



DEVELOPMENT EFFECTIVENESS BRIEF

MONGOLIA

SUPPORTING AN EMERGENT
MIDDLE-INCOME ECONOMY

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ABBREVIATIONS

ADB	Asian Development Bank
ADF	Asian Development Fund
BCP	border crossing point
CAREC	Central Asia Regional Economic Cooperation
CPS	Country Partnership Strategy
JFPR	Japan Fund for Poverty Reduction
OCR	Ordinary Capital Resources
PRC	People's Republic of China
SME	small- and medium-sized enterprise
SPS	sanitary and phytosanitary standards
SWER	single-earth wire return
TA	technical assistance
TVET	technical and vocational education training

GLOSSARY

<i>aimag</i>	provincial administrative unit in Mongolia
<i>bag</i>	subdistrict
<i>ger</i>	traditional felt tent
<i>soum</i>	administrative subunit of <i>aimag</i>

MONGOLIA DEVELOPMENT INDICATORS

	2000	2014
Population (million)	2.4	3.0
Average annual population growth rate (%)	–	1.9 ^a
Life expectancy at birth (years)	62.9	69.5
Maternal mortality ratio (per 100,000 live births)	161	26 ^b
Infant mortality rate per 1,000 live births	48.2	15.3
Adult literacy (%)	97.8	98.5
Primary school gross enrollment (%)	92.5	95 ^c
Population living below the poverty line (%)	36.1 ^d	21.6
Population using an improved drinking water source (%)	56.3	82
Population using an improved sanitation facility (%)	48.2	51

	2011	2012	2013	2014	2015
GDP growth (% in constant prices)	17.3	12.3	11.6	7.9	2.3

^a 2009–2014

^b 2015

^c 2013

^d 2002/2003

Source: Asian Development Outlook Database. 2016; Bank of Mongolia. 2015. *Monthly Statistical Bulletins (2011–2015)*. Mongolia; Bank of Mongolia. 2014. *External Debt Statistics*. Mongolia; Bank of Mongolia. 2015. *Balance of Payment Statistics (2011–2015)*. Mongolia; National Statistical Office of Mongolia. 2015. *Mongolian Statistical Year Books (2012, 2015)*. Mongolia; National Statistical Office of Mongolia. 2015. *Monthly Bulletin of Statistics (2011–2015)*. Mongolia; National Statistical Office of Mongolia. 2011. *2010 Population and Housing Census of Mongolia*. Mongolia; UNDP. 2015. *Human Development Report (2015)*. Mongolia; World Bank. 2016. *World Development Indicators*. USA

MONGOLIA AND ADB: 25 YEARS OF DEVELOPMENT



Mongolia borders the People's Republic of China (PRC) and the Russian Federation and sits on major trade routes between Asia and Europe. However, its harsh climate and remote location result in high costs for transport, energy, and social infrastructure. It is rich in mineral resources, including copper, gold, and coal, and has close to 73 million livestock, but only 0.4% arable land.

Over the 25 years that the Asian Development Bank (ADB) has partnered with Mongolia, the country continues to be defined to a certain extent by its transition to free market reforms. It is a transition that has not been without challenges, marked by periods of rapid growth and moderate progress in poverty reduction, but also punctuated by exogenous shocks such as the 1997 Asian Financial Crisis and the 2008 Global Financial Crisis. More recently, anemic commodity prices and lackluster demand from Mongolia's biggest trading partner, the PRC, have presented yet more challenges.

A shortage of job opportunities in rural areas has made the Mongolian capital of Ulaanbaatar home to half of the nation's population. Some living in the capital's *gers*—traditional Mongolian tents—and peri-urban settlements face limited access to running water and sanitation. Traffic is gridlocked, schools are overcrowded, and heat and power supplies need upgrading.

■ **ADB's Mongolia strategy has evolved in the last 2 decades from supporting the country's move to a market economy in the 1990s to meeting the challenges of transitioning into a middle-income economy.**

Rapid development has led to increased air pollution. Beyond Ulaanbaatar, water scarcity and potential disasters linked to climate change present further overall challenges to rural livelihoods in Mongolia.

Nevertheless, social development indicators are high, with almost universal literacy, relatively low maternal and infant mortality, and very low rates of HIV/AIDS. At the same time, however, Mongolia's population is highly reliant on pastoralism, and the current rates of desertification and deforestation puts their livelihoods at risk.

Ease of doing business will play a crucial role in the country's future. The 2016–2017 Global Competitiveness Report ranked Mongolia 102nd out of 130 countries on infrastructure quality, and Mongolia's regional ranking on the World Bank's 2016 Logistics Performance Index places it 108th out of 160 countries and regions—below other East Asian countries. Therefore, to improve its performance, Mongolia needs significant public and private investment to support economic growth, diversify the economy, and create jobs. The country also requires improved access to international markets and increased universal provision of essential services, such as heat and power, health and education, housing, water, and sanitation.

ADB's Mongolia strategy has evolved in the last two decades from supporting the country's move to a market economy in the 1990s to meeting the challenges of transitioning into a middle-income economy. Assistance has deepened market-oriented reform, stabilized and broadened financial markets, developed commercial agriculture, improved services in secondary towns and cities, and restructured social services, while ensuring that the poor have access to quality services. Transport infrastructure development has enhanced connectivity and built regional and global market links.



Loan and Grant Approvals in Mongolia

Mongolia: 2015 Approved Loans, Grants, and Technical Assistance (\$ million)

Loans		Technical Assistance	Grants	Total
Sovereign	Nonsovereign			
275.00	–	16.47	6.00	297.47

– = nil.

Note: Grants and technical assistance include cofinancing.

Mongolia: Cumulative Lending, Grant, and Technical Assistance Approvals^{a, b}

Sector	No.	Total Amount (\$million) ^c	%
Agriculture, Natural Resources, and Rural Development	36	157.58	8.21
Education	26	129.91	6.77
Energy	28	129.85	6.76
Finance	48	248.18	14.80
Health	37	222.89	11.61
Industry and Trade	11	82.73	4.31
Multisector	6	21.20	1.10
Public Sector Management	43	211.49	11.20
Transport	47	469.00	29.64
Water and Other Urban Infrastructure and Services	21	110.99	5.78
Total	303	1,919.82	100.00

^a Grants and technical assistance include co-financing

^b Includes sovereign and nonsovereign loans and technical assistance

^c Total may not add up because of rounding

Mongolia: Cumulative Nonsovereign Financing by Product

No. of Transactions	4
(Amount \$ million)	
Loans	94.50
Equity Investments	1.60
Guarantees	–
B Loans	–
Total	96.10

– = nil.

ADB'S CONTRIBUTION TO DEVELOPMENT AND POVERTY REDUCTION

A small bakery supported by ADB is providing products to nearby schools and kindergartens.



ADB has been the Government of Mongolia's single largest source of official development financing since 1991, with cumulative lending of \$2 billion. ADB has led donor support with a broad-based portfolio that is particularly active in urban development, education, transport, trade facilitation, health, employment, agribusiness, and climate change. The sovereign active portfolio consisted at the end of 2015 of 20 loans (\$728.3 million), 11 grants from the Asian Development Fund (ADF), Japan Fund for Poverty Reduction, and other sources (\$102.5 million), and 40 technical assistance projects (\$36.5 million).

For the last 5 years, ADB has promoted the development of the private sector and increased Mongolia's regional cooperation, with the aim of reducing poverty by supporting the country's transformation into a middle-income, market-based economy, which is reflected in the Country Partnership Strategy (CPS) 2012–2016. The CPS has two strategic pillars: competitive, sustainable, and regionally integrated growth; and inclusive social development. Its impact was bolstered by the Interim Country Partnership Strategy for Mongolia 2014–2016, which introduced two critical strategic adjustments: the inclusion of two additional sectors (agriculture, natural resources and rural development, and finance); and scaling up ordinary capital resources (OCR) lending to meet pressing development needs.

As a result of greater OCR access, in 2015, ADB increased its commitment in Mongolia, with new approvals totaling \$275 million, up from \$48 million in 2010. The additional assistance focused on job creation, social protection, and combatting climate change. To prevent cuts to welfare programs, ADB backed the \$150 million Social Welfare Support Program to help Mongolia cope with critical short-term revenue shortages. ADB also directed support toward small- and medium-sized enterprises (SMEs) and agribusiness. Additional financing of \$50 million was approved for the Agriculture and Rural Development Project to help agro-processing companies establish Mongolian brands and implement quality control. To develop SMEs and diversify the economy, ADB approved \$60 million for the Credit Guarantee Support Project.

Overall, ADB operations have been particularly effective in providing social protection, generating employment, and improving livelihoods in Mongolia.

Social Protection: An Inclusive future

Education: Responding to Labor Demands

At the Ireedui Complex School in the Songinokhairkhan district of Ulaanbaatar in 1997, the only teaching aids were blackboards and chalk. The chemistry classes, for example, had no equipment for experiments. Change began to arrive in 2007 with the ADB-funded Third Education Development Project, which has benefited 240,000 students and 21,900 teachers.

Today, the Ireedui Complex School has new equipment and facilities, including a chemistry lab, an information and communication technology center, and an e-library.

ADB continues to be the largest external supporter of rebuilding Mongolia's education system. ADB education development projects have helped reverse declining enrollment and improved the quality of education; in particular, the projects are addressing a mismatch between outcomes and market demands.

“High unemployment and underemployment caused by a mismatch between available skills and what the labor market needs have been a key cause of poverty,” says Bandii Radnaa, a project coordinator at the Ministry of Education, Culture, and Science.

“Our teaching–learning activities are now laboratory-based,” says Udelgarav Demberel, who began teaching 40 years ago and has witnessed firsthand the transformation of education in Mongolia. “Students can do experiments, and students [who are being trained to become teachers] come to the school to practice teaching in the lab.”

■ **ADB continues to be the largest external supporter of rebuilding Mongolia's education system.**

ADB funding is playing a similar role in higher education, which faces demand for high-quality, relevant education to overcome a growing number of unemployed graduates. An example is the Higher Education Reform project, which has been particularly active in coordinating with the National University of Mongolia and the Mongolian University of Science and Technology.

“By providing equipment, ADB has made it possible for students to learn by doing,” says B. Orchibat, president of the Mongolian University of Science and Technology.

He adds that not only has funding made it possible to become more research focused, with some 19 research projects comprised of small teams, but also its curricula have become far more diversified. “Today, we have 39 engineering courses, compared to just one course in construction engineering in the 1950s.”

Ch. Narantuya, vice president for research and international relations at the National University of Mongolia says, “Our university is establishing standards that can be transferred nationwide, and we have increasing numbers of faculty members who have international degrees, so the quality of our teaching is improving.”

Students doing research at the university computer laboratory.



Vocational Training: Matching Skills and Markets

The Skills for Employment Project is matching course curricula with market demands in three priority sectors of the Mongolian economy: agriculture, construction, and transportation. The project’s innovative features encompass developing an industry-driven technical and vocational education and training (TVET) system, upgrading selected providers to implement competency-based training and assessment, establishing teacher and manager training systems, supporting secondary education career guidance and schools that specialize in technology, and establishing an effective overall project management system.

Broad in scope, the project is, among other things, raising the profile of TVET programs in an environment in which they have long been regarded as a second choice to other forms of higher learning, and assisting programs that lack adequately trained teaching staff and up-to-date equipment and facilities.

“Key to changing this situation is reforming the secondary school system to prepare students for vocational studies”, says D. Altantsetseg, a project coordinator at the Ministry of Labor who refers to the secondary school initiative as the “supply side” for the state TVET schools.

“I think the supply side has been a very good start to the program. I’ve never heard of such a big overhaul in just the one year—more than 700 schools throughout Mongolia,” said B. Byambadorj, project manager at the Ministry of Labor.

The curricula at the schools have been tailored to provide both practical vocational preliminary training and preparation for higher education depending on the aptitudes and inclinations of the students.

“There was a big gap between schools in rural and urban areas,” says Ts. Gelgee, a mother of four students who attended School Number 3 in Dornogovi, capital of Sainshand *aimag* (province). “Our school was behind those in Ulaanbaatar.”

Meanwhile, ADB is supporting the Ministry of Labor in reviewing the curricula for 25 state-owned TVET schools. “At present, there are too many TVET schools ... and more than half produce students that are not ready for the labor market,” says Altantsetseg, who maintains that the reforms underway will remedy the current situation.

“Our project goal is not to provide more TVET schools, but to upgrade them, focusing on the areas of agriculture, construction and road and transport, with five professions for each sector,” says Byambadorj. “The 25 schools are countrywide, and are all state schools, which are subject to quality improvement planning and self-assessment. This will provide the basis for the ministry to assign courses and upgrade equipment and facilities.”

■ **The curricula at the schools have been tailored to provide both practical vocational preliminary training and preparation for higher education depending on the aptitudes and inclinations of the students.**



On-the-job training for TVET students.

Nutrition: Feeding the Vulnerable

The ADB-funded Food and Nutrition Social Welfare Project provided a crucial supporting role in assisting the Government of Mongolia to create a food stamp system, which was also significant in that it was the first time that poor families nationwide were systematically identified. Food stamps represent about 10% of average monthly spending for such vulnerable households.

For G. Namjilsuren and her five daughters, who live in a simple *ger* along a mountainside on the outskirts of Ulaanbaatar, life has improved.

With an 8th-grade education, 42-year-old G. Namjilsuren struggled for years to take care of her daughters on her own with the meager income she brought home. Some months, just keeping them fed meant giving up other necessities.

Using the stamps to cover food expenses frees up money to spend on other necessities.

“Sometimes we didn’t have notebooks for them to use in school,” she says, adding, “There were times before when I used to cry because I felt helpless.”

But today, the family is enrolled in a government food-stamp program—a welfare benefit that helps them to buy enough flour, rice, and other basic commodities to sustain them through the month. Using the stamps to cover food expenses frees up money to spend on other necessities.

“With full stomachs, the children are much happier going to school and their grades have improved,” she says. “They never miss school, they are better fed, and they have something to wear. They are happy attending their classes.”

Under additional ADB funding for the project approved in 2013, food insecurity has been reduced through increased supply of and improved access to food to vulnerable and poor households. Meanwhile, the average daily calorie intake of lowest quintiles of income distribution increased to at least 2,000 calories in 2015 from 1,728 in 2004.

A young family living in a *ger* area of Ulaanbaatar city.



Health: Modernizing Mongolia's Hospitals

As the largest external donor to the health sector, ADB played a key role in reforms to a system formerly hobbled by centralized and inefficient hospitals, poor-quality care, and aging infrastructure, especially in rural areas, where power and water supplies are often lacking. Two earlier ADB-supported health sector projects brought considerable improvements. Building on these, the Third Health Sector Development Project reduced the disparities in access to healthcare between rural and urban areas by strengthening primary services for more than 700,000 people in five provinces. Two districts of Ulaanbaatar with large populations of poor and disadvantaged people were also included, and the project supported reforms nationwide.

Under the project, ADB has partnered with several government and medical stakeholders, including the ministries of health, finance, and population development and social welfare, the Mongolian National University of Medical Sciences, and the Mongolian Association of Family Doctors.

Growing confidence in newly modernized rural clinics' capacity to provide quality medical care means local people no longer face expensive trips to larger centers in the capital.

N. Dondog, a 33-year-old accountant who receives treatment at the Khotont County health center, in mountainous Arkhangai *aimag*, Central Mongolia, says that before the project, her family had to travel to the provincial capital to seek medical treatment. "It cost MNT7,000 for bus transport plus food and accommodation. Now, it is much easier and cheaper to receive care near home," she says.

M. Undram, faculty member of the Medical Center of the University of Medical Sciences, says that, "more than 3,000 students have gone through skills training for general practitioners, and most of them have taken those skills to the *aimags*."



A woman having regular check-up at the rural clinic.

■
The 300-bed, modern hospital will serve as a model to be replicated in the nine districts of Ulaanbaatar.

Building on the success of the third project, the Fourth Health Sector Development Project is funding a demonstration multifunction general hospital in Songinokhairkhan, the poorest district of Ulaanbaatar. The 300-bed, modern hospital will serve as a model to be replicated in the nine districts of Ulaanbaatar. This is in line with a government-mandated change to the health law that requires general hospitals to provide at least seven specialized medical services. The project is focusing on three areas: hospital services in Ulaanbaatar, human resources development, and a drug safety regime. The first two components are still ongoing, but an ISO/IEC-certified laboratory to test and impose quality on all imported and domestically manufactured drugs has been completed with ADB support, says Sh. Oyunbileg, a monitoring and evaluation specialist under the Project Implementation Unit.

She adds, “The project has made it possible for us to require that all seven domestic pharmaceutical product manufacturers adopt good manufacturing practices. We are seeing very positive results.”

The Fifth Health Sector Development Project is improving the accessibility and quality of hospital services. Poorer segments of the population have limited access to private hospitals because of the high cost of care and limited health insurance coverage. The safety of patients and health workers is compromised by lapses in hospital hygiene, blood transfusion practices, and medical waste management both in the public and private sectors. Medical training based on global standards is being provided, as well as training in the safe disposal of biohazard waste.

ADB is working with the Government of Mongolia to strengthen blood safety in hospitals and improve preparedness for emergencies. Deficiencies in province-level blood banks impact patient and health worker safety, while inadequate facilities, equipment, testing materials, and capacity of blood safety personnel, along with lack of measures to reduce inappropriate blood transfusions are major factors in the unintentional transmission of infectious diseases such as hepatitis B and C.

Oyunbileg says that the key success of the project has been construction and equipping of a new National Transfusiology Center in Ulaanbaatar, which went into operation in late October 2016. “The center features a Ministry of Health-mandated model maintenance unit, which provides equipment and IT support for the center, and for 25 blood banks throughout rural Mongolia,” she says.

Business: Supporting a Diversified Economy

Rural Development: Branding Mongolia’s Agricultural Products

Erdenet Carpets, a subsidiary of the NTG Natural Textile Group, in Erdenet, Mongolia’s third largest city, is a Mongolian agricultural success story. ADB assistance has made it possible for the carpet-making factory to ramp up production and improve the quality of its products.

“The ADB investment was incredible,” says marketing director N. Gannairamdal. “We originally had 60 looms, and we were able to reduce that to just nine looms with the same productivity and capacity, allowing us to retrain staff to higher skilled jobs, and gain energy, heating, and space savings.”

Erdenet Carpets is benefiting from the Agriculture and Rural Development Project, which was launched in 2008 and is providing agro-enterprises and cooperatives with the resources to invest in the value chain and in their own processing facilities.

The agriculture sector is key to diversifying the Mongolian economy, which is heavily reliant on mining. Agricultural primary products account for just over 20% and processed products for about 11% of Mongolia's GDP. In other words, it is a sector of the Mongolian economy that offers room for growth and job creation. Limited processing capacity is holding agriculture back due to a focus on primary production and insufficient value addition. ADB is addressing numerous bottlenecks—lack of long-term funding, poor sanitary and phytosanitary standards (SPS), distance to markets, and insufficient connectivity—with the result that Mongolia exports large volumes of primary processed products, such as wool, cashmere, and animal skins, while relying on imports of final processed products, such as dairy products.

The distinctive qualities of Mongolian agricultural products offer the basis for developing a “Made in Mongolia” brand, and businesses such as Erdenet Carpets are working hard to make that happen. Mongolian brands in the textile and leather sectors bear the promise of commanding a premium in international niche markets, but this requires continuing development of a comprehensive value chain.

Additional financing for the project in 2015 focused on adding value to Mongolia's underutilized livestock and other agricultural resources through continued investments in the value chain by agro-enterprises and cooperatives, capacity and technical strengthening of primary producers and processors, improved marketing, and encouraging and supporting branding. The results are generating jobs and helping to diversify an economy that has traditionally been driven by the low-employment-yielding mining sector.

The current project has enabled 12 participating enterprises to begin selling some of their products to international and domestic premium-value buyers. The enterprises have achieved improvements in product quality and productivity, creating significant numbers of new jobs directly at the enterprises and indirectly at the producers of raw materials. The project has also developed a framework for branding animal fiber and its products, and developed a Mongolian brand certification mark, Mongolian Noble Fiber. The certification mark has been registered in Mongolia and 33 selected countries.

■ **The agriculture sector is key to diversifying the Mongolian economy, which is heavily reliant on mining.**



Erdenet Carpets LLC renovated their equipment with ADB support.

Private Business: Extending Lines of Credit

Mining accounts for around 25% of Mongolia's GDP, making the economy vulnerable to swings in raw commodity prices. However, 50% of the nation's jobs are provided by SMEs. Such enterprises account for 90% of Mongolia's registered businesses, but the vast majority lack regular access to financing from banks, limiting their potential to grow and fully contribute to the economy and employment.

Women working in a small bakery which supply products to nearby schools and kindergartens.



The project is expected to create as many as 13,200 jobs over the 18-year ADB loan period.

Two-thirds of SMEs are engaged in the manufacturing sector, particularly food production, followed by construction materials and garments. With proper access to finance, they can play a role in diversifying the economy by increasing leather production, tourism, and other consumer services.

Up to \$60 million of ADB funding has been made available under the Supporting the Credit Guarantee System for Economic Diversification and Employment Project to enable participating financial institutions to make long-term loans denominated in local currency to SMEs for eligible subprojects. Formerly, banks mainly made only short-term loans to SMEs—and generally only in US dollars, despite the inability of most SMEs to generate enough foreign currency to repay these loans. The result was rising SME bankruptcies brought on by having to service loans in foreign currency.

The project is enhancing access to economic opportunities nationwide, creating jobs, improving inclusivity, fostering growth, diversifying the economy, and lessening Mongolia's dependence on mining. In addition, the project backs the introduction of new guarantee products to support up to \$432 million of SME subprojects. The project is expected to create as many as 13,200 jobs over the 18-year ADB loan period.

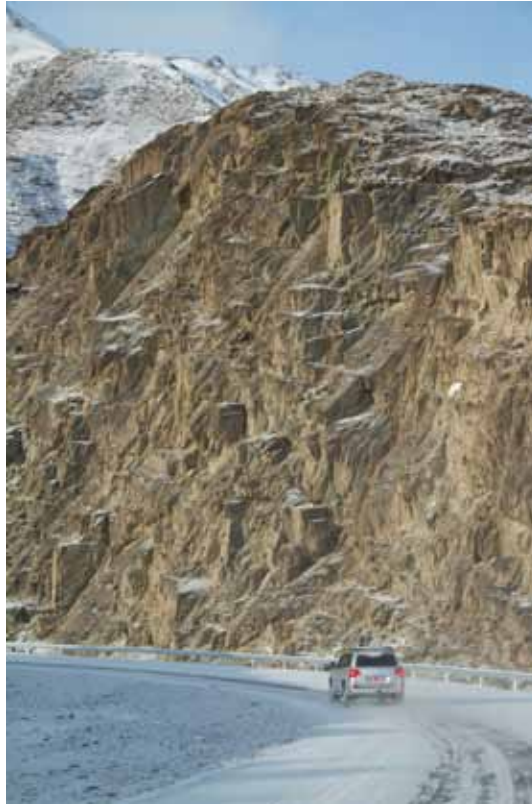
Trade: Enhancing Connectivity

Transport Corridors: From Dirt Tracks to Paved Roads

Paved roads account for just over 5% of Mongolia's total road network, and the majority of roads are unimproved dirt tracks.

The route of the western regional road corridor, which is part of Asian Highway 4 and is designated Central Asia Regional Economic Cooperation (CAREC) Corridor 4a, runs north-south from Mongolia's border with the Russian Federation at Ulaanbayshint to its border with the PRC at Yarant, a total distance of about 743 kilometers (km). ADB is supporting the development of about 300 km of the corridor through the Western Regional Road Corridor Development Program.

The western regional road corridor can also serve as a direct and convenient transit route between the Xinjiang Uygur Autonomous Region of the PRC and the Russian Federation, reducing transport costs and facilitating trade, tourism, and other economic activities. A wool processing factory in Bayan-Ulgi Province produces 90% of Mongolia's wool products for export to Europe, but even transport to the PRC is difficult because, as chief executive officer of the wool manufacturing company Avalexkainar Noos says, “cars keep on breaking down on the way.”



“When I first heard about a road construction here, I couldn’t believe it. We have tough conditions here, including long canyons and rock formations,” says N. Baasanjav, a resident of *Must soum*, *Khovd aimag*, which is where the Yarant border with the PRC is located. “The new road is indeed of excellent quality and provides quick and safe transportation through many kilometers of canyons, rivers, and rocks.”

Borders: Raising Standards to Reach Foreign Markets

About 85% of Mongolia’s rural population depends on livestock. At the same time, the country is well-endowed and located to serve northeast and central Asian markets, where demand for meat and milk is increasing rapidly.

The Regional Upgrades of Sanitary and Phytosanitary Measures for Trade Project is modernizing agriculture in a move aimed at bolstering rural incomes and reducing poverty and income inequality in Mongolia. Currently, trade is held back by Mongolia’s sanitary standards and border procedures.

Just 1.5% of the meat produced in Mongolia, for example, is exported—in part, hampered by poor SPS standards. Mongolia’s trading partners frequently impose temporary bans on importing live animals and animal products because of contagious animal disease outbreaks.

ADB CAREC members recognize the importance of SPS reforms as a means to stimulate economic growth and competitiveness. ADB assistance is supplementing facilities, equipment,

Just 1.5% of the meat produced in Mongolia, for example, is exported—in part, hampered by poor sanitary and phytosanitary standards (SPS).

A crane is pulling up containers on the train.



and/or human resources at laboratories, providing facilities for disinfection of vehicles and unloading and quarantine of live animals and products of animal origin at border crossing points (BCPs), modernizing the SPS system through adoption of information technology and risk management, and harmonizing Mongolia's SPS measures with international standards.

The result is increased job opportunities, growth, and improved livelihoods in remote, rural Mongolia—and nationwide.

Meanwhile, the Regional Improvement of Border Services Project is tackling inefficient trade processes by rehabilitating facilities and providing modern equipment to three major BCPs, upgrading the Customs Automated Information System, and conducting preparatory work for the establishment of a single-window system. The Logistics Performance Index gives Mongolia to a poor score globally for customs clearance and border crossing, resulting in major delays. The project aims to remedy that by improving connectivity and cross-border cooperation in order to reduce high BCP costs and long waiting times.

At present, Mongolia relies on the road and rail corridor from Ulaanbaatar to Zamiin-Uud to carry most of its trade with the PRC, and from Ulaanbaatar to Altanbulag for trade with the Russian Federation. But infrastructure and equipment at Mongolia's three major BCPs—Altanbulag, Bichigt, and Zamiin-Uud—are relatively old and inefficient. Investments are focused on rehabilitating and reorganizing BCP facilities to strengthen customs processing capacity and facilitate trade in line with modern practices, while providing equipment to enable officials to do their jobs with minimized reliance on manual checks. The project is also training customs officials to deal with newly acquired equipment, and in modern customs practices.

Urban Development: Linking Subcenters and the City

Ulaanbaatar: Providing Informal Settlements with Downtown Services

At 800,000, Ulaanbaatar's *ger*-area dwellers represent around 60% of the population. While initially considered temporary settlements, with their official integration into the 2013 city master plan, *ger* areas need to be redeveloped as a formal peri-urban area.

As Mongolians continue to migrate to Ulaanbaatar, the hardships of living in *ger* areas can be expected to worsen: poor sanitation, poor waste collection, severe air pollution (particularly during winter due to inadequate household-heating systems), unpaved roads, and limited access to water.

The ADB-supported Ulaanbaatar Urban Services and *ger* Areas Development Investment Program has initiated redevelopment in the area through improving infrastructure in clusters of *ger* subcenters, connecting them with the city center. The program is building roads, sewage systems, and water treatment plants. This will allow residents and businesses to take advantage of urban economies, and also enjoy local amenities, such as park areas and sporting facilities. Already, some districts are benefitting from paved roads. About 100,000 residents will directly benefit from the project.

Rather than taking a piecemeal approach to infrastructure development, the project focuses on a geographically targeted intervention, aiming to upgrade existing subcenters in *ger* areas to be the future engine of growth for more efficient and structured urban development, and to provide better access to jobs, social economic facilities, and public space.

Improved urban services will be complemented by improved transport access in Ulaanbaatar through the Urban Transport Development Investment Program, which is upgrading bus services, improving road safety, and supporting institutional reform to create an efficient, safe, and affordable transport system in the capital city.

■
The program is building roads, sewage systems, and water treatment plants.

Energy: Power to the People

Access to Energy: Heating and Electricity Services to Low-Income Communities in Rural Areas

Mongolia is the least densely populated country in the world, with just 1.8 inhabitants per square kilometer. This presents a serious challenge for extending the nation's electricity grid—17% of the rural population has only limited access to 24-hour electricity.



A remote *soum* center in winter.

Mongolia has 21 *aimags* (provinces), and 321 *soums* (counties). Each *soum* has four or five *bags*, or villages. A *bag* may be anywhere from 20 to 60 km from its *soum* center, so *bags* often rely on diesel generators or small photovoltaic systems for electricity. Unreliable diesel supplies and the intermittent nature of solar energy systems mean that many *bags* only have power for four or five hours a day, constraining basic services such as water supply, communications, and health provision.

The Japan Fund for Poverty Reduction (JFPR)-supported Demonstration Project for Improved Electricity Services to Low-Income Communities in Rural Areas has been solving this complex problem by providing reliable electricity supply to selected *bag* centers using the single-earth wire return (SWER) system for the first time in Mongolia.

SWER offers a low-cost electricity distribution solution for remote *bags* with low-kilowatt energy demands. The single-wire, single-phase system represents a 70% saving in terms of capital costs and a 50% saving in maintenance costs compared for three-wire, three-phase systems, and has already proven to be effective in supplying electricity to remote locations in countries such as Australia.

■ The project is providing better quality heating and increased boiler efficiency, reducing coal consumption and carbon dioxide emissions, while also serving as a model for other *soum* centers.

Another JFPR-funded program, the Community-Based Heating Supply in Rural Remote Areas Project, was launched in response to the urgent need for heating in remote areas, where life is unsustainable without it during the depths of Mongolia's coldest months. A needs assessment of *soum* centers concluded that heating supply improvement had a chain effect on the provision of other social services such as water, electricity, education, health, and roads.

The project is providing better quality heating and increased boiler efficiency, reducing coal consumption and carbon dioxide emissions, while also serving as a model for other *soum* centers.

Energy Conservation: Emissions Reduction for the Urban Poor

Large numbers of rural Mongolians continue to migrate to Ulaanbaatar in search of job opportunities. They are inadvertently causing severe pollution by burning low-quality coal for space heating in inefficient stoves during the long winter months. Traditionally, the *gers* that most Ulaanbaatar migrants call home were insulated with two or three layers of felt during the winter, but, due to rising costs, an estimated 30% of *gers* today make do with just one layer of felt insulation. Alternative coal heating is polluting; it also accounts for approximately 50% of urban poor daily incomes, limiting the ability of *ger* dwellers to afford day-to-day essentials as basic as food.

By providing highly insulated *ger* blankets and modern stoves, the program has made it possible for targeted households to reduce their consumption of coal and firewood by 50%, resulting in reduced pollutants and allowing families to use savings on education and food.

For 68-year-old G. Sosorbaram, who lives on the outskirts of Ulaanbaatar, life has become easier and more affordable since her *ger* was fitted with a highly insulated blanket and a new energy-efficient stove.

"Before, I used to have to buy up to four tons coal every winter, but now I only need to buy two," she says. "The stove heats up quickly and produces far less smoke and soot."



Felt insulations helping families keep warm and reduce their fuel consumption.

Sosor is one of an initial 4,000 beneficiaries of the JFPR-funded Energy Conservation and Emissions Reduction from Poor Households Program, which simultaneously addresses urban pollution in Ulaanbaatar and the problem of peri-urban, vulnerable ger communities on the outskirts of the city that are unable to afford traditional winter insulation solutions for living in extreme cold.

IMPROVING OPERATIONAL EFFECTIVENESS AND SERVICES

An elderly woman and her daughter pose for a photo at a central square of the capital city.



ADB's support for Mongolia has grown rapidly over 2012–2016, with total new loan and grant lending amounting to \$275 million in 2015. The overall loan and grant portfolio expanded to \$835 million in 2015 from \$395.1 million in 2013, reflecting ADB's response to the government's request for larger-scale projects, although Mongolia's becoming eligible for OCR lending in 2012 was also a factor. Expanded assistance has been facilitated by new lending modalities such as the multitranche financing facility, which allows for larger, more flexible, and longer-term lending.

Project implementation has improved over the most recent CPS period, although start-up delays remain a concern. In 2015, the average time from loan signing to effectiveness was 3.8 months. The average time from project approval to effectiveness has remained fairly constant—7.0 months in 2015 compared to 6.4 months in 2011. A record-fast 0.16 months was

achieved for a JFPR project in 2012, followed by 1.48 months for the Social Welfare Support Program in 2015. The average life of projects that exited the portfolio during 2012–2015 was 5.7 years, while the average project completion time beyond the original estimated completion date was 2.1 years.

Project implementation and disbursement were not always able to keep up with the increased pace of new lending. Frequent changes in government and replacement of senior officials combined with recurrent policy changes affected civil service capacity and portfolio performance. Moreover, factors such as start-up delays, laws that do not allow for advanced procurement and consulting recruitment actions, and difficulties sourcing counterpart financing can hamper implementation. Projects tend to be also impacted by procurement, project, and contract management capacity, which varies across line ministries and implementation units. In other projects, capacity constraints and governance issues have led to implementation delays.

ADB successfully counters such challenges by regularly providing targeted training and intensive project supervision to government counterparts in an overall environment of partnership and trust. ADB has also improved project design, striking a balance between meeting client needs and avoiding overly ambitious schemes. For example, ADB adopted larger multitranche financing facility projects with longer implementation duration to avoid extensions. Through better planned and targeted project delegation to ADB's resident mission in Mongolia, quarterly project reviews, and annual portfolio action plans, ADB and the Government of Mongolia have made progress in addressing the challenges.

The average span of ADB loan projects at the end of 2015 was 2.0 years compared to 2.6 years in 2014. This is a reflection of the rapid increase in the ADB funding in Mongolia and that its portfolio is getting younger, with more loans and grants being approved than projects closed. The average implementation duration of closed project loans was 5.8 years.

ADB has leveraged its assistance to Mongolia by mobilizing cofinancing from bilateral donors, multilateral financiers, and a range of trust funds. Out of total project and program approvals of \$770.48 million in 2012–2015, \$42.56 million, or 5.5%, was provided by cofinanciers. In addition, of \$38.2 million in technical assistance (TA) approved during 2012–2015, \$22.7 million (59.5%) was cofinanced. JFPR was the leading source, providing funding for 17 TA grants totaling \$20.1 million (nearly 90% of TA cofinancing). By sector, 75% of cofinancing TA has been allocated to water issues and urban development, with the remaining 25% evenly spread among other sectors of ADB operations.

■ **ADB has also improved project design, striking a balance between meeting client needs and avoiding overly ambitious schemes.**

FUTURE CHALLENGES AND GOALS

Mongolia has vast mineral wealth, but faces water scarcity challenges that impact both the provision of energy to mining itself and to urbanization. Large ongoing mining projects are expected to turn the balance of the fiscal budget and the balance of payments into surpluses in the longer term. But successfully managing this mineral wealth with its demands for energy and water is key for Mongolia's future. In this process, ensuring macroeconomic stability and making mining-led growth sustainable and inclusive are the greatest development challenges ahead.

Due to limited economic diversification, Mongolia is highly dependent on the mining sector, which in turn relies heavily on foreign direct inflows. This exposes the economy to external shocks, in particular, swings in commodity prices and the economic cycles of its trading partners. The current unfavorable external environment, characterized by lower foreign investment, falling commodity prices, and growth moderation in the PRC, is adversely affecting Mongolia's socioeconomic performance. GDP growth has sharply declined, reducing job opportunities.

However, a decade of strong economic growth has substantially boosted average incomes in Mongolia and reduced poverty. Since 2010, poverty has declined by 17 percentage points to 21.6% in 2014. It is estimated that the poverty rate would be about 10% higher today in the absence of social welfare programs. Nevertheless, despite commendable progress, one in five Mongolians still lives in poverty, largely living on welfare benefits for basic subsistence. Income inequality, as measured by the Gini coefficient, has been reduced to 0.32 in 2014 from 0.36 in 2008, but the divide between urban and rural areas remains extreme, especially in the remote western regions.

■ **Mongolia's current economic slowdown underscores the importance of strengthening social protection.**

Mongolia's current economic slowdown underscores the importance of strengthening social protection. The government needs to focus on economic restructuring and adjustment, but the fiscal consolidation and monetary tightening required to ensure macroeconomic stability could have a short-term contractionary effect. Reductions in the welfare budget will reverse poverty reduction gains by creating new poor and bringing those that crossed the poverty line back into poverty. Given the positive impact of social welfare programs on poverty reduction in Mongolia, continued support is vital.

The government administered 71 social welfare programs that reached about one-third of the total population in 2014. Expenditures for all programs have increased since 2010 to reflect demographic trends in an expanding population, offset the impact of inflation on real incomes, and reduce poverty. However, challenges persist. Most social welfare programs are targeted by category, which is costly, as some of the recipients are not poor. Moreover, the fragmentation of programs results in the duplication of benefits and high administrative and implementation costs. These subsidies would have a greater impact if they were better targeted. To reform these welfare programs, policy actions should focus on improved poverty targeting and consolidation to reduce implementation costs and increase their impact. This would also strengthen the programs' fiscal sustainability in the context of government efforts toward macroeconomic stabilization and structural reforms that are essential for sustainable growth.

Another critical challenge relates to water scarcity as Mongolia's development depends on freshwater and energy. Both power and mining operations are water-intensive, and new energy facilities and new mining operations, which are essential to realize Mongolia's vast potential, will be located in water-scarce areas. Rapid urbanization adds to the challenge.

Development Effectiveness Brief: Mongolia

Supporting an Emergent Middle-Income Economy

The Asian Development Bank (ADB) is celebrating 25 years of successful partnership with Mongolia in 2016. ADB's assistance has played an important role in transforming Mongolia into a middle-income economy, and ADB's country strategy for Mongolia has evolved over the years to match the changing needs of the country. Assistance has been provided to help deepen market-oriented reforms, stabilize and broaden financial markets, establish or rehabilitate key infrastructure, develop agribusiness, improve services in secondary towns and cities, and restructure social services including education and health. ADB is now Mongolia's largest multilateral development partner, with cumulative assistance of \$2 billion in grants and loans. The total approved projects in 2015 alone amounted to \$275 million, and ADB has an active portfolio of projects totaling \$1 billion.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to a large share of the world's poor. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

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



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