



DEVELOPMENT EFFECTIVENESS COUNTRY BRIEF

# Mongolia

## Selected Country Indicators

Country Indicators	Comparison year	Most recent year
Gross domestic product per capita (in US \$)	–	\$1,049.72 (2006)
Population below national poverty line (%)		
Nation-wide (average)	36.3 (1995)	32.6 (2006)
in Urban Areas	38.5 (1995)	27.9 (2006)
in Rural Areas	33.1 (1995)	37.0 (2006)
Official unemployment rate (%)	–	3.3 (2005)
Under-5 child mortality (per 1,000 live births)	61.7 (1995)	23.2 (2006)
Infant mortality rate	44.4 (1995)	19.1 (2006)
Maternal mortality ratio (per 100,000 live births)	186 (1995)	67.2 (2003)
Births attended by skilled health staff (% of total)	98.7 (1995)	82.2 (2006)
Prevalence of HIV/AIDS (% , 15–49 years)	0 (1995)	0 (2006)
Prevalence of tuberculosis (per 100,000 people)	121.4 (1995)	185.3 (2006)
Death associated with tuberculosis (per 100,000 people)	4.9 (1995)	2.9 (2006)
Proportion of tuberculosis cases detected and cured under Directly Observed Treatment, Short-course	62.5 (1995)	82.1 (2006)
Net enrolment ratio in primary education	95.9 (1997)	91.4 (2006)
Proportion of pupils starting grade 1 who reach grade 5	72.2 (1995)	86.8 (2006)
Ratio of girls to boys in primary and secondary education (%)	1.03 (1995)	1 (2006)
Population with access to an improved water source (%)	–	66.2 (2000)
Fixed line subscribers (per 1,000 people)	33.7 (1995)	60.3 (2006)
Mobile phone subscribers (per 1,000 people)	20.3 (1999)	296.8 (2006)
Household electrification access (% of households)	87 (2000)	93 (2004)
Living in apartments	–	92.4 (2000)
Living in gers (traditional tents)	–	43.1 (2000)
Cost required for business start-up (% of GNI per capita)	–	4.3 (2006)
Time required for business start-up (days)	–	19 (2006)

GNI = gross national income.

# COUNTRY DEVELOPMENT SETTING

## Overview of Country Achievements and Development Challenges

### 1. Poverty and Human Development.

Mongolia has been a rapid reformer since it embarked on the process of transition from a centrally-planned to a market-driven economy. Overall, reforms in the economic, social, and political spheres brought major benefits to the population. Driven by high prices for the main export commodities and favorable weather conditions, income poverty reduced significantly over the past years. The latest estimates (September 2006) showed that poverty incidence declined by 3.4% from its 2002 level, putting it at 32.6%. Like other post-communist countries, Mongolia inherited high levels of education and health outcomes. However, as a result of declining life expectancy and low gross domestic product (GDP) per capita, Mongolia ranked 116th out of 175 countries in the 2004 Human Development Index (HDI). Despite progress in reducing poverty, a number of challenges remain, especially in addressing non-income Millennium Development Goals (MDGs) and unequal opportunities between rural and urban areas. The rural population at large suffers from low access to quality education and health services. In terms of MDG targets, those relating to poverty and hunger, primary education, and environment are at risk of not being achieved. Diversifying Mongolia's productive base, reducing its vulnerability to exogenous factors, and adopting more inclusive paths of growth are the main challenges faced by policy makers.

### 2. Economic Growth and Macroeconomic Policy.

In the first decade of transition, Mongolia implemented most of the structural reforms necessary to develop a market economy. Mongolia's economy is now open with a private sector that represents over 80% of GDP. Growth has been sustained despite fluctuations related to external shocks. The economy has been growing at an average of 8.1% annually over the last 4 years. A comfortable foreign trade surplus and the first-ever current account surplus equivalent to 1.45% of GDP were achieved in 2006, thanks to the high prices of copper and gold in international markets, sustained foreign direct investments, and remittances from workers abroad. Foreign exchange reserves grew almost four-fold from 2000 to 2006, and are equivalent to roughly 6 months of imports. Inflation has remained within the Central Bank's target range of one-digit percentage point. Unemployment figures remain modest (although the growing employment concern may not be reflected in the official number of registered unemployed).

3. **Development Challenges.** Mongolia's major development challenge is to achieve inclusive growth. The economic development of the country remains fragile and geographically concentrated, with a narrow economic base. The expansion of the mining sector is expected to boost the economy in the medium term, but income in this industry is also highly concentrated. In 2006, GDP per

capita exceeded the US\$1,000 mark for the first time; however, income inequality has risen and rural-to-urban migration has accelerated. The Government of Mongolia developed an Action Plan for 2004–2008 based on the Economic Growth and Poverty Reduction Strategy (EGPRS) developed in July 2003. The

action plan aims to sustain private sector-led economic growth by providing support for access to new markets on the basis of knowledge and information, and introduce a concept of balanced regional development to reduce disparities in development between urban and rural areas.

## ADB'S CONTRIBUTIONS TO DEVELOPMENT RESULTS

### Volume and Performance of ADB Operations

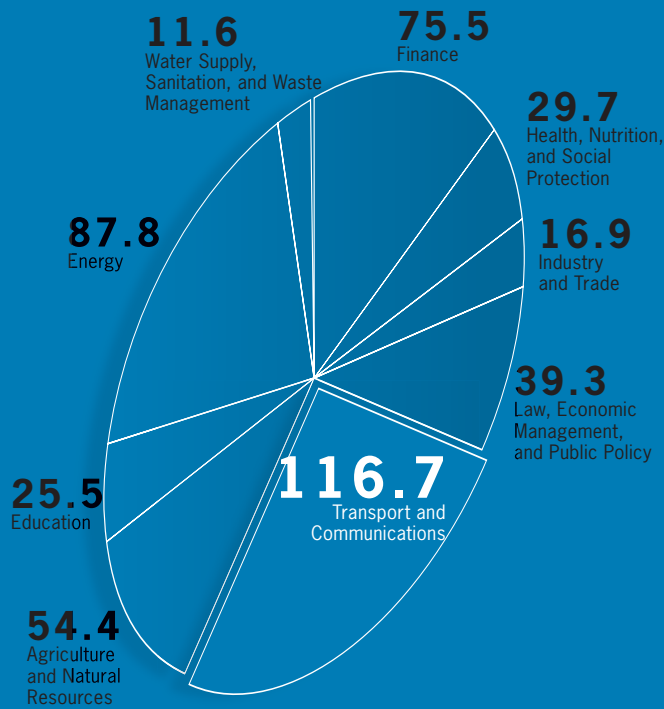
4. Since Mongolia joined ADB in 1991, ADB has remained one of its leading development partners. Mongolia is eligible for and borrows only from the Asian Development Fund (ADF). As of 31 December 2006, cumulative lending to Mongolia amounted to \$662 million, consisting of 39 loans. In addition, 8 grant projects totaling \$10.7 million, and 127 technical assistance (TAs) totaling \$63 million, have been approved. ADB's assistance strategy spans over numerous sectors (figures 1 and 2).
5. Of the 16 project completion reports (PCRs) prepared from 1996 to 2006, six were rated generally or highly successful, seven successful, and three partly successful (figure 3). Post-evaluation was conducted for nine projects during the same period; out of these, 2 were rated highly successful, 3 successful, and 4 partly successful. The PCRs and post-evaluation findings point to the following factors that lead to a partly successful rating: (i) failure to achieve planned targets (often due to inadequate feasibility studies and/or ambitious project designs), (ii) noncompliance or partial compliance with loan covenants, (iii) weak impact on institutional development, and (iv) limited

capacity of the government agencies to monitor project performance.

6. **Impact of ADB Assistance.** The 2002 country assistance program evaluation (CAPE) assessed the impact of ADB assistance, distinguishing between support for capacity development, policy reforms, and investment lending. Overall, it found that the ADB program played an important role in facilitating Mongolia's transition process. Poverty reduction considerations were integrated since the beginning of ADB operations; but this was mostly through private sector development and related job creation and, hence, was in the absence of a clearly articulated and comprehensive poverty reduction strategy.
7. In the areas of capacity building and institutional change, the CAPE notes that ADB assistance successfully promoted change in public resource management, in social service delivery (the decentralization of the health system proved particularly effective), and in the transport and energy sectors. In other areas, ADB assistance often lacked strategic focus, failed to build upon achievements, and tended to be input-driven. ADB support for policy reform in Mongolia has been wide-ranging, from privatization in key industries to agricultural reforms (in particular, price liberalization of the major agricultural products), to education and

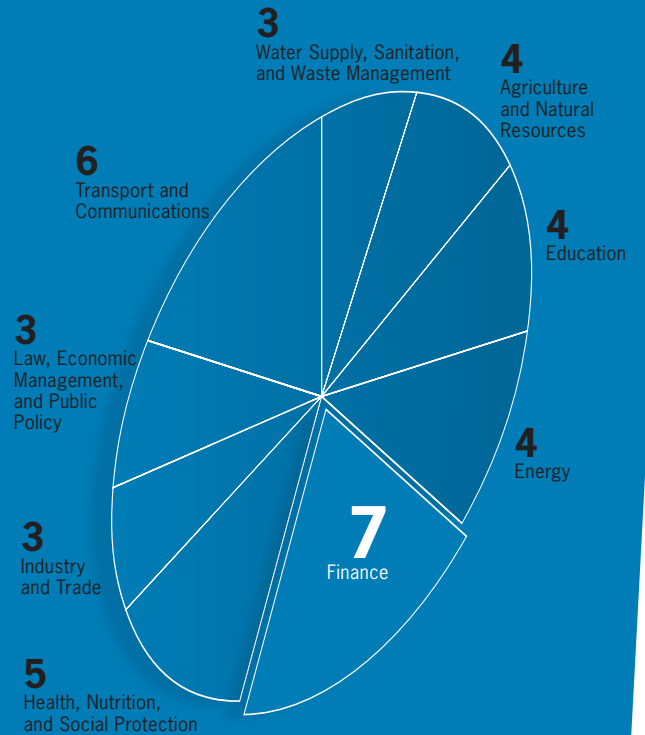
**Figure 1**

Asian Development Fund Loans and Grants Approved, 1995–2006 (\$ million)



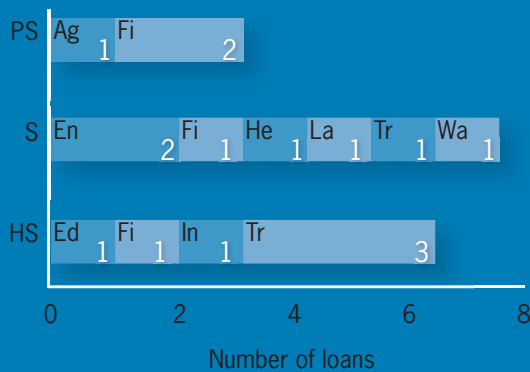
**Figure 2**

Asian Development Fund Loans and Grants Approved, 1995–2006 (number of projects)



**Figure 3**

Project Completion Report Ratings, 1996–2006



- Ag Agriculture and Natural Resources
- Ed Education
- En Energy
- Fi Finance
- He Health, Nutrition, and Social Protection
- In Industry and Trade
- La Law, Economic Management, and Public Policy
- Tr Transport and Communications
- Wa Water Supply, Sanitation, and Waste Management

PS = partly successful, S = successful, HS = highly successful.

## The ASDP Benefits Rural Poor

Over 7,900 farmers benefited from the seeds and equipment supplied by the ASDP. Average yields per hectare for cereal, fodder and potato in the western aimags (administrative units) have increased by 13.5%, 59.6% and 26.9% respectively in 2001–2006. Income of beneficiary households grew by 10% to 60%.

ASDP rehabilitated 328 wells and 3 man-made ponds in the 4 western aimags, which secured sustainable water sources for 2 million hectares of pasture land in 2006.

The project supported six secondary cooperatives (associations of cooperatives established to perform function such as marketing of products). The largest cooperative investment, the wool washing plant of “Dorvoljin Tavan Erdene,” collected 1,070 tons of wool from herders and produced 570 tons of washed wool in 2005–2006. Small herders of Zavkhan aimag who supply wool to the plant, are the beneficiaries of this project component. Five other small-scale felt cooperative units are also operating in Uvs, Khovd, and Zavkhan with the support of the project.

The cumulative disbursement under the credit line amounted to 34.9 billion togrog (approximately \$29.9 million). Over 29,000 loans have been issued to small and medium producers (herders and farmers) to help them purchase animals, grow vegetables, trade their products, or develop other income generating activities. The repayment rate is 98%.

health systems. Among achievements in the areas of public policy and good governance, the CAPE acknowledged ADB’s role in promoting a merit-based civil service; output-based budgeting; new procurement, accounting, and auditing standards; and the anti-money laundering legislation. In general, however, the impact of policy reforms in terms of poverty reduction is considered mixed. Similarly, if ADB’s program in the agriculture sector had contributed to

the reduction of rural poverty, it was more through the provision of budget resources in times of severe financial difficulties, than through its specific social policy measures.

8. ADB’s investment projects usually delivered the expected benefits. Road projects contributed to increase traffic, expand economic activities, and develop regional links. Agriculture sector assistance improved rural livelihoods and incomes, especially through facilitated access to rural credit and extension services. Projects in the financial sector successfully addressed crisis-triggered problems and assisted in establishing regulatory frameworks and accounting standards. While loans aimed at increasing access to credit performed well, the effectiveness of targeting mechanisms for poverty reduction has been questionable.

## Highlights of ADB Results

9. **Agriculture.** ADB operations in the agriculture and rural development sector were initially limited to TAs and included a comprehensive sector review in 1993. The \$35 million Agriculture Sector Program was adopted in 1995 to address key policy constraints and strengthen the institutional environment through a reform package focused on the promotion of competitive markets. The program completion report concluded that, while the reform agenda was not fully achieved, economic reforms had been implemented at a rapid pace, especially as regards privatization and agricultural price liberalization.
10. The Agriculture Sector Development Program (ASDP) was approved by ADB in 2001 with a marked rural poverty focus (see box). The \$10

million investment project, backed by a \$7 million program loan, aimed to support the disengagement of the government from non-essential services, and at the same time enable the private sector to take over functions previously carried out by the state (such as the supply of seeds, fertilizers, and equipment; processing and marketing of agricultural products; and financial services). The project targeted four poor provinces in the western region and included (i) support for the competitiveness of the livestock subsector through well rehabilitation, veterinary services, cooperative development, and rural communications; (ii) assistance to horticulture development as a new income-generating activity for poor rural households; and (iii) a credit line for short-term loans to farmers. Building on its long-term support and engagement in the sector, ADB assisted the Government in developing the 2006 Agriculture Sector Strategy to help attract and coordinate development partners' assistance to the sector.

11. **Education.** With the support of ADB and other development partners, the Government engaged in a comprehensive education sector reform aimed at improving the overall efficiency of the system (by rationalizing the network of primary and secondary education facilities while expanding access), and improving the learning and teaching environment (by modernizing the curricula, developing new textbooks, and retraining teachers). ADB has been a major provider of assistance to Mongolia's education sector since the mid-1990s. Its main focus has been to improve access to and quality of basic education in response to the changing requirements of a market economy, and to strengthen institutional capacities of the

## The ESDP Contributes to Higher Enrollments and Better Quality Education

A performance evaluation of the ESDP, conducted in April 2007, rated the project highly successful. It found that the program supported those policy reforms needed to rationalize the education system, improve cost recovery, support private sector provision of education, strengthen management capabilities, and upgrade educational content. In particular, the ESDP played a key role in contributing to the restoration of enrollment rates from 82% in 1996 to 97% in 2002, decreasing the incidence of school drop-outs, and improving the quality of education services.

Among its achievements, ESDP's investment component rehabilitated 171 schools while making them more economically effective by introducing renewable energy solutions. "Complex schools" with a streamlined management structure were developed.

The ESDP initiated the development of in-service training, paying particular attention to the needs of teachers in rural areas. Teacher advisers were trained to assess the needs of under qualified teachers and prepare teachers for integrating children with disabilities into mainstream education. New textbooks, teachers' guides, and supplementary learning materials were provided. A TA attached to the loan supported capacities for training delivery, pedagogical and methodological methods, and quality assurance systems.

Ministry of Education, Culture and Science (MOECS). The 1996 Education Sector Development Program (ESDP) helped the Government introduce cost recovery schemes, sector rationalization mechanisms, and private provision of educational services while supporting enrolments (see box). ESDP was followed by the Second Education Development Project, approved in July 2002, which financed school rehabilitation, instructional materials, and training of school teachers and administrators. ADB's Third Education Development Project,

approved in 2006, will consolidate these reform achievements, further strengthen sector management capacities, and assist the Government in developing a new education master plan for 2006–2015. Significantly, ADB is also supporting the development of an ICT model aimed at bringing modern education content, pedagogy, and information to poor rural schools.

12. **Transport.** ADB has been involved in Mongolia's road sector since 1992, implementing six loans totaling \$165.8 million, and 15 TA grants totaling \$8.5 million. Among its achievements, ADB (i) financed the development of the country's primary north–south road corridor between the Russian Federation and the People's Republic of China (and also conducted awareness raising

to prevent the spread of HIV/AIDS and human trafficking on the corridor), (ii) assisted in the formulation of the road master plan, (iii) strengthened capacities of the Department of Roads in the areas financial management and public–private partnerships for road maintenance, and (iv) supported the creation of a Road Board to monitor the operations of the Road Fund (collection of fuel taxes and toll fees to finance the road sector development in accordance with the Road Act). ADB's project performance in the road sector is considered satisfactory, demonstrating tangible results in terms of traffic counts and expansion of economic activities in the project areas, as well as in the growing participation of the private sector. ADB is considering supporting the development of a second north–south corridor through Western Mongolia.

## ADB'S AGENDA FOR ENHANCING PARTNERSHIPS AND AID EFFECTIVENESS

### Volume and Performance of ADB Operations

13. ADB's country operations business plan for 2008–2010 was discussed with the Government in June 2007. Education, health, finance, urban development, transport, and natural resources remain priority sectors for ADB operations (figure 4 and 5). Private sector operations are expected to grow, focusing on capital markets development, air transport and communications, and urban infrastructure.
14. ADB's assistance portfolio currently consists of 18 loans (14 projects and 4 program loans), 6 projects from the Japan Fund for Poverty Reduction (of which 2 are regional), and 14 TAs, for a cumulated net amount of \$318.8 million.

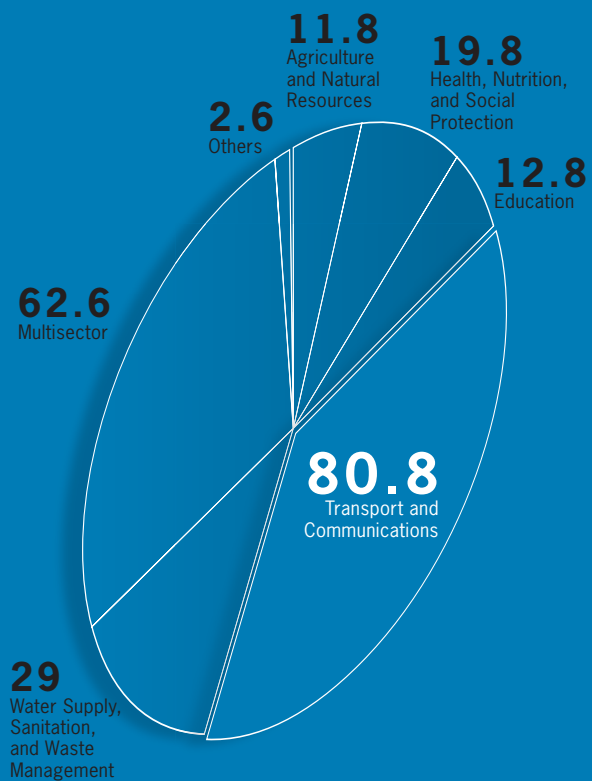
Of the 18 loans under implementation, 1 is rated highly satisfactory, 1 partly satisfactory, and the remaining 16 are rated satisfactory (figure 6).

### Ownership, Alignment, and Managing for Results in ADB Operations

15. **Alignment and Strategic Focus of ADB's Country Strategy.** In 2003, the Government finalized its Poverty Reduction Strategy in the form of the Economic Growth Support and Poverty Reduction Strategy (EGSPRS). Deriving from the EGSPRS, the Government adopted the National Action Plan for 2004–2008 and is now in process of preparing a Long Term National Development Strategy (NDS) for 2008–2021. Two aspects are prominent in the

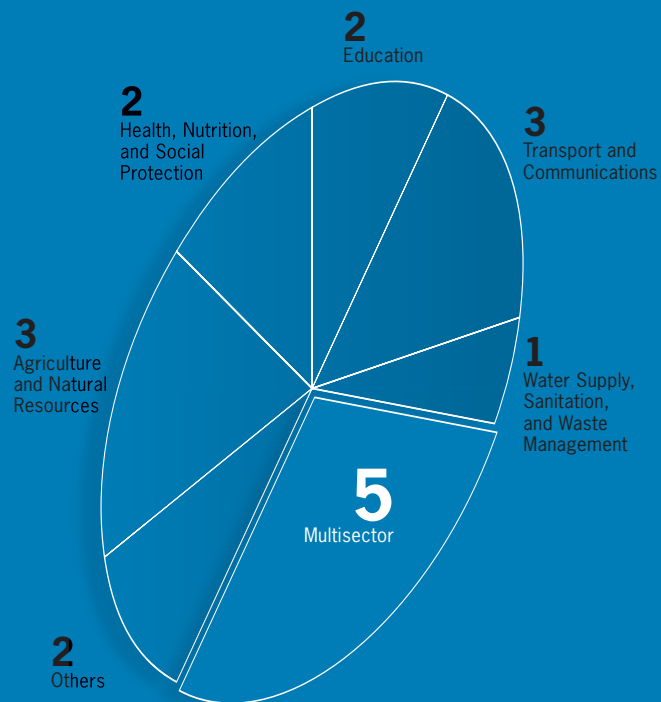
**Figure 4**

Projects in the pipeline, 2008–2010 (\$ million)



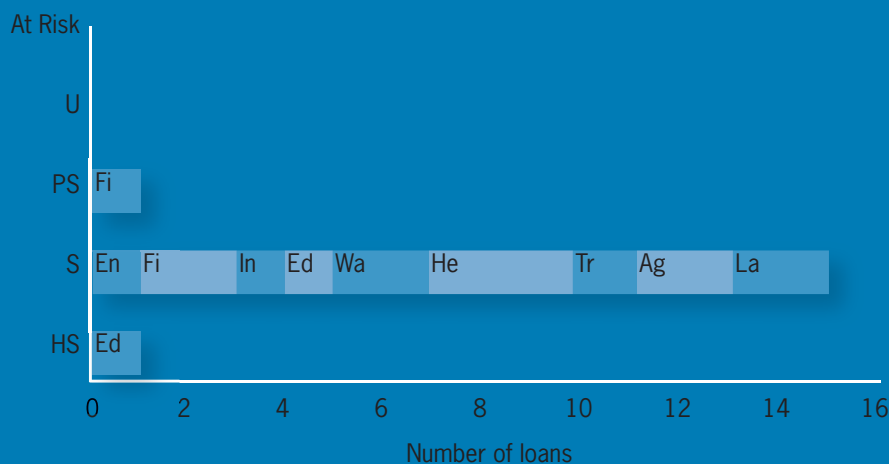
**Figure 5**

Projects in the pipeline, 2008–2010 (number of projects)



**Figure 6**

Projects Ratings at Implementation



Ag Agriculture and Natural Resources  
 Ed Education  
 En Energy  
 Fi Finance  
 He Health, Nutrition, and Social Protection  
 In Industry and Trade

La Law, Economic Management, and Public Policy  
 Tr Transport and Communications  
 Wa Water Supply, Sanitation and Waste Management

U = unsatisfactory, PS = partially satisfactory,  
 S = satisfactory, HS = highly satisfactory.

## ADB Program Directions

### Agriculture

Consolidate achievements to develop modern value chains while sustaining the value of the traditional production base.

### Transport

Pay greater attention to regional cooperation and market integration. Integrate transport sector support with rural development.

### Education

Pay greater attention to education, training, and employment linkages. Improve the quality and relevance of education for rural and peri-urban populations. Assist in coordinating donor intervention through the development of a sector-wide approach.

### Health

Build upon the demonstrated benefits of community-based health care. Focus on the rural health care system, women's health, and the wider development of community-based services. Help align sector financing to support these reforms.

### Urban Services

Target the poorest segments of the population in supporting the provision of services vital to the achievement of the MDGs. Encourage private sector participation in housing development and services provision.

### Finance

Focus on the development of capital markets and social security, including pension funds.

Government's development agenda: (i) private sector-led growth to improve living standards and reduce income disparities, and (ii) social development to improve income opportunities and the quality of public services for the poor. Economic development is expected to stem from the pursuit of enterprise privatization, the promotion of small and medium-sized enterprises, an improved exploitation of mineral resources, investments in infrastructure development, and legal and institutional reforms, particularly in the financial sectors. Access to and quality of health care (particularly maternal and child health services), basic education, urban services, and housing remain priorities of Mongolia's development agenda.

16. While the development objectives of ADB's past projects were related to the process of economic and social transition and to the national rehabilitation and reconstruction agenda, the new pipeline will be oriented towards fostering broad-based inclusive growth. The focus towards achieving the MDGs (especially quality of health and education services delivered to the poor) requires readjustment in ADB's sector approaches (see box). A significant pro-poor feature of the Mongolia program is the presence of Japan Fund for Poverty Reduction and Japan Fund for Information and Communication Technology projects.
17. ADB's 2006–2008 country laid the grounds for a results-based approach along the lines of the EGSPRS. The framework that underpins the results-orientation of ADB' strategy is seen as the end-result of a joint process by which the Government, ADB, and other partners agree on priorities, and take action to ensure effective support around these. The Government has initiated this process

by outlining priorities, and ADB is now helping develop a results framework with performance indicators to establish sound mechanisms to manage the country strategy for results. ADB's forthcoming country partnership strategy (CPS), to be developed in 2008, will be aligned with the Government's priorities as defined in the 2008–2021 NDS currently being discussed by the Parliament.

#### 18. **Managing for Development Results**

**(MfDR).** ADB has provided MfDR-related assistance to Mongolia under two regional TA projects: Strengthening Results-Based Management for Sector Agencies, and Decentralizing Social Sectors. The regional TAs helped improve understanding of results-based management in the context of decentralized health and education services. Recently, ADB approved a TA on Mainstreaming Managing for Development Results in Investment Planning and Public Funds Management. In addition to strengthening investment planning and monitoring of sector ministries as part of NDS, the TA will introduce results-based management techniques for the social security funds and other public funds, including the Mongolian Development Fund.

19. In general, statistical capabilities tend to be impeded by inadequate data availability and reliability. A key step in the MfDR agenda in Mongolia is to develop performance indicators for the EGSPRS and to formulate related sector targets. ADB's TA to support the National Statistics Office is part of this effort to improve statistics at the central level. In parallel, ADB's TA for aid policy and debt management, executed by the Ministry of Finance, assists the Government in the prioritization and coordination of aid flows. At the level of line ministries, monitoring and evaluation systems do not provide a suitable platform for central coordination and are mainly input-oriented. ADB, together with the

World Bank and the United Nations Development Programme, is supporting the integration of monitoring and evaluation systems developed at the sectoral level with the national poverty monitoring system. Another ongoing ADB TA for the implementation of the Public Sector Management and Finance Law (PSMFL) is supporting sector ministries in the adoption of performance-based budgeting and monitoring systems.

#### 20. **Use of and Support to Country Systems.**

ADB's support to country systems in line with the Paris Declaration on Aid Effectiveness focuses on fiscal management capacity (assistance to implement the PSMFL) and public procurement systems. In particular, ADB assistance prompted the adoption of the first public procurement law in 2000 and its successive amendments in 2005 and 2006. Mongolia was selected as pilot country for the procurement assessment in the framework of Paris Declaration; ADB and the World Bank are supporting this exercise.

## ADB's Role in Donor Coordination and Harmonization Initiatives

#### 21. **Donor Coordination and Harmonization.**

The Government of Mongolia recognizes the need to improve coordination and effectiveness of external funding and take a lead role in the process. To develop exchanges between development partners, at the Consultative Group Meeting of November 2003, the Government decided to establish sector working groups. Such groups are currently operational in infrastructure (focusing initially on transport, co-chaired by ADB and the World Bank), social sectors (focusing on health and education and co-chaired by ADB and Japan), private sector development (co-chaired by the German development cooperation through GTZ),

and aid coordination (co-chaired by the United Nations). These working groups can be instrumental to promote joint investment frameworks, implementation mechanisms, and cofinancing or parallel financing, with a view to improving the alignment of aid and reducing transactions costs. The education and transport sectors are considered particularly suitable for the adoption of a sector-wide approach. The transport sector strategy, being developed with ADB assistance, is expected to provide a platform for aligning external funding—including from the Japan International Cooperation Agency, Kuwait Fund, and the World Bank—with national development plans. ADB, in partnership with Japan, is expected to play a lead role in helping the Government formulate a sector-wide approach in the education sector.

22. **Cofinancing.** For the ongoing loan portfolio, ADB mobilized cofinancing in the amount of \$81 million, through arrangements with the Governments of the People's Republic of China, Japan, and Korea, and with GTZ and the Nordic Fund. In addition, bilateral trust funds, such as the Poverty Reduction Fund, Japan Fund for Poverty Reduction, and the Gender Development Cooperation Fund, have been tapped to finance TAs.

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