01	2001-11	2010	2011		
(average annual growth)						
Agriculture		-0.5	5.1	-16.6	-0.5	
Industry		3.2	5.2	4.3	9.1	
Manufacturing		-2.3	4.2	6.1	8.3	
Services		0.7	9.2	9.8	16.8	
Household final consumption expenditure		..	12.1	10.9	13.7	
General gov't final consumption expenditure		..	6.6	13.4	12.4	
Gross capital formation		..	12.4	36.4	69.9	
Imports of goods and services		..	17.8	24.1	45.8	



Note: 2011 data are preliminary estimates.

This table was produced from the Development Economics LDB database.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Source: World Bank 17/03/2013

Attachment 2. Indicative timetable for commitments

	Indicative allocation (million EUR)	2014	2015	2016	2017	2018	2019	2020
SECTOR – Improved governance of revenues for inclusive and sustainable growth		3.0		11.0		20.0		
SECTOR – Support for better employment opportunities		3.0		10.0			17.0	
For DCI:								
Support measures		0.5				0.5		
Total Commitments		6.5		21.0		20.5	17.0	

Attachment 3. Sector intervention framework

The results, indicators and means of verification specified in the present annex may need to evolve to take into account changes intervening during the programming period.

Baselines will be included in Action Documents at the latest.

Sector 1: Improved governance of revenues for inclusive and sustainable growth		
Specific objective 1: To put in place an improved PFM system		
<u>Expected Results</u>	<u>Indicators</u>	<u>Means of verification</u>
Strengthened policy-based budgeting (note: within Ministry of Finance with links to Ministry of Economic Development)	Policy based budgeting measured as the average (non-weighted) of PEFA scores of the following two indicators: - Orderliness and participation in the annual budget process. - Multi-year perspective in fiscal planning, expenditure policy and budgeting.	PEFA reports. Baseline: first PEFA assessment to be undertaken in 2014
Strengthened PFM systems for revenue collection as well as allocating, executing and monitoring public expenditures at both national and local level	Average of PEFA Scores: - Aggregate expenditure out-turn compared to original approved Budget - Comprehensiveness of information included in budget - Extent of unreported Government operations - Public Access to key fiscal information - Scope, nature and follow-up of external audit Corruption perception indicator: Baseline: Score 38 out of 100 in Transparency International Corruption Perception Index 2013	PEFA reports Baseline: first PEFA assessment to be undertaken in 2014 International PEFA data
Specific objective 2: Improved legal, social, economic and environmental governance		
<u>Expected Results</u>	<u>Indicators</u>	<u>Means of verification</u>

Designed and implemented capacity building strategies at both national and local level	- Number of capacity building strategies relating to social, economic and environmental governance in place and effectively implemented for targeted areas.	Assessments/international data
Elaborated and implemented policies and regulations according to international standards in strategic sectors.	- Number of policies and regulations developed according to international standards in areas related to good governance, rule of law, social policy, EITI and environmental issues - Number of policies and regulations implemented according to international standards in areas related to good governance, rule of law, social policy, EITI and environmental issues	Assessments/international data
Specific objective 3: To support Social Sector Reform (ref.: Mongolia Summary Sheet), with the aim to improve equity and efficiency in the provision of social protection, while supporting social inclusion and cohesion, as the essential underpinning of inclusive, sustainable growth and poverty reduction.		
<u>Expected Results</u>	<u>Indicators</u>	<u>Means of verification</u>
Enhanced capacity of Ministry of Population Development and Social Protection (MoPDSP) and other relevant stakeholders to develop, implement, finance, coordinate, monitor and evaluate the social protection system/programme.	Implementation status of Comprehensive Social Protection Strategy Milestone 1: Strategy developed Milestone 2: Strategy adopted.	External evaluation and survey.
The necessary management tools, such as management information systems and costing tools are developed and relevant staff within the MoPDSP trained to use and update them.	Implementation status of Social protection measures Milestone 1: Social protection measures developed Milestone 2: Social protection measures in line with plan	Government reports and statistics. External evaluation and survey.

Sector 2: Support for better employment opportunities

Specific objective 1: To accompany the country in setting up a National Employment strategy (and related Skills Development policy) addressing issues relating to SMEs in the non-mining sector.

<u>Expected Results</u>	<u>Indicators</u>	<u>Means of verification</u>
National Employment Policy in place specifically addressing issues relating to employment creation in the non-mining sector	- Implementation status of National Employment Policy Milestone 1: National Employment Policy drafted Milestone 2: National Employment Policy implemented - Number of jobs created Government target: creation of 150.000 jobs by 2017 from 2014 (Baseline for Government target not clearly defined. Part of support would be to assist in enhancing monitoring systems)	Assessment
Targeted value chains in rural areas are supported	Number of additional jobs created in supported SMEs. Increase in value added in supported SMEs	Government reports. National Statistics. Reports of Chamber of Commerce. Survey among SME. Reports of producer associations. - Agriculture employs 28,9% of the work force (384.420 persons)
Core constraints for SME development addressed, including enhancing access to finance for SMEs.	Doing Business Indicators Getting credit indicator	Doing business indicators Mongolia overall rank 2013: 80 Mongolia getting credit rank 2014: 55

Specific objective 2: To reform, strengthen and adapt TVET system to labour market needs and innovative businesses.

<u>Expected Results</u>	<u>Indicators</u>	<u>Means of verification</u>
TVET centres/institutions that have improved quality as part of wider employment strategy.	- Strategy for improving quality of TVET implemented - Number of TVET graduates	TVET and labour market statistics. number of TVET students is 54.000 /year (2012) 23.100 students are graduated technical and vocational schools (2012)
TVET graduates from all parts of society have good employability prospect for decent jobs, based on the technical knowledge and practical skills acquired, which correspond to and are required at labour markets within and outside Mongolia.	- Ratio of Gross Enrolment Rate of girls to boys in vocational education. - Share of TVET Graduates having found a job in their technical field 3 months after finalising TVET	Government reports. External surveys. Standardized tests

Attachment 4. Donor matrix showing the indicative allocations per sector

The amounts mentioned in this table are indicative.

	<u>Indicative Allocation 2014-2020 (million EUR)</u>										
<u>Sectors</u>	Germany (*1)	Switzer- land (*2)	Japan (*3)	Australia (*4)	Canada (*5)	UNDP (*6)	ADB (*7)	WB (*8)	EBRD (*9)	IMF (*10)	USAID (*11)
Focal Area 1: Improved governance of revenues (from extractive industries) for inclusive and sustainable growth	2.0	20.0	8.3	2.6	?	17.5	70.0	123.1			
1.1 Public Finance Management (PFM)	0.5		foreseen			2	10	25.5			
1.2 Governance	1.5	20	foreseen	1.9	foreseen	15	10	50.5			
1.3 Social Sector Reform	N/A			0.7		0.5	50	32.5			
Focal Area 2: Support for better employment opportunities	10	12.0	N/A	2.6	N/A	5.0	60.0	N/A			
2.1 Technical and Vocational Education and Training (TVET)	10	12		2.6		N/A	40	N/A			
2.2. Employment & Small- and Medium-sized Enterprises (SME)	N/A					5	20	14.6			

Annotations:

(*1) Germany: Current programme until 2017. Focal Area "Support for Sustainable Mineral Resource Management" links to DCI 2014-2020. KfW not directly involved in EU Focal Areas.

(*2) Switzerland: Current programme 2013-2016.

(*3) Japan: Not involved in Focal Area 2

(*4) Australia: Current programme until 2017: Figures are highly subject to change, financial approval outstanding.

(*5) Canada: Indicative allocations for 2014 to 2020 not yet approved. Focus on Extractive Sector and on Civil Service Reform (particularly in relation to Extractive Sector).

(*6) UNDP: Allocation of EUR 2 million under 1.1 is on Development Planning. Allocation of EUR 15 million under 1.2 is on human rights, anti-corruption, decentralization, civil service, democracy. Allocation of EUR 5 million for SME is pending on resource mobilization

(*7) ADB: Allocations under 1.1 and 1.2 will be grants, others loans. Current programme 2012-2016. Figures are very indicative. TVET considered as sub-sector of the education sector, which usually is a focal sector in Mongolia. SME not a sector for ADB, but falling under other headings.

(*8) World Bank: Close to 100% loans. Allocation of EUR 50.55 million under 1.2 contains EUR 1.1 million grant. Allocation of EUR 32.46 million under 1.3 contains EUR 1.8 million grant.

(*9) EBRD: Reply pending

(*10) IMF: Reply pending

(*11) USAID: Reply pending

Attachment 5. Abbreviations

ADB	Asian Development Bank
CSOs	Civil-Society Organisations
DAC	Development Assistance Committee
DRR	Disaster Risk Reduction
DBM	Department of Budget and Management
DCI	Development Cooperation Instrument
DRM	domestic revenue mobilization
EITI	Extractive Industries Transparency Initiative
EU	European Union
GAP	Government Action Plan
GSP (+)	Generalised Scheme of Preferences (Plus)
IMF	International Monetary Fund
MDGs	Millennium Development Goals
MIC	middle income countries
MIP	Multiannual Indicative Programme
MoPDSP	Ministry of Population Development and Social Protection
NDS	National Development Strategy
OSCE	Organisation for Security and Co-operation in Europe
PCA	Partnership and Cooperation Agreement
PEFA	Public Expenditure and Financial Accountability
PFM	public finance management
PSD	private sector development
SOE	state-owned enterprises
SME	Small and Medium Enterprises
SWF	sovereign wealth fund
TVET	technical and vocational education and training