

COUNTRY AND PORTFOLIO INDICATORS, AND ASSISTANCE PIPELINE

Table A1.1: Progress Towards the Millennium Development Goals and Targets

| Goals and Targets | Country Status |
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| <p>Goal 1: Eradicate Extreme Poverty and Hunger</p> <p>Target 1: Halve, between 1990 and 2015, the proportion of people whose income is less than \$1/day.</p> | <p>Poverty remains severe. Poverty incidence was 36% according to the 2002 HIES and LSMS. The proportion of poor people was lower in urban areas (30%) than in rural areas (43%). The depth of poverty and inequality among poor were substantial (poverty gap -11% and severity of poverty -4.7%). The highest poverty incidence, 51%, was in the Western Region. While the goal is achievable if benchmark growth rates are maintained, lower or less equally distributed growth could threaten the target.</p> |
| <p>Target 2: Halve, between 1990 and 2015, the proportion of people who suffer from hunger.</p> | <p>Average caloric intake has been on an increasing trend since 1992, when intake was below the minimal requirement of 2,100 kcal per person per day. Daily intake of members of poor households is 1,784 kcal, compared with the 2,900 kcal average. Meeting MDG target will require high economic growth with economic opportunities for the poor, particularly in rural areas and also better targeted social assistance.</p> |
| <p>Goal 2: Achieve Universal Primary Education</p> <p>Target 3: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.</p> | <p>Primary enrolment rates fell from 91% in 1995 to 87% in 2000 but have been growing at a steady rate since. If the recent trend continues through 2015, the target of universal primary education will be met. However, special attention will be required to ensure achievements in rural areas where the pressure on boys to assist in income activities reduces enrollment and completion rates.</p> |
| <p>Goal 3: Promote Gender Equality and Empower Women</p> <p>Target 4: Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015.</p> | <p>Few gender disparities exist at the primary level. At the secondary level and above, however, gender discrepancy is in favor of females. In 2001, gross enrollment ratios were 90% for girls and 80% for boys. But given the rates of annual increases in male enrollment, the MDG target is likely to be attained.</p> |
| <p>Goal 4: Reduce Child Mortality</p> <p>Target 5: Reduce by two thirds, between 1990 and 2015, the under-5 mortality rate.</p> | <p>Infant and under-5 mortality declined by half during 1992–2000: infants from 63.4 to 32.8 and further to 30.4 in 2003 per 1,000 live births, under-5 from 87.5 to 42.4 per 1,000 live births in 2000. This trend puts Mongolia on track to achieving the MDG target by 2015.</p> |

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| <p>Goal 5: Improve Maternal Health</p> <p>Target 6: Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio.</p> | <p>With the decline from 200 in 1992 to 109 in 2003, the target may not be met. In remote western aimags the rates were significantly higher than the national average ranging between 205 and 375 per 100,000 live births in 2000 reflecting the poor quality of health care services in rural remote areas.</p> |
| <p>Goal 6: Combat HIV/AIDS, Malaria, and Other Diseases</p> <p>Target 7: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS.</p> | <p>Mongolia has a low recorded incidence of HIV/AIDS but faces high-risk factors that could threaten achievement of this goal.</p> |
| <p>Target 8: Have halted by 2015, and begun to reverse, the incidence of tuberculosis and other major diseases.</p> | <p>There is an increasing trend of registered tuberculosis incidence mainly linked to poverty and employment. The goal is off-track but achievable.</p> |
| <p>Goal 7: Ensure Environmental Sustainability</p> <p>Target 9: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources.</p> | <p>Land/pasture degradation, air pollution, low energy efficiency, deforestation, and decreasing biodiversity present most pressing environmental issues. This goal will be difficult to achieve.</p> |
| <p>Target 10: Halve, by 2015, the proportion of people without sustainable access to safe drinking water.</p> | <p>Forty percent of the population received water from the unsafe sources such as unprotected wells, rivers, rain and snow and the figure has remained unchanged in recent years made worse by increasing rural-urban migration. Drinking water access is closely related with geographic location and economic status. This goal will be difficult to achieve without a revised approach to urban development.</p> |
| <p>Target 11: By 2020, achieve a significant improvement in the lives of slum dwellers.</p> | <p>Population living in gers typically does not have central heating, portable water supply, and sanitation facilities. The attainment of this goal will depend upon targeted actions in Ulaanbaatar and provincial towns.</p> |

HIV/AIDS = human immunodeficiency virus/acquired immunodeficiency syndrome, HIES and LSMS = Household Income Expenditure Survey/Living Standard Measurement Survey, MDG= Millennium Development Goals.

Table A1.2: Country Economic Indicators, 1999–2004

| Item | Fiscal Year | | | | |
|--|-------------|---------|---------|---------|---------|
| | 2000 | 2001 | 2002 | 2003 | 2004 |
| A. Income and Growth | | | | | |
| 1. GDP per Capita (\$, current) | 396.0 | 419.1 | 454.5 | 511.9 | 605.5 |
| 2. GDP Growth (% , in constant prices) | 1.1 | 1.0 | 4.0 | 5.6 | 10.5 |
| a. Agriculture | (14.9) | (18.5) | (10.7) | 5.8 | 18.9 |
| b. Industry | 2.7 | 16.5 | 4.7 | 0.4 | 16.8 |
| c. Services | 18.6 | 8.2 | 12.2 | 7.1 | 4.0 |
| B. Saving and Investment (current and market prices, % of GDP) | | | | | |
| 1. Gross Domestic Investment | 36.2 | 35.8 | 29.0 | 27.0 | — |
| 2. Gross National Saving | 30.0 | 30.0 | 20.0 | 18.0 | — |
| C. Money and Inflation (annual change) | | | | | |
| 1. Consumer Price Index ^a | 8.1 | 8.0 | 1.6 | 4.7 | 11.0 |
| 2. Total Liquidity (M2) | 17.6 | 27.9 | 42.0 | 49.6 | 20.4 |
| D. Government Finance (% of GDP) | | | | | |
| 1. Revenue and Grants | 34.4 | 39.4 | 38.4 | 37.9 | 39.4 |
| 2. Expenditure and On lending | 42.1 | 43.9 | 44.4 | 42.1 | 41.7 |
| 3. Overall Fiscal Surplus (Deficit) | (7.7) | (4.5) | (5.9) | (4.2) | (2.2) |
| E. Balance of Payments | | | | | |
| 1. Merchandise Trade Balance (% of GDP) | (14.8) | (16.7) | (20.5) | (15.7) | (9.8) |
| 2. Current Account Balance (% of GDP) ^b | (7.4) | (6.1) | (9.4) | (7.8) | 1.2 |
| 3. Merchandise Export (\$) Growth (annual % change) | 17.9 | (2.3) | 0.1 | 19.7 | 39.0 |
| 4. Merchandise Import (\$) Growth (annual % change) | 19.1 | 2.5 | 8.6 | 9.8 | 23.5 |
| F. External Payments Indicators | | | | | |
| 1. Gross Official Reserves (including gold, \$ million) ^c | 140.7 | 160.1 | 225.9 | 129.0 | 205.0 |
| -weeks of imports | 11.9 | 13.1 | 17.0 | 8.4 | 10.3 |
| 2. External Debt Service (% of exports of goods and services) ^c | 4.5 | 5.3 | 4.0 | 34.0 | 7.5 |
| 3. Total External Debt (% of GDP) ^d | 81.2 | 88.8 | 88.0 | 99.0 | 91.0 |
| G. Memorandum Items | | | | | |
| 1. GDP (current prices, MNT billion) | 1,018.9 | 1,115.6 | 1,240.8 | 1,461.2 | 1,808.0 |
| 2. Exchange Rate (MNT/\$, average) | 1,076.4 | 1,097.7 | 1,110.3 | 1,146.5 | 1,185.3 |
| 3. Population (million) | 2.40 | 2.43 | 2.46 | 2.49 | 2.52 |

— = not available, GDP = gross domestic product, MNT = togrog.

^a Annual percentage change (period average).

^b Including official transfers.

^c The high number is explained by the fact that until Q1 2004, statistics recording the stock of external debt did not include the unresolved pre-1991 Russian debt.

^d 1999–2002 excludes unresolved claims owed to the Russian Federation.

Sources: Government of Mongolia and the International Monetary Fund.

Table A1.3: Country Poverty and Social Indicators

| Item | Period | | |
|---|--------|-------------|-------|
| | 1995 | 1998 | 2002 |
| A. Population Indicators | | | |
| 1. Total Population (million) | 2.24 | 2.39 | 2.50 |
| 2. Annual Population Growth Rate (% change) | 1.6 | 1.4 | 1.2 |
| B. Social Indicators | | | |
| 1. Total Fertility Rate (births/woman) | 2.8 | 2.2 | 2.0 |
| 2. Maternal Mortality Rate (per 100,000 live births) | 187 | 158.5 | 109.5 |
| 3. Infant Mortality Rate (below 1 year/1,000 live births) | 44.4 | 32.8 | 29.6 |
| 4. Life Expectancy at Birth (years) | 63.78 | 63.18 | 63.63 |
| a. Female | 65.43 | 66.13 | 66.50 |
| b. Male | 62.10 | 60.43 | 60.79 |
| 5. Adult Literacy (%) | — | 97.8 | — |
| a. Female | — | 97.5 | — |
| b. Male | — | 98.0 | — |
| 6. Primary School Gross Enrollment (%) | 91.4 | 87.2 | 89.0 |
| 7. Secondary School Gross Enrollment (%) | 55.4 | 69.1 | 82.3 |
| 8. Child Malnutrition (% below age 5) | — | 13.0 | — |
| 9. Population with Access to Safe Water (%) | — | 60.0 | 61.0 |
| 10. Population with Access to Sanitation (%) | — | 52.0 | 52.0 |
| 11. Public Education Expenditure (% of GDP) | 4.6 | 8.1 | 7.9 |
| 12. Human Development Index Rank | 101 | 117 | — |
| 13. Gender-Related Development Index Rank | | | |
| C. Poverty Indicators | | | |
| 1. Poverty Incidence | 36.3 | 35.6 (1998) | 36.1 |
| a. West | — | — | 51.1 |
| b. Highland | — | — | 38.7 |
| c. Central | — | — | 34.4 |
| d. East | — | — | 34.5 |
| e. Ulaanbaatar | — | — | 27.3 |
| 3. Poverty Gap | 10.9 | 11.7 (1998) | 11.0 |
| 4. Poverty Severity Index | 4.8 | 5.6 (1998) | 4.7 |
| 5. Inequality (Gini Coefficient) | 0.30 | 0.35 (1998) | 0.44 |
| 6. Human Poverty Index Rank | — | 19.1 | 19.1 |
| | | 38 | 36 |

— = not available, GDP = gross domestic product.

Sources: LSMS 1995, LSMS 1998, and HIES and LSMS 2002-2003, Human Development Report 2003.

Table A1.4: Country Environment Indicators

| Indicator | 1995 | 2000 | 2003 |
|---|-------------|-------------|------------|
| A. Energy Efficiency of Emissions | | | |
| 1. GDP/Unit of Energy Use (PPP\$/kgoe) | — | — | — |
| 2. Traditional Fuel Use (% of total energy use) | — | 4.3 (1997) | — |
| 3. Carbon Dioxide Emissions | | | |
| a. Tons | — | — | 5.7 |
| b. Tons per Capita | 3.5 | 4.1 | 4.1 (2000) |
| B. Water Pollution: Water and Sanitation | | | |
| 1. % Urban Population with Access to Safe Water | — | 77 | 90.8 |
| 2. % Rural Population with Access to Safe Water | — | 30 | 34.4 |
| 3. % Urban Population with Access to Sanitation | — | 46 | 39.8 |
| C. Land Use and Deforestation | | | |
| 1. Forest Area (million hectares) ^a | — | 13.3 | 14.7 |
| 2. Average Annual Deforestation | | | |
| a. Km ² | — | 600 | — |
| b. % Change | — | 0.5 | — |
| 3. Rural Population Density (people/km ² of arable land) | — | 75 (1999) | 87 (2001) |
| 4. Arable Land (million hectares) | 0.8 | 0.8 (1999) | 0.7 |
| 5. Permanent Cropland (% of total land) | 0.0 | 0.0 (1999) | 0.45 |
| D. Biodiversity and Protected Areas | | | |
| 1. Nationally Protected Area | | | |
| a. Million Hectares | 12.6 (1996) | 20.5 | 20.8 |
| b. % of Total Land | 7.92 | 13.15 | 13.4 |
| 2. Mammals (number of threatened species) | — | 12 | 13 |
| 3. Birds (number of threatened species) | — | 16 | 8 |
| 4. Higher Plants (number of threatened species) | — | 0 (1997) | 15 |
| 5. Reptiles (number of threatened species) | — | — | 0 |
| 6. Amphibians (number of threatened species) | — | — | 0 |
| 7. Butterflies | — | — | 1 |
| E. Urban Areas | | | |
| 1. Urban Population | | | |
| a. Million | — | 1.4 (2001) | 1.5 |
| b. % of Total Population | 60.8 | 56.7 (2001) | 58.4 |
| 2. Per Capita Water Use (liters/day) | — | 200-250 | 250-270 |
| 3. Wastewater Treated (%) | — | — | 40 |
| 4. Solid Waste Generated per Capita (kg/day) | — | — | 0.6 (2002) |

— = not available, GDP = gross domestic product, kg = kilogram, kgoe = kilograms of oil equivalent, km² = square kilometer, PPP = purchasing power parity.

^a A change in methodology makes these figures not directly comparable.

Sources: Department of Sustainable Development and Environment, Ministry of Nature and Environment, Mongolia; World Bank. 2002. World Bank. 2003. *Mongolia Environmental Monitor..* World Bank. 2004. *Land Resources and Their Management.*; World Bank. 2004. *World Development Indicators 2004*; United Nations Environment Programme. 2002. *State of the Environment: Mongolia 2002*; National Statistical Office of Mongolia.2004. *Statistical Yearbook 2003*.

Table A1.5: Development Coordination Matrix

| Sector/Thematic/Area | ADB Strategy/Activities | Other Development Partners' Strategy/Activities |
|---|--|---|
| <p>Agriculture/Rural Development</p> | <p>CSP Outcomes:</p> <ul style="list-style-type: none"> Sustainable, stable, and more productive agriculture with greater market-orientation and associated development of rural nonfarm economy with particular benefits for the rural poor. <p>Program:</p> <ul style="list-style-type: none"> Agricultural/Rural Development Loan and TA project in Western Region Capacity Building for Agriculture/Rural Development On-going Agriculture Sector Development Loans and TA | <p>Canada/CIDA: No-till technology for crop sector; safe food for rural population, rural development training.</p> <p>EU/TACIS: Mixed-farming development (rural development in Dornogobi, Sukhbat, and Gobi Sumer using Asian Development Bank's (ADB) Agricultural Sector Development Project as a model, distribution and collection system), agricultural services.</p> <p>EU/UNDP: Coordination of external funding agencies for rural development; disaster mitigation and management; rural water supply.</p> <p>France: Food aid to herders and farmers.</p> <p>Germany/GTZ: Self-help in rural households—family production units, training for cooperatives; privatization of veterinary services and training; fiscal land cadastre and land valuation.</p> <p>FAO/India: Crop production technology development, dairy improvement.</p> <p>Japan: Rural development, including well rehabilitation in the Gobi region; food aid, agriculture machinery; planned JBIC operations—research in microfinance and selected agriculture subsectors.</p> <p>IFAD: In-kind credit for livestock re-distribution and vegetable production, horticulture promotion, social services, well rehabilitation, pasture management.</p> <p>Luxembourg: Disaster mitigation and management.</p> <p>Switzerland/SDC: Seed improvement; ecosystem management.</p> <p>UNDP/Netherlands: Grasslands management.</p> <p>United States: Food aid—wheat (monetized via public auction, with proceeds used to fund aid projects).</p> <p>USAID: Gobi Regional Economic Growth Initiative (rural business), Gobi Forage Project (risk management technologies for drought and winter disaster early warning); rural business support in the livestock sector of the Gobi region; Economic Policy Reform and Competitiveness Project (export-driven hides, skins, leather and meat, and cashmere industries).</p> <p>World Bank: Sustainable Livelihood Project (pasture management); planned land administration and management/forestry project; planned second phase of the Sustainable Livelihood Project of \$9 million.</p> |
| <p>Education</p> | <p>CSP Outcomes:</p> <ul style="list-style-type: none"> Alignment of skills and education of labor force with market demand, which reduce growth constraints due to human resources shortfalls Better education opportunities for the poor that give them the opportunity to participate in the economic growth processes <p>Program:</p> <ul style="list-style-type: none"> 2005 Education Development Project | <p>Australia/ AusAID: Capacity building; scholarships for post-graduate students; community based development initiatives.</p> <p>Danida: Rural secondary teacher training; rural school heating; non-formal basic distance education.</p> <p>EU/TACIS: Mongolian National University management; libraries, curriculum development, and related training of teachers and students.</p> <p>Germany/GTZ: Vocational education</p> <p>India: IT, management, accounting, communication and rural development training in India; vocational training; post-graduate scholarship program</p> <p>Japan: Policy and planning support, Ulaanbaatar (UB) school facilities, ICT in partnership with ADB; human development scholarship program;</p> |

| Sector/Thematic/Area | ADB Strategy/Activities | Other Development Partners' Strategy/Activities |
|----------------------|---|---|
| | <ul style="list-style-type: none"> On-going loans and TA's in education sector | <p>Mongolia- Japan Human Resource Development Center NDF: Cofinancing ADB's Second Education Development Project, focusing on science and vocational education; upgrading kindergartens and primary schools. Soros Foundation/Open Society Forum: Basic education and capacity building; ICT assistance for the Mongolian Foundation for an Open Society. Republic of Korea: Distance education, upgrading facilities of higher education institutions, Korean-Mongolian Technical College. UK: Post-graduate scholarships, pre-school education, English language. UNICEF: School renovation, community-based primary education; teacher development; early childhood development, community participation in education, life skills, and non-formal education. UNFPA/Finland: Health education curricula in the formal school system UNFPA: Capacity for population training; research center in population, development, and gender. USAID: Graduate degree scholarships on economic studies and ICT, possible support for vocational training center; construction and equipment for vocational training schools in UB World Bank: Human resource development; education privatization. World Vision: Pre-school education for children of poor households.</p> |
| Finance | <p>CSP Outcomes:</p> <ul style="list-style-type: none"> Sound financial system with improved efficiency and outreach and improved access to financial services. <p>Program</p> <ul style="list-style-type: none"> 2005 Financial Sector Development Program III 2005 Capacity Building for Non-bank Financial Sector Reforms. Ongoing assistance for legal and institutional reforms. | <p>DFID: TA to Credit Mongol with a capital injection EBRD: Support to Agriculture Bank for term-lending techniques. EU/TACIS: Financial services for SME's Japan: Study on rural finance and experts working at commercial banks. IFC: Micro-lending, bank privatization and investment in privatized and private commercial banks, financial leasing. KfW: Planned assistance for financial sector reform. UNDP: Financial services to herders and credit cooperatives. World Bank: Financial sector capacity TA (policy reforms; bank management, rural financial services, credit information bureau, index-based livestock insurance); financial sector review, coordination of donor activities in the financial sector and private sector development</p> |
| Gender | <p>CSP Outcomes:</p> <ul style="list-style-type: none"> Inclusive public policies Gender-balanced measures in education, rural development, health, urban development and public administration reform projects. Improved loan and TA activities | <p>UNDP: Capacity building for gender sensitive budgeting UNFPA: Capacity building for the integration of population, gender and development factors into national policies, plans and programs. UNIFEM: National Program for Advancement of Mongolia's Women World Bank: Appointed gender consultant to advise on gender related issues and provide necessary training and work closely with other donor agencies to support Government's initiatives on gender equality</p> |
| Governance | <ul style="list-style-type: none"> Governance measures integrated into assistance in the education, urban development and housing, agriculture, and health sectors. | <p>Germany/GTZ: Legislative drafting, training of prosecutors, advocates, judges, notaries and academics UK: Disaster preparedness system in coordination with UNDP UNDP: Democratic governance (anticorruption, gender sensitive</p> |

| Sector/Thematic/Area | ADB Strategy/Activities | Other Development Partners' Strategy/Activities |
|----------------------|---|--|
| | <ul style="list-style-type: none"> Project designs expected to incorporate governance concerns of civil society participation in policy-making and decision-making, performance of civil servants, coverage and greater responsiveness of public services, accountability of public agencies, and efficiency of development assistance. Corporate governance, the establishment of a legal and institutional environment for private sector development, and civil service capacity for governance improvements through interventions in small and medium-sized enterprise development, private sector support in the agriculture sector, and educational programs in the areas of civil service, accounting, and legal training. Transparency and accountability mechanisms for the delivery of public services in association with projects in the education, health, urban development, and agriculture sectors and through support for administrative consolidation. | <p>budgeting); facilitation of national policy dialogue and cooperation, human rights, accountability, transparency, and responsiveness of governing institutions; capacity building of the National Human Rights Commission; anti corruption and capacity building for parliamentarians; electoral reform.</p> <p>UNDP/Sweden: Good governance and human security program</p> <p>UNFPA: Capacity for integration population and development and gender factors into national policies, capacity building of members of Parliament in advocating reproductive health and population</p> <p>USAID: Economic advisory services to the Government and the office of the Prime Minister; democratic processes (political party development and strengthening parliament); rural and human rights NGO development; judicial reform.</p> <p>World Bank: Public sector management project (public administration reform—capacity building for public expenditure management, assistance in civil service and formulating the civil service reform strategy, strengthening the institutional statistical system, capacity building of state audit and inspection system; macroeconomic management); administrative court system; planned judicial and public sector reform loan; TA for civil society assessment and public expenditure tracking survey.</p> |
| Health | <p>CSP Outcomes:</p> <ul style="list-style-type: none"> Better health services <p>CSP Outputs:</p> <ul style="list-style-type: none"> Improvements at national and local levels in health services to poor and vulnerable populations Reducing inequality in health care Improving efficiency in the delivery of health care <p>Program:</p> <ul style="list-style-type: none"> Health Sector Reform Capacity Building for Health Sector Reforms Decreasing of maternal mortality On-going projects on health sector development and health services. | <p>EU/TACIS: Financial management of health system.</p> <p>Germany/GTZ: Reproductive health system</p> <p>Japan: Communicable diseases, artificial limb training center, strengthen medical centers and hospitals, sector master plan</p> <p>Luxembourg: Cardiovascular diagnostic center</p> <p>Netherlands: Telemedicine and radiology</p> <p>South Korea: Centers for urology and nephrology and traditional medicine.</p> <p>Spain: Mother and child research center</p> <p>UK: Health and nurse training, HIV/AIDS prevention</p> <p>UN/Netherlands/Australia/NZ: Water sanitation and hygiene education.</p> <p>UNICEF: ADB partnership in micronutrients</p> <p>UNFPA: Reproductive health policies, maternal health and sexually transmitted diseases, particularly HIV/AIDS</p> <p>WHO: Vaccine-preventable diseases; tuberculosis; STI and HIV/AIDS; child and adolescent health and development; maternal morbidity; mental health; hospital planning and management; national drug policy; capacity building for rural health personnel; managerial capacity for health statistics</p> <p>World Bank: Health sector privatization; hospital restructuring; strengthening capacity for public expenditure management in health sector</p> |

| Sector/Thematic/Area | ADB Strategy/Activities | Other Development Partners' Strategy/Activities |
|--|---|---|
| Poverty Reduction and Social Security | <p>Overarching ADB goal; second strategy pillar specifically directed to meeting poverty reduction targets of the Government.</p> <p>National Goals:</p> <ul style="list-style-type: none"> • Reduce urban-rural disparities • Improve access to stable incomes • Improve quality and access to public services <p>Program:</p> <ul style="list-style-type: none"> • Agriculture • Roads • Education • Health • Urban Development | <p>Australia: Community-based development donations to orphanage center Canada: Employment promotion among vulnerable groups. Germany/GTZ: Food assistance, emergency relief, urban marginalized youth IFAD: Rural poverty alleviation, credit to poor households Japan: Food assistance, emergency relief, training for disabled, shelters for street children, study on poverty/livelihood in UB ger areas Italy: Community-based rehabilitation of disabled (training of doctors, provision of training materials, support for disability NGOs) NDF: Social security sector development program SOS Kinder International: SOS children's village. Sweden: National Center Against Violence, poverty research, employment facilitation UK: Children shelters and service centers, summer camps for street children; planned disabled children assessment and treatment center. UNDP: MDG awareness, knowledge networking on urban poverty, poverty research group, aid effectiveness and harmonization, innovative schemes for demand-driven vocational training UNICEF: Community-initiated projects, street children, migrant households, trafficking of children and child labor World Bank: Sustainable livelihoods project to shift anti-poverty strategy from welfare to market-based measures, social sector policy, pension reform World Vision: Emergency relief, support for street children</p> |
| Private Sector Operations | <p>CSP Outcomes:</p> <ul style="list-style-type: none"> • Promote SME development • Leverage Investment into private companies with growth potential • Create more employment opportunities for Mongolia's population <p>Program</p> <ul style="list-style-type: none"> • SME development project • Private equity project • On-going loans and investment. | <p>EBRD: Turn Around Management (TAM) working with 22 companies (trading and distribution, baking, tourism, construction materials, tannery, shoe manufacturing, meat processing, cattle and agriculture farming, carpet production, IT software, printing, wood processing, and furniture) EU/TACIS: Management, food technology, tourism management Germany/GTZ: SME support (capacity building, information and advisory services, links with German businesses, and export oriented policies). Japan: Tourism development master plan PRC: Construction of plants for processing zinc ore UNDP: Enterprise restructuring, industrial development, tourism USAID: Rural and ger area businesses, private equity venture capital World Bank: Credit line for private enterprises; planned trade, mining and cashmere studies; investors' forum</p> |
| Transportation | <p>CSP Outcomes:</p> <ul style="list-style-type: none"> • Improved domestic and regional transport network • Better domestic and regional market integration <p>Program:</p> <ul style="list-style-type: none"> • Ongoing Transport Sector Strategy Study | <p>ADB and World Bank: Joint dialogue with the Government on road financing, maintenance EBRD: Restructuring the aviation sector EU/TACIS: Zamiin Uud bulk fuel trans-shipment facility Germany: Improving domestic road transport network Japan: Roads and urban infrastructure Kuwait: Road rehabilitation in Bulgan <i>aimag</i> South Korea: Co-financing for the ADB regional road development project</p> |

| Sector/Thematic/Area | ADB Strategy/Activities | Other Development Partners' Strategy/Activities |
|--------------------------------------|---|--|
| | <ul style="list-style-type: none"> • Altai Transport Corridor TA project • Altai Western Corridor I – road investment project • Regional transport project | <p>World Bank: East/west road corridor; railways financial management system and training</p> <p>World Bank/GEF: Vehicle registration and inspection system, accident reporting system</p> |
| Urban Development and Housing | <p>CSP Outcomes:</p> <ul style="list-style-type: none"> • Keeping Mongolia on track to meeting MDG targets by improving the quality of urban services and housing for the poor <p>Program:</p> <ul style="list-style-type: none"> • Urban Development Project <p>On-going loans and TA on Urban Development and Housing Finance Project</p> | <p>Canada/CIDA: Sustainable Cities Initiative</p> <p>EU/TACIS: Urban development plan for UB</p> <p>GTZ: Low cost housing</p> <p>Japan: Water supply facilities at upper water source area of UB</p> <p>Sweden: Supports urban land administration system development</p> <p>UNDP: Commercialization of super-insulated buildings</p> <p>USAID: Urban planning and land use in UB</p> <p>World Bank: Public utilities in UB <i>ger</i> areas, air pollution, city development strategies; municipal finance</p> |
| Energy | <p>Ongoing ADB Activities:</p> <ul style="list-style-type: none"> • Heat Efficiency Project • Renewable Energy Project | <p>Germany: GTZ and KfW will focus on renewable energy in Zavkhan and Khuvsgul aimags</p> <p>Japan: JBIC has provided a loan to the power sector in 1995 and currently has a project for rehabilitation of a power plant; also supports rehabilitation of power plants in soum centers</p> <p>Kuwait Fund and OPEC Fund: Hydropower</p> <p>UNDP: Straw bale-building project for energy efficiency</p> <p>USAID: Policy support for energy sector restructuring</p> <p>World Bank: Investment project includes power distribution in UB; electric transmission</p> |

ADB = Asian Development Bank, AusAID = Australian Agency for International Development, CIDA = Canadian International Development Agency, CSP = country strategy and program, Danida = Danish International Development Agency, DFID = Department for International Development, EBRD = European Bank for Reconstruction and Development, EU = European Union, EU TACIS = European Union Technical Assistance to the Commonwealth of Independent States, GTZ = German Agency for Technical Cooperation, HIV/AIDS = human immunodeficiency virus/acquired immunodeficiency syndrome, FAO = Food and Agriculture Organization, IMF = International Monetary Fund, JBIC = Japan Bank for International Cooperation, ICT = information and communications technology, IFAD = International Fund for Agricultural Development, IFC = International Finance Corporation, IT = information technology, KfW = Kreditanstalt für Wiederaufbau, MDG = Millennium Development Goals, NDF = Nordic Development Fund, NGO = nongovernment organization, NZ = New Zealand, OPEC = Organization of Petroleum Exporting Countries, PRC = People's Republic of China, SDC = Swiss Agency for Development Cooperation, TA = technical assistance, SME = small and medium-sized enterprise, TAM = turn around management, UB = Ulaanbaatar, UK = United Kingdom, UN = United Nations, UNDP = United Nations Development Program, UNFPA = United Nations Population Fund, UNIFEM = United Nations Development Fund for Women, UNICEF = United Nations Children's Fund, USAID = United States Agency for International Development, WHO = World Health Organization.

Table A1.6: Portfolio Indicators—Portfolio Amounts and Ratings
(public sector loans, as of 31 December 2004)

| Sector | Net Loan Amount | | Total | | Rating ^a | | | | | | | | Potential Problem ^b | | At Risk ^c | | |
|--|-----------------|--------------|-----------|--------------|---------------------|------------|--------------|-------------|---------------------|------------|----------------|----------|--------------------------------|----------|----------------------|------------|-------|
| | | | | | Highly Satisfactory | | Satisfactory | | Partly Satisfactory | | Unsatisfactory | | | | | | |
| | \$ million | % | No. | % | No. | % | No. | % | No. | % | No. | % | No. | % | No. | (%) | |
| Agriculture and Natural Resources | 22.1 | 9.0 | 2 | 14.3 | 1 | 50.0 | 1 | 50.0 | 0 | 0.0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.0 |
| Education | 16.4 | 6.7 | 1 | 7.1 | 0 | 0 | 1 | 100.0 | 0 | 0.0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.0 |
| Energy | 41.8 | 17.1 | 1 | 7.1 | 0 | 0 | 0 | 0.0 | 1 | 100.0 | 0 | 0 | 0 | 0 | 0 | 1 | 100.0 |
| Finance | 28.0 | 11.4 | 2 | 14.3 | 0 | 0 | 2 | 100.0 | 0 | 0.0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.0 |
| Health, Nutrition, and Social Protection | 29.9 | 12.2 | 3 | 21.4 | 0 | 0 | 3 | 100.0 | 0 | 0.0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.0 |
| Industry and Trade | 0.0 | 0.0 | 0 | 0.0 | 0 | 0 | 0 | 0.0 | 0 | 0.0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.0 |
| Law, Economic Management and Public Policy | 17.0 | 6.9 | 2 | 14.3 | 0 | 0 | 2 | 100.0 | 0 | 0.0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.0 |
| Transport and Communications | 65.9 | 26.9 | 2 | 14.3 | 0 | 0 | 2 | 100.0 | 0 | 0.0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.0 |
| Water Supply, Sanitation, and Waste Management | 23.9 | 9.8 | 1 | 7.1 | 0 | 0 | 1 | 100.0 | 0 | 0.0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.0 |
| Total | 245.0 | 100.0 | 14 | 100.0 | 1 | 7.1 | 12 | 85.7 | 1 | 7.1 | 0 | 0 | 0 | 0 | 1 | 7.1 | |

No. = number.

^a One rating for implementation progress and development objectives, based on the lower rating of either.

^b Potential problem loans are satisfactory loans but have four or more risk factors associated with partly satisfactory or unsatisfactory performance.

^c A loan is "at risk" if it is rated partly satisfactory, unsatisfactory, or a potential problem.

Source: Asian Development Bank estimates.

Table A1.7: Portfolio Indicators—Disbursements and Net Transfers of Resources
(public sector loans, as of 31 December 2004)

| Disbursements and Transfers | OCR | ADF | Total |
|---|------------|------------|--------------|
| Disbursements^a | | | |
| Total Funds Available for Withdrawal (\$ million) | 0.00 | 201.9 | 201.9 |
| Disbursed Amount (\$ million, cumulative) | 0.00 | 101.9 | 101.9 |
| Percentage Disbursed (disbursed amount/total available) | 0.00 | 50.5 | 50.5 |
| Disbursements (\$ million, latest year) | 0.00 | 39.4 | 39.4 |
| Disbursement Ratio (%) ^b | 0.00 | 23.2 | 23.2 |
| Net Transfer of Resources (\$ million) | | | |
| 2000 | 0.00 | 29.9 | 29.9 |
| 2001 | 0.00 | 27.5 | 27.5 |
| 2002 | 0.00 | 22.7 | 22.7 |
| 2003 | 0.00 | 34.5 | 34.5 |
| 2004 | 0.00 | 32.5 | 32.5 |

ADF = Asian Development Fund, OCR = ordinary capital resources.

^a Includes all loans with disbursements during 2004.

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

Source: Asian Development Bank estimates.

Table A1.8: Portfolio Indicators—Evaluation Rating by Sector
(1996—2004)

| Sector | Highly Successful | | Successful | | Partly Successful | | Unsuccessful | | No Rating | | Total | |
|--|-------------------|--------------|------------|--------------|-------------------|--------------|--------------|-------------|-----------|-------------|----------|----------------|
| | No. | % | No. | % | No. | % | No. | % | No. | % | No. | % ^a |
| Agriculture and Natural Resources | 0 | 0.00 | 0 | 0.00 | 1 | 100.00 | 0 | 0.00 | 0 | 0.00 | 1 | 12.50 |
| Education | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 |
| Energy | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 |
| Finance | 0 | 0.00 | 1 | 50.00 | 1 | 50.00 | 0 | 0.00 | 0 | 0.00 | 2 | 25.00 |
| Health, Nutrition, and Social Protection | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 |
| Industry and Trade | 0 | 0.00 | 1 | 50.00 | 1 | 50.00 | 0 | 0.00 | 0 | 0.00 | 2 | 25.00 |
| Law and Public Sector Management | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 |
| Multisector | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 |
| Transport and Communications | 2 | 66.67 | 1 | 33.33 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | 3 | 37.50 |
| Water Supply, Sanitation, and Waste Management | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 |
| Total | 2 | 25.00 | 3 | 37.50 | 3 | 37.50 | 0 | 0.00 | 0 | 0.00 | 8 | 100.00 |

^a Proportion of sector to total.

Sources: Asian Development Bank project and program audit reports.

Table A1.9: Portfolio Implementation Status
(public sector loans, as of 31 December 2004)

| Loan | | | | Net Loan Amount | | Closing Date | | Progress | | |
|--------|------|-----|--|-----------------|--------------|---------------|----------------|--------------|-----------|---------|
| | | | | OCR | ADF | Approval Date | Effective Date | | Original | Revised |
| Sector | No. | Seg | Title | (\$ million) | (\$ million) | | | (% complete) | | |
| AG | 1736 | | Cadastral Survey and Land Registration | 0.00 | 10.9 | 27-Jan-00 | 27-Sep-01 | 31-Dec-07 | 43 | |
| AG | 1822 | 1 | Agriculture Sector Development Program –Project Loan | 0.00 | 4.9 | 21-Dec-00 | 20-Jun-01 | 30-Sep-06 | 40 | |
| | | 2 | Agriculture Sector Development Program-Project Loan | 0.00 | 6.3 | | | | — | |
| FI | 1847 | 1 | Housing Finance (Sector) | 0.00 | 11.2 | 18-Oct-01 | 15-May-02 | 30-Jun-07 | 65 | |
| | | 2 | Housing Finance (Sector) | 0.00 | 6.3 | | | | — | |
| FI | 1848 | | Rural Finance | 0.00 | 10.5 | 25-Oct-01 | 29-July-02 | 30-Jun-09 | 1 | |
| ED | 1908 | | Second Education Development | 0.00 | 16.4 | 06-Aug-02 | 19-Nov-02 | 30-Jun-08 | 30 | |
| EN | 1548 | | Ulaanbaatar Heat Efficiency | 0.00 | 41.8 | 25-Sep-97 | 24-Nov-98 | 30-Jun-03 | 30-Jun-05 | 60 |
| HL | 1836 | | Social Security Sector Development Program (Project Loan) | 0.00 | 4.8 | 28-Aug-01 | 21-Feb-02 | 30-Apr-07 | 30 | |
| HL | 1837 | | Social Security Sector Development Program (Project Loan) | 0.00 | 9.4 | 28-Aug-01 | 21-Feb-02 | 31-Oct-05 | — | |
| HL | 1998 | | Second Health Sector Development Project | 0.00 | 15.7 | 5-Jun-03 | 24-Nov-03 | 31-Dec-08 | 10 | |
| TC | 1700 | | Second Roads Development | 0.00 | 26.4 | 30-Sep-99 | 2-Mar-00 | 31-Jan-05 | 31-Jan-06 | 75 |
| TC | 2087 | | Regional Roads Development | 0.00 | 39.5 | 22-Jul-04 | | 01-Jan-10 | | 0 |
| WS | 1907 | | Integrated. Development. of Basic Urban Services in Provincial Towns | 0.00 | 23.9 | 06-Aug-02 | 25-Nov-02 | 30-Jun-08 | | 20 |
| LW | 2010 | | Second Phase of the Governance Reform Program (Program Loan) | 0.00 | 14.8 | 14-Oct-03 | 27-Jan-04 | 31-Dec-05 | | — |
| LW | 2011 | | Capacity Building for Government Reform Program | 0.00 | 2.2 | 14-Oct-03 | 27-Jan-04 | 31-Mar-07 | | 10 |

— = not available; ADF = Asian Development Fund; AG = agriculture and natural resources; ED = education; EN = energy; FI = finance; HL = health, nutrition, and social protection; LW = law and public sector management; No. = number; OCR = ordinary capital resources; Seg = segment (pertaining to loans with more than one withdrawal authority); TC = transport and communications; WS = water supply, sanitation, and waste management.

Source: Asian Development Bank estimates

| Sector | Loan No. | Seg | Title | Cumulative Contracts/ Commitments (\$ million) | Cumulative Disbursements (\$ million) | Rating | | Potential Problem ^a | At Risk ^b |
|--------------|----------|-----|--|---|---|--------|----|-----------------------------------|-------------------------|
| | | | | | | IP | DO | | |
| AG | 1736 | | Cadastral Survey and Land Registration | 2.6 | 2.5 | S | S | No | No |
| AG | 1822 | 1 | Agriculture Sector Development Program –Project Loan | 4.0 | 4.4 | HS | HS | No | No |
| | | 2 | Agriculture Sector Development Program-Project Loan | | | | | | |
| FI | 1847 | 1 | Housing Finance (Sector) | 8.5 | 9.5 | HS | S | No | No |
| | | 2 | Housing Finance (Sector) | | | | | | |
| FI | 1848 | | Rural Finance | 1.1 | 0.9 | S | S | No | No |
| ED | 1908 | | Second Education Development | 4.8 | 4.6 | S | S | No | No |
| EN | 1548 | | Ulaanbaatar Heat Efficiency | 39.7 | 26.0 | PS | S | No | Yes |
| HL | 1836 | | Social Security Sector Development Program (Project Loan) | 1.4 | 1.4 | S | S | No | No |
| HL | 1837 | | Social Security Sector Development Program (Project Loan) | 5.7 | 5.7 | S | S | No | No |
| HL | 1998 | | Second Health Sector Development Project | 0.9 | 0.9 | S | S | No | No |
| TC | 1700 | | Second Roads Development | 23.3 | 17.3 | S | S | No | No |
| TC | 2087 | | Regional Roads Development | 0.0 | 0.0 | S | S | No | No |
| WS | 1907 | | Integrated Development of Basic Urban Services in Provincial Towns | 2.3 | 1.3 | S | S | No | No |
| LW | 2010 | | Second Phase of the Governance Reform Program (Program Loan) | 5.3 | 5.3 | S | S | No | No |
| LW | 2011 | | Capacity Building for Government Reform Program | 0.0 | 0.2 | S | S | No | No |
| Total | | | | 105.7 | 86.1 | | | | |

AG = agriculture and natural resources; ED = education; EN = energy; FI = finance; HL = health, nutrition, and social protection; LW = law, economic management, and public policy; No. = number; OCR = ordinary capital resources; Seg = segment (pertaining to loans with more than one withdrawal authority); TC = transport and communications; WS = water supply, sanitation, and waste management; DO = development objectives; HS = highly satisfactory; IP = implementation progress; PS = partly satisfactory; S = satisfactory; U = unsatisfactory.

^a "Yes" for loans with four or more risk factors associated with partly satisfactory or unsatisfactory performance.

^b A loan is considered "at risk" if it is rated as "PS" or "U" in either implementation progress or development objectives, or if it is a potential problem loan.

Source: Asian Development Bank estimates

Table A1.10: Assistance Pipeline for Lending Products, 2006—2008

| Sector Project/Program Name | Targeting Classifi- cation | Thematic Priority | Division | Year of Project Preparatory Assistance | Total | Cost (\$ million) | | | | | | |
|---|----------------------------------|----------------------|----------|---|--------------|-------------------|--------------|-------------|--------------------|-------------|------------------|--|
| | | | | | | OCR | ADB | | Total | Gov't. | Co- financing | |
| | | | | | | | Loans | Grants | | | | |
| 2006 Firm Loans | | | | | | | | | | | | |
| Law, Economic Management and Public Policy | | | | | | | | | | | | |
| Public Administrative Consolidation | OTH | GOV/ISD | ECGF | 2005 | 15.00 | 0.00 | 15.00 | 0.00 | 15.00 | 0.00 | 0.00 | |
| Subtotal | | | | | 15.00 | 0.00 | 15.00 | 0.00 | 15.00 | 0.00 | 0.00 | |
| Multisector | | | | | | | | | | | | |
| Urban Development and Housing | PI | ISD | ECSS | 2005 | 18.00 | 0.00 | 18.00 | 0.00 | 18.00 | 0.00 | 0.00 | |
| Subtotal | | | | | 18.00 | 0.00 | 18.00 | 0.00 | 18.00 | 0.00 | 0.00 | |
| Total | | | | | 33.00 | 0.00 | 33.00 | 0.00 | 33.00 | 0.00 | 0.00 | |
| 2007 Firm Loans | | | | | | | | | | | | |
| Agriculture and Natural Resources | | | | | | | | | | | | |
| Agricultural and Rural Development | PI | ECG | ECAE | 2006 | 13.00 | 0.00 | 13.00 | 0.00 | 13.00 | 0.00 | 0.00 | |
| Subtotal | | | | | 13.00 | 0.00 | 13.00 | 0.00 | 13.00 | 0.00 | 0.00 | |
| Transport and Communications | | | | | | | | | | | | |
| Altai Western Corridor | OTH | ECG/REG | ECTC | 2006 | 32.00 | 0.00 | 12.00 | 0.00 | 32.00 ^a | 0.00 | 0.00 | |
| Subtotal | | | | | 32.00 | 0.00 | 12.00 | 0.00 | 32.00 | 0.00 | 0.00 | |
| Total | | | | | 45.00 | 0.00 | 25.00 | 0.00 | 45.00 | 0.00 | 0.00 | |
| 2008 Firm Loans | | | | | | | | | | | | |
| Health, Nutrition and Social Protection | | | | | | | | | | | | |
| Health Sector Reform | PI | ISD | ECSS | 2007 | 15.00 | 0.00 | 15.00 | 0.00 | 15.00 | 0.00 | 0.00 | |
| Subtotal | | | | | 15.00 | 0.00 | 15.00 | 0.00 | 15.00 | 0.00 | 0.00 | |
| Transport and Communications | | | | | | | | | | | | |
| Regional Transport Project | OTH | ECG/REG | ECTC | 2007 | 32.00 | 0.00 | 12.00 | 0.00 | 32.00 ^a | 0.00 | 0.00 | |
| Subtotal | | | | | 32.00 | 0.00 | 12.00 | 0.00 | 32.00 | 0.00 | 0.00 | |
| Total | | | | | 47.00 | 0.00 | 27.00 | 0.00 | 47.00 | 0.00 | 0.00 | |

ADB = Asian Development Bank; ADF = Asian Development Fund; GOV = governance, Gov't = government, ECAE = Agriculture, Environment, and Natural Resources Division; ECG = sustainable economic growth; ECSS = Social Sectors Division; ECTC = Transport and Communications Division; ISD = inclusive social development; OCR = ordinary capital resources; OTH = others; PI = poverty intervention; REG = regional cooperation.

^a \$12 million financed under ADF allocation and \$20 million under regional.

Source: Asian Development Bank.

Table A1.11: Assistance Pipeline for Nonlending Products and Services, 2006—2008

| Sector Assistance Name | Responsible Division | Assistance Type | Sources of Funding | | | | Total (\$'000) |
|--|-------------------------|--------------------|--------------------|--------------------|--------|--------------------|-------------------|
| | | | ADB | | Others | | |
| | | | Source | Amount (\$'000) | Source | Amount (\$'000) | |
| 2006 | | | | | | | |
| Agriculture and Natural Resources | | | | | | | |
| 1. Agricultural and Rural Development | ECAE | PPTA | TASF | 650.00 | — | — | 650.00 |
| Subtotal | | | | 650.00 | — | — | 650.00 |
| Finance | | | | | | | |
| 1. SMEs Development Support | MNRM | AOTA | TASF | 150.00 | — | — | 150.00 |
| Subtotal | | | | 150.00 | — | — | 150.00 |
| Law, Economic Management, and Public Policy | | | | | | | |
| 1. Aid Policy and Debt Management Strategy | MNRM | AOTA | TASF | 350.00 | — | — | 350.00 |
| Subtotal | | | | 350.00 | — | — | 350.00 |
| Transport and Communications | | | | | | | |
| 1. Altai Western Corridor | ECTC | PPTA | TASF | 650.00 | — | — | 650.00 |
| Subtotal | | | | 650.00 | — | — | 650.00 |
| Total | | | | 1,800.00 | — | — | 1,800.00 |
| 2007 | | | | | | | |
| Health, Nutrition, and Social Protection | | | | | | | |
| 1. Health Sector Reform | ECSS | PPTA | TASF | 600.00 | — | — | 600.00 |
| Subtotal | | | | 600.00 | — | — | 600.00 |
| Law, Economic Management, and Public Policy | | | | | | | |
| 1. Administrative Consolidation in the Rural Development Sector | ECAE | AOTA | TASF | 350.00 | — | — | 350.00 |
| 2. Mid Term Assessment of Results Based Management | MNRM | AOTA | TASF | 150.00 | — | — | 150.00 |
| 3. NSO Institutional Strengthening for Monitoring and Evaluation | MNRM | AOTA | TASF | 200.00 | — | — | 200.00 |
| Subtotal | | | | 700.00 | — | — | 700.00 |
| Transport and Communications | | | | | | | |
| 1. Regional Transport Project | ECTC | PPTA | TASF | 600.00 | — | — | 600.00 |
| Subtotal | | | | 600.00 | — | — | 600.00 |
| Total | | | | 1,900.00 | — | — | 1,900.00 |

| Sector Assistance Name | Responsible Division | Assistance Type | Sources of Funding | | | | Total (\$'000) |
|--|-------------------------|--------------------|--------------------|--------------------|--------|--------------------|-------------------|
| | | | ADB | | Others | | |
| | | | Source | Amount (\$'000) | Source | Amount (\$'000) | |
| 2008 | | | | | | | |
| Education | | | | | | | |
| 1. Education Sector Reform | ECSS | PPTA | TASF | 600.00 | — | — | 600.00 |
| Subtotal | | | | 600.00 | — | — | 600.00 |
| Health, Nutrition, and Social Protection | | | | | | | |
| 1. Administrative Consolidation in the Health Sector | ECSS | AOTA | TASF | 400.00 | — | — | 400.00 |
| 2. Urban Development | ECSS | PPTA | TASF | 600.00 | — | — | 600.00 |
| Subtotal | | | | 1,000.00 | — | — | 1,000.00 |
| Multisector | | | | | | | |
| 1. Poverty and MDGs Assessment | MNRM | AOTA | TASF | 300.00 | — | — | 300.00 |
| Subtotal | | | | 300.00 | — | — | 300.00 |
| Total | | | | 1,900.00 | — | — | 1,900.00 |

ADB = Asian Development Bank; AOTA = advisory and operational technical assistance; ECAE = Agriculture, Environment, and Natural Resources Division; ECGF = Governance, Finance, and Trade Division; ECSS = Social Sectors Division; MNRM = Mongolia Resident Mission; PPTA = project preparatory technical assistance; TASF = technical assistance special fund.

Source: Asian Development Bank

COUNTRY STRATEGY AND PROGRAM FORMULATION

1. The Asian Development Bank (ADB) and the Government proceeded from the common understanding that Mongolia's economy has undergone fundamental changes but without sufficient cumulative growth to impact on the high level of transition-related poverty. The recent high growth in trade, financial services, and telecommunications reflects the sound policy, legal, and regulatory framework that the Government put in place over 1993—1999. But sustained growth faces potential constraints. Poor infrastructure that fragments domestic markets and limits regional economic integration, low productivity, and limited financial resources threaten future growth. Moreover, the narrow economic base makes the gross domestic product (GDP) vulnerable to shocks and threatens the stability of growth. ADB and the Government both concluded that recent high growth provides relatively few economic opportunities for many of Mongolia's poor.

2. ADB and the Government agreed that three groups constitute the majority of the poor: nomadic semi-subsistence herders, urban migrants, and the aged and disabled. While sustained stable economic growth will have positive impacts on the livelihoods of these poor groups, their prospects depend upon their ability to access economic opportunities and public services. The Government and ADB had a common understanding of Mongolia's progress towards achieving Millennium Development Goals (MDGs) and the socio-economic processes vital to meeting MDG targets, governance initiatives, gender issues, private sector development, and environmental issues.

3. The poverty assessment was further discussed in conjunction with the Government's strategy. The Government concurred with the proposal that ADB focus on two key components of the Government's poverty reduction strategy: an economic growth strategy aimed at higher, stable, and private sector-led growth as a means of improving living standards and reducing income disparities; and a social strategy aimed at improving access of the poor to stable income opportunities and improving the quality of public services and accessibility for the poor.

4. On the basis of this direction, ADB proceeded in the formulation of its strategy with the following major considerations in addition to its own overarching goal of poverty reduction and the main pillars of its poverty reduction strategy: (i) Mongolia's transition progress and its poverty profile; (ii) its adoption of MDGs and preparation of the Economic Growth Support and Poverty Reduction Strategy (EGSPRS); (iii) conclusions and lessons from past development assistance, including the findings of ADB's country assistance program evaluation (CAPE); (iv) main challenges to development; (v) programs of other external funding agencies and a recognition of individual comparative advantages, parallel and co-financing opportunities, and harmonization needs; and (vi) ADB's commitment to results-based management of its development assistance.

5. ADB's strategic focus on broad-based stable economic growth and inclusive social development was finalized on the basis of these considerations. National goals that would be the focus of the Country Strategy and Program (CSP) were identified and indicators agreed with the Government. Key constraints on achieving national goals were discussed and a set of CSP outcomes identified that would address the key constraints on achieving national goals. This provided the directions for the assistance program including the identification of sectors and the focus of assistance within sectors.

6. At this stage, stakeholder consultations were held on proposed directions of assistance with external funding agencies, nongovernment organizations (NGOs), private sector

representatives, and representatives from the rural community. The donor coordination matrix was updated and opportunities for coordination identified. The directions of assistance were refined to align them better with programs of other external funding agencies and the needs of the other stakeholders. Sector frameworks were formulated and projects conceptualized on the basis of these discussions. The sector frameworks and project pipeline were discussed with the Government and its endorsement obtained on the lending and non-lending pipelines. Some modifications were made to the proposed pipeline to better align the program with the Government's development priorities and the Government's own plans for coordination of external assistance.

7. The results framework was finalized at this stage. It included indicators identified together with the government and additional indicators that were identified by ADB and other stakeholders. The results framework was discussed with the Government and actions identified to reach results-based management of the CSP. ADB and the Government agreed that substantial gaps remained in availability and reliability of data, current systems for prioritizing development projects, and monitoring their implementation. A plan was therefore formulated to address these gaps first in the context of the CSP and further towards results-based management of all of the Government's development programs. The non-lending pipeline and project concepts were further refined after taking into account capacity building, institutional and organization changes, data gathering and monitoring support that would be needed to move towards full result-based management of the CSP and more generally of the Government's development initiatives.

8. A memorandum of understanding (MOU) was signed with the Government reflecting the above agreements. This MOU was discussed within ADB and it was determined that a narrower strategic focus and a tighter program would prove more effective. These views were discussed with the Government and further changes were made to the strategic approach and the program to better focus ADB's operations. It was determined at this stage that governance measures would be woven into ADB's proposed sector program rather than undertaken as stand-alone interventions. These latter agreements were reflected in a second MOU signed with the Government. The CSP document was finalized on the basis of this MOU.

COUNTRY SECTOR AND SUBSECTOR PLAN

A. Summary Poverty Assessment

1. Introduction

1. Poverty increased as a result of the transition shock as many state-owned enterprises and state farms were privatized or closed. Many services supported by socialist institutions deteriorated, including health care, education, transportation, sanitation, and water supply. Continued growth is helping to lift living standards, but cumulative growth has not been sufficient to impact the high level of poverty that emerged as a result of the initial shock of transition. Moreover, the benefits of growth are not equally distributed among the population and the poor have not been able to participate in economic growth. Poverty remains persistent. Rural poverty is significantly higher than urban poverty, with Western Mongolia standing out as the most seriously affected region. Recent growth has been concentrated mainly in the capital city.

2. Poverty Profile

a. Manifestations of Poverty

2. The Household Income and Expenditure Survey (HIES) and Living Standard Measurement Survey (LSMS), released in December 2004 based on 2002 data provides the latest poverty estimates. According to the survey, national poverty incidence is 36%.¹ The poverty gap and its severity are respectively 11% and 4.7%; both higher in rural areas. The methodology and estimation techniques of the latest survey do not allow comparisons with earlier poverty estimates. However, the survey includes backward projections based on gross domestic product (GDP) level and composition, and employment, which indicate modest poverty increases since 1998.

3. The survey reveals significant regional poverty differentials that reflect natural endowments, remoteness of locations, extreme weather conditions, and sparse isolated population nuclei. The highest poverty level is in the western region (51%) followed by the highlands (39%). The high poverty incidence in these regions is explained by low agricultural productivity and pasture quality, which limit incomes. Poor infrastructure and high transport costs further compound these constraints by increasing the cost of living and restricting access to markets. Rural households often depend on subsistence livestock production, which is insufficient to meet basic needs for several months of the year. Development efforts so far have been concentrated in Ulaanbaatar and a few other areas. The incidence of poverty decreases towards the East. Poverty incidence is 34% and 35%, respectively, in the Central and Eastern Regions. Ulaanbaatar has the lowest poverty incidence (27%). In a worsening of the income distribution, inequality as measured by Gini Coefficient increased from 0.35 in 1998 to 0.44 in 2002. Inequality is reportedly higher in urban areas.

4. The 1998 HIES and LSMS showed a higher poverty incidence in urban areas than in rural areas. But according to the latest survey this no longer seems to be true—poverty in rural areas (43%) was higher than urban poverty (30%) in 2002. The reversal can be attributed to two main explanatory factors. Economic opportunities have increased due to the rapid development

¹ Poverty estimates are based on income poverty. The lower poverty line is MNT 24,743 while the upper poverty line is MNT 32,370. The lower poverty line was applied throughout the 2002/03 Household Income and Expenditure Survey (HIES) and Living Standards Measurement Survey (LSMS) and backward projections.

of the industrial and service sectors. This development is almost completely concentrated in urban areas. The rural population has few such economic opportunities. Secondly, the high animal losses in rural areas due to the two consecutive *dzuds* in 2000—2002 had severe impacts on rural incomes and greatly increased poverty. During the early transition period the return to traditional animal husbandry was an important means to escape unemployment-related poverty as many industrial enterprises closed and thousands of people lost their jobs. A significant part of the urban population moved to the countryside to engage in herding. The number of herders increased from 258,800 to 336,600 during 1990—1994. When the weather was severe two years in a row, the negative poverty impacts reached disastrous proportions. More generally, many herders lack the necessary expertise; productivity has stagnated and rural incomes have remained low. The early transition growth in the agriculture sector was not accompanied by the development of adequate financial systems, technological development, and transport infrastructure. Value-added exports from the sector are limited and market integration poor.

5. The survey revealed the seasonal aspect of poverty in Mongolia. LSMS data show caloric consumption falling by up to 30% in winter months among the poor. Consumption levels are closely related to cycles of livestock activities and weather conditions. As a result, the incidence of poverty in the spring and winter months is higher than during the rest of the year. This seasonality seems to indicate that households, especially in rural areas, are unable to smooth consumption and indicates a lack of rural finance mechanisms and poor access of the rural population to consumption lending.

b. Progress in Achieving the Millennium Development Goals

6. Progress in achieving the millennium development goals (MDGs) is mixed. The goal to halve the proportion of people living below the poverty line between 1990 and 2015 is considered difficult to achieve. The key challenges for the Government in this regard are to promote pro-poor growth and create employment opportunities for the poor, particularly in rural areas. Universal primary education is likely to be achieved. The literacy rate is 98%. According to the MDGs Progress Report, there are some differences among rural and urban in net primary enrolment rates (96% in urban and 85% in rural areas). The Participatory Living Standards Survey of 2000 revealed that, in about two-thirds of *soums*, primary enrolment rates were below 80%. The access to primary and secondary education and their quality vary across the regions. Trained teachers prefer to work in the urban centers, while most rural teachers are either only high school graduates or retired people. Most rural pupils have to travel to the *soum* or *aimag* centers and stay in dormitories, which are filled beyond capacity. About 70% of school dropouts are in the countryside, majority of them boys needed to help in herding activities. The challenges for the Government to achieve the goal are to improve access and quality of teaching, availability of classrooms and dormitories, and to promote informal education for dropout children. Rural education development will be the key.

7. Significant progress has been made in reducing infant and child mortality rates. Official statistics suggest that under-5 mortality rate was halved between 1990 and 2000. Despite these positive trends, under-5 mortality remains a serious concern in rural areas, particularly in the West. Rates are also higher in *ger* districts due to the lack of basic sanitary facilities.

8. Reducing maternal mortality is a challenge for the Government. The rate was 158 per 100,000 live births in 2000 and is not decreasing at the desired pace. The mortality rate is higher in rural areas than in urban areas, with the highest rate observed in the Western region (173 per 100,000 live births). The persistent high rate of maternal mortality reflects the low

quality of health services during pregnancy, delivery, and post-birth, as well as poor infrastructure in rural areas. To achieve the goal, a series of actions are needed including (i) improving the quality and access of health services in rural areas, (ii) improving transport and referral systems to meet the needs of remote populations, and (iii) promoting reproductive health and family planning for high risk groups.

c. Household Characteristics

9. Three groups stand out among the poor: subsistence, seminomadic herder households with approximately 100 animals or less; migrants in urban centers and on the periphery of Ulaanbaatar; and the aged and disabled. Poor herder households have few income opportunities. They are vulnerable to weather shocks and often lack access to public services, particularly health and education. Poor migrant households often have failed to make a sustainable living in herding. They lack basic urban services, cannot easily access health facilities and education, and mostly find only intermittent employment in the informal sector. Along with the uneducated, older Mongolians have generally been unable to access opportunities provided by the market economy and were not able to accumulate financial savings during communism. The social security and welfare system consumes a large share of the national budget but is unable, partly due to poor targeting, to provide the aged and disabled with a reasonable standard of living.

d. Labor Market

10. As reported by the Labor Force Survey² national unemployment is 14.2% with almost the same rate among men and women,³ but with a substantially higher incidence in urban areas (18.7%) than in rural (10.0%). This result, apparently contradictory to rural-urban poverty incidence rates, could indicate a high level of masked unemployment in rural areas and also possibly is related to the methods used to identify the unemployed. The unemployment rate among those under 25 years of age is almost double the national average. This reflects the mismatch between skills of young graduates and the actual demand of the labor market. The poor are particularly affected by unemployment and show the highest rates of unemployment. The informal sector is large in Mongolia, particularly in the capital city. It provides an important source of employment and income generation. The survey documents, for the first time, the magnitude of child labor in the country and its increasing trend, mostly in rural areas.

11. Low productivity in key industries exacerbates the problem of unemployment. Although privatization has been successful in establishing a market system, it has, in some cases, left industries and business in inexperienced hands unable to increase productivity. A shortage of financial resources, insufficient technology development, limited human resources, and insufficient knowledge and experience has led to the collapse of many enterprises and left others with stagnant productivity operating on the basis of comparative advantage that derives primarily from natural resources, relatively low labor costs, and/or international trade agreements and mostly for semi-finished products with limited economic growth and income opportunities.

12. Poverty in Mongolia is strongly linked to the difficulties in turning human capital into income. Re-training and non-formal education tend to focus on preparing new entrants into the

² National Statistics Office. *Labor Force Survey 2003*. Ulaanbaatar.

³ The 2002/03 HIES and LSMS did not incorporate the results of the Labor Force Survey and reported an unemployment rate of 6.6% (6.5% for men and 6.7% for women).

workforce. But adults needing skills upgrading following retrenchments from declining economic sectors are not targeted. Vocational training needs to be linked to general education reforms, and skill training offered in vocational educational programs to reflect the changing needs of the labor market. In addition, high priority needs to be given to matching skills and educational achievements with employment opportunities for school leavers, through improvements in vocational curriculum.

e. Vulnerability

13. The natural calamities of 2000—2001 demonstrated the vulnerability of the livelihoods of poor herder households. Vulnerability also manifests itself in the form of noticeable seasonal consumption variations that reflect agricultural production cycles. Increasing dependence on own production in the informal sector and independent livestock herding have weakened formal safety nets and increased household vulnerability; at the same time, migration has weakened traditional community-based safety nets. Vulnerability is also systemic at the macroeconomic level—a reflection of the narrow production base and geographically concentrated growth.

3. Causes of Poverty

14. Harsh natural conditions and geographical isolation are dominant causes of poverty among subsistence, seminomadic herder households. Limited availability of appropriate methods of natural resource management constrains productivity and makes the production of this group vulnerable to the harsh climate. Geographical isolation and high transport costs restrict opportunities to earn incomes. Geographical isolation also constrains the development of secondary industries associated with livestock and mining in areas inhabited by this group. The effect of production constraints and remote location on poverty is evidenced by the high poverty incidence in the west that mirrors the harsh natural environment, poor pastureland, and low agricultural productivity, amplified by poor transport infrastructure. As most rural production is restricted to raw materials and the rural economy narrowly based on primary production with low productivity and value-added, this group has few prospects for future economic growth and their vulnerability to external shocks remains high.

15. The lack of education and skills among poor migrants restricts their income opportunities to intermittent low-wage employment in the informal sector and is a major cause of poverty among this group. The HIES and LSMS found that the poor display lower educational attainments than the non-poor in general and in particular lack the managerial, professional, or technologist skills required in newly growing industries. The HIES and LSMS also found that those with these skills make up a much smaller proportion of the poor in the workforce as compared with the non-poor. The divide is particularly evident in urban areas where only 15% of the poor are engaged in these occupations as compared with 40% of the non-poor. Unemployment levels are highest among urban residents—seven out of ten unemployed live in the capital and aimag centers. While vocational or tertiary education offers some protection against unemployment, such education largely remains beyond the reach of the poor. Employment in the informal sector leaves the aged with poor social welfare support after retirement.

16. Underdevelopment of the financial sector is another cause of poverty. Banks dominate the financial sector and are the primary source of capital for private enterprises. The nonbank financial sector is at an early stage of development. Banks have relatively basic credit appraisal systems and rely extensively on collateral, of which small and medium-sized enterprises (SMEs) and the poor have little. Furthermore, the cost of issuing credit to small businesses typically run

by the poor is relatively high and in a high-risk environment makes lending to them unattractive. While community-based savings and credit organizations are emerging as a source of financial services for households and small businesses, their outreach is limited. Limited access to credit and savings and insurance instruments makes the poor particularly vulnerable to income shocks. The lack of appropriate financial instruments increases the susceptibility of the aged to poverty.

17. The latest poverty assessment identifies some persistent sources of non-income poverty: (i) poor health indicators among some population groups, and (ii) poor living environment in rural areas and outskirts of Ulaanbaatar. Health challenges reflect the poor quality of public health care in general. The major problems include high maternal mortality rates and incidence of tuberculosis. Most of the people suffering from tuberculosis are unemployed, poor, or extremely poor. There is also evidence of male health concerns, such as a comparatively high incidence of stroke and heart disease from age 40 onwards, that appear to be linked to poor diet, high levels of tobacco consumption, and alcohol abuse. According to the latest HIES and LSMS, 40% of urban residents living in *ger* districts in the cities lack access to running water and central heating compared with 32% in aimag centers and other settlements. *Soums* and *bags* also lack these basic services. As a result, households in *ger* districts spend a large proportion of their incomes to buy wood and coal for heating. The poor living environment in turn causes a high incidence of respiratory diseases particularly during the winter season.

18. There is evidence of increased numbers of people migrating out of the country. However, the Government does not gather data at exit points and it is not possible to estimate these figures. Nevertheless, remittances in the balance of payments have been on an increasing trend and are estimated to be around 10% of GDP. There is some worrying evidence that many migrants work illegally in foreign countries, with a recent estimate of approximately over 20,000 Mongolians working illegally in the Republic of Korea, exposed to human trafficking and other exploitative practices.

4. National Poverty Reduction Strategy

19. Mongolia was the first ADB developing member country to enter into a Poverty Partnership Agreement with ADB. The agreement signed in 2000 defined a long-term vision and adopted the MDGs. It served as the general framework guiding ADB operations in Mongolia. The Government developed in 2003, in the form of the EGSPRS, its vision for addressing poverty, inequality, and vulnerability. In 2004, the Government adopted a National Action Plan for 2004—2008 aligned with EGSPRS priorities. The Government's approach to poverty reduction is based upon the conclusion that Mongolia needs a sustained period of high, inclusive growth to reduce poverty. It identifies the private sector as the major driver of growth and recognizes the growth and poverty reduction potential of rural development and growth around the livestock and mining sectors. Legal and institutional reforms, financial sector development, and infrastructure development are considered key to inducing growth. The Government has identified the lack of income opportunities as a major cause of poverty and shifted its focus from income transfers and safety net programs to growth-promoting reforms and human development. It has identified health care, education, and urban services as the major public services that can reduce poverty.

5. Stakeholder Initiatives

20. In recent years, migration has become a common strategy to overcome poverty and education constraints in rural areas. With the sharp decline in the agriculture sector, rural

inhabitants migrated to the cities in search of new economic opportunities. Most of the migrants live unregistered in unorganized informal *ger* settlements with no basic living infrastructure. Moreover, *ger* settlements are located in the outskirts of the cities on steep slopes, in flood plains, and near power lines and dams. The majority of migrants living in Ulaanbaatar lack access to basic health and education services, migrant children are often engaged in child labor. Schooling facilities in migrant areas often run three shifts per day to meet the increasing demand due to the accelerated migration. Migrants are not enrolled in the health insurance scheme and do not benefit from medical care or immunizations. The problems of urban migrants call for special programs tailored to meet challenges faced by poor communities in the *ger* districts.

21. The latest Participatory Living Standards showed that a large proportion of the population still relies on traditional safety nets. The poor often approach their relatives and close friends to overcome hunger and meet immediate needs. According to the 2002/03 HIES and LSMS, transfers from private sources (either relatives or friends) are still an important source of emergency funds. Preliminary findings from a 2004 joint ADB/World Bank qualitative survey 2004 revealed that traditional safety nets are, however, loosening as heavy migration from rural to urban areas leads to family fragmentation.

6. ADB Experience

22. Poverty, although a feature of ADB assistance from the beginning, only moved into center-stage in the 2000 Country Operational Strategy (COS). Initially, poverty reduction was considered mainly in the context of employment generation. With deteriorating education and health indicators, assistance in the social sectors was provided. Overall, ADB's program contributed significantly to Mongolia's ongoing transition—the primary goal of the first two COSs. However, the impacts of policy reforms and other ADB-supported initiatives on poverty levels have been mixed and do not lend themselves to quantification, particularly in view of strong external influences, which included the Asian and Russian financial crises and two harsh winters that caused large losses in livestock, impoverishing the rural poor. Improvements in the social sectors benefited the poor with students from poor homes benefiting from better education and patients from poor households having better access to health care. However, the ability of the poor to participate in economic activities has remained limited as private sector growth has created jobs mainly in Ulaanbaatar and the poor have continued to lack the skills and education required in growing sectors.

23. ADB-supported trade and price liberalization policies contributed to unemployment and increased vulnerability of herders. However, sustaining high subsidies and support to state-owned enterprises was not a viable alternative. Deregulation created an economic space for small enterprises and the informal sector. However, support for private sector development did not pay adequate attention to developing the ability of the poor to participate in economic activities. Thus, the poverty reduction impacts of ADB-supported private sector development initiatives have been incidental and minimal. Banking sector reforms have had limited success in targeting the poor as high credit risk among the poor and a limited ability of banks to adequately assess credit risk has kept interest rates high and collateral requirements onerous. The accuracy of credit target mechanisms is questionable and the poor are often not the beneficiaries of targeted credit lines.

B. Summary Gender Assessment

1. Introduction

24. Progress on MDGs and the Human Development Index suggest that gaps in development benefits between women and men are not significant in Mongolia, especially compared with some other Asian countries. These indicators suggest equal access to government services with high literacy rates and education levels, as well as increasing life expectancy for both women and men. Basic human rights have been incorporated into the Constitution, and the participation of women in the labor force is high, as would be expected in a country emerging from an extended period with a centrally planned economy that placed high priority on full employment for women as well as men.

2. Background and Key Issues

25. According to the Country Gender Assessment, the Gender and Development Index in 2002 was 0.679, which compares with countries such as Kyrgyz Republic, South Africa, Tajikistan, and Viet Nam⁴. Basic human rights of women are specifically recognized in the Constitution. However, some disturbing gender issues are appearing as the full impact of the transition is felt. Social values and attitudes that persist from the pre-transition period influence the expected roles of women and men and affect women's potential to benefit equally from development. A detailed examination of the gender dimensions of poverty uncovers evidence of deteriorating women's status, and fading gains from the socialist period. For example, a disproportionate number of women, particularly in female-headed households, are considered to be at greater risk of being poor. There are also constraints on the effective participation of women in decision-making, despite their higher educational achievement. The 2004 elections returned only 5 women to Parliament out of a total of 76 members, down from 9 (11.8%) in 2000.

26. Mongolia presents the peculiarity of a reverse gender gap in education. Lower enrollment rates of boys than girls in education, particularly at secondary level, are further exacerbated by high drop-out rates, with widening gaps in education achievements between boys and girls. This reverse gender gap influences the potential of young men to participate fully in economic development and is reflective of the need, particularly among herder households, to have young boys help in economic activities and supplement incomes.

27. Women face many health problems, including a high maternal mortality rate and a high incidence of iron deficiency anemia, particularly among pregnant women. Although maternal mortality rates are decreasing, progress might not be sufficient to meet the MDG target by 2015. Maternal mortality is associated with geographical location, which limits access to services, including emergency services, as well as higher risks for first time mothers, those with low education levels (involved in 50% of deaths), the unemployed (25% of deaths), and mothers with many children, whose resources are unlikely to cover the cost of health services.

3. Government Strategy

28. The Government has recognized the importance of addressing gender concerns and emerging gender gaps. With support and pressure from civil society organizations, a comprehensive National Program for Gender Equality (NPGE) was adopted in 2003 to

⁴ Country Gender Assessment jointly done by ADB and the World Bank in 2004.

mainstream gender into the overall work of the Government and civil society. The Government adopted a resolution to set up a national committee on gender equality to ensure implementation of the NPGE. Institutional arrangements, staff resource requirements, and funding arrangements have been defined. Despite this institutional progress, much remains to be done before plans and commitments can be fully realized. All line ministries require additional training and resources to ensure that appropriate data are collected and analyzed to track progress of the EGSPRS and linked NPGE indicators. Data collection and analysis can also contribute to increasing awareness within the ministries of the significance of gender gaps in outcomes from their programming and the policy needed to address gaps.

4. Asian Development Bank Experience

29. Gender equality concerns have been addressed in some ADB-funded projects and activities over recent years. ADB's 2002 CAPE noted that gender considerations had been incorporated in social sector projects. But gender integration into other sectors of activity was not noticeable despite the potential for several ADB loans to address gender gaps. Even in social development sector initiatives, some opportunities to narrow gender gaps may have been missed.

30. The project preparatory technical assistance (PPTA) for the Second Health Sector Development Project includes a detailed gender analysis. It identifies the approach most likely to benefit women. While the Agriculture Sector Development Project did not develop a specific gender action plan, the executing agency has taken key steps to ensure it can track gender balance in access to project benefits. The Housing Finance Project has demonstrated that women are more regular participants of community-based organizations than men. The Governance Sector Reform Project offers great potential to promote gender mainstreaming in the public policy process. A main component is building capacities in key ministries to shift to a performance-based budgeting and monitoring system that could incorporate gender-responsive budgeting methodologies and tools introduced by the United Nations Development Programme (UNDP) initiatives to date. The Social Security Sector Development Project also provides important potential to address gender disparities and identifies female-headed households as a targeted vulnerable group for welfare programs. The ongoing road projects bring with them high demand for commercial sex workers along road corridors that exposes those involved in the industry to high risk of abuse and exposure to HIV/AIDS virus. Measures to incorporate human trafficking prevention and HIV/AIDS awareness initiatives have been incorporated into the latest project.

5. Activities of Other Development Partners

31. Support from external funding agencies is important due to limited government and NGO resources. In 1999, the Government of Mongolia and the United Nations Development Fund for Women (UNIFEM) signed a Memorandum of Understanding to provide support for the implementation of the national program for advancement of Mongolian women. Two core data and policy studies were carried out and technical assistance provided. A UNDP project located at the poverty research group of the Ministry of Finance aims to build government capacity to analyze and organize state budgeting from a gender perspective. The United Nations Populations Fund (UNFPA) is supporting interventions in the areas of family planning, maternal care, prevention of STDs and HIV/AIDS, prevention of abortion and management of its complications, adolescent reproductive health, and strengthening the capacity of national researchers for collecting data on population and gender. The Soros Foundation runs a program to advance women's rights and reinforce equality and well being of women and eliminate

violence against women. The Asia Foundation supports legal and policy analysis on human trafficking and a national survey on domestic violence. The World Bank, the Australian Agency for International Development (AusAID), the Canada Fund, and the German-Mongolian Technical Cooperation have supported gender-mainstreaming initiatives, although on a smaller scale.

6. Asian Development Bank Strategy

32. The Mongolia gender and development strategy will adopt a two-pronged approach: gender mainstreaming while exploring gender-specific, but linked, activities to address persistent structural constraints. Specific components will be designed and incorporated into loan projects to correct gender disparities, ensure the participation of women in project activities and project benefits for women. Greater opportunities will be sought in policy dialogue to reinforce ADB's commitment to promoting gender equality. In mainstreaming gender considerations into loan projects, special attention will be paid to issues of employment, access to public services, empowerment, and capacity building. As sector strategies are planned and projects designed, consideration will be given to how these areas can be systematically addressed. Gender issues will receive particular attention in projects in the health, education, urban development, and agriculture sectors. Project implementation will also pay attention to gender issues through training for executing agency officials and project stakeholders on gender issues. Mongolia Resident Mission (MNRM) currently chairs the donor coordination group on gender issues and will engage a gender specialist to ensure proper attention to gender concerns.

C. Summary Private Sector Assessment

1. Introduction

33. The private sector has grown considerably since 1991 and now generates 75–80% of GDP. More than 90% of all enterprises are privately owned. This is the result of a decade-long program of privatization and creation of an enabling environment. Although emphases and priorities of successive governments have differed, policy to support private sector entrepreneurship has been consistent. An institutional framework based on the rule of law has been adopted along with policies liberalizing trade, promoting competition, and encouraging foreign direct investment. Privatization has proceeded more rapidly than in any other former communist country, the number of private SMEs has grown significantly, conglomerates have grown to have a significant economic impact, and the informal sector is flourishing. Except for some key exceptions, the Government has exited from productive activity, and has made efforts to transform ministries into policymaking and regulatory, rather than productive, organizations. Many regulatory responsibilities of the Government have been transferred to state-controlled executive agencies with substantial autonomy. Many institutional changes are needed, nonetheless, if Mongolia is to build on its achievements to attain GDP growth rates sufficient to permit significant poverty reduction.

2. Key Issues and Constraints

34. Most basic laws and institutions necessary in a market economy have been established. A commercial law framework has been adopted although it still provides inadequate protection of private-property rights. Commercial laws, modeled after laws within legal systems distinct from Mongolia's, have not been harmonized. Mongolia's laws generally lack definitions, thereby allowing excessive discretion to those charged with implementation, creating a growing problem of corruption. The absence of a reliable judiciary, limited familiarity with court adjudication, and longstanding custom leads citizens to look outside the legal system for dispute resolution. Inconsistent interpretation of commercial laws and the weak judicial system diminish business confidence and heighten the sense of investment risk. Recent developments, however, including adoption of an arbitration law and establishment of an administrative court system, reflect the Government's willingness and ability to address such concerns.

35. A number of internal constraints on private sector development (PSD) also must be removed if the private sector is to take full advantage of the improving business environment. Although Mongolia has a highly literate workforce, employees often lack adequate practical skills. Poor technology undercuts the ability to compete internationally and to engage in downstream production. Business advocacy groups and associations have not succeeded in presenting the concerns of their members to the Government. Situations inside companies differ greatly. Dynamic and visionary leadership accompanied by high-level links with the Government has led to success. Many emerging SMEs, however, find the demands of the business environment onerous leading many to go out of business or remain informal to avoid the pressures and scrutiny that formality entails. Private sector standards related to financial disclosure, environmental consciousness, and investor relations are poor.

36. With the notable exception of infrastructure, most key productive and supporting sectors are dominated by private interests. Within the agriculture sector, cashmere production is pre-eminent. Meat production also is important, but meat exports are limited by inadequate slaughter, veterinary inspection, and meatpacking standards. Partly because of a world class mining law, the mining sector attracts the greatest percentage of foreign investment. The

garment industry accounts for 35% of manufacturing. The tourism sector presents a significant potential, the realization of which will depend on improved infrastructure, facilities, and promotion. The state continues to dominate the transport sector. The private sector does not yet play a meaningful role in power generation, although this sector has been unbundled and is being commercialized and prepared for privatization, or in the provision of water or sanitation services. Having privatized 40% of the former state telecommunications monopoly, the Government continues to own and to manage network and housing facilities. A number of private joint-venture mobile phone operators have entered the market. The banking sector is dominated by private interests after the privatization of two large state-owned commercial banks in 2002 and 2003. The introduction of private sector capital and skills into education and health sectors has resulted in a significant expansion of the number of private tertiary institutions and private clinics and hospitals. Quality remains an issue, however.

37. The main constraints affecting PSD in Mongolia include lax enforcement of laws by a judiciary inadequately trained and equipped to support a growing market economy, an overly engineered tax regime, a widespread lack of both accounting literacy and auditing skills, a reliance on outdated technology, slow absorption of modern management and organizational development principles, and a financial sector until recently incapable of assessing risks and able to provide only minimal services. Investment is constrained by the small domestic market, inadequate infrastructure, high transportation costs, high corporate tax rate, and weak implementation of the rule of law. Although the amount of foreign direct investment has increased recently, disbursements account for less than 50% of funds committed, and investments are concentrated heavily in the mining sector and the garment industry.

3. Government Strategy

38. The Action Plan adopted by the Government after the parliamentary elections of 2004 identifies the private sector as the main driver of economic growth. Following from the same overall economic growth priorities of the EGSPRS, the Action Plan elaborates specific priority areas for private sector development such as improved financial intermediation and the development of securities markets, land reform and property registration, tax reform, the establishment of free trade zones, implementation of international best practices for investment promotion, and promotion of private participation in the infrastructure sector.

4. Asian Development Bank Experience

39. With the exception of its Governance Reform Program and early technical assistance (TAs) in the fields of legal, taxation, and public administration reform, ADB has not directly addressed business environment issues that constrain PSD. Moreover, the benefit of much early training and capacity building may have been lost due to public-sector staff turnover. But private sector components or components with implications for the private sector were included in ADB's overall program. ADB has actively assisted Mongolia in strengthening the financial sector with substantial benefits for PSD. Similarly, ADB's support to build strong accounting and auditing professions is an important step towards improved corporate governance standards. Infrastructure development, especially improvement of the transportation network linking Mongolia with its neighbours, is essential for PSD. ADB's current work in public governance reform promotes efficiency in government operations. ADB has invested in the equity of the country's largest commercial bank. Through board participation, ADB is given the opportunity to demand enhanced transparency and improved corporate governance and thus to help create a model private enterprise run according to international best practices.

5. Activities of Other External Funding Agencies

40. PSD has been the focus of many internationally financed initiatives after the immediate macroeconomic policy and emergency assistance projects began to be phased out in the mid-1990s. There does not seem to have been an overall strategy guiding this assistance although discussions during planning stages may well have resulted in a degree of collaboration and avoidance of excessive duplication. No review of experiences of external funding agencies or of benefit monitoring and evaluation reports seems to exist. Thematically, there has been a significant emphasis on assistance to SMEs. Significant recent work in supporting the later stages of the privatization program, and in preparing state-owned infrastructure companies for private sector involvement, reform and development of the agricultural sector, development of the tourism sector, reform and development of the financial sector, reform and development of the education sector, and reform and development of the health sector has been accomplished. Relatively little work has been done, however, in addressing business environment issues and the public-private interface, whence many of the constraints on PSD arise. Several external funding agencies are involved in addressing weak implementation of the rule of law and others are addressing tax policy and administration.

41. Major private sector projects include the European Union Technical Assistance to the Commonwealth of Independent States (EU TACIS) Integrated Crop and Livestock Production Project, the Gobi Regional Economic Growth Initiative, the Privatization Program, the Economic Policy Reform and Competitiveness Project, and the Competitiveness Initiative supported by United States Agency for International Development (USAID). The World Bank continues to finance PSD credit and infrastructure, and UNDP with the European Bank for Reconstruction and Development (EBRD) is supporting information and communications technology (ICT). The Japan International Cooperation Agency (JICA) continues its Training Program on Strategic Business Management while Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) continues to support SME development. EBRD is financing a Turn-Around Management Project in a number of medium to large companies. Working with a number of small private enterprises, GTZ is administering an enterprise-restructuring project that was administered initially by UNDP and funded by the Government of the Netherlands.

6. Asian Development Bank Strategy

42. In 2000, ADB adopted a PSD strategy with three strategic thrusts: (i) creating enabling conditions for business, (ii) generating business opportunities for the private sector, and (iii) catalyzing private investment. The challenge of ADB, like that of other external funding agencies, is to build on institutional strengths and programming experience in Mongolia and other transition economies to provide targeted interventions addressing key PSD constraints. PSD is well integrated into ADB's strategy pillars. PSD will be pursued in closed collaboration with Private Sector Operations Department (PSOD) to directly support the first strategy pillar and also create greater income opportunities. Private sector initiatives and public-private partnerships also have the potential to improve the delivery of public services and support the second growth pillar. The strategic approach will be to try and target ADB supported investments to the needs of the private sector to the extent possible as well as to identify opportunities for private sector participation and public-private partnerships in all of ADB's sectors of operation. Pure private sector operations will be targeted that have the potential to additional private investment by addressing information constraints or other market imperfections that prevent private sector development.

D. Environment Assessment

1. Introduction

43. Pasture degradation, desertification, deforestation, water resources, urban environmental management and industrial pollution, and mining are principal areas of environmental concern. Migration into Ulaanbaatar has overburdened urban infrastructure especially water and solid waste management, and vehicular pollution is increasing. While renewable energy and decentralized energy supply is receiving increased attention, an appropriate country-wide model is yet to emerge. With the growing importance of industrial mining in the economy, the rehabilitation of mining areas and conditions of mine tailings are becoming principal environmental concerns. The rapid expansion of poorly regulated small-scale gold mining is leading to a major public health problem. The high incidence of poverty in rural and urban areas also contributes to environmental degradation. Despite many government initiatives, monitoring and enforcement of environmental laws, regulations, and standards are weak. A shortage of budget resources seriously constrains ability of authorities to fulfill their responsibilities.

2. Key Issues and Challenges

44. Land degradation is a priority concern. More than 40% of Mongolia's land is composed of arid and desert areas. Arable land area decreased by 8.7% and pastureland by 9.3% during 1998—2003. Droughts, natural drying due to deficit in soil moisture, the thin layer of fertile soil, and strong winds are all natural causes of land degradation. The rapid development of mining and farming, overgrazing due to high concentration of livestock around settlement areas and water points also contributes to degradation. In the country's steppes and the Gobi fringes, pasture degradation can easily reach desertification levels. Wind erosion affects almost all cultivated lands in Mongolia and steadily reduces organic content. The phenomenon of dust storms affecting the whole of East Asia has its origins in part in inappropriate land management practices in large segments of Central Asia, including Mongolia and Inner Mongolia. Deforestation is a related environmental concern. The total forest area is 14.7 million hectares (ha) (9.4% of the total land area). Some 3.2 million ha of forest area have been lost between 1998 and 2003 due to, mining activities, illegal logging, and pests and diseases. Decreasing forest cover in turn causes flash floods, the lowering of groundwater level, increased desertification, and loss of biological diversity.

45. Urbanization has brought its own environmental problems. Solid waste management is a serious concern in the capital city and provincial towns. Transport of solid wastes, including sewage sludge in some cases, from urban areas to dumping sites and the conditions of these sites are in general unsatisfactory. Management of coal ash in large cities, open low-temperature burning of wastes, an increasing proportion of non-degradable wastes in the waste streams, and littering are ubiquitous problems. Recently, cities have been experiencing shortage of water due to a lowering of ground water levels and drying up of some rivers and springs. Surface water sources have been contaminated by untreated domestic sewage and industrial wastes. Air pollution in Mongolia's towns, especially Ulaanbaatar, is also considered to be a serious problem, especially in winter. Improvements in the emission performance of the power sector (especially in Ulaanbaatar) have been partly offset by increased emissions by the expanding *ger* areas, and by continuing land degradation in the vicinity of the cities. In all main towns, and particularly in Ulaanbaatar, vehicle numbers have been increasing. Eighty percent of vehicles are believed not to meet pollution requirements.

46. Mongolia is a major producer and exporter of copper/molybdenum, gold, coal, and fluorspar. The vast majority of existing gold mines are surface rather than deep mines. Their operation results in significant disturbances of the landscape and normally requires excavation and washing of metal-bearing sands in dredges and other devices. The main environmental challenges relating to copper/molybdenum mines in Mongolia are high energy-consumption and tailings storage. Monitoring of chemicals' use, facilities and groundwater is essential. In coal mining, air quality, reclamation/mine closures, dust from operations and rock overburden piles, and concentrations of carbon monoxide within the mines are the main problems.

47. Responding to a loss of rural employment opportunities and led by redundant employees of old struggling mining companies, informal small-scale gold miners have emerged working illegally on the fringes of industrial operations or in abandoned areas. Low rates of gold recovery by industrial operators have widened the scope for profitable activities by informal miners who have been exploiting both placer and hard-rock deposits. While the impact of the former on physical environment and river ecology is relatively benign, the latter relies on the use of mercury for amalgamation and extraction of gold and presents a massive environmental hazard. Prolonged exposure to above-the-limits mercury is known to cause serious and potentially fatal neurological disorders.

3. Risk and Vulnerability Assessment

48. Mongolia's has had a long-standing vulnerability to natural risks that has been compounded by new phenomena such as climate change and desertification. Extreme seasonal weather changes impacting livestock and livelihoods are a serious source of vulnerability—particularly serious given the importance of livestock in the economy and its dominant role in rural livelihoods. Herder households with fewer than 100 heads of animals, one of the major groups of the Mongolian poor, are most vulnerable to further loss of animals. The Government's 2001 Pastoral Policy for Emergencies is an effort to address the basic causes of the vulnerability – pasture degradation, livestock quality, hay production, and livestock mobility. Other phenomena wholly or in part affected by weather or natural forces also are a potential source of vulnerability. Parts of Mongolia are located in an active tectonic zone. While low population density and the lightness of traditional housing are good safeguards, the recent concentration of population in Ulaanbaatar and uncertain building standards there raise a possibility of a serious earthquake disaster. Flooding, temporary breakdowns of heating in winter, wildfires on city edges, and dust storms are other potential hazards for Ulaanbaatar.

49. Domestic policies, and institutional arrangements and practices are also a source of vulnerability. The number of factors influencing vulnerability to natural risks is large and includes those that originate in sectors such as health, energy, transport, and education. The management of grazing land and water resources substantially influences pastoral risks. Poor infrastructure and communications constrain the ability to manage disaster risks. The high concentration of population in Ulaanbaatar also creates the need for disaster readiness and for better urban planning and zoning. There has been an improvement in the organization and performance of weather and hydrological monitoring. Recent re-orientation of disaster management towards a civilian-based framework brings Mongolian arrangements closer to best world practices. But changes in many procedures, regulations, laws, organization, and practices are needed. A culture of coordinated interaction with other governmental entities, international agencies and the international disaster response systems needs to be established and nurtured.

4. Government Strategy

50. During the relatively short period of political and economic transition, successive Mongolian governments have easily assimilated the global mainstream environmental agenda and adapted it to Mongolia's conditions. Mongolia developed the National Environmental Action Plan in 1996 and updated it in 2000 and adopted the State Environmental Policy in 1997. The National Plan of Action to Combat Desertification, the Biodiversity Conservation Action Plan, the National Plan of Action for Protected Areas, and Mongolian Action Program for the 21st Century, with subordinated *aimag* development plans, were developed by the National Council for Sustainable Development established in 1996. National Action Plan for Climate Change Program and several program documents like National Water Program, National Forestry Program, Program of Protection of Air, Environmental Education, Special protected Areas, Protection of Ozone Layer were also completed at the turn of the decade. Two key natural resource laws relating to land and water were amended in 2002 and 2004, respectively. The revised water law aims at increasing the use of surface water relative to ground water and introduces water basin management and new principles for water charges. Its implications for irrigation rehabilitation, hydro-power development, and nature conservation need examination. Also, a new law on solid waste management was adopted in 2003. Recent actions have been to restrain the pace of new legislation and concentrate instead on removing areas of ambiguity through amendments, and to draft clearer implementation guidelines.

51. The Government Action Plan includes substantial actions to protect the natural balance and forest and pastureland areas, intensify its water policy, and reduce harmful waste together with measures on rehabilitation of natural resources. In early 2005, the Government changed the water tariff structure and exempted timber, logs, wood, and imported trees from customs duty and value added tax. Strengthening the legal basis of natural resource management and attention to land legislation has been the overall direction of recent legislative activities. A viable model that encompasses herder groups, income diversification options, and well rehabilitation to address pasture degradation, desertification, and deforestation is emerging. Policies are finally being harmonized but more work is needed, particularly in dealing with conflicts with the mining law and strengthening forest management outside protected areas.

5. Asian Development Bank Experience

52. ADB played a timely and generally positive role in developing environmental policies and guidelines, specifically environment impact assessment procedures and improving awareness of regulatory tools. Through two TA projects ADB assisted in establishing the Environmental Impact Assessment system and strengthening environment management capacity. Mongolia has also been participating in the activities of numerous regional TA projects with environmental implications. ADB provides support in improving basic provincial services in provincial towns. ADB has provided assistance also for improving land use policies, legal frameworks, and management. The ongoing project on cadastral survey and land registration aims to provide better incentives for improved land management and contribute to rational land use planning and zoning, regulations of land use and environmental monitoring. ADB's assistance program has had an environmental content and favored an integrated approach to environmental problems rather than stand-alone interventions.

6. Activities of Other External Funding Agencies

53. Several multilateral and bilateral external funding agencies are active in the environment sector in Mongolia. UNDP has had the longest association with Mongolia and its broad policy

includes environmental issues and disaster management. The Second Country Cooperation Framework for Mongolia 2002—2006 envisages application of UNDP-developed models such as Sustainable Development of the Eastern Steppe Region in Altai-Sayan and Gobi areas, and calls for refinement and expansions of community-based sustainable livestock management. It also calls for expanded support for conservation activities through Mongolian Environmental Trust Fund. The framework envisages some support for pollution and energy efficiency (especially in the building sector and in small-scale renewables), and in disaster management.

54. The World Bank's recent loans with environmental content include the Energy Project (with an emphasis on energy efficiency) and Second Ulaanbaatar Urban Services Improvement Project targeting mainly the *ger* areas of the capital city. In rural development, the World Bank's Household Livelihoods Support Program is helping tackle pastureland mismanagement and rural vulnerability. World Bank has supported a variety of environmentally important technical assistance efforts (preparation of detailed environmental impact assessment sectoral guidelines for Ministry of Nature and Environment, assessment of mining activities, forest management). With Global Environment Facility financing, the World Bank continues to implement the household stoves project in Ulaanbaatar and several biodiversity-related projects.

55. An extensive program of German bilateral assistance is in place in Mongolia containing several projects that combine resource conservation with improved livelihoods, as well as projects in the renewable energy and forestry sectors, making GTZ the single most important source of grant finance for environment-related activities in Mongolia. The Governments of the Netherlands and Spain continue to support projects tackling urban environmental problems. The Government of the United States has renewed its commitment to financing sustainable development of the Gobi area. Nordic financing has been vital to environmental awareness building activities. Several other bilateral or multilateral sources (Canada, EU TACIS, France, Japan, Republic of Korea) have also played a role. A number of private foundations have been supporting specialized biodiversity conservation efforts, as have several international NGOs. Other international NGOs have been active in reforestation (e.g., World Vision) and public health and sanitation.

7. Asian Development Bank Strategy

56. ADB will favor an integrated approach to environmental problems rather than stand-alone interventions. ADB will enhance the positive environmental repercussions of its ongoing and proposed activities. Environmental improvements as a result of income-generating activities will be the preferred direction of assistance. ADB's transport sector interventions will pay particular attention to environment impacts as will agriculture sector support. Better land management practices, introduced through agriculture sector support, will directly have positive environmental impacts. Upgrading of urban infrastructure will contribute to the reduction of air, water, and soil pollution and the improvement of health conditions. Support for administrative consolidation is expected to improve the implementation and monitoring of environmental laws and regulations, better define functions of agencies, and increase the capacity of agencies to adequately fulfill responsibilities.

E. Governance

1. Introduction

57. Governance is not an immediate development bottleneck. But there is a need to arrest further deterioration to maintain development progress. Governance improvements are achievable. Mongolia has a foundation to support a sound governance regime. It established democratic institutions and processes and developed the executive, legislative, and judiciary arms of the Government early. A multi-party democratic system, strong civil liberties, an active civil society, and a free media provide key building blocks. Many important laws and regulations are in place. The legal and institutional framework is being refined to support a modern commercial sector. Proper implementation of basic laws, rules, and regulations combined with transparency, accountability, and increased influence of public opinion on policy-making and legislation could improve governance standards.

2. Key Issues and Challenges

58. The World Bank recently reported that Mongolia's percentile rank among 209 countries had worsened between 1996 and 2004 on the basis of five out of six governance indicators. While statistical significance is difficult to establish, the results can be considered indicative of trends. Slippages in corruption and rule of law were particularly noteworthy. Deteriorations in voice and accountability, political stability, and government effectiveness were relatively less severe. The ranking on the basis of regulatory quality had improved.

59. The fundamental governance challenge facing Mongolia is to implement effectively the set of laws, rules, and regulations that have been put in place during the first decade. Laws generally lack definitions, thereby allowing excessive discretion to those charged with implementation creating a growing problem of corruption. Although Mongolia's legal and judicial systems still bear traces of the socialist system from which they emerged, wide-ranging legal and judicial reform is evident. The judicial system is strained, but the civil law system seems to function well and the Government has tried to strengthen enforcement mechanisms. Nevertheless, concerns remain about the state of the criminal law system. The main question is how to support qualitative improvements in the legal and judicial framework and in legal professional's understanding of their respective roles within it. Current and proposed legal education programs will improve the legal environment over time, and there is broad scope for additional efforts.

60. Mongolia has made encouraging policy and administrative progress in the area of fiscal reform and recent reforms have contributed to improved performance. But reforms are nascent and will require consolidation and strengthening. Important reform components being introduced are (i) clearer articulation of national priorities, (ii) better articulation of ministries' priorities, (iii) closer consolidation of budget entities, (iv) better preparation of forward estimates and wider policy and planning use of these, (v) earlier and more certain finalization of expenditure ceilings, (vi) improvements linking capital and current budgets, and (vii) closer coordination of overseas development assistance with government priorities. However, Government resources are strained, leading, in many instances, to poor-quality services. Public administration planning, accounting, and performance-budgeting systems being pursued will improve cost efficiencies.

61. Implementation of sectoral policies and programs imbedded in the Public Sector Management and Finance Law (PSMFL) could lead to significant governance improvements. The PSMFL emphasizes decentralization of management responsibilities, which could enhance

incentives and improve accountabilities and checks and balances. Public sector accounting is moving toward international accrual standards although progress is slow. Accounting reforms have been introduced in a number of pilot agencies but generally have occurred in the absence of modern accounting software systems. Budget approval processes are basically sound with reasonable roles for executive and legislative branches. A primary goal, however, should be timely publication of a comprehensive budget document to improve transparency and accountability in public sector financial management.

62. Participation in the policy process has been hampered by the lack of transparency and opportunities. While the Constitution and various laws identify citizens' rights, in practice, citizens have few opportunities to influence policy-making. Mechanisms to enable the exercise of these rights are needed. Although the Constitution and the Civil Service Law provide a legal framework for managing the civil service, this framework and the institutions managing it need strengthening. During the last decade, NGOs have formed a powerful civil group. The short history of democracy and the absence of civic culture, however, pose obstacles to implementing the law on NGOs. It is important to strengthen civil society so that NGOs can be competent and influential advocates. So far, the Government has played a minor role in building civil society.

3. Government Strategy

63. Through its Good Governance for Human Security Program⁵ and its Action Plan, 2004—2008⁶, the Government has committed itself to principles of good governance. The Good Governance Program emphasizes the participation of all relevant actors and stakeholders, including mass media, academic and research institutes, NGOs, citizen organizations, and individual citizens. The Action Plan calls for deepening legal reforms; improving standards to ensure human rights and create safe living environments; making the government's policy and decision making process transparent; introducing rules of professional and ethical conduct for civil servants; providing citizens with rights to access information to which they are entitled; ensuring independence of mass media; encouraging civil participation, particularly of women; and eliminating bureaucracy at all levels of public service and fighting corruption.

64. The Government intends to reform public administration processes and institutional arrangements to improve governance. The action plan states that the Government will improve the efficiency and accessibility of public services. In addition, the reform of administrative units is expected to improve quality of public services, and expand the ability of citizens to participate in economic processes. Within that framework, the number of public administrative units will be reduced. To enhance the efficiency and effectiveness of its services, the Government has adopted a comprehensive public sector reform strategy relying on a new contract-based system to achieve enhanced accountability and fiscal management. The approach is embodied in the PSMFL. The Government envisages replacing the existing system of public administration with the new contract-based system. The main challenge inherent in this approach is that public administration is characterized by informal arrangements. Although elaborate rules and regulations govern the management of public finance and public personnel administration, informal practices diverging significantly from these are the norm.

⁵ Government of Mongolia. 2001. *Good Governance for Human Security Program Policy Document*. Ulaanbaatar.

⁶ Government of Mongolia. 2004. *Action Plan of the Government of Mongolia 2004-2008*. Ulaanbaatar.

4. Asian Development Bank Experience

65. An ADB loan, the Governance Reform Program I⁷, was implemented with the objective of encouraging sustained reform of the public financial management system. The second phase, Governance Reform Program II⁸, is being implemented. Since PSMFL became effective, amendments were made to 75 relevant legislations as necessitated by the adoption of this law and the Parliament passed a Regional Development Concept and the Law on Regional Development Management and Coordination expected to lead to more public sector efficiency and lower levels of bureaucracy. Support has been provided for several government agencies to develop strategic business plans and to introduce output based budgeting practice.

5. Activities of Other Development Partners

66. International Monetary Fund (IMF), World Bank, UNDP, USAID and GTZ have provided assistance in the area of governance. IMF and the World Bank have provided funding for establishing a Treasury system and for introducing a Single Treasury Account to improve public expenditure management, and the World Bank is providing loans to increase capacity for public expenditure management; develop and implement the civil service reform strategy; strengthen the statistical system; increase capacity of the state audit and inspection system and support the administrative court system. The World Bank's forward program also includes assistance for the judicial system, a civil society assessment, and a public expenditure tracking survey. UNDP assistance focuses on democratic governance, including anticorruption measures and gender sensitive budgeting. It also provides assistance for facilitating inclusive national policy dialogue and cooperation, awareness of human rights, accountability, transparency and responsiveness. GTZ and USAID are assisting in legislative drafting, training of prosecutors, advocates, judges and academics and have a range of programs focused on judicial reform.

6. Asian Development Bank Strategy

67. To focus ADB assistance and maximize benefits from support for the strategy pillars, governance measures are integrated into assistance in the education, urban development and housing, agriculture, and health sectors. Project designs are expected to incorporate concerns of civil society participation in policy-making and decision-making, performance of civil servants, coverage and responsiveness of public services, accountability, and efficiency of development assistance. Such a treatment of governance also provides a concrete platform for governance interventions thus increasing their own effectiveness. Corporate governance issues, the establishment of a legal and institutional environment for private sector development, and civil service capacity for governance improvements will receive attention in the context of the first pillar through interventions in small and medium-sized enterprise development, private sector support in the agriculture sector, and educational programs in the areas of civil service, accounting, and legal training. Governance issues receive attention in association with the second pillar in the form of transparency and accountability mechanisms for the delivery of public services developed in association with projects in the education, health, urban development, and agriculture sectors and through support for administrative consolidation. ADB recently completed a review of financial management in Mongolia. Many governance-related recommendations of the review have been incorporated into MNRM's portfolio management action plan.

⁷ ADB. 1999. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Mongolia for Governance Reform Program*. Manila.

⁸ ADB. 2003. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Mongolia for Second Phase of Governance Reform Program*. Manila.

F. Agriculture

1. Background and Key Issues

68. Agriculture, after mining, remains the most significant sector in Mongolia, accounting for a fifth of GDP. Agricultural and agro-processed exports amount to about a fourth of foreign exchange earnings. Agriculture is the source of employment for almost half of the total labor force, and the most important source of household income in rural areas. The rural population comprises 43% of Mongolia's 2.5 million people. Poverty in rural areas is estimated to be 43% compared with 30% in urban areas. After privatization of the collective herd, livestock numbers steadily increased, from 25 million in 1989 to a record of 34 million in 1999. The number of households with herding as the primary source of income more than doubled during 1989—1999. The herd size per household also substantially increased. But many of the people who moved to the countryside to become new herders had small, marginally viable herds and limited skills, and were most vulnerable to natural disasters. Mongolia's crop subsector, concentrated on wheat, has seen substantial declines after the withdrawal of the large state subsidies that sustained production, with wheat output at the end of the 1990s only a quarter, and fodder output only 1% of 1989 levels.

69. Recent trends have decreased the potential of the agriculture sector as a source of economic growth. Even though agricultural production and employment increased during the 1990s, the linkages between agriculture and industry significantly declined. While in 1989 more than half of industrial output was directly based on agriculture, by the end of the decade this share had decreased to about 25% of its 1989 level. Processing of livestock products strongly declined during the 1990s. Meat products in 1999 amounted to only 10% of their 1989 level. Similar declines occurred in the processing of fibers (cashmere, camel hair, and wool) and hides and skins (cattle, horse, goat, and sheep). Exports of many livestock products also dramatically declined. While export of unprocessed cashmere, and hides and skins in raw form continues to do well, meat exports have fallen from 30,500 tons in 1989 to 14,100 tons in 2003. The processing of crops, in particular milling of wheat into flour and its use for bread and bakery production, and the production of manufactured fodder has also fallen sharply. Exports of crop products have essentially disappeared, while imports including wheat, flour, potatoes, and vegetables are steadily increasing. The import requirements for wheat amount now to about half of the country's wheat needs, and a large part of it is commodity aid-funded. Overall, despite government interventions to counter it, the share of food supply met from domestic sources has continued to contract in the face of low cost, good quality, and well distributed imports.

70. Development challenges to increasing the contribution of the agriculture and rural development sector to economic growth and poverty reduction lie in enhancing competitiveness of agricultural products, improving natural resource management, and strengthening institutional capacity and public support for agriculture and rural development. Competitiveness issues are related to production practices, organizational constraints, policy reforms, input supply, infrastructure, and market development. Access to affordable medium-term finance continues to be severely constrained. Legislative inadequacies and slow implementation have led to inappropriate natural resource management. Stronger institutional capacity and public support at all levels of government will be necessary for effective and efficient use of development resources. Also lacking is an adequate link of government development initiatives with private sector operations. Correcting policies that distort the financial sector, support inefficient crop producers, and perpetuate low productivity will be a challenge. Finally, sustaining agricultural incomes will require, in addition to improvements in profitability of primary production, the creation of opportunities to diversify into other areas in the rural economy.

2. Government's Development Strategy

71. The Government's development strategy for the agriculture and rural sector is formulated within the context of broader national objectives of private sector-led growth, poverty reduction, and regional and rural policy to spread the benefits of development more equitably across the country. The primary agriculture development objectives of the Government are to (i) increase agriculture's contribution to national growth; (ii) reduce, through this growth, rural poverty; and (iii) ensure the longer-term sustainability of the environment. The Government is committed to a continuing transition to a private sector-led market economy. The prime strategy in agriculture, therefore, is to further develop an enabling environment for private investment and business development. This includes raising the productivity and sustainable development of both livestock and crop subsectors; increasing competitiveness and access to markets; managing natural resources more sustainably; improving access to financial services; and providing viable and sustainable livelihoods in production, processing, and services. Objectives for the rural sector are intimately entwined with regional development policies. Both look to promotion of local opportunities and the efficient use of Mongolia's natural resources, notably its extensive land area, as a path to economic growth and the reduction of poverty. Both focus on access not only to income opportunities but also to social services and protection. Rural policy, in particular, seeks to address the issue of vulnerability to natural disasters.

72. Another key objective related to both agriculture and rural policies is to improve the efficiency and effectiveness of policies and programs, including those of donors, in realizing improvements in sector performance and impact on growth and poverty reduction. To support this, it is necessary to strengthen the capacity at the national level to formulate, manage, coordinate, and evaluate interventions in the agriculture and rural sector, as well as the capacity of district and sub-district centers to implement policies and to service the rural population.

3. Asian Development Bank Experience

73. After Mongolia joined ADB in 1991, ADB operations in the agriculture and rural development sector were initially limited to providing technical assistance. A comprehensive sector review in 1993 identified serious weaknesses in the policy and institutional environment. Based on that assessment, the Agriculture Sector Program for \$35 million was approved in 1995. It was one of several ADB program loans supporting the structural adjustments of the early transition period (others targeted financial sector and other reforms). The reform program of the Agriculture Sector Program focused on promoting competitive markets, providing the necessary institutional support, and addressing related social and environmental concerns. A 1999 program completion review concluded that, while the reform agenda was not fully achieved, general progress in macroeconomic reform was rather impressive: the privatization process had significantly advanced, and price liberalization of the major agricultural and food products was largely accomplished. According to a 2002 CAPE, the Agriculture Sector Program may have contributed to the stabilization of poverty—not so much through its social measures as through the provision of funds in times of severe financial difficulties.

74. In 2001, the Agriculture Sector Development Program (ASDP) was adopted. Its sector goals are to (i) develop a more market-oriented, efficient, and sustainable agriculture sector; and (ii) reduce poverty by providing increased income opportunities through raising productivity and profitability of agricultural producers. Support is provided for second generation reforms and for the first investment project in Mongolia's agriculture sector. The program loan for \$7 million focused on (i) limiting government activities on providing essential support services, and (ii)

creating a favorable environment for the private sector to more effectively undertake functions that previously were carried out by the state (such as the supply of inputs, the processing and marketing of outputs, and the provision of financial services). The investment loan for \$10 million concentrates on four relatively poor provinces in the country's western region, and will be implemented until 2007. It includes support for the competitiveness of the livestock subsector (well rehabilitation, veterinary services, cooperative development, and rural communications), and horticulture development as an income-generation measure for poorer households. In addition, a credit line provides loans initially for up to one year through participating financial institutions in the four western provinces as well as in the wheat-producing region around the capital.

75. Disbursement under the ASDP has so far been high, and progress in some areas very good. By the end of 2004, more than 11,000 loans amounting to \$12.1 million have been onlent under the credit line (achieving 220% of the disbursement target planned for the project in half of the implementation period), with a repayment rate of 98%. Other activities seem to have been reoriented toward a traditional top-down interventionist approach where beneficiaries were selected by national or provincial authorities and provided with subsidized equipment and inputs—with repayment rates significantly lower than under the credit line. A midterm review addressing these issues is scheduled for June 2005.

76. Since November 2004 a TA is assisting the Government to develop a strategy for the agricultural sector as well as a program of policy reforms, capacity building and investments. Parts of this road map are based on the analysis carried out under the TA.

4. Activities of Other Development Partners

77. Many external funding agencies are active in Mongolia's agriculture and rural sector. Besides ADB, the main multilateral development partners comprise EU Tacis, the Food and Agriculture Organization, International Fund for Agricultural Development (IFAD), and UNDP, and the World Bank. Key bilateral donors include Germany, Japan, Republic of Korea, Switzerland, and United States. A number of international and bilateral NGOs also support activities in the sector. Most interventions have been production-oriented, with little emphasis on processing and marketing/export or on providing access to affordable medium-term finance to people in rural areas such as herders and farmers, processors and other small and medium-sized enterprises.

78. Since the approval of the ASDP in 2001, two further loans for agriculture and rural development have been approved: the Sustainable Livelihoods Project by the World Bank in 2002, and the Rural Poverty Alleviation Project by IFAD in 2003. Like the ASDP, these loans focus on selected provinces and support similar activities with an emphasis on rural poverty reduction. Currently the World Bank is preparing a second loan in the sector, which will pilot the introduction of an index-based livestock insurance, with the aim of improving risk management for herder households.

79. Most grant-financed projects address extensive livestock production, with the main elements being pasture management (a response to pasture and well degradation), veterinary services, and producer organizations (mainly cooperatives). More recent interventions are based on the Government's EGSPRS, with elements to support poorer herder households, microfinance and skills training initiatives for small and medium-sized enterprise development, and assistance to social services. Several projects deal with small-scale horticulture addressing poorer households. Most operate a form of microfinance. EU Tacis addressed the grain sector

through a crop project in 1998—2001, which has been extended to include mixed farming in a follow-up project. A leasing project of the International Finance Corporation seeks to establish the legislative and incentive framework to allow for financial leasing. Although not specifically directed at agriculture, this could have a profound effect by stimulating the injection of funds from the financial sector into small and medium crop farms. Several countries provide Mongolia with food and other aid in kind. This type of aid, mainly from Japan, represents a major source of funding for government interventions through the Agricultural Development Fund (which include the procurement of wheat and the provision of seed, other inputs, and machinery through concessional loans). Breeding activities and fodder trials have been supported from funds generated through the sale of French wheat. Monetization of wheat and other food items from the United States is used to finance projects and NGO activities.

5. Asian Development Bank's Strategy

80. Higher, stable growth in agriculture and associated industries in remote and rural areas is a key to both strategy pillars. If agriculture growth falls below the government target of 3.8% per year, the 5.5% target for overall growth would be at risk. Furthermore, low and unstable agricultural incomes and limited incomes opportunities in rural areas are a major cause of poverty vulnerability. The CSP will direct assistance towards consolidating achievements in agriculture and rural development and focus specifically on increasing the market orientation of livestock production with particular attention to the specific problems of small, semi-subsistence herders to address low productivity, high risk, and low value added in the agriculture sector and improve rural incomes.

81. The ongoing technical assistance for an updated agriculture sector strategy will improve the approach to agriculture and rural development, in turn improving support services and the environment for the private sector. Improved livestock production and management, introduced through the ongoing ASDP and further supported under the Agriculture Development Project through rural infrastructure development and training expected to increase productivity and reduce vulnerability. The program will incorporate governance measures to address civil society participation, performance of civil servants, effectiveness of agricultural services, and accountability of agencies and provide a platform for increasing the participation of women in economic activities and directing economic benefits to women.

82. To improve agriculture sector focus, the program will no longer provide directed credit lines, central to past assistance, as development of the commercial banking system is expected to increase rural credit, particularly to poor herders. Transport sector interventions are expected to promote private sector input supply and marketing and reduce the need for direct support in these areas—a central element of past government operations. Policy dialogue will focus on the reform of agricultural services reducing the need for direct assistance. ADB support will focus on a more limited number of components aimed at improving rural incomes. Support for horticulture development, rural communication, and veterinary services will be considered with greater focus on private sector development and the improvement of government programs rather than as project-directed support.

83. The present program is expected to induce market-led growth processes into the agriculture sector and support for core agriculture development is not expected beyond this CSP. However, as market-led growth proceeds, issues of environmental management and rural infrastructure development are likely to become more important. Also, as the growth stems rural–urban migration, issues of rural development related to growing rural population will have to be addressed through rural development programs. ADB support for these processes is

anticipated. Also, as the private sector assumes a much larger role in the agriculture sector, some areas such as the supply of veterinary services and agriculture research might benefit from public–private partnerships. ADB support for these operations could become necessary.

6. Implementation and Monitoring

84. The Ministry of Food and Agriculture (MFA) has the overall responsibility for developing policies and programs to support government objectives in the agriculture and rural sector; coordinating the implementation of public sector and donor support towards the realization of government objectives; and monitoring and evaluating the impact of the policies and programs. MFA's Information, Monitoring and Evaluation Department is charged with undertaking continuous monitoring and frequent evaluation (covering relevance, efficiency, effectiveness, impact and sustainability) of government policy measures, public sector programs, and external assistance from donors and NGOs that impact on the sector.

85. For the implementation of the ongoing ASDP a monitoring system developed by the project management unit is being used. It is able to monitor in great detail each activity carried out under the project. The monitoring system could be even more effective if its focus would not only be on registering direct outputs (such as the number of people trained), but also on trying to identify the outcomes of project activities and the likely impacts in the longer term. Some training to the Information, Monitoring and Evaluation Department has been provided under the ASDP.

86. Overall, the type, amount, quality, and availability of information collected and distributed by the Information, Monitoring and Evaluation Department need to be expanded and improved. Better systems for information handling and distribution need to be developed quickly. Extensive capacity building in monitoring and evaluation needs to take place, including not only skills but also an increase in staff numbers. At the same time, the capacity of local governments for carrying out the responsibilities that have been devolved to them by the national and provincial governments needs to be strengthened, including the monitoring of natural resource management in areas such as land and water. Such capacity building could help MFA to better formulate and implement policies and programs, and significantly improve the coordination between the many Government and donor programs in the agriculture and rural sector. A better assessment of their impact on the realization of Government objectives would allow replication and adoption of successful initiatives into mainstream Government policy, and/or their use as lessons for improved policy and program design.

87. Efforts in capacity building have mainly followed an input-driven approach, focusing on the provision of consultants and training. This lack of strategic guidance was noted by the 2002 CAPE in Mongolia. The extent to which previous efforts contributed to improving sector management capacities as a whole is not clear, as they were often not comprehensive enough and did not have a clear link to performance indicators for the sector. ADB's CSP is now reorienting its capacity building initiatives to complement ADB-supported interventions, such as in the agriculture and rural development sector, and at the same time support the Government's administrative consolidation program. Results-based management will be incorporated into the design of all interventions.

G. Transport

1. Background and Key Issues

88. Mongolia' transport infrastructure deteriorated severely following the discontinuation of financial support from the Soviet Union. While transport volumes had decreased substantially immediately following the transition shock, they are now climbing. However, the transport network is underdeveloped and inadequate to achieve economic and social development goals of the Government. Roads have been the primary focus of ADB.

89. A developed road network and appropriate cross-border agreements with Mongolia's two large neighbors are crucial to bring about the reductions in transport costs and isolation that are prerequisites to stable broad-based economic growth and inclusive social development. Mongolia is landlocked and remote from major developed markets and its large territory and sparse population makes internal integration a challenge. Residents in remote rural areas lack reasonable access to markets, job opportunities, and social services. Mongolia also faces some cross-border constraints on market integration. Lack of basic transport infrastructure and services is a dominant problem for many of the poor, particularly for seminomadic herder households who lack income opportunities, partly due to geographical isolation. Road transport can facilitate poverty reduction by increasing the accessibility of this group of the poor to basic social services, markets and business; and creating job and income opportunities.

90. Mongolia's road sector still faces a number of issues that will have to be addressed before the sector can play a meaningful role in reducing geographical isolation and increasing market integration. Road density and the share of paved roads in Mongolia are very low compared to international norms and many paved and gravel roads are deteriorating and remain impassable during the rainy or winter seasons. Although Mongolia has signed cross-border road transport agreements with the People's Republic of China (PRC) and the Russian Federation, its vehicles are still face barriers to entry. Policies are needed to address road safety and vehicle emissions—one of the primary causes of deteriorating air quality in Ulaanbaatar. Well-linked modal infrastructure, harmonized policies and regulations, and solving multimodal logistical obstacles are essential. Funding for development and maintenance is way below Asian norms. Road safety is emerging as an important issue. While the private sector plays an important role in road transport services, competition remains restricted by government regulations. Despite some improvements, human resource capacity in the sector remains weak.

2. Government Strategy

91. The Government's road sector strategy aims to improve the efficiency of the road transport system and services to facilitate the country's economic and social development. The strategy focuses on (i) creating a favorable environment needed for developing a competitive road transport industry, (ii) increasing investment on road construction and rehabilitation to reduce Mongolia's isolation from world markets and improve the accessibility of isolated communities within the country, (iii) increasing funding for road maintenance, (iv) improving the efficiency of state-owned transport enterprises, and (v) improving road safety.

92. While important progress has been made on creating a favorable climate for a competitive road transport industry, severe budgetary constraints have limited the progress on increasing funding for road construction and maintenance, and improving road safety. Moreover, the strategy should review the need to improve and maintain the existing roads in areas with low population densities. A Road Master Plan prepared with ADB assistance and

approved by the Government identified priority road sections for investment and improvement, but the Road Master Plan needs updating as many priority projects identified have been constructed or are under construction. The Government plans, with external assistance, to develop a new transport strategy and update the Road Master Plan based on the country's development priority and the availability of financial resources. The new transport strategy will undertake a detailed assessment of all modes of transport including roads and identify strategic priorities and resources for sector development during 2005–2015. A working group on infrastructure, co-chaired by ADB and the World Bank, was established in April 2004 to coordinate external assistance activities to the Government in preparing the transport strategy. ADB has approved a technical assistance grant project to help develop the new transport strategy in 2005.

3. ADB's Experience

93. ADB has been involved in Mongolia's road sector since 1992. As of 31 March 2005, ADB had approved three loans totaling \$87.1 million and seven TA grants totaling \$3.9 million for the sector. ADB assistance helped develop the country's primary north-south road corridor between the Russian Federation and the PRC, facilitate sector policy reforms, strengthen the institutional capacity of sector agencies, prepare the road master plan, and support the awareness and prevention of HIV/AIDS and human trafficking on the north-south road corridor. Portfolio performance in the road sector is generally satisfactory. The 2002 CAPE concluded that ADB's road projects helped increase traffic counts and expand economic activities in the project areas. The first road project for rehabilitating a section of the north-south road corridor was completed in 2001 and was rated highly successful. While the second road project for constructing another section of the corridor experienced initial implementation delays due to limited experience of the contractor and the executing agency, the pace of implementation has picked up and the Government and the contractor are working on the target of completing the project within 2005. ADB assistance for road sector policy and institutional reforms helped develop the Road Act and the Road Transport Act to lay the basis for a sector policy framework, formulate a transport strategy and a road master plan, and establish the Road Board to monitor operation of the Road Fund.

4. Activities of Other Development Partners

94. Major development partners in Mongolia's road sector include PRC, Germany, Japan, Republic of Korea, and Kuwait and World Bank. The World Bank extended two credits totaling \$64 million to upgrade part of the country's east-west road corridor, improve road safety and maintenance, and build the capacity of government agencies in the sector. JICA provided grants to prepare a master plan for Ulaanbaatar urban transport and improve roads in Ulaanbaatar and in eastern Mongolia. The PRC and the Republic of Korea are cofinancing the project for improving a section of the north-south road corridor. Germany helped rehabilitate part of the east-west road corridor. The Kuwait Fund is assisting in improvement of the Darhan-Erdenet-Bulgan road. The Nordic Development Fund is providing assistance to the Government in formulating a road maintenance plan. ADB has been coordinating closely with other development partners in the road sector.

5. ADB's Sector Strategy

95. Given Mongolia's land-locked geography, and its reliance on the Russian Federation and the PRC for access to larger markets and the need for domestic market integration, the CSP for Mongolia identifies roads as a strategically important sector for ADB assistance. ADB

assistance to the road sector will support the Government's sector strategy and will aim towards achieving the following sector outcomes on (i) enhancing Mongolia's transport links to neighboring countries and promoting regional cooperation and integration in transport to address the country's landlocked status and remoteness from major developed markets, (ii) promoting and developing a sound sector policy and regulatory framework, (iii) ensuring adequate fund allocations through the government budget to the road sector, (iv) improving road safety, and (v) strengthening the institutional and human capacity in the sector. The North-South Altai Western Corridor road presently under consideration is located in the poorest part of Mongolia. Together with assistance in the agriculture and finance sectors, the road would foster economic growth with benefits for the poorest sections of the Mongolian population.

96. The Government's sector strategy developed with ongoing technical assistance (and in coordination with World Bank and Japan) will be the basis for the program. Better sector management in line with the strategy will address issues related to road maintenance, human resources, and policy and regulatory harmonization. The strategy is also expected to identify investments critical in addressing transport bottlenecks to economic development and poverty reduction. The Regional Altai Western Corridor Project will increase domestic market integration in the Western Mongolia and link road systems in the Russian Federation to those in the PRC. Supplemented by Mongolia's participation in the Central Asia Regional Economic Cooperation particularly in the areas of trade and investment and transit trade issues, this project and the Regional Transport Project will improve regional and domestic transport networks, and regional transport integration.

97. Beyond the operations described in this CSP, ADB's transport sector involvement will be governed by the Government's transport sector strategy. However, ADB's support will be directed primarily to operations that have demonstrable links to regional integration and agriculture and rural development. Issues of trade development will receive greater attention than basic transport infrastructure development. Road safety, environment management, and transport sector management are likely to acquire greater prominence in sector operations than in the past.

6. Implementing and Monitoring Issues

98. Implementation of ADB's road projects has generally proceeded satisfactorily. Implementing issues include delays in implementation of investment projects because of (i) limited experience of executing agencies and contractors, and (ii) Mongolia's extreme winter conditions that limit the annual construction season to only 6 months (April–October), which means that even minor delays in contractors' mobilization schedule or processing of project documents may result in slippage of 1 year in project implementation. Monitoring issues include the limited monitoring capacity of government sector agencies. Further strengthening of the institutional capacity of government sector agencies and close supervision from ADB are necessary to ensure that investment projects are successfully completed on time. The Government is addressing these issues with assistance from development partners.

Table A3.2 Road Sector Roadmap

| Item | Indicators ^a | | |
|---|--|----------------------------|---|
| | 5 Years Ago | Current | 5 Years |
| A. Sector Outcomes | | | |
| 1. Volume of freight traffic (million ton-km) | 126 | 242 | 310 |
| 2. Volume of passenger traffic (million passenger-km) | 364 | 557 | 710 |
| 3. Cross border movement of people, goods, services | Moderate | Increasing trend | Bottleneck eased |
| 4. Management of road sector | Discrete and uncoordinated | Discrete and uncoordinated | Well-linked, modal infrastructure, harmonizing policies and regulations, multi-nodal logistical problem solving |
| B. Sector Outputs | | | |
| 1. Length of road network (km) | 49,000 | 49,250 | 49,500 |
| 2. Road network density (km/100 km ²) | 3.1 | 3.2 | 3.2 |
| 3. Number of vehicles ('000 units) | 110 | 138 | 220 |
| 4. Road Accident (total number) | 5,991 | 5,278 | 4,100 |
| 5. Share of public funding for road maintenance to GDP (%) | 0.1 | 0.1 | 0.2 |
| 6. Cross border agreements | Source of bottlenecks | Source of bottlenecks | Bottlenecks eased |
| 7. Institutional and human resources | Insufficient | Insufficient | Sufficient for improved management of road sector |
| 8. Share of public investment in the road sector to GDP (%) | 0.8 | 1.5 | 2.0 |
| C. Sector Issues and Constraints | (i) Underdeveloped road network, (ii) Inefficient cross-border road transport, (iii) Inadequate sector policies and regulations, (iv) Insufficient financing for road maintenance, (v) Growing road accidents, (vi) Limited private sector participation, and (vii) Weak institutional and human resource constraints. | | |
| D. Actions, Milestones, and Investments | | | |
| | By Issue | Schedule | By Agency |
| | | | ADB Others/ External Gov't |
| 1. Pre-feasibility Study on the Altai Transport Corridor Development (ADTA) | (i), (ii), (iii), (iv), (v), (vi), (vii) | 2005 | 0.15 Possibly UNESCAP, PRC TBD |
| 2. Preparing the Altai Transport Corridor Development Project (PPTA) | (i), (ii), (iii), (v), (vi), (vii) | 2006-2007 | 0.65 TBD |
| 3. Altai Transport Corridor Development Project (investment) | (i), (ii), (iii), (v), (vi), (vii) | 2007-2012 | 64.0 Possibly PRC TBD |

ADB = Asian Development Bank, GDP = gross domestic product, Gov't. = Government, PRC = People's Republic of China, TBD = to be determined, UNESCAP = United Nations Economic and Social Commission for Asia and the Pacific.

^a Baseline and target values for the indicators will be established through technical assistance to the Government as part of the Results-Based Management Plan.

Sources: Staff Assessments and Government of Mongolia

H. Education

1. Background and Key Issues

99. Education was one of the country's principal achievements in the socialist era. School and dormitory facilities were established during the communist regime in all districts, allowing all children, including those from remote nomadic households, to obtain a basic education. Results were impressive. Gross enrolment rates (GER) in primary and secondary education reached 99% by 1990. This is evidenced by very high literacy rates, which stood in 2000 at 98% of the total population aged over 15. After severe declines during the early transition years, education indicators have, however, improved in recent years as a result of wide-ranging reforms covering expenditures, cost recovery, infrastructure consolidation, and staff reductions and education quality has improved. By 2004, the national GER in primary and secondary education was over 96%. Improvements in rural areas have, however, lagged behind. In 2003 of the total 342 rural districts, the GER was lower than 85%.

100. With present development trends in the education sector, human resources constraints on productivity increases in key industries could negatively affect future economic growth and unemployment due to lack of skills will be a major constraint on achieving the national MDG target of reducing national poverty incidence to 18% by 2015. Opportunities for the uneducated and unskilled poor in newly dynamic economic activities will not increase unless their access to appropriate education and skills development increases. Also, it is expected that while the MDG target of universal primary education will be achieved in urban areas, rural enrollment and completion rates could lag behind.

101. A number of key constraints will have to be addressed before education can play its expected role in supporting economic growth and inducing income improvements among the poor. Providing equal access to education is a basic problem that has been aggravated by recent migration into urban areas, deteriorating education facilities, and financial constraints. Improving the quality and relevance of education, will need attention to teacher training and incentives, the provision of adequate teaching aids and learning materials including textbooks, and updating the curriculum and syllabi to make them more relevant to the demands of a modern economy. Increasing the efficiency of the system will be essential if existing resources are to be utilized effectively. Refocusing vocational education and skills training on the labor market needs has become an urgent need in the light of human resource constraints on growth as well as unemployment-related poverty, as has providing access to market-oriented short-term skills training for adults. While the Government has been successful in improving the quality of and access to basic education services current approaches to skills development and vocational education need to be reviewed, particularly in terms their relevance, equity, flexibility, and efficiency.

2. Government Strategy

102. The Government considers its Education Sector Strategy (ESS) 2000—2005 as an integral part of its economic growth strategy aimed at higher, stable, private sector-led growth as well as its social strategy aimed at improving access of the poor to stable income opportunities and improving the quality and accessibility of public services. The Government's education policy has been driven by its ESS. Its major focus has been on improvements in the access to, and quality and relevance of basic education services, and the production of qualified and competitive human resources to further raise economic growth. Building on the achievements and lessons learned from the ESS 2000—2005, a new education master plan for

2006—2015 is currently being developed with the assistance of ADB. A comprehensive sector review including assessing the current education financing is ongoing. Based on the findings and recommendations of the sector review, the new education master plan will be developed. It is expected that the new plan will be completed and endorsed by the Parliament by end of 2005. The Master Plan will include strategies to address issues related to access, relevance, and quality of education services and to reduce the fragmentation of development cooperation efforts.

3. ADB's Experience

103. ADB has been a major provider of assistance to the education sector since the mid-1990s. ADB assistance in the sector has contributed in particular to improving access to and quality of basic education services and strengthening institutional capacity of the Ministry of Education, Culture and Science (MOECS). ADB assistance in the education sector began with the 1996 Education Sector Development Program (ESDP) with the objective of transforming the education sector to match the changing requirements of a transition economy. It succeeded in implementing measures to rationalize the education system, improve cost recovery, support privatization and private sector provision, strengthen management capabilities, and upgrade education content and contributed significantly to increasing the enrollment rates between 1996 and 2002 from around 82% to 97%, decreasing drop-out rates from 3.5% to 2.3 %, and improving effectiveness of the system and the quality of education services. Based on the achievements of ESDP, the Second Education Development Project (SEDP) focuses on school rehabilitation, provision of instructional materials, and capacity building of basic-school teachers and administrators. Current implementation progress is considered generally satisfactory. ADB has also supported the development of a replicable model for using ICT to bring education content, modern pedagogy, and information to poor rural schools.

104. With the support of ADB, the Government has successfully implemented a reform program improving the quality of basic education including rationalizing primary and secondary education facilities and staff. With assistance from ADB and other development partners the Government was able to improve learning and teaching environments in schools through (i) training and retraining of teachers, (ii) improvement of curriculum development, and (iii) provision of new textbooks and learning materials. A vast school rehabilitation program supported by donor agencies has improved the access to education services. Technical assistance is currently being provided to prepare the Third Education Development Project (TEDP) to further support reforming and strengthening the education sector and to assist in developing a new education master plan for 2006–2015.

4. Activities of Other Funding Agencies

105. In the process of implementing ESDP and SEDP, ADB has closely cooperated with the JICA focusing in particular on the CSP sector outcome aiming at improving access to and quality of basic education services. The Government of Japan is financing the upgrading of urban schools, as well as supporting policy development and ICT. ADB has also worked very closely with the Canadian International Development Agency (CIDA) whose feasibility study on school construction and rehabilitation contributed extensively to the SEDP's design. The Canada Fund is also piloting approaches to rural school rehabilitation, which provided vital information for the SEDP. The United Nations Children's Fund (UNICEF) is active in school rehabilitation, nonformal education, and development of community-based approaches to primary education. The Danish Agency for International Development Assistance has financed the development of 40 rural schools, although additional support is not planned. The Soros

Foundation has an ongoing program for modernizing teacher training, educational publishing, and ICT development; much of this support has been implemented in close concert with related ESDP activities. The World Bank has financed small-scale renovations of schools under its Poverty Alleviation Program, as well as a number of policy-oriented, cross-cutting interventions including a public expenditure review and development of the poverty reduction strategy paper. Currently the World Bank is considering providing the International Development Association with resources to improve access for the vulnerable to formal education or serving them through non formal education. Germany is providing support for modernizing vocational training and the European Union has provided support for quality improvement of higher education. However, with the exception of assistance provided by ADB and JICA, the support by these agencies has been relatively modest in financial terms. Nordic Development Fund has provided significant cofinancing to SEDP.

106. In 2004, the Government submitted a proposal to the Millennium Challenge Corporation containing a sizeable educational component, including projects in vocational training, youth career counseling, and English language education. The project design phase of the TEDP will consider the corporation's potential assistance to ensure close cooperation.

107. At present, investment in the sector is fragmented; externally financed projects are largely planned and executed on a bilateral basis between the respective development agencies and the Government, limiting coordination and coherence between the different projects and raising transaction costs. To improve efficiency of donor assistance, an understanding was reached that the current cooperation mechanism needs to be improved. Donor interventions should be fully in accordance with government policies and under their leadership. At the initiative of ADB, World Bank and UNICEF the proposal to gradually establish a sector wide approach (SWAp) in the education sector emerged, with the agreement that ADB (co-chairing external funding coordination with Japan) would take the lead.

5. ADB's Sector Strategy

108. ADB's program in the education sector will be aimed at delivering the following outcomes: (i) improved access to and quality of basic education services, (ii) increased availability of skills training and re-training opportunities for youth and adults, (iii) more efficient and effective education provision, and (iv) more effective donor coordination. An improved policy framework for education sector, improvements to school infrastructure, improvements in quality of teaching and learning environments, improved core technical and management capacity to deliver education services efficiently and effectively, and the establishment of a donor coordination mechanism are expected outputs. The issue of enrollment and completion rates among young boys from herder households will receive particular attention in the context of meeting MDG targets related to rural education. School enrollment and completion rates; quality of graduates; relevance of curriculum; education-related unemployment; quality, efficiency, effectiveness, and responsiveness of education provision; and the implementation of common core government strategy by all external funding agencies will be monitored to manage the program for results. Technical assistance is being provided to quantify these indicators and establish a monitoring mechanism towards results-based management. ADB will play the lead role in harmonizing development assistance by co-chairing development assistance by chairing an education SWAp. Future investments are anticipated to play a key role in the sector in line with the Government's education master plan being developed with ADB assistance. PPTA has been programmed to design these investments. Civil service, accounting, and legal training will receive attention in the context of the education sector strategy and potential interventions and will help address governance issues.

109. Currently, ADB is assisting the Government in carrying out a comprehensive sector review to prepare the new Education Master Plan for 2006–2015 including an expenditure program. The new Education Master Plan is considered as a key sector output, which will provide a strategic framework to ensure that education spending and investment in the sector is evidence-based, informed, and sustainable. The findings of the sector review will provide baseline data required to establish indicators to monitor the achievement of the CSP sector outcomes and outputs. It is expected that the new Education Master Plan will be completed and endorsed by the Parliament by end of 2005.

110. At present, challenges on basic education are addressed by the ongoing SEDP that aims at following sector outputs: (i) improving access to education services by construction of 6 new schools and rehabilitation of 60 schools in rural areas; and (ii) improving the quality of teaching and learning environments in primary and secondary schools through provision of new textbooks, teaching and learning materials, training of teachers, and integration of ICT. Building on the achievements of the ESDP and ongoing SEDP, the proposed TEDP will particularly address priority needs in (i) further school rehabilitation, (ii) modernizing teaching and learning environments in basic education, (iii) strengthening vocational education and skills training to promote economic growth by improving productivity and competitiveness of the workforce, and (iv) promoting institutional capacity of the MOECS to improve effectiveness and efficiency of the education system. The preparatory TA to design the project concept commenced in May 2005; the project proposal that will specify the sector outputs is expected to be finalized for board consideration in December 2005.

111. Among the development partners, ADB has the lead role in supporting the education sector reform. ADB's strategy aims at achieving improved donor harmonization and coordination across the sector, which may eventually evolve into a full-fledged SWAp. Additional resources to promote donor coordination and assist in establishment of a SWAp will be allocated in the context of the TEDP. However, the effectiveness of SWAp depends on the efficiency of the MOECS. The ongoing TA to prepare the TEDP also addresses further capacity-building needs required to strengthen the core technical and management capacity of MOECS enabling the ministry to establish a SWAp and strengthen the efficiency and effectiveness of the delivery of education services, particularly by establishing the systems to manage the sector for development results.

112. Past assistance in the education sector has succeeded in establishing the basic infrastructure and providing the foundation for sustainable improvements in quality of education. After assisting the Government in adopting a SWAp in the sector, ADB will withdraw from assisting in basic sector development, and will focus instead on assisting the Government to specifically improve education services for rural and marginal urban populations and the disabled, increase the relevance of education for private sector growth, and reduce unemployment. With improved government capacity for managing the education sector, future assistance is expected to take the form of support, within the framework on EGSPRS and the sector strategy, to direct support for government programs that focus on rural service provision and marginal urban populations. Support is also anticipated for further development of private sector initiatives in education and skills training.

6. Implementation and Monitoring Issues

113. MOECS is the central administrating body that formulates national educational policy and sets the standards for each level of formal education. The Ministry also administers general

provisions on education matters, teacher training, curriculum development, preparation and publication of textbooks, as well as state examination procedures. In addition, the Ministry supervises the implementation of set standards and contents, and responsible for the accreditation of new higher educational institutions.

114. The process of introducing a SWAp in education will require adequate management resources, a well-defined implementation framework and a set of principles agreed by the Government and development partners including: (i) emphasizing national ownership; (ii) the government adopting an all-inclusive approach to policy development by inviting broad-based participation from civil society, the private sector, and the donor community; (iii) development partners committing themselves to reducing the fragmentation of development cooperation efforts and shifting from a project to a program approach, which will require harmonizing of procedures preferably based on government arrangements; and (iv) establishing joint monitoring arrangements that will focus on the impact of interventions on the improvement of quality of the education system rather than on single projects.

115. At present the harmonization level of externally-funded activities in the education sector is very low and MOECS manages externally-funded projects largely on an individual basis. The current government capacities to establish and manage a comprehensive SWAp are weak. It is unlikely that an advanced SWAp, including harmonized planning and budgeting as well as common implementation arrangements steered through MOECS, will be established in the near future. The effectiveness of SWAp will depend on the efficiency of the key government agencies. ADB will address capacity building needs to strengthen the core technical and management capacity of MOECS required to enable the ministry to establish a SWAp step by step.

Table A3.3: Education Sector Roadmap

| Item | Indicators ^a | | | | |
|--|---|---|---|-------------------------|---|
| | 5 Years Ago | Current | 5 Years | | |
| A. Sector Outcomes | | | | | |
| 1. School enrollment rates | 75 | 90.3 | At least 5 percentage point increase | | |
| 2. School completion rates | 62.3 | 66.3 (2000) | At least 10 percentage point increase | | |
| 3. Ability of graduates to meet needs of market | Low | Low | Marked improvement | | |
| 4. Education-related unemployment | High | High | Marked reduction | | |
| 5. Efficiency and effectiveness of education delivery | Inefficient | Improving trend | Marked improvement | | |
| 6. Effectiveness of donor coordination | Poor | Improving trend | Fully satisfactory | | |
| B. Sector Outputs | | | | | |
| 1. Implementation of improved policy framework | Nascent | In formulation | Primary determinant of sector development | | |
| 2. Improvements to school infrastructure | Ongoing | Ongoing | Satisfactory | | |
| 3. Quality of teaching and learning environments | Conceptualized | Improvement ongoing | Fully satisfactory and updates planned | | |
| 4. Technical and management capacity for satisfactory service delivery | Unsatisfactory | Institutional Development Plan formulated | Satisfactory implementation of institutional development plan | | |
| 5. Donor coordination mechanism | Rudimentary | Conceptualized | Fully operational | | |
| C. Sector Issues and Constraints | (i) Providing equal access to education which is affected by internal migration, deteriorating education facilities, and financial constraints; (ii) Improving quality and relevance of education at all levels; (iii) Lack of sufficient skills training and re-training opportunities for the poor; (iv) Mismatch between skill supply and industry demand; and (v) Improving the effectiveness in utilizing existing resources and donor assistance. | | | | |
| D. Actions, Milestones, and Investments | | | By Agency | | |
| | By Issue | Schedule | ADB | Others/ External | |
| | | | | Gov't | |
| 1. Education Sector Master Plan Developed | (i), (ii), (iii), (iv), (v) | 2005 | √ | | √ |
| 2. Education Development Project | (i), (ii), (iii), (iv), (v) | 2006—2008 | √ | WB | √ |
| 3. Preparation of further investments in line with Master Plan | (i), (ii), (iii), (iv) | 2008 | √ | WB, Others | √ |
| 4. Institutional Development Plan Implemented | (v) | 2006—2008 | √ | | √ |
| 5. Establishment of SWAp | (v) | 2006—2007 | √ | √ | √ |
| 6. Implementation of common core strategy by all stakeholders | (i), (ii), (iii), (iv), (v) | 2007—2015 | √ | √ | √ |

ADB = Asian Development Bank, Gov't. = Government, SWAp = sector wide approach, WB = World Bank.

^a Baseline and target values for the indicators will be established through technical assistance to the Government as part of the Results-Based Management Plan.

Sources: Asian Development Bank and Government of Mongolia

I. Health

1. Background and Key Issues

116. The difficult economic environment and discontinuation of budgetary support from the former Soviet Union have had adverse effects on Mongolia's health sector. With major cuts in Government expenditures on health, the costly system influenced by the Soviet model, was no longer sustainable and deteriorated rapidly. Mongolia has been actively reforming its health care system and health financing mechanisms since the early 1990s. ADB has been a major partner. However, the level of achievements in reforms varies, and the health sector of Mongolia still faces considerable challenges.

117. The Government's national goal is to achieve the MDG targets. But although the health status of Mongolians has improved steadily since 1996, some MDG targets could be at risk. The Infant Mortality Rate has declined, but is still high with large disparities between rural and urban areas. Slow progress in improving the Maternal Mortality Ratio is a particular concern. Poor nutrition, particularly among pregnant women and young children, is another acute problem. The country also faces the re-emergence of infectious diseases, such as tuberculosis, syphilis, and viral hepatitis. Furthermore, Mongolia has rapidly undergone an epidemiological transition in the past 10 years. Disease patterns show the double burden of communicable and non-communicable diseases.

118. Improving the quality of health care and its access for the poor will be the key to achieving the national MDG targets. Despite spending of about 5% of GDP, the health care system remains limited in its outreach to the poor and remote populations. Efficiency, prioritization, and equitable distribution are key issues. However, financial management capacity is insufficient. The PSMFL was passed by Parliament in 2002 but Ministry of Health lacks a comprehensive health finance policy to implement the PSMFL. Mongolia has also had a health insurance scheme since 1994 with universal coverage. But poor households who are unable to pay the premiums have dropped out of the scheme and have limited access to health services. Such households include seminomadic, herders, and urban immigrants. The health services delivery system inherited from the communist era is characterized by hospital-based and curative care-biased services, and its structure is extensive (excess of hospitals and overstaffing). Achievements have been seen in strengthening the primary health care system in urban areas. However, hospital and staff rationalization has been slow and insufficient. Accordingly, the health system is still costly and inefficient.

2. Government Strategy

119. The Government's sector goal is to achieve equitable quality health care by targeting resources especially to the poor and to areas in greatest need. The Government intends to implement national reproductive health and child health programs, and improve the access to and quality of basic health services in rural areas. A major priority of the Government towards improving rural health care is to reorganize the administrative structure, reduce the concentration of resources in Ulaanbaatar, and build regional centers. Another government priority is to promote primary health care by establishing family group practices. The budget allocation towards primary health care has increased substantially but remains below the 40% target agreed by the Government and the international community. Towards encouraging private sector participation in health care provision, the Government has developed guidelines and a legal framework for social sector restructuring and privatization, and prepared a list of health facilities for restructuring. The Government also promotes leasing of public buildings and

contracting out of non-medical hospital services. Towards the rationalization of service delivery, the Government has achieved initial targets of reducing the bed numbers and developed a human resource management policy for the health sector. However, the number of beds in Ulaanbaatar continues to increase and the gap between urban and rural areas, both in terms of hospital beds and human resources is large. The Government has adopted the PSMFL to improve its budgeting, planning, and management capacity and promoted in particular output-based budget planning. The Ministry of Health is developing the framework and building its capacity, but progress is slow and commitment to reform is weak.

3. ADB's Experience

120. Through its Health Sector Development Program (HSDP),⁹ ADB has helped introduce significant changes in the health system. HSDP was designed to provide an integrated package of policy and institutional reforms supported by a program loan, investments supported by a project loan, and technical assistance.¹⁰ HSDP, completed at the end of 2003, contributed to better access and quality of health services in urban areas and established the foundation for increasing efficiency and sustainability. However, much remains to be done to consolidate reforms and deepen their impact. Further efforts to improve the quality of family general practices and rationalize hospital facilities and overstaffing are essential. The Second Health Sector Development Project (HSDP II) approved in 2003 aims to continue sector reforms and capacity building and to address rural issues. HSDP II is associated with three grants for the development and improvement of the PSMFL and health care financing, ICT development in the health sector, and strategies for safe motherhood.

4. Activities of Other Funding Agencies

121. A recent development in international assistance for the health sector is the health sector strategic master plan initiative. The master plan, with the support of Japan International Cooperation for Welfare Services aims at defining the overall policy framework of health sector development and facilitating the coordination of international agencies. A SWAp is planned under the master plan. The World Bank focuses on hospital rationalization and privatization in the Ulaanbaatar. Core strategies for coordinated work for MDGs are set by the Government. The Global Fund to fight HIV/AIDS, Malaria, and Tuberculosis has recently provided funds for HIV/AIDS and tuberculosis control programs. Work plans of UNICEF, UNFPA, the World Health Organization, and other agencies focus on MDGs, which provide a unifying framework for external support.

5. ADB's Sector Strategy

122. ADB's strategy in Mongolia's health sector will remain focused on reforming the sector to promote equitable, efficient, and sustainable sector development and on building the capacity for planning, managing, and monitoring programs and budgets. Women's health issues will receive particular attention given their crucial role in meeting MDG targets. Rural health care initiatives, in particular, will pay specific attention to issues of women's health. The unachieved reform agenda includes staff rationalization, health care financing reforms at the hospital level and in rural areas, and strengthening of public private partnership. These issues involve intersectoral discussions and decisions, in particular with the Ministry of Finance. It is often difficult for the

⁹ ADB. 1997. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Mongolia for the Health Sector Development Program*. Manila. This includes a program loan to support policy reforms, a project loan for investments, and a technical assistance for Support for Decentralized Health Services.

¹⁰ ADB. 1997. *Technical Assistance to Mongolia for Support for Decentralized Health Services*. Manila.

Ministry of Health to implement reforms, and ADB can play a useful role in developing a mechanism to support inter-ministerial decisions to accelerate policy implementation.

123. To help the Government achieve MDGs, it is important for ADB to provide assistance to poor people, in parallel with comprehensive sector and policy support. To ensure impacts on improving health of poor people, activities should be developed to cover the hard-to-reach areas and segments of the population. One strategy is the extension of service options to meet the geographical/ physical, social, cultural, and economical needs of underserved populations and to organize services at times and in places that hard-to-reach users find acceptable. Others include an innovative information, education, and communication strategy to reach needy people, and to increase their access to services, and to combine welfare and health services so that health needs and demands can be met.

124. Beyond the assistance described in this CSP, further project-based assistance is not expected in the health sector. It is expected that the Government's master plan will be well integrated with the EGSPRS and the medium-term budget framework. ADB assistance in the form of budget support for specific elements of the Government's program focused on rural health care, women's health, and poor sections with demonstrable benefits towards meeting MDG targets will receive attention. It is also expected that the monitoring of this CSP for results will provide some indications about specific interventions that will be needed to enhance the existing program. These could be undertaken in the context of the Government's master plan.

6. Implementation and Monitoring Issues

125. Mongolia already has significant number of people who have knowledge of ADB procedures and experience of ADB projects. The Ministry of Health has also accumulated experience in working with ADB. Hence, no big problems are foreseen at the operational level of project implementation. The Government is actively developing new strategies to reform the health sector. Hence, the most important need is to define health outcomes and standards at all levels and to link investments to measurable outcomes and effective service delivery. The country's monitoring and evaluation system is weak and needs to be strengthened, including the project performance monitoring system. The project completion report for HSDP pointed out that impacts were difficult to evaluate in some areas because of absence of baseline data. It is proposed that for future projects, a system should be established at an early stage of implementation to monitor and analyze outputs and achievements. To learn from lessons, HSDP II has strengthened the project performance monitoring system and is conducting baseline surveys before pilot investment starts. The key objective would be to produce timely and reliable information for strategic decision-making, monitoring, and evaluation, which feeds into sector-level monitoring systems themselves well-integrated with national systems.

Table A3.4 Health Sector Roadmap

| Item | Indicators ^a | | |
|---|---|--------------------------|---|
| | 5 Years Ago | Current | 5 Years |
| A. Sector Outcomes | | | |
| 1. Public health spending (% of GDP) | 4.0 | 5.2 | 5.0 |
| 2. Public health spending for PHC (% of total public health spending) | | 19 | 39 |
| 3. Number of hospital beds per 1,000 | 7.5 | 6.5 | 6.0 |
| 4. Staffing mix (number of nurses per doctor) | 1.2 | 1.2 | 3 |
| 5. Antenatal care visit during the 1 st trimester (%) | | 67.9 | 72.2 |
| 6. Number of public-private partnerships | Insignificant | Conceptualized | Noticeable |
| B. Sector Outputs | | | |
| 1. Staff resources and mixes | Inadequate | Inadequate | Fully adequate as per HSDP II design |
| 2. Health care reforms at hospital and rural levels | Conceptualized | Implementation commenced | Fully satisfactory implementation |
| 3. Better hospital management | Centralized and limited responsiveness | Reforms conceptualized | Fully satisfactory in terms of efficiency and effectiveness |
| 4. Better rural and ger area health care facilities | Inadequate | Inadequate | Marked Improvement |
| 5. Monitoring systems | Input based and sector specific | System conceptualized | System established and progress satisfactory |
| C. Sector Issues and Constraints | (i) Double burden of diseases; (ii) Poorer health conditions and poorer health services in rural areas, compared with urban areas; (iii) Overstaffing and maldistribution of staff across region, skill, and the level of the health system; (iv) Hospital-dominated inefficient system and inefficient hospital management; (v) Limited sector capacity for planning, budgeting, and management; (vi) Limited and inefficient health care financing; and (vii) Limited understanding on health reform agenda among population. | | |
| D. Actions, Milestones, and Investments | | | |
| | By Issue | Schedule | By Agency |
| | | | ADB Others/ External Gov't |
| 1. Health sector strategic master plan initiative | (iii), (iv), (v), (vi) | 2003—2005 | √ JICWELS √ |
| 2. HSDP2 | (i), (ii), (iii), (iv), (v), (vi), (vii) | 2004—2008 | √ √ √ |
| 3. Hospital Privatization | (iv), (vi) | 2004—2007 | WB √ |
| 4. Country program | (i), (ii) | 2005—2010 | UNFPA √ |
| 5. Country program | (i), (ii) | 2004—2006 | UNICEF √ |
| 6. Country program | (i), (ii) | 2004—2006 | Global fund √ |

ADB = Asian Development Bank, GDP = gross domestic product, Gov't. = Government, HSDP II = Second Health Sector Development Project, JICWELS = Japan International Corporation of Welfare Services, PHC = primary health care, UNFPA = United Nations Population Fund, UNICEF = United Nations Children's Fund, WB = World Bank.

^a Baseline and target values for the indicators will be established through technical assistance to the Government as part of the Results-Based Management Plan.

Sources: Asian Development Bank and Government of Mongolia

J. Urban Development

1. Background and Key Issues

126. Mongolia had developed basic infrastructure and services in urban areas with financial assistance from the former Soviet Union. The program stopped when the former Soviet Union collapsed. Many urban areas ended up with incompletely installed infrastructure and low or unsatisfactory level of services. At the same time, urbanization, already rapid in the second half of the 20th century, was accelerated during the transition to a market-based economy. By 2003, 58% of the national population lived in urban areas. Urbanization increased substantially during the severe winters and droughts of 2001 and 2002. Urbanization has brought with it problems related to the provision of urban services and housing and associated health and environmental problems. Urban migrants now constitute one of the major groups of the poor. Most of the in-migrants live in the ger areas on the periphery of urban centers. They tend to be poorer, less educated and have worse living conditions than non-migrants. They typically lack access to adequate urban services and housing and are particularly susceptible to related problems.

127. The Government's national goals of achieving MDG targets will depend crucially upon making adequate urban services and housing available in the urban centers and particularly to the urban poor. At the end of 2000, only 40% of the urban population had access to piped water, 39% to district heating, and 35% to piped hot water. MDG targets related to the spread of infectious diseases, safe drinking water, and improvements in living conditions are particularly contingent upon adequate delivery of urban services and housing. Most of the urban poor live in substandard conditions with poor access to safe water, sanitation, and heating. The lack of adequate water and sanitation and heating, particularly in the ger areas in turn leads to associated health problems and air, water, and soil pollution.

128. Improving the quality of urban services and housing faces many difficult challenges. There is a particularly large disparity in the provision of urban infrastructure and services between apartment areas and ger areas in which over half the urban population lives. Virtually no ger households are connected to the central heating network, access to water supply is difficult and expensive, and many use pit latrines because they do not have access to the central sewerage or drainage system. Over 70% of ger households lack access to waste removal points. Urban infrastructure and services in the apartment areas, while better than those in the ger areas, are typically old and deteriorated. Outdated technology as well as limited maintenance and repair over the last decade have created inefficiencies that render the current infrastructure networks unsustainable for future urban growth. Standards and norms necessary for planning of urban land-use and zoning, and construction of infrastructure and buildings inherited from the former Soviet Union are not always suitable to the natural and social environment of Mongolia. Despite considerable up front effort in their development, the implementation of building norms, regulations, and standards is unsatisfactory with a high number of violations.

2. Government Strategy

129. In accordance with the National Action Plan, the Ministry of Construction and Urban Development accords high priority to a program to provide 40,000 households with opportunities to live in houses with proper facilities. The Government plans to implement this program through domestic resources and external assistance. Out of 40,000 houses, 10,000 are anticipated in apartment areas, 15,000 in newly developed detached houses area in suburbs, and 15,000 in ger areas. The Government is continuing implementation of the regional development concept

aiming to narrow disparities in urban and rural development; accelerate economic growth; and support development through appropriate utilization of regional natural resources. The Government is also investigating the redefinition of regional boundaries in coordination with its administrative consolidation program.

3. Asian Development Bank Experience

130. ADB has assisted the urban development and housing sector through loan, TA, and grant projects for basic urban services improvements in the provincial capitals, housing finance, living environment improvements in ger areas, cadastral survey and land registration, and regional development planning. ADB has been one of the main sources of external assistance for the sector. Significant momentum has been established in developing a sustainable housing finance in developing a legal framework for mortgage finance, enabling long-term housing loans, providing liquidity to the housing market, demonstrating the viability of high-quality mortgage loans, and creating an initial pool of seasoned mortgages that might be sold through private placements. The project is the first step in establishing a sustainable market based housing finance system in Mongolia. Further steps are necessary to extend the reach of the system to poorer sections of the population and towards housing improvements and improving access to urban services.

4. Activities of Other Development Partners

131. The World Bank is implementing the Second Ulaanbaatar Services Improvement Project to improve the quality of life of the urban poor in ger areas of Ulaanbaatar by providing basic urban services. The World Bank, in cooperation with the Canadian Cities Alliance, is also developing City Development Strategies in five provincial capitals. Among other agencies, the JICA, UNDP, and USAID are active in the urban sector.

5. Asian Development Bank Strategy

132. Ongoing assistance to help prepare the Government's urban sector strategy will provide a framework for improved urban development and planning. In the implementation of the strategy, ADB will focus on issues related to marginal urban, predominantly ger, areas through the 2006 Urban Development Project. General urban development issues are expected to receive less attention from ADB given the involvement of other development partners. The 2006 project is expected to upgrade water, sanitation, and heating networks in poor marginal urban areas. Waste collection, hot water connections, and other services, although important, will not be the focus given the limited resources available. ADB will assist the Government in identifying financing sources for these services. Sector outputs will also improve environmental conditions and help address health problems among the marginal urban poor. Though upgrading of low-income housing will receive support, construction of new housing and housing finance will not be supported as past experience has shown that it is difficult to target such assistance to the poor. Technical assistance in 2008 will help prioritize further areas of focus.

133. As with other sector operations in Mongolia, ADB's urban sector operations are also based upon the anticipation that future assistance will become increasingly less project oriented and instead focus on supporting time-slices or specific elements of the Government's own strategy that are congruent to ADB's overarching goal of poverty reduction. In the urban sector, this approach is expected to result in two major directions beyond the period of this CSP. First, the Government is embarking on a regional development program that anticipates growing migration into urban centers other than Ulaanbaatar. ADB will target the section of the

population that settles on the peripheries of these urban areas and hence is likely to remain out of reach of most government-supplied services. Second, ADB will focus on time slices of government programs that are aimed at the MDG targets related to water supply and sanitation. Other services, although important will not form the focus of ADB attention. Instead, ADB will try to mobilize funding from other sources towards the development of these services.

6. Implementation and Monitoring Issues

134. Socio-economic and physical conditions in urban areas have been changing quickly. ADB will need to carefully monitor the changing situation and to closely supervise project implementation. Field visits to interact with local bodies and beneficiaries are encouraged even though some project locations are remote.

Table A3.5 Urban Development Sector Roadmap

| Item | Indicators ¹ | | |
|--|---|-----------------------------|---|
| | 5 Years Ago | Current | 5 Years |
| A. Sector Outcomes | | | |
| 1. Access to safe water – apt/ger (%) | Moderate/low | Low/low | Adequate/satisfactory trend |
| 2. Access to sanitation – apt/ger (%) | Moderate/low | Low/low | Adequate/satisfactory trend |
| 3. Access to heating – apt/ger (%) | Moderate/low | Low/low | Adequate/satisfactory trend |
| 4. Population with access to waste collection – apartments/ger areas (%) | Moderate/low | Low/low | Adequate/satisfactory trend |
| 5. Access to hot water – apt/ger (%) | Moderate/low | Low/low | Adequate/satisfactory trend |
| 5. Air, water, soil quality problems related to urban development | Increasing | Increasing | Satisfactory trend |
| 6. Health problems related to urban services and housing | Increasing | Increasing | Satisfactory trend |
| 7. Improved approach to urban development and planning | Outdated, non-responsive | Improvements conceptualized | Satisfactory implementation progress |
| B. Sector Outputs | | | |
| 1. Poor households with satisfactory housing | Deteriorating trend | Deteriorating trend | Improving trend in line with Government plan |
| 2. Water connections for poor households | Low | Deteriorating trend | Satisfactory improvement |
| 3. Sanitation service for poor households | Low | Deteriorating trend | Satisfactory improvement |
| 4. Heating connections for poor households | Low | Deteriorating trend | Satisfactory improvement |
| 7. Urban sector strategy and norms | Little progress | Conceptualization | Satisfactory implementation |
| C. Sector Issues and Constraints | (i) Disparity in provision of urban infrastructure and services between apartment areas and ger areas; (ii) Poor coverage of heating, water supply, sewage, and waster removal services; (iii) Apartment infrastructure and services old and deteriorated; (iv) Outdated and unresponsive standards and norms for urban land-use and zoning, and construction; and (v) Unsatisfactory implementation of norms, regulations and standards. | | |
| D. Actions, Milestones, and Investments | | | |
| | By Issue | Schedule | By Agency |
| | | | ADB Others/ External Gov't |
| 1. Second Ulaanbaatar Services Improvement Project | (i), (ii), (iii), (iv), (v) | 2006—2008 | √ WB √ |
| 2. City Development Strategies | (iv), (v) | 2006—2009 | √ WB, CIDA √ |
| 3. Cadastral Survey and Land Registration | (iv), (v) | 2001—2007 | √ GTZ √ |
| 4. Housing Finance Project | (iii) | 2001—2007 | √ √ |
| 5. Urban Services in Provincial Towns | (i), (ii), (iii) | 2002—2008 | √ √ |
| 6. Urban Development and Housing Project | (i), (ii), (iii), (iv), (v) | 2006—2009 | √ √ |

ADB = Asian Development Bank, CIDA = Canadian International Development Agency, Gov't. = Government, GTZ = Deutsche Gesellschaft für Technische Zusammenarbeit, WB = World Bank.

^a Baseline and target values for the indicators will be established through technical assistance to the Government as part of the Results-Based Management Plan.

Sources: Asian Development Bank and Government of Mongolia

CONCEPT PAPERS FOR LENDING PRODUCTS

This appendix contains the concept papers for projected lending products.

- (i) Table A4.1: Urban Development III
- (ii) Table A4.2: Improving Public Service Delivery Through Administrative Consolidation
- (iii) Table A4.3: Agricultural and Rural Development

Table A4.1: Urban Development III Concept Paper

Date: 25 February 2005

| | | | | | | | | |
|--|--|--|--|---|-------------------------------------|---|---|--|
| <p>1. Type/modality of assistance (double-click on appropriate box)</p> <p><input checked="" type="checkbox"/> Lending</p> <p><input checked="" type="checkbox"/> Project loan</p> <p><input type="checkbox"/> Program loan</p> <p><input type="checkbox"/> Sector loan</p> <p><input type="checkbox"/> Sector development program loan</p> <p><input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Nonlending</p> <p><input checked="" type="checkbox"/> Project preparatory</p> <p><input checked="" type="checkbox"/> Other than project preparatory</p> <p><input checked="" type="checkbox"/> Economic, thematic, and sector work</p> <p><input type="checkbox"/> Institutional development</p> <p><input type="checkbox"/> Other:</p> | | | | | | | | |
| <p>2. Assistance Focus</p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector(s): Multisector Subsector(s): Water supply and sanitation, waste management, and integrated heating and hot water supply; and housing</p> <p>b. For project preparatory and lending, classification</p> <p><input checked="" type="checkbox"/> Targeted Intervention</p> <p><input type="checkbox"/> General Intervention</p> <p>c. Key thematic area(s)</p> <p>Themes:</p> <table border="0"> <tr> <td><input type="checkbox"/> Sustainable economic growth</td> <td><input checked="" type="checkbox"/> Environmental sustainability</td> </tr> <tr> <td><input checked="" type="checkbox"/> Inclusive social development</td> <td><input type="checkbox"/> Regional cooperation</td> </tr> <tr> <td><input type="checkbox"/> Governance</td> <td><input type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td></td> </tr> </table> <p>Subtheme(s): Human development, urban environmental improvement</p> | <input type="checkbox"/> Sustainable economic growth | <input checked="" type="checkbox"/> Environmental sustainability | <input checked="" type="checkbox"/> Inclusive social development | <input type="checkbox"/> Regional cooperation | <input type="checkbox"/> Governance | <input type="checkbox"/> Private sector development | <input type="checkbox"/> Gender and development | |
| <input type="checkbox"/> Sustainable economic growth | <input checked="" type="checkbox"/> Environmental sustainability | | | | | | | |
| <input checked="" type="checkbox"/> Inclusive social development | <input type="checkbox"/> Regional cooperation | | | | | | | |
| <input type="checkbox"/> Governance | <input type="checkbox"/> Private sector development | | | | | | | |
| <input type="checkbox"/> Gender and development | | | | | | | | |
| <p>3. Coverage</p> <p><input checked="" type="checkbox"/> Country <input type="checkbox"/> Subregional <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p> | | | | | | | | |
| <p>4. Responsible division/department: Social Sectors Division, East and Central Asia Department</p> | | | | | | | | |
| <p>5. Responsible ADB officer(s): E. Honda</p> | | | | | | | | |
| <p>6. Description of assistance(s)</p> <p>a. Background/linkage to country/regional strategy: With the migration into urban centers, MDG targets on access to water and sanitation and quality of life are at risk. Poor migrants in marginal areas lack access to basic urban services. Health problems are also related to insufficient services and poor living conditions. ADB assistance for the urban sector is aimed at keeping Mongolia on track to meeting MDG targets and focuses on services most important to marginal urban migrants. Ongoing assistance to help prepare a strategy will provide a framework for urban development and planning. The project will support its implementation with a focus on marginal urban areas.</p> <p>b. Goal and purpose: The Project will assist the Government in (i) providing sustainable and affordable infrastructure and services for urban residents, especially in ger areas; (ii) promoting community participation in</p> | | | | | | | | |

project preparation, implementation, and post-project operation and maintenance activities; (iii) increasing opportunities for low income households to access housing loans; and (iv) improving urban planning and management and the capacity of government agencies to provide and operate urban services.

c. Issues for Review: A participatory approach would be adopted to ensure ownership and commitment of local agencies and beneficiaries. Issues of potential involuntary resettlement will receive particular attention in the context of urban development in Ulaanbaatar. The PPTA will review the following aspects as potential components / outputs.

Part A: Urban and Housing Development

- (i) investigate alternative technologies of infrastructure (water supply, sanitation, solid waste management, heating, hot water supply, roads, and storm water drainage), considering environmental impacts, costs, affordability, and institutional arrangements;
- (ii) review the on-going pilot ger area neighborhoods restructuring that aims to introduce a grid-based circulation system and provide neighborhood-financed and managed infrastructure and services, propose improvements, and prepare detailed guidelines;
- (iii) review the past and on-going in-fill housing area development schemes, propose improvements, and revise existing guidelines with emphasis on public-private partnership;
- (iv) review the proposals for economic, infrastructure, and housing development prepared in Darkhan, Erdenet, Tsetserleg, Khovd, and Choibalsan, and prepare packages suitable for ADB financing; and
- (v) prepare indicative sub-project components for infrastructure provision.

Feasibility studies in the sample urban centers will be conducted to (a) prepare preliminary engineering designs and cost estimates, (b) assess financial and economic viability and sustainability, (c) assess environmental and social soundness, (d) develop a design and monitoring framework and implementation arrangements, and (e) establish a set of criteria and guidelines to select subprojects to be proposed by interested local governments.

Consideration will be given to the use of a sector loan approach for this component. To be qualified for funding, interested provincial governments will be required to show their willingness to actively involve local communities in the planning, decision-making, financing, implementation, and maintenance of subprojects by fulfilling a series of pre-project conditions.

Part B: Housing Development

- (i) estimate housing loan demand for low income households to purchase new plots, build or improve houses, and improve urban services.;
- (ii) assess the affordability and effective cost recovery mechanism for low income housing loans;
- (iii) determine the optimum institutional relationship, funds flow mechanism, and effective targeting to deliver housing loans to low income households;
- (iv) review and comment on the Government's proposal for a secondary mortgage refinancing;
- (v) assess the need for further support in developing laws and regulations required for a functioning mortgage market; and
- (vi) recommend long-term sustainable institutional set-up for both the private sector mortgage market and public sector housing finance to deliver housing loans for low, moderate, and middle income groups.

Part C: Institutional Development

- (i) review the revised planning, zoning, and building codes and standards, design a dissemination program, and propose effective measures for implementation;
- (ii) review the existing reports and prepare a program to improve urban planning approaches;
- (iii) develop education and training programs for government agencies and local communities to increase awareness of public health, environmental management, and alternative technologies for urban infrastructure and services;
- (iv) develop capacity development plans for local Public Urban Service Organizations (PUSOs) that are responsible for provision and maintenance of urban infrastructure and services; and
- (v) develop a program to assist the establishment of an independent housing finance institution.

d. Expected results and deliverables: Urban residents, especially those in ger area, will have improved living environment, better access to affordable urban services, and increased knowledge on health and environment. Urban planning and management in the government agencies will be improved. Operation and management capacities of the PUSOs will be strengthened.

e. Social or environmental issues or concerns: The proposed urban development project is targeted to Ulaanbaatar where population density is high and will need to take into account potential involuntary resettlement issues. Other issues will be determined during the course of the PPTA.

f. Plans for disseminating results/deliverables: Project results/deliverables can be disseminated to other urban areas that are not covered by the Project.

| <p>7. Proposed executing/implementing agency or agencies: Ministry of Construction and Urban Development</p> | | | | | | | | | | | | | | | | | | | | | | | | |
|--|-------------|-------------|---------------|--|----------------------|--|-----------------|--|-------------------|--|---------|--|--------|-------------|---------------|--|----------------------|--|-----------------|--|-------------------|--|---------|--|
| <p>8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance: The investment components will be prioritized through community consultation.</p> | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>9. Timetable for assistance design, processing, and implementation</p> <p>a. Year included in CSP, CSP Update, RCSP, RCSP Update, or interregional work plan: 2002</p> <p>b. Expected date of submission for approval Lending: 2006 Nonlending (project preparatory): 2005 Nonlending (other than project preparatory): 2004 (ADTA: Urban Development and Housing Sector Strategy)</p> <p>c. Period and duration of assistance Lending: 5 years, 2006-2010 Nonlending: 6 months, 2005-2006 (PPTA) 4 months, 2004-2005 (ADTA: Urban Development and Housing Sector Strategy)</p> | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>10. Financing</p> <p>a. For lending</p> <p><input type="checkbox"/> Ordinary capital resources:</p> <p><input checked="" type="checkbox"/> Asian Development Fund: \$18 million</p> <p><input type="checkbox"/> Other:</p> <p>If cofinancing is required, indicate amount and sources sought: \$____, from _____.</p> <p>If known, provide cost estimates and financing arrangements.</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; border-bottom: 1px solid black;">Source</th> <th style="text-align: right; border-bottom: 1px solid black;">Amount (\$)</th> </tr> </thead> <tbody> <tr> <td>ADB Financing</td> <td></td> </tr> <tr> <td>Government Financing</td> <td></td> </tr> <tr> <td>Other Financing</td> <td></td> </tr> <tr> <td>Total Cost</td> <td></td> </tr> <tr> <td>Source:</td> <td></td> </tr> </tbody> </table> <p>b. For nonlending</p> <p><input type="checkbox"/> No resources required, other than ADB staff:</p> <p><input type="checkbox"/> ADB's administrative budget:</p> <p><input checked="" type="checkbox"/> Grant TA funds: \$350,000</p> <p><input checked="" type="checkbox"/> Other: \$ 250,000, from the Poverty Reduction Cooperation Fund</p> <p>If cofinancing is required, indicate amount and sources sought:</p> <p>If known, provide cost estimates and financing arrangements.</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; border-bottom: 1px solid black;">Source</th> <th style="text-align: right; border-bottom: 1px solid black;">Amount (\$)</th> </tr> </thead> <tbody> <tr> <td>ADB Financing</td> <td></td> </tr> <tr> <td>Government Financing</td> <td></td> </tr> <tr> <td>Other Financing</td> <td></td> </tr> <tr> <td>Total Cost</td> <td></td> </tr> <tr> <td>Source:</td> <td></td> </tr> </tbody> </table> | Source | Amount (\$) | ADB Financing | | Government Financing | | Other Financing | | Total Cost | | Source: | | Source | Amount (\$) | ADB Financing | | Government Financing | | Other Financing | | Total Cost | | Source: | |
| Source | Amount (\$) | | | | | | | | | | | | | | | | | | | | | | | |
| ADB Financing | | | | | | | | | | | | | | | | | | | | | | | | |
| Government Financing | | | | | | | | | | | | | | | | | | | | | | | | |
| Other Financing | | | | | | | | | | | | | | | | | | | | | | | | |
| Total Cost | | | | | | | | | | | | | | | | | | | | | | | | |
| Source: | | | | | | | | | | | | | | | | | | | | | | | | |
| Source | Amount (\$) | | | | | | | | | | | | | | | | | | | | | | | |
| ADB Financing | | | | | | | | | | | | | | | | | | | | | | | | |
| Government Financing | | | | | | | | | | | | | | | | | | | | | | | | |
| Other Financing | | | | | | | | | | | | | | | | | | | | | | | | |
| Total Cost | | | | | | | | | | | | | | | | | | | | | | | | |
| Source: | | | | | | | | | | | | | | | | | | | | | | | | |

ADB = Asian Development Bank, ADTA = advisory technical assistance, CSP = country strategy and program, MDG = millennium development goal, PPTA = project preparatory technical assistance, PUSO = Public Urban Service Organization, RCSP = regional cooperation strategy and program, TA = technical assistance.

Table A4.2: Improving Public Service Delivery Through Administrative Consolidation Concept Paper

Date: 8 June 2005

| | | | | | | | | |
|--|---|---|--|---|--|---|---|--|
| <p>1. Type/modality of assistance</p> <p><input checked="" type="checkbox"/> Lending</p> <p style="padding-left: 20px;"><input type="checkbox"/> Project loan</p> <p style="padding-left: 20px;"><input checked="" type="checkbox"/> Program loan</p> <p style="padding-left: 20px;"><input type="checkbox"/> Sector loan</p> <p style="padding-left: 20px;"><input type="checkbox"/> Sector development program loan</p> <p style="padding-left: 20px;"><input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Nonlending</p> <p style="padding-left: 20px;"><input checked="" type="checkbox"/> Project preparatory</p> <p style="padding-left: 20px;"><input type="checkbox"/> Other than project preparatory</p> <p style="padding-left: 40px;"><input type="checkbox"/> Economic, thematic, and sector work</p> <p style="padding-left: 40px;"><input type="checkbox"/> Institutional development</p> <p style="padding-left: 40px;"><input type="checkbox"/> Other:</p> | | | | | | | | |
| <p>2. Assistance Focus</p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Law, economic management, and public policy Subsector: Subnational government administration</p> <p>b. For project preparatory and lending, classification</p> <p style="padding-left: 20px;"><input type="checkbox"/> Core poverty intervention <input checked="" type="checkbox"/> Others</p> <p style="padding-left: 20px;"><input type="checkbox"/> Poverty intervention</p> <p>c. Key thematic area</p> <table style="width: 100%; border: none;"> <tr> <td style="padding-left: 20px;"><input type="checkbox"/> Sustainable economic growth</td> <td style="padding-left: 20px;"><input type="checkbox"/> Environmental sustainability</td> </tr> <tr> <td style="padding-left: 20px;"><input checked="" type="checkbox"/> Inclusive social development</td> <td style="padding-left: 20px;"><input type="checkbox"/> Regional cooperation</td> </tr> <tr> <td style="padding-left: 20px;"><input checked="" type="checkbox"/> Governance</td> <td style="padding-left: 20px;"><input type="checkbox"/> Private sector development</td> </tr> <tr> <td style="padding-left: 20px;"><input type="checkbox"/> Gender and development</td> <td></td> </tr> </table> | <input type="checkbox"/> Sustainable economic growth | <input type="checkbox"/> Environmental sustainability | <input checked="" type="checkbox"/> Inclusive social development | <input type="checkbox"/> Regional cooperation | <input checked="" type="checkbox"/> Governance | <input type="checkbox"/> Private sector development | <input type="checkbox"/> Gender and development | |
| <input type="checkbox"/> Sustainable economic growth | <input type="checkbox"/> Environmental sustainability | | | | | | | |
| <input checked="" type="checkbox"/> Inclusive social development | <input type="checkbox"/> Regional cooperation | | | | | | | |
| <input checked="" type="checkbox"/> Governance | <input type="checkbox"/> Private sector development | | | | | | | |
| <input type="checkbox"/> Gender and development | | | | | | | | |
| <p>3. Coverage</p> <p><input checked="" type="checkbox"/> Country <input type="checkbox"/> Subregional <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p> | | | | | | | | |
| <p>4. Responsible division/department:</p> <p>Governance, Finance, and Trade Division/East and Central Asia Department</p> | | | | | | | | |
| <p>5. Responsible ADB officers:</p> <p>Henry Ma, Fiscal Management Specialist, ECGF</p> | | | | | | | | |
| <p>6. Description of assistance</p> <p>a. Background/linkage to country/regional strategy: Mongolia is divided into the capital and 21 aimags (provinces) These entities are further subdivided into 338 districts (soums or duuregs) and 1,681 precincts (baghs). Due to the low density of the population outside the capital, many of these districts have populations that are too small or too spread out for the efficient provision of public services. Moreover, the large number of local entities leads to unnecessary administrative costs (e.g., local councils and executives) and hampers coordination on cross-cutting issues (e.g., pollution, traffic, and natural-resource management).</p> <p>The proposed measure to consolidate provincial and local government entities is a high priority for the Government. If the measure is approved, the rearrangement would: (i) abolish the precincts; (ii) group 4-5 districts into one khoshuu (which would total 80), and (iii) merge the provinces and capital into four regions and the capital area. The measure's objectives are to: (i) improve the delivery of public services by merging and rationalizing providers at the local level, (ii) improve coordination of development efforts and promote regional development, and (iii) achieve savings in administrative expenses. A map showing the proposed new units has been prepared and disseminated. However, no studies or decisions have yet been made on critical issues, such as: (i) the location</p> | | | | | | | | |

of the administrative centers for the new khoshuus; (ii) the streamlining of superfluous facilities and personnel; and (iii) efficient assignment of expenditure responsibilities, capacity building for local revenue generation, and mechanisms for revenue transfers and revenue sharing that are stable, predictable, and transparent.

Administrative consolidation aims to achieve the following objectives.

- Improve access to and the quality of services, thereby moving Mongolia closer toward its Millennium Development Goals. By rationalizing and consolidating subnational service delivery, facilities (e.g., schools and clinics) can provide a wider range of services and can provide a nearby alternative to similar facilities in Ulaanbaatar. Furthermore, as some functions performed by aimags are transferred to the khoshuus and other local governments, gains can be achieved in terms of allocative efficiency (better matching of services to local preferences) and productive efficiency (increased accountability to citizens, participation, and informed decision-making).
- Promote regional and rural development and economic diversification. Larger subnational units would achieve economies of scale, benefit from having a diverse economic base, and be better able to address issues that cut across localities. Regional development and improved local access to services, in turn, can ease the pressure on facilities in Ulaanbaatar.
- Enhance local government capacity and autonomy. The transfer of responsibilities to khoshuus will provide the incentive and the means for local government to improve their capacity for administration, planning, financial management, and service delivery.
- Reduction in administrative costs. Economies of scale and allocative and productive efficiencies can lead to lower administrative expenditures, although there may be short-term transitional costs.

For administrative consolidation to achieve these objectives, a governance reform program should comprehensively reexamine and resolve several key issues in intergovernmental fiscal relations. This approach is consistent with the results of previous analyses of subnational fiscal management by ADB, IMF, and the World Bank. For instance, ADB's Country Governance Assessment had recommended that: (i) the roles and responsibilities of different levels of government be clarified; and (ii) local governments build management capacity and accountability. Administrative consolidation would also provide a good opportunity to deepen progress in the reform of public administration, some achieved with ADB assistance, and including, most notably, the implementation of the Public Sector Management and Finance Law (PSMFL) and Financial Management Information System.

Once the concept of administrative consolidation has been finalized and approved in a national referendum, the Government will formulate a legal framework for intergovernmental fiscal relations, including amendments to relevant legislation, to achieve the abovementioned objectives. The PPTA will support the preparation of the framework, while the program loan will support its implementation. The framework will provide for the following modalities:

- To improve public service delivery and governance, functions will be delegated to the lowest levels of government consistent with allocative efficiency and productive efficiency.
- To ensure accountability and fiscal sustainability, local governments' revenue-generating capacity should be matched as closely as possible with their expenditure responsibilities. Hence, taxes will be assigned to local governments consistent with sound principles of public finance and considerations such as the mobility of individuals, households, and businesses; income elasticities; and local government capacity, among others.
- Since it is unusual for the expenditure responsibilities of subnational governments and their revenue-generating capacities to be perfectly matched, the gap (vertical imbalance) has to be filled by fiscal transfers. Transfers may also be needed to redress horizontal imbalances between rich and poor areas. Hence, stable, predictable, and transparent transfer mechanisms should be formulated.
- To match subnational governments' capacity to their increased responsibility, the output and service orientation of the PSMFL, along with improved financial management capacity, will be extended to local governments.

b. Goal and purpose: The goal of the TA is to improve public service delivery through reform of intergovernmental fiscal relations. The purpose is to assist the Government in preparing a governance reform program that builds the capacity of subnational governments for service delivery and fiscal management.

c. Components and outputs: The outputs will include: (i) an analysis of the current state of intergovernmental fiscal relations in Mongolia, a review of other country experiences, and an analysis of areas of improvement consistent with the objectives of administrative consolidation; (ii) a sound policy reform agenda consisting of legislation and other relevant measures; (iii) a program for building the capacity of local governments in fiscal management, service delivery, and public administration consistent with the PSMFL and administrative consolidation; (iv) a program for training civil servants and informing the public on the administrative consolidation reform program.

d. Expected results and deliverables: Changes in relevant laws, regulations, and policies.

e. Social or environmental issues or concerns: Social and environmental concerns will be identified and addressed as appropriate during both the project preparatory technical assistance (PPTA) and project stages.

f. Plans for disseminating results/deliverables: Seminars/training/workshops.

7. Proposed executing/implementing agencies:

Cabinet Secretariat/Ministry of Construction and Urban Development; Ministry of Finance.

8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:

In response to the Government's request for assistance in implementing administrative consolidation, a program loan (for \$13 million equivalent) has been included in the lending pipeline for 2006 and the corresponding PPTA (for \$700,000 equivalent) in the nonlending pipeline for 2005. The Government has reiterated that the measure is a priority in its policy reform agenda.

9. Timetable for assistance design, processing, and implementation

- a. Year included in CSP, CSP update, RCSP, RCSP update, or interregional work plan: 2005
- b. Expected date of submission for approval
 - Lending: 2006
 - Nonlending (project preparatory): 2005
 - Nonlending (other than project preparatory):
- c. Period and duration of assistance
 - Lending: 36 months
 - Nonlending: 12 months

10. Financing Plan

- a. For lending
 - Ordinary capital resources: \$
 - Asian Development Fund (loan): \$13 million
 - Asian Development Fund (grant):
 - Other:
- b. For nonlending
 - No resources required, other than ADB staff
 - ADB's administrative budget: \$
 - Grant TA funds
 - Other:

| Source | Amount (\$) |
|----------------------|------------------|
| ADB Financing | \$700,000 |
| Government Financing | \$100,000 |
| Other Financing | |
| Total Cost | \$800,000 |

Source:

ADB = Asian Development Bank, CSP = country strategy and program, PPTA = project preparatory technical assistance, PSMFL = Public Sector Management and Finance Law, RCSP = regional cooperation strategy and program, TA = technical assistance.

**Table A4.3: Agriculture and Rural Development
Concept Paper**

Date: March 2005

| | | | | | | | | |
|---|---|---|---|---|-------------------------------------|--|---|--|
| <p>1. Type/modality of assistance</p> <p><input checked="" type="checkbox"/> Lending</p> <p> <input checked="" type="checkbox"/> Project loan</p> <p> <input type="checkbox"/> Program loan</p> <p> <input type="checkbox"/> Sector loan</p> <p> <input type="checkbox"/> Sector development program loan</p> <p> <input type="checkbox"/> ADF grant-financed</p> <p> <input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Nonlending</p> <p> <input checked="" type="checkbox"/> Project preparatory</p> <p> <input type="checkbox"/> Other than project preparatory</p> <p> <input type="checkbox"/> Economic, thematic, and sector work</p> <p> <input type="checkbox"/> Institutional development</p> <p> <input type="checkbox"/> Other:</p> | | | | | | | | |
| <p>2. Assistance focus</p> <p>a. If assistance focuses on a particular sector or subsector, specify the</p> <p> Sector(s): Agriculture and natural resources</p> <p> Subsector(s): Agriculture sector development</p> <p>b. For project preparatory and lending, classification</p> <p> <input type="checkbox"/> Targeted intervention</p> <p> <input checked="" type="checkbox"/> General intervention</p> <p>c. Key thematic area(s)</p> <p> Themes:</p> <table border="0"> <tr> <td><input checked="" type="checkbox"/> Sustainable economic growth</td> <td><input type="checkbox"/> Environmental sustainability</td> </tr> <tr> <td><input type="checkbox"/> Inclusive social development</td> <td><input type="checkbox"/> Regional cooperation</td> </tr> <tr> <td><input type="checkbox"/> Governance</td> <td><input checked="" type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td></td> </tr> </table> <p> Subtheme(s): Developing rural areas, natural resources management.</p> | <input checked="" type="checkbox"/> Sustainable economic growth | <input type="checkbox"/> Environmental sustainability | <input type="checkbox"/> Inclusive social development | <input type="checkbox"/> Regional cooperation | <input type="checkbox"/> Governance | <input checked="" type="checkbox"/> Private sector development | <input type="checkbox"/> Gender and development | |
| <input checked="" type="checkbox"/> Sustainable economic growth | <input type="checkbox"/> Environmental sustainability | | | | | | | |
| <input type="checkbox"/> Inclusive social development | <input type="checkbox"/> Regional cooperation | | | | | | | |
| <input type="checkbox"/> Governance | <input checked="" type="checkbox"/> Private sector development | | | | | | | |
| <input type="checkbox"/> Gender and development | | | | | | | | |
| <p>3. Coverage</p> <p><input checked="" type="checkbox"/> Country <input type="checkbox"/> Subregional <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p> | | | | | | | | |
| <p>4. Responsible division/department: Agriculture, Environment and Natural Resources Division/East and Central Asia Department</p> | | | | | | | | |
| <p>5. Responsible ADB officer(s): S.M. Scheierling</p> | | | | | | | | |
| <p>6. Description of assistance(s)</p> <p>a. Background/linkage to country/regional strategy: The Asian Development Bank's (ADB's) overall strategy for Mongolia has identified the agriculture and rural sector as contributing to broad-based growth, and inclusive social development. The sector—in particular livestock production—constitutes the main source of livelihood directly for more than 40% of Mongolia's population, and indirectly through related processing, manufacturing and services for many more.</p> <p>A major aim of ADB's strategy will be to develop a more market-oriented, efficient and sustainable agriculture and rural sector. This will require improving agriculture and rural policies and the related allocation and efficiency of public expenditure. The policy reform process promoted under the previous Agriculture Sector Program and the Agriculture Sector Development Program needs to be consolidated. The ongoing efforts in administrative consolidation are also expected to contribute to this and will be supported by ADB in the period 2005–2008.</p> | | | | | | | | |

b. Goal and purpose: In support of the ADB strategy, the goal of the project will be to ensure sustainable agricultural contribution to national economic development. The purpose of the project will be to increase the competitiveness of agricultural products as well as to raise the productivity and profitability of agricultural producers. This will also require strengthening institutional capacity and public support for agriculture and rural development.

c. Components and outputs: The project preparatory technical assistance (PPTA) will determine the scope of the project. Components could include (i) further policy reform, in particular in the areas of sector competitiveness as well as land and water resource management; (ii) ensuring appropriate utilization of medium-term finance (building on the success of the credit line for short term finance under the Agriculture Sector Development Project); (iii) helping to improve the yield and quality of livestock products, as well as their processing and marketability; and (iv) strengthening the implementation capacity at national and provincial levels, and the management of natural resources at the local level.

d. Expected results and deliverables: To be finalized during PPTA.

e. Social or environmental issues or concerns: Particular attention needs to be paid that the promotion of viable rural activities provides opportunities for the large proportion of below or near subsistence herders and farmers. By strengthening the capacity of local authorities, implementation of land and water tenure reforms and management systems, as well as other regulatory activities, is expected to improve. Project initiatives are consistent with ADB's Policy on Indigenous Peoples.

f. Plans for disseminating results/deliverables: To be finalized during PPTA.

7. Proposed executing/implementing agency or agencies: Ministry of Food and Agriculture, Ministry of Finance, five provincial governments in the western region.

8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance: The proposed project has been discussed with the Ministry of Food and Agriculture and the Ministry of Finance. Additional discussions with representatives of the five provincial governments and local governments as well as project beneficiaries and potential participating financial institutions will be conducted during the preparation of the PPTA.

9. Timetable for assistance design, processing, and implementation

- a. Year included in CSP, CSP Update, RCSP, RCSP Update, or interregional work plan: 2005
- b. Expected date of submission for approval
 Lending: 2007
 Nonlending (project preparatory): 2006
 Nonlending (other than project preparatory):
- c. Period and duration of assistance{s}
 Lending: 2007-2012
 Nonlending: 2006, 6 months

10. Financing Plan

- a. For lending
- Ordinary capital resources:
 - Asian Development Fund (loan): \$13.0 million
 - Asian Development Fund (grant):
 - Other:

If cofinancing is required, indicate amount and sources sought: \$____, from _____.

- b. For nonlending
- No resources required, other than ADB staff
 - ADB's administrative budget:
 - Grant TA funds: \$650.000
 - Other:

If cofinancing is required, indicate amount and sources sought: \$____, from _____.

ADB = Asian Development Bank, CSP = country strategy and program, PPTA = project preparatory technical assistance, RCSP = regional cooperation strategy and program, TA = technical assistance.

CONCEPT PAPERS FOR NONLENDING PRODUCTS AND SERVICES

This appendix contains the concept papers for projected nonlending products.

- (i) Table A5.1: SME Development
- (ii) Table A5.2: Altai Road Transport Corridor Development
- (iii) Table A5.3: Aid Coordination and Debt Management

Table A5.1: SME Development Concept Paper

Date: 7 June 2005

| | | |
|---|---|---|
| <p>1. Type/modality of assistance</p> <p><input type="checkbox"/> Lending</p> <p style="margin-left: 20px;"> <input type="checkbox"/> Project loan <input type="checkbox"/> Program loan <input type="checkbox"/> Sector loan <input type="checkbox"/> Sector development program loan <input type="checkbox"/> ADF grant-financed <input type="checkbox"/> Other: </p> <p><input checked="" type="checkbox"/> Nonlending</p> <p style="margin-left: 20px;"> <input type="checkbox"/> Project preparatory <input type="checkbox"/> Other than project preparatory <input type="checkbox"/> Economic, thematic, and sector work <input type="checkbox"/> Institutional development <input checked="" type="checkbox"/> Other: </p> | | |
| <p>2. Assistance focus</p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Subsector:</p> <p>b. For project preparatory and lending, classification</p> <p style="margin-left: 20px;"> <input type="checkbox"/> Targeted intervention <input type="checkbox"/> General intervention </p> <p>c. Key thematic area(s)</p> <p style="margin-left: 20px;">Themes:</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 50%; vertical-align: top;"> <input checked="" type="checkbox"/> Sustainable economic growth <input type="checkbox"/> Inclusive social development <input type="checkbox"/> Governance <input type="checkbox"/> Gender and development </td> <td style="width: 50%; vertical-align: top;"> <input type="checkbox"/> Environmental sustainability <input type="checkbox"/> Regional cooperation <input checked="" type="checkbox"/> Private sector development <input type="checkbox"/> Capacity development </td> </tr> </table> <p style="margin-left: 20px;">Subtheme{s):</p> | <input checked="" type="checkbox"/> Sustainable economic growth <input type="checkbox"/> Inclusive social development <input type="checkbox"/> Governance <input type="checkbox"/> Gender and development | <input type="checkbox"/> Environmental sustainability <input type="checkbox"/> Regional cooperation <input checked="" type="checkbox"/> Private sector development <input type="checkbox"/> Capacity development |
| <input checked="" type="checkbox"/> Sustainable economic growth <input type="checkbox"/> Inclusive social development <input type="checkbox"/> Governance <input type="checkbox"/> Gender and development | <input type="checkbox"/> Environmental sustainability <input type="checkbox"/> Regional cooperation <input checked="" type="checkbox"/> Private sector development <input type="checkbox"/> Capacity development | |
| <p>3. Coverage</p> <p> <input checked="" type="checkbox"/> Country <input type="checkbox"/> Subregional <input type="checkbox"/> Interregional <input type="checkbox"/> Internal policy development </p> | | |
| <p>4. Responsible division/department: Mongolia Resident Mission/East and Central Asia Department</p> | | |
| <p>5. Responsible ADB officer(s): M. Jayawant</p> | | |
| <p>6. Description of assistance(s)</p> <p>a. Background/linkage to country/regional strategy: Capital market, insurance, and leasing operations do not yet play meaningful roles in the economy and access to capital is limited, particularly for small enterprises. Most lending is short-term and asset-based. Increasing range and sources of financial services will be a key outcome towards economic growth and inclusive social development. External funding agencies including United States Agency for International Development (USAID), International Finance Corporation, and Asian Development Bank (ADB) are in the process of assisting in the establishment of new financial instruments. However, new financial instruments are not much use to private sector players unfamiliar with them. The supply of financial instruments has to be accompanied by capacity building of the private sector to make appropriate use of them.</p> | | |

b. Goal and purpose: The goal of the project is to increase the capacity of small and medium-sized enterprises to utilize newly developed financial instruments including private equity funds, equity loans, and venture capital.

c. Components and outputs: The advisory technical assistance (ADTA) will provide consulting services to small and medium-sized enterprises towards adopting the appropriate accounting, operational, management, and disclosure techniques to allow them to access new financial instruments. The ADTA will also provide services to commercial banks to provide financing using a wider range of financial instruments. Care will be taken to ensure that access to TA initiatives is wide.

d. Rationale and purpose of ADF grant financing: The ADTA will alleviate information gaps in a developing economy. It will serve as demonstration effect and attract additional investment towards new financial instruments. It will promote the development of small and medium-sized enterprises with particular benefits for the poor in terms of employment and business opportunities.

e. Expected results and deliverables: The ADTA will prepare at least 15 small and medium-sized enterprises for funding through new financial instruments and particularly private equity investments and equity loans. The method of selecting companies receiving assistance will be carefully considered to provide widely accessible support. Cost sharing arrangements will be worked out to maximize benefits. EBRD's approach to SME development support will provide a useful model.

f. Social or environmental issues or concerns: Gender issues will receive particular attention by targeting businesses operated by women or in which women constitute a large proportion of the workforce.

g. Plans for disseminating results/deliverables:

For TA, method(s) of TA output dissemination:

- A conference/workshop/brown bag
- Publication of article(s) in external journals or books
- External press release to news agencies, including www.adb.org
- Internal press release in *ADB Today*
- Others (specify) Information brochures printed and distributed.

7. Proposed executing/implementing agency or agencies: Ministry of Trade and Industry.

8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:
The Government has been working with USAID to explore alternate financial instruments.

9. Timetable for assistance design, processing, and implementation

a. Year included in CSP, CSP Update, RCSP, RCSP Update, or interregional work plan: 2005

b. Expected date of submission for approval

Lending:

Nonlending (project preparatory):

Nonlending (other than project preparatory): 2006

c. Period and duration of assistance

Lending:

Nonlending: 2006–2007

10. Financing Plan

a. For lending

- Ordinary capital resources:
- Asian Development Fund (loan):
- Asian Development Fund (grant):
- Other:

If cofinancing is required, indicate amount and sources sought: \$____, from _____.

| Source | Amount (\$) |
|---|--------------------|
| ADB Financing | |
| Government Financing | |
| Other Financing | |
| Total Cost | |
| Source: | |
| b. For nonlending | |
| <input type="checkbox"/> No resources required, other than ADB staff | |
| <input type="checkbox"/> ADB's administrative budget: | |
| <input checked="" type="checkbox"/> Grant TA funds: \$150,000 | |
| <input type="checkbox"/> Other: | |
| If cofinancing is required, indicate amount and sources sought: \$____, from _____. | |
| Source | Amount (\$) |
| ADB Financing | \$150,000 |
| Government Financing | \$ 50,000 |
| Other Financing | |
| Total Cost | \$200,000 |
| Source: | |

ADB = Asian Development Bank, ADTA = advisory technical assistance, CSP = country strategy and program, EBRD = European Bank for Reconstruction and Development, RCSP = regional cooperation strategy and program, SME = small and medium-sized enterprise, TA = technical assistance, USAID = United States Agency for International Development.

**Table A5.2: Altai Road Transport Corridor Development
Concept Paper**

Date: 7 April 2005

| | | | | | | | | |
|--|---|---|---|--|-------------------------------------|---|---|---|
| <p>1. Type/modality of assistance</p> <p><input checked="" type="checkbox"/> Lending</p> <p><input type="checkbox"/> Project loan</p> <p><input type="checkbox"/> Program loan</p> <p><input type="checkbox"/> Sector loan</p> <p><input type="checkbox"/> Sector development program loan</p> <p><input type="checkbox"/> ADF grant-financed</p> <p><input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Nonlending</p> <p><input checked="" type="checkbox"/> Project preparatory</p> <p><input type="checkbox"/> Other than project preparatory</p> <p><input type="checkbox"/> Economic, thematic, and sector work</p> <p><input type="checkbox"/> Institutional development</p> <p><input type="checkbox"/> Other:</p> | | | | | | | | |
| <p>2. Assistance focus</p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Transport and communications Subsector: Roads and highways</p> <p>b. For project preparatory and lending, classification</p> <p><input type="checkbox"/> Targeted intervention</p> <p><input checked="" type="checkbox"/> General intervention</p> <p>c. Key thematic area(s)</p> <p>Themes:</p> <table border="0"> <tr> <td><input checked="" type="checkbox"/> Sustainable economic growth</td> <td><input type="checkbox"/> Environmental sustainability</td> </tr> <tr> <td><input type="checkbox"/> Inclusive social development</td> <td><input checked="" type="checkbox"/> Regional cooperation</td> </tr> <tr> <td><input type="checkbox"/> Governance</td> <td><input type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td><input type="checkbox"/> Capacity development</td> </tr> </table> <p>Subtheme(s): Promoting economic efficiency and enabling markets, fostering physical infrastructure development</p> | <input checked="" type="checkbox"/> Sustainable economic growth | <input type="checkbox"/> Environmental sustainability | <input type="checkbox"/> Inclusive social development | <input checked="" type="checkbox"/> Regional cooperation | <input type="checkbox"/> Governance | <input type="checkbox"/> Private sector development | <input type="checkbox"/> Gender and development | <input type="checkbox"/> Capacity development |
| <input checked="" type="checkbox"/> Sustainable economic growth | <input type="checkbox"/> Environmental sustainability | | | | | | | |
| <input type="checkbox"/> Inclusive social development | <input checked="" type="checkbox"/> Regional cooperation | | | | | | | |
| <input type="checkbox"/> Governance | <input type="checkbox"/> Private sector development | | | | | | | |
| <input type="checkbox"/> Gender and development | <input type="checkbox"/> Capacity development | | | | | | | |
| <p>3. Coverage</p> <p><input checked="" type="checkbox"/> Country <input checked="" type="checkbox"/> Subregional <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p> | | | | | | | | |
| <p>4. Responsible division/department: Transport and Communications Division, East and Central Asia Department</p> | | | | | | | | |
| <p>5. Responsible ADB officer(s): H. Wang</p> | | | | | | | | |
| <p>6. Description of assistance(s)</p> <p>a. Background/linkage to country/regional strategy: Promoting regional cooperation is a strategic priority of the Asian Development Bank (ADB) operations. ADB has been assisting Mongolia in developing its primary north-south road transport corridor linking the road systems in the People's Republic of China (PRC) and the Russian Federation through major economic centers of Mongolia. To further develop subregional transport linkages, the Governments of Mongolia, PRC, and Russian Federation have informally discussed development of a further north-south Altai road transport corridor that would link the southwest Siberia (from Novosibirsk) in the Russian Federation with the Xinjiang Uygur Autonomous Region of the PRC via western Mongolia. This corridor forms part of the Asian highway network and has the potential of becoming an important transit route for</p> | | | | | | | | |

regional and international traffic, hereby promoting cooperation among the PRC, Mongolia, Russian Federation, and Central Asian countries. The Government of Mongolia accords high priority to the development of the Altai road transport corridor and has requested project preparatory technical assistance from ADB. This project is included in ADB's Central Asia Regional Economic Cooperation Strategy and Program (2005—2007).

b. Goal and purpose: The goal of the Project is to enhance transport links among PRC, Mongolia, and other countries in the region and promote regional transport of freight and passengers via the Altai road corridor. The purpose is to prepare an investment project for developing the Altai road transport corridor to link Urumqi in the PRC and Barnaul in the Russian Federation through Hovd in west Mongolia, suitable for ADB financing.

c. Components and outputs: The Project's component will comprise consulting services to prepare the feasibility of the Alati road transport corridor development project. The outputs are (i) an engineering report, (ii) an economic analysis, (iii) an environmental impact assessment, (iv) a social and poverty reduction analysis, and (v) a report on cross-border transport facilitation. Issues of involuntary resettlement will receive specific attention while examining the feasibility of the Project.

d. Rationale and purpose of ADF grant financing:

d. Expected results and deliverables: The result will be a feasibility report on the north-south Altai road transport corridor development. The report will be deliverable to the Governments, civil society, the private sector in Mongolia, PRC, and other countries in the region, as well as other external aid agencies.

e. Social or environmental issues or concerns: To be specified during TA fact-finding.

h. Plans for disseminating results/deliverables: To be determined.

For TA, method(s) of TA output dissemination:

- A conference/workshop/brown bag
- Publication of article(s) in external journals or books
- External press release to news agencies, including www.adb.org
- Internal press release in *ADB Today*
- Others (specify)

7. Proposed executing/implementing agency or agencies: Ministry of Road, Transport, and Tourism

8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:

The Governments of the PRC and Mongolia have been involved in identifying and conceptualizing the Project. The PRC government agencies consulted comprises the National Development and Reform Commission, Ministry of Finance, Ministry of Communications, Xinjiang Uygur Autonomous Region, and the Inner Mongolia Autonomous Region. The government agencies consulted in Mongolia are the Ministry of Finance and the Ministry of Road, Transport and Tourism. In September 2003, officials from central and local governments of Mongolia, the government of Xinjiang Uygur Autonomous Region, and ADB staff visited western Mongolia to conduct a preliminary examination of economic, technical, environmental, and social aspects of developing the road corridor.

9. Timetable for assistance design, processing, and implementation

- a. Year included in CSP, CSP Update, RCSP, RCSP Update, or interregional work plan: 2006
- b. Expected date of submission for approval
 - Lending:
 - Nonlending (project preparatory): 2006
 - Nonlending (other than project preparatory):
- c. Period and duration of assistance
 - Lending:
 - Nonlending: 2006–2007

10. Financing Plan

- a. For lending
 - Ordinary capital resources:
 - Asian Development Fund (loan):

Asian Development Fund (grant):
 Other:

If cofinancing is required, indicate amount and sources sought: \$____, from _____.

| Source | Amount (\$) |
|----------------------|--------------------|
| ADB Financing | |
| Government Financing | |
| Other Financing | |
| Total Cost | |
| Source: | |

b. For nonlending

No resources required, other than ADB staff
 ADB's administrative budget:
 Grant TA funds: \$650,000
 Other:

If cofinancing is required, indicate amount and sources sought: \$____, from _____.

| Source | Amount (\$) |
|----------------------|--------------------|
| ADB Financing | \$650,000 |
| Government Financing | |
| Other Financing | |
| Total Cost | |
| Source: | |

ADB = Asian Development Bank, CSP = country strategy and program, PRC = People's Republic of China, RCSP = regional cooperation strategy and program, TA = technical assistance.

prioritization of development aid projects and monitoring their implementation.

c. Components and outputs: The ADTA will help develop a system for identification of development aid projects with a full accounting of the external debt situation, prioritization of projects, and monitoring; identify the key indicators that will need to be developed; in coordination with National Statistics Office design the mechanisms for acquiring the necessary data; and provide Ministry of Finance with the necessary tools and capacity to analyze the indicators and develop responses.

d. Rationale and purpose of ADF grant financing: Results-based monitoring is considered vital to improving the efficiency and effectiveness of ADB funding and in general of all development funding in Mongolia. Asian Development Fund (ADF) grant financing for this ADTA will have multiplier effects for all ADF financing and therefore is recommended. Effective management of Mongolia's external debt is key to maintaining macro-stability and inducing the growth that underlies growth and poverty reduction targets.

d. Expected results and deliverables: The result will be (i) a results matrix that is accepted by the Government and external partners as the basis for development programs including a set of indicators to monitor progress; (ii) systems for data collection, analysis, and monitoring; and (iii) systems for program identification and prioritization linked to the results matrix.

e. Social or environmental issues or concerns:

i. Plans for disseminating results/deliverables:

For TA, method(s) of TA output dissemination:

- A conference/workshop/brown bag
- Publication of article(s) in external journals or books
- External press release to news agencies, including www.adb.org
- Internal press release in *ADB Today*
- Others (specify) : Outputs disseminated to all external funding partners.

7. Proposed executing/implementing agency or agencies: Ministry of Finance

8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:

The Government proposed the technical assistance. The request originated with the Minister who has made effectiveness and efficiency of development initiatives a top priority.

9. Timetable for assistance design, processing, and implementation

- a. Year included in CSP, CSP Update, RCSP, RCSP Update, or interregional work plan: 2005
- b. Expected date of submission for approval
 - Lending:
 - Nonlending (project preparatory):
 - Nonlending (other than project preparatory): 2006
- c. Period and duration of assistance
 - Lending:
 - Nonlending: 2006–2007

10. Financing Plan

- a. For lending
 - Ordinary capital resources:
 - Asian Development Fund (loan):
 - Asian Development Fund (grant):
 - Other:

If cofinancing is required, indicate amount and sources sought: \$____, from _____.

| Source | Amount (\$) |
|----------------------|-------------|
| ADB Financing | |
| Government Financing | |

Other Financing
Total Cost
Source:

b. For nonlending

- No resources required, other than ADB staff
- ADB's administrative budget:
- Grant TA funds: \$350,000
- Other:

If cofinancing is required, indicate amount and sources sought: \$____, from _____.

| Source | Amount (\$) |
|----------------------|--------------------|
| ADB Financing | \$350,000 |
| Government Financing | \$ 75,000 |
| Other Financing | |
| Total Cost | \$425,000 |

Source:

ADB = Asian Development Bank, ADF = Asian Development Fund, ADTA = advisory technical assistance, CSP = country strategy and program, RCSP = regional cooperation strategy and program, TA = technical assistance.