

KEY FINDINGS OF THE 2002 CAPE

1. When Mongolia joined ADB in 1991, its economy was in crisis and the country was undergoing significant changes. Transition required a transformation of institutions, policies, the economy, and the financial sector. Physical infrastructure, particularly power and heating supply, were on the verge of collapse. ADB supported Mongolia's transition process with loans worth \$505 million approved between 1991 and 2001 for 25 projects in the agriculture, education, energy, finance, health, industry, telecommunications, transport, and urban development sectors. An additional \$49 million was approved for TA grants in the same sectors and in support of governance reforms. ADB's economic, thematic, and sector work provided insights into a broad range of economic and sector issues and trends. The results of these studies, however, were not well used in formulating country operational strategies (COSs), or for country program management and design of capacity building assistance. Overall, ADB's program and portfolio performed well, despite fiscal constraints that delayed implementation, and made a significant contribution to the transition process of Mongolia.
2. **Country Operational Strategies.** ADB's three successive COSs (approved in 1991, 1994, and 2000) were responsive and relevant to country needs. Over the entire period, the COSs were good at raising key concerns of transition (capacity building, policy reforms, economic reorientation, and transformation of the financial system). Right choices were made in highlighting governance in the later years, environment, and poverty as the main development objectives of Mongolia. Key concerns of transition and development objectives reflected important issues for Mongolia's transition process and were in line with ADB's institutional priorities. While the COSs suggested incorporating these themes and objectives into operations across the board, strategic guidance was not given on how to accomplish this task. As a result, country-level goals were not well integrated into sector strategies, or the choice, sequence, and design of projects. The COSs suggested that in addition to project lending, program lending and TA grants be used as two of the prime modalities. The choice of providing extensive TA grants was correct, given the need for capacity building and advisory services.
3. **Capacity Building.** Assistance for capacity building took place in difficult circumstances. Institutional parameters (roles, responsibilities, structures, etc.) needed defining, while staff appointments tended to change with changing governments. The transition processes had to be managed at the same time as capacities were built. Institutional diagnostics were conducted only in a few cases, resulting in capacity-building efforts designed on the basis of less information than would be desirable. Instead, design and implementation were driven by inputs: training and consultants. As a result, some parts of the process were assisted (such as training for tax inspectors, planning, budgeting, and use and administration of funds), and isolated results were achieved in training staff and in providing tools.
4. **Governance.** The ADB's Governance Reform Program (2000-2002) aimed to address some of these issues by employing a more holistic approach, but during implementation attention at the working level has focused on the mechanics of output-based budgeting rather than the goal of public expenditure control. Sector management capacities were built in all sectors that ADB assisted, although with considerable variations across sectors. Policy reforms that prescribed changing the role of government agencies have largely been effective, even though capacities for policy making, one of the major new roles, still require further assistance.
5. **Privatization.** Government programs for privatization were supported and resulted in a major change in ownership patterns, whereby the private sector now accounts for over 75% of GDP. Major assistance was provided for creating a competitive environment by removing trade

and price controls. Policy changes were in line with macroeconomic policy suggestions of the International Monetary Fund and World Bank.

6. **Productive and Infrastructure Sectors.** Loans were made to these sectors, the former focusing on policy reforms and the latter leading to technical improvements and the foundation for commercialization. Investments in the infrastructure sectors contributed to improved technical performance, reflected in performance indicators such as the reduced number and duration of interruptions in power supply, expanded coverage and number of subscribers to telecommunications services, and increased traffic counts. These investments laid the foundation for unbundling the industries and allowed some private sector involvement.

7. **Financial Sector.** Assistance to transform the financial sector was responsive to crisis situations as they arose. The financial system has received considerable TA over the past 11 years. The TAs addressed specific, crisis-triggered problems that needed resolving; supported training of central bank staff; and assisted with the financial and regulatory framework and accounting standards. A program loan in the financial sector in 1996 assisted the Government in its effort to restructure the banking sector.

8. **Environment.** While the importance of the environment was recognized early on and requirements made to include environmental considerations in all projects, no specific strategy was worked out on how this agenda should be operationalized. This was possibly due to the overwhelming number of issues that had to be dealt with at the time and the desire to give sufficient liberty to each sector to address environmental concerns as it saw fit.

9. **Poverty Reduction.** Poverty reduction was an associated goal from the beginning, but without any articulation of strategy other than counting on private sector development, induced by policy reforms, to create employment. Since 2000 poverty has been moved into the central focus of attention, although private sector development remains, correctly, the main aspect of the COS. The impacts of policy reforms and other ADB initiatives on poverty levels have been mixed, particularly in view of strong external influences, which included the Asian and Russian financial crises and two recent harsh winters causing large losses in livestock, impoverishing the rural poor.