

## ADB'S COUNTRY OPERATIONAL STRATEGY FOR MONGOLIA

1. **Focus of the 1994 and 1998 Country Operational Strategies (COSs).** Since 1990, the Government has taken a number of far-reaching initiatives to transform the economy into one based on market principles. With the assistance of the IMF, ADB, and the World Bank, the Government has adopted and persevered with a comprehensive package of reforms despite difficult economic and social conditions. These reforms have sought to stabilize the economy, redefine the role of Government, liberalize the trade and price regimes, privatize state assets, and reform the financial, legal, and regulatory systems.
2. ADB's first country operational strategy (COS) was published in June 1994. The new COS, initiated in 1998, provided a broad framework within which to select specific projects and programs to be supported by ADB. The central thrust of the COS was to facilitate the transition of the country's economy to one based on market-driven principles. To promote the transition, the operational strategy stresses (i) creating an environment in which a competitive, efficient market economy can flourish; (ii) developing the human resource skills necessary for a market economy; and (iii) developing the physical infrastructure needed for a market economy. While the strategy was designed to promote efficient resource use and a competitive private sector, it also addressed the rising unemployment and poverty. Growing unemployment, poverty, and the deterioration of health, education and other social services became major areas of concern. Within the framework of the strategy, necessary alignments were made to the operational program to accommodate shifting development priorities as economic recovery proceeds.
3. **Focus of the 2000-2002 COS/CAP.** The strategy aimed at facilitating the transition to a market economy by (i) creating an environment in which a competitive and efficient market economy can flourish, (ii) developing the human resources and skills needed for a market economy, and (iii) developing the infrastructure needed for a market economy. The COS emphasized efficient resource use, promotion of competitive private markets, and a fiscally and environmentally sustainable growth, all to be achieved through investments in physical infrastructure.
4. To achieve the objective of economic growth with poverty reduction the mechanisms used to achieve poverty reduction and governance reforms included: (i) projects that do not offer a strong potential for poverty reduction will be either rejected altogether or required to undergo modification to improve their poverty reduction potential; and (ii) project's design will include strong elements of governance reforms needed in its sector.
5. ADB has financed preparation of several sector master plans that provide frameworks within which to coordinate donor assistance. ADB has provided assistance to strengthen the Government's capability to prioritize and coordinate projects proposed for external assistance.
6. The operational strategy focused on support for: (i) removing barriers to increased economic activity within the private sector and creating an environment conducive to private-sector-led growth, which involved restructuring and reform of the financial sector to broaden and deepen financial intermediation and reorienting the public sector to support private sector-led growth by acting more as a supervisory and regulatory entity operating within a framework of good governance and to improve its service delivery; (ii) generating employment on a wide scale by using microfinance combined with labor market-related training to generate viable self-employment in urban areas and agroprocessing industries in the rural areas; and (iii) maintaining standards of human development and improving access to social services by providing interventions in the social sectors.

7. **Focus of CSP Updates 2002–2006.** The coexistence of income and non-income aspects of poverty necessitated a strategy based on promoting employment creation and improving provision of essential social services for the poor. For promoting employment creation, ADB operations focused on establishing an environment conducive to sustainable private sector-led growth. For improving provision social services for the poor, the priority was to restructure the institutional framework and social service financing and delivery mechanisms.

8. The 2002 CSP Update, based on the recommendations of the Poverty Partnership Agreement review, gave priority to rural poverty, and confirmed ADB's continued assistance to the road sector to redress regional imbalances by improving access and regional economic integration. The CSP Update introduced the mechanism for performance-based allocation of ADF resources by establishing a set of measurable monitoring indicators (for the 2002 program). The ESW has been strengthened accordingly.

9. Technical assistance undertook a strategic study jointly with the Government to analyze the medium-term sources of growth and the options to diversify the economy to reduce its vulnerability to external shocks. The findings formed the basis for formulating the new country strategy and program to commence in 2003. TAs aimed to strengthen the Government's capacity for policy formulation, strategic planning, and development management in the agriculture sector and to prepare a loan project to develop the agroprocessing subsector.

10. To help Mongolia achieve the Millennium Development Goals (MDGs), ADB promoted economic growth for job creation and improve social services for the poor. Greater emphasis was put on accelerating economic growth as means to reduce poverty.

11. **Focus of the 2006–2008 CSP and its Update.** 2006 CSP, as one of the first result-based CSPs, identified the following challenges for Mongolia: (i) the need to broaden and sustain growth, (ii) poor opportunities for the poor, (iii) the past private sector development not being able to provide broad-based growth due to capital constraints (natural, human, financial, physical), and (iv) the poor access to public services by the poor.

12. To address such challenges ADB's strategy focused on the support to the Government in pursuing higher private sector-led growth and stable broad-based economic growth; and on the inclusive social development to address disparities between rural and urban areas, access to stable income opportunities and employment, and access to quality services.

13. The strategy planned for ADF resources \$85 million (\$28 million each year) with an additional \$40 million regional fund and adopted a result-based approach to design and implementation of the program. Its priority sectors for ADB intervention included agriculture, transport, education, health, and urban development, and administrative consolidation.

14. The subsequent CSPU confirmed that the overall directions of the CSP remained relevant to meeting Mongolia's development needs and poverty reduction priorities in the medium term and to MTS II priorities in general. However, changes were needed to support the strategic approach being adopted by the Government, respond to an initial assessment of progress in managing for development results (MfDR), it proposed to increase support for improvements to governance, improve alignment with MTS II priorities, and coordinate better with potentially larger inflows of funds.