



Country Operations Business Plan

October 2009

Mongolia
2009–2012

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 25 September 2009)

Currency Unit	–	togrog (MNT)
MNT1.00	=	\$0.000691
\$1.00	=	MNT1,447

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
AMC	–	asset management company
CHP	–	combined heat and power plant
CMP	–	child money program
CAREC	–	Central Asia Regional Economic Cooperation
COBP	–	country operations business plan
CPS	–	country partnership strategy
CSP	–	county strategy and program
FGP	–	family group practice
GIS	–	geographic information system
GDP	–	gross domestic product
HH	–	household
IAAC	–	Independent Authority Against Corruption
IMF	–	International Monetary Fund
JICA	–	Japan International Cooperation Agency
MDGs	–	millennium development goals
MOH	–	Ministry of Health
MOECS	–	Ministry of Education, Culture and Science
NCC	–	National Committee on Coordination
PMT	–	proxy means test
PRC	–	People's Republic of China
PSOD	–	Private Sector Operations Department of Asian Development Bank
PPP	–	public–private partnership
SHC	–	soum health centers
SPD	–	Strategy and Policy Department of Asian Development Bank
TA	–	technical assistance
TVET	–	technical education and vocational training

NOTE

In this report, "\$" refers to US dollars.

GLOSSARY

<i>aimag</i>	–	province
<i>soum</i>	–	district
<i>ger</i>	–	traditional tent

Vice-President	C. Lawrence Greenwood, Jr., Operations 2
Director General	K. Gerhaeusser, East Asia Department (EARD)
Team leader	A. Ruthenberg, Mongolia Resident Mission (MNRM), EARD
Team member	B. Losolsuren, Investment Officer, MNRM, EARD

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

CONTENTS

	Page
I. CONSISTENCY OF THE BUSINESS PLAN WITH THE CURRENT COUNTRY PARTNERSHIP STRATEGY	1
II. INDICATIVE LENDING AND NONLENDING PROGRAMS	1
III. SUMMARY OF CHANGES TO LENDING AND NONLENDING PROGRAMS	4
IV. INDICATIVE INTERNAL RESOURCE REQUIREMENTS	6
V. RESULTS-BASED MONITORING	6
VI. COUNTRY STRATEGY AND PROGRAM RESULTS FRAMEWORK	6

APPENDIXES

1. INDICATIVE ASSISTANCE PIPELINE	7
Table 1.1: Indicative Assistance Pipeline for Lending Products, 2010–2012	7
Table 1.2: Indicative Assistance Pipeline for Nonlending Products and Services, 2010–2012	9
2. PRELIMINARY SUMMARY INFORMATION ON PROPOSED INDICATIVE LENDING AND NONLENDING PRODUCTS AND SERVICES FOR THE FIRST YEAR OF THE BUSINESS PLAN	11
Table 2.1: Summary Information on Proposed Indicative Lending Products and Services for 2009	11
Table 2.2: Summary Information on Proposed Indicative Nonlending Products and Services for 2009	13
3. UPDATED COUNTRY SECTORS AND THEMATIC STRATEGIES AND PLANS AND/OR ROAD MAPS	18
4. ASSISTANCE PROGRAM FOR CURRENT YEAR	24
Table 4.1: Assistance Pipeline for Lending Products, 2009	24
Table 4.2: Assistance Pipeline for Nonlending Products and Services, 2009	25
5. MONGOLIA: COUNTRY COST-SHARING CEILING AND OTHER FINANCING PARAMETERS, 2009–2012	26

I. CONSISTENCY OF THE BUSINESS PLAN WITH THE CURRENT COUNTRY PARTNERSHIP STRATEGY

1. The Asian Development Bank (ADB) strategy for Mongolia is presented in the country strategy and program (CSP), 2006–2008;¹ the CSP update, 2007–2009²; and the country operations business plan (COBP), 2008–2010.³ Starting in mid-2008, the Mongolian economy has been struck by the global economic and financial crisis, which has had serious effects on key mineral exports. As a result, the fiscal accounts, the real economy, the balance of payments, the financial and banking sector, and the exchange rate have all suffered. To help preserve recent social and economic gains, ADB and other development partners have been asked to help the Government respond to the deteriorating external economic environment. When the crisis struck, a new country partnership strategy (CPS) was at an advanced stage of preparation. However, ADB and the Government have agreed to finalize the CPS once the economy has stabilized and implementation of the Government's medium-term plans resumes. This COBP, while consistent with the strategic thrusts of the current CSP, is specifically designed to respond to the challenges⁴ posed by Mongolia's deteriorating economic environment.

II. INDICATIVE LENDING AND NONLENDING PROGRAMS

2. The Government's sustained commitment to economic reform and a buoyant world economy put Mongolia's economy on a strong growth trajectory well into 2008. Gross domestic product (GDP) grew by an estimated 8.9% in 2008, down from the previous year's double-digit rate but close to the average of the previous 5 years. Growth was led by strong expansion in mining as copper prices reached a record high of \$8,980 per ton in July 2008.⁵

3. **The crisis unfolds.** Mongolia has been hit hard by the global economic and financial crisis, sparked initially by a sudden drop in the price of its main export commodities. The copper price has fallen by 60% since the start of 2009, creating severe pressures on the budget, the balance of payments, the financial and banking sector, and the currency. Mineral revenues, which accounted for more than one-third of budget revenues in mid-2008, have fallen by 10% of GDP, resulting in a budget deficit of about 5% of GDP in 2008. Export proceeds fell by more than \$800 million in 2008—almost one-third of total exports—largely as a result of a fall in global mineral prices. Falling export revenues have contributed to a gaping current account deficit of 12.9% of GDP in 2008, after 5 years of strong surpluses. Capital flight accelerated in the initial aftermath of the crisis, causing the currency to devalue from MNT1,050 to \$1 in mid-December 2008 to a low of MNT1,600⁶ in end-March 2009. Since October 2008, attempts by the Bank of Mongolia to defend the currency have halved the official foreign exchange reserves. At the end of 2008, both Standard & Poor's and Fitch Ratings downgraded their ratings for Mongolia from "stable" to "negative", because of increasing concern over the large trade imbalance, depreciation of the currency, the sharp fall in foreign currency reserves, and the sizable budget deficit.

4. **Growth faltering.** The growth outlook has deteriorated dramatically since the third quarter of 2008. ADB forecasts that growth will decline from 8.9% in 2008 to just under 3% in 2009 with significant downside risks. The International Monetary Fund (IMF) reports that the

¹ ADB. 2005. *Country Strategy and Program (2006–2008): Mongolia*. Manila

² ADB. 2006. *Country Strategy and Program Update (2007–2009): Mongolia*. Manila

³ ADB. 2007. *Country Operations Business Plan (2008–2010): Mongolia*. Manila

⁴ ADB. 2009. *Mongolia Country Poverty Assessment*. Manila.

⁵ London Metal Exchange copper grade A cash buyer price.

⁶ Domestic market rate.

economic crisis, which was originally confined to slowing commodity exports, is now contributing to a reversal in investment and credit flows, which in turn is adversely affecting domestic demand. Negative domestic demand growth could further dampen performance in the short term.

5. **Financial Sector Volatility.** The banking sector is suffering from a liquidity shortage. Nonperforming loans increased to 11.6% of total loans during the second quarter of 2009 and new bank lending has practically halted. Between 30% and 40% of bank loans are denominated in US dollars so the recent devaluation has caused bank asset quality to deteriorate. The introduction of a blanket deposit guarantee in early December 2008 has helped stabilize confidence in the banking sector but further measures will be needed. In early December 2008, the Bank of Mongolia discovered severe irregularities at Anod Bank, which at that time was the fourth largest commercial bank. After an external audit, the Bank of Mongolia took over the bank's operations. Better supervision and the strengthening of prudential regulations in early 2009 have revealed further weaknesses in the banking system, especially in the smaller banks.

6. **Worsening urban environment.** Urban air pollution has emerged as a major problem in recent years, with serious implications for human health. Emissions from the old combined heat and power plants (CHPs)⁷ and from wood burned in the *ger* areas are the main sources of pollution. There is an urgent need to develop reliable heating and power supplies in the capital, both to address pollution and to ensure that the bulk of the nation's businesses registered in Ulaanbaatar are able to function. Electricity and heating demand has been increasing every year by 5%–6%, due to a steady influx of rural migrants. The main existing CHP was scheduled to be replaced several years ago, and unless this is done soon there is a serious risk of power system failure, and a further deterioration in urban air quality. Transport infrastructure and services, particularly in Ulaanbaatar, are suffering from increasing road congestion, insufficient traffic management, and poor safety. These have contributed to economic inefficiency as a result of an increase in trip times, excessive fuel use, and poor air quality. These have significantly reduced the quality of life of urban residents.

7. **Poverty risk.** With over one-third of Mongolia's population living in poverty, the potential social ramifications of the crisis could reverse a decade of progress in poverty reduction⁸. The *Mongolia Country Poverty Assessment*⁹ highlights several reasons why the financial crisis is likely to impact the poor: (i) rising income inequality—overall strong growth has not been translated into higher levels of poverty reduction;¹⁰ (ii) spatial inequalities—although poverty has declined in Ulaanbaatar, it has increased in *soum* and countryside areas; (iii) underfunded social safety nets and insufficient coping mechanisms in both rural and urban areas; (iv) high reliance on social welfare benefits, especially the Child Money Program (CMP) by the poor;¹¹ (v) difficulty in paying for school expenses; (vi) inefficiency of the health insurance system for the poor;¹² (vii) poor infrastructure and access to basic services in urban *ger* areas,¹³ and (viii) limited access to rural financial services, including microfinance.

⁷ The expected retirement date of CHP 2 was 2005 and of CHP 3 is 2011 according to the Mongolia Energy Sector Master Plan.

⁸ According to the National Statistics Office (NSO) poverty was 35.2% on average over 2007–2008. Poverty in spring 2007 was assessed at 25.3%.

⁹ ADB. 2009. *Mongolia Country Poverty Assessment*. Manila.

¹⁰ NSO data show that the Gini coefficient has worsened by some 15% since 2003.

¹¹ The poor and near-poor rely on welfare benefits, particularly the Child Money Program to meet basic needs and day-to-day survival. The poor in both urban and rural areas often literally live on their future benefits—pawning their benefit booklets at local stores to purchase foodstuffs credited to their future benefits. Any change to the social welfare system will have to acknowledge this aspect of "living on the future."

¹² Lack of civil registration and limited benefits for drug coverage and tests for outpatients result in significant out-of-pocket expenses for the poor.

8. **Government Response.** The Government has moved swiftly and forcefully to develop a crisis response program aimed at restoring fiscal, financial and external balance and protecting the poor. The Government's Memorandum of Economic Policies released as part of an IMF standby arrangement aims at rapidly restoring fiscal and financial stability while protecting the poor. The program has been formulated in close consultation with a wide range of domestic stakeholders and with Mongolia's development partners. It enjoys high-level, bipartisan political support and the Government is implementing it rapidly and forcefully. Specific measures are aimed at restoring the fiscal deficit to a sustainable range, safeguarding official foreign reserves, overhauling the social safety net and improving its targeting.

9. **ADB supports the Government's anti-crisis response.** Since late 2008, ADB has worked with the Government to formulate a response to the global economic crisis, in close consultation with other development partners. ADB was asked to provide financial support to help safeguard the poor during the crisis and to consider adjustments to the timing, funding arrangements and sequencing of proposed projects to support the Government's crisis-response program. On 18 February 2009, a memorandum of understanding was signed by the Government and ADB, which confirmed ADB's intention to: (i) align its assistance with the Government's crisis response program, in close coordination with other development partners; (ii) assist the Government to formulate a quick-disbursing ADB program aimed at protecting essential social services; (iii) provide supplementary financing for an ongoing ADB regional roads project to supplement planned Government counterpart contributions and ensure that the road can be completed in a timely manner; (iv) defer finalization of the new CPS until the economy had stabilized; and (v) accelerate processing for social sector projects aimed at protecting access to essential services for the poor. The memorandum of understanding also underscored ADB's and the Government's firm commitment to focus ADB assistance on the core sectors of support identified by the CSP, while assisting the Government to strengthen sector policies and safeguard the poor during this sudden downturn. Thereafter, ADB was also requested to provide technical assistance (TA) to support the reconstruction and consolidation of the banking sector, secure a replacement for the country's main power and heating plant, and build capacity to combat urban air pollution.

10. **Development partners' response.** Mongolia's development partners have been quick to offer their support to the Government. The IMF has estimated that Mongolia will need \$284 million of external financing in 2009 and \$153 million in 2010. Of this, the IMF standby arrangement will provide \$139 million in 2009 and \$93 million in 2010. ADB program support will provide \$60 million in 2009, and the Government of Japan through the Japan International Cooperation Agency (JICA) will provide \$30 million in 2009 and \$20 million in 2010. The World Bank will provide \$40 million in 2009 and \$20 million in 2010. The combined disbursements will cover most of the financing required, with a gap of \$15 million in 2009 and \$20 million in 2010, which the Government anticipates can be covered through assistance from other development partners. As part of this joint response, the World Bank will provide support for structural reforms in the mining and financial sectors, as well as for reforming the CMP. ADB and JICA, through their joint program, will assist the Government with social sector reforms, including social protection, and urban sector reforms.

11. In partnership with JICA and the Government, ADB has accelerated the preparation of a \$110 million Social Sector Support Program, designed to be an integral component of the Government's crisis response program. This program will help protect essential social sector expenditures and reduce out-of-pocket expenditures for health care of poor households. The

¹³ Rapid urban growth, primarily in *ger* areas and combined with insufficient attention to pro-poor urban development, has led to a sustained lack of basic services such as water and sanitation.

program will also support reforms to improve the long-term sustainability of social expenditures through better targeting and rationalization of public spending in health, health insurance, education, and social welfare and will improve living standards in the poor *ger* areas around Ulaanbaatar.

12. For ADB's purposes, Mongolia is classified as a group A country, eligible for Asian Development Fund (ADF) resources only. For 2009 and 2010, Mongolia's country-specific allocations are based on the 2008 country performance assessment exercise. Mongolia's 2009–2010 country ADF allocation was set at \$91.1 million, of which half was made available as grants. An additional \$27.9 million was made available from the resources identified to address the global financial crisis. Three regional projects have also been included in the program for a total amount of \$56.0 million, and are to be financed from the regional ADF allocation. The lending and nonlending programs for 2011–2012 are subject to the findings of the CPS preparation exercise, which is to resume in late 2009.

13. Mongolia's external public debt ratios will remain moderate despite the need to resort to emergency foreign financing in 2009 and 2010. The 2009 IMF and World Bank Joint Debt Sustainability Assessment¹⁴, which was prepared in consultation with ADB, concluded that the risk of debt distress remains moderate, and that Mongolia's debt to GDP ratios should steadily decline from a still comfortable 45% of GDP in 2010 onwards. ADB assistance will continue to maintain maximum flexibility in its project financing and cost-sharing arrangements, with a project cost-sharing ceiling of 99% (Appendix 5). All projects in the 2009–2010 pipeline are eligible for full ADB financing, although in keeping with historic trends a cost-sharing average of 80% is expected over the entire portfolio.¹⁵ Cofinancing will be aggressively pursued to leverage limited ADB resources, and total project costs may change to reflect progress in securing new sources of cofinancing.

III. SUMMARY OF CHANGES TO LENDING AND NONLENDING PROGRAMS

14. A number of changes have been made to the lending and nonlending program anticipated in the COBP 2008–2010 in response to the rapidly evolving economic and financial crisis. However, such changes do not alter the underlying strategic pillars, focus or results-orientation of ADB support for poverty reduction in Mongolia. A 3-year indicative assistance pipeline for lending (Table 1.1) and nonlending (Table 1.2) operations has been prepared.

15. **Lending program.** For 2009, ADB provided a \$60 million Social Sectors Support Program.¹⁶ This will assist the Government to protect and improve the efficiency and effectiveness of social sector outlays geared to the needs of the poor, while providing a program loan and grant to supplement the assistance provided by the IMF and other partners. In addition, an education project will ensure that basic education services are adequately funded and allow the children most affected by the crisis to continue to attend school. This project envisages the provision of pre-school lunches and textbooks and the maintenance of schools and other activities to benefit the poor through a \$17 million grant.

16. Assistance to the transport sector will be rephased to consolidate and complete ongoing operations that lack sufficient Government counterpart finance because of crisis-induced fiscal

¹⁴ IMF and WB. 2009. *Mongolia: Joint IMF/World Bank Debt Sustainability Analysis Under the Debt Sustainability Framework for Low-Income Countries*. Washington.

¹⁵ One of the motivations for the revision of the cost-sharing ceiling is harmonization with the World Bank's International Development Association funding. World Bank can finance up to 100% for individual projects and does not set explicit portfolio financing limits.

¹⁶ ADB. 2009. *Social Sectors Support Program*. Manila.

constraints. A supplementary financing of \$24 million for the Regional Transport Project will be prepared in 2009. The construction of the road segment will help complete the Central Asia Regional Economic Cooperation 4b road corridor to facilitate trade between Mongolia and its major trading partners.

17. By 2010, it is anticipated that the economy will have stabilized, making it possible to pursue operations aimed at fostering connectivity and regional economic integration. The 2010 pipeline includes operations to develop Gobi border town (\$15 million) and to improve regional transport (\$45 million). In addition, it is anticipated that ADB will implement its fourth health project (\$14 million). In 2011, support will be provided for higher education, the first phase of an urban transport system in Ulaanbaatar, and regional logistics development at the border with PRC. This will be followed by three projects in 2012 in support of the power sector, regional transport systems, and urban sector development in Ulaanbaatar.

18. **Nonlending program.** The nonlending TA program of \$12.8 million for 2009 and 2010 will support and complement the lending program, and reinforce the results that ADB and the Government aim to achieve in each core sector and thematic area. Energy, while not a core sector, is being supported because a breakdown in the power and heating system would hit the poor particularly hard, and in anticipation of the future evolution of ADB's strategic partnership with Mongolia.¹⁷ Priority has been given to TA linked to projects, in order to enhance project impacts and build sector capacity to deliver results. Areas covered by advisory TA will include social welfare reform, improving the efficiency of public service delivery, developing public-private partnerships, updating the energy sector development plan, supporting transport sector reform, increasing access to finance through restructuring and consolidation of the banking system, and climate change adaptation and mitigation.

19. ADB will also continue to (i) pursue small innovative grant projects funded by the Japan Fund for Poverty Reduction, such as those promoting energy access and fundamental social services for the poor, and (ii) draw on regional TA from its global funds, the Clean Energy Fund, and the Carbon Market Initiative, including support to combat air pollution in Ulaanbaatar. In addition, ADB will support better natural resources management in line with climate change adaptation and mitigation. The assistance provided through the Japan Fund for Poverty Reduction in the health and education sectors supports the CSP's focus on inclusive social development and is consistent with the priority sectors of the COBP 2008–2010, health and social protection. The assistance is also in line with the development agenda of inclusive economic growth in ADB's Strategy 2020¹⁸ and its efforts to rebalance economies and provide support to the poor in light of the global economic crisis.

20. In response to market demand and as part of its expansion strategy, the ADB Private Sector Operations Department (PSOD) Trade Finance Facilitation Program will expand to Mongolia in the fourth quarter of 2009. PSOD will hold a seminar with the commercial banks, conduct financial analysis and due diligence of the selected banks, and, subject to satisfactory due diligence results and ADB Risk Management Unit approval, sign issuing bank agreement for the credit guarantee product. Efforts to strengthen the capacity of procurement officers, private sector bidders, contractors, civil society organizations, and journalists under the current Mainstreaming Managing for Development Results in Investment Planning and Public Funds

¹⁷ The CSP (2006–2008) identifies inclusive social development and stable broad-based economic growth as the two strategic pillars. The absence of reliable electricity and heating services in the capital city would be a major constraint on achieving these two strategic pillars.

¹⁸ ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008–2020*. Manila.

Management Project¹⁹ will continue in the second and third phases of the project. Projects will be identified to support the continued implementation of ADB's Second Governance and Anti-Corruption Action Plan²⁰.

IV. INDICATIVE INTERNAL RESOURCE REQUIREMENTS

21. Staffing will be adjusted to support implementation of the business plan. While the overall internal resource requirement is expected to remain constant, in view of the expansion in program lending and the social sector portfolio over the period of the COBP, consideration is being given to strengthening staffing in social sectors and policy analysis. In line with the greater delegation of project administration and heightened requirements for policy dialogue and partner coordination, efforts will be made to strengthen these capacities in the resident mission.

V. RESULTS-BASED MONITORING

22. The Mongolia CSP included a results framework that is progressively being refined into a management tool for CPS implementation. It is also being harmonized with the Government's own initiative to develop a national development strategy and associated results matrix based on the Millennium Development Goals. Initial efforts have been made to track progress against the goals and targets identified in the CSP results framework and to involve the Government in this monitoring effort. There have been no changes to the existing CSP results framework.

VI. COUNTRY STRATEGY AND PROGRAM RESULTS FRAMEWORK

23. The results framework contained in the CSP 2006–2008 and COBP 2008–2010 will be used to assess progress in the CSP completion report that will be prepared in 2010. In addition, ADB will track indicators of macroeconomic stability (e.g., growth, fiscal deficit, current account deficit) to assess progress in implementing the Government's crisis response program. It will track changes in poverty levels and the degree to which affordable social services continue to be accessible to the poor.

¹⁹ ADB. 2007. *Mongolia: Mainstreaming Managing for Development Results in Investment Planning and Public Funds Management*. Manila.

²⁰ ADB. 2006. *Second Governance and Anticorruption Action Plan of Asian Development Bank*. Manila.

1. INDICATIVE ASSISTANCE PIPELINE

Table 1.1: Indicative Assistance Pipeline for Lending Products, 2010–2012

Sector	Project/Program Name	Targeting Classifi- cation	Thematic Priority	Division	Year of Project Preparatory Assistance	Total	Cost (\$ million)					
							OCR	ADB ADF		Total	Gov't.	Co- Financing
								Loans	Grants			
2010 Firm Loans and Grants												
Water Supply and Other Municipal Infrastructure and Services												
	Southeast Gobi Urban and Border Town Development Project	GI	GRO/RCI	MNRM	2009	15.0	0.0	0.0	5.0	15.0 ^a	TBD	TBD
	Subtotal					15.0	0.0	0.0	5.0	15.0	TBD	TBD
Transport, and Information and Communication Technology												
	Regional Transport Project	GI	GRO/RCI	EATC	2008	45.0	0.0	15.0	0.0	45.0 ^b	TBD	TBD
	Subtotal					45.0	0.0	15.0	0.0	45.0	TBD	TBD
Health and Social Protection												
	Fourth Health Sector Development Project	GI	SOD	EASS	2009	14.0	0.0	0.0	14.0	14.0	TBD	TBD
	Subtotal					14.0	0.0	0.0	14.0	14.0	TBD	TBD
	Total					74.0	0.0	15.0	19.0	74.0	TBD	TBD
2011 Loans and Grants ^c												
Health and Social Protection												
	Higher Education Reform Project	GI	SOD	EASS	2009	12.0	0.0	12.0	0.0	12.0	TBD	TBD
	Subtotal					12.0	0.0	12.0	0.0	12.0	TBD	TBD
Transport, and Information and Communication Technology												
	Ulaanbaatar Urban Transport Project	GI	GRO	EASS	2010	27.0	0.0	27.0	0.0	27.0	TBD	TBD
	Regional Logistics Development Project	GI	GRO/RCI	EATC	2008	23.0	0.0	7.0	0.0	23.0 ^d	TBD	TBD
	Subtotal					50.0	0.0	34.0	0.0	50.0	TBD	TBD
	Total					62.0	0.0	46.0	0.0	62.0	TBD	TBD
2012 Loans and Grants ^c												
Energy												
	Upgrading Power System Project	GI	GRO	EAEN	2011	20.0	0.0	20.0	0.0	20.0	TBD	TBD
	Subtotal					20.0	0.0	20.0	0.0	20.0	TBD	TBD
Transport, and Information and Communication Technology												
	Regional Transport Project	GI	GRO/RCI	EATC	2011	21.0	0.0	7.0	0.0	21.0 ^e	TBD	TBD
	Subtotal					21.0	0.0	7.0	0.0	21.0	TBD	TBD

Sector	Project/Program Name	Targeting Classifi- cation	Thematic Priority	Division	Year of Project Preparatory Assistance	Total	Cost (\$ million)						
							OCR	ADB		Total	Gov't.	Co- Financing	
								ADF	Loans				Grants
Water Supply and Other Municipal Infrastructure and Services													
	Ulaanbaatar Urban Development Project	GI	GRO	EASS	2011	19.0	0.0	19.0	0.0	19.0	TBD	TBD	
	Subtotal					19.0	0.0	19.0	0.0	19.0	TBD	TBD	
	Total					60.0	0.0	46.0	0.0	60.0	TBD	TBD	

ADB = Asian Development Bank, ADF = Asian Development Fund, EAEN = Energy Division, EAFM = Financial Sector, Public Management and Regional Cooperation Division, EASS = Urban and Social Sectors Division, EATC = Transport Division, GI = General Intervention, Gov't. = Government, GRO = Economic Growth, MNRM = Mongolia Resident Mission, OCR = Ordinary Capital Resources, RCI = Regional Cooperation and Integration, SOD = Social Development, TBD = to be determined.

^a Including \$10.0 million financed from the regional allocation (grant).

^b Including \$30.0 million financed from the regional allocation (loan).

^c 2011 and 2012 programs are tentative and subject to the finalization of the country partnership strategy, scheduled for 2010.

^d Including \$16.0 million financed from the regional allocation (loan).

^e Including \$14.0 million financed from the regional allocation (loan).

Source: Asian Development Bank estimates.

Table 1.2: Indicative Assistance Pipeline for Nonlending Products and Services, 2010–2012

Sector	Assistance Name	Responsible Division	Assistance Type	Sources of Funding			Total (\$'000)	
				ADB	Others			
				Source	Amount (\$'000)	Source		Amount (\$'000)
2010								
Energy								
	Updating Energy Sector Development Plan	EAEN	PATA		1,000.0	TBD	TBD	1,000.0
	Subtotal				1,000.0			1,000.0
Public Sector Management								
	Managing for Development Results II	MNRM	PATA		1,800.0	TBD	TBD	1,800.0
	Subtotal				1,800.0			1,800.0
Water Supply and Other Municipal Infrastructure and Services								
	Ulaanbaatar Urban Services and Planning Improvement	EASS	PATA		600.0	TBD	TBD	600.0
	Subtotal				600.0			600.0
Transport, and Information and Communication Technology								
	Transport Reform	EATC	PATA		500.0	TBD	TBD	500.0
	Subtotal				500.0			500.0
Education								
	Education SWAP	EASS	PATA		500.0	TBD	TBD	500.0
	Subtotal				500.0			500.0
Private Sector Development								
	Public–Private Partnership Development	EAFM	PATA		500.0	TBD	TBD	500.0
	Subtotal				500.0			500.0
Environmental Sustainability								
	Climate Change Impacts on the Poor in Mongolia	EAAE	PATA		500.0	TBD	TBD	500.0
	Subtotal				500.0			500.0
	Total				5,400.0			5,400.0
2011 ^a								
Water Supply and Other Municipal Infrastructure and Services								
	Ulaanbaatar Urban PPPs Project	EASS	PPTA		1,000.0	TBD	TBD	1,000.0
	Subtotal				1,000.0			1,000.0
Transport, and Information and Communication Technology								
	Regional Infrastructure Development Project	EATC	PPTA		1,200.0	TBD	TBD	1,200.0
	Urban Transport Planning	EASS	PATA		600.0	TBD	TBD	600.0
	Subtotal				1,800.0			1,800.0
Energy								
	Upgrading Power System Project	EAEN	PPTA		1,500.0	TBD	TBD	1,500.0
	Subtotal				1,500.0			1,500.0
	Total				4,300.0			4,300.0

Sector Assistance Name	Responsible Division	Assistance Type	Sources of Funding				Total (\$'000)
			ADB		Others		
			Source	Amount (\$'000)	Source	Amount (\$'000)	
2012 ^a							
Public Sector Management							
Managing for Development Results III	MNRM	PATA		1,700.0	TBD	TBD	1,700.0
Subtotal				1,700.0			1,700.0
Education							
Education Reform Project	EASS	PPTA		600.0	TBD	TBD	600.0
Subtotal				600.0			600.0
Energy							
Regional Power Project	EAEN	PPTA		1,000.0	TBD	TBD	1,000.0
Subtotal				1,000.0			1,000.0
Transport, and Information and Communication Technology							
Logistics Development Project	EATC	PPTA		600.0	TBD	TBD	600.0
Subtotal				600.0			600.0
Water Supply and Other Municipal Infrastructure and Services							
Ulaanbaatar Urban Capacity	EASS	PATA		600.0	TBD	TBD	600.0
Subtotal				600.0			600.0
Total				4,500.0			4,500.0

ADB = Asian Development Bank, EAAE = Agriculture, Environment, and Natural Resources Division, EAEN = Energy Division, EAFM = Financial Sector, Public Management and Regional Cooperation Division, EASS = Urban and Social Sectors Division, EATC = Transport Division, Gov't. = Government, MNRM = Mongolia Resident Mission, PATA = policy and advisory technical assistance, PPTA = project preparatory technical assistance, TBD = to be determined.

^a 2011 and 2012 programs are tentative and subject to the finalization of the country partnership strategy, scheduled for 2010.

Source: Asian Development Bank estimates.

2. PRELIMINARY SUMMARY INFORMATION ON PROPOSED INDICATIVE LENDING AND NONLENDING PRODUCTS AND SERVICES FOR THE FIRST YEAR OF THE BUSINESS PLAN

Table 2.1: Summary Information on Proposed Indicative Lending Products and Services for 2009

Project Name	Description
Social Sectors Support Program	<p>Impact Ensure pro-poor funding of priority basic services in 2010–2011 and initiate reforms to increase the efficiency of social welfare spending and improve living conditions of the poor.</p> <p>Major Components (i) Social welfare: (a) target (through means-testing) and consolidate social welfare programs, (b) reduce hospital admissions through an expansion of the drug discount system for outpatients at Family Group Practices (FGPs) and Soum Health Centers (SHCs), and (c) make eligibility for government subsidies for health insurance contributions conditional on proxy means-testing. (ii) Health: (a) establish an emergency mechanism for purchases of medicines and vaccines in case of acute shortages, (b) expand coverage of Household (HH) micronutrient fortification for children 6–23 months and pregnant and lactating women, and (c) initiate a medicard program for the poor (free consultation, tests and medicines) at primary health care and hospital level. (iii) Education: (a) improve targeting of secondary level textbook subsidies to include the poor, and (b) ensure quality of education through a strengthened teacher in-service training and evaluation system. (iv) Urban infrastructure: Capacity development on guidelines for ger district development and safeguard considerations for the revision and prioritization of the Ulaanbaatar city Urban Development Master Plan are in place.</p> <p>Expected Outputs and Outcomes It will help ensure that reform targets are met, and will help to build the foundation for systemic change across sectors, promote efficiency, prioritize the poor, and provide targeted social assistance. It will also help build firm foundations of change through strategic capacity development. It will address the political economy risks of change by developing a consensus- building program on the role of and recipients for social assistance.</p>
Education for the Poor Project	<p>Impact Mitigate the impact of the economic crisis on the poor in the short term by ensuring preschool education and nutrition for children ages 2–6. Target provision of textbooks to secondary school students from poor families.</p> <p>Major Components (i) Finance and strengthen the preschool feeding program, (ii) target textbook provision at poor students, and (iii) build capacity.</p> <p>Expected Outputs and Outcomes (i) Provision of kindergarten meals to children ages 2–6, (ii) targeted provision of textbooks for secondary school students from poor families, and (iii) capacity building in MOECS and at the <i>aimag</i> level.</p>

Project Name	Description
Supplementary Regional Transport Project	<p>Impact Help the Government meet its counterpart financing obligations despite budget constraints caused by global financial crisis.</p> <p>Major Component Development of regional road corridor.</p> <p>Expected Outputs and Outcomes Development of a 62 kilometer (km) road section between Zamyn-Uud, and the 62 km milepost, which is part of the important north–south road corridor and therefore significant for promoting regional cooperation. ADB has already provided \$37.1 million to finance construction of a 193.3 km road section, and the Government of the Republic of Korea (\$23.9 million) and the Government of the People's Republic of China (\$1.5 million) are cofinancing 179.3 km of the road sections. The Government of Mongolia was to finance the remaining 62 km of roads. However, the financial crisis means that it is unable to do this, which may have a negative impact on the completion of the whole corridor. At the Government's request, ADB will provide an additional \$24.0 million to complete the remaining 62 km.</p>

ADB = Asian Development Bank, FGP = family group practice, HH = household, km = kilometer, MOECS = Ministry of Education, Culture and Science, SHC = soum and health center.

Source: Asian Development Bank.

Table 2.2: Summary Information on Proposed Indicative Nonlending Products and Services for 2009

Project Name	Description
Ulaanbaatar Low Carbon Energy Supply using Public–Private Partnership Model	<p>Impact Improve security of energy supply for Ulaanbaatar.</p> <p>Major Components</p> <ul style="list-style-type: none"> (i) A technical study, (ii) sector assessment, (iii) a comparative evaluation of project financing options, and (iv) knowledge dissemination. <p>Expected Outputs and Outcomes</p> <ul style="list-style-type: none"> (i) Technical design of combined heat and power plant (CHP) 5 is determined, (ii) sector risks in constructing CHP 5 are identified, (iii) project financing options are identified, and (iv) knowledge gained in implementing CHP 5 is disseminated. <p>The outcome will be a well-designed public–private partnership model for implementation of the CHP 5.</p>
Regional Transport Development Project	<p>Impact Completed transport corridor between western Mongolia, the PRC and the Russian Federation and promotion of regional trade and freight of transport and passengers through the Western Regional Road Corridor.</p> <p>Major Component</p> <ul style="list-style-type: none"> (i) developing feasibility study and preliminary design of road from Khovd to Russian border; and (ii) preparing a technically and economically feasible investment project. <p>Expected Outputs and Outcomes The consultants will help prepare a technically and economically feasible investment project suitable for ADB financing. The consultants will also help the Government prepare an environmental impact assessment, an ethnic minority development plan, and, if necessary, a short resettlement plan in accordance with ADB's policies on the environment, indigenous peoples, and involuntary resettlement to maximize project benefits and mitigate negative impacts.</p>
Road Database Development Using Geographic Information System	<p>Impact</p> <ul style="list-style-type: none"> (i) Upgrade the existing database through the application of a geographic information system (GIS), (ii) initiate the process of sound maintenance planning and budgeting through pilot activities on national paved roads, and (iii) enable a new service to road users by establishing a web server in Mongolia. <p>Major Components</p> <ul style="list-style-type: none"> (i) Upgrading the existing road database through the application of a GIS and data collection, (ii) establishing a data center or web server, and (iii) strengthening the institutional capacity of the Department of Roads for road asset management. <p>Expected Outputs and Outcomes The TA will produce software for a road database, establish a server or data center, draft a policy note on the deployment of information and communication technology in Mongolia, and prepare a strategy for improving road maintenance management. The impact of the TA will be improved road asset maintenance management. The outcome of the TA will be a GIS-based tool for planning and budgeting maintenance works that provides real-time information about road conditions to the Government and road users.</p>

Project Name	Description
Fourth Health Sector Development Project: Improving Sector Governance	<p>Impact Improve health sector efficiency and safety through optimization of hospital sector and food and medicine safety</p> <p>Major Components</p> <ul style="list-style-type: none"> (i) Improving hospitals in Ulaanbaatar, (ii) strengthening food safety, and (iii) strengthening drug safety. <p>Expected Outputs and Outcomes</p> <ul style="list-style-type: none"> (i) A detailed analysis of public and private hospitals in Ulaanbaatar, and preparation of a project component to optimize and develop service delivery and financing of secondary and tertiary care facilities, including the preparation of hospital and investment plans, (ii) a detailed analysis of drug safety in Mongolia and preparation of a project component to address the weaknesses of the current legal, regulatory, institutional, managerial, human resources, and funding of efforts to strengthen drug safety, (iii) a detailed analysis of the food safety situation in Mongolia and preparation of a project component to address the weaknesses of the current regulatory, institutional, and managerial system, as well as to evaluate human resource requirements and identify technical support needs for the public and private sectors, and (iv) a project design (including rationale, description of components, financing and investment plan, implementation arrangements, description of benefits and impacts, hospital, drug and food safety sector analysis).
Strategic Capacity Development for Social Sectors	<p>Impact The TA aims to support strategic capacity development for social sectors by assisting in the implementation and coordination of policy reforms under the Social Sectors Support Program.</p> <p>Major Components</p> <ul style="list-style-type: none"> (i) Sector policy reform coordination and implementation support, (ii) sector- specific capacity development to support targeting, (iii) capacity development in statistical analysis and data gathering for the National Statistics Office, (iv) an intersectoral beneficiaries database, (v) consensus building on reforming social assistance, and (vi) capacity building in environment and social safeguards for Ulaanbaatar city stakeholders. <p>Expected Outputs and Outcomes</p> <ul style="list-style-type: none"> (i) Coordinated policy reforms across the social sectors as envisaged in the agreed upon policy matrix, (ii) capacity building in targeting within Ministry of Health (MOH) and Ministry of Education, Culture and Science (MOECS), (iii) National Statistics Office capacity building in targeting methodologies (such as Proxy Means Test (PMT) and poverty mapping), data collection, processing and analysis, (iv) establishment of an intersectoral beneficiaries database, (v) advocacy and public awareness program on reforming social assistance for parliamentarians, civil society and the general public and (vi) capacity building in environment and social safeguards for Ulaanbaatar City stakeholders.

Project Name	Description
Strengthening Higher and Vocational Education Project	<p>Impact The expected impact of this project preparatory TA is better access to and quality of tertiary education in Mongolia. The expected outcome is the agreed-upon design of the Strengthening Higher and Vocational Education Project suitable for Asian Development Bank (ADB) financing.</p> <p>Major Components The TA project will help establish an enabling environment to implement a lending project, which will have two components:</p> <ul style="list-style-type: none"> (i) strengthening higher education, and (ii) enhancing the relevance, quality, and efficiency of Technical Education and Vocational Training (TVET) programs and improving access to them. <p>Expected Outputs and Outcomes: The main outputs will be</p> <ul style="list-style-type: none"> (i) an analysis of the tertiary education sector, including the relevance of postsecondary education to the labor market, (ii) a proposal for a coherent policy, strategy, and regulatory framework for higher and vocational education, developed in close consultation and collaboration with Ministry of Education, Culture and Science (MOECS) and other higher education stakeholders, (iii) an outline of the master plan for developing higher and vocational education for 2010–2020, (iv) a project outline that addresses key sector constraints and issues, including arrangements for project management and implementation, and (v) a detailed design for the proposed project in line with the Government's policy and strategies and ADB requirements.
Support Public-Private Partnerships	<p>Impact Development of parameters for establishing a legal and institutional framework for public–private partnerships (PPPs) in Mongolia which supports private sector engagement.</p> <p>Major Components</p> <ul style="list-style-type: none"> (i) Support for passage of the PPP legislation through the parliamentary process, (ii) after bills are passed and gazetted, implementation of a public education campaign, (iii) drafting and initial circulation of a white paper for the implementing rules and regulations for the PPP legislation, (iv) formulation of a high-level list of potential key amendments required to the existing legal and commercial framework required to support PPPs, (v) conduct of an options study and circulation of an issues paper covering the institutional arrangements for the PPP unit, and (vi) preparation of an assessment of financial sector constraints in Mongolia. <p>Expected Outputs and Outcomes</p> <ul style="list-style-type: none"> (i) Enacted PPP legislation and a public consultation process operating, (ii) white paper on the implementing rules and regulations for the PPP legislation and a high-level list of amendments that will be required to the existing legal and commercial framework, (iii) initial PPP institutional development plans, (iv) an assessment of financial sector constraints to PPPs, and (v) project management and public awareness.

Project Name	Description
Ulaanbaatar Clean Air	<p>Impact</p> <p>The proposed policy and advisory technical assistance (PATA) will assist the National Committee on Coordination, Management, and Oversight of Activities of Government Agencies with regard to the implementation of the Government Policy on Air Pollution Reduction (NCC). It will assist the NCC to develop a policy and coordinate investments to reduce air pollution in Ulaanbaatar and to build capacity for planning, management and administration.</p> <p>Major Components</p> <ul style="list-style-type: none"> (i) Institutional strengthening, monitoring, and evaluation mechanism: (a) establishment of a coordination and management unit, (b) development of a monitoring and evaluation system, and (c) management of activities and reporting, (ii) heat-only boiler replacement: (a) a feasibility study for boiler replacement, and (b) preparation of bidding documents, and (iii) development of a mechanism to reduce wintertime emissions in <i>ger</i> areas: (a) an awareness raising campaign; (b) a subsidy distribution mechanism; (c) laboratory testing and certification; (d) stove research and development, cost effectiveness analysis, and production capacity building; (e) piloting the mechanism; and (f) reporting and project document preparation, including reporting to the ADB. <p>Expected Outputs and Outcomes</p> <p>The outcome of the TA will be a coordinated program for the introduction of clean technology and alternative fuels for heating, leading to a reduction in wintertime emissions in Ulaanbaatar. A series of interventions, complemented by policies and guidance from the Government, are needed to reduce coal consumption and emissions. These interventions include identification of cleaner fuel and stove technologies, a public awareness program, air pollution monitoring and evaluation, and a strengthened NCC working group. A key indicator of the TA's success will be the ability of the Government to mobilize resources to implement this mechanism, such as the proposed World Bank Ulaanbaatar Clean Air Project.</p>

<p>Policy and Institutional Support for Banking Crisis Management</p>	<p>Impact Re-start and increase commercial bank lending after the banking crisis, which has led to stagnating deposits and lending.</p> <p>Major Components</p> <ul style="list-style-type: none"> (i) Amend the legal and regulatory framework for bank restructuring and resolution: <ul style="list-style-type: none"> (a) review and amend the legal and regulatory framework for bank intervention and resolution, (b) pass legislation governing the Asset Management Company (AMC), and (c) support the workout unit at the Bank of Mongolia to implement a consistent and transparent approach to crisis management. (ii) Improve credit risk management at important and systemically weak banks: <ul style="list-style-type: none"> (a) build capacity in credit risk management and internal control of systemically important and weak banks. (iii) Establish an AMC and: <ul style="list-style-type: none"> (a) prepare its internal procedures, (b) prepare its strategy, (c) provide operational support by engaging long-term management and advisors, (d) provide advice on nonperforming loan resolution techniques, and (e) build capacity in essential skills for handling of bad assets provided. <p>Expected Outputs and Outcome A stable and sound banking system that can achieve effective financial intermediation and support a high medium-term growth rate. The expected outputs are:</p> <ul style="list-style-type: none"> (i) amended legal and regulatory framework for bank restructuring and resolution, (ii) better credit risk management of systemically weak banks, and (iii) establishment of an AMC.
---	--

ADB = Asian Development Bank, AMC = asset management company, CHP = combined heat and power plant, GIS = geographic information system, MOH = Ministry of Health, MOECS = Ministry of Education, Culture and Science, NCC = National Committee on Coordination, Management, and Oversight of Activities of Government Agencies with regard to implementation of the Government Policy on Air Pollution Reduction, PATA = policy and advisory technical assistance, PMT = Proxy Means Test, PPPs = public–private partnerships, TVET = technical education and vocational training.

Source: Asian Development Bank

3. UPDATED COUNTRY SECTORS AND THEMATIC STRATEGIES AND PLANS AND/OR ROAD MAPS

Priority Sector	Developments Since the Adoption of the Country Strategy and Program
Health and Social Protection	<p>Since the adoption of the country strategy and program (CSP), 2006–2008, the Government has developed an implementation framework for the health sector master plan and established a health sector master plan implementation committee to coordinate stakeholder activities. The Government also established a high-level committee for human resources to promote intersectoral collaboration in human resources policy development and implementation. These new initiatives will facilitate intersectoral dialogue on broad issues (e.g., the reform of health insurance, human resources, and hospital rationalization) that reach beyond the influence of the Ministry of Health.</p>
Education	<p>Among low-middle DMCs, Mongolia has a high ranking for education expenditures, enrollment and completion, but there are serious disparities by area and socioeconomic status in student completion rates and performance. The education system is hampered by a lack of capital and recurrent spending; inadequate capacity in the districts to undertake their devolved functions; weak accountability and quality control measures; ineffective policy; regulation and governance of higher and vocational education; insufficient coverage of early childhood education; and tremendous regional inequality in access to education at all levels. The short-term priority in the education sector is to protect the delivery of essential education services to poor households. Correcting the mismatch between the skills required in the labor market and those generated by the school system will be the focus of ADB assistance to higher education. Efforts are also being made to harmonize assistance in the sector through an education sector wide approach.</p>
Municipal Infrastructure and Services	<p>Ulaanbaatar is the main urban center in Mongolia. There are severe disparities in levels of urban service provision between the central formally planned (apartment) areas and the peripheral unplanned (<i>ger</i>) areas. ADB assistance will help to reduce the soil, water and ambient pollution in Ulaanbaatar and other major centers while promoting sustainable and equitable urban development. First, ADB will build on its past support to the sector outside Ulaanbaatar, and provide assistance for the planned development of new land for settlements and housing, and the upgrading of infrastructure in mining centers and settlements related to trade corridors. It will begin with the Southern and Eastern Gobi Regions and focus on the Sayanshand and Dalanzadgad <i>aimag</i> centers and major <i>soum</i> centers such as those related to Tavan Tolgoi, Oyu Tolgoi, and Tsagaan Suvarga mines, and Zamyn Uud. Second, in Ulaanbaatar ADB will initially focus on addressing urban transport and air quality through investments in public transportation, traffic management, and road safety. It will address policy, legislative and institutional issues as well as physical system requirements. ADB will support enhancements to service provision in Ulaanbaatar in water supply, district heating, and wastewater management, based on the master plan and within the framework of a Tuul river basin management and pollution control plan. Third, ADB will support better urban sector management through physical and investment planning, and through commercialization of service providers. Measures to encourage a major shift in urban spending toward <i>ger</i> area improvements and away from the servicing of undeveloped tracts of land and private housing areas will be encouraged by developing mechanisms to support and encourage innovative approaches to <i>ger</i> area servicing using private sector, NGO or community resources.</p>

Priority Sector	Developments since the Adoption of the Country Strategy and Program
Transport, and Information and Communication Technology	<p>As of January 2008, Mongolia's road network totaled about 49,250 kilometers (km). The key issue is the ability to pay for maintenance from national and local road funds. These funds, initially supposed to be for maintenance, have increasingly been used for new road construction and to provide counterpart financing for internationally-funded road projects, depleting the available resources for routine and periodic maintenance. A very small percentage of the road network is paved, making travel inefficient and expensive. Once roads have been constructed, axle load limits must be enforced so the roads' long-term viability is assured. ADB will provide advisory assistance to strengthen sector policy development, including examining the role of sector institutions, fostering appropriate multimodal transport development, and emphasizing system maintenance and improved sector regulation. In the roads sector, ADB will support improved policies, with an emphasis on improving maintenance and sector management. Investment priorities for ADB support include completing the Western Regional Road corridor, and developing a public transport system for Ulaanbaatar. Over time, the main focus of ADB transport sector assistance is expected to shift from road to railway development, both to meet rapidly rising demand for freight services from Southern Mongolia, and to promote more environmentally-benign modes of transport. Support will also be provided to construct a logistics center in Zamyn Uud at the border with the People's Republic of China.</p>
Finance	<p>On the back of an extensive privatization program, the banking sector registered strong growth in deposits and lending over the period 2003–2008. However, starting in mid-2008, the banking sector began to suffer from the knock-on effects of the global financial crisis and it is suffering from a severe liquidity shortage. Nonperforming loans increased to 11% of total loans during the first quarter of 2009 and new bank lending has practically halted. A large proportion of bank loans (between 30% and 40%) are denominated in US dollars and the recent depreciation of the togrog has caused bank asset quality to deteriorate. The introduction of a blanket guarantee in early December 2008 helped stabilize confidence in the banks but further measures may be needed. ADB's short-term assistance is shifting from support of capital market development to strengthening bank oversight and a restructuring of the banking sector, in cooperation with development partners.</p>

Priority Sector	Developments Since the Adoption of the Country Strategy and Program
Energy	<p>While Mongolia's energy system is relatively small (750 MW of power and about 2,000 MW equivalent of central heating), it is characterized by low operational efficiency, weak networks, and poorly maintained and obsolete equipment. There is also a risk that low tariffs, the poor financial health of the energy companies, and inadequate managerial capacity could lead to a system failure during the winter months, with serious social consequences. With rapid economic growth and mining development in the Gobi region, power and heating demand are expected to sharply exceed supply starting in 2009. Energy was not a priority sector of the CSP, 2006–2008 or the COBP, 2008–2010, although selected support was provided to improve heating in Ulaanbaatar and selected secondary towns. ADB will continue to engage in policy dialogue with the Government to improve the enabling environment for private sector participation in the power sector. In addition, ADB will help the Government to update an energy sector development plan. When it is approved, consideration will be given to assisting the Government to mount sector reforms and implement selected components of the new sector development plan. In the short term, ADB will assist the Government to establish suitable arrangements for a public–private partnership to construct combined heat and power plant number 5, which will be the main source of heat and power for Ulaanbaatar. ADB is supporting the sector because of the poverty risks associated with a possible breakdown in the electricity and heating system, and in anticipation of the future evolution of ADB's strategic partnership in Mongolia.</p>
Agriculture and Natural Resources	<p>Agriculture's share in the national economy had declined to 20% by 2007 as a result of higher rates of growth in industrial and service sectors. However, agriculture continues to employ 38% of the national labor force. It plays a critical role not only in national food security, but also in stemming the recent rise in rural poverty. Modernization and innovation have been slow because of, among other factors, an unsuitable and uncertain operating environment that discourages investment in, for example, peri-urban pasturelands and irrigation systems or the provision of technical support; the erosion of herding and livestock management skills; and outdated or inappropriate on-farm practices. Local and international applied research is institutionally separate from the sector and poorly linked to existing extension services. It is not addressing the need to adapt to climate change. Rural development and commercial agriculture continue to be constrained by long distances and the low concentration of economic activities. Inefficient transportation, handling, storage, and processing have meant that Mongolia has not been able to take full advantage of the relative abundance of livestock products in local markets. Through its ongoing operations, ADB will support the development of value-chains to stimulate internationally competitive agriculture production systems. Future support will emphasize improved natural resource management by building capacities for climate change adaptation and mitigation.</p>

Priority Theme	Developments Since the Adoption of the Country Strategy and Program
Gender Equity	<p>The gender dimensions of development in Mongolia are complex. While performance against several key Millennium Development Goals (MDGs) indicators has improved, other evidence suggests that rural–urban divisions are growing and women’s economic opportunities are increasingly being constrained. Over the past decade, significant achievements have been made in education and health: the maternal mortality ratio dropped to 67 (per 100,000 live births) in 2006 from 259 in 1993, and the girl to boy ratio of 1.03 in primary education in 1990 dropped to 0.98 in 2006. The ratio in secondary education is 1.03. However, there are important divisions between rural and urban areas. Of the households headed by women (11.4% of the total) 43.8% are poor, compared with 34.8% of households headed by men. Per-capita incomes in households headed by women are half those households headed by men, because of persistent gender-based wage disparities, limited opportunities for female self-employment, and restricted access to financial services. An estimated 54% of women are engaged in the informal sector, where earnings are low and employment is insecure. Unemployment rates for women have increased disproportionately since 1992; the proportion of women employed in nonagricultural sectors has markedly dropped over the past decade. Gender stereotypes in rural areas make it difficult for women to access agricultural technology. Gender-based wage disparities persist, despite the fact that women have higher levels of education. On average, women earned 8% less than men in 2000 and this had increased to 14% by 2007. ADB’s focus has been on (i) gender mainstreaming in health, education and urban development projects; (ii) gender inclusive targeting through proxy means testing in social protection programs, e.g. Food and Nutrition Social Welfare Program and Project, Social Sectors Support Program, health and education; and (iii) support for rural women entrepreneurs and enactment of the gender the gender equality law, both initiatives supported by the Gender and Development Cooperation Fund. ADB’s strategy continues to focus on mainstreaming support for gender equity in all relevant operations in the education, health, urban development as well as infrastructure (roads and transport).</p>
Environmental Sustainability	<p>During the recent years of economic expansion, there has been a substantial degradation of Mongolia’s natural resource base, with over-grazing, urban air and water pollution, and unsustainable management of water basins undermining living standards and hampering social development. Urgent efforts are needed to address air pollution, transport gridlocks, electricity and heating vulnerabilities, and housing shortages in Ulaanbaatar and in growing settlements around new mines. Mongolia’s natural resources remain a priority that ADB shares with the Government. ADB’s approach will combine (i) support for selected areas of natural resource management such as improved water resource management achieved mainly through wastewater treatment and water supply components of urban development investments; (ii) support for strategic policy and budgeting frameworks, including those that translate environment and climate change action plans into rolling public sector investment programs; and (iii) incorporation of climate change concerns into existing and planned ADB projects, including the use of regional technical assistance to foster the greater resilience of Mongolia’s resource-based sectors to climate change and other pressures.</p>

Priority Theme	Developments Since the Adoption of the Country Strategy and Program
Governance	<p>Corruption is increasingly prevalent in Mongolia and remains a substantial risk to development effectiveness. Low accountability, a lack of transparency, and a high level of corruption in both public and private sectors cause persistent inequality and high levels of poverty. Transparency International's 2008 Corruption Perception Index ranks Mongolia ranks 102 (down from 100 in 2007) which is typical of countries with high levels of corruption. Mongolian firms identify corruption as a major obstacle to the operation and growth of their businesses. In addition to corruption, (i) procurement processes are characterized by weak capacity and pervasive conflicts of interest within the Government; (ii) the law is weakly implemented and enforced; (iii) public investment planning lacks coordination and priority setting, links between sector plans and strategies and the budget are poor, and internal audit capacity is weak; (iv) there is a lack of transparency, accountability, and integrity at all levels of government; (v) effective mechanisms for public consultation in policy making are lacking; (vi) the monitoring capacity of civil society organizations and the media is limited; and (vii) monitoring of development outcomes is weak. The Government has made concerted efforts to promote good governance, accountability, and anticorruption measures in recent years. A system for budget control, execution and monitoring has been established, an Anti-Corruption Law has been approved, the Independent Authority Against Corruption (IAAC) has been established, parliamentary sessions have been opened to the public, and Mongolia has signed the Extractive Industries Transparency Initiative. ADB will continue to support governance measures in public finance management, procurement, and anticorruption activities, with an emphasis on (i) support for the IAAC and the implementation of ministerial anticorruption action plans; (ii) strengthening the procurement capacity of selected executing agencies, private sector contractors, and bidders; (iii) strengthening public investment planning and public sector financial management capacities; and (iv) assisting with governance risk assessments and the implementation of risk mitigation plans</p>
Private Sector Development	<p>From generating virtually 0% of GDP in 1990, the private sector now generates 75–80%. More than 90% of all enterprises are privately-owned. Key constraints to private-sector-led growth include infrastructure bottlenecks, which contribute to high transport costs, skill shortages, inadequate power supply, expensive and scarce financing, discretionary tax administration, weak governance and legal enforcement, and a small and narrow economic base. These are reflected in Mongolia's rankings in a number of surveys which benchmark the private sector enabling environment—the World Bank's <i>Doing Business 2008</i> survey ranked Mongolia 52 out of 178, and identified “getting credit,” “paying taxes,” “trading across borders,” and “closing business” as the areas in need of most attention. In the short term, ADB's strategy for fostering private sector development focuses on stabilizing Mongolia's financial system. More emphasis, in all sectors, is being placed on encouraging public–private partnerships to widen the scope for private initiative.</p>

Priority Theme	Developments Since the Adoption of the Country Strategy and Program
Regional Cooperation and Integration	<p>Mongolia's small domestic market means that regional economic integration is vital to broadening market access and boosting opportunities for economic and social development. ADB support for regional cooperation through Central Asia Regional Economic Cooperation (CAREC) has built confidence and created an effective institutional forum for negotiating complex cross-border projects. Ministerial and other high-level meetings have contributed to policy harmonization and have facilitated projects aimed at expanding trade and investment flows. In the transport sector, the Western Highway, connecting the People's Republic of China through Mongolia to Russia, although long discussed, has been realized with a combination of the national program and CAREC support. Regional technical assistance, which identified substantial bottlenecks at the border, helped inspire the 2006 Customs Modernization Project. In the energy sector, a comparison of power tariffs across CAREC countries has helped sensitize the authorities to the urgent need to bring power tariffs more in line with supply costs. ADB will continue to support Mongolia's integration into international road, rail and air networks; to help the country exploit its potential for energy exports; and to support efforts to address cross-border concerns such as environmental protection, illegal wildlife trade, and containment of communicable diseases. Under the CAREC program, ADB will support the completion and expansion of strategic transport corridors and foster the associated trade facilitation that is essential to expand private sector trade and investment along this route.</p>

ADB = Asian Development Bank, CAREC = Central Asia Regional Economic Cooperation Program, CSP = country strategy and program, IAAC = Independent Authority against Corruption, MDGs = Millennium Development Goals.

Source: Asian Development Bank.

4. ASSISTANCE PROGRAM FOR CURRENT YEAR

Table 4.1: Assistance Pipeline for Lending Products, 2009

Sector	Project/Program Name	Targeting Classifi- cation	Thematic Priority	Division	Year of Project Preparatory Assistance	Total	Cost (\$ million)					
							OCR	ADB		Total	Gov't.	Co- Financing
								ADF	Grants			
2009 Firm Loans and Grants												
Health and Social Protection												
	Social Sectors Support Program ^a	GI	SOD	EASS		60.0	0.0	43.1	16.9	60.0	TBD	50.0 (JICA)
	Subtotal					60.00	0.0	43.1	16.9	60.0	TBD	50.0
Education												
	Education for the Poor Project ^b	GI	SOD	EASS		17.0	0.0	0.0	17.0	17.0	TBD	TBD
	Subtotal					17.0	0.0	0.0	17.0	17.0	TBD	TBD
Transport, and Information and Communication Technology												
	Supplementary Regional Transport Project	GI	GRO/RCI	EATC	2009	24.0	0.0	8.0	0.0	24.0 ^c	TBD	TBD
	Subtotal					24.0	0.0	8.0	0.0	24.0	TBD	TBD
	Total					101.0	0.0	51.1	33.9	101.0	TBD	TBD

ADB = Asian Development Bank, ADF = Asian Development Fund, EASS = Urban and Social Sectors Division, EATC = Transport Division, GI = General Intervention, Gov't. = Government, GRO = Economic Growth, JICA = Japan International Cooperation Agency, RCI = Regional Cooperation and Integration, SOD = Social Development, TBD = to be determined.

^a Social Sectors Support Program was approved by ADB Board of Directors on 24 June 2009.

^b Education for the Poor Project is under processing and planned for ADB Board consideration in September 2009.

^c Including \$16.0 million financed from the regional allocation (grant).

Source: Asian Development Bank estimates.

Table 4.2: Assistance Pipeline for Nonlending Products and Services, 2009

Sector	Assistance Name	Responsible Division	Assistance Type	Sources of Funding			Total (\$'000)	
				ADB		Others		
				Source	Amount (\$'000)	Source		Amount (\$'000)
2009								
Energy								
	Ulaanbaatar Low Carbon Energy Supply using Public–Private Partnership Model	EAEN	PATA	1,500.0	TBD	TBD	1,500.0	
	Subtotal			1,500.0			1,500.0	
Transport, and Information and Communication Technology								
	Regional Transport Development Project	EATC	PPTA	900.0	TBD	TBD	900.0	
	Road Database Development Using Geographic Information System (GIS)	EATC	PATA	500.0	TBD	TBD	500.0	
	Subtotal			1,400.0			1,400.0	
Health and Social Protection								
	Fourth Health Sector Development Project: Empowering Sector Governance	EASS	PPTA	600.0	TBD	TBD	600.0	
	Strategic Capacity Development for Social Sectors	EASS	CDTA	700.0	TBD	TBD	700.0	
	Subtotal			1,300.0			1,300.0	
Education								
	Strengthening Higher and Vocational Education Project	EASS	PPTA	600.0	TBD	TBD	600.0	
	Subtotal			600.0			600.0	
Private Sector Development								
	Support Public–Private Partnerships	EAFM	PATA	200.0	TBD	TBD	200.0	
	Subtotal			200.0			200.0	
Environmental Sustainability								
	Ulaanbaatar Clean Air	MNRM	PATA	400.0	TBD	TBD	400.0	
	Subtotal			400.0			400.0	
Finance								
	Policy and Institutional Support for Banking Crisis Management	MNRM	PATA	2,000.0	TBD	TBD	2,000.0	
	Subtotal			2,000.0			2,000.0	
	Total			7,400.0			7,400.0	

ADB = Asian Development Bank, CDTA = capacity development technical assistance, EAEN = Energy Division, EAFM = Financial Sector, Public Management and Regional Cooperation Division, EASS = Urban and Social Sectors Division, EATC = Transport Division, Gov't. = Government, MNRM = Mongolia Resident Mission, PATA = policy and advisory technical assistance, PPTA = project preparatory technical assistance, TBD = to be determined.

Source: Asian Development Bank estimates.

5. MONGOLIA: COUNTRY COST-SHARING CEILING AND OTHER FINANCING PARAMETERS, 2009–2012

Item	Parameter	Remarks / Explanation
Country cost-sharing ceiling ^a for the portfolio of loans ^b over 2009–2012.	Up to 80%	Individual projects may be accorded ADB financing for up to 99% of total project costs. The highest levels of ADB financing would normally be confined to projects with (i) strong ownership and commitment, and (ii) where poverty alleviation would otherwise be at risk, such as in community-based health and education programs threatened by decentralization and budgetary restrictions.
Country cost-sharing ceiling for the portfolio of TAs over 2009–2012.	Up to 85%	Individual TA projects may be accorded ADB financing up to 99% of total cost. Under TA programs, the counterpart government agency would normally be expected to provide the in-kind facilities needed to support the work of the TA consultants.
Cost-sharing ceiling for specific sectors.	None	Sector-specific variations have not been proposed.
Recurrent-cost financing. Do any limits apply to the overall amount of recurrent expenditures that ADB may finance?	None, other than the cost-sharing ceilings.	ADB will not generally finance recurrent costs. ADB may finance recurrent costs if there is a strong justification regarding sustainability at the sector and project levels.
Taxes and duties. Are there any taxes and duties that ADB would not finance?	None. However, ADB-financed taxes and duties should not exceed 15% of the total project cost.	All taxes and duties are considered to be reasonable, and there will be no taxes and duties specifically targeted at ADB projects. Diligence will be maintained at the sector and project level to ensure taxes and duties do not constitute an excessively high share of project costs.

ADB = Asian Development Bank, TA = technical assistance.

^a Country cost-sharing ceilings are financing parameters that indicate the maximum share of costs ADB will finance with respect to an aggregate portfolio of projects in a developing member country over the country partnership strategy period for that country.

^b Projects financed with Asian Development Fund grant funds will be counted as part of the loan portfolio.

Source: Asian Development Bank.