

# Mongolia: From Transition to Takeoff

- This update to the findings of the **2002 country assistance program evaluation** for Mongolia assesses the performance of ADB strategies and assistance programs in the country during 1997–2007.
- The **evaluation**<sup>1</sup> found that ADB's assistance played an important role in facilitating Mongolia's transition and in developing market-related institutions. ADB has made important contributions to establishing the policy setting and institutional framework for a market economy.

## Background

In the late 1990s, the **Mongolian economy** was reeling from the dislocations arising from the loss of traditional trade, investment, and assistance ties with the nations of the **former Soviet Union**, as well as from the **Asian financial crisis**. Output was falling, the larger enterprises and banks were distressed, and poverty was worsening at an alarming rate.

Since 2003, the boom in the mining sector has fuelled economic growth at rates of 6–10%, doubling the per capita gross domestic product to some \$1,490 in 2007 and turning the fiscal balance to a surplus. The incidence of poverty has gradually declined.

While economic growth has been impressive and prospects are positive, there are many challenges and risks as the country has moved from transition to rapid growth. **Mongolia** is landlocked and sparsely populated and suffers from a harsh climate, chronic rural poverty, urban pollution, and limited institutional and human capacity. Critical development constraints on sustainable economic growth and poverty reduction include infrastructure bottlenecks, limited regulatory framework for private sector participation, inefficient financial intermediation, relatively weak public sector management capacity, a small domestic market, and a narrow economic base.

## Summary of Findings

The overall rating for the Asian Development Bank's (ADB) assistance during the evaluation period is

“successful”. Key factors were that ADB assistance (i) was well aligned to country requirements and government strategies; (ii) was delivered through a program marked by the innovative use of a variety of new assistance instruments and a strong measure of nonlending support; (iii) was increasingly responsive to client needs; and (iv) has made important contributions to the transition process, social development, fiscal stability, and economic recovery.

While performance was rated “successful,” there is scope for improvement and a need for an innovative approach to ADB assistance in the next **Country Partnership Strategy** for Mongolia, taking into account the country's critical development constraints and ADB's corporate goals and strategy.

The emphasis of ADB support shifted from program lending to investment projects by 2002, when the financial system stabilized and started to recover. **Asian Development Fund** allocations gradually declined, resulting in projects that were smaller in size and more difficult to implement efficiently. Portfolio management became increasingly difficult, with start-up and initial implementation delays and project extensions.

ADB has made important contributions to establishing the policy settings and institutional frameworks for a market economy and by helping the Government restore fiscal stability. Also, ADB contributed to poverty reduction indirectly through support for enhancing Mongolia's connections for regional and global markets and fostering growth and employment led by the private sector.

ADB's country assistance has been particularly successful in the transport, education, banking, and urban sectors. There was strong government ownership, follow through on major sector policy reforms, judicious use of lending and nonlending assistance, and increasing coordination of external assistance.

ADB's private sector participation remains limited because Mongolia currently lacks the required well-defined legislative and regulatory frameworks. Efforts are being made, however, to support privatization in the civil aviation sector, introduce new modes of public-private partnership and to draw on both public and private sector support for reforms in the financial sector and to encourage power exports.

As the economy opened and economic stability was restored, trade and investment relations between Mongolia and its large neighboring economies have come to play greater roles in economic development. Assistance under the **Central Asian Regional Economic Cooperation** (CAREC) program initiated in 1997 has already paid off in terms of attracting investment in trade facilitation and developing the western 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.

A results-based approach to development was introduced by ADB's most recent Country Partnership Strategy. However, results monitoring encountered practical difficulties. There was also lack of full awareness and institutional capacity within the client government in this regard. A more focused results framework with monitorable quantitative indicators would have been useful.

The development results of ADB's assistance as a whole have been considerable, particularly through its support for market-oriented policy reform, social sector development, economic corridor development, capacity building for public sector governance, government systems for procurement, project management, and a number of other aspects of public sector planning and financial management. Important accomplishments include ADB's contribution to restoring fiscal stability and enhanced budget control; improving transport connectivity, the efficiency of district heating in Ulaanbaatar, and access to essential municipal services in the secondary cities; transforming a mono-bank system into a competitive banking sector and introducing a housing mortgage market; restoring

primary education enrollment rates; and introducing a network of primary health care providers, social insurance, and a multi-tier pension system.

The evaluation identified a number of lessons including (i) overly sophisticated ADB-assisted public sector governance reforms; (ii) ADB assistance to help the Government to introduce new laws were sometimes pursued with large institutional capacity gaps; (iii) ADB assistance became stretched over a large number of regions, subsectors, institutions, and themes; (iv) while being responsive to demand, ADB assistance sometimes lacked investment efficiencies and cross-sector synergies; (v) rapid urban-to-rural migration without adequate urban planning and provision of public services places growing burden on the capital city and its peri-urban areas; (vi) weak harmonization of approach in aid coordination; and (vii) weak results monitoring of program delivery and portfolio by both ADB and the Government.

## Recommendations

The evaluation made recommendations in relation to the following strategic areas of ADB's operations in Mongolia:

- Reorient the role of the ADB to support Mongolia in the country's changing development context.
- Strengthen strategic focus and sector selectivity in ADB operations.
- Support further private sector development and improve complementarity between the public and private sectors.
- Foster regional cooperation.
- Improve portfolio performance and client responsiveness.

## Feedback

When these Learning Curves were prepared, **ADB Management's response** and the **Chair's Summary of the Development Effectiveness Committee Discussions** were not available for disclosure to the public. The study was completed in September 2008.

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<sup>1</sup> ADB. 2008. *Mongolia: From Transition to Takeoff*. Country Assistance Program Evaluation. Manila. Available: <http://www/adb/org/Documents/CAPES/MON/CAP-MON-2008-33/CAP-MON-2008-33.asp>