



USAID | **MONGOLIA**
FROM THE AMERICAN PEOPLE



STRATEGIC FRAMEWORK

January 2023 – January 2028

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Acronym List

ADB - Asian Development Bank
CDCS - Country Development Cooperation Strategy
CLA - Collaborating, Learning, and Adapting
CPI - Corruption Perception Index
CSO - Civil Society Organization
DEIA - Diversity, Equity, Inclusion, Accessibility
DIS - Development Information System
DO - Development Objective
DG - Democracy and Governance
EG - Economic Growth
GDP - Gross Domestic Product
GOM - Government of Mongolia
ICS - Integrated Country Strategy
ICT - Information and Communications Technology
IMF - International Monetary Fund
IPTI - Indo-Pacific Transparency Initiative
IR - Intermediate Result
ITAN - Infrastructure Transaction and Assistance Network
LEADAA - Leaders Advancing Democracy Mongolia Alumni Association
LGBTQI - Lesbian, Gay, Bisexual, Transgender, Queer, and Intersex
MCC - Millennium Challenge Corporation
MEL - Monitoring, Evaluation, and Learning
MSME - Micro Small and Medium Enterprise
NRI - Network Readiness Index
PMP - Performance Management Plan
SF - Strategic Framework
SME - Small and Medium Enterprise
SOE - State-Owned Enterprise
TI - Transparency International
TIP - Trafficking in Persons
USAID - United States Agency for International Development
USDFC - United States International Development Finance Corporation
USG - United States Government

I. Executive Summary

USAID/Mongolia’s Strategic Framework (SF) goal is for Mongolia to become a self-reliant, well-governed, and prosperous Indo-Pacific partner. This goal statement supports the broader Indo-Pacific Vision including: promoting economic prosperity, strengthening governance, and enhancing security. USAID’s role as a key member of a whole-of-government approach and its use of a behavioral science-informed stakeholder approach centers the mission’s efforts on local ownership and local champions. USAID will focus on three pillars of influence: the Government of Mongolia (GOM), civil society, and the private sector. USAID will advance citizen-responsive governance that adheres to a rules-based order for a “well-governed” Mongolia; create open and transparent markets to unlock private enterprise-led growth to foster a “prosperous” Mongolia; and build a network of partners from the government, civil society, and private sector capable of addressing threats to Mongolia’s independence and sovereignty. These pillars reinforce each other to empower Mongolia to become less reliant on its neighbors for its economic and democratic progress.

The objectives below align with the [National Security Strategy](#) advancing key Administration priorities throughout the SF, with each Development Objective (DO) focusing on specific priorities. DO 1, Democratic Governance Strengthened, will address the major challenges for democratic governance in Mongolia. These challenges include a weak system of checks and balances; lack of transparency and accountability; restrictions on media freedom and disinformation; lack of women's participation in political representation and leadership; and disillusioned and disengaged youth. DO 2, Diversified and Inclusive Economy Advanced, will confront Mongolia’s lack of economic diversification that has been increasing the country’s vulnerability to more assertive and authoritarian influences. Both DOs will enable Mongolia to advance its development progress and advance the Mongolian Presidential Initiative to Renew Democracy and Anti-Corruption.

Mongolia has articulated its development priorities in the Mongolia Sustainable Development Vision 2030, which provides a blueprint and accompanying metrics for the country’s development goals. The GOM’s long-term vision for national development is to be among leading middle-income countries, have a multi-sector stable economy and a society dominated by middle and upper-middle income classes, which would preserve ecological balance, and have stable and democratic governance. Underpinning these goals are the development objectives for a diverse and sustainable economy; inclusive social development, environment; and governance. Mongolia’s development vision is being implemented in three phases from 2016 to 2030. The second phase, which covers 2021 to 2025 coincides with the SF’s implementation period.

Mongolia views the United States (U.S.) as one of its “third neighbors¹” - countries with which it has built strong partnerships. Through this SF, USAID/Mongolia will promote the U.S. as a valued “third neighbor” to help strengthen Mongolia’s democracy and enhance its economic vitality. This SF underscores the U.S.’ long-standing partnership with Mongolia, as 2021 marked the 30th anniversary of USAID’s engagement in the country. Over the years, USAID assistance has spanned a variety of priority areas, including developing the energy sector, helping to establish and stabilize major banking institutions, providing assistance to small businesses and income diversification in rural areas, and spurring inclusive participation in the democratic process. Most recently, USAID has become the largest provider of COVID-19 assistance to Mongolia. This partnership has become even stronger in recent years when the

¹ See additional information about the United States relationship as Mongolia’s valued third neighbor here: <https://www.state.gov/u-s-relations-with-mongolia/>

relationship was elevated from a bilateral agreement to Strategic Partnership in 2019. Based on this strong foundation, USAID/Mongolia aims to seize this window of opportunity to amplify our partnership with the GOM, civil society, the private sector, other U.S. government (USG) agencies, and like-minded donors to advance Mongolia's development progress. USAID will build on past progress to strengthen democratic systems, unlock private enterprise-led economic growth, help further reform the energy sector and improve the countries' resilience to climate change.

Mongolia's three decades of rapid political and economic change since its democratic transition in 1990 was characterized by a shift to upper middle-income status², prompting USAID to designate Mongolia as a non-presence country³ in 2015. However, the 2016 economic crisis (which necessitated an International Monetary Fund (IMF) bailout) highlighted Mongolia's economic vulnerability due to its over-dependence on the mining sector and trade with its neighbor. Landlocked, Mongolia has had little choice but to rely on neighboring countries for port access, entry to markets, and international internet connectivity.

Freedom House has consistently rated Mongolia as a "politically free" country since 1991, as the only post-communist consolidated democracy in Asia. However, while political rights and civil liberties have been firmly institutionalized, Mongolia's system of checks and balances and government accountability and transparency continues to weaken. The country's two main political parties continue to rely on patronage networks and widespread corruption that has increasingly hampered further democratic development.

The Mongolian economy continues to face downside risks to growth due to structural challenges and limited economic diversification, including the potential negative effect of continued instability in the commodity markets on youth employment opportunities in a country that faces a significant youth bulge.

The key implications of USAID/Mongolia's Roadmap analysis include:

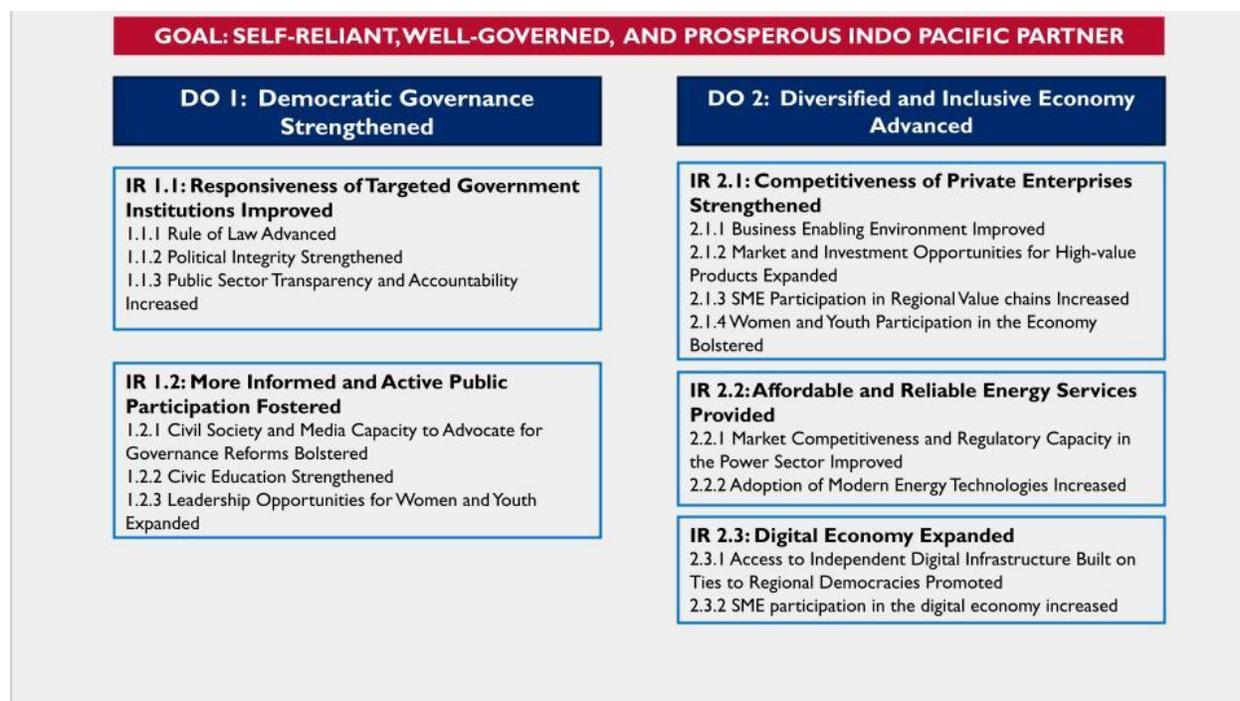
- USAID/Mongolia needs to reinforce civil society and media effectiveness to strengthen the GOM's commitment to transparent and accountable governance, economic policy, and inclusive development. Despite showing high civil society capacity, several commitment metrics, including liberal democracy, social group equality, economic gender gap, and trade freedom, have regressed in recent years. This suggests that civil society has limited voice and power to influence these metrics. (DO1)
- Capitalizing on GOM's strengths and commitment to open government and economic policy will lead to improvements in the capacity of the economy to finance development, improve economic sophistication, and increase information and communications technology (ICT) adoption. These are necessary conditions to spur a diversified, inclusive, and resilient economy. (DO2)

²<https://www.worldbank.org/en/news/press-release/2015/07/01/new-world-bank-update-shows-bangladesh-kenya-myanmar-and-tajikistan-as-middle-income-while-south-sudan-falls-back-to-low-income>

³[Agency Notice on 2017 Closing](#)

USAID/Mongolia will reinvigorate its programming presence and work with champions to empower a more “independent” Mongolia that is less reliant on its neighbors for its economic and democratic progress. Through a behavioral science-informed⁴ stakeholder approach that involves Mongolia’s three pillars of influence: the GOM, civil society, and the private sector, USAID/Mongolia will tackle the challenges that impede Mongolia’s development progress by ensuring that local champions own the results and safeguard their sustainability. This includes the participation of women, youth, lesbian, gay, bisexual, transgender, queer, and intersex individuals (LGBTQI), persons with disabilities, and other marginalized groups in the process. USAID/Mongolia will strengthen the capacities of and forge commitments from actors within the three pillars. The SF also considers, builds on and incorporates approaches that promote diversity, equity, inclusion and accessibility (DEIA), aligning with current administration DEIA priorities for foreign policy programming and workforce planning and related areas in the Mission’s DEIA strategy and plan.

Results Framework Graphic



II. Country Context

Salient Factors in Country Context

Mongolia has undergone three decades of rapid political and economic change since its transition away from the former Soviet Union to a more democratic political system and market-based economy in 1990. Mongolia’s stellar economic growth from 1994 to 2011 catapulted the country to upper middle-income status. This stellar economic performance led USAID to transition its programs, downsize its presence, and designate Mongolia as a non-presence country in October 2014.

⁴ Behavioral science refers to the evidence-based study of how people behave, make decisions, and respond to programs, policies and incentives, IRI.

Despite being among the most self-reliant countries in the region, democratic and economic backsliding have undermined Mongolia's self-reliance. In 2016, Mongolia was hit by an economic crisis due to government overspending and declining revenues from mineral exports. As a landlocked country in a geostrategically important but fraught part of the world, Mongolia became ensnared in the "middle income trap" compounded by its own "resource curse." Government borrowing reached nearly three times the national income to make up for government budget shortfalls during the periods of low mineral prices. Key economic indicators floundered. Double digit economic growth in the years prior to 2014 stumbled to 1.2 percent in 2016, before rebounding to 5.1 percent in 2019. The unemployment rate also accelerated from 7.9 percent to 10 percent during the same period, and the national poverty rate increased from 21.6 percent in 2014 to 28.4 percent in 2018. While a 2017 IMF bailout has helped the economy rebound, the crisis highlighted the vulnerability of the economy due to its over-dependence on mining and Chinese demand for its raw and semi-finished products. Growth had been on an uptrend, but COVID-19 caused a serious economic contraction in 2020 with Mongolia's Gross Domestic Product (GDP) shrinking by 5.3 percent compared to 2019.

Political rights and civil liberties have been firmly institutionalized. Nevertheless, Mongolia's system of checks and balances and government accountability and transparency continue to weaken, and the country's two main political parties (the Mongolian People's Party (MPP) and the Democratic Party (DP)) continue to rely on patronage networks and widespread corruption that increasingly hampers further democratic development. Mongolia's ranking in Transparency International's Corruption Perceptions Index⁵ deteriorated from 80 (out of 198 economies) in 2014 to 111 (of 180 economies) in 2020 (180 is 'highly corrupt').⁶ In 2021, the incumbent DP's internal rift led to a split and then reconciliation for the presidential election, causing its candidate to finish third with only six percent of the vote. The MPP candidate received 72 percent of the vote to win the presidency that, coupled with its 81 percent super-majority in the Parliament, consolidated power in one political party. These developments have caused some public disenchantment, even among members of the MPP, with both parliamentary and party politics, in general. This disenchantment is particularly strong among the youth who comprise 40 percent of the voting population. Based on these developments, there has been a growing appetite for more structural political change, but if not handled correctly, this could present opportunities for advocates of more authoritarian styles of political leadership to consolidate power⁷. Landlocked Mongolia relies on surrounding countries for port access, access to markets, and international internet connectivity. In addition, Mongolia depends heavily on surrounding countries for budget revenues and economic growth.

⁵ https://images.transparencycdn.org/images/CPI2020_Report_EN_0802-WEB-1_2021-02-08-103053.pdf

⁶ Mongolia's political arena in 2019-2020 continued to face fast-paced political developments, which dominated much of the media and public discourse. In May 2019, following the March 27 amendments to the Laws on the Legal Status of Court(s), Public Prosecutor's Office and Anti-Corruption, the head and deputy head of Mongolia's anti-corruption agency were removed from their posts. On June 26, 2019, the Judiciary Council and National Security Council (which consists of the President, Prime Minister, and the Speaker of Parliament) dismissed 17 judges.

⁷ See <https://bti-project.org/en/reports/country-report/MNG>

The Mongolian economy continues to face downside risks to growth from structural challenges and limited export diversification that could amplify its vulnerability to commodity price fluctuations and other shocks, given its reliance on the mining sector and trade weighted toward its neighbors. Continued instability in the commodity markets could increase youth unemployment in a country that faces a significant youth bulge.

The Soviet Union invested heavily in what was then known as the Mongolian People’s Republic⁸. At their height, Soviet subsidies comprised 37 percent of Mongolia’s GDP, but following Mongolia’s independence, PRC fully supplanted Russia as Mongolia’s main developer. Russia is another key trade partner, although the government has sought to expand trade through free-trade negotiations with the Eurasian Economic Union, the customs bloc comprising Russia, Kazakhstan, Belarus, Kyrgyzstan, and Armenia. Mongolia is also dependent on its neighbors for energy: approximately 25 percent of Mongolia’s electricity is imported from Russia and PRC. Russia supplies electricity for the Central and Western Grids, while Chinese-generated electricity supports mining projects in the South Gobi. Mongolia also imports nearly all of its petroleum products (gasoline, diesel, and liquefied petroleum gas (LPG) from Russia).

To counter its dependence on its closest neighbors, the GOM has looked to “third neighbors” like the U.S., Korea, Japan, India, and the EU, as alternative sources of investment and trade. The GOM considers the U.S. as a valued “third neighbor” to help strengthen its democracy and enhance its economic vitality. USAID/Mongolia sees ample opportunity to work in partnership with the GOM, civil society, the private sector, other USG agencies, and like-minded donors to advance Mongolia’s development progress by capitalizing on opportunities, and addressing challenges, to strengthen democratic systems, unlock private enterprise-led economic growth, promote energy security, and improve resilience to climate change. The table below summarizes those opportunities and challenges.

Table 1: Opportunities and Challenges

Opportunities		Challenges
ECONOMIC	<ul style="list-style-type: none"> High GOM commitment to growth and economic diversification 	<ul style="list-style-type: none"> Continued reliance on mineral and exports as engine for growth Increased unfavorable investments in state-owned energy companies Increase in COVID-19 cases Vulnerability to dzuds (severe winter and drought) and climate change impacts Deterioration in governance structures, which could reduce investor confidence
SOCIAL	<ul style="list-style-type: none"> Broad and diverse community of Mongolian institutions and civil society organizations promoting governance 	<ul style="list-style-type: none"> Gender norms that restrict women and LGBTQI’s participation at all levels of leadership

⁸ See <https://www.csis.org/npfp/balancing-mongolias-growth-and-sovereignty-down-or-out>

	and inclusive economic reforms	<ul style="list-style-type: none"> Limited economic power and political participation among women and the youth
POLITICAL	<ul style="list-style-type: none"> Public preference for democratic rights and freedoms, as documented by independent polls Adherence to a liberal democratic system 	<ul style="list-style-type: none"> Rising authoritarianism and deterioration in governance structures Limited and closing space for civil society and media
SECURITY	<ul style="list-style-type: none"> The GOM values the USG as a “third neighbor” 	<ul style="list-style-type: none"> Vulnerability to the balance of power due to its geographic location

Mongolia’s Priorities

Mongolia has articulated its development priorities in the Mongolia Sustainable Development Vision 2030, which provides a blueprint and accompanying metrics for the country’s development progress. The GOM’s long-term vision for national development is that Mongolia will be among leading middle-income countries based on per capita income, a multi-sector stable economy, and a society dominated by middle and upper-middle income classes, which would preserve ecological balance, and have stable and democratic governance. It has four development objectives: 1) to implement sound macroeconomic policy and diversify the economy; 2) to ensure gender equality, improve the quality of and access to health care services, create a healthy, safe living environment for the citizens, improve public awareness on health education, provide equal education of high quality to every citizen, build a national system for lifelong education, and end all forms of poverty; 3) to efficiently use natural resources, preserve the sustainability of the ecosystem, and create opportunities to benefit from natural resources in the long-run; and 4) to ensure stable and sustained governance aimed to ascertain Mongolia’s independence, sovereignty, and security. These objectives align with the Indo-Pacific vision and will be implemented in three phases from 2016 to 2030. The second phase, which covers 2021 to 2025 coincides with the SF’s implementation period.

USAID’s DO 1, Democratic Governance Strengthened, supports the GOM’s vision to improve the responsiveness of government institutions to the needs of its citizenry and ensure stakeholders’ participation in decision-making to improve transparency and accountability. These outcomes align with Mongolia’s Sustainable Development Objective 2.4 (Governance for Sustainable Development). USAID’s DO 2, Diversified and Inclusive Economy Advanced, aligns with Mongolia’s Sustainable Development Objectives 2.1 (Sustainable Economic Development), which fosters economic diversification and development of the energy sector, as well as Sustainable Development Objective 2.2 (Sustainable Social Development), which promotes social equality through inclusive growth, and Sustainable Development Objective 2.3 (Environmental Sustainability), which promotes clean energy technologies.

Country Roadmap Analysis

Mongolia has been among the most self-reliant countries in the region, scoring at an above average level in many categories in the [FY 2023 Country Roadmap](#), with an aggregated commitment score of 0.59 and a capacity score of 0.60 despite the democratic and economic challenges noted above.

Compared to previous years, sevencommitment and capacity metrics in the FY 2023 Country Roadmap showed deterioration. These trends are consistent with the economic backsliding and adverse changes

in Mongolia’s political environment in recent years. On the commitment side, the slippage in Liberal Democracy (-7points) was the result of a weakening system of checks and balances. The Economic Gender Gap metric, which represents women’s voice in government processes and economic power, deteriorated by 6 points below the 2013 benchmark. The drop in Trade Freedom indicates an environment that is unattractive for business investments, including inadequate rule of law, pervasive government corruption, and unreliable courts, combined with the unlikelihood that the GOM will enact substantive anti-corruption measures. On the capacity side, Tax System Effectiveness, which enables the government to fund its own development and deliver basic services and infrastructure to facilitate economic growth, has shown volatility in recent years (sliding 11 points below the baseline 2013 level in 2016, before rebounding by 17points in 2020). The Poverty Rate metric, measured by the percent of the population living under \$5/day in purchasing power parity terms, fell 8 points, and ICT Adoption, as measured by per capita internet penetration, fell 3 points.

Table 2: Summary of Mongolia’s Roadmap Metrics - Opportunities and Challenges

Opportunities		Challenges
CAPACITY	<ul style="list-style-type: none"> Government Effectiveness (2013-2020): +0.04 Safety and Security (2013 - 2020): +0.06 GDP Per Capita (PPP, 2013-2021): +0.02 Child Health: (2013-2020): +0.07 	<ul style="list-style-type: none"> • Tax System Effectiveness (2013 - 2020): +0.06 but showing volatility based on commodity revenues/lack of economic diversification • Poverty Rate (\$5/day, 2014, 2016, 2018): -0.08 • ICT Adoption (2016-2018): -0.03 • Export Sophistication (2013-2020): +0.06 but still below average • Civil Society and Media Effectiveness (2013-2021): -0.07
COMMITMENT	<ul style="list-style-type: none"> • Open Government (2014, 2016-2020): +0.06 • Business and Investment Environment (2013-2020): +0.05 • Environmental Policy (2013, 2015, 2017, 2019, 2021): unchanged at 0.44 	<ul style="list-style-type: none"> • Liberal Democracy (2013-2021): -0.07 • Social Group Equality (2013-2021): -0.01 • Economic Gender Gap (2013-2021): -0.06 • Trade Freedom (2017-2021): -0.03

* USAID/Mongolia anticipates a downtrend in this metric due to adverse changes in the political environment.

USAID will focus on reinforcing the capacity and commitment metrics on government effectiveness, business and investment environment, and open government to help Mongolia attract investments and diversify its markets away from reliance on neighboring countries. Mongolia’s inability to attract infrastructure investments in domestic fiber optic networks is also keeping its export sophistication and ICT adoption metrics down. USAID will stabilize the tax system effectiveness metric by working to reinforce government effectiveness.

USAID will pay particular attention to reversing the recent downward trend in the economic gender gap and social group equality metrics. Women’s labor force participation is falling, and average incomes are lower than that of men’s, with no sign of increasing. There is also continued discrimination against women of reproductive age in employment. While women have high educational attainment and play a

prominent role in public life, their representation in leadership positions in both the public and private sectors, including political leadership, remains low.

Transition Planning

USAID/Mongolia is reinvigorating its portfolio following a phase-down of programming to help place Mongolia's development progress back on track. As part of the transition, USAID/Mongolia will adopt the following strategic directions during the life of the SF:

- Expand the scope of democratic governance programming to contribute to incremental gains related to transparency and accountability, which would have a corresponding impact on economic governance. The current approach, which focuses on training the next generation of reform-minded political and civil society leaders, helps cultivate individual capacity and relationships but is not likely to have a transformative impact on democratic governance in the country. Government institutions were not as strong and remained vulnerable to political interference and authoritarian influence, making past economic gains unsustainable.
- Amplify economic governance programming to diversify the Mongolian economy, increase trade and investment, promote energy security, and reduce dependence on neighboring countries. While the current support to micro, small and medium enterprises (MSMEs) that is increasing access to credit has led to significant MSME growth, increased incomes and job creation, more action is needed to diversify the economy and foster inclusive and sustainable growth.

Trafficking in Persons

Mongolia has remained a Tier 2 country in the Trafficking in Persons (TIP) report, which could impact USAID programming and access to foreign assistance. Human traffickers use Mongolia as a transit location where victims are trafficked into neighboring countries. Traffickers exploit both domestic and foreign victims in Mongolia. Mongolia in recent years has increased its conviction of traffickers and identification of victims; however, observers believe it needs to commit more resources to improve authorities' ability to identify victims and establish identification/referral procedures. USAID/Mongolia is actively looking at programming possibilities across its portfolio to complement State and regional initiatives to assist the GOM to implement recommendations outlined in the TIP reports.

COVID-19 Impacts

Mongolia has not escaped the worldwide recession caused by COVID-19. Early decisions to impose social-distancing measures and a travel lockdown kept cases relatively low until November 2020 when community transmission began. However, it then spread rapidly, leaving Mongolia with the highest per capita rate globally over certain periods of time in 2021. Government support in the form of tax relief, low interest small business loans, and energy subsidies helped to mitigate the secondary impacts of COVID-19 on households and businesses. If the negative impacts of COVID-19 on the economy persist or worsen, the GOM will likely not have resources to be able to quickly respond to the crisis, increase health and social spending, and institute measures to stabilize and bolster its economy. USAID COVID-19 assistance has helped strengthen the capacity of healthcare workers to conduct outbreak surveillance, use and manage USG-donated medical equipment, and deliver quality care for COVID-19 patients. USAID also reached large portions of the population with risk communication campaigns, supported administration of vaccines, and assisted with infection prevention measures in schools and health facilities. As of October 2022, approximately 1.2 million vaccines have been provided to Mongolia. Eighty-five percent of Mongolia's population has been fully vaccinated, and 54.6 percent received the third booster. Booster uptake remains a challenge along with low pediatric coverage. With a dramatic

decline in cases, Mongolian parents are not sensing the urgency and are less inclined to have their children vaccinated. Cases have stabilized to 40-100/day in 2022, and the country has opened up and resumed normal business operations and economic activity.

Mongolia’s pandemic control policies took a major toll on its economy. Mongolia’s GDP fell by 5.3 percent. With foreign travel restricted, foreign tourism fell to near zero, severely affecting Mongolia’s services sector including hospitality and tourism. Total revenue for Mongolia’s hospitality sector fell by 42.9 percent year on year in the first half of 2020. A recent survey by the Mongolian Chamber of Commerce indicated that about 8,000 jobs have been lost since the COVID-19 outbreak. This trend is likely to continue, contributing to further increase in the unemployment rate and reversing recent progress on poverty reduction. The GOM extended its national emergency status on a month-by-month basis for most of 2021, and while restrictions have eased in 2022, the threat of a surge caused by a new variant continues to cause uncertainty for businesses. A “Zero-COVID⁹” strategy and related border closures continue to negatively impact the Mongolian economy and highlight its vulnerability.

III. Strategic Approach

USAID’s strategic focus areas further Mongolia’s development progress by strengthening partnerships with the GOM, local organizations, the private sector, and like-minded donors to strengthen effective democratic governance (DO1) and advance a diversified and inclusive economy (DO2). Collectively, these DOs will contribute to greater security and prosperity in the region, and will help to solidify the U. S.’ status as a valued “third neighbor.”

Table 3: Focus Area by Development Objective

GOAL: SELF-RELIANT, WELL-GOVERNED, AND PROSPEROUS INDO-PACIFIC PARTNER	
<u>Governance</u> <ul style="list-style-type: none"> Indo-Pacific Transparency Initiative 	DO1: Democratic Governance Strengthened
<u>Diversified Economic Growth</u> <ul style="list-style-type: none"> Trade and Competitiveness Digital Economy and Cyber Security Partnership Infrastructure Transaction and Assistance Network 	DO2: Diversified and Inclusive Economy Advanced
<u>Improving Natural Resource Management</u> <ul style="list-style-type: none"> Asia Enhancing Development and Growth through Energy 	

Through a behavioral science-informed stakeholder approach, USAID/Mongolia will tackle the challenges that impede Mongolia’s development by ensuring that local champions are actively involved, with the aim for them to own the results and safeguard its sustainability. This approach will promote inclusion and collaboration amongst the three pillars of influence - the GOM, civil society, and the private sector, and include the participation of women, youth, LGBTQI, persons with disabilities, and other marginalized groups. For each of the SF’s intermediate results, USAID

⁹ <https://www.csis.org/analysis/china-may-move-beyond-zero-covid-could-benefit-us-all>

and implementing partners will:

- Identify and engage local champions among the three areas of influence. This will entail collaborating and consulting with them on activity design, implementation, and monitoring.
- Identify potential stakeholders and interest groups that could derail progress and determine how to mitigate risks and/or address their concerns.
- Discern key behaviors among champions that need to change to sustain results, understand how interests and incentives affect these changes, and use that information to inform programming. A political economy analysis may be conducted to determine how interests impact development outcomes to the detriment of broader development objectives.
- Provide special focus on young adults (aged 18-34), who are approximately a third of the Mongolian population. Raised in a post-Soviet era, many young people take democratic principles and values for granted. As active youth participation in both democratic governance and economic growth initiatives is an essential condition to Mongolia's path to independence, prosperity, and resilience over the next several decades, targeting this demographic is a key SF element.

Strengthening Mongolia's Democracy

Mongolia is a key democratic partner in the Indo-Pacific. Strengthening Mongolia's democracy will benefit its people and its ability to continue to serve as a model for other aspiring democracies. Our shared priorities are fully aligned with broader U.S. strategy in the region and builds on our bilateral relations hitting a new high in 2019 with the formal upgrading of ties to the level of a Strategic Partnership. Upholding Mongolia's geopolitical importance as a functioning democracy in the Indo-Pacific region is in the U.S. national security interest and helps advance and expand American democratic values.

USAID/Mongolia will therefore support interventions to help sustain and advance democratic achievements that make Mongolia a model for other states, a key partner, and an independent and increasingly constructive voice in international fora. USAID interventions will advance a citizen-centered approach to development that values the dignity and rights of individuals, internalizes the preferences of citizens, prioritizes accountable governance, and promotes sovereignty and resilience. Through an enterprise-driven approach, this framework will help diversify the Mongolian economy beyond minerals, improve energy security, and increase market independence. USAID/Mongolia will pursue opportunities to catalyze investments in new and promising sectors, including in high-value products, modern and renewable energy technologies, and in digital infrastructure. Interventions will offset authoritarian countries' attempts to expand state-driven economic models and unfair economic competition. Under this SF USAID will work with key stakeholders to establish the U. S. as a partner of choice.

Financing Sustainable Development

USAID/Mongolia's democratic governance programming will support public financial management and domestic resource mobilization initiatives to improve effectiveness, transparency, and accountability. While Mongolia scores reasonably well on its country roadmap, in recent years it has underperformed on the tax system effectiveness metric (despite a recent uptick), which suggests both a need for increased attention on Mongolia's tax systems and broader economic diversification. Mongolia is over-

dependent on revenues from natural resource extraction and needs to diversify its tax base, increase tax compliance, and improve transparency around revenue and expenditure. USAID/Mongolia will strengthen civil society capacity to understand, analyze and use data on expenditures and revenues related to the extraction of natural resources to hold the government accountable.

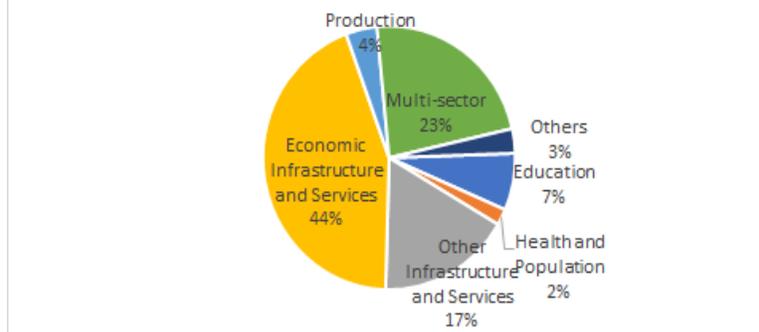
Donor Landscape

USAID will capitalize on its strengths in delivering technical assistance and maximize resources by co-investing in key development partner programs¹⁰ to reinvigorate USAID's renewed presence in Mongolia and to finance Mongolia's development needs. In terms of bilateral donors, Japan is Mongolia's largest bilateral development partner, with assistance focusing on the mining sector and inclusive growth, as well as in governance and sustainable urban development. The Republic of Korea, the second largest bilateral development partner, touches on areas of governance, public outreach and oversight, financial sector, groundwater management, and social accountability. The UK and the European Union, including members Germany, Switzerland, France, and the Czech Republic also maintain various programs across multiple sectors. In terms of the multilateral development banks, the Asian Development Bank (ADB) is the biggest multilateral development partner, committing \$439 million in 2020 to support a diverse portfolio that includes healthcare, economic regional integration, eco-tourism, financing for trade, supply chains, and microfinance. The World Bank is also active in Mongolia, programming \$242 million in 2020 towards activities spanning the governance, energy/environment, agriculture, healthcare, and infrastructure sectors. The European Bank for Reconstruction and Development programmed \$167 million in 2020 for activities in transportation, climate resilience, and SME financing. USAID/Mongolia will complement or leverage other development partners' economic growth and diversification initiatives through technical assistance for promoting enhanced trade and competitiveness, digital connectivity, energy security, energy diversification and trade, and energy access.

The U.N. Resident Coordinator Office and World Bank co-chair a donor coordination group, in which USAID is an active member. In addition to the main group, there are also several thematic working groups covering a range of sectors in which donors have current programs. USAID is a member of the following thematic working groups: Agriculture, Energy, Governance, Economic Development and Disaster Resilience/Response. While participation varies, these groups serve as a forum to share information and determine gaps. With the launch of the new energy governance program in early 2022, USAID sees an opportunity to reinvigorate the Energy Working Group, which has not been as active as others in recent years.

¹⁰ Source: Organization for Economic Co-operation and Development.

Figure 1: Mongolia Overseas Development Assistance, by sector



Revitalizing Ties with Allies and Partners

USAID will encourage GOM’s commitment and strengthen its capacity to deliver citizen-centered, accountable governance and enterprise-driven development, which are essential elements to reducing the need for U.S. foreign assistance. USAID/Mongolia will reinvigorate its relationship with the GOM through a new Development Objective Grant Agreement (DOAG) that will encompass USAID’s democratic governance and economic growth development objectives in support of the Indo-Pacific Vision. USAID’s engagement with the GOM will aim to elevate the U.S. as a partner of choice and primary “third neighbor” in reinforcing Mongolia’s independence and sovereignty.

USAID/Mongolia’s governance programming will build GOM’s capacity to respond to citizen demands by making administrative structures participative, efficient, and solution-oriented. Improvements in governance structures, i.e. the “supply side,” could have a positive impact on investor confidence and thus promote greater private sector participation and leverage.

USAID/Mongolia will work with other development partners to support the GOM to manage and finance its development plans. USAID could play a convener role to improve donor coordination in areas of mutual interest. As an example, USAID, under the ambit of the U.S.-Japan-Mongolia trilateral partnership, seeks to collaborate with Japan in the areas of energy development, the digital economy, and cybersecurity, as well as on business climate improvement and on transparency. USAID is also seeking to collaborate with South Korea on issues related to civil society strengthening to help increase public accountability.

The Role of Civil Society

Despite Mongolia’s high score on the Roadmap’s civil society and media effectiveness metric, the influence of civil society organizations (CSOs) has been weakening in recent years. Mongolia is experiencing democratic backsliding that has limited the ability of CSOs, including the media, to freely voice their opinions without fear of retribution from the government. The Mongolian Parliament approved constitutional amendments, which altered approximately 29 percent of Mongolia’s constitution without sufficient public information and input. The Parliament also amended laws that granted the President, the Prime Minister, and the Speaker the authority to unilaterally dismiss judges and heads of anti-corruption agencies. It also amended, without public discussion, election rules that made winning difficult for independent and third-party candidates.

USAID/Mongolia's democratic governance programming will help to reverse democratic backsliding by empowering CSOs and the media whose advocacy efforts give voice to citizens and increase their inclusion in the political process, which in turn will result in political reform and greater freedoms. Civil society can be a strong advocate, watchdog, and voice for the community. The media has a role to play in countering disinformation and informing and communicating with the public. USAID will take an integrated approach across its development objectives to leverage the role of civil society, which includes trade and industry associations, in empowering civil society to become better pillars of influence.

Private Sector Engagement

The private sector is a smaller but growing pillar of influence, yet the main driver of the economic diversification agenda. USAID/Mongolia will strategize, align, and collaborate with the private sector to implement activities with greater scale, sustainability, and effectiveness. USAID has identified opportunities for collaboration across a range of areas including energy, agribusiness, supply chains, and ICT. By working with the Foreign Commercial Service at the Embassy and the U.S. International Development Finance Corporation (USDFC), USAID/Mongolia will identify trade and investment opportunities. USAID/Mongolia will also continue to work with the American Chamber of Commerce in Mongolia, as well as Mongolian companies through local industry associations. USAID will focus on high value-added products, including with partners based outside of Ulaanbaatar, as a key part of the economic diversification strategy. USAID will take an integrated approach across its development objectives to leverage the role of the private sector, business leaders, and business civic organizations as advocates for accountable governance and open competition, and as a participant in helping to diversify the Mongolian economy.

Gender Equality and Women's Empowerment

USAID/Mongolia will support USAID's Gender Equality and Women's Empowerment policy as gender equality is a key component of this SF and intersects with both development objectives. USAID/Mongolia's democratic governance and economic growth programming will improve the Economic Gender Gap and the Social Group Equality metrics, which represents women's voice in government processes and economic power. USAID will support women's leadership development, both in politics and in business. Across all of USAID's proposed activities, women's inclusion and empowerment will be a cross-cutting intervention. The results framework includes sub-Intermediate Results for expanded leadership opportunities for women in democratic governance and strengthened women participation in the economy.

Diversity, Equity, Inclusion and Accessibility

In Mongolia, USAID will endeavor to work with new partners in ways that expand programming to address disparities among marginalized and underserved communities. We will also mobilize support for programs that recognize and reduce discrimination based on racial and ethnic identity or disability and promote equitable policies and practices. In keeping with the Administrator's Localization Vision, as discussed throughout this SF, USAID will emphasize input from local actors such as the private sector, non-governmental organizations, and sub-national and local government entities who will play a pivotal role in providing basic services for Mongolians. The Mission is also committed to expanding opportunities to work with new, underutilized, and non-traditional actors, by lowering barriers for local actors to access USAID resources. And finally, we will explore opportunities to increase diverse leadership and decision-making among local organizations and host governments.

Other U.S. Government Actors

USAID will continue to work with other members of the U.S. interagency, particularly the political, economic, commercial, and public diplomacy sections of the Embassy, as well as the Millennium Challenge Corporation (MCC) and the Department of Defense (DOD). All of these sections and agencies support the goals and objectives of the Mission's Integrated Country Strategy (ICS) for Mongolia, which seeks to bolster the "third neighbor" partnership. The Results Framework aligns with the ICS Mission Objectives: Strengthen effective democratic governance (Mission Goal 1), and Enhance the business climate and expand bilateral trade and investment to facilitate strong, sustainable, inclusive economic growth and create American jobs (Mission Goal 2). USAID/Mongolia consulted with the Political section during the design of the new Democracy and Governance (DG) activity as well as providing input on non-USAID-funded activities to ensure these and USAID's programs are mutually supportive. USAID will implement a new greenhouse/food security activity and a newly introduced. Energy Governance activity will assist Mongolia to improve the efficiency of its energy network, and develop alternative sources of energy, reducing dependence on foreign imports. USAID also worked with the MCC to initiate the Engendering Industries program to expand the number and role of women in senior management positions at the MCC-supported Water Supply and Sewerage Authority of Ulaanbaatar City. Moving forward, USAID/Mongolia will continue to engage proactively with these and other USG agencies delivering support to Mongolia to leverage resources and achieve greater synergy and impact.

IV. Results Framework

Goal Statement and Narrative

USAID/Mongolia's SF goal statement is that Mongolia becomes a self-reliant, well-governed, and prosperous Indo-Pacific partner. Through a whole-of-government and behavioral science-informed stakeholder approach, USAID will advance citizen-responsive governance that adheres to a rules-based order for a "well-governed" Mongolia; create open and transparent markets to unlock private enterprise-led growth to foster a "prosperous" Mongolia; and, build a strong network of partners capable of addressing threats to Mongolia's independence and sovereignty. These focus areas reinforce each other to bring about a more "independent" Mongolia that is less reliant on its neighbors for its economic and democratic progress.

Development Objective 1: Democratic Governance Strengthened

Development Hypothesis: The development hypothesis for DO1 is that, **IF** citizens are well-informed and actively participating in democratic processes, **AND** the government responds to citizen demands by making administrative structures participative, efficient and solution oriented, **THEN** effective democratic governance will be strengthened.

The major challenges for democratic governance in Mongolia are a weak system of checks and balances; lack of transparency and accountability; restrictions on media freedom and disinformation; lack of women's participation in political representation and leadership; and disillusioned and disengaged youth. Moreover, poor government accountability toward their citizens and lack of transparency by state institutions in their handling of public finances, contribute to corruption and impede investment. Further democratic backsliding could erode investor confidence in Mongolia and reduce opportunities for greater diversification of the economy and may over time create greater instability.

Under the Mongolian constitution, freedom of expression is guaranteed against interference or government restrictions, but there are many flaws in the relevant laws and their implementation. For

example, religious freedom is limited. The current law pertaining to religious organizations has been in place since 1993 and requires all places of worship to acquire a Religious Activity Permit (RAP) from local authorities. Since a failed attempt to revise the law in 2018, the local government has not issued a RAP to a new place of worship. Under DO 1, social accountability, an important element of accountability and an area of focus under this IR, refers to a wide “range of actions and mechanisms that citizens can engage in to hold the state (represented by public officials and service providers) to account, as well as actions on the part of government, civil society, media, and other societal actors that promote or facilitate these efforts.”¹¹

Secondarily, media outlets lack transparency and are often owned by key politicians and business groups who have significant influence over media content. For example, Reporters without Borders indicates that “74 % of media outlets have political affiliations that can endanger not only the freedom and plurality of information available to citizens, but this also opens the door to manipulate information.”¹² As a result, the owners of media outlets have direct influence on agenda-setting and practice censorship over their own editors and journalists. Consequently, journalists and media outlets practice self-censorship for fear of retribution and charges of defamation.¹³ For example, 1,480 individuals and legal entities were fined an estimated 740 million MNT for disseminating “misleading” information to the public under the law in 2020.¹⁴ To this end, a recent law that increased penalties for defamation pushed journalists to self-censor rather than pay unjustified and exorbitant fines. Ultimately, these practices limit media transparency and undermine citizens’ ability to make informed choices based on accurate, unbiased information. USAID’s DO 1 efforts to expand the civic space will enhance CSOs’ and independent media outlets’ capacity to respond to and mitigate restrictions on civil and political rights and threats to freedom of speech and expression, and strengthen the enabling environment for a vibrant civil society and independent media, including more effective self-regulation mechanisms.^{15 16}

Supporting women’s political participation in Mongolia remains an important goal, as gender equality is both foundational and emblematic of an inclusive democratic political system and contributes to the flourishing of an accountable and representative form of government. While women have high educational attainment and play a prominent role in public life, women’s representation in political leadership positions remain significantly low¹⁷. Currently, only 13 women parliamentarians (making up for 17 percent) out of 76 Members of Parliament are women, maintaining the status quo of the previous government’s composition (2016-2020). Much of the political networking and negotiations still occur in traditionally male spaces, creating advantages for male candidates.

¹¹ https://baselgovernance.org/sites/default/files/2019-02/social_accountability_a_practitioners_handbook.pdf

¹² <https://www.mom-rsf.org/en/countries/mongolia/>

¹³ BTI 2020, https://bti-project.org/fileadmin/api/content/en/downloads/reports/country_report_2020_MNG.pdf

¹⁴ In 2017, the Parliament passed a law-making defamation a criminal offense punishable by jail terms of three to six months or fines between 51 and 150 times the monthly national minimum wage, from \$6,000 to \$17,000. Mongolia’s TV channels replaced their normal programming with blank screens on April 26, 2017, in protest of plans to increase the penalties for defamation ahead of the 2017 presidential election. Since public figures frequently file defamation cases against journalists, the new law pushes journalists to self-censor. <https://www.washingtonpost.com/politics/2019/04/03/heres-how-democracy-is-eroding-mongolia/>

¹⁵ <https://www.ohchr.org/EN/Issues/CivicSpace/Pages/ProtectingCivicSpace.aspx>

¹⁶ https://www.usaid.gov/sites/default/files/documents/1866/Maintaining_Civic_Space_in_Backsliding_Regimes_-_Research_and_Innovation_Grants_Working_Papers_Series.pdf

¹⁷ See <https://www.adb.org/documents/mongolia-country-gender-assessment>

As youth ages 15-34 comprise 35% of the country’s population (the largest segment), engaging youth both politically in democratic processes and economically remains a key challenge. Many of Mongolia’s youth were raised in a post-Soviet era and do not have a strong understanding of democracy and its core values. In addition, youth have become disillusioned due to ongoing corruption and a lack of faith in the electoral process. For instance, the results of 2020 parliamentary elections did not reflect their desires/preference even though youth comprise 40% of total voter turnout. To address this challenge, USAID will build on the cadre of young democracy advocates, many of whom are now in leadership positions in government, civil society, international organizations and the private sector. USAID’s Leaders Advancing Democracy (LEAD) program aimed to build the next generation of democracy champions by enabling promising young leaders to work collaboratively to solve some of the country’s most pressing problems including corruption, urban sprawl, and environmental degradation.¹⁸ The recent DRG Assessment highlighted the merits of programming focused on generating stronger demands for political accountability and on trying to address key inclusion challenges, especially at the local level. Local-level programming aimed at promoting more accountable, transparent, and participatory governance should rely heavily on more robust mutual engagement and collaboration between GoM officials and populations. It should be pursued in tandem with targeted efforts to tackle the inclusion challenges that affect women, youth, and ethnic minorities, and it should involve a mix of carefully integrated and mutually reinforcing interventions in four sub-sectors: local governance, civil society, media, and civic education. USAID’s new programming will focus on strengthening civil society and media organizations, promoting greater youth involvement, and increasing government transparency, among other areas.

In sum, democratic backsliding threatens Mongolia’s progress as a democracy, increases the country’s vulnerability to aggressive and authoritarian influences, and impedes its ability to engage with the United States as an important and strategic partner in the Indo-Pacific. Through social accountability that reinforces government responsiveness and citizen’s voice, DO 1 builds on prior USAID DRG experiences in Mongolia, aiming to address backsliding by strengthening government institutions and increasing public participation in the democratic process, particularly among women and youth, two groups that have historically been less involved.

Table 4. DO 1: Intermediate Results and Roadmap Metrics Links

DO 1: Intermediate Results	Roadmap Metric
IR 1.1 Responsiveness of Targeted Government Institutions Improved	<u>Capacity:</u> <ul style="list-style-type: none"> ● Tax System Effectiveness (stabilize) ● Government Effectiveness (reinforce) <u>Commitment:</u> <ul style="list-style-type: none"> ● Liberal Democracy (boost) ● Open Government (reinforce) ● Trade Freedom (boost)
IR 1.2 More Informed and Active Public Participation Fostered	<u>Capacity:</u> <ul style="list-style-type: none"> ● Civil Society and Media Effectiveness (reinforce)

¹⁸ USAID LEAD Evaluation, 2022, https://drive.google.com/file/d/1PhTny7XwBuhs_My_MHzwheweHgnuCM-p/view

	<u>Commitment:</u> <ul style="list-style-type: none"> ● Liberal Democracy (boost) ● Social Group Equality (boost)
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IR 1.1: Responsiveness of Targeted Government Institutions Improved

Under this IR, USAID will support opportunities to strengthen the rule of law, ensure separation of powers, provide essential checks and balances, increase the independence of the judiciary, and improve legal and judicial reforms in line with international standards. As captured in Transparency International’s Corruption Perception Index, strengthening political integrity will catalyze more diverse and wider representation of perspectives or views, particularly by women and minorities in the government, improve the capacity of democratic political parties and the legislature, and help advance party finance regulations.¹⁹ Increasing public sector transparency and accountability will also strengthen investment and oversight mechanisms, increase public access to information, such as government tenders and procurements, increase revenue collection, and deter corruption. These areas mirror elements of good governance from development theory and USAID best practice, which include promoting listening and inclusive decision-making, measures to decrease corruption, and being transparent and responsive.²⁰

USAID/Mongolia programming to advance the rule of law and strengthen political integrity will contribute to developing an enabling environment for greater business investment. USAID will employ targeted measures to assist the Mongolian justice system and institutions to uphold their independence, increase their effectiveness, and enhance coordination among them. Strengthening judicial independence is a means to maintaining separation of powers and check excessive power in any branch or level of government.²¹

Under this IR, USAID assistance will increase public sector transparency and accountability by institutionalizing oversight mechanisms, opening government decision-making processes, and providing platforms for consensus building. Such measures will also aim to combat pervasive corruption and, consequently, cement recent gains in *Tax System Effectiveness*. As inadequate rule of law and weak anti-corruption efforts are the biggest obstacles to more economic freedom²², USAID programming in these areas will be linked to fostering an enabling environment for public and, where possible, private sector investment.

USAID will reinforce the GOM’s capacity to become the pillar of influence. It will collaborate with the government in the implementation of Mongolia Sustainable Development Vision 2030, particularly in fulfilling the vision of a stable and sustained governance aimed to ascertain Mongolia’s independence, sovereignty, and security. An assumption to operationalize this work is that Mongolia will judiciously comply with the principle of rule of law, ensure transparency in

¹⁹ Building Political Integrity to Stamp Out Corruption: Three Steps to Cleaner Politics, 2020, <https://www.transparency.org/en/news/building-political-integrity-to-stamp-out-corruption-three-steps-to-cleaner-politics>

²⁰ <https://uclg-aspac.org/en/good-governance-definition-and-characteristics/>

²¹ <https://www.unodc.org/e4j/en/crime-prevention-criminal-justice/module-14/key-issues/1--general-issues--judicial-independence-as-a-fundamental-value-of-the-rule-of-law-and-of-constitutionalism.html>

²² Mongolia ranked 127 out of 186 economies in the 2020 Index of Economic Freedom published by the Heritage Foundation. See <https://www.heritage.org/index/country/mongolia> for details.

administration, decentralize, and ensure the participation of all stakeholders in decision making, and enforce ethics in the public sector to eliminate corruption. USAID/Mongolia will work with national and local governments, including national ministries and provincial departments to improve their responsiveness to transparent and accountable governance and quality service delivery. These conditions will enable Mongolia to mobilize its own resources to finance needs.

IR 1.2: More Informed and Active Public Participation Fostered

This IR is the “demand” side of DO 1. A more informed and active citizenry seeks opportunities to engage in democratic processes and thus creates a demand for response from the government and holds them accountable to meeting their needs. The recently-completed evaluation of the LEAD program found that the program met USAID goals of building leadership capacity and knowledge on democratic values and increasing civic engagement among Mongolian youth. Supporting civil society organizations and media whose advocacy efforts give voice to citizens and increase their inclusion in the political process will result in political reform and greater freedoms. Strengthening civic education will increase citizen engagement, particularly to help build the country’s democratic future, as demonstrated through the LEAD program. Expanding leadership opportunities for women and youth will provide an inclusive democratic political system and contribute to the flourishing of an accountable and representative form of government.²³

Localization of our work with various organizations will be an important tool to mitigate the marginalization of women, young people, and civil society more broadly. To support youth civic engagement in democratic processes, USAID will support greater educational exchanges and engagement with the U.S. and allies for Mongolian women and youth to build critical skills for future economic opportunities and gain exposure to democratic societies that will promote civic education. USAID/Mongolia programming will reinforce civil society capacity to generate GOM commitment to advance the rule of law, strengthen political integrity, and improve transparency and accountability. Targeted programming to promote the participation and representation of women and youth in the democratic process will boost the Social Group Equality metric. USAID will boost civil society’s capacity to become the pillar of influence. USAID/Mongolia will work with a wide range of CSOs and local champions to enable them to become informed, active, and effective advocates for democratic governance. Taken together, USAID’s approach to engage at multiple levels with multiple stakeholders improves localization, which can broaden the impact of our work.

Table 5: DO1: Illustrative Results and Outcomes

ILLUSTRATIVE RESULTS AND OUTCOMES	
IR.1.1 Responsiveness of Targeted Government Institutions Improved	IR.1.2 More Informed and Active Public Participation Fostered
<ul style="list-style-type: none"> ● Improvement in Government Effectiveness Indices ● Improvement in ranking in the Corruption Perception Index 	<ul style="list-style-type: none"> ● Improvement in the World Press Freedom Index Score ● Citizen reach of civic education campaigns

²³ Political inclusion is vital to sustainable democracy, International IDEA, 2017 <https://www.idea.int/news-media/news/political-inclusion-vital-sustainable-democracy>

<ul style="list-style-type: none"> ● Improvement in the OECD’s Trust in Government Perception Survey ● Improvement in ranking in the Index of Economic Freedom and its sub-indices ● Increase in the number of judicial personnel trained with U.S. government assistance 	<ul style="list-style-type: none"> ● Percentage increase in the number of female candidates filing for election and winning ● Percentage increase in the number of CSOs, including youth-led CSOs that participate in legislative proceedings and/or engage in advocacy with the national legislature and its committees. ● Increase in the level of knowledge and understanding of the political system
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DO 2: Diversified and Inclusive Economy Advanced

Development Hypothesis: IF an enabling environment that is conducive to private sector growth, AND resilient, affordable, and reliable energy services are advanced, AND opportunities for investment in digital economies are expanded, THEN Mongolia’s economy will be more diversified, inclusive, and resilient. Through DO2, USAID/Mongolia aims to capitalize on Mongolia’s commitment to open government and economic policy that will improve the capacity of the economy to finance development, improve economic sophistication, and increase information and communications technology (ICT) adoption.

Mongolia’s economic trajectory, including its designation as an upper middle-income country in 2015, suggested that the country was already self-reliant; however, Mongolia’s economic boom was short-lived. After government overspending and declining revenue from commodity exports, Mongolia fell back to lower middle-income status the following year. Past economic gains were unsustainable, and institutions remained vulnerable to political interference and authoritarian influence. The economic crisis highlighted the country’s vulnerability due to its lack of economic diversification and dependence on external trade.

USAID will help Mongolia attract investments and diversify its markets. Mongolia’s inability to attract infrastructure investments in domestic fiber optic networks is also impeding its export sophistication and ICT adoption. USAID will stabilize the recent gain in the tax system effectiveness metric (following years of declines) by working to reinforce government effectiveness and diversify the economy.

USAID will pay particular attention to reversing the recent downward trend in the economic gender gap and social group equality. Women’s labor force participation is falling, and average incomes are lower than men’s with no sign of increasing. COVID-19 exacerbated this trend as women left the workforce in greater numbers to provide childcare for children who switched from in person to virtual learning. Discrimination against women of reproductive age in recruitment and employment continues. While women have high educational attainment and play a prominent role in public life, their representation in political leadership positions remain significantly low. Nevertheless, USAID’s activity to promote SME development maintained or increased the number and value of loans as well as the number of FTEs. A positive unintended consequence of COVID-19 was that virtual training and consulting services allowed more women entrepreneurs to participate because they were able to balance the courses with childcare responsibilities. In fact, in every indicator used to track activity performance, women outperformed men.

Economic diversification is constrained by low investments in applied research, non-existent product standards, poor quality control, a low level of risk capital, a small domestic market, and

the lack of skills necessary for innovation. Poor governance and the high cost and lack of access to finance are frequently cited constraints to enterprise-driven growth. Frequent changes to and selective enforcement of laws increase the administrative burden on businesses. These issues are often exacerbated for micro, small and medium enterprises (MSMEs), and female-owned firms that lack the connections, financial resources, or executive experience to help them navigate their business environments. This sector comprises 77 percent of total registered business entities, 72 percent of total workforce²⁴. Most MSMEs operate in the trade (51 percent) and services sectors (32 percent), followed by manufacturing (19 percent) and agriculture (6 percent). The informal economy in Mongolia is estimated to contribute from 9.2 percent to 15.7 percent of GDP.²⁵

Mongolia relies on neighboring countries to access markets and improve connectivity. Goods being shipped overland into and out of Mongolia must pass through these countries. As it is, the time and costs associated with importing into and exporting from Mongolia are major constraints to trade and among the primary complaints of private business in Mongolia. As with other areas, Covid-19 exacerbated this problem and highlighted just how dependent Mongolia is on its neighbors. Consequently, periodic border closures led to supply chain disruptions and significantly higher costs for imported goods. Mongolia is dependent on its neighboring countries for nearly all of its oil and approximately 80% of its fresh produce²⁷. Inflation has spiked, and many goods were unavailable for extended periods of time.

Mongolia ranks at the bottom 25 percent (87 out of 108 economies) in the World Energy Council's Trilemma Index²⁸ due to the country's inability to meet current and future energy demand and mitigate and avoid environmental degradation and climate change impacts. Approximately 25 percent of Mongolia's increasing energy demand is imported from surrounding countries, which are highly subsidized tariffs and do not reflect true costs and lack diversification in the electricity mix. While the Energy Law of 2001 envisioned a market-led and private sector driven energy sector, there is currently little private sector involvement due to incomplete reforms and a non-cost reflective tariff that discourages investment. The energy sector is highly subsidized, with an estimated \$40 million annually being allocated to inefficient state-owned enterprises (SOEs). Despite the absence of reforms, the State Policy on Energy continues to call for the transition to a private sector-led energy sector. There is demand for new energy investments²⁹, but the government is not able to support those investments. Given the tight fiscal space, energy investments in generation and transmission are either funded by multilateral partners such as the World Bank and the ADB.

²⁴ <https://www.adb.org/sites/default/files/publication/662086/adb-brief-160-msmes-mongolia-covid-19-impacts.pdf>

²⁵ Source: Ministry of Food, Agriculture and Light Industry (MOFALI), Small and Medium Enterprise Development Agency.

²⁷ Source: United Nations Food and Agriculture Organization.

²⁸ Since 2010, the World Energy Trilemma Index Report has provided an independent and objective rating of a country's energy policy and performance using verified global and country-specific data to assess management of three core dimensions: Energy Security, Energy Equity and Environmental Sustainability. See https://www.worldenergy.org/assets/downloads/World_Energy_Trilemma_Index_2020_-_REPORT.pdf for details.

²⁹ A recently completed World Bank Energy Sector Master Plan estimates that Mongolia requires \$4-5 billion of energy investments by 2030.

Digital connectivity infrastructure provides the platform for knowledge-transfer, digital inclusion, and overall socio-economic upliftment. Mongolia’s ICT sector is dominated by private entities who have benefited from the GOM’s privatization and market liberalization policies. The domestic fiber-optic networks - the backbone network - covers over 38 thousand kilometers, with the state-owned Information Communications Network Company accounting for around half of the deployment. International connectivity is through connections to its surrounding countries, and from there, traffic is routed to overland Asia–Europe networks and through submarine cables. Mongolia ranked 89 out of 134 economies³⁰ in the 2020 Network Readiness Index (NRI), lagging behind countries in the Asia Pacific region. Among the four NRI pillars, the country ranked the lowest in the technology and people pillars due to weaknesses in business use of digital tools and low fixed-broadband subscriptions suggesting the need for greater ICT application to stimulate economic growth.

The lack of economic diversification has stalled Mongolia’s development progress and increased the country’s vulnerability to aggressive and authoritarian influences and hampered its ability to engage with the United States as an important and strategic partner in the Indo-Pacific. DO 2 aims to promote diversified and inclusive economic growth, particularly the Trade and Competitiveness, Digital Economy and Cyber Security Partnership, Infrastructure Transaction and Assistance Network and the Asia Enhancing Development and Growth through Energy initiative.

Table 6. DO 2: Intermediate Results and Roadmap Metrics Links

DO 2: Intermediate Results	Roadmap Metric
1R 2.1: Competitiveness of Private Enterprises Strengthened	<p><u>Capacity:</u></p> <ul style="list-style-type: none"> ● Export Sophistication (boost) ● Business and Investment Environment (reinforce) ● Civil Society and Media Effectiveness (reinforce) <p><u>Commitment:</u></p> <ul style="list-style-type: none"> ● Social Group Equality (boost) ● Economic Gender Gap (boost) ● Trade Freedom (boost)
IR 2.2: Affordable and Reliable Energy Services Provided	<p><u>Capacity:</u></p> <ul style="list-style-type: none"> ● Export Sophistication (boost) ● Business and Investment Environment (reinforce) <p><u>Commitment:</u></p> <ul style="list-style-type: none"> ● Environmental Policy (reinforce)
IR 2.3: Digital Economy Expanded	<p><u>Capacity:</u></p> <ul style="list-style-type: none"> ● Export Sophistication (boost) ● Business and Investment Environment (reinforce) ● Information & Communication Technology (ICT) Adoption (boost)

³⁰The Network Readiness Index (NRI) framework assesses the factors, policies, and institutions that enable a country to fully leverage information and communication technologies (ICTs) for inclusive, sustainable growth, competitiveness, and well-being. The index has four pillars: Technology, People, Governance, and Impact. See <https://networkreadinessindex.org/countries/mongolia/> for details.

IR 2.1: Competitiveness of Private Enterprises Strengthened

Under this IR, USAID programming will help create an enabling environment that is conducive to increased private sector-led trade and investment. This includes addressing information asymmetry, strengthening the local banking system, and supporting agribusiness diversification in market driven areas. USAID/Mongolia will pursue opportunities to utilize development finance instruments, such as with the USDFC. USAID will build on its foundational support for the banking sector in Mongolia as well as recent success in facilitating access to finance for MSMEs to increase their competitiveness to grow and expand. The COVID-19 pandemic severely affected Mongolian businesses, particularly SMEs, due to disruptions in supply chains, reduced sales and production. In many cases this led to closures and layoffs. USAID will continue assisting MSMEs in their recovery from the pandemic, including building their capacity to enter the digital marketplace.

Increased investment in value added production in diverse sectors will lead to a more resilient economy.³¹ USAID support may involve transaction advisory, feasibility studies, and investment facilitation. Supporting growth in value added production requires financial capital; therefore, USAID will continue to work with the local banking system, as well as explore partnerships with other USG agencies to improve access to finance not just for MSMEs but larger projects that can lead to jobs.³²

Using USAID's market systems approach for agribusiness development, USAID will look for viable opportunities to support agribusiness, such as horticulture and cashmere processing, to expand economic diversification. Agribusiness diversification can be pursued in areas that are market driven, where they can strengthen ties with other aligned economies and in sectors where there are greater value-addition opportunities. USAID programming will explore regional value chains in identifying new markets for Mongolia's products.

As demand for affordable finance for MSMEs and informal businesses remains unmet, economic growth programming will support affordable and inclusive access to finance, particularly for women and youth-led enterprises. Assistance will also build their entrepreneurial skills to improve their financial viability. Accelerator programs can support young entrepreneurs, provide them with necessary skills, help them access seed funding, and provide spaces for developing critical thinking, problem solving, project management, and communication and digital skills.

Improving the business enabling environment by capitalizing on civil society and the private sector's influences will nudge the *Business and Investment Environment* metric in the right direction. Improvements in the business enabling environment will level the playing field for U.S. and other investors, thereby increasing the diversity of exports and markets. Targeted support to women and youth to enable them to become competitive will contribute to improvements in the metrics on *Economic Gender Gap* and *Social Group Equality*. These avenues for engagement that are closer to MSMEs, civil society, women and youth, leveling the playing field and the most local levels are a means to implement USAID's localization agenda.

USAID will boost the capacity of the private sector, particularly business support organizations and MSMEs, to become the primary pillar of influence, while collaborating with GOM to institute

³¹<https://www.oecd.org/newsroom/OECD-G7-Report-Fostering-Economic-Resilience-in-a-World-of-Open-and-Integrated-Markets.pdf>

³²Mongolia:SMEs Take Center Stage, Asiamoney, <https://www.asiamoney.com/article/b1jx9t46m5grck/mongolia-smes-take-centre-stage>

critical economic and governance reforms to improve the sector's competitiveness. It will leverage resources and technology to boost sectoral competitiveness. USAID will contribute to implementation of the Mongolia Sustainable Development Vision 2030, which also aspires for an economically diversified Mongolian economy. USAID/Mongolia will work with development partners to complement activities and leverage funding.

IR 2.2: Affordable and Reliable Energy Services Provided

As noted, Mongolia is dependent on its neighboring countries for a significant portion of its energy: currently, approximately 25% of Mongolia's energy demand is imported from these two countries. USAID/Mongolia programming will address the constraints to Mongolia's energy security and independence. To promote the green energy revolution and position the U.S. to lead in the growing global market for renewable energy, USAID assistance will support improvements in the energy sector market dynamics and private sector investment opportunities. Improving the reliability of energy in manufacturing and value-added production will support broader economic opportunity.³³ Programming will focus on improving the energy sector regulatory quality to foster greater private sector investment in the sector. Additionally, USAID will pursue opportunities to help improve planning and operational performance of electric utilities and heating systems and enable adoption of clean energy technologies. These new technologies include smart grid systems and energy efficient technologies/systems/processes and other innovative energy systems for improving delivery of electricity services. These measures could drastically reduce air pollution, cut carbon emissions, and help to mitigate climate change.³⁴

As in the previous IR, USAID will boost the capacity of the private sector, particularly the energy industry to become the primary pillar of influence, while collaborating with GOM to institute critical economic and governance reforms to advance affordable, reliable, and clean energy services and energy self-reliance. USAID will contribute to the implementation of the Mongolia Sustainable Development Vision 2030, which also aspires for a stable, reliable, and full supply of energy domestically.

IR 2.3: Digital Economy Expanded

USAID/Mongolia programming will pursue opportunities to support the expansion of digital infrastructure, primarily through complementing existing programs to gain access to independent digital infrastructure. USAID will further explore Mongolia's digital readiness to harness technological advancements, including efforts to increase the technology adoption rate, accessibility, and affordability of the internet. USAID will also examine the barriers for MSME participation in the digital economy to enable them to engage in e-commerce. This includes building the capacity of firms to engage in digital marketing and e-commerce platforms, addressing trust issues and improving cybersecurity awareness and enabling legislation.

USAID will also develop partnerships with local and international technology firms to introduce MSMEs to applications for supply chain integration and security, and catalyze investment in e-commerce

³³ Sovacool, Benjamin. 2013. Energy Access and Energy Security in Asia and the Pacific. <https://www.adb.org/sites/default/files/publication/31154/ewp-383.pdf>

³⁴ Mongolia in the Digital Age, National Digital Strategy Primer for Mongolia, Situational Analysis, 2021, https://pathwayscommission.bsg.ox.ac.uk/sites/default/files/2021-11/Mongolia_Strategy_Primer%20Accessible.pdf

innovations.³⁵ Drawing from USAID investments in Vietnam (*E-governance* and *LinkSME*) to strengthen the capabilities of government and SMEs,³⁶ USAID will explore working on e-governance enhancements that would improve the functioning of democratic governance institutions and the rule of law and facilitate the implementation of economic policy reforms and business regulation, including reducing the cost of doing business. This approach is buttressed by OECD-compiled evidence demonstrating higher productivity in high-share SME sectors with more developed online platforms, and a link between higher workforce productivity growth and SMEs' online activity platform engagement.

Complementing the two previous IRs, USAID will boost the capacity of the private sector, particularly the ICT sector to become the primary pillar of influence, while collaborating with GOM to institute critical economic and governance reforms to expand the digital economy. USAID will contribute to the implementation of the Mongolia Sustainable Development Vision 2030, which also aspires for an expansion of Mongolia's information technology and telecommunications coverage and an increase in the use of high-speed networks, particularly in rural areas.

Table 6: DO 2: Illustrative Results and Outcomes

ILLUSTRATIVE RESULTS AND OUTCOMES		
IR.2.1: Competitiveness of Private Enterprises Strengthened	IR 2.2: Affordable and Reliable Energy Services Advanced	IR 2.3: Digital Economy Expanded
<ul style="list-style-type: none"> ● Improvement in Global Competitiveness Index* ● Improvement in the Improving Business Index* ● Percentage increase in sales of SMEs ● Percentage increase in the number of women- and youth owned businesses 	<ul style="list-style-type: none"> ● Share of Households Using Reliable Electricity* ● Share of main fuel products supplied from domestic production* ● Improvement in the World Energy Trilemma Index ● Percentage increase of domestically generated energy from renewable sources 	<ul style="list-style-type: none"> ● At least 70 percent of the rural populations using broadband internet services*, ● No less than 50 percent of public services digitized* ● Improvement in the Digital Adoption Index ● Improvement in the Network Readiness Index

*Mongolia Sustainable Development Vision 2030 Metrics.

V. Monitoring, Evaluation and Learning (MEL)

Following approval of the SF, USAID/Mongolia will develop the Performance Management Plan (PMP), a tool to track and report on the mission's accomplishments. Specifically, the PMP will guide efforts to monitor, assess and learn from the implementation of the strategy. The PMP will set objectives for monitoring, evaluating and analyzing the mission's accomplishments with local champions and collaboratively identify adaptive management decisions.

The PMP will measure outcomes and results, inform program management decisions, and communicate changes in the context, accomplishments, and USAID's overall contributions to addressing Mongolia's

³⁵ SMEs in the online platform economy, <https://www.oecd-ilibrary.org/sites/1386638a-en/index.html?itemId=/content/component/1386638a-en>

³⁶ <https://www.usaid.gov/vietnam/improving-governance-for-economic-growth>

development needs. It will gather evidence and data on how USAID's manageable interests have impacted Mongolia's development progress, the results achieved while adapting to political, socio-economic changes and learning from the strategy implementation. As a living document, the PMP will be reviewed and updated, as appropriate, or at least once during the strategy midterm review.

Monitoring

USAID/Mongolia will organize a monitoring system that will track progress, performance, programmatic assumptions, and operational context under each DO. This will entail data collection using monitoring and progress reports including portfolio reviews and sharing of monitoring results across the mission. Context indicators at the highest levels will monitor the country's performance at the DO levels. Indicators at the IR and Sub-IR levels will track USAID's performance, in accordance with ADS 201 guidelines. The PMP will further describe plans to collect and utilize baseline data, set specific targets and most importantly track results. It will also be used to monitor specific indicators on the assumptions and risks that may impact implementation of activities under each DO. The Agency's Development Information System (DIS) will be implemented at the earliest possible opportunity to facilitate robust tracking of performance results at all levels of the SF.

Evaluation

In conformance with ADS 201 guidelines, USAID/Mongolia will undertake evaluations that help address learning questions of USAID and stakeholders to test the interventions, development hypotheses, and results achieved. An Evaluation plan will be included in the PMP.

Learning

To achieve the desired outcomes in accordance with the SF, tools and approaches will be developed to ensure that USAID's strategic priorities will be reflected in the activity performance results or AMELPs and will inform future activity designs of the Mission. The learning agenda will draw from desired learning at Goal, DO and/or IR-levels to address the Agency and/or Mission knowledge gap and learning regarding its DRG and EG related areas of work. USAID/Mongolia will implement a learning approach in its collaboration with the pillars of influence, GOM, civil society, and the private sector, as well as other development partners.

In addition, learning exercises will promote collaboration and complementation of work with key stakeholders. The DIS, together with the findings from evaluations, performance monitoring reports, assessments and research reports, and data captured during learning events such as pause and reflect, will provide data to support evidence-based decisions to assess progress for the desired development outcomes. A robust learning practice will be instituted to learn from interventions and track best practices and lessons learned for future programming and adapt existing programming as needed. Periodic reflection with USAID partners and the broader stakeholder community will encourage coordination, joint investment, and planning. Performance measurement reflection exercises with these stakeholders will promote transparency and invite continued collaboration, with USAID positioned as an important development partner.

MEL Resources

MEL responsibilities will reside in the Program Office. The learning agenda will be developed in the PMP, and external collaborative mechanisms will be set-up to engage the Mongolian government, donor agencies, and other stakeholders to document and share progress of the implementation. USAID will draw upon regional and internal resources to document and collaborate with stakeholders. USAID will work with local experts and universities to assist in building in-country capacity to measure and track

the success of development activities. This capacity building will include ensuring that monitoring and evaluation can be maintained locally, organizational learning is a priority, and that data is used to support adaptive management and align with USAID standards. While an initial learning agenda will be identified during the formulation of the MEL plan, it will be built with flexibility to adjust or add key questions developed to account for, or inform, changes in programming course as the program and its activities are implemented.