

PARTNERSHIP AGREEMENT
between
the Government of Mongolia and the Asian Development Bank

I. Introduction

1. During the course of 1999 the Government and the Asian Development Bank (ADB) worked together to develop a new Country Operational Strategy (COS) for Mongolia. The new Strategy places overriding emphasis on achieving the goal of poverty reduction. This goal has been a longstanding objective of both the Government and the ADB, but has been given important new emphasis in the Government's Medium Term Economic and Social Development Strategy, announced in June 1999, and in the ADB's Poverty Reduction Strategy adopted in November 1999.

2. This Partnership Agreement sets out a long-term vision and agreed targets for poverty reduction. It also incorporates mechanisms to review performance and highlights key indicators and institutional milestones necessary to monitor progress. It is envisaged that in the future the allocation of ADB resources will be linked to the achievement of progress agreed upon under the Partnership Agreements with its borrowing members.

II. A New Partnership Between the Government and ADB

3. The nature, composition and severity of poverty in Mongolia, and the activities that would be needed to address poverty in a comprehensive manner have been discussed with high Government officials, members of the Parliament (both from the governing coalition and the opposition), other donors, private sector, and the civil society in the course of a stakeholders' workshop in April 1999 and during the first mission to develop a new Country Operational Strategy in August 1999.

4. The Government and the ADB have agreed that poverty in Mongolia will need to be addressed in a forceful manner. Therefore, ADB operations in Mongolia in the medium-term (2000-2005) will be geared toward generating economic growth with poverty reduction as the overarching objective of the strategy. Growth promoting interventions by the ADB will be sought in areas that the potential to contribute the most to poverty reduction. The Government will seek to focus all donor-assisted and domestic investment projects in a way that they also strengthen the poverty reduction results to be achieved. Special attention will also be devoted to implanting improved governance at the economy-wide level through ADB support of reform activities in various sectors.

5. The strategic vision for the ADB's operations under this partnership are contained in the ADB's Country Operational Strategy (COS). The strategy's primary contribution to poverty reduction will come from support for activities that aim to increase the productivity of the economy (through better governance) and the people (through viable employment generation). The strategy aims at diversification of competitive industries and services, expanding demand for skilled labor, continued structural reform to remove the barriers to private sector growth, and reduction of the fiscal burden on the private sector over the medium term.

6. On this basis, and as agreed to by the Government, the ADB's new COS for Mongolia is first and foremost a poverty reduction strategy, in which the choice of core sectors for ADB interventions is dictated by the main objective of growth with poverty reduction and where growth is to be achieved through means that contribute the most to poverty reduction. This strategy differs from the traditional growth-oriented strategies that select the sectors for ADB interventions on the basis of considerations other than the sectors' potential for poverty reduction, and then incorporate elements of poverty reduction in each intervention. In the new COS, the additional emphasis on good governance at the economy-wide level and within all sectors will further contribute to the main objective of poverty reduction by improving the efficiency of the utilization of the gains from economic growth. The new strategy envisages considerable interlinkage among sector interventions so as to enhance the results achieved from each project.

7. As monitoring progress under the new COS and of any new developing patterns that may need to be addressed is important to the success of the strategy, monitoring indicators have been defined to accommodate this need.

8. Two facts form the basis for the design of the new strategy for ADB operations in the next five years. First, a study of the nature and composition of strategy in Mongolia shows that (i) poverty is income-based (i.e., the result of lack of employment and insufficient incomes), and not a result of education or health deprivation, social exclusion, or other forms of assetlessness; (ii) poverty is mainly found in urban areas and the majority of the poor are the unemployed, households headed by women, civil servants, early pensioners and small herders; (iii) while the majority of the poor remain close the poverty line, they are sinking more and more to lower levels of poverty, which puts them beyond the reach of employment opportunities for self-help to get out of poverty; and (iv) although poverty at this time is not caused by lack of access to social services, inaction to resolve it could soon lead to the development of new forms of poverty based on health and education deprivation. Resolving these forms of poverty may not be simple.

9. Second, although infrastructure investments in Mongolia contribute to economic growth, they generate noninclusive growth. They are capital intensive projects that are financed by foreign assistance and, by their nature, have a long-term delay before contributing to economic activity and poverty reduction; in the short to medium term, they do not generate viable employment on a wide basis for Mongolians. They also fail to diversify the industrial base of the economy.

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

11. The poor in the different income groups will require different strategies: (i) for people above the poverty line but likely to become poor; small-enterprise development, microfinance, skills development and labor advisory programs, livestock and agriculture; (ii) the poor below but close to the poverty line; microfinance, skills development and labor advisory programs, sustaining access to social services, livestock and agriculture, development of social infrastructure, (iii) the very poor income generation activities, training and labor advisory programs, sustaining access to social services, development of social infrastructure; (iv) the ultra poor; public works for the able-bodied, targeted social assistance for the really vulnerable, including disabled, aged, orphans, multichildren households.

12. The above facts also dictate the choice of sectors and the nature of projects within each sector to be supported by ADB so as to achieve the main objective of the strategy. The selected sectors will be at the core of ADB operations because of their potential for (i) contributing to the private sector's growth, (ii) generating viable employment that can lead to poverty reduction, and (iii) maintaining and improving social service delivery to avoid the development of new forms of poverty.

13. On that basis, the new partnership between the Government and the ADB will imply the following:

A. **Monitoring Performance with Regard to Poverty Reduction**

14. The success of the partnership in growth and poverty reduction will be closely monitored by both partners. In the medium term Mongolia is expected to have the demand for, and capacity to absorb, a higher level of ADB concessional assistance to meet its development objectives. The ADB is currently considering means to closely link member countries' performance in achieving development objectives to

the allocation of ADB resources. In this regard, progress achieved under this partnership will be closely monitored.

15. ADB will provide advisory and technical assistance to the Government in the monitoring of poverty indicators, and will discuss with the Government on a periodic basis the need for further action. Various indicators of poverty, human development, economic development and stabilization, and contributions of various sectors to the achievement of the overall objective of poverty reduction will have to be monitored. Adjustments will also have to be made for the impact of exogenous factors.

16. Prior to the country programming mission a meeting will be held each year to review progress in implementing this Partnership Agreement and to make recommendations for concrete short term actions and for adjusting goals. In addition to the Government and the ADB, members of Parliament, NGOs and other representatives of civil society will be invited to participate in this meeting. The recommendations of the meeting will be an input to the discussions held during country programming. Understandings reached during annual country programming will be the basis for adjusting the short and medium term goals for poverty reduction.

17. The date presented in Appendix 1 of the COS, together with the results of the 1998 Living Standards Measurement Survey, will constitute the baseline date for the purposes of monitoring poverty reduction and improvements of living standards.

1. **Poverty**

18. The particular type of poverty in Mongolia—being income-based—might be more amenable to measurement than other forms of poverty. The strategy calls for poverty reduction through employment generation (as opposed to, for example, increased production efficiency leading to higher wages) through private sector (as opposed to the public sector). Therefore, the following variables (as designed and defined by the National Statistical Office of Mongolia) can be used as monitoring indicators:

- Changes in the total number of persons below the poverty line
- Changes in the relative number of persons close to the poverty line to the very poor.
- Variations in the shape of the income distribution line toward a more equitable distribution.

2. **Human Development**

- Developments in the second enrollment ratios at primary, secondary, and tertiary levels, segregated by male and female.
- Changes in the literacy rates for male and female population.
- Infant mortality rates and mortality rates for mothers.

3. **Economic Conditions**

- Rate of growth in GDP at constant prices.
- Changes in GDP per capita in current and constant prices.
- Number of new jobs created in the private sector.
- Variations in real wages within the private sector.

- Indicators of financial intermediation (private deposits at banks, rates of interest on deposits, loan rates).
- Size of the civil service in total, and ratio of civil servants in core public sector functions to those in non-core functions.
- Number of new small and medium sized enterprises and industrial units.
- Changes in number of housing units (gers, apartments, houses) with urban facilities (heating, sanitary water and waste disposal)

B. Main Targets to be Achieved

19. The main goal of the strategy is to assist Mongolia to achieve and surpass international targets for poverty reduction and human development as established by the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD) in 1996 as the “Strategy 21” goals. On this basis, the targets would be:

- Reducing by at least 25 percent the proportion of people in extreme poverty by the year 2005, and by half of the year 2015.
- Reducing at least by half the proportion of people below the Government’s officially defined poverty line by the year 2005, and by a further 25 percent by the year 2015.
- Achieving universal primary education by the year 2005.
- Reducing by half the mortality rates for infants and children under 5 years of age, and by two-thirds the mortality rates for mothers by the year 2005.
- Increasing access with the objective of providing universal access to reproductive health services for all females of appropriate age by the year 2015.

20. Fostering stable and viable economic growth is a major priority for the Government and the ADB in order to strengthen employment prospects, improve living standards and obtain more resources for assisting those less able to take advantage of the opportunities provided by rapid change. It is equally important that the growth achieved is all-inclusive (i.e., benefits as many of the population as can be accommodated by careful design), and is achieved by engaging the private sector in viable growth-generating activities.

C. The Government’s Efforts

21. Under the new partnership, the strategic focus of the Government’s medium-term development strategy will be on efforts to achieve sustainable economic growth with poverty reduction and improvement in human living standards. The Government will seek to ensure that development investments under domestic and donor-assisted projects also contribute directly or indirectly, to efforts at achieving this strategic focus.

22. The key components of the Government’s growth strategy are (i) macroeconomic stabilization, (ii) private sector development, (iii) financial sector development, (iv) new approaches to infrastructure development, (v) promotion of foreign direct investment, (vi) promotion of export oriented industries, and (vii) a human development and social sector development strategy.

23. The Government intends to place priority on creating an economic system that is flexible, open, provides for the free flow of foreign capital, ensures a competitive environment and is underpinned by

stable government polices and a reinvigorated modern financial sector that encourages economic growth. Improved living standards and development of human resources are vital medium term objectives.

24. The Government will support from the ADB, aims at developing a more coherent and realistic fiscal framework supported by effective institutional arrangements, accountability and transparency in the medium-term so as to ensure better achievement of macroeconomic and sectoral development objectives and to ensure that public expenditure programs are sustainable. The Government recognizes that such effective planning will require that the Public Investment Plan processes be integrated into strategic planning and budgeting processes. This would avoid the existing dual budgeting and donor driven processes.

25. The Government's economic adjustment and reform strategy for the medium-term is to maintain the stabilization and social protection programs within a prudent medium term expenditure framework and to accelerate and complete structural and enabling reforms that facilitate private sector led development as well as public management reforms. This stabilization and adjustment program is complemented by investment in social and economic infrastructure that aims to reduce poverty and strengthen Mongolia's competitiveness.

D. Scope of ADB's Operations

26. The ADB will focus its operations in the medium-term on assisting the Government in policy reforms and investment in a number of core sectors with potential for (i) contributing to private sector's growth, (ii) generating viable employment that can lead to poverty reduction, and (iii) maintaining and improving social service delivery in order to avoid development of new forms of poverty in future.

27. These sectors are: the financial sector (for its potential to remove the main barrier to private sector's investment and savings, which is the fragile and thin banking system, and for developing microfinance schemes); agriculture sector (for its potential to generate viable small-industry employment and income); the public sector (for its potential to re-orient the machinery of the Government to become more conducive to and supportive of private sector-led growth), the social sector (education and health, for the potential to empower the labor force with market-related human capital investment, and upkeep standards of health and to raise the general public's awareness and improve accessibility of health care); and urban development (for its potential to support health improvement and the living conditions).

28. Within the above five sectors, the Government and the ADB will select projects based on their potential for contribution to poverty reduction through private sector engagement or provision of needed improvements in human development. After having been selected for inclusion in the pipeline of assistance, a project will undergo further careful examination by both partners to ensure that strong elements of governance reforms within the sector can be incorporated in its design. The ADB Country Assistance Plan, which is revised each year to reflect the understandings reached during the annual country programming mission, will document the complete range of ADB assisted activities (loans, technical assistance projects, and other studies) aimed at reducing poverty in Mongolia. The CAP will also reflect additional understandings reached as the partnership to reduce poverty evolves.

Signed in Ulaanbaatar on 24 March 2000.

For the Government of Mongolia:

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