

ASIAN DEVELOPMENT BANK

**COUNTRY ASSISTANCE PLAN
(2001-2003)**

MONGOLIA

December 2000

FOREWORD

The Country Assistance Plan describes the planned program of assistance by the Asian Development Bank for Mongolia covering the three-year period 2001-2003. It includes loan and technical assistance projects, as well as possible cofinancing from other donors. The CAP was prepared by the ADB between April and June 2000, in close consultation with the Government of Mongolia, and other stakeholders, including non-government organizations. The CAP was discussed with the Board of Directors in October 2000. The assistance plan described in the CAP is only indicative and may be revised to reflect more recent developments.

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CURRENCY EQUIVALENTS

(as of 30 November 2000)

Currency Unit — Tugrik (Tug)

Tug1.00 = \$0.00091

\$1.00 = Tug1,097

Since May 1993, the value of the Tugrik has been determined using a floating exchange rate.

ABBREVIATIONS

ADF	-	Asian Development Fund
COS	-	Country Operational Strategy
FSU	-	former Soviet Union
GDP	-	gross domestic product
IMF	-	International Monetary Fund
PRGF	-	poverty reduction and growth facility
UNDP	-	United Nations Development Programme

NOTES

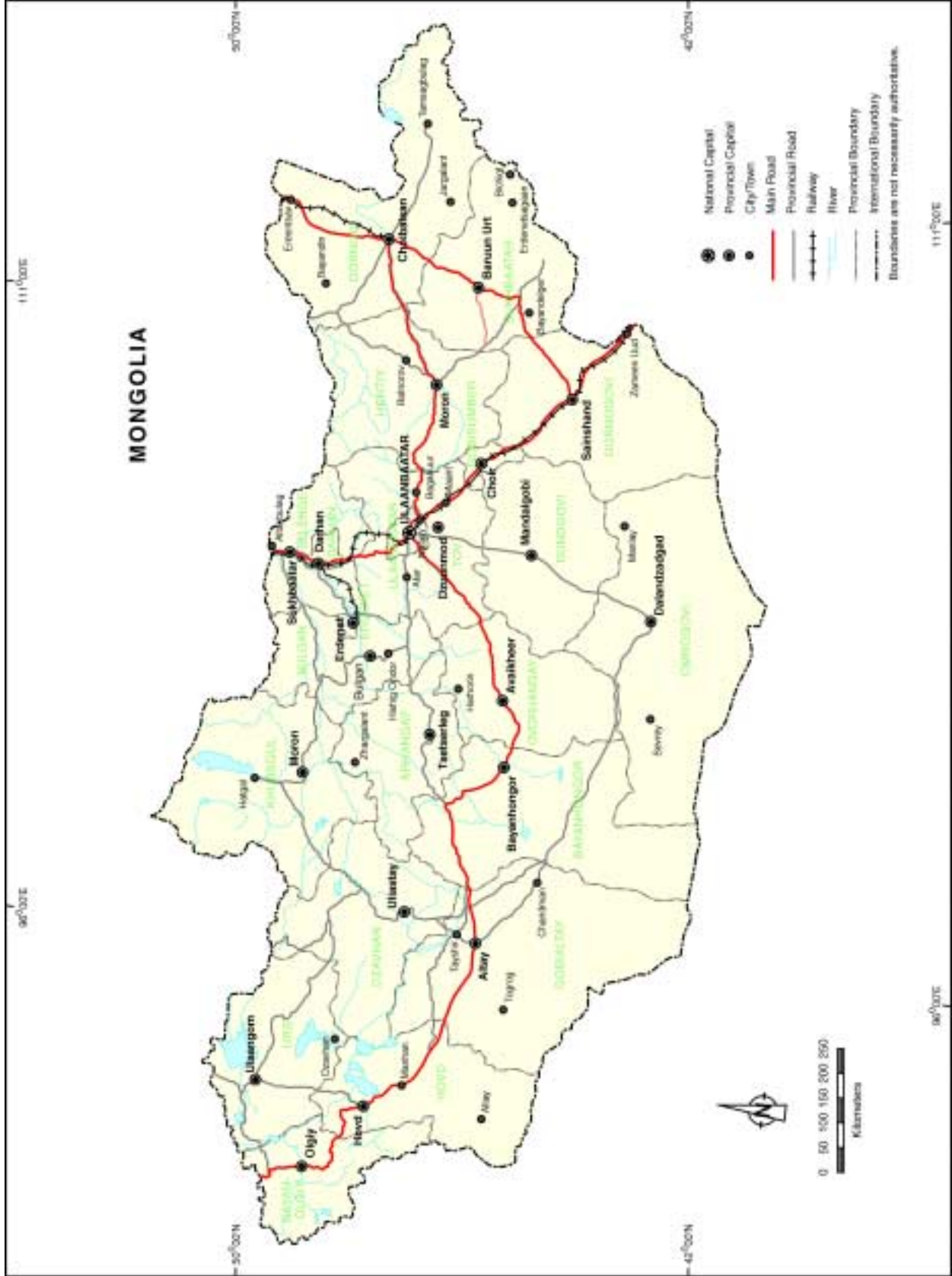
- (i) The fiscal year (FY) of the Government ends on 31 December.
- (ii) In this Report, "\$" refers to US dollars.

**COUNTRY ASSISTANCE PLAN (2001-2003)
MONGOLIA**

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MONGOLIA



MONGOLIA

I. Country Performance Assessment

A. Economic Performance Assessment

1. The Mongolian economy continued to be affected adversely in 1999 by exogenous factors, most notably the after-effect of economic instability in the Russian Federation and the continued low international prices for Mongolia's main exports (copper, cashmere, and gold). During the first five months of 2000 these prices rebounded, however, and the country's terms of trade improved by 3.6 percent. Real GDP growth reached an estimated 3.5 percent in 1999, the same figure registered in the previous year, continuing the trend of unstable but positive real GDP growth rates for five consecutive years since 1994. Growth in GDP in 2000 is anticipated to be about 3 percent. The extensive dependence on exports of primary commodities means that even small changes in the international market prices of these commodities can affect GDP growth significantly. During the winter of 1999-2000, Mongolia suffered its most severe winter in three decades. Nearly 10 percent of total livestock was lost, affecting 20 percent of the total population and pushing increasing numbers into poverty, especially in rural areas. Other areas of the economy, however, have continued to grow on balance during the first five months of 2000, being led by especially strong growth in the transportation sector, which was up 15 percent over the corresponding period in 1999.

2. Inflation, which declined to 6 percent in the 12 months ending December 1998, picked up and reached 10 percent in the 12 months ending in December 1999. The main factors contributing to the rising inflationary pressures in 1999 were the disruption of oil supplies from Russia and increased world prices for petroleum products, as well as increased domestic prices for food items, particularly meat products. Inflation accelerated during the first half of 2000, largely because of the high price of meat following herd losses during the severe winter. Overall prices rose by 15.4 percent compared to the corresponding period in 1999, and meat prices rose by 47 percent. Monetary aggregates have also grown significantly. The money supply increased by 32 percent in 1999 and by another 28 percent in the first five months of 2000, increases that significantly exceeded program targets set in the IMF Poverty Reduction and Growth Facility (PRGF) program and resulted in the IMF's decision to let the PRGF program lapse. Thus far, the main effect of the increased money supply has been to increase imports, rather than fuel inflation. But inflationary pressures can be expected to mount if corrective measures are not taken.

3. The trade balance improved in 1999 as a result of a decline in exports (6.7 percent decrease from 1998) and a bigger decline in imports (19.1 percent decrease from 1998). Consequently, the trade balance was reduced from a deficit of \$120.1 million in 1998 to a deficit of \$40 million in 1999. This change was partly a result of depreciation of the tugrik during the year, which fell by 18.9 percent against the US dollar in 1999, compared with 10.9 percent in 1998. The current account balance also improved in 1999, as it registered a surplus of 1.6 percent of GDP, from a deficit of 7 percent of GDP in 1998. With these developments, gross international reserves at \$155.9 million increased to 17 weeks of imports at the end of 1999, compared with 11 weeks of imports at the end of 1998. In the first half of 2000—the trade deficit decreased slightly to \$52 million compared to \$55 million in the first half of 1999. The surge in imports was fueled by the monetary expansion and an appreciation of the currency.

4. Fiscal performance improved in 1999, as the full impact of new revenue measures introduced in mid-1998 became effective, and additional revenue measures were introduced in

mid-1999. In May 1998, the Government announced a package of tax expenditure measures, including an increase in the value added tax (VAT) rate from 10 to 13 percent effective in September, and an increase in petroleum excise taxes. These measures were intended to yield budgetary saving of about 2 percentage points of GDP on an annual basis. Additional revenue-raising measures, adopted by the Parliament in May 1999, included a uniform import duty of 5 percent and an excise tax on beer, with the expected revenue impact of 1 percent of GDP in 1999.

5. Tax revenues increased to 21 percent of GDP in 1999, compared with 19 percent of GDP in 1998. However, privatization receipts remained substantially below expectations, as the Government's efforts in this regard were met with political resistance from the Parliament. As a result, total revenues and grants increased slightly to 29.7 percent of GDP in 1999, compared with 29.4 percent of GDP in 1998. Mainly by cutting current expenditure, the Government managed to reduce total expenditure to 39.4 percent of GDP in 1999, compared with 42 percent of GDP in 1998. This resulted in an improvement of the overall fiscal balance from a deficit of 12.5 percent of GDP in 1998 to a deficit of 9.7 percent of GDP in 1999. Although the excise tax on beer was repealed in January 2000, revenue growth in the first five months of 2000 slightly exceeded targets, and expenditures were less than targets, resulting in a deficit reduction of 11 billion tugriks. However, net borrowing by the Government from the domestic banking system increased by 7.2 billion tugriks, most of which was used to pay pension arrears. Military expenditures amounted to 1.9 percent of GDP in 1999.

6. Fiscal performance in 2000 weakened. As a result, the budget deficit rose to about 10.5 percent of GDP. This was considerably higher than the 8.5 percent agreed to under the lapsed IMF PRGF program. Moreover, the Government accumulated additional arrears of \$2.4 million on its bonds held by commercial banks during the first half of the year. External arrears from 1999 of \$12.5 million have also not been cleared. The outstanding stock of Government arrears was 2 to 3 percent of GDP by August 2000.

7. As a result of the weak fiscal and monetary performance, an IMF review scheduled for May 2000 was not completed, and the Poverty Reduction and Growth Facility (PRGF) program lapsed. A subsequent IMF mission in September was fielded to negotiate a new program. However, this mission encountered unexpected difficulties, the most important of which was the realization that the approved 2000 budget deviated from the budget agreed with the IMF under the lapsed program. There was agreement in September that expenditures could not be further compressed, and might even have to increase in order to clear Government arrears, and that the deficit would have to be closed by increasing Government revenues. However, there were significant differences of opinion between the IMF mission and the Government on how to raise revenues. A further IMF mission was fielded in December 2000 to continue the negotiations following Parliament's approval of the 2001 budget, which provides for a significant reduction in the budget deficit to 7.4 percent of GDP.

8. Macroeconomic management and the performance of the economy in 1999 was satisfactory despite the difficult international economic environment, in particular the oil price shock. However, during the first half of 2000, macroeconomic management slipped in the lead up to the parliamentary elections. The primary slippage was in the growth of monetary aggregates and domestic credit to the Government, which vastly exceeded IMF PRGF targets. The repeal of the excise tax on beer also resulted in decreased tax revenues, as would a tax package currently before Parliament that would reduce the VAT from 13 to 10 percent. As a result of these developments, the PRGF program has lapsed. Early actions by the new

Government have signalled its intention to re-establish fiscal stability. The passage of the 2001 budget with a reduced deficit is a positive first step.

B. Poverty Assessment

9. Poverty is a relatively new phenomenon for Mongolia, resulting from the loss of substantial economic transfers from the former Soviet Union (FSU) and the economic and social costs of transition from a centrally planned to a market economy in 1991. Poverty has resulted from the external shocks of 1991 (loss of capital inflows, export markets, and trading arrangements with the FSU); the process of transition to a market economy (including privatization, public sector restructuring, and price liberalization); economic contraction and hyperinflation (1990-1993); and the significant decrease in financing for social services, such as health and education. The number of people below the poverty line increased from 15 percent of the population in 1991 to 36 percent in 1996 and has since remained stable.

10. Transition and privatization brought with them increased—though often unregistered—unemployment, and the phenomenon of an increased number of orphans and street children. Increasing poverty is making access to health care and schooling difficult. In education, families cope by allowing girls to pursue higher education, while boys enter the labor market at a younger age. This is income-based deprivation, as opposed to lack of access. The Government has identified orphans, the physically handicapped, single household pensioners, female-headed households, households with more than four children, the unemployed, and small herders in remote areas to be particularly vulnerable to poverty.

11. Poverty is particularly severe among female-headed households although the situation is improving. In 1995, 63 percent of such households were poor. This ratio has decreased to 47 percent. In 1998, about 25 percent of the very poor households and 18 percent of the poor households were headed by women. Most of these households are in urban areas (44 percent of Ulaanbaatar's poor households, and 53 percent of provincial centers' poor households), rather than in rural areas (24 percent of the poor households).

12. In the urban areas, a decline in real wage has been the key factor leading to increased poverty. By 1996, real average wage was 40 percent lower than in 1991 and 20 percent lower than in 1994. Only agriculture showed a wage increase due to massive layoffs from the privatized farms. Public servants were particularly affected: wages for highly specialized health workers and doctors as well as those in public administration were 10-30 percent below the average formal sector wage.

13. In 1998, a higher portion of the poor lived in urban areas (57 percent in 1998, unchanged from 1995) than in rural areas (43 percent). Ulaanbaatar, with 27 percent of the country's population, had 26 percent of the poor, and poverty incidence was slightly lower than the national average (34 percent, compared with 35 percent in 1995). Poverty was concentrated in the provincial urban areas, which account for 25 percent of the country's total population, but 32 percent of the poor (raising the incidence of poverty to 45 percent, up from 42 percent in 1995). Rural areas together accounted for 48 percent of the population, but only 43 percent of the poor (lowering their poverty incidence to 33 percent, slightly lower than that in 1995).

14. Unemployment is strongly correlated with poverty in the urban areas, where 52 percent of the poor are unemployed (compared with 20 percent of the rural poor). Nationwide, 30 percent of the poor are unemployed. The high correlation between unemployment and poverty in the urban areas can be explained for the most part by the breakdown of the pre-1990

economic structure in which major industries were concentrated in urban areas; their closure after the transition left most of the workers without many alternatives for employment.

15. In the urban areas, the distribution of the poor is less skewed: 24 percent are in agriculture-related activities; 26 percent in health, education, and civil service; and 19 percent in hotel, restaurants, and other services. Only 9 percent of the poor are in the manufacturing industries. In the rural areas, some 90 percent of the poor are employed in agriculture (which does not provide year-round employment). Another 6 percent serve as health, education, and government workers.

16. Analysis of the nature and composition of poverty in Mongolia shows that (i) poverty is income-based (i.e., the result of lack of employment and insufficient incomes), and not a result of education or health deprivation, social exclusion, or other forms of assetlessness; (ii) poverty is mainly found in urban areas and the majority of the poor are the unemployed, households headed by women, civil servants, early pensioners, and small herders; and (iii) although poverty at this time is not caused by lack of access to social services, inaction to resolve it could soon lead to the development of new forms of poverty based on health and education deprivation. Resolving these forms of poverty may not be simple.

17. An effective poverty reduction strategy needs to (i) generate viable employment on a wide basis (because poverty is income-based) within the short to medium term; (ii) generate this income and employment mainly in urban areas, particularly the *aimag* (provincial government) centers where the poor are; (iii) rely mainly on the private sector to deliver the needed employment opportunities; (iv) provide for a one-time intervention to put in place a strong safety net for the very poor who might be beyond the reach of self-help opportunities; and (v) while combating income-based poverty, maintain an active hand in keeping up social service delivery to avoid facing new forms of poverty at a later stage.

C. Assessment of Socio-Environmental Performance

1. Gender Issues

18. Women occupy a high status in Mongolian society, are well-educated and well-represented in most occupations, and have equal or better access than men to education and employment opportunities. Female enrollment is higher than males at most levels, including university education. The introduction of the tuition fee system in higher education has not resulted in gender imbalance in enrollment. Labor retrenchment has not impacted more adversely on women than on men. However, in education and health, where approximately 70 percent of staff are women, implementation of civil service reform, including a staff rationalization plan, should be handled in a way which minimizes, to the extent possible, adverse social consequences. There is evidence that women have been more adversely affected than men by the deteriorating health and child care services, and nearly 60 percent of individuals living in female-headed households are poor, compared with a poverty rate of 31 percent for those living in male-headed households. Women are also increasingly being affected by alcohol-related violence during the transition to a market economy.

19. Mongolia has a history of substantial gender equality due to its nomadic lifestyle and former socialist tradition. In today's Mongolia, however, gender-related problems that work to the disadvantage of the males are increasing, and no high-level gender advocacy has been established in the Government's administrative system to plan for and oversee their correction. A study of gender and development, initiated as part of the new COS, found that the female

population appears to be achieving higher levels of education than the male population, particularly at higher stages of education. Young males are taken out of school to contribute labor to livestock production in family herds, and in a modernizing society, this poses a problem for males who will risk lacking the knowledge and skills necessary to adapt to a rapidly evolving market economy. Boys comprise about 40 percent of the student population in secondary schools and only 20 percent at the tertiary level. Standards of health are relatively good for both genders.

20. Traditional factors that have worked in most societies against equal opportunities for women however, are also at work in Mongolia. One noticeable trend is that households headed by females have a high tendency to be poor. Future reforms in the public sector are also expected to work against women in the civil service, as a high portion of the civil servants in the overstuffed sectors of the Government are females.

2. Human Development

21. As in many countries of the former Soviet Union (FSU), Mongolia's social development was impressive before independence. Health, education, and social protection were universal and at very high levels. About 40 percent of government expenditures were devoted to social development. In addition, state enterprises financed various social schemes. As a result, poverty was very low and social living standards and human development relatively high. With the transition to a market economy and privatization, social expenditures decreased. In the initial years of transition, with high inflows of development aid replacing the former subsidies from Moscow, and high export earnings, the Government could maintain a relatively high involvement in the social sector, housing, and heating finance. More recently, public expenditures on health and education, while lower than before, still remain high by international standards. The largest share of the budget is devoted to education (15 percent in 1998), social security (15 percent), and health (6 percent).

22. The Government recognizes that deterioration of human development indicators through the running down of health and education and social services will constrain future economic growth and the nation's development. Widespread poverty can hinder the growth of local markets and depress savings, constraining growth in the longer term. Hence, the Government places high priority on human development as an integral part of the nation's development strategy. The Government also recognizes that the transformation to a market-oriented economy requires new skills that are not widely available in the present work force.

3. Environment

23. Because of the disregard for environmental concerns prior to 1990, environmental pressures have risen. Water and air pollution, deposits of toxic wastes, desertification, deforestation, groundwater depletion, soil erosion, and overgrazing are significant problems. Since 1990 the policy of the Government with respect to environmental issues has changed. There is now greater concern for the environment and new legislation has been adopted. The institutional, monitoring, and enforcement framework is, however, still weak.

D. Governance

24. The process of establishment of a functioning parliamentary democracy has been a key feature of Mongolia's transition. The Parliament has played a major role in developing economic policy and guiding the reform process. While the development of the parliamentary system has

on occasion resulted in political uncertainties which have impacted on the economy, significant benefits are evident in terms of improved accountability and transparency in public policy making.

25. The transition from central planning to a market-based economy has reduced the size and role of the public sector and increased competition and the use of market forces for allocation of resources. Reducing and changing the role of the state to one more consonant with a market economy has been a cornerstone of Government policy since 1996 when the Government embarked on a path to restructure the public sector by reducing the number of ministries from 16 to 9 with the objective of improving coordination of plans and projects. However, while ministry mergers and restructuring appear to have improved coordination, they also enlarged the ministries. The distinction between core and noncore activities within ministries is now unclear, and in turn, public service delivery is less efficient and effective. There has been minimal attention to performance at the organizational or individual levels, and, as a consequence, there has been less or no strategic focus at the agency level. The result has been poor delivery of public services both in terms of the quality of services, and their cost-effectiveness.

26. Fiscal and administrative relations between central and local governments remain problematic. Most of the taxes are collected at the provincial level, and most of the revenues collected are sent to the central Government. But the central Government allocates transfers to the provinces in an ad hoc way, thereby obviating the advantages of having a centralized collection system for most of the revenues in order to allocate transfers to foster greater equity across subnational governments. In terms of administration, serious problems remain in identifying clear lines of accountability.

27. Several measures have been taken by the Government to address these issues and to increase accountability through civil service reform. The Government initiated civil service reform includes the reorganization of the government system and operation, staff rationalization, and improvement of public financial management. Local governments have slowly been given greater authority and autonomy, although their fiscal and staff resources are limited. The Government has launched a far-reaching program of privatization of state assets. It is also making efforts to broaden the tax base, strengthen revenue collection, and control expenditures. The Government is committed to the principles of access to information and transparency in the decision-making processes. There are, nevertheless, institutional and administrative constraints to achieving these goals which are gradually being addressed.

28. The speed of implementation of the needed reforms in the public sector is constrained by several factors. First, the capacity of the public sector is limited and extensive training and reorientation is needed to get both management and the rank and file moving in the desired direction. Second, social costs of too rapid a disruption to the Government machinery are deemed very high.

29. The high and unsustainable level of fiscal deficit also acts as a constraint on reforms. In an environment where Ministry of Finance is forced to make short-term decisions on cash rationing due to the unavailability of funds, a proper system of public expenditure management cannot be implemented.

30. Corruption has emerged as an important issue during the transition. The Parliament has established an anticorruption working group with the objective of strengthening legislation in this area.

E. Implementation Assessment

1. The Portfolio

30. Since Mongolia joined ADB in 1991, ADB operations have grown steadily in terms of volume and the number of sectors covered in accordance with the operational strategy. ADB is Mongolia's second largest source of donor assistance after Japan. By 31 December 1999, ADB had approved 21 loans, amounting to \$427.5 million. Lending operations have been dominated by program loans (28.6 percent by number and 32 percent by amount), which have supported policy reforms and infrastructure rehabilitation projects. All public sector loans are from ADB's concessional facility, the Asian Development Fund (ADF). For the year 1999, contract awards reached \$26.6 million or 65.6 percent of annual projection. The disbursement ratio increased from 20.3 percent to 35.7 percent during the year, compared with the ADB average of 22.2 percent.

32. The transportation and communications sector accounted for 31.5 percent of the total lending to Mongolia, followed by the finance and industry sector with 23 percent, the energy sector with 22 percent, the agriculture sector with 9 percent, and the social sectors with 9 percent.

33. By 31 December 1999, ADB had provided 89 technical assistance (TA) grants totaling \$45.3 million. TAs have helped to improve governance, build institutional capacity, support policy and institutional reforms, and develop the legal and regulatory framework and human resources and to prepare investment projects in a wide range of sectors.

34. ADB's development impact is evident in many sectors in Mongolia, particularly in policy leverage shown in sector reforms, capacity building, institutional strengthening, and support of good governance. In key infrastructure sectors such as energy, and transport and communications, ADB's policy dialogue assisted the Government in (i) separating policy and regulatory functions from operations; (ii) commercializing management and operations; and (iii) improving tariff adjustments and cost recovery. In industry and agriculture sectors, ADB's program loans assisted the Government in implementing difficult policy and reform agendas covering liberalization of prices, deregulation of the trade regime, and development of a legal and regulatory framework. In the social sectors, ADB is helping the Government to rationalize structures and facilities, promote cost recovery, and privatize provision of social services wherever possible.

35. Despite the economic uncertainty, fiscal constraints, and institutional weaknesses in all sectors, ADB's portfolio in Mongolia is, in general, performing satisfactorily and implementation is proceeding on schedule. A high proportion of ADB lending has been through program loans. Release of the second tranches of program loans in the industry, agriculture, and education sectors demonstrates the Government's commitment to and capability for implementing difficult policy and sector reforms. A six-month delay in release of the second tranche of the Financial Sector Program Loan has been caused by the intensity of the problems facing the sector; mitigating steps were agreed to during the review for the release of the second tranche. One project (Special Assistance Loan in 1991) has been postevaluated and rated generally successful. Because of the generally good portfolio performance, it has not been necessary to undertake any "spring cleaning". Technical assistance completion reports demonstrate that the ADB-funded TAs achieved their objectives and have significantly contributed to supporting policy and sector reforms, strengthening institutions and capacity building, and developing the legal and

regulatory framework and human resources in a wide range of sectors. Detailed portfolio performance indicators are given in Appendix 2.

2. Issues in Project Implementation

36. The Government and ADB recognize that the country's implementation and absorptive capacity is limited. Lack of counterpart funds limit project implementation. Policy and institutional support in all sectors continues to be required. All ADB projects are accompanied by substantial capacity building TAs to address policy and sector reforms, strengthen institutional and staff capabilities, and develop legal and regulatory frameworks. The Government's commitment and ownership of the projects has also been crucial for the success of ADB's Mongolian portfolio.

37. Some projects have experienced delays in loan signing and effectiveness as well as in the establishment and maintenance of project implementation structure. These include (i) delays in preparing legal opinions and subsidiary loan agreements due to the Government's and the executing agencies' unfamiliarity and inexperience with these exercises; (ii) delays in obtaining approval from the Parliament; (iii) general difficulties in identifying technically qualified staff with English proficiency; (iv) high turnover rate of staff in the executing agency; (v) frequent reorganization of the Government structure; and (vi) budgetary constraints to establish the project implementing units (PIUs). Physical implementation has been showed by delays in (i) recruiting consultants; (ii) preparing bid evaluations; (iii) opening letters of credit; (iv) procuring local materials; (v) paying import taxes resulting in materials and equipment being impounded by customs (this issue was eventually resolved when the Government lifted virtually almost import taxes and duties in July 1997); and (vi) implementing projects because of the seasonal constraints and the effect of harsh winters on project implementation.

38. Some of the contributing factors for successful project implementation include (i) the use of advance action for recruitment of consultants and procurement; (ii) the early establishment of PIU and training of staff in advance; (iii) close monitoring of the project by frequent review missions and consultations with the Government and the executing agencies; and (iv) substantial use of international consultants for detailed design and project implementation and transfer of knowledge and skills to local counterpart staff.

II. Country Operational Strategy

A. The COS

39. The new COS, which was endorsed by the Board of Directors in March 2000, is first and foremost a poverty reduction strategy, in which the choice of core sectors for ADB interventions is dictated by the main objective of growth that contribute the most to poverty reduction. This strategy differs from the traditional growth-oriented strategies that select the sectors for ADB interventions on the basis of considerations other than the sectors' potential for poverty reduction, and then incorporate elements of poverty reduction in each intervention. In the new COS, the additional emphasis on good governance at the economy-wide level and within all sectors will further contribute to the main objective of poverty reduction by improving the efficiency and fairness/transparency of the utilization of the gains from economic growth. The new strategy envisages considerable interlinkage among sector interventions so as to enhance the results achieved from each project.

40. The new COS identifies five core sectors: the financial sector (for its potential to remove the single most important barrier to private sector investment and savings, which is the fragile

and thin banking system, and for developing microfinance schemes); agriculture sector (for its potential to generate viable small-industry employment and income); the public sector (for its potential to reorient the machinery of the Government to become more conducive to and supportive of private-sector-led growth and to improve service delivery by seeking to devolve responsibility for public service delivery to lower appropriate levels of the Government in a phased manner); social sector (education, health, and social protection for the potential to empower the labor force with market-related human capital investment, maintain standards of health, raise the general public's health awareness, and improve accessibility of education and health care); and urban development (for its potential to support health improvement and enhance living conditions).

B. Partnership Agreement

41. The main features of the strategy and the strong commitment to reduce poverty are summarized in the Partnership Agreement, which was signed on 24 March 2000. The Partnership Agreement also identifies specific targets for poverty reduction and establishes mechanisms to monitor performance. A key target is to reduce by at least half the proportion of people living below the poverty line by 2005. Other key targets are the achievement of universal primary education, halving the mortality rates for infants and children under five years, all by 2005. Providing universal access to reproductive health services for all females of appropriate age is targeted for achievement by 2015. It was agreed that the Partnership Agreement may be expected to evolve over time and that the planned annual review would be important in this regard. It is envisaged that the primary role in monitoring targets and indicators should be undertaken by the Government with appropriate assistance from ADB. Given the World Bank and United Nations Development Programme's (UNDP) well-established role in the Living Standards Measurement Survey (LSMS), it was agreed that ADB should concentrate its immediate efforts in strengthening the National Statistics Office (NSO) capacity to monitor and analyze social statistics.

III. Sector Strategies

A. Agriculture

42. The major constraints undermining the performance in the agriculture sector include the weak private sector activity; undeveloped agricultural marketing systems; the relative low activity level of cooperatives; the crisis in the financial sector; the limited institutional capacity of agricultural agencies; the inadequate provision of agricultural support services by the public and the private sector; the social transformation in rural areas; overgrazing problems; and insufficient risk management which contributed to the livestock disaster in the winter of 1999/2000. Export markets need to be developed not just for meat, but also for live animals and other livestock products.

43. The major agricultural reforms introduced by the Government in the first half of the 1990s included the privatization of state farms and *negdels*, the deregulation of prices of major agricultural products, and the liberalization of agricultural trade. These policy and institutional reforms were supported by the ADB-funded Agriculture Sector Program. Future policy actions are expected to focus on (i) developing updated agriculture sector strategies and policies to strengthen competitive markets and private sector activity; (ii) strengthening governance in the institutions supporting agriculture to make more efficient use of financial resources; (iii) reduce price and other distortions to improve resource allocation and sector efficiency; (iv) promoting competitive markets for agricultural inputs, outputs, and processed goods; (v) rationalizing tax

incentives to promote investment and sustainable production and to enhance agriculture's contribution to national and local budgets; (vi) ensuring the delivery of financial services and providing improved access to credit in rural areas; (vii) improving the delivery of veterinary services to improve competitiveness in the livestock subsector; (viii) mitigating risks in agriculture and ensuring food security, income, and employment for vulnerable groups; (ix) strengthening agricultural research and extension to support private sector agriculture; and (x) ensuring sustainability in extensive livestock production.

44. The agriculture and livestock sector is the main provider of employment in Mongolia. ADB's new strategy will build on this source of strength by emphasizing measures aimed at generating viable employment and income through (i) supporting private-sector-led expansion of economic activity, particularly in the livestock-based agroprocessing industry; (ii) strengthening the enabling legal and regulatory environment to stimulate private sector activity; (iii) improving support services to overcome constraints to agricultural development, (iv) promoting the improved provision of financial services in rural areas; and (v) supporting improvements in land tenure.

45. The development of small-scale agroprocessing industries would require background support particularly from new rural credit facilities, support for product quality improvement, and the development of new export markets for meat and other livestock products (including markets outside the two immediate neighboring economies of Mongolia). ADB support will address the agroprocessing industry's main problems including lack of working capital and insufficient market study.

46. ADB is working with the Government in the context of the proposed Agriculture Sector Development Program, to identify policy reforms, capacity-building measures, and investments to increase agricultural and livestock production in a sustainable manner. An ongoing project, approved in 2000, is supporting the establishment of a cadastral survey and land registration system. This project will provide important support for future agriculture development, management of natural resources, urban and rural development, and broadening the local government's revenue base.

B. Infrastructure

47. Developing physical infrastructure continues to be a priority for the Government because of the obstacles for the development of an efficient economy posed by the current infrastructure. Key issues relating to physical infrastructure include: (i) separating policy/regulatory functions from operations; (ii) commercializing management and operations; (iii) institutional strengthening and human resource development; (iv) upgrading sector planning and improving management capabilities and performance; (v) improving tariff adjustments and cost recovery; (vi) improving operation and maintenance; and (vii) addressing environmental issues. The level of investment in physical infrastructure needs to be addressed in the context of the Government's limited fiscal resources. Limitations on ADB's available resources and introduction of private sector participation in provision of infrastructure services have necessitated a more selective and limited assistance being provided to infrastructure under the new COS.

1. Energy

48. Government policy in the energy sector aims at ensuring multiple sources of energy supply, promoting regional cooperation, electrifying rural areas, and reducing environmental

pollution. Structural reforms are being undertaken to change coal mines, power stations, the power networks, and suppliers into independent enterprises. Privatization of these entities will be pursued within a framework of ensuring the long-term reliable functioning of the sector, enhancing economic efficiency, and protecting both employees and consumers.

49. In the energy sector, ADB's strategy has centered on adjusting energy tariffs towards full cost recovery levels, improving the Energy Authority's financial performance, commercializing operations in the energy sector, and promoting energy conservation. Loans have been provided to rehabilitate an existing power plant, improve energy conservation, and modernize the district heating and steam systems. An adequate supply of heat during the harsh winter months is essential in Ulaanbaatar which is one of the coldest capital in the world. Recognizing the importance of energy prices in the social sector and their impact on the fiscal budget, ADB is providing advisory assistance to seek means of providing affordable and decentralized energy. No new loans or TAs are planned in the 2001-2003 period.

2. Road Sector

50. In accordance with the master plan for road transport development, measures will be taken in the coming years to improve the transport network, particularly the north-south corridor linking the western and eastern economic regions and providing the main economic centers with paved road.

51. ADB is supporting the development of the north-south transport corridor through Ulaanbaatar linking the country with Russia and PRC. Developing this corridor will promote sustainable economic growth, providing more employment opportunities and generating additional incomes in poor areas thus contributing to poverty reduction. A loan project is being implemented to rehabilitate the 300 km main road from Ulaanbaatar to Altanbulag on the Russian border. The Second Roads Development Project, further developing the corridor, was approved in September 1999. Policy dialogue has focused on: (i) minimizing uncertainties in road funding by changing the Road Fund's legal and administrative arrangements, including the enactment of legislation for adjusting the percentage of fuel tax allocated to the Road Fund and the establishment of an autonomous Road Board; (ii) improving medium- to long-term cost recovery practices (e.g., by introducing road-user charges); (iii) promoting policy reform and institutional strengthening; (iv) supporting capacity building through training and human resources development; (v) facilitating privatization and private sector participation in road maintenance and development; and (vi) introducing new design and construction standards.

52. The Government considers the development of a basic set of transport infrastructure as essential for Mongolia's future economic development. The Government has informed ADB of its strong preference for support to the road sector to continue given the successful implementation of the ongoing road projects and the need to further support policy reforms, strengthen road sector institutions, and rehabilitate road infrastructure. A study of the importance of the road sector to contributing to poverty reduction and human development will be undertaken to provide a basis for considering future investments.

3. Finance

53. Mongolia's impaired financial system is potentially the most significant constraint to achieving stable economic growth and the Government's socioeconomic development objectives, including poverty reduction. The development of a sound, stable, and resilient financial system is imperative to avoid disruptions from protracted banking crises and improve

financial intermediation. These disruptions have led to decreasing confidence in the banking system, as banks became insolvent and domestic savings were wiped out. Increases in intermediation spreads and higher bank restructuring costs have added to fiscal pressures and eroded macroeconomic stabilization.

54. Since 1996, the Government has accelerated financial sector reforms under ADB's Financial Sector Program Loan (FSP), which was satisfactorily completed in June 1999. Notably, from mid-1998 the pace of banking reforms accelerated, and bold measures were introduced. Commercial banks' prudential regulations were strengthened, eight insolvent banks were closed, bank licensing requirements were made more stringent, bank exit policies were tightened, and loan recovery became a priority. Subsequently, the Government adopted a comprehensive financial sector strategy that provides a long-term vision and medium-term strategy for the development of the sector. This strategy was unanimously supported at a donor coordination meeting on the financial sector in Ulaanbaatar in February 2000.

55. ADB's strategy in the financial sector will aim at removing barriers to private sector growth and generating employment by improving the efficiency of financial intermediation and facilitating the development of alternative sources of financing. Special emphasis will be on governance reforms within the sector to introduce greater transparency and accountability at all levels of financial institutions and operations, and to build up the needed human skills in the banking industry to ensure its proper functioning in the future.

56. The financial sector strategy will support poverty reduction both directly and indirectly. Direct support will be primarily through the development of microfinance services. This will build on existing assistance and should be consistent with principles of subsidiarity, recognizing that any microfinance assistance needs to mobilize those institutions and agents that can best deliver microfinance credit. Indirect support will primarily involve promoting private-sector-led economic growth.

57. ADB's strategy in the sector is to develop a competitive, viable, and stable financial system emphasizing support for (i) deepening the financial reforms based on improved asset quality in the banking system and a more efficient banking intermediation process, and (ii) gradually broadening the financial sector by establishing the supporting financial infrastructure needed to develop the debt and equity markets and voluntary contractual savings institutions. Parallel with these activities, the strategy will put in place mechanisms for building human skills in the industry to ensure that lack of human capacity does not undermine the proper functioning of the banking system.

58. In addition, and to follow up on implementation of policy reforms (i.e., the setting up of a supporting, functional legal and regulatory environment), ADB will target the extension of credit through on-lending operations (i) to small and medium-size enterprises, (ii) to rural enterprises and households, (iii) for microfinance activities, and (iv) for housing purposes. These activities are expected to contribute directly toward economic growth (i.e., microfinance) and indirectly support poverty reduction. A further umbrella financial sector operation is planned to support the planned rural, microfinance and housing sector lending.

59. The problems of the financial sector, unless successfully addressed, will jeopardize the Government's macroeconomic stabilization program, and restrict the recovery of the productive sectors as well as the development of the private sector. Thus, strengthening the financial sector constitutes a key feature of ADB's strategy. ADB is working closely with the World Bank to support the Government's financial sector reform program. Under jointly prepared policy

based loans approved in 2000 the World Bank has concentrated its assistance on banking sector reforms while the ADB Financial Sector Program Loan II is supporting the development of non-bank financial institutions and improving corporate governance in the banking sector.

C. Social Infrastructure and Environment

1. Health

60. Issues in the health sector include the need to strengthen primary health care, encourage private sector participation in health service delivery, upgrade the health referral network, train health personnel, develop family group practices, and change the method of payment to health service providers to introduce market signals and incentives for improving cost efficiency.

61. The Government places a high priority on health sector reform. Attention will be paid to the reduction of maternal and child mortality and checking the spread of infectious diseases, while reducing the excessively high number of hospitalizations through the implementation of demand management policies, including greater cost recovery from those who can afford to pay. To improve equity and access to health services needs to be re-orientated from curative to primary health care and preventive programs. The public health systems will be based on expansion of Family Care Practice and provision of an essential health minimum clinical package. At the same time, rehabilitation of equipment and hospital facilities is also needed. Programs on the acceleration of reforms in the medical sector, development of a family doctor system, establishment of regional diagnosis-treatment centers, and maintaining a proper ratio of doctors and nurses will be initiated. Government policy also will continue to support privately owned medical institutions through the promotion of their service areas and human resource development.

62. In the health sector, ADB's comparative advantage is mostly in the areas of management reforms, decentralization, and training. The new strategy will focus on ADB's involvement in these areas, as opposed to investments in health infrastructure and heavy equipment. In the new strategy, some aspects of reforms in the health sector, such as general public's education on preventive health care and vocational training, will be combined with envisaged reforms in the education sector. Health finance management will be addressed in accord with the public sector governance reforms.

63. The strategy will focus on (i) general health education, (ii) training of health-care staff in primary health, (iii) vocational training related to the health-care industry, (iv) capacity building, and (v) health finance management on a wide basis. Additionally, the experience from pilot projects in the health sector in the past (such as emphasizing family doctors) will be consolidated and used to expand the successful aspects of past efforts.

64. The ADB-financed Health Sector Development Program (HSDP) is helping the Government reform the health sector to ensure its sustainability in a market economy. With cost-efficiency and universal access to quality essential services as priorities, the HSDP seeks to re-orient the health sector by: (i) focusing on primary health care rather than hospital services; (ii) developing an effective referral system to provide quality services as needed rather than provide universal access to poor standard services; (iii) introducing mechanisms and regulations to maximize private-sector entrepreneurship in health service delivery through payment of providers, licensing and accreditation; and (iv) creating hospital boards. Family group practices in urban areas, and structural reorganization of the health facilities in rural and

urban areas are major components of the reforms. These reforms require intensive training of health personnel. ADB has provided support for improving the Health Insurance Law and in developing the National Health Policy. In particular, ADB is trying to create a dynamic and efficient partnership between the public and the private sectors, to harness the strengths and qualities of both sectors, and to ensure that each is participating in the most cost-effective way to improve access and quality of the services. The HSDP is progressing well and is on schedule. Additional support to extend and strengthen the reforms, and to improve service quality, is envisaged through the Second Health Sector Development Program (2002). Particular attention will be given to mitigating the social costs of the reforms that disproportionately affect women, because they constitute the majority of the staff in the education and health sectors. Impact analysis will pay specific attention to women, ensuring collection of data and indicators disaggregated by gender.

2. Education

65. Expenditure on education has remained relatively constant at around 5.5 percent of gross domestic product for the past four years. The education sector is unlikely to experience significant growth in state funding. In addition to the issue of funding, key requirements are building institutional capacity at both central and aimag levels; improving physical facilities and teacher effectiveness at basic and secondary education; establishing a market-driven and private sector led technical education and vocational training (TEVT) system; continued efforts to improve higher education quality, effectiveness and management; capacity building for science and technology (S&T) to augment a pool of scientific personnel in the context of globalized environment; and strengthening central and local non-formal education networks.

66. Development of a new education system that can successfully meet the needs of the population in education programs and services is one of the Government's priority tasks. The Government intends to accelerate ongoing reforms in the educational system, and improve the content of training programs and materials. Greater attention will be devoted to the development of non-formal education, distance learning programs and to the completion of ongoing rationalization and productivity improvement measures including diversification of services delivery and decentralization of education management. The Government also intends to improve education quality by gradually upgrading priority facilities and equipment. In addition, increasing number of students and professionals will be sent to the developed countries to pursue advanced studies in business, economics and other fields in which there is a shortage of professionals. The Government's policy reform package supported by an ADB Education Sector Development Program includes measures to: (i) rationalize education structures and staffing; (ii) promote cost recovery; (iii) support privatization and private provision of education; and (iv) develop a comprehensive policy framework for TEVT.

67. ADB's poverty reduction strategy requires that assistance to the education sector focuses on two main areas: (i) developing an education system that can successfully meet the needs of the population in a new labor market (to fight the existing unemployment-poverty problem), and (ii) addressing the issues relating to equity of access to education (to prevent the development of new forms of poverty based on social service deprivation). Attention will be devoted to the development of market-related training (including vocational training) and skills development programs to address the need for a more skilled labor force; to nonformal education in rural areas to address the problem of school dropouts; and to distance learning programs, to bring education within the reach of more people. Policy reforms will continue, with emphasis on rationalization and productivity improvement measures, diversification of service

delivery, and decentralization. Increased private sector involvement in the education sector will be emphasized, but stress continued access for all.

68. Vocational training facilities will be established with the aim of engaging the private sector in their operation and takeover as early as possible. The strategy will also seek to move the government toward an effective role in the skills development sector, e.g., accreditation, setting of skills standards, policy formulation and monitoring, and skills testing.

69. In the new strategy, the education sector will therefore be charged with providing back-up support to intended reforms in other sectors within a coherent and overarching plan. For example, it will combine forces with the financial sector reforms by providing labor market-related vocational training for the intended recipients of microfinance to improve the chances for a successful microfinance scheme that creates viable employment opportunities. This will allow the development of viable small businesses and promotes employment. The education sector will also complement the health sector by including relevant health-care education in the general curriculum.

70. The ongoing Education Sector Development Program is assisting to make the education sector more effective, responsive, and sustainable. Major policy issues that ADB is helping address include rationalizing structures and facilities, reducing overstaffing, promoting cost recovery and private sector provision of education services, financing the needed investments in secondary and higher education, and strengthening management capabilities in the sector as whole. The Program was designed to mitigate social costs associated with a staff rationalization plan by developing and financing a comprehensive severance package. The Government has prepared an updated Education Sector Strategy 2001-2005 with ADB TA support. Follow-up support is planned to strengthen ongoing sector reforms with emphasis on basic and nonformal/distance education, market driven vocational education and strengthening science and technology at tertiary level. Particular attention will be given to mitigating the social costs of the reforms that disproportionately affect women, because they constitute the majority of the staff in the education sectors. Impact analysis will pay specific attention to women, ensuring collection of data and indicators disaggregated by gender.

71. The ongoing education and health sector development programs demonstrate that the Sector Development Program (SDP) is an efficient mechanism for straightening sector reforms in full partnership with the Government, as well as for addressing investment needs. Accordingly, it is planned that follow-up interventions in these sectors will employ the SDP modality to reinforce appropriate sector policies.

3. Social Protection

72. Mongolia's formal social safety net was designed for a command economy characterized by the collectivization of resources and was highly subsidized by the FSU. The formal safety net now includes targeted consumer subsidies, targeted allowances, and social insurance. Under the National Poverty Alleviation Program (NPAP) introduced in 1994, additional projects such as public works programs, emergency assistance, unemployment retraining, and enterprise promotion have been introduced.

73. Government social policy remains fragmented. It has not always succeeded in assessing the social impacts of economic reforms (e.g., privatization) prior to legislation, in implementing amelioration programs to protect retrenched workers or vulnerable groups whose access to schooling and healthcare have deteriorated under the transition. Lack of a comprehensive

Government social policy framework has also resulted in poor targeting of too many programs for too few beneficiaries. Partial evolution of family and individual allowances from socialist times and lack of program financing have meant that some families receive multiple benefits, while others receive none. Overlapping mandates for the multiple agencies involved have resulted in duplicate administrative structures and squandering of scarce human, technical, and financial resources or an absence of academic and professional training in, and cultural understanding of, social welfare and poverty issues has resulted in inadequate responses.

74. In 1995, the Government introduced a system of social insurance for health, old age, and unemployment. Although coverage is high (but limited to the formal sector), the services are of poor quality. Due to the low enterprise contributions since 1997, the pension fund is largely cross-financed through the budget. However, pension arrears are seldom and short-lived. A system of social assistance for poor families and disadvantaged groups (such as female-headed households, large families, or the handicapped) was set up in 1996. Since then, social assistance expenditures have been increasing due to deepening poverty trends.

75. Of particular concern to the Government is the increasing number of street children, and the poor coordination of the various social assistance programs. In 1994 the Government introduced the NPAP, cofinanced by the World Bank, UNDP, and some bilateral sources. The program with its three major components (microfinance, public employment programs for rehabilitation of rural infrastructure, and capacity building) has been evaluated and proposals have been made to extend it.

76. The ADB's proposed Social Safety Net Sector Development Project (2000) represents an important and critical contribution towards implementing and supporting the Government's social sector strategy to reduce poverty and create sustainable livelihoods for the poor and vulnerable in Mongolia. The Program loan will assist the Government to: (i) improve its targeting, coverage, and delivery of social services to those in need; (ii) appropriately manage the funds responsible for social insurance and assistance; and (iii) better formulate and implement sustainable social policy in the long term. The nationwide public works program will create short term employment and generate long term sustainable economic and social benefits to the communities involved and will have a direct impact on reducing poverty, as they will be implemented at the local level to address the needs and priorities of the communities concerned. Finally, the nationwide public advocacy and information campaign funded by the Program will do much to decrease the dependency mentality in Mongolia with which poverty is associated by increasing public awareness of the means available to them to lift themselves out of poverty. The Project loan will support capacity building activities and activities in sustainable livelihood creation that protect access to social services for the poor and vulnerable and promote employment generation. Through a subcomponent, the Project will also support activities protecting children in especially difficult circumstances and their families.

77. Particularly in rural areas, poverty is a major cause of children's absence and dropping out from school. More emphasis will therefore be given in ADB's educational assistance to maintaining boarding schools and restructuring the heating system in schools.

4. Urban Development and Housing

78. The lack of capital investment in infrastructure and service facilities in recent years has resulted in a progressive deterioration in the quality of services. In the case of networked infrastructure such as water supply, district heating, and sewerage, this lack of investment is manifest in more frequent system failures and increased maintenance requirements. In the case

of services relying on vehicular transport such as solid waste management and bus services, it has resulted in a significant deterioration in service schedules. During the decade of transition, capital assets, including the national housing stock, have deteriorated as a consequence of the low priority for and unaffordability of proper repair and maintenance.

79. The transition to a market economy has had a profound impact on the country's housing delivery system in urban areas. Public sector construction of pre-fabricated apartment buildings, which previously provided the majority of acceptable housing in urban areas, is no longer taking place. The incremental improvement of housing in ger (traditional dwelling) areas, beginning with the traditional ger and ending with a substantial all-weather house, is likely to become the predominant path to affordable, acceptable housing in the future. Mobilizing and guiding this incremental improvement process will be one of the main objectives of the new housing finance system now under consideration.

80. Under the Government's new housing policy, city housing programs are to be based on a "bottom up" approach and organized on a one, three and six year basis. The basis for the six-year program is to alert authorities to the need for planning major additions to infrastructure networks that can accommodate new housing and urban growth. Housing Action Area Plans (HAAPs) are to be prepared, based on the initiatives of communities and local authorities, and reflecting local environmental and socio-economic conditions.

81. The Government's housing policy recognizes the private sector as being the main provider of new and affordable housing. New policies essentially cover land planning guidelines, minimum standards for infrastructure, a land registration system, a new land valuation system, and the establishment of a Housing Development Fund (HDF). Housing-related actions are now to be based on market-oriented principles. For example, market finance and cost recovery schemes will be formulated for the installation of basic infrastructure services at sites designated for the development of new housing. The possible privatization of utility services is under Government consideration.

82. ADB's strategy in urban development will include (i) access to basic social services to improve the health and quality of life for urban settlers; (ii) improving the quality and supply of housing, particularly in the poor ger areas; and (iii) strengthening institutional, financial, and management capacities in public utilities and housing, together with improving related policies, regulatory activities, and operations.

83. The strategy acknowledges the ongoing trend toward regionalization in Mongolia, which aims at creating six main regional centers with more concentrated population, in place of the existing 24 provincial centers. Therefore, the main focus of ADB's assistance will be to provide support for these emerging urban centers after a careful municipal study of these needs.

84. The strategy will also be designed to accommodate specific conditions in Mongolian urban centers. A flexible urban infrastructure will be considered to respond appropriately to a state of housing development that is still in flux.

85. ADB's assistance for urban development will be coordinated with interventions in other sectors so as to maximize effectiveness in each area. Municipal services will be combined with and provide backup support to the energy sector's efforts at providing decentralized and affordable sources of household energy. Support from the roads sector will come in the form of urban transport access roads. Urban development, in turn, can provide support for

strengthening the health sector efforts at preventive and primary health care by providing healthy living conditions, reliable water supply, and sanitation services.

86. In the urban development sector, ongoing the Provincial Towns Basic Urban Services Project is providing for rehabilitating basic urban infrastructure, which includes water supply, sanitation, solid waste, and bathhouses in the five provincial towns in western Mongolia. Improving town planning and cost recovery and commercializing service delivery are important elements in ADB's policy dialogue for the sector. Further support for the development of urban services is planned with a follow-on project.

87. ADB has been actively supporting the Government's housing sector policy development and reform program. A new housing policy has been elaborated and important reforms have been made to the condominium law. The proposed Housing Sector Finance Project looks to promote a sustainable, market-based system for delivery of housing finance to meet the borrowing needs of low- and middle-income households.

5. Environment

88. ADB has provided technical assistance to help the Government deal with environmental issues and to incorporate environmentally sound technologies and subcomponents within ADB-financed projects. ADB has been helping the Government to strengthen the environmental management capability including reviewing the comprehensive environmental law, developing national environmental standards, institutionalizing the environmental impact assessment process, strengthening environmental monitoring capabilities, preparing a permit system, and developing a public awareness and information program. The environmental impact of livestock production on the ecological systems is an important issue and ADB has assisted Mongolia to formulate policies, strategies, and an action plan for sustainable management of the extensive livestock production systems. The Government's priority is to use grant rather than loan funds to address environmental issues

89. Support for environmental improvement will continue to be provided through ADB's sectoral operations, especially in agriculture. Wherever possible, proactive environmental components will be included in ADB financed projects. A range of interventions is planned under the Agriculture Sector Development Program to assist Mongolian agriculture to become more sustainable and robust. The severe winter conditions and subsequent large scale livestock losses experienced in 2000 underlined a range of issues, including overgrazing and deterioration in herd quality, which have emerged during the transition.

D. Governance Dimensions of ADB Operations

90. ADB has played an active part in improving governance through policy reforms and capacity building in several key sectors such as banking, agriculture, telecommunications, civil aviation, transport, power, housing, education, and health. It has provided substantial technical assistance to develop accounting and financial management systems in key infrastructure sectors and to improve the legal and regulatory frameworks. Among the laws that were drafted with ADB assistance are the Telecommunications Law, Energy Law, Education Law, Environment Law and Regulations, Housing Policy Law, Housing Privatization Law, Condominium Law, Audit Law, Procurement Law, Civil Aviation Regulations, Law on Private Land Ownership, Land Settlement Act, Land Registration Act, and Cadastral Survey Regulations. Technical assistance has also been provided to strengthen taxation, improve accounting and audit systems, develop local procurement capacities, strengthen local

governments and support decentralization efforts, enhance the state statistical system, and retrain legal professionals. To assist the Government in implementing far-reaching public administration reforms, substantial policy advice and technical assistance have been provided in the civil service reforms and in drafting the comprehensive Public Sector Management and Finance Act.

91. ADB's support for improved governance will emphasize public sector reform activities at three interrelated levels: (i) central Government, (ii) local government, and (iii) enterprise or unit. In parallel with the administrative reforms, output-oriented budgetary reforms will be introduced at both the central and local government levels. An outcomes-based public expenditure management system will be established within the Ministry of Finance and, through the administrative reforms, agency or local government budgeting will be linked systematically with this system. In addition to the strong efficiency improvement impact, the governance reforms will also be substantially in line with the Government's strengthened anti-corruption agenda.

92. The strategy implies, among others: (i) strengthening the fiscal discipline and strategic budgetary planning by putting in place a combined system of top-down budgeting process and a micro-based budgeting framework in which budgetary provisions also take performance-based budgeting into account, (ii) performance-based management at the central and local levels, (iii) transparent and efficient fiscal and administrative relations between local and central governments as formulated in the implementation strategy developed during the first phase, and (iv) continued corporatization or privatization of state-owned enterprises.

93. The Government is implementing a program of governance reforms supported by a program loan, which was approved in December 1999. The Government is firmly committed to enhancing governance and currently is in the process of adopting resource and performance-based accounting systems and implementing comprehensive public administration reforms largely patterned on the New Zealand model. The program covers the key reform areas of (i) civil service reforms; (ii) privatization; (iii) local government reforms; and (iv) legal reforms.

94. Further ADB assistance is contemplated in 2003 to enhance governance in the public sector and to adopt a comprehensive public administration reforms program largely patterned on models of best international practice. In the housing sector, technical assistance is proposed to enhance the transparency of restructuring housing finance institutions through support for the creation of a housing development fund. Further technical assistance has been programmed to prepare additional audit legislation and strengthen auditing capacity, and to assist in establishing a central procurement agency.

95. ADB participated in a recent Government/donors meeting to review the World Bank-supported Legal Needs Assessment. Among the conclusions of the Assessment is that legal training requires considerable strengthening. ADB has supported the establishment of a Legal Retraining Center (LRC) and will consider providing follow up technical assistance. The focus of the training offered at the LRC is on Mongolian commercial law and regulations.

E. Gender Dimensions of ADB Operations

96. In operationalizing ADB's gender and development strategy for Mongolia, consideration will be given to the severe economic and financial difficulties that the country has been facing as well as the massive economic transformation that the country is going through. Macroeconomic stabilization and structural reforms are key issues affecting the Mongolian gender and development strategy. There are pressing needs in all sectors but financial, institutional and

human resources are limited. It is, therefore, necessary to design a well-focused, realistic, and operational gender and development strategy that reflects the current constraints in Mongolia and also ADB's relative strengths in sectors.

97. The overall objective of ADB's gender and development strategy is to assist women in adjusting to the transition to a market economy and minimizing social costs. The Education Sector Development Program and the Health Sector Development Program were designed to mitigate social costs associated with staff rationalization plans by developing and financing a comprehensive compensation package to address gender issues specifically and ensure women's equal access to training and retraining programs. In the Employment Generation Program, access to credit and training has helped to facilitate the adjustment of women to the market-oriented economy. ADB has also supported the social safety net and health and social insurance reforms by better targeting the most vulnerable groups and women. A number of non-government organizations dealing with issues of concern to women have emerged in Mongolia, the services of which can be incorporated in project designs and implementation to enable women to have better access to credit and training. ADB TAs have assisted in developing reliable gender indicators in the national statistics and poverty data. A Gender Issues Paper prepared to assist in the development of the new COS will be published shortly.

F. Private Sector Operations

98. With equivalent of 60 percent of GDP now in the private sector and a basic market oriented legal and regulatory framework in place, it is appropriate to examine opportunities for private sector operations. The development impact of a number of ADB's public sector operations is to improve the incentive framework for greater private sector participation in economic activity by enhancing the policy, legal, regulatory, and institutional framework, as well as by redefining the role of Government. Although there have been no private sector operations to date in Mongolia, ADB and the Government are exploring possibilities, and ADB's Private Sector Group participated in the 1999 country programming mission. It was agreed that ADB's private sector strategy in Mongolia should be to provide assistance to (i) financial and capital market institutions; (ii) infrastructure projects; and (iii) industrial, agro-business and other projects including small and medium enterprises and tourism projects. Subsequent missions have identified project proposals in the financial sector, microfinance, and rural telecoms.

99. The main prospect for ADB's first private sector operation in Mongolia is to assist with the privatization of the Trade and Development Bank to a strategic partner. This is a key element of the ADB-World Bank policy matrix for the forthcoming Financial Sector Program Loan II. The World Bank has included a floating tranche of \$8 million in its credit, which will be released only if the bank is privatized. The next step is for Parliament to remove TDB from the list of "most valuable" companies which may not be privatized.

IV. Subregional Economic Cooperation

100. ADB is implementing a Regional Technical Assistance (RETA), involving ADB's Central Asian DMCs and Xinjiang Uygur Autonomous Region of the PRC, with the aim of strengthening cooperation in transportation, energy and trade facilitation. In view of the common issues of economic transition and landlocked status, ADB is facilitating Mongolian participation as observers in selected workshops to be held under the RETA. Mongolia, with Russia, PRC, Republic of Korea, and People's Democratic Republic of Korea, is participating in the Tumen River Subregional Economic Development Program under UNDP assistance. Although two of the five participants are not member countries, ADB is monitoring the Program with a view to

assisting Mongolia to develop its subregional economic linkages. Priority investment proposals identified under the Tumen River Program include road and railway projects.

V. Donor Activities and Aid Coordination

101. Access to concessional external resources is essential for economic recovery and sustained growth in Mongolia. With a large fiscal deficit and the need to build up adequate foreign exchange reserves, substantial net capital inflows are required. While foreign direct investment (FDI) will meet some of these needs, the amount of FDI is expected to be modest and concentrated in a few sectors (e.g., minerals). The IMF, ADB and the World Bank have worked closely together to support the Government's macroeconomic stabilization and reform program since 1991. Concessional assistance from the donor community will continue to be critical. At the Assistance Group Meeting in June 1999, about \$320 million in external assistance was pledged for the next 18 months (July 1999 – December 2000) with Japan (\$115 million), ADB (\$76 million) and the World Bank (\$52 million) as the three largest donors.

102. ADB has taken a lead role in several key sectors (education, health, finance, roads, telecommunications, power, air navigation, and housing). Among its activities, ADB has financed preparation of several sector master plans that provide frameworks within which to coordinate donor assistance. ADB has provided assistance to strengthen the Government's capability to prioritize and coordinate projects proposed for external assistance. The World Bank has provided assistance to the transport, coal and mining sectors, poverty alleviation, privatization, and state-owned enterprise reform. Japan, the largest bilateral donor, has financed critical imports and provided assistance for the rehabilitation of the power plants, railways, urban transportation, and water supply sectors and has provided assistance for health equipment, human development, and environmental issues. The UNDP and other UN agencies are playing an important role in the areas of health and population, poverty alleviation, and human development and management capacities. UNDP is also active in facilitating local donor coordination.

103. Six meetings of the Mongolia Assistance Group (MAG) were held in Tokyo up to 1997. At the seventh meeting, held in Mongolia in June 1999, it was agreed that the meetings would be restructured as Consultative Group Meetings, with the World Bank as the Chair. The meetings are an important mechanism for aid coordination among donors. At the most recent MAG, it was agreed that thematic groups will be established to cover the key areas of governance, financial sector, and the social sectors, including poverty. The groups will include representatives from Government, civil society, the private sector and donors. Donors could participate in the groups on a voluntary basis. ADB is playing the lead facilitating role for the thematic group on governance.

104. Regular meetings are held in Ulaanbaatar to coordinate work the respect poverty reduction strategies of the ADB, World Bank and IMF. This has been particularly important during the development of the Partnership Agreement and the IMF/World Bank Poverty Reduction Strategy Paper.

VI. Cofinancing and Catalyzing External Resources

105. As agreed under the IMF PRGF program, the Government is limiting its external borrowing to concessional sources. ADB will seek grant or soft cofinancing for all projects included in the operational program. ADB has been active in arranging cofinancing which, by the end of 1998, amounted to \$31.5 million (about 8.5 percent of total ADB lending to Mongolia) for projects in the

telecommunications and energy sectors. Major sources of cofinancing have included Kreditanstalt fur Wiederaufbau, Nordic Development Fund, Norway, Danish International Development Authority, and Spain. Financing from the Japan Fund for Poverty Reduction is expected to provide additional resources commencing with the 2000 program. Four ADB projects in Mongolia have been co-financed. The cofinancing total is about \$91.5 million, and this represents 21.4 percent of ADB lending. Cofinancing is being actively pursued and it is expected that the leverage ratio will be about 25 percent over the next three years.

VII. ADB's Operational Program

A. The Proposed Program

106. The 2001-2003 program has a sharper sector focus, a significantly higher proportion of projects in the areas of human development and direct poverty reduction, and a shift in the balance away from program towards project lending, while retaining the flexibility provided by the sector development modality. The technical assistance is programmed to operationalize the monitoring mechanisms and indicators identified in the COS and Partnership Agreement, notably through planned capacity building at the National Statistical Office. Appendix 5 shows pipeline projects classified according to their poverty impact and contribution to other cross-cutting objectives. About 75 percent of the projects are expected to be poverty interventions. The 2001-2003 pipeline includes projects classified as core poverty interventions. The pipeline shows significant support for projects with cross-cutting concerns. During 2001-2003, 86 percent of projects will support human development and governance concerns. The proposed loan and TA pipeline for 2000-2003 is summarized in Table 1 and detailed in Appendix 4. Project profiles for firm 2001 loans are attached as Appendix 6.

107. The proposed lending program for 2001-2003 ranges to a total of \$175 to \$186 million, which is within the absorptive capacity of the Government. The focus of the ADB's operations in Mongolia in the program period 2001-2003 will be firmly on poverty reduction within the five core sectors identified in the COS. The proposed projects will provide support for priority investments in the agriculture, financial, governance reform, social sectors, and urban development and housing. Special emphasis will be given to enhancing the policy reform agendas in these sectors, while policy based lending will continue for the financial sector and governance reform to ensure the sustainability of the transition to a market economy.

108. Technical assistance is programmed at an average of \$4.0 million a year during 2001-2003 and will be directed to the priority sectors and to support the continued analysis of poverty and social indicators. The program includes 7 PPTAs and 12 ADTAs. The ADTAs in the program will support capacity-building initiatives to strengthen the Government's ability to implement its development agenda in a more effective manner.

B. Resident Mission

109. ADB approved on 1 August 2000 the establishment of a resident mission in Mongolia. The resident mission, in Ulaanbaatar will build up to full strength in the first quarter of 2001. It will strengthen policy dialogue with the Government, improve project implementation, and strengthen coordination with other funding agencies. A Host Country Agreement was signed on 27 November 2000.

Table 1: Lending and Technical Assistance Program, 1999-2003

A. Public Sector Lending Program										
	1999 (Actual)		2000		2001		2002		2003	
	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)
Lending Program (ADF)	2	50.0	4	53.9	3	40.0	2	40.0	3	60.0

B. Technical Assistance Program										
	1999 (Actual)		2000		2001		2002		2003	
	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)
TA Program ^a	8	4,125.0	8	4,500.0	5	3,400.0	6	4,000.0	6	4,000

^a Although the proposed TA program has been generally agreed upon by Management, ADB financing may be subject to further reprioritization to fit in with the ADB-wide annual resource envelope.

VIII. Economic and Sector Work Program

110. ADB's economic and sector work will focus on initiating the monitoring and evaluation activities planned under the Partnership Agreement. This will be closely coordinated with the work of other agencies, notably the World Bank, IMF and UNDP. The main output is expected to be a review paper which would be the primary document to be considered at the annual partnership review meetings. The Country Economic Review for Mongolia will be updated annually.

Economic and Sector Work Activities *

Year	Activities
2001	<ul style="list-style-type: none"> Annual review of trends in poverty reduction and social indicators – input to partnership review meeting (staff consultant resources) Capacity Building in Social Statistics at National Statistics Office (ADTA) Study on the Contribution of Road Sector Development to Poverty Reduction (ADTA) Study on the Crops Sector Country Economic Review
2002	<ul style="list-style-type: none"> Annual review of trends in poverty reduction and social indicators (staff consultant resources) Integrated Management of Urban Development (ADTA) Health Sector Capacity Building (ADTA) Country Economic Review
2003	<ul style="list-style-type: none"> Annual review of trends in poverty reduction and social indicators (staff consultant resources) Support for Governance Reform (ADTA) Financial Sector Capacity Building (ADTA) Country Economic Review

* ADTAs have been included which will either have significant policy development components or which are basically economic/sector studies.

IX. Local Cost Financing

111. The Government has made considerable effort to mobilize limited domestic savings and borrow external resources to finance its recurrent and capital expenditures. Although the

macroeconomic stabilization program is expected to improve the Government's fiscal position in the medium term, the availability of counterpart funds will remain constrained. ADB will continue financing up to 80 percent of total project costs, including the provision of local cost financing. Since the beginning of its operations in Mongolia, ADB financing has covered 72 percent of total project costs. About 10 percent of ADB financing has been for local currency costs. The remainder of the project costs has been met by concessional cofinancing (12 percent) and by domestic resources (16 percent). ADB will continue to mobilize concessional cofinancing and use ADB-financed local cost financing to minimize the fiscal impact of project lending in Mongolia.

MONGOLIA
COUNTRY PERFORMANCE INDICATORS

Item	1995	1996	1997	1998	1999
ECONOMIC INDICATORS					
A. Income and Growth					
1. GDP per Capita (US dollars, current)	414.3	455.6	390.4
2. GDP Growth (% , in constant prices)	6.3	2.4	4.0	3.5	3.5
Agriculture	4.2	4.4	4.3	7.0	3.2
Industry	14.6	0.5	-7.0	7.2	...
Services	0.2	-4.1	9.2	-2.6	...
B. Money and Inflation					
	(annual percent change)				
1. Consumer Prices (end of period)	53.1	44.6	20.5	6.0	10.0
2. Broad Money (M2)	33.1	20.9	32.5	-1.7	32.1
C. Overall Government Finance					
	(percent of GDP)				
1. Revenues and Grants	26.3	25.2	26.7	29.4	29.7
2. Expenditure	27.1	32.7	34.5	41.9	39.4
3. Overall Surplus/Deficit (-)	-0.9	-7.5	-7.8	-12.5	-9.7
D. Balance of Payments					
1. Current Account Balance (% of GDP)	-4.6	-4.0	9.9	-7.0	1.6
2. Merchandise Export (\$) growth (annual percent change)	32.3	-11.6	34.3	-18.7	-6.7
3. Merchandise Imports (\$) growth (annual percent change)	32.0	8.2	-1.4	15.7	-19.1
E. External Payments Indicators					
1. International Reserves (\$ million) ^a	100.8	97.8	139.9	123.2	155.9
- weeks of imports	10.7	10.0	14.5	11.0	17.2
2. External Debt Service ^b	12.1	11.8	6.3	6.9	5.0
3. External Debt (% of GDP) ^c	52.8	54.0	63.7	72.3	...
Memorandum Items:					
GDP (current prices, billion Tugriks)	429.2	586.5	758.9	875.8	...
Exchange Rate (Tugrik per US\$, annual average)	473.5	547.2	791.0	877.2	1,042.9

... = not available.

^a Refers to gross official reserves.

^b As percentage of exports of goods and services.

^c Excludes servicing of medium- and long-term obligations in transferable rubles to Russia and other former CMEA countries.

Sources: ADB: Asian Development Outlook 2000, Bank of Mongolia, Ministry of Finance, and the International Monetary Fund (IMF).

MONGOLIA
COUNTRY PERFORMANCE INDICATORS

	1985	1990	Latest Year
POPULATION INDICATORS AND INCOME MEASURES			
Total Population (millions)	1.9	2.1	2.4 (1998)
Annual Population Growth Rate (% change)	2.4	1.63 (1995)	1.4 (1998)
GDP per capita (current prices, in \$)	337	328.9 (1995)	452 (1998)
Real GDP growth rate (%)	-9.2	4.0 (1997)	3.5 (1998)
Registered unemployed (no.)	54,000 (1992)	63,700 (1997)	39,000 (1999)
as percent of registered workforce	6.3	7.5	4.6 (1999)
SOCIAL INDICATORS			
Total Fertility Rate (births per woman)	5.5	4.6 (1989)	2.4 (1997)
Crude birth rate	38.2	36.4 (1989)	23.7 (1995)
Crude death rate	10.3	8.4 (1989)	7.3 (1995)
Maternal Mortality Rate (per hundred thousand live births)	147.7	93 (1991)	80 (1998)
Infant Mortality Rate (below 1 year; per '000 live births)	75.9	64.1	35.4 (1998)
Life Expectancy at Birth (years)	63	63 (1989)	65.8 (1997)
Female	65	66 (1989)	67.3 (1997)
Male	61	60 (1989)	64.4 (1997)
Literacy Rate of Over-15 Year Old (%)			
Female	94.9 (1989)	96.9 (1992)	96.3 (1996)
Male	98.2 (1989)	98.6 (1992)	97.5 (1996)
Primary School Enrollment (Gross, % of school age population)	80	79	94 ^a (1997)
Female/Male	83/77	83/75	95/93 ^a (1997)
Secondary School Enrollment (Gross, % of school age population)	84	80	57 ^a (1997)
Female/Male	83/84	81/79	65/48 ^a (1997)
Population below the poverty line (%)			
Defined by the Government (income)	15	26 (1994)	28.9 (1998)
World Bank (living standard)	15	36 (1995)	36 (1998)
National Statistical Office (living standard)		36.3 (1995)	35.6 (1998)
Population with Access to Health Services (%)	...	95 (1989)	95 (1995)
Population with Access to Sanitation (%)	...	74 (1992)	74 (1995)
Public Education Expenditure as % of GDP	10.8	5.5 (1995)	5.5 (1998)
Public Health Expenditure as % of GDP	5.9	3.7 (1995)	3.3 (1998)
Public Social Security and Welfare as % of GDP	5.6	5.4 (1995)	6.1 (1998)
Human Development Index	...	0.578	0.618 (1997)
Human Development Ranking	...	100	119 (1997)
ENVIRONMENTAL INDICATORS			
Forest and Woodland (as % of total land area)	5.0	9.7 (1989)	9.9 (1995)
Forest Area Burned by Fire (1,000 ha)	33.3	649.8 (1989)	130.0 (1995)
Production of Fuel wood and Charcoal (1,000 cubic meter)	2,236	1,521 (1989)	631.2 (1995)
Annual Fresh Water Withdrawals (as % of water resources)	270	289 (1989)	300.0 (1995)

^a Gross enrollment ratio refers to the number of enrolled in a level of education, whether or not they belong to the relevant age group, expressed as a percentage of the population in the corresponding age group for that school level.

Sources: ADB: Mon Country Operational Strategy, 2000; National Statistical Office of Mongolia and UNDP: Human Development Report for Mongolia, 1999.

MONGOLIA
PORTFOLIO PERFORMANCE INDICATORS
Table 1: Implementation, Disbursements and Post Evaluation Results
Public Sector Projects only
(as 31 December 1999)

A. Project Portfolio	Net Loan Amount (\$ million) (%)		Rating (No.) ^a									
			Total		Implementation Progress				Development Objectives			
1. Public Sector Projects			(No.)	(%)	HS	S	PS	U	HS	S	PS	U
Agriculture/Natural Resources	-	-	-	-	-	-	-	-	-	-	-	-
Energy	88.0	36.7	3	23.1	2	-	1	-	-	3	-	-
Finance and Industry	2.8	1.2	1	7.7	-	1	-	-	-	1	-	-
Transport and Communications	92.7	38.6	4	30.8	-	4	-	-	-	4	-	-
Social Infrastructure	31.4	13.1	4	30.8	-	4	-	-	-	4	-	-
Multisector/Others	25.0	10.4	1	7.7	-	1	-	-	-	1	-	-
Total	240.1	100.0	13	100.0	2	10	1	0	0	13	0	0

B. Disbursements	ADF	Total
(1) Total funds available for withdrawal (\$ mn, active loans only)	226.1	226.1
(2) Disbursed amount (\$ mn, cumulative, active loans only)	145.4	145.4
(3) Percentage disbursed [(2)/(1)] (%)	64.3	64.3
(4) Disbursements (\$mn, active loans only, Jan-Dec 1999)	3.4	3.4
(5) Disbursement ratio (%) ^b	35.7	35.7

C. Net Resource Transfers (\$million)	ADF	Total
Net transfer in 1995	49.1	49.1
Net transfer in 1996	33.0	33.0
Net transfer in 1997	65.9	65.9
Net transfer in 1998	29.9	29.9
Net transfer in 1999	44.5	44.5

D. Post-Evaluated Projects	1968-1977		1978 - 1987		1988-1999		1968-1999	
	(No.)	(%)	(No.)	(%)	(No.)	(%)	(No.)	(%)
1. Postevaluation Rating (as of 31 December 1999)								
Rated Generally Successful (GS)	-	-	-	-	1	100.0	1	100.0
Rated Partly Successful (PS)	-	-	-	-	-	-	-	-
Rated Unsuccessful (US)	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-
2. Postevaluation Rating by Sector (1968 - 1999)								
	GS		PS		US		Total	
	(No.)	(%)	(No.)	(%)	(No.)	(%)	(No.)	(%)
Agriculture/Natural Resources	-	-	-	-	-	-	-	-
Energy	-	-	-	-	-	-	-	-
Finance and Industry	1	100.0	-	-	-	-	1	100.0
Transport and Communications	-	-	-	-	-	-	-	-
Social Infrastructure	-	-	-	-	-	-	-	-
Multisector/Others	-	-	-	-	-	-	-	-
Total	1	100.0	-	-	-	-	1	100.0

^a HS: Highly satisfactory; S: Satisfactory; PS: Partially satisfactory; U: Unsatisfactory.

^b Ratio of disbursement during the year over the undisbursed net loan balance less cancellations at the beginning of the year. Effective loans during the year have also been added to the beginning balance of undisbursed loans.

MONGOLIA
PORTFOLIO PERFORMANCE INDICATORS
Table 2: Status of Project Implementation
(as of 31 December 1999)

Sector ^a	Project Title	Net Loan Amount		Approval Date (mm/yy)	Effectivity Date (mm/yy)	Closing Date		Physical Progress (% complete)	Cum Contract Awards (\$ million)	Cumulative Disbursement (\$ million)	Project Performance Rating ^b	
		OCR (\$ million)	ADF (\$ million)			Original (mm/yy)	Revised (mm/yy)				Implement Progress	Development Objective
ENE	Power Rehabilitation	-	38.05	Nov-94	Jul-95	Jun-98	Jun-00	85%	35.82	32.70	PS	S
ENE	Energy Conservation	-	9.49	Nov-96	Jan-98	Jun-01	-	63%	7.95	6.30	HS	S
ENE	Ulaanbaatar Heat Efficiency	-	40.51	Sep-97	Nov-98	Jun-03	-	12%	1.40	0.86	HS	S
I&F	Upgrading Skills and Systems of Commercial Banks	-	2.84	Dec-96	Jan-97	Dec-99	Jun-00	30%	0.76	0.58	S	S
T&C	Telecommunications	-	24.12	Jun-94	Aug-94	Dec-99	-	98%	23.64	23.99	S	S
T&C	Roads Development	-	22.30	Aug-95	Dec-95	Jun-00	-	85%	21.74	17.92	S	S
T&C	National Air Navigation Development	-	21.14	Sep-95	Dec-95	Dec-99	-	95%	19.26	18.15	S	PS
T&C	Second Roads Development	-	25.18	Sep-99	Mar-00	Jan-05	-	-	0.00	0.00	S	S
SOC	Education Sector Development Project	-	8.47	Dec-96	Mar-97	Sep-02	-	60%	4.80	4.16	S	S
SOC	Provincial Towns Basic Urban Services	-	6.89	Sep-97	Aug-98	Jun-02	-	24%	1.30	1.12	S	S
SOC	Health Sector Development Program	-	4.03	Nov-97	Apr-98	Jun-01	-	-	2.00	2.00	S	S
SOC	Health Sector Development Project	-	12.00	Nov-97	Apr-98	Jun-03	-	20%	2.53	1.58	S	S
GOV	Governance Reform Program	-	25.05	Dec-99	Mar-00	Oct-01	-	-	0.00	0.00	S	S
Total			240.1						121.2	109.4		

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^a Sector:

AGR: Agriculture and Natural Resources GOV: Governance

ENE: Energy

SOC: Social Infrastructure

I&F: Industry and Finance

T&C: Transport and Communications

^b HS: Highly satisfactory; S: Satisfactory; PS: Partially satisfactory; U: Unsatisfactory.

Source: COPP.

MONGOLIA
OVERALL EXTERNAL ASSISTANCE
(\$ million)

External Source	1994-1998 (Cumulative Commitments) ^a		1999 Approvals ^b	
	Loan/Credit	TA	Loan/Credit	TA
A. Multilateral Assistance				
ADB	274.7	29.4	50.0	4.1
IBRD	108.7	-	52.0	-
IMF	48	-	17.0	-
EU TACIS	-	14.3	-	5.3
UNDP	-	14.6	-	4.3
UNFPA	-	-	-	2.5
IFAD	5.1	-	-	-
Subtotal	436.5	58.3	119.0	16.2
B. Bilateral Assistance				
France	-	5.9	-	0.1
Germany	45.1	9.5	-	9.3
Japan/JICA	46.0	4.4	115.0	-
South Korea	8.0	0.5	11.8	-
United States/USAID	-	66.8	-	16.0
Others	-	-	-	3.4
Subtotal	99.1	87.2	126.8	28.8
Total	535.6	145.4	245.8	45.0

^a For purposes of comparison, cumulative commitments were converted to US\$ using 31 December 1998 exchange rates.

^b Covers the period 01 July 1999 to 31 December 2000; ADB-assistance covers Jan-Dec. 1999.

Sources: World Bank Group Resident Mission in Mongolia.

UNDP Mongolia: Mongolia Donor Compendium, May 1998.

MONGOLIA
LENDING PIPELINE AND TECHNICAL ASSISTANCE, 2001-2003

Sector/Project Name	Poverty Classification ^a	Crosscutting Operational Priority ^b	Responsible Division	Year of PPTA	PROJECT COST (in \$ million)			
					TOTAL	Bank (ADF)	Gov't.	Cofinancing (Others)
2001 FIRM LOANS								
Agri. and Natural Resources	ODI	-	AEAR	2000	10.0-12.0	8.0-10.0	2.0	-
1. Rural Finance					10.0-12.0	8.0-10.0	2.0	0.0
Social Infrastructure	PI	HD	AEEH	1998	13.0-18.0	10.0-15.0	3.0	-
1. Education Sector Dev't. Program II					18.0-23.0	15.0-20.0	3.0	-
2. Housing Sector Finance					13.4	12.0	1.4	-
3. Social Security SDP					44.4-54.4	37.0-47.0	7.4	0.0
			Subtotal		44.4-54.4	37.0-47.0	7.4	0.0
			Total		54.4-66.4	45.0-57.0	9.4	0.0
2002 LOAN PIPELINE								
Social Infrastructure	PI	HD	AEWU	2000	24.0	20.0	4.0	-
1. Provincial Towns Urban Services II					CPI	HD	AEEH	2000
2. Health Sector Dev't. Program II			Subtotal		48.0	40.0	8.0	0.0
			Total		48.0	40.0	8.0	0.0
2003 LOAN PIPELINE **								
Governance	ODI	GG	PE3	2002	24.0	20.0	4.0	-
1. Governance Reform Program II					24.0	20.0	4.0	0.0
Social Infrastructure	CPI	-	AEAR	2002	24.0	20.0	4.0	-
1. Rural Sector Employment Gen.					24.0	20.0	4.0	0.0
Industry and Finance	ODI	PSD	IEFI	2002	24.0	20.0	4.0	-
1. Financial Sector Program Loan III					24.0	20.0	4.0	0.0
			Subtotal		72.0	60.0	12.0	0.0
			Total		72.0	60.0	12.0	0.0

^a CPI =Core Poverty Intervention; PI =Poverty Intervention; ODI =Other Development Interventions

^b ENV=Environmental Protection; GAD =Gender and Development; GG =Good Governance; HD =Human Development; PSD =Private Sector Development; and RC =Regional Cooperation.

* This classification was completed prior to the finalization of the improved and redesigned classification system in December 2000, which will be applied from January 2001.

** Tentative pipeline.

MONGOLIA

LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2001-2003 ^a

Sector/Project Name	Responsible Division	Type of TA	Amount (\$'000)		
			ADB	Others	Total
2001 TECHNICAL ASSISTANCE PROGRAM					
Agriculture and Natural Resources					
1. Crops Sector Study	AEAR	AD	300.0	-	300.0
	Subtotal		300.0	0.0	300.0
Social Infrastructure					
1. Provincial Towns Urban Services II	AEWU	PP	700.0	-	700.0
2. Health Sector Development II	AEEH	PP	600.0	-	600.0
3. Strengthening of Social Security Policy and Planning*	AEEH	AD	600.0	-	600.0
	Subtotal		1,900.0	0.0	1,900.0
Governance					
1. NSO Capacity Building in Social Statistics	EDRC	AD	500.0	-	500.0
2. Procurement Governance	COPP	AD	600.0	-	600.0
3. Capacity Building for Aid Coordination	PE1	AD	600.0	-	600.0
	Subtotal		1,700.0	0.0	1,700.0
Infrastructure					
1. Road Sector Impact Study	IETC	AD	600.0	0.0	600.0
	Subtotal		600.0	0.0	600.0
	Total		4,500.0	0.0	4,500.0
2002 TECHNICAL ASSISTANCE PROGRAM					
Agriculture and Natural Resources					
1. Rural Sector Employment Generation	AEAR	PP	700.0	-	700.0
	Subtotal		700.0	0.0	700.0
Social Infrastructure					
1. Health Sector Capacity Building *	AEEH	AD	600.0	-	600.0
2. Intergrated Management of Urban Development *	AEWU	AD	700.0	-	700.0
	Subtotal		1,300.0	0.0	1,300.0
Finance					
1. Financial Sector Program Loan III	IEFI	PP	700.0	-	700.0
	Subtotal		700.0	0.0	700.0
Governance					
1. Governance Reform Program Loan II	PE3	PP	700.0	-	700.0
	Subtotal		700.0	0.0	700.0
	Total		3,400.0	0.0	3,400.0
2003 TECHNICAL ASSISTANCE PROGRAM**					
Social Infrastructure					
1. Urban Services	AEWU	PP	700.0	-	700.0
2. Rural Sector Capacity Building *	AEAR	AD	700.0	-	700.0
3. Education Sector Development III	AEEH	PP	700.0	-	700.0
	Subtotal		2,100.0	0.0	2,100.0
Finance					
1. Financial Sector Capacity Building*	IEFI	AD	700.0	-	700.0
	Subtotal		700.0	0.0	700.0
Governance					
1. Support for Governance Reform *	PE3	AD	700.0	-	700.0
2. Strengthening Auditing Capacity	PE3	AD	500.0	-	500.0
	Subtotal		1,200.0	0.0	1,200.0
	Total		4,000.0	0.0	4,000.0

^a Although the proposed TA program has been generally agreed upon by Management, ADB financing may be subject to further reprioritization to fit in with the ADB-wide annual resource envelope.

* Attached to a loan.

** Tentative pipeline.

MONGOLIA
LENDING PROGRAM, 2001-2003
BY POVERTY CLASSIFICATION, CROSSCUTTING OPERATIONAL PRIORITY AND SECTOR

Classification	2001 (Firm)		2002-2003	
	No. ^a	% ^b	No. ^a	% ^b
I. By Poverty Classification *				
A. Core Poverty Intervention	-	-	2	40.0
B. Poverty Intervention	3	75.0	1	20.0
C. Other Development Interventions	1	25.0	2	40.0
Total	4	100.0	5	100.0
II. By Crosscutting Operational Priority *				
A. Environment	-	-	-	-
B. Gender and Development	-	-	-	-
C. Good Governance	-	-	1	25.0
D. Human Development	3	100.0	2	50.0
E. Private Sector Development	-	-	1	25.0
F. Regional Cooperation	-	-	-	-
Total	3	100.0	4	100.0
III. By Sector				
A. Agriculture and Natural Resources	1	25.0	-	-
B. Energy	-	-	-	-
C. Finance and Industry	-	-	1	20.0
D. Transport and Communications	-	-	-	-
E. Social Infrastructure	3	75.0	3	60.0
F. Others/Multisector	-	0.0	1	20.0
Total	4	100.0	5	100.0

^a Two projects are not assigned with any crosscutting priority.

^b rounded off

* This classification was completed prior to the finalization of the improved and redesigned classification system in December 2000, which will be applied from January 2001.

MONGOLIA

PROJECT PROFILE				
1. Project Name: Rural Finance			2. Sector/Subsector: Agriculture and Natural Resources/ Agricultural Support Services	
3. Poverty Classification: ^{a *} ODI			4. Crosscutting Operational Priority: ^{b *}	
5. Rationale & Objectives: To increase incomes and improve the quality of life in the rural areas through provision of rural financial services on a commercial basis. This will be done by assisting the government in reforming the delivery of credit in the countryside and developing a competitive, stable, and broad based rural financial system.			6. Beneficiary Participation/Consultation Needs: <ul style="list-style-type: none"> Potential Project beneficiaries will be consulted extensively through community surveys, a social assessment, and formal stakeholder workshops. 	
7. Scope: Project preparation will (i) determine the extent and nature of demand for rural financial services, and review the commercial and institutional framework through which financial services are presently provided to rural clients; (ii) identify key constraints, including potential technical, legal and policy obstacles, that have prevented the development of sustainable financial institutions capable of delivering rural financial services on a commercial basis; (iii) critically review the credit risks for potential participating bank and non-bank rural financial institutions and propose concrete measures to cope with expected credit risks; (iv) identify and rank the financial institutions according to financial strength, management capacity, potential capacity for national outreach, among other criteria, in order to select the best channels for rural finance; (v) identify the needs for institutional strengthening; and (vi) design a project suitable for ADB-financing; the project must be focused on those beneficiary groups who have the highest potentiality for growth and employment generation. The Project will have two components: a credit line and an institutional strengthening component.				
8. Estimated Cost & Financing Plan :				Remarks Government's commitment to the market-oriented reforms necessary to ensure adequate incentives for farmers to participate in the Project.
Loan Project Cost (\$m)				
Financing (Source)	FC	LC	Total	
ADB	-	-	10.0	
Co-financing	-	-	-	
Borrower	-	-	2.0	
Sub-borrowers	-	-	-	
Total	TBD	TBD	12.0	
9. Estimated Benefits and Beneficiary Groups: Benefits are: (i) strengthening of appropriate institutional conduits for provision of rural financial services; (ii) deepening of rural financial services, and (iii) promoting growth of rural economic activities. Beneficiaries are private farmers, herders, and rural production associations.				
10. Executing Agency: Bank of Mongolia			11. Project Implementation Period: Start: 2001 End:	
12. Environment Category: B			13. Processing Year: 2000	

^a CPI = Core Poverty Intervention; PI = Poverty Intervention; ODI = Other Development Interventions

^b ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD = Private Sector Development and RC = Regional Cooperation

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MONGOLIA

PROJECT PROFILE				
1. Project Name: Second Education Sector Development			2. Sector/Subsector: Social Infrastructure/Education	
3. Poverty Classification: ^{a *} PI			4. Crosscutting Operational Priority: ^{b *} HD	
5. Rationale: The Project will assist the Government in preparing a Second Education Development Project (SEDP) that will further strengthen the Government's efforts in education reforms and improvement in the context of a transition economy. The main objectives of the SEDP are: (i) to build the institutional capacity of MOSTEC and provincial authorities; (ii) improve the quality and coverage of basic, nonformal and secondary education; (iii) establish a market-driven Technical Education & Vocational Training program, and (iv) strengthen the Science & Technology capacity at the postsecondary level. The SEDP will also address the Government's poverty reduction strategy in the education sector. It will continue the sector policy dialogue, use the lessons learned from the ESDP, and reinforce the best practices established in the sector.			6. Beneficiary Participation/Consultation Needs:	
7. Scope: Project scope will include: (i) sector and institutional reform; (ii) improving the quality and coverage of basic and nonformal/distance education; (iii) establishing market-driven vocational education; and (iv) strengthening science and technology education at tertiary level.				
8. Estimated Cost & Financing Plan :				Remarks Nordic Fund has expressed interest to co-finance the project.
Loan Project Cost (\$m)				
Financing (Source)	FC	LC	Total	
ADB	TBD	TBD	15.0	
Co-financing	TBD	TBD	-	
Borrower	TBD	TBD	3.0	
Sub-borrowers	TBD	TBD	-	
Total	TBD	TBD	18.0	
9. Estimated Benefits and Beneficiary Groups:				
10. Executing Agency: Ministry of Science, Technology, Education and Culture (MOSTEC)			11. Project Implementation Period: Start: 2002 End: 2006	
12. Environment Category:			13. Processing Year: TA: 1999 Loan: 2001	

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MONGOLIA

PROJECT PROFILE				
1. Project Name: Housing Sector Finance		2. Sector/Subsector: Social Infrastructure		
3. Poverty Classification: ^{a *} PI		4. Crosscutting Operational Priority: ^{b *} HD		
5. Rationale: The establishment of a sustainable, market-based system for delivery of housing finance to meet the borrowing needs of low-income and middle-income households.		6. Beneficiary Participation/Consultation Needs: Beneficiaries will participate in the Project through: (i) borrowing from the Housing Development Fund (HDF); (ii) complementing housing loans with their own investment in building and improving their housing; and (iii) participating in programs to improve community infrastructure and services. Consultants will be required for institutional strengthening of participating commercial banks (PCBs), savings and credit cooperatives (SCCs) and small-scale contractors in undertaking lending for housing.		
7. Scope: The scope of the Project will include: (i) finance of housing construction and improvement loans for low-income families, mainly in ger areas; (ii) improvement to community infrastructure and services through the implementation of pilot housing action area plans (HAAP) schemes; (iii) development of financial management, loan underwriting, and cost recovery procedures by selected PCBs and SCCs; (iv) development and capacity building of small-scale contractors for low income housing construction and improvement; and (v) developments of savings schemes for housing through commercial banks, SCCs and NGOs.				
8. Estimated Cost & Financing Plan:				Remarks: Due to the catalytic effect of small loans on overall household investment, it is expected (and has been shown in other DMCs) that beneficiaries will invest at least twice the amount of the loan in building and improving their housing.
Loan Project Cost (\$m)				
Financing (Source)	FC	LC	Total	
ADB	-	-	15.0	
Co-financing	-	-	-	
Borrower	-	-	3.0	
Sub-borrowers	-	-	-	
Total	TBD	TBD	18.0	
8. Estimated Benefits and Beneficiary Groups: Primary beneficiary groups under the Project will be low- and middle-income families which are steadily employed and wish to build, buy or improve their housing and immediate environmental infrastructure such as water supply and sanitation. An important sub-beneficiary group will be ger area residents in the Housing Action Area Plans (HAAPs) which will be designed for housing and environmental infrastructure improvement. Improvement in housing and environmental infrastructure has been shown to be directly linked to improvements in income and, therefore, poverty reduction.				
10. Executing Agency: Ministry of Infrastructure Development (MID)		11. Project Implementation Period: Start: October 2001 End: December 2005		
12. Environment Category:		13. Processing Year: TA: 2000 Loan: 2001		

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MONGOLIA

PROJECT PROFILE					
1. Project Name: Social Security Sector Development Program			2. Sector/Subsector: Social Infrastructure		
3. Poverty Classification: ^{a *} PI			4. Crosscutting Operational Priority: ^{b *} HD		
5. Rationale and objective: To establish a sustainable social security sector to facilitate a smooth transition from the centrally planned economy to a market economy. Special emphasis will be given to reduce poverty and unemployment through strengthening the social security system.			6. Beneficiary Participation/Consultation Needs: TBD		
7. Scope: The Program will aim at reforms in the following areas: (i) social welfare services, (ii) social insurance, mainly in terms of employment, (iii) employment promotion, and (iv) sector planning.					
8. Estimated Cost & Financing Plan:			Remarks:		
Loan Project Cost (\$m)					
Financing (Source)	FC	LC			Total
ADB	-	-			12.0
Co-financing	-	-			-
Borrower	-	-			1.4
Sub-borrowers	-	-			-
Total	TBD	TBD	13.4		
8. Estimated Benefits and Beneficiary Groups: TBD					
10. Executing Agency: Ministry of Social Welfare and Labour			11. Project Implementation Period: Start: 2001 End:		
12. Environment Category: TBD			13. Processing Year: TA: 1997 Loan: 2001		

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