The AMERICAN CHAMBER of Commerce in Mongolia

POSITION PAPER ON AGRICULTURE SECTOR DEVELOPMENT

Challenges and Ways Forward

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Position Paper on Agriculture Sector Development:
Challenges and Ways Forward June, 2016

Background
AmCham Mongolia supports the Government’s vigorous efforts towards economic diversification. Improving the competitiveness of the agricultural sector, a pillar of Mongolia’s economy, is of critical importance to Mongolia’s economic diversification. AmCham Mongolia has developed this position paper, including a set of policy recommendations, to encourage such improvements.

Mongolia’s heavy dependence on the extractive industry has resulted in slowed economic growth and decreased investment inflow due to fluctuations of the global prices of commodities and missteps in government policies. AmCham believes that the Government needs to clearly outline a strategy to diversify the economy based on a realistic assessment of the country’s comparative advantage.

Policy Issues
Based on AmCham members’ comments and on discourse with the senior management of the Ministry of Food and Agriculture, AmCham has identified a number of policy issues that we believe need to be addressed to overcome the pressing challenges hindering the development of Mongolia’s agriculture sector.

Access to Finance
Access to low-cost, long-term financing is of critical importance to the development and improvement of Mongolia’s agriculture sector, especially for small-sized and medium-sized agricultural projects and for equipment purchases. External financial entities such as IFC, US EXIM Bank and OPIC have an important role to play in finding solutions to financing issues in the agriculture sector. Attention needs to be given to the development of comprehensive financial instruments – e.g., financial leasing to procure machinery and equipment. Attention needs to be given to the development of a comprehensive insurance system for the industry.

Access to Markets
Greater emphasis needs to be placed on opening export markets, especially for agriculture products other than meat. With special regard to export markets, Mongolian brand needs to be developed, with an emphasis on the quality of Mongolian agriculture and food products.

Policy Regulation
Government price control should be discouraged – e.g., with regard to the price of wheat. A fair competition regime should be maintained – e.g., with regard to state interventions in procurement of equipment and machinery that is in direct competition with the private sector. Clear policies and projects in the agriculture sector to promote the use of innovative and advanced American technologies and machinery.
The agriculture sector has been a cornerstone of the Mongolian economy for hundreds of years. The agriculture sector currently makes up 14% of Mongolia’s GDP. The sector recently has been overshadowed by the emerging mining industry; however, due to the global decline of the mining sector and weak management of the revenues from the mining boom, the agriculture sector has once again taken on a central role. It has the potential to be a strong economic performer and to promote the diversification of Mongolia’s economy.

Mongolian agriculture faces a few broad challenges: weather remains a major challenge, particularly in the context of climate change, which is having a severe impact on Mongolia. The agriculture sector encounters institutional, systemic and infrastructure challenges to developing into an internationally competitive sector. In addition, the agriculture sector is facing growing competition from the mining sector for resources – e.g., for financing, land and other resources.

**Livestock**

Mongolia is strategically located to become a major supplier of a variety of quality animal products, including meat and dairy products. Meat export is one of the primary sectors with the great potential to diversify Mongolia’s economy. It is estimated that Mongolia’s annual meat export amounts to 20,000 tons of meat; however, the sector remains underdeveloped and informal with severe sanitation issues in animal slaughter and meat handling.

**Dairy Products**

Mongolia’s dairy industry has grown in importance and can be a major contributor to the economy. In particular, organic cheese and camel milk products have the great potential to be promoted as a brand. However, due to inappropriate or underdeveloped processing facilities, the development of the sector is slow. Anecdotal evidence illustrates that, despite having such a large number of livestock, Mongolia uses very little of its own animals’ milk and even imports powdered milk.

**Farming**

Overcoming the initial shock wrought by free-market reforms, the farming industry in Mongolia has been recovering gradually. It is trying to re-position itself as a competitive industry with the ultimate goal of self-sufficiency in grains and vegetables. The Government has taken several policy initiatives to boost the industry; however, as noted, structural and institutional challenges hinder the development. For instance, the Crop Production Fund has limited financial and institutional capacities to manage effective policy that is meant to provide incentives for farmers and to ensure a healthy and competitive environment for farming.

Overall, Mongolia faces capacity challenges in the processing and manufacturing capacity of livestock. On the other hand, the government and the private sector are taking initiatives to develop and brand organic, high-end agricultural products that are internationally competitive. In this context, it is important to continue to keep in mind that the characteristics and conditions of Mongolia’s agriculture sector favor strategies that stress product quality.
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