

# ***MONGOLIA – HEAVEN FOR FOREIGN CONSULTANTS***

by

**Lkham Luvsanjamts, Mongolian University of Science and Technology**

**Marie Söderberg, European Institute of Japanese Studies**

**Working Paper 215**

**June 2005**

Postal address: P.O. Box 6501, S-113 83 Stockholm, Sweden. Office address: Sveavägen 65  
Telephone: +46 8 736 93 60 Telefax: +46 8 31 30 17 E-mail: [japan@hhs.se](mailto:japan@hhs.se) Internet: <http://www.hhs.se/eijs>

# Mongolia – Heaven for Foreign Consultants

Lkham Luvsanjamts, Mongolian University of Science and Technology  
Marie Söderberg, European Institute of Japanese Studies

Mongolia has an extremely low population density, with 2.5 million people inhabiting a country the geographic size four times that of Japan or three times that of Sweden. It has a severe climate, with little precipitation; with its high altitudes and inland location, it has a prolonged winter. The capital Ulaanbaatar is said to be the world's coldest, and in the winter temperatures can fall as low as -50 Celsius. Three quarters of the country's territory consist of grasslands, with the remaining area being desert or mountain areas. From this description Mongolia does not appear as a very attractive place, but somehow it manages to attract considerable numbers of foreign aid workers. It is said that some 96 different aid programs operate in Mongolia. The World Bank, ADB, IMF and UNDP all have their own offices in Ulaanbaatar. Japan is the largest bilateral donor but aid is also forthcoming from some of the Nordic aid agencies.

Today Mongolia is the fifth most aid-dependent country in the world.<sup>1</sup> This fact naturally raises a number of questions. What is it with Mongolia that makes it attract such a lot of aid? The high poverty level is one explanation, but not a sufficient one, as there are many other equally poor countries which do not attract the same amount of aid. The fact that Mongolia is a democracy with a good human rights record must also be a contributing factor. So are the facts that most of the aid programs have been executed rather well; the foreign consultants are taken seriously and can return home with their missions completed.

The high dependency rate on foreign aid, however, raises the question if this limits the Mongolian policy options. Is high aid dependency connected to weak ownership of one's own development? The purpose of this paper is to analyse the concepts of ownership and partnership in aid, as well as aid effectiveness and institutional change and how these are tackled in the aid relation with Mongolia. We will start by looking at Mongolia as a recipient. This will be followed by Mongolian development strategies and shifts taking place over time as well as the processes of receiving aid. Then we will also compare Japanese and Swedish aid to Mongolia in the field of human resource development. With Mongolia's own development strategies in mind, we would like to see how these are interpreted by the two donor countries and what kind of aid is provided. The questions we ask are: How much does the donors' own thinking matter? How much of the aid is actually an extension of their own domestic policies and processes where certain principles and criteria for providing aid prevail? How does this affect the aid that results? We will start by looking at Japan as a donor and its processes for giving aid to Mongolia. We will have a case study in the field of human resource development. Then we will look at Swedish policy and processes for giving aid to Mongolia and make a case study of Swedish aid for human resource development.

In the conclusion we will look at the concepts of ownership and partnership as well as institutional change on the implementation level based on the case studies. As these concepts will be dealt with elsewhere only an operational definition will be given here.

Ownership can be divided into ownership of objectives and processes. Ownership of objectives can be 1) commitment to a project and organisational competence of executing it; 2) knowledge output (an organisation can acquire knowledge if individuals acquire personal knowledge that they put to the use of the organisation); and 3) material inputs or outputs (e.g.,

property rights). Ownership of project processes means the assumption of responsibility for project formulation, implementation and control.

More generally, ownership is about who decides what, but in more specific terms, national ownership is determined by the legitimacy of the government and its institutions. We also know that there is a trade-off between the concept of ownership and partnership. Strong recipient ownership means less partnership, in the way donors have defined it. It means that donor agencies will have less influence and will have to lower their ambitions for taking active part in policy dialogue and reform processes. Partnership implies a certain amount of dialogue and a larger role for the donor in the processes.

## **Mongolia as a Recipient of ODA: From Past to Present**

Mongolia started its transition towards a market economy and a pluralistic political system soon after the fall of the Berlin Wall, preceding the events in the former Soviet Union. In early 1990 there were mass demonstrations against the ruling communist government in the capital Ulaanbaatar and a demand for political and economic reforms. This led, in a rather peaceful manner, to the first elections in the summer that year. Although the Mongolian People's Revolutionary Party (that is, the old communist party) remained in power, they now sat in a Parliament together with representatives from opposition parties, such as the Democratic Party, the National Progress Party and the Social Democratic Party, that had hastily been formed prior to the elections. After some domestic discussions, the parliament adopted a new democratic constitution in 1992.

At the same time Mongolia was facing a severe economic crisis caused by the withdrawal of the massive Soviet assistance and the disappearance of foreign trade, in combination with a lack of proper institutions and economic management capacity. During 1990-1993 Mongolia's GDP decreased by more than 20 per cent in comparison to 1989. These are figures that are comparable to the Great Depression that afflicted the West in the 1930s. The level of national savings rapidly declined and in 1992 inflation peaked at 325 per cent.<sup>2</sup> In this crisis the Mongolian economy made an abrupt transition from a centrally planned system to one based on market principles. The reforms included: the phased liberalization of state-controlled prices and tariffs, privatisation of state-owned enterprises, establishment of a two-tiered banking system, liberalization of foreign trade, the adoption of a floating exchange rate system, the implementation of tight monetary and fiscal policies aimed at reducing the inflation and a number of measures for creating a favourable environment for private sector development.

After the initial transformation crises Mongolia managed to bring about economic recovery and has since showed positive growth rates, often over 3 per cent a year. 2000 and 2001 saw somewhat lower figures. These have been explained by two very severe winters with a lot of snow. The number of livestock had been increasing during the 1990s and now there was simply not enough fodder for them any longer. One third of the livestock died or had to be slaughtered. Growth figures for 2002 and 2003 were around 5 per cent and the forecast for 2004 was in the same order. The GDP of Mongolia has now surpassed the pre-transition level.

But there is another less glossy picture as well. First of all, even if the GDP level has surpassed the level of the communist days, the GDP per capita that in 2003 was estimated to TG 278,000 (approximately USD 230) has only reached 86 per cent of the 1989 level. This is due to the heavy population growth. Secondly, Mongolia has seen a process of de-industrialisation, in which practically only the mining sector has survived. The processing industry has to a large

extent vanished. There are several reasons for this, such as the general contraction of the planned economy, the obsolete Soviet technologies, and the competition of cheap imports following the opening up of the Mongolian economy.

Thirdly, the heavily subsidised crop sector in agriculture, concentrated in the state farms, has largely collapsed. With this, the social service in rural areas also collapsed. Today road infrastructure and communications are minimal and private markets for products from animal husbandry are hardly present.

In this sense, development in Mongolia can be seen as a two-layered development. On the one hand there is macroeconomic stability and steady growth but at the same time conditions for small and medium scale industry have been deteriorating and the crucial livestock sector is retrenching into subsistence production. Inequality in Mongolia is growing and figures from 1998 show that more than one third of the population is living in poverty.<sup>3</sup> Poverty has increased particularly in urban areas, *aimag* centers<sup>4</sup>, towns and other urban settlements. Poverty had declined in Ulaanbaatar in 1998, but due to the harsh conditions in the countryside during recent years, there has been a heavy migration flow into the city that today hosts at least one third of the country's inhabitants. The *ger*<sup>5</sup> towns on the outskirts of the city are constantly growing and no one can really say how many people actually live there.

When the assistance from the former Soviet Union disappeared in 1991, Mongolia started receiving aid from western countries instead. The major donors were Japan, ADB, World Bank, UNDP, Germany, Korea and the US. Swedish, Danish, and Finnish aid was also initiated at this time. When aid started it was more of an emergency nature to overcome the economic crisis and eliminate the consequences of the collapse of the socialist system. At the time inflation were several hundred per cent and unemployment skyrocketed. Mongolia received aid for import of goods and improvement of its Balance of Payments. As the economy stabilised, the aid came to focus more on the formation of a market-oriented sound economic base, and the development of infrastructure. During 1992 and 1993 foreign aid amounted to 33 and 36 per cent of GDP. The average for the 1990s was 24 per cent. The figure for 2001 and 2002 were around 17 per cent.<sup>6</sup> Mongolia received and used in total USD 2.5 billion of ODA during 1991-2002. In the period 1993-2001, Mongolia received an average of USD 82 per capita; by this indicator, Mongolia was ranked in the second place among the world ODA recipient countries (not including Bosnia and Herzegovina). Each year Mongolia received ODA equivalent to 17-32 per cent of its annual GDP on average and today it is the fifth most aid dependent country in the world.<sup>7</sup> At the informal meeting on the "Review of Assistance Since 1991 and its Effectiveness" held in Tokyo in November 2003, a number of problems for Mongolian development were pointed out.<sup>8</sup> One was the issue of dependency. Does this high dependency limit the Mongolian policy options? A second issue was the fact that the aid disproportionately benefits Ulaanbaatar. Other issues were the fact that there was a discrepancy between strategies and programs on the ground. Policy implementation of the Mongolian government has been highly uncoordinated among relevant ministries.

Looking at the positive side of Mongolia as a recipient country, the country is a democracy. They have a good human right record that is considered stable. What more, most of the aid programs have been executed rather well. Mongolia is considered a "safe" place for donors, with most of the aid being put into effective use. The many foreign consultants in Ulaanbaatar are being listened to and they can return with their missions completed.

Today the size of the Mongolian foreign debt amounts to 104 per cent of GDP.<sup>9</sup> Mongolia has a GDP of around USD 400 per capita.

## **The political reform process**

The first election after the introduction of the new democratic constitution in 1992, led to a continued rule by the old communist party, now called the Mongolian Peoples' Revolutionary Party. The educated elite were gathered within this party. They controlled the administrative organisations and had the capability of implementing government policy. This meant that the same people from the Soviet days were back in power again, but with a slightly changed agenda. In 1996 the opposition parties won the elections. With the new parliament and their new program a number of top positions within the administration were also filled with new people. In the national elections in the year 2000, the power shifted again to the MPRP, resulting in another change of the top positions within the administration. This change even affected the headmasters of the local schools. In the last elections in June 2004, the MPRP and the opposition parties, that is the Motherland Democracy Coalition, received the same number of seats and formed a coalition government, resulting yet again to changes in top positions as well as a number of changes in the administrative structure. This coalition collapsed, however, at the beginning of 2005, leading some Members of Parliament (MPs) from the opposition coalition to 'cross over' to the MPRP parliamentary group. There is some concern among politicians in the opposition and political observers that the MPRP may become a dominant party. This time two new Ministries and three Ministers were added.

It took a long time before an agreement of what the government should look like could be reached and even further before an action plan of the government was agreed upon.

The free elections that have been held clearly indicate that the country has become a democracy and a number of reforms being implemented all confirms this. Still there are a number of old practises, from the days of the state planning, left in the system. There is a lack of transparency. Corruption, although it might not be worse than in many other developing countries, is said to be growing.

The number of people working for the state or local governments has decreased drastically since the days of Soviet influence, however, Mongolia still has four times as many public servants as for example Singapore. The public servants are generally poorly paid, which means that many of the brightest young people do not choose that profession but rather turn to for example private consulting which is a strongly growing business in Ulaanbaatar.<sup>10</sup> Within the administration there is generally a lack of professionals and far too many people in the category of support staff. This leaves considerable space to consultants both of foreign and domestic origin. Although a number of policy plans exists in various fields in Mongolia there is a lack of coordination and a lack of capability of implementing policy into concrete action plans in various fields.<sup>11</sup>

In 2001 Mongolia became the 38<sup>th</sup> country that developed an interim Poverty Reduction Strategy Paper (PRSP) according to the World Bank's program. For some time the Government of Mongolia worked to develop a full Poverty Reduction Strategy Paper, "The Economic Growth Support and Poverty Reduction Strategy", with the support of the World Bank and IMF. According to a Newsletter by the Poverty Research Group,<sup>12</sup> "the government has fully owned and led the process of preparing this". They organised consultation workshops at regional and national levels that "benefited" from a broad number of participants including donors, private sector organisations, rural and urban representatives, NGOs and government agencies. "Donors closely supported the process providing regular comments and recommendations on the various drafts".

The Economic Growth Support and Poverty Reduction Strategy is a very loose document, but it is a strategy that all the major donors endorsed and agreed should serve as the guiding

document for their co-operation with Mongolia at the last donors' co-operation meeting in Tokyo in November 2003. Although the Mongolian government has changed since then, the overall policy is likely to stay roughly the same. The strategy is rather vague so the new government is not likely to change it although they might put emphasis on different parts of it. In the medium term the government will "implement policies aimed at accelerating private sector led economic growth through the stabilization of macro economy, low and stable inflation, development of market competition, and appropriate monetary, credit and tax policies, thus raising the living standard of the population".<sup>13</sup> This kind of broad statement allows considerable leeway for interpretation both to new governments as well as donors when they formulate their policies and aid programs.

### **The processes of receiving aid in Mongolia**

All proposals for aid programs are to be handed in to the Department of Policy and Coordination for Loans and Aid (formerly the Economic Cooperation Policy and Coordination Department) under the Ministry of Finance (formerly Ministry of Finance and Economics). At this department there is only a hand full of people working, a fact that puts some restrictions to the work that they can perform. In 2003 the Mongolian government, after some criticism from abroad, adopted a new law, the "Law on Coordination of Foreign Loan and Grant Aid". In the law there is a very general sense of the implementation. The State central organization, in this case the Ministry of Finance, is formally responsible for its implementation, but as there is not enough staff to work with this, the law has not had any effect yet.<sup>14</sup> Although the main policy document, the Law on foreign aid regulation, stated that a number of regulatory documents need to be developed, so far none of them have been officially issued. They are still in their draft phases.

The Department of Policy and Coordination for Loans and Aid should in their turn present all aid proposals to the Aid Coordination Council. This council is supposed to meet once a month. It consists of the deputy minister of each ministry and is headed by the Minister of Finance. The council decides which proposals it wants to go ahead with and those are sent on to the Cabinet Secretariat who in turn presents them to the Cabinet meeting. The Cabinet members make the formal decision of approval or not. If a proposal is approved, it is sent back to the Department of Policy and Coordination for Loans and Aid, which will then send a formal request to the donor.

In reality the process seems to be working quite differently and in a much more informal way. There is a sharp difference between loan aid on the one hand and grant and technical assistance on the other. Regulations are much more strictly applied in the case of loans. These all have to pass through the Ministry of Finance debt management department, which check them thoroughly, and in the end are responsible for the repayment. All loans also have to pass through the cabinet and are then presented to the parliament.

In the case of grant aid and technical assistance, the processes are much looser. Most of the projects are signed by the line Ministries themselves and it is not always the case that they have to be handed to the Department of Policy and Coordination for Loans and Aid first. Sometimes the line Ministries send this department a note afterwards. The Aid Coordination Council, in fact, does not meet on a regular basis but rather *ad hoc*, and in-between approval is given to the Ministries to sign for themselves.<sup>15</sup>

## Japan as a Donor in Mongolia

Japan has played an important part in coordinating the aid for Mongolia. Seven out of the ten “Mongolian Consultative Group Meetings”, where the major donors meet to discuss development policies together with Mongolia, have been held in Tokyo.

Japan has also been the single largest donor of ODA to Mongolia since the initiation of such aid in 1991. In the past ten years, Japan has contributed roughly 70 per cent of the bilateral ODA and 40 per cent of the total ODA.<sup>16</sup> Japan’s prime aim has been to support the Mongolian efforts in moving towards a market economy and democracy; Japan believes that a democratic and prosperous Mongolia is a cornerstone for stability and prosperity in North East Asia, of vital importance also to Japan. The cumulative assistance of Japanese aid reached JPY 123.7 billion (USD 1.1 billion). The aid consists of roughly 50 per cent grant aid and 25 per cent each of loan and technical assistance.

The Japanese Ministry of Foreign Affairs is responsible for policymaking concerning aid to Mongolia, as well as to other countries. The ministry has recently written a new five-year country assistance plan for Mongolia. The plan builds on Mongolia’s own Economic Growth Support and Poverty Reduction Strategy. Two missions headed by a former Japanese ambassador to Mongolia, consisting of academics as well as government officials, have been dispatched to Mongolia. The missions held consultations with the Mongolian government, and with other donors, business organisations and NGOs. There has been an ongoing dialogue between Mongolia and Japan in connection with the new five year plan. In between the two missions consultations were also held with Ministries concerned in Japan as well as with NGOs and business organisations.

The five-year plan was supposed to be ready in June 2004 but its adoption was postponed owing to the change of the Mongolian government after the election that year. A draft was presented to the Mongolian Finance Ministry as well as the Mongolian Ministry of Foreign Affairs again after the election, but actually before the action plan of the new Mongolian government had been announced in November 2004.<sup>17</sup> After an approval from them the country assistance plan was finally adopted by the Japanese cabinet. The plan for Mongolia is rather vague compared with similar plans for other countries. That is most probably due to these circumstances.<sup>18</sup> The four main areas to be supported by ODA are: 1) development of a market economy through institution building and human resource development; 2) rural development (more specifically livestock and agriculture development); 3) environmental protection; and 4) infrastructure that promotes economic activity.

Japanese aid in Asia consists to a very large extent of loan aid. This has, however, not been the case for Mongolia. During the last two years no loan aid at all has been dispersed. There has been a certain reluctance to do so due to Mongolia’s weak economic situation. The Japan Bank of International Cooperation (JBIC) does not even have an office in Mongolia; Mongolia is served either by the JBIC Beijing office or the Tokyo headquarters.

In 2003, the Mongolian government requested loan aid for five different projects: 1) two step loans (a form of export promotion); 2) infrastructure in the field of tourism; 3) a road project; 4) a railway project; and 5) support for the new Lambarta airport. In June 2004 JBIC sent a mission to look into these requests. None of the projects were considered mature enough to warrant a go-ahead at that stage.<sup>19</sup>

## Japan's ODA Disbursement to Mongolia

(Counted on Exchange of Notes base) (Unit: JPY100 million)

Fiscal Year	Grant			Loan	Total
	Grant	Technical Cooperation by JICA	Total	Yen Loan	Total
Pre-1991	56.04	4.66	60.7	0	60.7
1991	33.08	4.02	37.1	48.36	85.46
1992	39.08	6.81	45.89	24.59	70.48
1993	45.35	18.1	63.45	33.21	96.66
1994	59.05	22.72	81.77	47.53	129.3
1995	58.25	23.37	81.62	44.93	126.55
1996	48.03	18.13	66.16	58.27	124.43
1997	50.46	19.33	69.79	42.98	112.77
1998	52.75	24.65	77.4	0	77.4
1999	53.74	19.29	73.03	0	73.03
2000	65.68	19.58	85.26	61.39	146.65
2001	55.13	19.18	74.31	0	74.31
2002	40.60	18.33	58.93	0	58.93
2003	30.93	23.76	54.69	12.58	67.27
Cumulative Amount	688.17	241.93	930.1	373.84	1303.94

(Source) White Paper on Japan's ODA 2001-2004 and ODA Country Data Book 2001. Yen Loan & Grant Assistance are counted on Exchange of Notes basis, Technical Assistance is counted on JICA expense bases.

Japan has, however, helped Mongolia with a number of economic infrastructure projects such as the improvement of satellite communications, the assistance to the Baganuur Coal Mine and to the No. 4 Thermal Power station in Ulaanbaatar and the provision of diesel generators in the provinces.

In the grant aid and technical cooperation field, there are a number of ongoing projects. The implementation of this type of aid is done by the Japan International Cooperation Agency (JICA) and they have an office in Ulaanbaatar since 1997. Sixteen Japanese and Mongolian staff members work there. The areas they have been focusing on in Mongolia so far are: 1) economic infrastructure and institution building for industrial development; 2) development of human resources for a market economy; 3) livestock and agriculture development; and 4) provision for basic human needs such as education and water supply.<sup>20</sup> These are basically the same as in the new five-year plan, with the exception for the environmental issues which have been added there.



## **Human resource development- The Mongol-Japan Centre as an example**

Japan has been active in providing assistance for human resource development for a market economy, a field that it will continue to emphasize in the future as well. There are ongoing technical assistance projects to enhance banking supervision, as well as to disclose judicial precedents. There are also a number of projects in the educational field. There is a Japanese educational expert seconded to the Ministry of Education to help to transform the education system. There have been three teacher retraining programs in which a total of 30 teachers from Mongolia have been sent to Japan for a month of training in teaching methodologies. There are also a number of younger as well as senior Japanese volunteers working at different levels within the Mongolian school system. Japan has also supported the building of new schools or renovating old school buildings. These projects have been criticized from the viewpoint that the schools become extremely expensive as the construction work is tied to Japanese companies; one could get two schools for the price of one by using local contractors. According to Japanese regulations, however, this type of aid is tied and local contractors are not considered to hold the same quality. There is also a community-based school renovation program but on a much smaller scale.

One of the largest projects in the educational field is the Mongol-Japan Centre, a two-storey building drawn by a Japanese architect; it is located in downtown Ulaanbaatar, right next to the Mongolian National University. The Centre was formally opened in June 2002 by His Imperial Highness Prince Akishino of Japan. The building was financed through grant aid and the construction cost for the project was JPY 440 million (USD 4 million). During the first five years of operations the Centre will receive a support budget of JPY 15 million (USD 134,000) per year from the Japanese aid budget, for running activities. The Centre has an extensive library and media collection; Japanese newspapers and a large flat screen TV with Japanese NHK channel can be found in the lobby. The library, housed on the ground floor of the centre, is open to the public after visitors have registered, paid a small fee and received a library card. The library contains an extensive collection of Japanese university brochures and information on requirements for enrolment and studies in Japan, Japanese study materials including comic books, literature on Japan and Japanese society (mostly in Japanese), and a video section with a number of films for improving your Japanese language skills.

The centre has an auditorium which seats more than a hundred persons, but which can be divided into two smaller rooms, and several smaller lecture rooms, as well as a modern computer room. The centre offers Japanese language courses, and also business courses targeted for small and medium-sized companies, as well as computer courses, against a fee. A director, a coordinator and a teacher have been dispatched from Japan but there are also some locally employed Japanese teachers. Around 10,000 people a month visit the centre, most of them to visit the library which they think is nice and quiet compared to the library of the university, according to the coordinator, Mitsuko Mochida.<sup>21</sup> The Centre also hosts a number of Japan-related events, and JICA also uses it for some projects. The real owner of the building, and the formal counterpart of the Mongol-Japan Centre, is the Mongolian National University, which pays the electricity bill, water and heating, and in return can use the centre facilities for Japan-related projects during the first five years. The Centre's project budget will end in 2006, but the Mongolian National University has already submitted a new proposal for the coming five years to JICA. The Centre at this stage does not have adequate capacity or financial resources to function independently. It is not clear what will happen after 2006 but most likely the centre will continue

to receive support from foreign aid for the next five-year period, although the budget might be somewhat decreased.<sup>22</sup>

The initiative for this Mongol-Japan Centre project was taken by the Japanese Foreign Ministry in 1998, after some pushing from a Mongol-Japan Centre committee, consisting of among others a Japanese journalist and a Japanese anthropologist.<sup>23</sup> There are several similar centres in other countries. They mostly follow the same pattern as the Mongolian one and have a local educational institute as a counterpart. The first Japan centre opened in Russia in 1994, and centres were also established in Laos, Cambodia, Myanmar, and even two in Vietnam; all these have their own buildings. But there are also centres in Uzbekistan, Kazakhstan and Kyrgyzstan although they do not have buildings of their own. Several new centres are also in the pipeline such as one in Dalian in China, one in Ukraine and one in India; it is said that an African country is also asking for a centre. All centres are all basically operated in the same manner and have three main goals: to provide business courses, Japanese language training, and to promote mutual understanding. Until 2003, all these centres had a head office of their own in Kasumigaseki in downtown Tokyo; since 2003 JICA is in charge.

The Mongol-Japan Centre also has a joint managing board including both Mongolian and Japanese members. The Mongolian members are appointed by the Ministry of Education and Science and come from Ministry of Education and Science, Ministry of Foreign Affairs, Ministry of Finance, Ministry of Trade and Industry and the Mongolian National University. There are 5-6 Japanese representatives. The managing board meets on an irregular basis once or twice a year. Formally they are responsible for the centre activities as well as for financial reporting but in reality board members do not have a very active role; especially the Mongolian members only tend to be formally involved.<sup>24</sup> The Mongol-Japan Centre has a Japanese director and a Japanese coordinator appointed by JICA; the deputy director of the Centre is appointed by the Mongolian National University. The deputy director is the head of the economic theory department at Mongolian National University and receives his salary from the university; he does not have much power in budgeting, recruiting staff or other issues concerning the Mongol-Japan Centre, as the Japanese staff administer the centre.

## **Sweden as a Donor in Mongolia**

Most of the Nordic aid to Mongolia has been in the form of small technical assistance projects. The countries send some equipment, experts and volunteers, and on occasion provide loan aid. Finland some years ago supported a meat processing factory with loans.

Sweden started its aid program to Mongolia in 1991, after the fall of the Soviet Union. The main purpose of the Swedish aid to Mongolia is poverty reduction as well as promoting the process of reform and democratisation. The present country strategy for aid for Mongolia stretches from 2002 to 2006. It is roughly SEK 15 million a year (USD 2 million) to which is added any eventual concessionary credits or humanitarian aid for Mongolia. The most common form of cooperation is technical cooperation or international courses. Technical cooperation, in Swedish called KTS (Contact-financed Technical Support) means that a local partner in the country of co-operation can receive money to develop knowledge and methods with the help of Swedish expertise. The contracts are between the experts and a local entity but Sida will finance the Swedish expert part. All contracts have a time limit with specific goals and are always partly financed by the recipients as well. There have been projects in the field of governance, banking, health, water and sanitation, democracy and human rights.

Sweden does not have an embassy in Ulaanbaatar, nor are any Sida people permanently stationed there. The Swedish Embassy in Beijing is responsible for contacts with Mongolia. These contacts are rather scarce and often connected to questions on aid. The one who travels from Beijing to Ulaanbaatar is therefore most often the Sida person at the Embassy in Beijing and on arrival in Ulaanbaatar he or she is contacted concerning all kinds of questions. As for the present as well as the former Swedish country strategy of aid to Mongolia, no formal consultations were held with the Mongolian side, although the Mongolians would clearly have been capable of participating in the formation of such strategies.<sup>25</sup> The main reason for this was effectiveness; the Swedes simply did not have enough time. A team was instead sent out to make an analysis of Mongolia and point out certain problem areas where Swedish aid could be effective. Based on this the Sida representatives in Beijing drafted a suggestion for a country strategy that was presented at a reference meeting in Stockholm to which a number of experts and people with special interests in Mongolia had been invited. After this the final strategy was concluded.

Sida people from Beijing travel to Mongolia about four times a year to inform about the possibilities of Swedish technical cooperation. Sometimes they are also accompanied by Sida staff from Stockholm. In these dialogues, several projects were created. Other projects have their origins from consultations with other donors, or from various experts. The processes have so far been rather ad hoc. About three years ago, the rules for contracting were tightened so that competitive bidding is required for each project. This meant that Sida had to send a consultant to help with writing proposals. Not surprisingly Swedish experts have lost interest in this tedious process and therefore the rules are now under revision.

The local financing that has to accompany each project has always been a problem in Mongolia where there are limited resources for this. Mongolians have, however, been taking some costs such as local travel or rental costs for course facilities. There are even examples of another donor helping Mongolia in covering local costs.

### **The Good Governance in a Democratic Mongolia Project**

Since 1991, Sida has supported the democratization process in Mongolia through various projects. The total support until 2002 amounted to SEK 37 million (USD 5 million). In 2002, the decision was taken to continue the support through another three-year project to a value of SEK 9.8 million (USD 1.3 million) entitled "Good governance in a democratic Mongolia". The overall goal of this project is to get a good system for governance to develop and implement state policies, serve the citizens, provide for their basic needs and guarantee legal security. The project's specific goal is to strengthen the organisation through competence-building, good leadership and good communication between the different parts of the Mongolian administration that is participating.

The Sida project is a totally independent project although it is affiliated to a larger program called "Good Governance for Human Security" sponsored by the UNDP. There are a number of projects in the field of good governance in Mongolia although the donors call them by different names.<sup>26</sup>

The contracting partners for the Swedish project were, on the Mongolian side, the Cabinet Secretariat, and on the Swedish side, SIPU (Swedish Institute for Public Administration). No competitive bidding took place. SIPU has been the Swedish contracting partner from the beginning, sometimes working in cooperation with The Swedish Association of Local Authorities and Regions (Kommunförbundet). In connection with a project on local democracy in 1997

competitive bidding was performed but only SIPU and The Swedish Association of Local Authorities and Regions showed any interest.

Sida motivated its decision to directly appoint SIPU with the fact that the availability of Swedish consultants with special competence in the area is very limited and that a change in the consultancy company would mean a loss in time and effectiveness.

The Cabinet Secretariat of the Mongolian Government is well known to Sida as it had cooperated with SIPU on other projects as well. The first Deputy Chief of the Cabinet Secretariat, Mr Khangai, is also the chairman of the steering committee for the Good Governance in the Democratic Mongolia Project; the actual project leader is Mr Samballhundev, head of the Office of Government Service Council.

The project from the beginning consisted of six components. The first one concerned the organisational development of three “pilot” ministries, the Ministry of Industry and Trade, the Ministry of Social Welfare and Labour, and the Ministry of Justice and Home Affairs. Each of these three ministries formed a project team working with SIPU on questions of staff development, as well as changing the planning system of the organisations. Advisors from SIPU came in every 3 or 4 months, gave lectures in organisational learning, and conducted a survey on what needed to be done, asking all staff. A number of study trips to Sweden were also arranged and the Mongolian teams were set up to create a vision on how to tackle certain issues. There was a process of learning by doing and all of the three ministries also adopted different planning systems.

The second component was the creation of a Public Administrative Development Centre, which has not been implemented yet. Resources for working with this have been somewhat reduced on the explicit request of the Mongolian side, as efforts have instead been concentrated into the third component, the development of a Mongolian Leadership and Management Program. Some three thousand lower level Mongolian managers/leaders are to be trained before the end of 2007. This is being done in a first step through the recruitment of 24 Master Trainers selected among Master or Local trainers in another Sida-supported project on local self governance. A textbook has been developed and the Master Trainers will now train 200 others on a lower level in basic management both in Ulaanbaatar and in three other provinces.<sup>27</sup> Another group of Master Trainers will also be recruited.

To be able to finance this, SIPU, together with the Mongolian side, decided to delete a fourth component, the development of an information and communication strategy for increased openness of the Cabinet council and the ministries.

A fifth component, increasing the number of women in government, has not really taken off yet but activities are planned for autumn 2005. The sixth component, monitoring and controlling of public servants, is ongoing.

However, a risk factor in this project, pointed out by Sida already at the time of the decision to support it, is that as the target group partly consists of politicians and members of the government administration, election results may affect key persons involved in the project. The project lost some key person in connection with the latest election; for example, the chairman of the steering committee for the project, Mr Khangai, has been appointed Ambassador to Moscow and will be leaving soon.

## Conclusion

Mongolia has a short history of receiving ODA, starting only in 1991. Before that, however, it received aid from the Soviet Union for a number of years. Since its transfer towards a market economy and a pluralistic system, Mongolia has become somewhat of a favourite among donors and it is now the fifth most aid dependent country in the world. Although Mongolia only has 2.5 million inhabitants, all the big aid organisations have their own offices in Ulaanbaatar. Mongolia has considerable skills in attracting partners to its development. It is a poor country if calculated in GNP per capita, but has an educated state administration with capacity of absorbing aid. It is easy to get access to decision-makers in Ulaanbaatar and they are open for new ideas and discussions with donors and they hardly refuse any aid projects.

Japan's ODA to Mongolia is different from Japanese aid to many other countries in Asia in the sense that there is very little loan aid. A proposed loan aid project has not been considered mature enough and the Japanese side has been reluctant to further increase the debt burden of Mongolia. Grant aid has thus been the dominating aid form. Still Japanese aid to Mongolia reflects Japanese aid and interests in general in many aspects. In Japan there is a belief in development through industrialisation. Economic infrastructure and institution-building for industrial development is a priority area for Japan. In the educational field, there are some teacher training programs but most of the money goes to the building of schools and ends up in the contracts for the Japanese construction industry. Being the largest bilateral donor to a certain extent also influences the projects and very often leads to larger "more costly" projects.

As the organiser of the majority of the consultative group meetings, Japan has taken somewhat of a leadership role in gathering the others donors and conducting a dialogue both within the donor group and between the donors and the Mongolian government. Partnership has been promoted.

Now turning to our Japanese case study of the Mongol-Japan Centre, what does it tell us concerning ownership and partnership? Starting with the ownership of objectives let us first look at the commitment to the project and the organisational competence of executing it. The Mongolian side formally proposed the project, but the ideas behind it actually came from Japan which has several similar Centres in other countries. Looking at the minimal involvement in the activities by the Mongolian members of the board/managing council it becomes clear that the commitment to this project is much greater on the Japanese side than on the Mongolian side. The organisational setup where budget and daily activities are handled by Japanese staff does not promote any Mongolian ownership. It is probably possible to find a Mongolian person with capabilities of executing this project, but at this stage there is no search for such a person.

Concerning knowledge output of the project, it is obvious that there are a number of Mongolian individuals that learn both some Japanese language as well as Japanese business practice and the working of Japanese computers. This does not, however, lead to an acquiring of knowledge in any particular organisation but rather gives personal advantages to the persons themselves that might acquire knowledge to start up firms of their own or work as Japanese translators. The knowledge output might, in the long run, lead to a better understanding of Japan and Japanese customs among part of the Mongolian population.

As for material outputs, the Centre building now belongs to the Mongolian National University that has acquired a brand new building next to its own facilities in down town Ulaanbaatar. However, for the first five years the university does not have the right to decide what activities that are conducted in it.

When it comes to the project processes, that is, the project formulation, implementation and control these also seem to be dominated by Japanese ownership and even only have a slight role for partnership from the Mongolian side. If there had existed an Economic Growth Support and Poverty Reduction Strategy at the time this project was formulated, it is unlikely that a Mongol-Japan Centre would have had top priority for the Mongolian side, which may have had other ideas for promoting economic growth and poverty reduction. As for the implementation, the building as such is designed by a Japanese architect and built by a Japanese construction company. Control of the project is also firmly in the hands of Japan. The partnership that exists seems more formal than real.

As for institutional change resulting from the Mongolia-Japan Centre it is difficult to find any as the Centre, at this stage, not is integrated into any other part of the Mongolian society. It is hardly even integrated into the Mongolian University that is its formal owner. For them the Centre building might at this moment rather be a way of attaining prestige in the eyes of the public.

The activities at the Centre might, however, produce some new ideas in the heads of certain individuals that in the long run might lead to some institutional change.

In the Swedish case, poverty reduction, as well as the promotion of the reform and the democratization process, are the main goals of ODA to Mongolia. Although there is a five-year country strategy, the amount of ODA is very limited and most of it goes to cover the cost for Swedish consultants. As Sweden does not have any embassy in Mongolia, nor any permanent Sida staff stationed there, aid projects are also a way of keeping in contact with the Mongolian government and the development of the country. Support of the democratization process has been a priority area for Sweden since 1991 and the total support until 2002 amounted to SEK 37 million (USD 5 million). The topic as such is very much in line with the priorities in Swedish aid; Sweden holds a strong belief in the democratization processes and their potential for future poverty reduction. The present ongoing project “Good Governance in a Democratic Mongolia” adds another SEK 9.8 million (USD 1.3 million) to this. It is one out of several donor projects that deals with governance and human resource development in Mongolia.

As for ownership of the objectives in the form of commitment to a project and organisational competence of executing it, it is hard to judge the ownership of the “Good Governance in a Democratic Mongolia” project, but there is clearly a considerable amount of partnership as well. The project consists of several components on which Mongolian commitment seem to vary.

Mr Samballhundev, the Mongolian project leader, claims that the project was developed together with the Swedish consultants that have a long experience of the country but that certain parts had more support from the Mongolian side than other parts. The work with the three pilot ministries, leadership training and a public administration development centre, were priority issues for the Mongolian side. Other parts were clearly Swedish babies, such as the gender components as well as the controlling of public servants. Of course the commitment also varied depending on this and might be one reason why for example the gender component has been so slow in taking off. The election as well as the change of government in the middle of the project stalemated it for some time. A planned trip to Sweden had to be cancelled as some of the participants put higher priority on staying at home and guarding their positions. The change of government also led to the loss of certain key persons committed to this project.

In case of the three pilot ministries, the experience varied depending on the Ministry. The competence for executing the project seemed clearly to be there, even if it was sometimes difficult to gather people willing to put aside time for this project.

In a process of learning by doing, the ownership of the knowledge output will clearly rest with the individuals that will take it with them if they leave. If they choose to stay and put their knowledge to use in an organisation, the organisation as such will also have ownership of the knowledge output. In case of the organisational development of the three pilot ministries, the knowledge output is likely to rest both with the individuals and the three ministries as they now have new systems for planning. In the Good Governance in a Democratic Mongolia Project there was no major material input. The Mongolian textbook produced will however have Mongolian ownership.

As for the ownership of the project processes, the project formulation was done jointly between the Swedish consultant and the Mongolian partner, although it was the latter that turned it in. Considerable changes were made on the suggestion of the Mongolian side. Neither the consultant nor Sida had any objections to these changes but showed great flexibility. Implementation as well as control also showed a considerable amount of partnership.

It is obvious from both our case studies that donors' thinking matters. The Japanese as well as the Swedish project seem more like extension of domestic policies, where certain principles prevail, than anything that has been deduced from a Mongolian poverty reduction strategy. At the same time it is also clear that recipients' thinking also matters. In the Swedish case, for example, the Mongolians demanded and got some substantial changes in the project. Partnership seems to be strongly prevailing.

---

<sup>1</sup> <http://www.oecd.org/statistics> and World Development Indicators 2000, 2002 and 2003.

<sup>2</sup> Government of Mongolia, Economic Growth Support and Poverty Reduction Strategy, Ulaanbaatar, 2003.

<sup>3</sup> Ibid. p. 28

<sup>4</sup> Mongolia is divided into 21 aimags (prefectures) and the capital of Ulaanbaatar.

<sup>5</sup> Traditional Mongolian tent.

<sup>6</sup> Mats Lundahl, Stockholm School of Economics, Support to Economic Reforms/Budget Support 2004 – Mongolia.

<sup>7</sup> <http://www.oecd.org/statistics> and World Development Indicators 2000, 2002 and 2003.

<sup>8</sup> Written Summary of Discussion by Mr Motohide Yoshikawa, Deputy Director General of Economic Cooperation Bureau, Ministry of Foreign Affairs, Japan

<sup>9</sup> Until the end of 2003 Mongolia also had an old debt to Russia that amounted to ten times the country's GDP. At the end of that year the entire agreed sum, USD 750 million, was paid of in a single operation. This repayment was financed among other things through interest-free loans from the Central Bank that will strain government finances, and have been heavily criticised by the IMF.

<sup>10</sup> Interview with Barry Hitchcock, ADB.

<sup>11</sup> Ibid

<sup>12</sup> According to the wording of a Newsletter, July 2003 of the Poverty Research Group, Ministry of Finance and Economics.

<sup>13</sup> Government of Mongolia, Economic Growth Support and Poverty Reduction Strategy, Ulaanbaatar, 2003.

<sup>14</sup> Interview with Shimizu of JICA, Tokyo October 2004.

<sup>15</sup> Interview with Gankhuyag Uyanga, UNDP, Ulaanbaatar October 2004.

<sup>16</sup> This part is mainly built on a statement by Mr Motohide Yoshikawa, Deputy Director General of Economic Cooperation Bureau, Ministry of Foreign Affairs in connection with the Consultative Group Meeting on Mongolia in Tokyo Nov 19-21 2003.

<sup>17</sup> This action plan is based on the respective election campaign platforms of the Motherland-Democracy Coalition and the Mongolian People's Revolutionary Party, as well as on consensus reached between these two parties after the election. Even though the coalition has now collapsed, the Government of Mongolia keeps its cabinet and the action plan has not been changed. A majority of the Democratic Party MPs initiated consensus with MPRP in order to keep the new Government of Mongolia. The most recent Presidential election was held in May 22, 2005 and

---

Mr.Enkhbayar was elected as the fourth President of Mongolia. He is a MPRP and a speaker of the current parliament.

<sup>18</sup> Interview with Hidenobu Maekawa, First Country Assistance Planning Division, Economic Cooperation Bureau, Ministry of Foreign Affairs, October 2004, Tokyo.

<sup>19</sup> Interview with Mr Ayumu Yamauchi, division 1, Development Assistance Department II, JBIC, October 2004, Tokyo.

<sup>20</sup> JICA pamphlet, For a better tomorrow for all.

<sup>21</sup> Interview in October 2004.

<sup>22</sup> Interview in Tokyo

<sup>23</sup> Interview with Toshiyasu Tsuruhara, Assistant Resident Representative of JICA, October 2004

<sup>24</sup> Interview with the deputy director of the Centre Mr.Davaadorj, also head of the Economic theory department at Mongolian National University (MNU) .

<sup>25</sup> This part is mainly built on an interviews March 2005) with Åsa Heden, the former Sida representative stationed in Beijing.

<sup>26</sup> Interview with Tserenbaljidiin Sambalhundev, Director of Office of the Government Service Council.

<sup>27</sup> Interview with Leif Wisén in charge of the project at SIPU, May 2005.