



# Country Partnership Strategy

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April 2017

## Mongolia, 2017–2020 —Sustaining Inclusive Growth in a Period of Economic Difficulty

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Asian Development Bank



## CURRENCY EQUIVALENTS

(as of 15 March 2017)

Currency unit	–	togrog (MNT)
MNT1.00	=	\$0.000407
\$1.00	=	MNT2,457.0

## ABBREVIATIONS

ADB	–	Asian Development Bank
CAREC	–	Central Asia Regional Economic Cooperation
CPS	–	country partnership strategy
DRM	–	disaster risk management
FDI	–	foreign direct investment
GAP	–	Government Action Plan
GDP	–	gross domestic product
IED	–	Independent Evaluation Department
IMF	–	International Monetary Fund
OCR	–	ordinary capital resources
PBL	–	policy-based lending
PRC	–	People's Republic of China
SMEs	–	small and medium-sized enterprises
TA	–	technical assistance
TVET	–	technical and vocational education and training

## NOTE

- (i) In this report, "\$" refers to United States dollars.

## GLOSSARY

<i>dzud</i>	–	local natural disaster (harsh winter)
<i>ger</i>	–	traditional tent
<i>soum</i>	–	administrative unit (subprovincial)



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## COUNTRY AT A GLANCE

<b>Economic</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
GDP (\$ billion, current)	12.3	12.6	12.2	11.7	11.1
GDP per capita (\$, current)	4,323.6	4,340.1	4,126.2	3,879.0	3,603.7
GDP growth (% , in constant prices)	12.3	11.6	7.9	2.4	1.0
Agriculture	21.1	19.2	13.7	10.7	4.8
Industry	14.8	14.6	12.7	9.7	(1.2)
Services	10.3	7.8	7.8	1.0	1.7
Gross domestic investment (% of GDP)	55.9	53.3	35.2	27.0	29.5
Gross domestic saving (% of GDP)	33.5	30.7	30.4	27.9	32.3
Consumer price index (annual % change)	14.3	9.9	12.8	6.6	1.1
Liquidity (M2) (annual % change)	20.4	19.3	24.6	(1.3)	10.4
Overall fiscal surplus (deficit) (% of GDP)	(6.2)	(0.9)	(3.7)	(5.0)	(15.4)
Merchandise trade balance (% of GDP)	(12.7)	(10.5)	8.1	10.0	11.9
Current account balance (% of GDP)	(27.4)	(25.4)	(11.5)	(4.0)	(4.0)
External debt service (% of exports of goods and services)	32.6	44.2	40.8	41.7	88.6
External debt (% of GDP)	106.8	145.3	171.4	183.9	213.6
<b>Poverty and Social</b>		<b>2012</b>		<b>2016</b>	
Population (million)		2.8		3.1	
Population growth (annual % change)		1.9		2.1	
Maternal mortality ratio (per 100,000 live births)		50.8		48.6	
Infant mortality rate (below 1 year/per 1,000 live births)		15.5		16.8	
Life expectancy at birth (years)		69.1[2013]		69.8[2015]	
Adult literacy (%)		97.5[2010]		98.3[2014]	
Primary school gross enrollment (%)		97.9		99.3[2015]	
Child malnutrition (% below 5 years old)		5.0		1.6[2013]	
Population below poverty line (%)		27.4		21.6[2014]	
Population with access to safe water (%)		85.0[2011]		80.0[2014]	
Population with access to sanitation (%)		53.0[2011]		41.0[2014]	
<b>Environment</b>		<b>2012</b>		<b>2016</b>	
Carbon dioxide emissions (tons)		32,727.9		41,591.1[2013]	
Carbon dioxide emissions per capita (tons)		11.5		14.5[2013]	
Forest area (million hectares)		12.1		12.2	
Urban population (% of total population)		63.4		68.5[2015]	
<b>ADB Portfolio</b> (active loans, as of 31 December 2016 )		<b>OCR</b>	<b>COL</b>	<b>Total</b>	
Total number of loans		11	14	25	
Sovereign		8	14	22	
Nonsovereign		3		3	
Total loan amount (\$million)		571.6	343.2	914.8	
Sovereign		491.6	343.2	834.8	
Nonsovereign		80.0		80.0	
Disbursements					
Disbursed amount (\$ million, cumulative)		186.1	73.5	259.6	
Disbursement ratio (%)		22.8	11.3	18.3	

... = not available; ( ) = negative; [ ] = latest year for which data are available; ADB = Asian Development Bank; COL = concessional ordinary capital resources lending; GDP = gross domestic product; M2 = broad money; OCR = ordinary capital resources.

Sources: ADB. Asian Development Outlook database (accessed 23 February 2017); Bank of Mongolia. *Monthly Statistical Bulletins*. Ulaanbaatar (5 years: 2011–2015); Bank of Mongolia. Gross External Debt Position. [https://www.mongolbank.mn/eng/liststatistic.aspx?id=4\\_3](https://www.mongolbank.mn/eng/liststatistic.aspx?id=4_3); Bank of Mongolia. Balance of Payment Statistics. [https://www.mongolbank.mn/eng/liststatistic.aspx?id=4\\_1](https://www.mongolbank.mn/eng/liststatistic.aspx?id=4_1); National Statistical Office of Mongolia. *Mongolian Statistical Yearbook*. Ulaanbaatar (4 years: 2012–2015); National Statistical Office of Mongolia. 2015. *Monthly Bulletin of Statistics*. Ulaanbaatar (5 years: 2011–2015); National Statistical Office of Mongolia. 2011. *2010 Population and Housing Census of Mongolia: National Report*. Ulaanbaatar; United Nations Development Programme. 2015. *Human Development Report 2015: Work for Human Development*. New York; and World Bank. 2016. *World Development Indicators 2016*. Washington, DC.



## I. COUNTRY PARTNERSHIP STRATEGY SNAPSHOT

1. **Key development challenges.** In the short-term, Mongolia urgently needs to restore macroeconomic stability to ensure social stability in collaboration with the International Monetary Fund (IMF) and the international community at large. In the longer term, it needs to develop a more resilient and diversified economy that can consistently deliver rapid, inclusive, and sustainable growth. Small and medium-sized enterprises (SMEs) must play a greater role to promote diversification and job creation, particularly in developing value chains for Mongolia's unique agricultural resources. This, in turn, will require (i) structural reforms to broaden and deepen financial intermediation to enhance access to finance, and (ii) infrastructure investments and regional integration to improve connectivity and access to external markets. Developing a better-skilled workforce and enhancing the quality of life in urban areas will also be critical, and will require further infrastructure investment, policy reform, and institutional strengthening to improve the inclusiveness and efficiency of social service delivery. The economic downturn underscores the need to strengthen social protection. Rapid and unplanned urbanization, poorly regulated development of the mining sector, and climate change impacts are causing significant environmental degradation that needs to be arrested to make growth more sustainable.<sup>1</sup>

2. **ADB's strategic objectives and priorities.** The country partnership strategy (CPS), 2017–2020 of the Asian Development Bank (ADB) for Mongolia will address these key challenges by supporting investments, policy reforms, capacity building, and knowledge sharing to sustain inclusive growth in a period of economic difficulty. To achieve this, ADB will base its operations on three strategic pillars: (i) promoting economic and social stability, (ii) developing infrastructure for economic diversification, and (iii) strengthening environmental sustainability. The uncertainties of Mongolia's current economic situation and the all-encompassing nature of these strategic pillars require greater flexibility in programming and focus on a wider set of sectors than is typical of ADB's smaller developing member countries. Selectivity will nevertheless remain high through the application of strict selection criteria based on comparative advantage and value addition.

3. **Alignment with government development plans and ADB's corporate strategy.** The CPS priorities are closely aligned with the Government Action Plan (GAP), 2016–2020,<sup>2</sup> which sets out a broad-based plan to foster a more inclusive and sustainable development process. The government concurs with the strategic positioning of the CPS, particularly ADB's continued support for agriculture, natural resources, and rural development; and finance, which it views as critical to its efforts to accelerate economic diversification and job creation. The CPS also reflects the outcome of and lessons learned from the Midterm Review of Strategy 2020,<sup>3</sup> the final review of CPS, 2012–2016,<sup>4</sup> and its validation by the Independent Evaluation Department (IED).<sup>5</sup>

4. **ADB's implementation approach.** The CPS will seek to leverage ADB's status as Mongolia's lead development partner and build on its improved operational performance during the previous CPS period, particularly following approval of the interim CPS, 2014–2016.<sup>6</sup> ADB will continue to focus its operations on the government's high-priority areas and complex projects that require significant technical expertise, drawing on the "One ADB" approach as

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<sup>1</sup> Inclusive and Sustainable Growth Assessment (accessible from the list of linked documents in Appendix 3).

<sup>2</sup> Government of Mongolia. 2016. *Government Action Plan, 2016–2020*. Ulaanbaatar.

<sup>3</sup> ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

<sup>4</sup> ADB. 2016. *Country Partnership Strategy Final Review: Mongolia, 2012–2016*. Manila.

<sup>5</sup> IED. 2017. *Mongolia: Country Partnership Strategy Final Review Validation, 2012–2016*. Manila: ADB.

<sup>6</sup> ADB. 2014. *Interim Country Partnership Strategy: Mongolia, 2014–2016*. Manila.

required in devising knowledge solutions to difficult issues. ADB will also be proactive in exploring the use of the range of available financing modalities, particularly policy-based lending (PBL), to fully program available resources and achieve targeted outcomes given current government fiscal constraints.

## II. COUNTRY DEVELOPMENT CONTEXT

5. **Current economic situation and prospects.** Mongolia's gross domestic product (GDP) growth has fallen from 17.3% in 2011 to 1% in 2016, due to a worsening external environment characterized by plummeting foreign direct investment (FDI), falling commodity prices, and growth moderation in the People's Republic of China (PRC). This has undermined macroeconomic stability, with the balance of payments coming under pressure, public finances deteriorating significantly, and external debt repayments due in 2017–2018 in excess of \$1.2 billion. The worsening fiscal position and rising off-budget borrowing on commercial terms also undermined public debt sustainability. Rapid credit growth during the mining boom years (2011–2015), dollarization, weak financial supervision, and inadequate provisioning have strained banks and financial stability. Against this background and in the context of deteriorating financial stability, the necessary tightening of macroeconomic policies has exacerbated the growth slowdown. Higher commodity prices and the return of FDI inflows to two large mining projects are expected to contain GDP growth decline in 2017. The implementation of an IMF program,<sup>7</sup> which aims at stabilizing the economy, restoring debt sustainability, and improving fiscal and monetary management, will boost growth in the medium-term.

6. **Long-term growth and transformation.** The current economic difficulties notwithstanding, Mongolia's economy has been characterized by rapid growth and transformation since it began the transition from central planning in the early 1990s. The move to a market economy is now nearly complete. From a base of virtually nothing in 1990, the private sector currently generates about 80% of the country's GDP. GDP growth has also been high for much of this period, averaging 7% per year since the beginning of the new millennium, pushing Mongolia into the ranks of middle-income countries in 2011. The country's growth has been driven at various times by mining, construction, animal husbandry, services, and inward remittances. Mongolia has also progressively opened up to FDI, which surged following the discovery of vast new mineral deposits of copper, coal, and gold since 2006. The subsequent influx of FDI has facilitated the emergence of mining as the dominant driver of Mongolia's growth and foreign exchange earnings.

7. **Long-term political stability.** One of the keys to Mongolia's long-term economic success is a democratic polity that has managed political transitions peacefully while remaining committed to market-based economic principles. Mongolia has held seven parliamentary elections since it turned to a multiparty competitive rule in 1990, the most recent in June 2016, and all were deemed free and fair by international observers. The country's two major political parties have generally achieved bipartisan consensus on major economic issues, including in responding to the severe economic crisis of 2008–2009 and in making major decisions on investment policies in the mining sector. However, the previous coalition government created tensions with international investors and undermined long-term fiscal sustainability by moving large capital expenditures off-budget.

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<sup>7</sup> The IMF is expected to approve in May 2017 a 3-year arrangement under its Extended Fund Facility.

8. **Benefits and costs of mining-led growth.** Mongolia's enormous mineral wealth, estimated at \$1 trillion–\$3 trillion spread over a population of 3 million,<sup>8</sup> significantly enhances the country's long-term development prospects. GDP growth averaged 10.3% per year during 2011–2015, one of the fastest in the world over that period, and the fiscal and balance of payments surpluses that large mining projects generate provide scope for vast improvements in living standards. However, the mining sector depends heavily on FDI inflows and external demand for its output, making the economy highly vulnerable to external shocks due to swings in international commodity prices and the economic cycles of major trading partners, particularly the PRC. Mining development is also highly capital intensive and not very inclusive—mining comprises about 20% of GDP and 80% of exports, but less than 4% of total employment. Further, large-scale mining projects have competed with the traditional herding sector for land and scarce water resources, creating major societal frictions while imposing significant environmental costs. Against this background, making mining-led growth more inclusive and sustainable is Mongolia's single-greatest development challenge.

9. **Constraints on agricultural development.** The current economic downturn underscores the need for a more diversified and labor-intensive economic structure. Agriculture, which accounts for one-third of total employment, translates far more directly into improved lives for vulnerable Mongolians than mining and thus is a pivotal sector in this regard. Significant potential exists for economic diversification by developing value chains for Mongolia's unique agricultural resources for export to nearby Northeast Asian markets. However, most agro-enterprises consist of SMEs capable of only basic processing because they have limited capacity in production, marketing, and quality assurance; and inadequate access to finance. In addition, the livestock subsector, which comprises over 80% of agricultural output, is vulnerable to adverse climatic events, including droughts and *dzuds*. Further, in the absence of proper pasture and water resource management, about 70% of grasslands have been degraded by desertification, primarily as a result of overgrazing, land conversion for other uses (including for mining), and climate change.

10. **Geographic isolation and poor infrastructure.** Mongolia's geographic isolation, vast and sparsely populated land area, and landlocked position between the PRC and Russia pose substantial challenges to the country's development. These geographic challenges are exacerbated by inadequate and poorly maintained infrastructure that makes transport costs high and Mongolia's exports uncompetitive. The World Economic Forum's *The Global Competitiveness Report, 2016–2017* ranks Mongolia's infrastructure at 110 out of 138 countries.<sup>9</sup> The mining industry largely relies on rail transport because of its comparative advantage in forwarding bulk commodities over long distances, but large investments in both rail and road infrastructure and maintenance are required to make Mongolia's mining and non-mining exports more competitive. In addition, weak trade facilitation on Mongolia's side of the border results in excessive delays and poor supply chain management; as well, the country's border trade and food sanitation requirements are highly complex and inconsistent with those of its two large neighbors.

11. **Weak enabling environment.** There are other factors in the enabling environment that constrain the competitiveness of Mongolia's non-mining exports. In addition to infrastructure, Mongolia does especially poorly in terms of public institutions, macroeconomic environment, financial market development, goods market efficiency, business sophistication, and innovation.

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<sup>8</sup> IMF. 2015. Mongolia: 2015 Article IV Consultation Staff Report; Press Release; and Statement by the Executive Director for Mongolia. *IMF Country Report*. No. 15/109. Washington, DC.

<sup>9</sup> World Economic Forum. 2016. *The Global Competitiveness Report, 2016–2017*. Geneva.

Poor governance, the high cost of and lack of access to finance, and an inefficient tax system are also frequently cited constraints on private business activity. The financial sector is particularly fragile and underdeveloped and capital markets are still at a nascent stage of development. Further, private businesses face a growing shortage of skilled labor as the educational system has generally not provided students with the knowledge and skills that employers need.

12. **Significant but fragile progress in social development.** Mongolia's rapid economic growth has facilitated good overall progress on a variety of social and human development dimensions. The sharp rise in average incomes in recent years reduced poverty incidence from 38.8% in 2010 to 21.6% in 2014.<sup>10</sup> Income inequality was also reduced, as measured by the Gini coefficient, from 0.36 in 2008 to 0.32 in 2014 (footnote 10). The country has achieved several Millennium Development Goals and is in the *high* human development category, indicating that economic growth has been relatively inclusive in the country.<sup>11</sup> However, these gains are fragile as one in five Mongolians still live below the national poverty line, with a large cohort of others just above it and thus highly vulnerable to falling back into poverty.

13. **Rapid and unplanned urbanization.** Rapid rural-to-urban migration and urbanization, prompted by deteriorating environmental conditions and diminished livelihood opportunities in the countryside, has emerged as a significant development challenge. This is particularly so in Ulaanbaatar, Mongolia's capital city and home to about half of the country's population, where the rapid influx of migrants is overwhelming available infrastructure and the government's capacity to provide basic social services. An estimated 60% of the city's residents live in *ger* areas with limited access to running water, sanitation, heat, power, and public transport. The rapid influx of new migrants has severely reduced the quality of urban life, contributing to housing shortages, traffic gridlock, overcrowded classrooms, and a sharp increase in air, water, and soil pollution. People with disabilities, about 5% of Mongolia's population, and households headed by women are particularly vulnerable to deteriorating urban living conditions. However, the urbanization process can be harnessed to support local economic development, diversification, and employment creation.

14. **Gender inequality persists.** While Mongolia has made some meaningful progress toward achieving gender parity, important gaps remain in terms of women's access to employment opportunities, particularly, to high-paying jobs in the resource extraction and construction sectors; productive assets, including land and property rights; social justice, especially in redressing endemic gender-based violence; and political empowerment, including representation in parliament and other elected bodies. Mongolia also needs to address some important and widening reverse gender gaps in health and education outcomes. These gender inequalities exacerbate many of the development challenges described in paras. 12-13 and complicate efforts to tackle them.

15. **Importance of social protection programs.** Mongolia's extensive social protection system has played an outsized role in fostering and safeguarding the country's hard-won gains in poverty reduction and human development. For example, the poverty rate would be about 10 percentage points higher at present in the absence of such programs (footnote 10). Current economic difficulties underscore the importance of strengthening the coverage and

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<sup>10</sup> National Statistical Office of Mongolia and the World Bank. 2015. *Poverty Profile in Mongolia. Main Report of the Household Socioeconomic Survey 2014*. Ulaanbaatar.

<sup>11</sup> United Nations Development Programme. 2015. *Human Development Report 2015: Work for Human Development*. New York.

effectiveness of the social protection system as a smaller welfare budget and a further slowdown in growth in the context of macroeconomic adjustment under the IMF program could push people back below the poverty line. The success of past ADB support to social welfare makes a strong case for continuing and strengthening these programs, particularly through reforms to improve targeting and consolidation to reduce implementation costs and strengthen impacts.

16. **Environmental sustainability and climate change challenges.** Mongolia's rapid growth, harsh climate, unique geography, and vulnerability toward natural disasters combined with the economic dominance of mining and pastoralism create significant environmental challenges. These are amplified by the impacts of climate change, which have become increasingly evident in recent years. Major environmental challenges include the desertification of grasslands; overexploitation of groundwater resources; weak mining regulation; poor pasture management practices; deforestation; and severe air, water, and soil pollution. Climate-related disasters, such as droughts and *dzuds*, have been particularly damaging to the rural economy, and have been a major contributor to the upsurge in rural-to-urban migration. Other natural disaster risks include forest and grassland fires, flash floods, and dust and sandstorms. The government has prioritized disaster risk management (DRM), including developing a legal framework and implementing an action plan to address such issues; however, the government and local communities lack the capacity and resources to implement them effectively. More generally, while legal and regulatory frameworks are now in place for environmental protection, their objectives far outstrip enforcement capacity.

### III. COUNTRY STRATEGY FRAMEWORK

#### A. Lessons from the Previous Strategy

17. **Country partnership strategy final review and its validation.** ADB carefully considered the final review of CPS, 2012–2016 (footnote 4) and its validation by IED (footnote 5) in the preparation of CPS, 2017–2020. The two evaluations provided useful and mutually reinforcing recommendations for the new CPS. The final review emphasized the need to (i) maintain a strong focus on client orientation and responsiveness to high-priority concerns of the government; (ii) fully utilize available lending modalities, including PBL, to meet government needs in the current economic situation; (iii) continue to focus operations on complex projects where ADB's value addition is highest and government needs are greatest; (iv) give greater emphasis to the government's capacity to finance operation and maintenance and other recurrent costs in designing new projects to enhance sustainability; (v) step up efforts to integrate gender equality issues into project design; and (vi) scale-up staffing in the Mongolia Resident Mission to support increased delegation and improved project administration.

18. The IED validation broadly concurred with the recommendations and emphasized the need for ADB to (i) improve the value addition of projects in response to government needs by embedding more innovative and knowledge-based solutions as part of its financing; (ii) prioritize and support maintenance expenditure by the government in infrastructure and health and social services; (iii) give high priority to social protection activities; (iv) promote diversification of the economy with a focus on improving the productivity of agribusiness SMEs; and (v) ensure the inclusion of environmentally sustainable features in its operations. The validation report also emphasized the need for ADB to carefully balance selectivity and responsiveness to client needs in determining its key sectors of operation and to continue to be proactive in addressing issues related to frequent turnover of government counterpart staff.

## B. National Development Strategy

19. **Development commitments and plans.** The GAP, 2016–2020 (footnote 2) sets out a broad-based action plan to place the country on a more inclusive and sustainable development path. In doing so, the GAP highlights the need to diversify Mongolia’s economic base, with particular emphasis on the food, agriculture, and light industry sectors. The GAP also stresses the need to increase employment generation and strengthen social protection programs to protect gains in poverty reduction and human development. In the near term, the GAP acknowledges the urgency of restoring macroeconomic stability and putting the country’s public debt dynamics on a sustainable path, including by halting off-budget expenditures. The government has confirmed the relevance of the *Mongolia Sustainable Development Vision 2030*,<sup>12</sup> which affirms Mongolia’s commitments to achieve the United Nations Sustainable Development Goals, as well as those made regarding the 21st Conference of Parties to the United Nations Framework Convention on Climate Change.

20. **Reengagement with development partners.** The new government has signaled a more pragmatic approach to official development assistance than its predecessor. The latter had de-emphasized development assistance in favor of alternative forms of finance, including tapping international financial markets, and moved to dissolve key government-developed partner coordination mechanisms. The GAP indicates the new government’s intention to re-engage with development partners by resuming regular consultation meetings and other coordination mechanisms.<sup>13</sup> This initiative materialized in December 2016 when the government held the first development partners’ consultative meeting since 2011. The government has signaled its resolve to overcome current economic difficulties with support from an IMF-led program backed by multilateral and bilateral development partners, where ADB is the leading financing party.

## C. Role of Development Partners

21. **Evolving development finance landscape.** The development finance landscape began to shift in 2012 as rising per capita incomes and Mongolia’s move to tap international financial markets led ADB and other development partners to substitute grant financing for lending on less concessional terms.<sup>14</sup> Some bilateral partners began to scale back or close down operations in the country. ADB was the only development partner that remained continuously engaged and even scaled up its assistance by focusing on high-priority and complex operations where government capacity was lacking. Against this background, ADB is playing a lead role in reestablishing aid coordination mechanisms in line with international best practice for development effectiveness.

22. **Partnerships, coordination, and cofinancing.** ADB will leverage its role as Mongolia’s lead development partner by proactively enhancing coordination with development partner agencies that remain engaged in its identified priority sectors. ADB will build on its success during the previous CPS period in mobilizing cofinancing, particularly on concessional terms, including from the Climate Investment Fund, Japan Fund for Poverty Reduction, and Japan Fund for Joint Crediting Mechanism. In addition, ADB will continue its outreach to the private sector, including through the promotion of public-private partnerships to alleviate financing

<sup>12</sup> State Great Khural of Mongolia. 2016. *Mongolia Sustainable Development Vision 2030*. Ulaanbaatar.

<sup>13</sup> Development Coordination Matrix (accessible from the list of linked documents in Appendix 3).

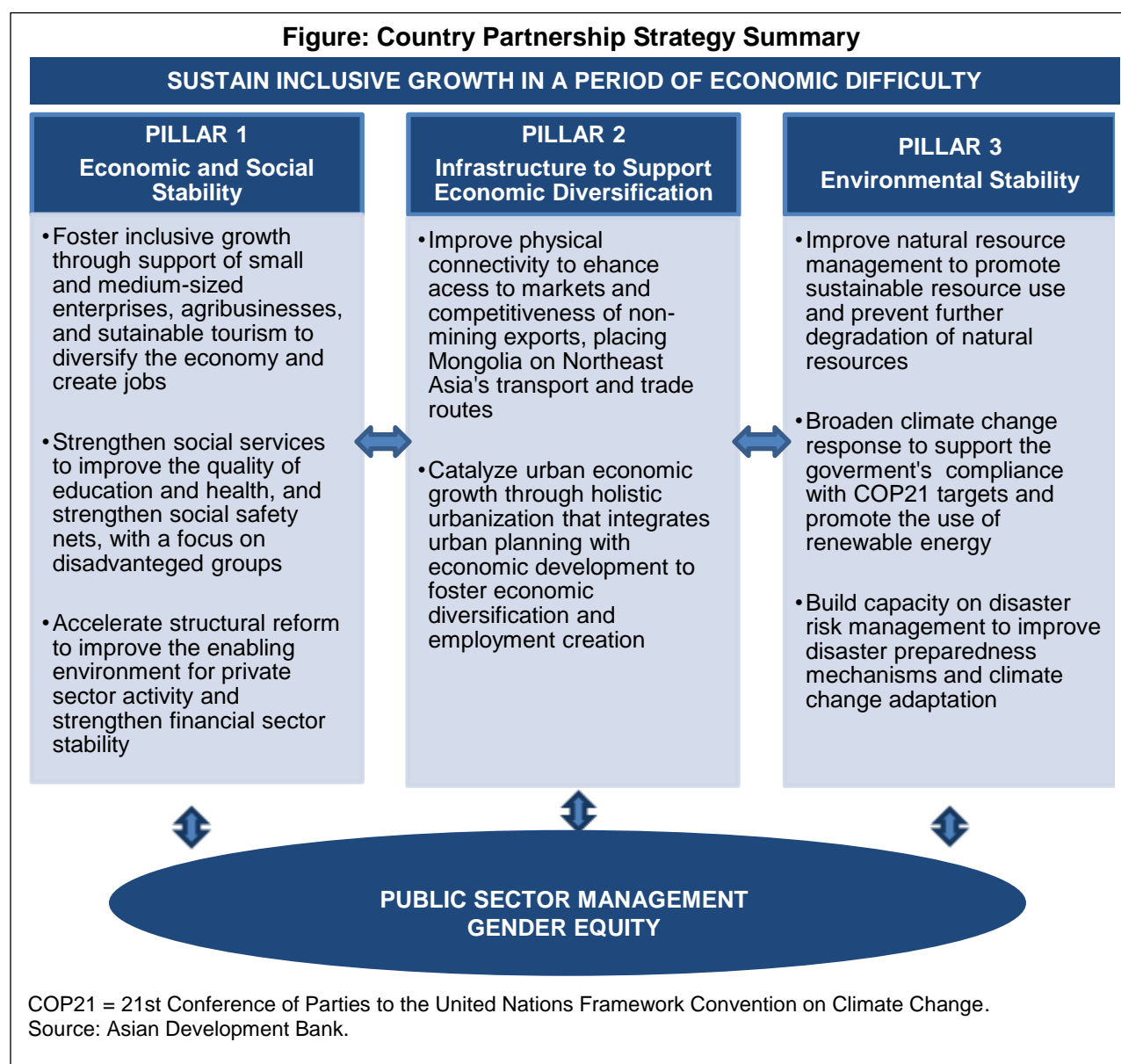
<sup>14</sup> ADB reclassified Mongolia from a Group A to a Group B country in 2011, providing the country access to a blend of Asian Development Fund and ordinary capital resources beginning in 2012.



constraints for infrastructure investment and in improving the private sector business climate. ADB will strengthen its outreach to civil society, particularly in creating and disseminating knowledge products, promoting private sector development and gender equity, and strengthening social protection mechanisms.

#### D. ADB Strategic and Thematic Objectives and Public and Private Sector Operational Priorities

23. **Strategic objectives and priorities.** In line with the GAP, 2016–2020 and Midterm Review of Strategy 2020, the overarching goal of the CPS is to help Mongolia sustain inclusive growth in a period of economic difficulty. To facilitate this, ADB operations will focus on three strategic pillars: (i) promoting economic and social stability, (ii) developing infrastructure for economic diversification, and (iii) strengthening environmental sustainability (Figure). Cutting across these pillars will be efforts to improve the transparency and accountability of the management systems of the public sector to help ensure that the financial resources of both ADB and the government are used appropriately and effectively. Careful attention will also be paid to gender issues across the range of ADB operations given the gender inequalities that remain (para. 30). The CPS will directly support 16 of the 17 United Nations Sustainable Development Goals.



24. **Pillar 1: Promoting economic and social stability.** ADB will help the government diversify the country's economic structure and foster growth and job creation to support economic and social stability. ADB will assist in developing skills and encouraging labor-intensive growth outside the mining sector, especially by SMEs engaged in agribusiness and tourism. To safeguard hard-won gains in poverty reduction and progress in human development from cyclical economic downturns and rapid internal migration, ADB will strengthen access to and government capacity to design and administer a broad range of essential social services. This will include efforts to improve social service delivery and coverage to strengthen the social safety net. ADB will also provide support to increase the pace and impact of structural reforms, with a focus on ensuring the stability of the financial sector to restore macroeconomic sustainability and support private sector development.

- (i) **Foster inclusive growth.** ADB will continue to support agribusiness through improved access to finance and technical assistance (TA) to develop value chains and take advantage of Mongolia's rich agricultural resource base. ADB assistance will support pilot testing of new enterprise development approaches, such as cluster development for selected agriculture subsectors to create vertically integrated value chains, introduce international standards to enhance competitiveness, and improve the productivity of agribusiness SMEs. ADB will also seek to help Mongolia exploit its potential for increased vegetable production with cultivation technologies adapted to harsh weather environments. Further, ADB will support local communities to develop small businesses and other livelihood opportunities through an integrated approach to sustainable tourism so that they reap increased economic benefits from Mongolia's rapidly expanding tourism industry.
- (ii) **Strengthen essential social services.** Ongoing and new interventions will increase the government's capacity to provide basic education, practical skills development through technical and vocational education and training (TVET), and primary health care. ADB will seek to ease severe shortages in schools, which threaten to erode Mongolia's high levels of educational attainment, with a focus on pre-primary and primary education. ADB will prioritize TVET system reforms, including establishing industry-driven TVET that develops skills that employers need, while also providing landmark assistance in helping people with disabilities obtain skills training and find employment. ADB will continue to support the extension of primary health care coverage, particularly to disadvantaged groups, and preserve essential social welfare programs to mitigate the impact of fiscal consolidation on the poor and vulnerable.
- (iii) **Accelerate structural reform.** ADB will support structural reforms to improve the enabling environment for private sector activity and strengthen the finance sector. This support will focus on improving access to finance, by creating financial infrastructure such as private sector credit risk information services for SMEs and by establishing credit lines for key financial institutions. ADB will help safeguard financial sector stability through PBL to support bank recapitalization and nonperforming loans resolution, as well as continued development of the prudential capacity of the Bank of Mongolia and Financial Regulatory Commission to effectively supervise the financial system. Against the backdrop of macroeconomic adjustment and fiscal consolidation, ADB will use PBL to support further reform of the social welfare system and enhance its fiscal

sustainability and effectiveness, particularly, policy actions that consolidate programs to reduce administration and implementation costs.

25. **Pillar 2: Developing infrastructure for economic diversification.** ADB operations will support deeper regional cooperation and integration through improved physical connectivity to strengthen Mongolia's competitiveness and diversify economic activity. A more holistic approach to urbanization will increase living standards and boost the development of local economies, fostering economic diversification and job creation.

- (i) **Improve physical connectivity.** ADB will continue to support the improvement of physical connectivity through infrastructure investments that reduce transport and logistics costs, with a focus on developing regional road corridors defined as priority investments in the Central Asia Regional Economic Cooperation (CAREC) Program. The aim of this improved physical connectivity is to enhance the competitiveness of Mongolia's non-mining exports, particularly of processed agricultural products, to facilitate economic diversification and job creation. ADB will also step up efforts under the CAREC Program to enhance trade facilitation at Mongolia's border crossings by improving logistics, upgrading sanitary and phytosanitary standards, and addressing the issue of transboundary animal diseases. The broader aim of ADB support will be to secure Mongolia's place on Northeast Asia's transport and trade routes.
- (ii) **Catalyze urban economic growth.** ADB will continue its investment program in water supply and sanitation and related infrastructure to bring unserved households into urban service catchment areas and improve the quality of life for the urban poor and enhance their livelihood opportunities. Complementary infrastructure investments to improve public transport and ease electricity and heating shortages will support these efforts. ADB's approach to urban development will become more holistic and integrated with economic development aspects to include the provision of affordable housing and a range of other facilities and services, such as agro-industrial parks and SME incubators. This will make the urbanization process more supportive in promoting local economic development by fostering diversification and job creation. This approach will remain focused in the near term on *ger* areas in Ulaanbaatar where needs are greatest but will be broadened later to include secondary cities and *soums* to develop regional clusters linked by spatial proximity, settlement concentration, and economic interaction, which have the potential to grow as economic regions based on comparative advantage.

26. **Pillar 3: Strengthening environmental sustainability.** To make economic growth more environmentally sustainable, ADB will seek to strengthen natural resource management, including by promoting environmental protection and sustainable resource use; fostering climate change adaptation and mitigation; and making DRM more effective.

- (i) **Improve natural resource management.** ADB will aim its efforts to strengthen natural resource management through promoting sustainable resource use and preventing further degradation of key natural resources, particularly water, grasslands, and forests. Anticipated support will cover a wide range of activities, including improving water security and information management, watershed and lake management, protected area management, and renewable energy and livelihood support. Support for local communities to promote sustainable tourism

will also help protect Mongolia's vulnerable wilderness areas from degradation resulting from the growth of the tourism industry.

- (ii) **Broaden climate change response.** ADB will assist Mongolia in meeting its national commitments to the Paris Agreement,<sup>15</sup> including achieving its intended nationally determined contribution, through provision of TA and capacity building of responsible agencies as well as through selected infrastructure investments. ADB will also mainstream climate change considerations across the spectrum of its operations. For example, ADB-supported investments in urban development will promote more efficient water and energy use, address water pollution, and curb air pollution and greenhouse gases.
- (iii) **Build capacity for disaster risk management.** ADB will build on earlier support to help Mongolia implement its legal framework, strategy, and action plan for DRM, including by building strong institutional connections between early warning, disaster preparedness mechanisms, and climate change adaptation. ADB will also continue to be proactive in responding to natural disasters when they occur as it has in the wake of past *dzuds*.

27. **Wide but more nuanced sector coverage.** The all-encompassing nature of the strategic pillars requires focusing on a wider set of sectors. ADB has been Mongolia's lead development partner for many years and will remain engaged in transport; energy; finance; urban development; education; health and social protection; and agriculture, natural resources, and rural development; and public sector management. Selectivity within sectors will nevertheless remain high through the application of strict selection criteria based on comparative advantage and value addition. Further, ADB will select specific activities for support based on their broader contribution to the three strategic pillars. The specific subsector focus within each sector will also continue to evolve as ADB seeks to enhance its value addition and responsiveness by taking on increasingly complex projects, drawing on areas of its core knowledge and technical expertise. Recognizing the evolving needs of the private sector, ADB's private sector operations will also selectively seek out opportunities to diversify into key development areas as appropriate.

28. **New features.** While ADB will remain active in traditional sectors of assistance, building on achievements and expertise since the start of its Mongolian operations in 1991, the CPS presents new features. Mongolia will pioneer ADB's first project in support of people with disabilities, which will go beyond the provision of health care services by providing practical skills for the disabled to join the labor market and fully integrate into society. A dedicated project to specifically address gender-based violence, an endemic issue in Mongolian society, is also planned for the first time in the country. Sustainable tourism is also a new area of focus to support local livelihoods through improved capacity for sustainable tourism and subsistence activities. Other new features include renewable energy, with ADB planning to establish solar, wind, and hydropower plants in remote and less developed regions, and improved air quality in Ulaanbaatar through a comprehensive program that will help reduce emissions and strengthen the environment regulatory framework and capacity of environmental monitoring and enforcement.

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<sup>15</sup> United Nations Framework Convention on Climate Change. The Paris Agreement. [http://unfccc.int/paris\\_agreement/items/9485.php](http://unfccc.int/paris_agreement/items/9485.php).

29. **Public sector management.** The rapid growth in mining revenues has tested the government's resolve to foster good governance. ADB will, therefore, continue its efforts to improve the transparency, accountability, and integrity of financial management throughout the public sector. ADB will pay special attention to building the capacity of country systems to improve core accountability functions, particularly in public procurement. In addition, ADB will be actively engaged in macroeconomic policy dialogue and advisory support, particularly in fiscal and public debt management, given current economic difficulties. The approval in 2016 of a TA loan to strengthen governance and management capacity of Erdenes Mongol, the state-owned enterprise responsible for managing Mongolia's mineral resources,<sup>16</sup> is a good example of ADB's proactive approach in this regard. Also in 2016, ADB approved TA to strengthen the Government Procurement Agency to improve the efficiency of public procurement and reduce fiduciary risks.<sup>17</sup> These operations, together with new operations such as a planned loan project to strengthen the transparency of public investment and tax administration, provide a solid foundation to strengthen public sector management during the CPS period. ADB will also continue to support the government to promote public-private partnerships in the provision of public infrastructure and social services for which further strengthening of regulatory framework is necessary.

30. **Gender equity.** While ADB has made significant progress in mainstreaming gender issues with encouraging results in some sectors, the CPS final review rightfully concluded that ADB must do better given the gender inequalities that remain in Mongolia. ADB's anticipated support for (i) improving access to finance, employment opportunities, and social services; and (ii) building DRM and climate resilience capacity will adopt a gender-proactive approach. At the same time ADB will move beyond "mainstreaming" by setting project-specific quotas and targets on gender or by incorporating gender components into project designs. It is planned to develop specific projects that directly address the structural factors perpetuating gender inequality in Mongolia. The approval in 2016 of TA to support the strengthening of the national gender framework to implement the Gender Equality Law and to develop sector-specific gender programs,<sup>18</sup> and formulation of a dedicated project to address gender-related violence are significant steps forward in this regard and should provide a solid foundation to build upon during the CPS period.

## E. Priorities for Knowledge Support

31. **Knowledge cooperation.** Knowledge and innovation have long underpinned ADB operations in Mongolia. Cooperation in this regard has intensified since 2013 as ADB increasingly shifted its focus to more complex projects where the government lacks the requisite knowledge and technical capacity to advance on its own. This trend is expected to carry over into the CPS period as ADB continues to focus its operations on projects that require significant technical expertise to design and implement. ADB will be proactive in drawing on the "One ADB" approach in devising knowledge solutions to difficult technical issues. The multidimensional nature of ADB's strategic focus provides a rich context in which to deepen knowledge cooperation with Mongolia, including in urban planning, social welfare reform, climate change response, and strengthening fiscal management. The country knowledge plan is in Appendix 2.

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<sup>16</sup> ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to Erdenes Mongol LLC for the Strengthening Institutional Framework and Management Capacity Project (Guaranteed by Mongolia)*. Manila.

<sup>17</sup> ADB. 2016. *Technical Assistance to Mongolia for Strengthening of Public Procurement for Improved Project Implementation*. Manila.

<sup>18</sup> ADB. 2016. *Technical Assistance to Mongolia for Gender-Responsive Sector and Local Development Policies and Actions*. Manila.

## IV. STRATEGY IMPLEMENTATION

### A. Indicative Resource Parameters

32. Mongolia is an ordinary capital resources (OCR) blend country with access to concessional and regular OCR lending. Mongolia's annual resource envelope from core funding sources is expected to be about \$300 million for lending, comprising \$250 million from regular OCR and roughly \$50 million from concessional OCR, and about \$6 million for TA during the CPS period. To support the IMF program, ADB will increase PBL under the new CPS but will limit the share of PBL to about 50% of total lending. The specific allocations will depend on the availability of resources. ADB will also explore additional cofinancing and funding from other sources, including the subregional pool under concessional resources and OCR regional set-aside. ADB will retain current cost-sharing arrangements, in which ADB finances up to 99% of the individual project and TA costs, during the new CPS period.

### B. Implementation Priorities

33. **Improved portfolio performance.** ADB will continue to emphasize improved project implementation. It will continue and strengthen the long-established practice of framing detailed action plans to address key implementation issues during annual country portfolio review missions. Efforts, some of which are being undertaken in the context of TA to strengthen public procurement (footnote 17), will include measures to increase the use of advance action procedures to reduce start-up delays, improve performance of the project implementation units, strengthen procurement and contract management capacity within government agencies, and ease constraints on government counterpart financing. Further, the Mongolia Resident Mission has introduced quarterly portfolio reviews to minimize the impacts of frequent changes in government structure and staffing. As set out in para. 36, portfolio performance will also be improved by delegating greater project administration responsibilities to the resident mission, which has established a strong track record in resolving difficult project implementation issues.

34. **Flexible approach to country programming.** The uncertainties inherent in the current economic situation and Mongolia's susceptibility to natural disasters require flexibility in country programming and CPS implementation. ADB already responds quickly to evolving country circumstances under the IMF program with PBL to support further reform of social protection programs and address systemic risks in the financial system to restore macroeconomic stability. The scaled-up resource envelope provides the necessary flexibility in this regard.

35. **Greater emphasis on operational synergies.** The crosscutting nature of the strategic pillars also points to the need to foster greater operational synergies within ADB operations. Synergies will be identified at an early stage in the programming process, facilitated by the formation of cross-sector teams where appropriate, which will then be carried forward during the project and TA preparation and implementation. Synergies will also be sought through stronger linkages with other regional departments, for example through the CAREC Program, under which some progress is being made in improving physical connectivity; and with other development partners, particularly in reestablishing traditional aid coordination mechanisms. Planned operations under the new CPS allow for important synergies, in particular in air quality improvement, which requires multisector efforts, integrating urban transport and urban planning.

36. **Increased staffing and greater project delegation.** As observed in the CPS final review, projects tend to perform better following delegation to the resident mission. This has

prompted further project delegation, which effectively doubled the number of projects directly administered by the resident mission in early 2017. For this to be successful, the resident mission will have to be adequately staffed, both in terms of international (including outposted staff) and national staff. The multidimensional nature of the CPS strategic pillars also suggests the need for a different mix of skills. ADB will continuously assess and adjust, as needed, the Mongolia Resident Mission's staff levels and composition to accommodate increased delegation and effective implementation of the CPS.

### **C. Monitoring of Results**

37. ADB will use the results framework in Appendix 1 to monitor progress during CPS implementation. It will also continuously monitor progress in achieving the outcome indicators in the results framework as well as the outcomes targeted across ADB operations, adjusted as required, during project and TA review missions and annual country portfolio review missions. ADB will update the CPS results framework annually during country programming and will incorporate the changes in the country operations business plans.

### **D. Risks**

38. The main risk to the CPS, the inherent volatility of the mining sector and its impact on macroeconomic stability, has already materialized. The IMF program will largely address fiscal and macroeconomic stability, to which ADB will contribute through PBLs and TAs. ADB specifically formulated the overarching objective and strategic pillars of the CPS to help Mongolian authorities address this risk, as well as other general risks such as the country's vulnerability to natural disasters. ADB incorporated various other design features of the CPS, such as greater flexibility in programming, to allow it to respond quickly and helpfully in the event of adverse developments. ADB is responding comprehensively to current economic difficulties through recent, ongoing, and planned operations.

39. There are also governance risks related to public financial management and procurement. ADB has been and will continue to be proactive in addressing such risks during the CPS period across the full spectrum of operations, particularly through its project administration activities and targeted capacity building of key government agencies (para. 29). ADB has also taken steps to minimize operational disruptions resulting from frequent changes in government structure and staffing (para. 33).

### COUNTRY PARTNERSHIP STRATEGY RESULTS FRAMEWORK

<b>Country Development Impact Indicators with which the CPS is Aligned</b>				
1. Proportion of population living below the national poverty line declines from 21.6% in 2014 to 19.0% by 2020 2. Share of processed exports in total exports increases from 17% in 2014 to 20% in 2020 3. Environmental performance index ranking improves from 114 in 2016 to 109 in 2020				
<b>CPS Objectives and Related Impacts</b>	<b>CPS Priority Areas</b>	<b>Key Outcomes that ADB Contributes to</b>	<b>Outcome Indicators</b>	<b>CPS Resources</b>
Promoting economic and social stability	Foster inclusive growth  Strengthen essential social services  Accelerate structural reform	New agricultural value chains established  Access to finance improved for SMEs  Access to basic health and education services improved  Skills mismatches and shortages of skilled workers reduced in the labor market  Financial sector resilience strengthened  Fiscal sustainability of social welfare programs improved while coverage maintained	Crops share in agriculture output increased to 14.0% by 2020 (2015 baseline: 12.8%)  SME loan accounts in the banking sector increased by 15% by 2020 (2016 baseline: 4,840 accounts)  Employment rate of TVET graduates increased to 60.0% by 2020 (2015 baseline: 56.7%)  Proportion of government health sector budget allocated to primary health care increased to 30.0% in 2020 (2015 baseline: 26.6%)  Ratio of banking industry loans to GDP exceeds 53.0% (2015 baseline: 50.3%)	<b>Ongoing portfolio</b> Ongoing sovereign loan and grant projects as of 31 December 2016 Number: 10 Amount: \$246.9 million  <b>Planned operations and contribution:</b>  <b>Sovereign</b> Lending: \$494.0 million regular OCR, \$64.0 million COL and \$11.0 million cofinancing for 2017–2019  <b>Technical Assistance</b> Nonlending: \$10.4 million TASF and \$8.0 million cofinancing for 2017–2019
Developing infrastructure for economic diversification	Improve physical connectivity  Catalyze urban economic growth	Physical connectivity with international markets improved  Exports of processed agricultural products increased  Urban infrastructure and coverage of basic urban services improved in <i>ger</i> (traditional tent) areas  Urban living conditions and livelihood opportunities improved	Time to process import and export of agro-food products reduced by 10% by 2020 (2014 baseline: 45 days for imports and 44 days for exports)  Traffic on improved roads increased by 20% along CAREC 4a, 4b, and 4c corridors by 2020 (2015 baseline: 206 vehicles per day)  Urban public transport use increased by 20% by 2020 (2017 baseline: 578,000 rides per	<b>Ongoing portfolio</b> Ongoing sovereign loan and grant projects as of 31 December 2016 Number: 12 Amount: \$328.3 million  <b>Planned operations and contribution:</b>  <b>Sovereign</b> Lending: \$290.1 million regular OCR, \$74.3 million COL and \$3.0 million cofinancing for 2017–2019



CPS Objectives and Related Impacts	CPS Priority Areas	Key Outcomes that ADB Contributes to	Outcome Indicators	CPS Resources
			<p>day)</p> <p>14 km of urban bus-based mass transport system built by 2020 (2016 baseline: 0 km)</p> <p>Population using an improved drinking water source in urban areas increased to 88% by 2020 (2014 baseline: 80%)</p> <p>Population using an improved sanitation facility in urban areas increased to 50% by 2020 (2014 baseline: 41%)</p>	<p><b>Technical Assistance</b> Nonlending: \$1.0 million TASF and \$3.7 million cofinancing for 2017–2019</p>
Strengthening environmental sustainability	<p>Improve natural resource management</p> <p>Broaden climate change response</p> <p>Build capacity for DRM</p>	<p>Environmental management capacity strengthened at all levels of government</p> <p>Air, water, and soil pollution reduced in urban areas</p> <p>Capacity for climate change response strengthened</p> <p>Disaster resilience strengthened nationwide</p> <p>Capacity for DRM strengthened at all levels of government</p>	<p>Forest cover increased to 8.5% of total land area by 2020 (2015 baseline: 7.8%)</p> <p>Share of renewable energy in installed electricity generation capacity increased to 10.0% by 2020 (2013 baseline: 7.6%)</p> <p>GHG emissions reduced by 2% by 2020 (2013 baseline: 63.47 MtCO<sub>2e</sub>)</p> <p>At least 5,000 <i>baghs</i> equipped with improved infrastructure and equipment for DRM by 2020 (2016 baseline: 0)</p>	<p><b>Ongoing portfolio</b> Ongoing sovereign loan and grant projects as of 31 December 2016 Number: No projects</p> <p><b>Planned operations and contribution:</b></p> <p><b>Sovereign</b> Lending: \$170.0 million regular OCR and \$36.0 million cofinancing for 2017–2019</p> <p><b>Technical assistance</b> Nonlending: \$2.7 million TASF and \$6.7 million cofinancing for 2017–2019</p>

ADB = Asian Development Bank, CAREC = Central Asia Regional Economic Cooperation, COL = concessional ordinary capital resources lending, CPS = country partnership strategy, DRM = disaster risk management, GDP = gross domestic product, GHG = greenhouse gas, km = kilometer, MtCO<sub>2e</sub> = metric tons of carbon dioxide equivalent, OCR = ordinary capital resources, SMEs = small and medium-sized enterprises, TASF = technical assistance special fund, TVET = technical and vocational education and training.

Sources: Asian Development Bank; State Great Khural of Mongolia. 2016. *Mongolia Sustainable Development Vision 2030*. Ulaanbaatar; and World Resources Institute. Climate Data Explorer. <http://cait.wri.org/profile/Mongolia> (accessed on 3 February 2017).

## COUNTRY KNOWLEDGE PLAN

### A. Knowledge Needs

1. Knowledge and innovation have long underpinned the operations of the Asian Development Bank (ADB) in Mongolia. ADB has provided knowledge support in response to country demand, which has been highly valued by the Government of Mongolia. In a reflection of this, ADB was able to expand its influence during the previous country partnership strategy (CPS) period by focusing its operations on complex projects that the government could not design and implement on its own. By supplementing its financial assistance with knowledge solutions and technical expertise, ADB was the only development partner that remained actively engaged in Mongolia during the previous CPS period.

2. ADB's long-term strategic framework, *Strategy 2020*, and its midterm review<sup>1</sup> prioritize knowledge management as a driver of change and is a key element of ADB's Finance++ approach. Finance++ integrates ADB financing with the leveraging of additional resources and support for knowledge solutions in addressing Asia and the Pacific's development challenges. The midterm review identified the need for stronger institutional coordination in responding to and delivering knowledge solutions in ADB developing member countries. To achieve institutional coordination, ADB must integrate its future knowledge-related work more closely with country program formulation and implementation, and all ADB departments and offices need to work together as "One ADB" in delivering knowledge products and services.

3. Against this background, knowledge cooperation remains an important dimension of the CPS, 2017–2020 for Mongolia. ADB will continue to enhance its value addition by focusing its operations on Mongolia's most complex and difficult development challenges. Accordingly, the government has indicated that it would continue to seek ADB knowledge in addressing its priority areas of inclusive and sustainable economic growth—economic diversification, poverty reduction, employment generation, urban development, social protection, environmental protection, climate change response, and disaster risk management. From ADB's side, the Mongolia Resident Mission and sector divisions within the East Asia Department stand ready to work closely with ADB's specialized knowledge departments in mobilizing the requisite knowledge and technical expertise to address these challenges during the CPS period.

### B. Scope of ADB's Planned Knowledge Operations

4. ADB's knowledge operations will focus on issues that relate to the three strategic pillars of CPS, 2017–2020—(i) promoting economic and social stability, (ii) developing infrastructure for economic diversification, and (iii) strengthening environmental sustainability—as well as on the crosscutting themes of public sector management and gender equity. The multidimensional nature of ADB's strategic focus provides a rich context in which to deepen knowledge cooperation with Mongolia. While its knowledge operations will remain client-driven, ADB anticipates further knowledge work in urban planning, reform of social protection programs, climate change response, and strengthening fiscal management. ADB will also remain actively engaged in macroeconomic policy dialogue, especially in the context of current economic difficulties. In moving ahead with the knowledge agenda in these and other areas, the Mongolia

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<sup>1</sup> ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila; and ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

country team will draw upon ADB's sector and thematic groups in line with the "One ADB" approach.

5. As is the case with the broader Mongolia country program, the identification of knowledge priorities needs to be flexible given the uncertainty of the country context as well as to ensure that the scope of knowledge work remains relevant as circumstances change. ADB will continue to identify priorities for knowledge work during the annual country programming alongside lending and technical assistance (TA) operations. ADB will give particular attention to identifying the knowledge solutions required and mobilizing the necessary resources to make its lending operations more effective in addressing Mongolia's development challenges.

6. The all-encompassing nature of Mongolia's development challenges and the strategic pillars that ADB has adopted to help address them indicate that knowledge solutions will increasingly need to go beyond individual sectors. ADB will mobilize multisector teams as needed in carrying out knowledge-related work during the CPS period. The multidimensional nature of the strategic pillars also suggests a wider sector focus than is the norm in ADB's smaller development member countries. In identifying knowledge priorities, ADB will select specific activities based on their broader contribution to strategic objectives rather than their alignment with individual sectors.

7. ADB will seek to be more proactive than it has in the past in disseminating the results of its knowledge work during the new CPS period and will prepare a dissemination strategy based on "One ADB" mechanisms to strengthen the link between knowledge and operations. Other efforts include the introduction of a series of knowledge briefs that seek to share lessons learned and other forms of knowledge arising from ADB operations in Mongolia. The briefs will focus primarily on macroeconomic and sector policy issues, some of which may be entirely Mongolia-specific, while others may distil lessons from international experience relevant to the Mongolian context. The briefs may also cover important project implementation issues that arise from ADB's investment operations.

8. ADB will also seek opportunities to highlight aspects of its Mongolia operations from which lessons can be extracted for other countries. This could be done either as part of the knowledge brief series described in para. 7 or in other formats where a lengthier exposition of lessons learned for knowledge sharing is appropriate (e.g., working papers). A good example of the latter is a 2016 ADB East Asia Working Paper on Mongolia's Medicaid Program, established under ADB support, to improve access to health services by the poor during the 2008 financial crisis.<sup>2</sup> Mongolia's successful implementation of highly innovative mobile kindergartens to rural, nomadic, and migrant children is another example of useful lessons to be learned from ADB-supported operations that merit sharing with a wider audience.<sup>3</sup>

### **C. Areas of Collaboration with Partners**

9. ADB's knowledge work has complemented that of other international organizations, including the Japan International Cooperation Agency, United Nations Development Programme, and World Bank. The new government is reestablishing basic government-

<sup>2</sup> A. Jigjidsuren. 2016. Ensuring Health Care Service for the Poor during a Financial Crisis—The Medicaid Program in Mongolia: Experiences and Lessons Learned. *ADB East Asia Working Paper Series*. No. 8. Manila: ADB.

<sup>3</sup> ADB. 2009. *Grant Assistance Report: Proposed Administration of Grant to Mongolia for Early Childhood Education for Rural, Nomadic, and Migrant Children*. Manila. Following completion of grant implementation in 2013, government institutionalized financing for continued operation of the mobile kindergartens in the relevant district budgets, and all the grant-supported schools remain operational.

development partner coordination mechanisms after the previous government dismantled them. As Mongolia's most actively engaged development partner, ADB is playing a lead role in this process and will seek to ensure that knowledge-related work is a central focus of new donor coordination mechanisms, especially in its core sectors and thematic areas.

10. As part of the reestablishment of formal government–development partner coordination mechanisms, ADB will continue to be an active participant in macroeconomic policy dialogue. As such, ADB has and will continue to participate in the International Monetary Fund's periodic staff missions. ADB will also remain proactive in sharing its views on economic policy matters through the annual preparation of the *Asian Development Outlook* and its *Update*. ADB's contribution to the economic policy dialogue in Mongolia will be underpinned by its TA activities, particularly on matters relating to macroeconomic stability, crisis management, fiscal management, and financial sector reform. Further, ADB's proactive participation in macroeconomic policy dialogue will also help facilitate policy-based lending during the CPS period.

11. ADB will seek to broaden the scope of its knowledge outreach during the CPS period by deepening collaboration with academia, domestic research institutes, civil society, and various professional associations in Mongolia. The launch of the knowledge brief series (para. 7) could be a useful vehicle to strengthen this cooperation. There is significant scope to widen ADB's knowledge outreach to these groups during project and TA implementation.

#### **D. Resource Allocation**

12. The country director of the Mongolia Resident Mission will be the knowledge custodian. The resident mission's country economist will serve as knowledge focal point for the Mongolia country program and will work closely with sector and thematic group specialists across ADB in carrying out the knowledge-related work in Mongolia. The knowledge focal point will pay careful attention to extracting knowledge from ongoing operations, especially where valuable lessons have been learned from project implementation. The country operations business plan, 2017–2019 describes the knowledge products and services expected in the next 3 years.<sup>4</sup>

13. The financial resources for knowledge products and services will derive from core funding sources as described in the main text of the CPS document. However, as is the case with the wider country program, ADB will take a proactive approach to mobilizing resources for knowledge work outside of the core funding sources. In this context, ADB will give particular attention to regional TA activities administered by its knowledge departments and the activities of the Asian Development Bank Institute. ADB will also seek cofinancing from other traditional and nontraditional sources, including the Climate Investment Fund, e-Asia and Knowledge Partnership Fund, Japan Fund for Poverty Reduction, and Urban Financing Partnership Facility.

14. The monitoring and evaluation of ADB's knowledge-related work in Mongolia will be done in conjunction with the annual country programming and portfolio review, as well as in the context of project and TA review missions.

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<sup>4</sup> ADB. Forthcoming. *Country Operations Business Plan: Mongolia, 2017–2019*. Manila.

**LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/CPS/?id=MON-2017>

1. Inclusive and Sustainable Growth Assessment: Mongolia, 2017–2020
2. Development Coordination Matrix
3. Country Operations Business Plan: Mongolia, 2017–2019