

ADB

Development
Effectiveness
Brief

Mongolia▶

A Partnership Against Poverty



Asian Development Bank



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Mongolia

Development Indicators

Non-MDG

Population in millions (2009)	2.73
Annual population growth rate (%) (2009)	1.9
Adult literacy rate (%) (2008)	97.3
Population living in urban areas (%) (2009)	62.6

MDG

Population living below the national poverty line (%) (2008)	35.2
Population living on less than \$1.25 a day (%) (2008)	2.2
Under-5 years mortality rate (per 1,000 live births) (2008)	41
Population using an improved drinking water source (%) (2008)	76

MDG = Millennium Development Goal.

Sources: ADB. 2010. *Basic Statistics 2010*. Manila; UNESCO. 2010. Institute for Statistics Data Centre; World Bank. 2010. World Development Indicators Online.

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Mongolia and ADB: A Great Historic Empire Looks to Become a Modern Player in the Global Economy

Lodged between the Russian Federation and the People's Republic of China (PRC), and sprawling over 1.5 million square kilometers of land area, Mongolia is home to about 3 million people, making it one of the world's most sparsely populated countries. With spectacular rural areas that seem to stretch into infinity, and a rapidly urbanizing capital city that is growing at a breakneck pace, Mongolia is a land of extremes. In the scenic but harsh Gobi Desert, in the south of the country, temperatures can hit a sizzling 40 degrees centigrade, while in the mountains, in the dead of winter, the mercury can fall to -40 degrees centigrade.

This harsh but spectacular environment has produced a resilient and dynamic people with a history so storied that it is recounted in school books and legends worldwide. The nomadic people of Mongolia, when unified under powerful rulers in the 1200s, controlled the largest contiguous land empire in world history. Their domain stretched from Siberia in the north to Viet Nam in the south, and from modern-day Poland in the west to the Korean Peninsula in the east. It covered more than 100 million people and a staggering 33 million square kilometers, or about one-fifth of the earth's land area.

After centuries of turbulent history, and a long association with the Soviet Union, modern-day Mongolian history and economic development can be traced to the early 1990s, when the country embraced democracy and free market reforms. With its dispersed population, harsh climate, and dynamic political scene, Mongolia underwent a difficult transition. Periods of



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rapid growth and moderate progress in poverty reduction were punctuated by the growth-slowng Asian currency crisis of the late 1990s and crippling, frigid winters of the early years of the 2000s, which devastated the livelihoods of Mongolia's many rural herders.

Like many countries around the world, Mongolia was also hit hard by the recent global economic downturn. With support from the International Monetary Fund, the World Bank, the Asian Development Bank (ADB) and others, a rebound is under way. Gross domestic product (GDP) grew by 5.0% in the first half of 2010, coming out of a 1.6% contraction in 2009, according to ADB's *Asian Development Outlook 2010*. Economic growth is being driven primarily by mining, in particular the massive Oyu Tolgoi project, which will be one of the world's biggest copper and gold mines when it starts production in 2013. The country also benefits from its location between the

Loan^a and Grant Approvals in Mongolia (\$ million)

	1991–2003	2004	2005	2006	2007	2008	2009	2010 ^b
ADF Loan	568.71	37.13	10.00	46.20	–	–	50.13	48.00
ADF Grant	–	–	–	–	14.00	74.32	33.90	50.00
Total	568.71	37.13	10.00	46.20	14.00	74.32	84.03	98.00

Disbursements^a in Mongolia (\$ million)

	1991–2003	2004	2005	2006	2007	2008	2009	2010 ^c
ADF Loan	418.16	39.40	29.92	28.59	24.21	26.68	56.67	9.14
ADF Grant	–	–	–	–	–	0.38	19.09	25.45
Total	418.16	39.40	29.92	28.59	24.21	27.06	75.76	34.59

– = 0, ADF = Asian Development Fund.

^a Excluding nonsovereign operation.

^b Expected approvals for 2010.

^c As of October 2010.

Source: Asian Development Bank.

economic powerhouses of the PRC and the Russian Federation.

Despite its inconsistent economic progress, inequality in Mongolia has worsened in urban areas, according to ADB's country poverty assessment report. Though inequality remains severe, there are several positive indicators: maternal and infant mortality rates have steadily fallen over the past 2 decades; there is near-universal literacy; and primary and secondary school gross enrolment is over 90%. Mongolia is on track to meet most of its Millennium Development Goal commitments.

While economic growth performance has been impressive and prospects are positive, serious challenges remain. Mongolia suffers chronic rural poverty, urban air pollution, and insufficient institutional and human capacity. This is exacerbated by a limited regulatory framework for private sector participation, infrastructure bottlenecks, a relatively weak public sector, a small domestic market, and a narrow economic base.

The government is cognizant of these challenges and is responding with a forward-looking national poverty reduction strategy. The National Development Strategy for 2007–2021 is focused on achieving the Millennium Development Goals; developing an export-oriented, high tech, knowledge-based economy; exploiting strategic minerals to build savings and encourage growth; developing regions and infrastructure to

reduce urban–rural disparities; and addressing environmental and governance concerns.

In 2007, the government established six technical working groups to foster harmonization between donors in support of the national strategy.

ADB's strategy in Mongolia has evolved in the last 2 decades from focusing on supporting the transition to a market economy in the 1990s to poverty reduction during the past decade. Assistance has been provided to deepen market-oriented reform, help stabilize and broaden financial markets, develop commercial agriculture, improve services in secondary towns and cities, and restructure social services while ensuring that the poor would have access to quality services. Transport infrastructure development has been supported in order to enhance connectivity and build regional and global market links.

ADB's new country strategy, which is currently being prepared, is centered on policy and institutional reforms, as well as building local capacity. ADB's work will also focus on helping the government mobilize and wisely invest its resources, which are expected to be substantial as the mining industry develops. Specifically, ADB seeks to support inclusive social development through competitive, sustainable, and regionally integrated growth that is closely aligned with the country's National Development Strategy. ADB plans to be particularly active in promoting good government policies.

Achieving Development Goals and Poverty Reduction

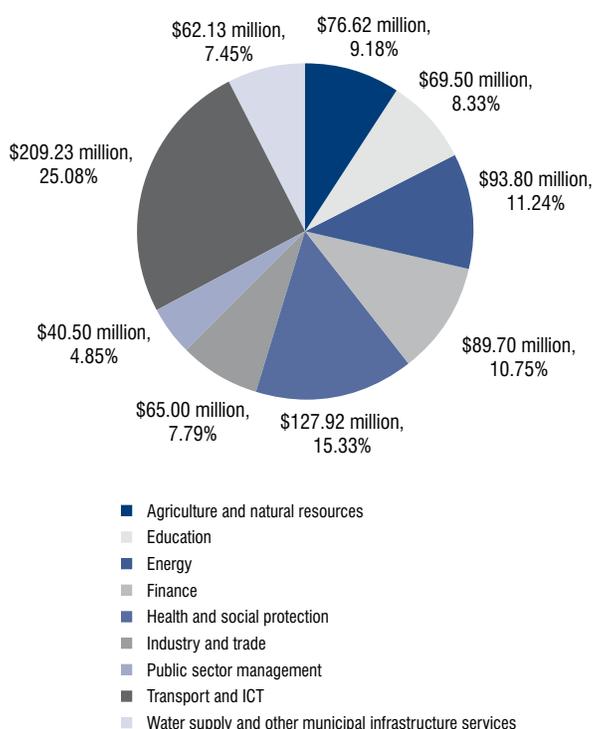
ADB was one of the first international financial organizations to enter Mongolia when it embraced democracy in the early 1990s, and it is credited with being one of the pioneering development organizations that helped the country through this difficult transition. Today it is by far Mongolia's largest multilateral partner. ADB's role, in terms of portfolio size and level of overall engagement, is expected to expand further in years to come.

ADB's ongoing loan and grant portfolio, as of 31 December 2009, consisted of 10 loans for a total of \$187.5 million and 8 Asian Development Fund grants for a total of \$122.2 million,

including 15 projects and 2 programs. As of October 2010, an \$8 million supplementary loan was also approved, as well as \$33.5 million in grants and \$6.5 million in technical assistance.

ADB has a broad-based portfolio in Mongolia but it has been particularly active in the areas of urban development, education, transport, and health. Promoting the development of the private sector and increasing regional cooperation between Mongolia and its powerful neighbors have been recent but vigorous additions to ADB's work in the country.

Sector Distribution of Cumulative ADB Loans and ADF Grants to Mongolia
(as of 31 December 2009)



Urban Development: Stressing Quality during Fast-Paced Growth

Mongolia's capital of Ulaanbaatar grew in population from approximately 660,000 in 1998 to around 1,050,000 in 2008, and continues to expand. During the same period, the number of registered vehicles has increased by 150%. Close to half of Mongolia's people reside in Ulaanbaatar, ironically making it one of Asia's most crowded cities in one of the region's most sparsely populated countries. The dilapidated state of urban infrastructure, in Ulaanbaatar and in other cities around Mongolia, has created serious bottlenecks for sustainable development.

ADB has a broad-based portfolio in Mongolia but it has been particularly active in the areas of urban development, education, transport, and health

Development Outputs from ADB-Supported Projects in Mongolia

Sector	Outputs Achieved 2004–2009
EDUCATION	
Classrooms built or upgraded (number)	680
Associated facilities built or upgraded (number)	260
Teachers trained (number)	12,827
Teacher participants in in-service training events (number)	12,827
Students benefiting (number)	206,074
Students benefiting from school improvement programs (number)	5,994
Students benefiting from direct support (number)	200,080
ENERGY	
Transmission lines installed or upgraded (km)	9
Greenhouse gas emission reduction (tCO ₂ -equiv/yr)	2,000,000
FINANCE	
Microfinance accounts opened/end borrowers reached (number)	2,303
Microfinance loans provided (amount in \$ millions)	2
SME loan accounts opened/ end borrowers reached (number)	5
TRANSPORT	
National highways, provincial, district, and rural roads built or upgraded (km)	200
Beneficiaries from road projects as per PCR (number)	38,664
Beneficiaries from road projects (number)	38,664

Note: Outputs are based on project completion reports issued in 2005 to 2009.

Source: ADB estimates.

Much of this congestion is focused on peripheral *ger* (traditional tent) settlement areas, home to half of the capital's population and one-quarter of the country's poor. These informal settlements began in the 1990s, and grew considerably in 2000 and 2001 during particularly harsh winters, when rural dwellers flocked to the capital for greater access to heat and scarce resources. This urban explosion in the capital has overwhelmed the municipal financing and management system, and resulted in traffic congestion, severe levels of ambient pollution, under-serviced settlements, and housing shortages.

Outside of the capital, other high-growth urban areas will also receive ADB support. A boom in

economic activity, as a result of rapid growth in mining and cross-border trade, is expected in many urban areas around the country. The influx associated with these economic activities is projected to more than double urban populations in many towns within the next 10 years. The Southeast Gobi Urban and Border Town Development Project, which ADB is supporting with a \$15 million grant, seeks to address this situation by helping the government provide urban infrastructure and services.

ADB's assistance, according to the draft 2011–2015 country partnership strategy, is focused on improving the enabling environment and management of the urban development process, as well as catalyzing investment through the use of public–private partnerships and innovative financing. This will involve an increasing focus on the institutional and financial sustainability of urban services. Specifically, ADB is focused on improving public transport and reducing air pollution, enhancing water supply and wastewater management services, and encouraging commercialization of selected urban services to increase efficiency and quality.

Orgoo Luvsansharav, a 50-year-old welder living in the southern Mongolian town of Sainshand, has seen firsthand the impact of ADB's work in the urban sector. Living in a traditional *ger* community in the town, deep in the Gobi Desert, his family is accustomed to struggling with access to clean water. Those problems are now over with the installation of an ADB-supported kiosk in his community that provides clean drinking water at very low cost just a few minutes from his home. Because many families live in *gers*, which can be moved from one place to another, piped water is not always the best option in low-income Mongolian communities.

ADB is focused on improving public transport and reducing air pollution, enhancing water supply and wastewater management services, and encouraging commercialization of selected urban services to increase efficiency and quality



Burmaa Nergui, a 22-year-old woman in the southern Mongolian town of Sainshand, obtains water from an ADB-supported kiosk with her 2-year-old daughter Bilguun. She says her family's water supply is now cleaner since the new kiosk was opened in her community.



Orgoo Luvsansharav, a 50-year-old welder living in the southern Mongolian town of Sainshand, says an ADB-supported water kiosk in his community has helped him save time collecting water each week. This gives him more time to spend with his family.

Kiosks offer a solution to the water needs of a traditionally nomadic community.

For Orgoo Luvsansharav, the new water kiosk is more than just a convenience. He works in the neighboring town, away from his family much of the time, so when he is home he wants to spend as much time as possible with them. "Before, there were long lines at the kiosk because the water pressure was low," he said. "Now, it just takes a few minutes to get enough water to last my family for the week. I don't have to spend half my day waiting in line."

The kiosk that he is benefiting from was financed by the Integrated Development of Basic Urban Services in Provincial Towns Project, which was supported by ADB with a \$20.1 million loan. The project, which was completed in December 2008, has improved access to clean water and

sanitation services in eight provincial centers and benefited 148,000 residents (over 25% of the area's population).

An independent review by ADB's Independent Evaluation Department found that the ADB-financed water supply, wastewater treatment, solid waste collection, and bathhouse components of the project contributed to the reduction of poverty in the area. The mission also found that ADB exhibited flexibility in its operations by agreeing to install an additional 11,000 water meters in the area, though this was not part of the original project. This cut the average nonrevenue water loss from 70% to around 37%. The project was assessed to be highly effective in meeting both the project-level and sector-level outcomes.

This effective implementation was felt directly by Burmaa Nergui, a 22-year-old woman

who was interviewed recently while filling a container of water at one of the ADB-supported water kiosks with her 2-year-old daughter Bilguun. She noted that previously her husband would get the water because it was an arduous, time-consuming task. Now, with a modern water distribution kiosk and no queues, she does it herself. “We use the water for washing, cleaning, cooking, for everything in our home. It’s much easier for me to take care of my family when I can easily get clean water.”

Though some shortcomings were identified, the country assistance program evaluation—an independent report card on ADB’s work in Mongolia conducted in September 2008—noted that ADB’s urban sector assistance “was able to achieve the intended sector output of improving service provision to urban residents, particularly for water connections, sanitary services, and heating connections in aimag (province) centers and for district heating in Ulaanbaatar.”

Education: More than Building Schools

Education has been a core area of assistance for ADB since it began its partnership with Mongolia 2 decades ago. Support was originally devoted to re-establishing basic education infrastructure and providing the foundation for improvements in the quality of education. In the mid-2000s, that strategy evolved into improving access to, and the quality of, basic educational services; encouraging more efficient and effective education provision; and promoting demand-driven vocational education. ADB built on previous efforts and refined this strategy further by focusing on aligning the skills and education of the labor force with market demand to mitigate growth constraints caused by human resource shortfalls and by providing better education opportunities for the poor so they can benefit from Mongolia’s rapid economic growth.

A clear example of this work is the Third Education Development Project, a \$13 million project approved by ADB in 2006 that built on

the achievements of two previous education projects. The project was designed to address the poor condition of Mongolia’s schools and to introduce a new curriculum.

Under the project, ADB has worked with the government to develop a new national curriculum framework and strengthen standards, as well as improve training and establish an accreditation system for teachers. It has also improved teaching and learning environments in primary and secondary schools by rehabilitating facilities and providing furniture and educational equipment in about 45 schools.

At Sainshand School No. 2, a public primary and secondary school in the Gobi Desert that has benefited from the program, 6-year-old Saranchimeg has just started first grade. “I like to come to school,” she says. “I’m comfortable here and there are games and toys here that we don’t have at home.”

This simple statement is an important outcome of the project, says Tserenlkham, the energetic administrator of the school, which has 1,621 students and 71 teachers.

“The desks for the first graders are modern and comfortable now,” she says. “Before, it was an old-fashioned desk, not designed for their age group.” She added that the project has also provided a television, audio player, educational games, and modern and safe toys for the classroom.

“This is the first year in school for these children and it is important that they get a good impression and want to continue,” she said. “It is critical that school is a positive experience for children of this age group. These additions to the classroom make school appealing to them.”

In the high school biology class at the same school, the impact has been similar. Otgonjargal, a 44-year-old biology teacher who has been instructing students for half her life, said some of the materials she used in the past were 50-year-old Russian science books.

“To illustrate concepts of biology and internal organs, I would draw on the blackboard and try



ADB's education strategy in Mongolia includes supporting the government's attempts to align the skills and education of the labor force with market demand. This ADB-supported vocational school in southern Mongolia is an example of that plan.

to explain. We were just making do with what we had," she said. Under the ADB project, the school now has large, detailed posters as well as hands-on models of human and animal biology.

Tuvshinjargal, a 15-year-old ninth grader, said she did not expect to enjoy biology class. She heard that it was difficult and confusing, but her expectations were wrong. "Biology is my favorite class," she said. "These exhibits make it much easier to understand our lessons. I really like the displays of the internal biology of animals. It's hard to imagine these things just by reading. Now I can touch the internal organs in the exhibits and I understand what is happening inside the animals."

The recent country assistance program evaluation report on ADB's assistance in Mongolia rated ADB's assistance in education *highly successful* and recommended continuing to focus on the sector, given its strong track record. In the future, ADB's assistance will look to address the skills shortages and mismatches that affect nearly all sectors of the country's economy. Specifically, ADB will be helping the government to enhance the quality of

the skilled labor force by improving sector governance, management, and donor coordination, as well as by strengthening higher education and technical and vocational education and training. ADB is seeking to support policy reforms, capacity building, and investments in line with the government's Education Sector Master Plan.

Health: Keeping Families Well

In the early 1990s, Mongolia inherited a Soviet-style health system with a large, inefficient hospital sector providing generally outmoded and low quality services with little focus on primary health care, financing systems, human resources and planning, and regulatory processes. The country's health care system was in need of overall reform and realignment, and ADB has worked closely with the government to address these issues.

The initial Health Sector Development Program in 1997, financed in part by an \$11.9 million



Battsetseg Baigalmaa, a 26-year-old resident of Zuunmod, a town about an hour's drive outside of Mongolia's capital, says her 10-month-old son, Temuun Ganbold, is healthier because of the ADB-supported family clinic near her home.

ADB loan, helped develop the family group practice system (teams of family doctors and nurses providing treatment and prevention services to the population) as a means of reorienting the health system towards primary health care. Under the Second Health Sector Development Project in 2003, supported by a \$14 million ADB loan, work was focused on improving access to quality health services in rural areas (through infrastructure improvements and providing equipment) and extending reforms initiated under the first program.

In 2007, the government requested ADB to work with the Ministry of Health on the Third Health Sector Development Project, which ADB supported with a \$14 million grant. The project enhanced the initiatives of the first two programs. One of the major accomplishments of the programs was the introduction of more than 230 family group practice clinics to provide primary health care in cities and towns throughout the country.

The clinic is about a 5-minute walk from her house and she waited less than 10 minutes for her son to see a doctor

During a recent visit to one such clinic in the town of Zuunmod, about an hour's drive outside of the capital, the popularity and utility of the community medical service was immediately evident. The clean, modern clinic is located in the middle of the town and was staffed on that day with three doctors serving a steady stream of patients.

Battsetseg Baigalmaa, a 26-year-old resident of the town, brought her 10-month-old son, Temuun Ganbold, to the clinic to check on his cough. The clinic is about a 5-minute walk from her house and she waited less than 10 minutes for her son to see a doctor.

"It's very convenient to have the family clinic in our community," she said. "If we had to travel to the provincial hospital, we wouldn't see the doctor as often. I think my son is staying healthier because this clinic is nearby."

In addition, the doctors in the clinic often live in the area, know their patients personally, and are aware of the family's medical history. This increases efficiency and improves overall health in the community, doctors in the clinic said.

The independent country assistance program evaluation of ADB's work in Mongolia examined the interventions in the country's health care

system and found mixed results. But the report noted that the health programs have helped the government to plan and implement organizational and financial reforms since implementation began in 1997 and have successfully introduced a number of significant changes in the health system.

Though the introduction of the hundreds of family group practice clinics around the country was found to be beneficial, continuing challenges were identified. They included inadequate funding for the system, an ambiguous legal status, and unsatisfactory quality of services in some clinics.

A separate study, titled *Gender Equality Results in ADB Projects*, that examined Mongolia's Second Health Sector Development Project found "very positive gender equality results." The health program was found to provide a major improvement in the "quality of health care services for women and children, including strengthened capacity to respond to their health needs." The report noted that many of the 7,850 rural health workers trained were women, including community-based nurses, doctors, and medical and administrative staff at provincial health centers. The report also noted that the proportion of women experiencing pregnancy-related complications decreased from 50.0% to 34.5% after implementation of the program.

ADB's draft country partnership strategy notes that health sector reform has progressed more slowly than other sectors, and health sector spending continues to be dominated by curative services provided in aging public sector hospitals which are under-utilized and inefficiently managed. Recently, however, there have been encouraging signs of reform. In the health sector in years to come, ADB assistance will build on this positive reform momentum and contribute to better sector governance and improved provision of quality health care. ADB assistance will be aimed primarily at sector policy and institutional reform, and will be designed in close cooperation with development partners better positioned to contribute to building technical competence in health service delivery. In line with the Health Sector Master Plan, ADB will



Mongolia's economy is rebounding from the global economic downturn, with 5.0% growth in gross domestic product (GDP) in the first half of 2010. Throughout Mongolia, construction sites can be found, indicating rapid economic expansion.

provide assistance for improved financial management, hospital rationalization, facility upgrading, capacity building, and improving food and drug safety.

Transport: Tying Together a Vast Nation and a Vibrant Region

Road transport links are crucial to Mongolia. The country's location, far from the sea and surrounded by the dynamic economies of the PRC and the Russian Federation, makes good roads a vital ingredient of domestic and international trade. However, only 3.5% of Mongolia's total road network of 49,250 kilometers is paved.

ADB's initial interventions in Mongolia's transport sector in the 1990s focused on supporting and accelerating the transition process. Subsequent projects took a broader focus on economic growth, poverty reduction, and regional integration. In recent years, ADB's strategy has been to enhance Mongolia's transport links with

neighboring countries and promote regional cooperation and integration; promote and develop a sound sector policy and regulatory framework; ensure adequate fund allocations through the government budget to the road sector; improve road safety; and strengthen institutional and human capacity in the sector.

A key aspect of this strategy has been the implementation of the Regional Road Development Project, which was approved in 2004. This is ADB's third project aimed at completing the road corridor by building 432 kilometers of road from Choir to Zamyn-Uud at an estimated cost of about \$82 million. The project will complete the regional road, totaling to about 950 km and linking the PRC and the Russian Federation along the main vertical arterial road of Mongolia. This corridor is a part the Asian Highway Network, a 141,000-kilometer road system traversing 32 Asian countries with links to European roadways. It is designed to promote broad economic growth in the country and offer direct benefits to the isolated communities along its route. It also links markets and improves travel conditions, giving residents easier, less expensive, and faster access to social, health, and other services.

Buyan Zaya, who was standing beside his motorcycle along a completed stretch of the ADB-supported highway project, said the new road has had a significant impact on his income. Because the modern highway runs through remote areas, where herdsmen work, he has been able to engage in the trade of sheep skins. He purchases the skins from people passing along the road and then re-sells them for a profit in Ulaanbaatar, where factories make them into clothing and shoes.

"This is just a small side business for me, but it has helped our family a lot," he said. "My wife and I are raising a 3-year-old daughter and we

The technical assistance component successfully increased awareness of the health and security risks associated with the development of the regional road

need the extra income." He noted that if the road had not been built, there would not be the traffic needed to find sellers of the sheep skins. "I started this side business after they opened the road," he said.

The independent country assistance program evaluation of ADB's work in Mongolia examined the assistance to the country's transport system and noted that the initial projects which rehabilitated and constructed the first two sections of the main north-south road corridor were effective in many aspects. The projects reduced travel times, improved travel comfort, reduced vehicle operating costs, and contributed to improved domestic and international trade.

The road improvements are largely credited with doubling road traffic from 100 million passengers in 2002 to 200 million in 2007. The amount of freight transported by the road has risen fivefold from 2 million tons in 2002 to just under 10 million tons in 2007. The report also noted "an alarming rise in traffic accidents."

The Gender Equality Results in ADB Projects study, which examined a technical assistance component of the Regional Road Development Project on the awareness and prevention of HIV/AIDS and human trafficking found impressive results. The technical assistance component successfully increased awareness of the health and security risks associated with the development of the regional road. It supported the provision of information, education, and communication materials to a wide cross-section of male and female groups. Vulnerable groups gained knowledge of high-risk behavior and took steps to reduce risks.

As part of the program, mobile clinics offering voluntary counseling and testing services for sexually transmitted infections were taken to construction and mining sites, while condoms were provided in communities affected by the road corridor.

The study found that the involvement of local government decision makers in the program encouraged community leaders to be more



A ubiquitous roadside Shamanistic cairn called an Ovoo around which travelers walk three times each time casting a rock on to the pile for good luck with an ADB-sponsored road in the background.

aware of the social and economic impacts of development along the road corridor and of the needs of vulnerable groups. Staff from the Department of Roads also gained an understanding of non-engineering issues, such as the social impacts to consider as projects are planned and implemented.

About an hour's drive from Ulaanbaatar, along a stretch of the ADB-supported highway, other more positive health issues can be found associated with the road. The Arga Beleg Suvilal Spa, in the town of Hoolt, sits on a hillside overlooking the new highway and offers massages, Jacuzzi and sauna services, and minor medical procedures to families, business people, and the elderly.

"It's relaxing for people from Ulaanbaatar to come here," said Altantsetseg, a manager at the spa. "With this road, we are only about 45 minutes away, which makes our resort much more attractive." The spa averages about 30 customers a week and employs 9 people. "Traffic is increasing on the road and we are getting more customers," she noted. "We might be expanding and hiring more people."

In years to come, massive investments will be needed to continue the improvement of Mongolia's roads and transport systems in order to support the competitiveness of mining and

other sectors. ADB's strategy for the transport sector seeks to reduce transport and logistics costs for trade, thereby fostering regional integration; enhance transport efficiency and safety through public-private partnerships; enhance efficiency through improved urban transport infrastructure and services; increase rural accessibility; and improve institutional and financial management and human capacity.

While maintaining its support for the road subsector, ADB plans to progressively broaden its focus to cover other transport subsectors and to focus more on multi-modal transport system development. Investment priorities for ADB support include completing the regional road corridor; developing a public transport system for Ulaanbaatar; and developing modern logistics infrastructure and systems, initially in Zamyun Uud at the PRC border, and thereafter in Ulaanbaatar.

In years to come, massive investments will be needed to continue the improvement of Mongolia's roads and transport systems in order to support the competitiveness of mining and other sectors



Buyan Zaya (right) operates a small business, reselling sheep skins, along a highway built by an ADB-supported project. The enterprise would not have been possible without the new road, he says.

Private Sector Development: Bringing the Booming Economy to Those Who Need it Most

Mongolia has made a stunning transition to a free market economy in the last 2 decades. From virtually zero in 1990, the private sector now generates more than 75% of the country's GDP. More than 90% of all enterprises are privately owned. This is the result of government policies that promote a wide-ranging privatization program and the creation of an enabling environment generally supportive of new private enterprises.

The independent country assistance program evaluation of ADB's work in Mongolia found ADB's involvement in the private sector to be limited because the country lacks the well-defined legislative and regulatory frameworks necessary for ADB's increased participation. The government has addressed some of these concerns through the promotion of public-private partnerships as a key priority in the National Development Strategy.

ADB's most recent draft country partnership strategy outlines a plan to encourage private participation in the financing and management of infrastructure and social services. In line with the government's priorities, ADB will also provide capacity development assistance to strengthen the enabling environment for the private sector to engage in public-private partnerships, including the development of model transactions in the power, transport, and urban sectors. ADB is also working with the government to establish a reliable credit information system and an effective deposit insurance scheme.

ADB's Private Sector Operations Department will respond to market demand and will focus particularly on infrastructure, energy, and finance. Priority will be given to pioneering projects with innovative contractual and financial structuring to encourage private sector participation, enhance management expertise, and improve corporate governance. ADB also plans to work in coordination with other

ADB is also working with the government to establish a reliable credit information system and an effective deposit insurance scheme

development partners, including the European Bank for Reconstruction and Development and the International Finance Corporation, which recently launched operations in Mongolia.

A recent example of ADB's innovative approach in the private sector is an agreement by four Mongolian banks in March 2010 to work with ADB to help companies in Mongolia to conduct more international trade. The agreements, which are the first of their kind in Mongolia, are part of ADB's Trade Finance Facilitation Program and involve Golomt Bank, Khan Bank, the Trade and Development Bank of Mongolia, and XacBank.

Firms in Mongolia, as in many developing economies, have difficulty obtaining financing to support the import or export of key components or final products they need to conduct business. ADB's Trade Finance Facilitation Program offers loans and guarantees to support international trade transactions. This allows local companies to use international trade to expand their business, contributing to increased employment and growth of the overall economy.

Regional Cooperation: From Landlocked to Land-linked

Mongolia's strategic location between two powerful economies—Russian Federation and the PRC—has been an important part of its economic development in the last 2 decades. The independent country assistance program evaluation of ADB's work in Mongolia found that ADB assistance under the Central Asia Regional Economic Cooperation (CAREC) Program initiated in 1997 has paid off in terms

ADB's Trade Finance Facilitation Program offers loans and guarantees to support international trade transactions

of attracting investment in trade facilitation and developing the transport corridor that is part of the Asian Highway Network.

"More importantly, trust and confidence have been built, and Mongolia now has a well-established forum for benchmarking practices and negotiating with its neighbors," the report noted. It added that that Mongolia has significant cross-border export opportunities in power generation and livestock-based products.

ADB's draft country partnership strategy encourages the deepening of regional integration and economic cooperation through the public and private support of international road and rail link networks. This will be partially facilitated under the CAREC program, in which ADB will support the completion and expansion of strategic transport corridors and foster the associated trade. ADB also plans to help the country exploit its potential for energy exports, also primarily through the CAREC program which will explore opportunities for advancing public-private partnerships to further develop energy resources for export.

A recent example of ADB's work in the area of regional cooperation and integration in Mongolia is a January 2010 study being conducted of market and finance barriers to boost cross-border trade by small and medium-sized enterprises in Mongolia. The study, financed by a \$1.5 million technical assistance grant, sourced from the Regional Cooperation and Integration Financing Partnership Facility, could help pave the way for an increase in trade and a reduction in poverty in poor border areas.

Improving Operational Effectiveness and Services

The independent country assistance program evaluation rated ADB's work in Mongolia *successful*. As part of this study, a survey was taken of 115 stakeholders regarding ADB's responsiveness in the country. Respondents included individuals from the Government of Mongolia, the private sector, nongovernment organizations, academic organizations, and the general public.

The survey found that more than 80% of interviewees viewed ADB assistance as both relevant to the nation's priorities and effective in achieving results. Respondents also found that ADB made a positive contribution to building institutions and that the Mongolia Resident Mission was effective in managing the country relationship and implementing programs.

Though the overall country assistance program evaluation rated ADB's work in Mongolia *successful*, weaknesses were identified. The report found that ADB's portfolio in Mongolia was too broad and needed greater focus. ADB responded to this suggestion in its latest country strategy with a plan to focus on specific sectors and subsectors where development impact and effectiveness could be maximized.

The report noted in particular that ADB's contribution to inclusive growth in the country could be improved. "On balance, little progress has been made in diversifying the sources and geographical distribution of growth," the evaluation stated. "Over time, the economy has become increasingly dominated by extractive

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industries, contributing to a widening rural–urban income gap and inspiring rapid rural-to-urban migration."

The evaluation also noted persistent project management problems that were not being addressed in a harmonized manner. One example of an operation issue identified in the report was procurement delays. "Practically all investment projects have suffered procurement delays because of a lengthy procurement process, insufficient numbers of qualified bidders, weaknesses in procurement planning, and, prior to the 2006 Procurement Law reform, strict centralization of procurement authority."

This operational issue was reinforced in a recent interview with Togmid Dorjkhand, deputy director general of the Development Financing and Cooperation Department of Mongolia's Ministry of Finance.

"Infrastructure is critical for Mongolia at its current stage of development," the deputy director general said. "Sometimes there are procurement delays related to the performance of the executive agency, but there are also delays due to ADB's procedures. This increases the costs of the project. We are a developing country and we need to move fast, but ADB is a long-established bureaucracy with many departments and many clearances. We do understand that these procedures and clearances are in place for reasons that have to do with ADB's policies throughout the region, not just due to the situation in Mongolia, and ADB does work to coordinate these issues with us."

Deputy Director General Dorjkhand pointed out that the procurement delays are a relatively minor operational issue in the broader relationship between ADB and Mongolia. "ADB's approach is very much demand driven and the quality of their projects is very high,"



Munkhbat Tumennast (left), a 24-year-old electrician, celebrates a traditional ceremony with his wife and child before they move to Mongolia's capital city. "We are hopeful for the future," he says. "Life will be better for our son."

he said. "Most importantly, we are fitting ADB's activities to Mongolia's development plan, not the other way around."

He noted that ADB's regional approach has had an important impact on Mongolia's development program. "ADB is a regional player, not a bilateral partner. They are very much focused on development of the region, and this helps us think regionally, not just locally, and this of great benefit to Mongolia's development."

ADB has been working closely with the Government of Mongolia to address delays and ensure timely project implementation.

One indicator is that ADB's disbursement ratio in Mongolia is 31%, which is higher than the ADB average of 26%. In another area, that is vital to bringing additional project funding into Mongolia, ADB was able to mobilize \$40.29 million in cofinancing for the country in 2009, a 400% increase from previous year.

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Future Challenges and Goals

According to ADB's *Asian Development Outlook 2010 Update*, Mongolia is rebounding well from the global economic downturn and forecasts for GDP growth are 7.0% for this year and 6.5% for 2011.

Ironically, Mongolia's greatest development challenge in the future is the prospect of vast wealth. Sitting under the country is one of the greatest mineral deposits in the world. Mongolia has confirmed deposits of nearly every major valuable mineral resource: coal, copper, fluorite, gold, iron ore, lead, oil, phosphates, tin, uranium, and others. The Oyu Tolgoi mine project alone is estimated to generate \$30 billion in tax revenue in the next 50 years.

Mining Mongolia's vast mineral deposits will encourage new investment, create jobs, generate export income, and produce a surge in government revenue that can be used to fund social and development spending, and reduce poverty and social inequity.

On the downside, this windfall of revenue and investment is likely to increase demand for labor far beyond Mongolia's capacity, and produce higher incomes and public spending that could send the country's inflation skyrocketing into double digits. It also could keep the economy narrowly focused on extractive industries and leave it susceptible to "boom and bust" cycles related to swings in global mineral prices.

Mongolia's key task in the future is to manage this rapid growth in a way that is inclusive and raises large segments of society out of poverty. Transparency, good governance, and dealing with issues associated with the concentration of wealth in society will be key challenges in the upcoming decade.

ADB has an important role in this regard as an institution focused on the promotion of inclusive growth and good governance.

Mongolia has formally requested access to ADB's ordinary capital resources, its non-concessionary lending fund, to help finance its massive infrastructure development needs. Currently, the country has access only to ADB's Asian Development Fund, which offers softer terms but less overall funding for larger projects. The transition to ordinary capital resources lending will be a major test of both the Government of Mongolia and ADB in managing the large sums expected to be processed as a result.

Sitting in a traditional Mongolian *ger* in a small town a few hours outside of Ulaanbaatar, the complexities of Mongolia's development challenges are simplified by Munkhbat Tumennast, a 24-year-old electrician who is about to move to the capital city with his wife and 1-year-old son.

"We are seeing more job advertisements, more economic activity in the country," he said. "Many people move to Ulaanbaatar looking for a job, but I already have a job waiting for me there. Life is still difficult but we can see improvement in the country. We are hopeful for the future. Life will be better for our son."

Mongolia has formally requested access to ADB's ordinary capital resources, its non-concessionary lending fund, to help finance its massive infrastructure development needs

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The cover shows an ADB-supported family medical clinic in Zuunmod, a town about an hour's drive outside of Mongolia's capital.

Photographs by Kevin Hamdorf.

For more information, please visit www.adb.org/Mongolia/ or contact Adrian H. Ruthenberg at aruthenberg@adb.org
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Development Effectiveness Brief: Mongolia

Asian Development Bank (ADB) was one of the first international finance organizations to enter Mongolia when it embraced democracy in the early 1990s, and it is credited with being one of the pioneering development organizations that helped the country through this difficult transition. Today it is by far Mongolia's largest multilateral partner, with an ongoing loan and grant portfolio of more than \$300 million. The recent country assistance program evaluation report on ADB's assistance in Mongolia rated the institution's work *successful*. ADB's strategy in Mongolia is centered on policy and institutional reforms, as well as building local capacity. ADB's work will also focus on helping the government mobilize and wisely invest its resources, which are expected to be substantial as the mining industry develops. Specifically, ADB seeks to support inclusive social development through competitive, sustainable, and regionally integrated growth that is closely aligned with the country's National Development Strategy. ADB plans to be particularly active in promoting good government policies.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries substantially reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two-thirds of the world's poor: 1.8 billion people who live on less than \$2 a day, with 903 million struggling on less than \$1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.