



POLICY BRIEF: FULFILLING CAMPAIGN COMMITMENTS IN A FISCALLY RESPONSIBLE WAY

September 2004

Issue Background

For the first time in Mongolian history, as the Prime Minister has remarked, the people have spoken in the last elections: instead of lords forcing unity among the peoples of Mongolia, people are forcing the unity of the rulers. No political party won a clear majority in the last elections and a coalition government is emerging through negotiations. This is a new experience for Mongolia.

The very fact that these are peaceful negotiations, without riots and bullets on the streets, is a remarkable achievement for democracy considering the country's recent transition. Once more, Mongolia scores high marks on political stability and democracy.

Mongolians, and the world, will be watching the actions of the new coalition government. Will it be consumed in internecine infighting or will it be able to forge a broad consensus to push through needed reforms that no single political party can, on its own, pursue? Political consensus and actions on a clear economic policy reform agenda to generate jobs and improve living conditions for all Mongolians will be one of the yardsticks to measure the success of the coalition.

While Mongolia gets high marks for political stability and democracy in all international ratings, economic performance is its Achilles' heel. Over the last decade rates of GDP growth have been below those of peer countries, the value of exports other than minerals and textiles has remained flat or declined, and ratings of Mongolia's country risk are "very high" based on its budget deficit, foreign debt, and current account balance as percentages of GDP, and its international liquidity (months of import cover).

Given these facts, international finance institutions, foreign investors, and ratings services will be watching how the coalition government fulfills the campaign promises made to Mongolians by the parties constituting the coalition. Will it do it in a fiscally responsible way or will its actions further deteriorate Mongolia's economic and financial risk ratings?

While no political party can fail in delivering its campaign promises made before to Mongolians coming to power, no party got an unequivocal mandate to implement its program. Negotiating a compromise is therefore required. As the matter is complex and Mongolia needs to send clear signals of fiscal responsibility to the world as well as deliver on its promises to Mongolians, more time is required to explore a broad range of fiscally sound measures that would achieve both goals.

Recommendations

One measure to be considered is the formation of a "Unity Commission" to explore measures, cost them out, identify target recipients, mechanisms, and phase-in schedules that are fiscally responsible and deliver on these campaign promises.

- *Constitution of the Unity Commission:* Multi party, with broad representation from civil society, private sector, and non-partisan and distinguished Mongolian experts
- *Mandate:* To advise the GoM on fiscally responsible ways of fulfilling its campaign promises to help children and the disadvantaged
- *Public hearings and participation:* The Commission shall announce and hold national public hearings to involve citizens in the debate, create a Web site or use an existing one such as the *Open Government Web site* to post its proposals for public debate and input
- *Technical support:* The Commission shall seek and engage the expert services required to identify target recipients, transfer mechanisms, quantify costs of diverse programs, their phase in, experiences of other countries, etc.
- *Final Report:* The Commission shall turn in its final report with its recommendations to the GoM and the people of Mongolia before Tsagaan Tsar.

The coalition government could announce the formation of the Unity Commission in early October as part of its "100-Day Program" fulfilling its promises to Mongolians and involving them in the process of crafting a targeted program for children and the disadvantaged. At the same time, the coalition government would send the "right signals" to the world that it intends to act in a fiscally responsible way.

EPRC, and we believe the international donor community, will stand ready to provide the technical support required to assist the government in these endeavors.