



Country Operations Business Plan

November 2007

Mongolia
2008–2010

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 28 October 2007)

Currency Unit	–	togrog (MNT)
MNT1.00	=	\$0.000843
\$1.00	=	MNT1,185.00

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
COBP	–	country operations business plan
CPA	–	country performance assessment
CPS	–	country partnership strategy
CSP	–	county strategy and program
CSPU	–	country strategy and program update
HSMP	–	health sector master plan
JFPR	–	Japan Fund for Poverty Reduction
PRC	–	People's Republic of China
TA	–	technical assistance

NOTE

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

Vice President	C. Lawrence Greenwood, Jr., Operations Group 2
Director General	H.S. Rao, East Asia Regional Department
Director	A. Ruthenberg, Mongolia Resident Mission, East Asia Regional Department
Team leader	M. Jayawant, Senior Country Economist, East Asia Regional Department

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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 2006–2008 country strategy and program (CSP)¹ and updated in the CSP update (CSPU) 2007–2009. The first country partnership strategy (CPS) will be prepared in 2008. This country operations business plan (COBP) is consistent with the current CSP. The focus of proposed operations continues to be refined to account for the strategic approach of the Government of Mongolia (the Government), implementation of ADB's managing for development results agenda, the priorities of ADB's second medium-term strategy,² and studies supported by ADB.

II. INDICATIVE LENDING AND NONLENDING PROGRAMS

2. Country-specific allocations are based on the 2006 country performance assessment (CPA) exercise, after applying the performance-based allocation formula and taking into account outcomes of the Asian Development Fund (ADF) IX midterm review discussions. Mongolia's 2007–2008 allocation was set at \$58.54 million. Mongolia is designated as having a grant share of 100% in 2007 and 2008. The 20% volume discount results in a grant allocation of \$46.83 million for the biennium. Debt sustainability analysis will determine the grant share beyond 2008. The ADF assistance program for 2009 is tentative, with actual ADF assistance levels subject to the results of the 2007 CPA exercise and the outcome of discussions on the next ADF replenishment. Social sector projects will be prioritized for grant financing if Mongolia remains eligible for ADF grants beyond 2008. The proposed use of grants is in line with the Government's National Development Strategy.

3. Mongolia's economic sustainability is considered adequate for a project financing cost-sharing ceiling of 99%. The President has approved the revised cost-sharing ceiling and other financing parameters in Appendix 1. All projects in the 2008–2009 pipeline are suitable for the full 99% financing and maximum flexibility will be allowed by the higher ceiling. Nevertheless, in keeping with the historic trend, a cost-sharing average of 80% is expected at the portfolio level.³ Total amounts for projects in the pipeline are subject to the realization of potential cofinancing opportunities.

4. The technical assistance (TA) program supports the lending program, and is increasingly directed to reinforcing the lending program's results focus. Priority is given to project-associated TA, in order to enhance project impacts. Advisory TA is expected to address institutional strengthening, efficiency of public service delivery, and better coordination and monitoring. Efforts will also be made to supplement the non-lending program with cofinancing.

III. SUMMARY OF CHANGES TO LENDING AND NONLENDING PROGRAMS

5. Changes to the lending and non-lending programs since preparation of the 2007–2009 CSPU do not alter the underlying thrust of the CSP. The program in the transport sector has been adjusted to allow ADB and the Government to mobilize cofinancing from other sources for the Western Regional Road Corridor Development Project. Consequently, the Western Regional Road Development Project in the 2007 CSPU has been combined with the Regional

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

² ADB. 2006. *Medium Term Strategy II 2006–2008*. Manila.

³ One of the motivations for the revision of the cost-sharing ceiling is harmonization with the World Bank's International Development Association (IDA) funding. World Bank can finance up to 100% for individual projects and it does not set explicit portfolio financing limits.

Transport Project for 2008 into a single Western Regional Road Corridor Development Project; Phase I is proposed for 2008 and Phase II for 2010. The Sustainable Urban Transport Project has been advanced to 2009 and combined with the Urban Development Project in the 2009 CSPU pipeline into the single Sustainable Urban Development Project, which will provide resources to support the transport sector strategy and offer a multi-faceted solution to growing urban problems. The Third Health Sector Reform Project was advanced to 2007 upon the request of the Government. The 2009 Education Sector Reform Project has been advanced to 2008 to provide responsive investments within the Government's education sector strategy (formulated with ADB assistance), and to complement resources available through the multilaterally funded Education for All Fast-Track Initiative. The Environment Management Project, originally foreseen for 2010, has been advanced to 2009 and renamed the Environmentally Sustainable Rural Development Project. This better captures the project's focus on the nexus between livelihoods and environment, which is now established as a development priority by the Government's agriculture sector strategy (developed with ADB support). ADB will maximize efforts to mobilize Japan Fund for Poverty Reduction (JFPR) resources to complement the program particularly in the agriculture and rural development, environment management, urban development, and education sectors.

6. This COBP also provides for potential financing from ADB's ordinary capital resources (OCR) for enclave-type projects (with revenue streams dedicated to loan repayment). The earmarking of revenues in this way would provide justification for providing project-specific OCR financing to Mongolia. Specifically, the South Gobi Infrastructure Project proposed for 2009 funding is slated to utilize OCR financing to supplement and catalyze private sector financing for a coal-fired power plant, which will export electricity to the People's Republic of China (PRC). The revenue stream could be appraised against a power purchase agreement dedicated to loan repayment.

7. Private sector operations will pay increased attention to meeting the needs of Mongolia's rapidly growing economy, in line with priorities established in the CSP. The focus on capital markets development highlighted in the CSP is expected to be maintained with (i) equity participation in a large Mongolian bank, (ii) TA and potential equity participation in the insurance sector, (iii) trade finance, and (iv) the establishment of a private equity fund. Private sector operations are also expected to play a prominent role in the development of a secondary mortgage market. Private infrastructure finance is expected for (i) the development of Mongolia's air transport system (a potential equity transaction is under consideration), (ii) development of alternative energy (a wind power project and a coal liquefaction project are being assessed), and (iii) improvement of urban infrastructure using a public-private partnership model. All of these additional areas have been identified as being of priority importance in Mongolia by ADB-supported sector analyses and lessons from ADB-funded and other projects. In particular, the transport sector strategy clearly pointed to the need to develop alternatives to the roads network to service remote areas; private sector operations in the air transport sector are being developed as a response.

IV. INDICATIVE INTERNAL RESOURCE REQUIREMENTS

8. Staffing will be adjusted to support implementation of the business plan. Capacity for project administration will be strengthened at the Mongolia Resident Mission (MNRM), particularly in view of the planned increase in delegation of project administration to MNRM. The position of senior portfolio management specialist has already been created at MNRM and was staffed effective August 2007. In view of the expanding social sector portfolio (including the Japan Fund for Poverty Reduction) over the period of the COBP, consideration is also being

given to further strengthening staffing in the social sectors. The additional staffing resources and skills mix will assist in broadening support for a stronger focus on managing for development results. In line with the enhanced delegation of project administration, MNRM's greater involvement in project design, and a wider scope of sectoral and theme-based policy dialogue, additional budgetary resources for staff consultancies and business travel will be allocated to MNRM.

V. RESULTS-BASED MONITORING

9. When the Mongolia CSP 2006–2008 was being prepared, ADB was piloting results-based CSPs in a small number of countries. The Mongolia CSP incorporated many features that are prerequisites for a results-based CSP: extensive dialogue with stakeholders, close alignment with national development goals and priorities, efforts to harmonize and coordinate assistance programs with other development partners, and use of existing joint government-donor mechanisms for monitoring outcomes. Although the Mongolia CSP also included a results framework, its refinement into a management tool for CSP implementation is ongoing and is being harmonized with the Government's own initiative to develop a national development strategy and associated results matrix based on the Millennium Development Goals.

VI. COUNTRY STRATEGY AND PROGRAM RESULTS FRAMEWORK

10. There have been no changes to the results framework contained in the CSP (2006–2008).

Table 1: Indicative Assistance Pipeline for Investment Projects, 2008–2010

Sector Project/Program Name	Targeting Classifi- cation	Thematic Priority	Division	Year of Project Preparatory Assistance	Total	Cost (\$ million)					
						OCR	ADB ADF	Total	Gov't.	Cofinancing	
2008 Firm Projects^a											
Education											
Education Sector Reform	GI	ISD	EASS	2007	10.00	0.00	10.00	10.00	0.00	0.00	
Subtotal					10.00	0.00	10.00	10.00	0.00	0.00	
Transport and Communications											
Western Regional Road Corridor Dev't. Project – Phase I	GI	ECG/REG	EATC	2007	111.80	0.00	16.80	36.80 ^b	40.00	35.00	
Subtotal					111.80	0.00	16.80	36.80	40.00	35.00	
Total					121.80	0.00	26.80	46.80	40.00	35.00	
2009 Firm Projects											
Agriculture and Natural Resources											
Env. Sustainable Rural Dev't.	GI	ES	EAAE	2008	20.00	0.00	10.00	10.00	0.00	10.00 ^c	
Subtotal					20.00	0.00	10.00	10.00	0.00	10.00	
Multisector											
Sustainable Urban Dev't	GI	ES/ISD	EASS/ EATC	2008	29.00	0.00	29.00	29.00	0.00	0.00	
Subtotal					29.00	0.00	29.00	29.00	0.00	0.00	
Multisector											
South Gobi Infrastructure	GI	ISD	EATC/ EAEN/ EARG	2009	30.00	30.00	0.00	30.00	0.00	0.00	
Subtotal					30.00	30.00	0.00	30.00	0.00	0.00	
Total					79.00	30.00	39.00	69.00	0.00	10.00	
2010 Firm Projects											
Health, Nutrition and Social Protection											
Health Sector Development	GI	ISD	EASS	2009	19.00	0.00	19.00	19.00	0.00	0.00	
Subtotal					19.00	0.00	19.00	19.00	0.00	0.00	
Transport and Communications											
Western Regional Road Corridor Dev't. Project – Phase II	GI	ECG/REG	EATC	2009	87.90	0.00	0.00	40.00 ^d	27.90	20.00	
Subtotal					87.90	0.00	0.00	40.00	27.90	20.00	
Total					106.90	0.00	19.00	59.00	27.90	20.00	

ADB = Asian Development Bank, ADF = Asian Development Fund, Dev't. = Development, EAAE = Agriculture, Environment, and Natural Resources Division, EAEN = Energy Division, EARG = Country Coordination, Regional Cooperation, Governance, Finance, and Trade Division, EASS = Social Sectors Division, EATC = Transport Division, ECG = Sustainable Economic Growth, ES = Environmental Sustainability, GI = General Intervention, Gov't = Government, ISD = Inclusive Social Development, OCR = ordinary capital resources, REG = Regional Cooperation.

^a The 2007 Agriculture and Rural Development Project has been moved to early 2008 Board Consideration to assist in mitigating bunching.

^b Including \$20 million financed from the regional allocation.

^c Potential cofinancing with the Gesellschaft für Technische Zusammenarbeit (GTZ).

^d Including \$20 million financed from the regional allocation.

Source: Asian Development Bank estimates.

Table 2: Indicative Assistance Pipeline for Nonlending Products and Services, 2008–2010

Sector	Assistance Name	Responsible Division	Assistance Type	Sources of Funding		Total (\$'000)
				ADB Amount ^a (\$'000)	Others Amount (\$'000)	
2008						
	Agriculture and Natural Resources					
	Environmentally Sustainable Rural Development	EAAE	PPTA	1,000.00	TBD	1,200.00
	Subtotal			1,000.00	200.00	1,200.00
	Multisector					
	Sustainable Urban Development	EASS/EATC	PPTA	1,200.00	Gov't.	1,400.00
	Subtotal			1,200.00	200.00	1,400.00
	Multisector					
	South Gobi Infrastructure Development	EATC/EAEN/EARG	PPTA	800.00	—	800.00
	Subtotal			800.00	—	800.00
	Other					
	Capital Markets Development	EARG	ADTA	500.00	—	500.00
	Subtotal			500.00	—	500.00
	Total			3,500.00	400.00	3,900.00
2009						
	Health, Nutrition and Social Protection					
	Health Sector Development	EASS	PPTA	800.00	Gov't.	900.00
	Subtotal			800.00	100.00	900.00
	Transport and Communication					
	Regional Transport	EATC	ADTA	800.00	Gov't.	900.00
	Subtotal			800.00	100.00	900.00
	Multisector					
	Public Private Partnerships	EARG	ADTA	600.00	—	600.00
	Subtotal			600.00	—	600.00
	Total			2,200.00	—	2,200.00

Sector	Assistance Name	Responsible Division	Assistance Type	Sources of Funding		Total (\$'000)
				ADB Amount ^a (\$'000)	Others Amount (\$'000)	
2010						
	Education					
	Education Development	EASS	PPTA	800.00	TBD	1,000.00
	Subtotal			800.00	200.00	1,000.00
	Agriculture and Natural Resources					
	Environment Management	EAAE	PPTA	800.00	TBD	1,000.00
	Subtotal			800.00	200.00	1,000.00
	Other					
	Managing for Development Results	MNRM	ADTA	1,800.00	Gov't	2,000.00
	Subtotal			1,800.00	200.00	2,000.00
	Total			3,400.00	600.00	4,000.00

ADB = Asian Development Bank, ADTA = advisory technical assistance, EAAE = Agriculture, Environment, and Natural Resources Division, EAEN = Energy Division, EARG = Country Coordination, Regional Cooperation, Governance, Finance, and Trade Division, EASS = Social Sectors Division, EATC = Transport Division, Gov't. = Government, MNRM = Mongolia Resident Mission, PPTA = project preparatory technical assistance, TBD = to be determined.

^a The source of funding of the TA program will include JSF, TASF and other trust funds as appropriate.

Source: Asian Development Bank estimates.

Table 3: Summary Information on Proposed Indicative Lending Products and Services for 2008

Project Name	Description
Education Sector Reform	<p>Goal: To improve quality, access, efficiency, and effectiveness of the education sector.</p> <p>Major Components: (i) Improving access and quality of basic education, (ii) strengthening sector efficiency and effectiveness, (iii) assessing the higher education sector and preparing a reform plan, and (iv) sector harmonization.</p> <p>Expected Outputs and Outcomes: Improved quality and access to education in project schools and areas, and sector sustainability and efficiency through (i) school rehabilitation and strengthening, (ii) rehabilitation and strengthening of teachers' colleges, (iii) policy reform, and (iv) a sector harmonization plan.</p>
Western Regional Road Corridor Development Project Phase I	<p>Goal: Increased economic development and regional trade.</p> <p>Major Components: (i) Development of regional road corridor, (ii) road safety improvement, (iii) community development, (iv) awareness and prevention of HIV/AIDS and human trafficking, (v) improvements to road maintenance system, and (vi) capacity building of the Ministry of Roads Transport and Tourism.</p> <p>Expected Outputs and Outcomes: Development of 431.2 kilometer road from the border of the People's Republic of China (PRC) to the city of Hovd and an efficient and safe regional transport route to link Mongolia with the Xinjiang Autonomous Region, the PRC, and the Russian Federation (Siberia).</p>

Source: Asian Development Bank.

Table 4: Summary Information on Proposed Indicative Nonlending Products and Services for 2008

Project Name	Description
Environmentally Sustainable Rural Development	<p>Goal: Environmentally sustainable rural development.</p> <p>Major Components: (i) Community-based conservation programs, (ii) natural resource monitoring, and (iii) environment education.</p> <p>Expected Outputs and Outcomes: Participatory management of natural resources through the design and implementation of community-based programs, enforcement of environmental laws, and the provision of better information to rural communities.</p>
Sustainable Urban Development	<p>Goal: Sustainable urban development</p> <p>Major Components: (i) Energy efficient construction, (ii) air quality improvement, and (iii) environment-friendly urban transport.</p> <p>Expected Outputs and Outcomes: Better environmental standards related to the quality of life in Ulaanbaatar through (i) reduced energy consumption in public buildings, (ii) programs for air quality management and monitoring, and (iii) an improved urban transport system.</p>
South Gobi Infrastructure Development	<p>Goal: Efficient and socially responsible development of the South Gobi minerals deposits</p> <p>Major Components: (i) Development of urban infrastructure, (ii) efficient energy solutions, (iii) integrated transport solutions, and (iv) power export.</p> <p>Expected Outputs and Outcomes: Integrated infrastructure development for the South Gobi mineral deposits through the development of urban settlements, provision of alternate and conventional energy solutions, development of projects for energy exports, and development of transport systems for regional trade.</p>
Capital Markets Development	<p>Goal: Development of capital markets</p> <p>Major Components: (i) Strategy formulation, (ii) market infrastructure development, (iii) improvement of management information systems (MIS), and (iv) capacity building and knowledge sharing.</p> <p>Expected Outputs and Outcomes: Well-functioning capital markets through (i) assessment of status and preparation and implementation of a program strategy, (ii) improved market infrastructure, (iii) improved MIS, and (iv) strengthened human and institutional capacity of the Government.</p>

Source: Asian Development Bank.

Table 5: Updated Priority Sectors and Themes

Priority Sector	Developments since the adoption of the country strategy and program
Agriculture and Natural Resources	There have been no significant changes since the adoption of the CSP 2006–2008
Health, Nutrition, and Social Protection	Since the adoption of the CSP, the Government developed the implementation framework of the health sector master plan (HSMP) and established the HSMP Implementation Committee to coordinate stakeholder activities in the sector. The Government also established the High Level Committee for Human Resources to promote intersectoral collaboration in human resources policy development and implementation. These new initiatives will provide a venue for 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.
Water Supply, Sanitation, and Waste Management	There have been no significant changes since the adoption of the CSP 2006–2008.
Education	The Government adopted the Education Sector Master Plan 2006–2015 in August 2006. The plan includes visions, goals, objectives and targets, and strategies and institutional mechanisms, with an estimated resource envelop for the plan's implementation over the next 10 years. The plan provides a foundation for all reform and development programs and activities in the sector supported by the Government and its development partners, including ADB. A significant achievement of donor coordination was donor assistance to the Government for partnering with the Education for All-Fast Tract Initiative in 2006. This has enabled Mongolia to access substantial grant funding for implementing its Education Sector Master Plan.
Transport and Communications	There have been no significant changes since the adoption of the CSP 2006–2008.
Priority Theme	
Inclusive Social Development	There have been no significant changes since the adoption of the CSP 2006–2008.
Gender and Development	There have been no significant changes since the adoption of the CSP 2006–2008.
Environmental Sustainability	There have been no significant changes since the adoption of the CSP 2006–2008.

Priority Sector	Developments since the adoption of the country strategy and program
Governance	Mongolia's 2007 rank in Transparency International's corruption perception index is 99 out of 163 countries. ^a In response to concerns that corruption was increasing, the Parliament enacted an anticorruption law in 2006 that established the Anticorruption Agency of Mongolia; the agency is now operational but has limited resources. Several government agencies have also recently taken measures to improve internal controls. Mongolia is an active member of the ADB/OECD Anticorruption Initiative.
Private Sector Development	Recent major revisions to the tax code and mining law to enable the Government to capture a greater share of profits from the mining boom do not appear to have deterred foreign investment. Establishment of the Financial Regulatory Commission (with ADB support) will improve regulation of the non-bank financial sector. The sale of the remaining government-owned bank means that the commercial banking sector has now been completely privatized.
Regional Cooperation	Mongolia continues to be an active participant in the CAREC program. ADB is supporting the further development of economic cooperation between the PRC and Mongolia through regional technical assistance that focuses on transport, trade facilitation and energy. Mongolia also participates in ADB-supported regional cooperation aimed at mitigating the impact of sand and duststorms, and transboundary pollution from power stations.

ADB=Asian Development Bank, CAREC = Central Asia Regional Economic Cooperation, CSP=Country Strategy and Program, HSMP=health sector master plan, OECD = Organization for Economic Cooperation and Development.

^a Available: http://www.transparency.org/policy_research/surveys_indices/cpi/2007

Source: Asian Development Bank.

**Mongolia: Country Cost-Sharing Ceiling and Other Financing Parameters
2007–2010**

Item	Parameter	Remarks / Explanation
Country cost-sharing ceiling ^a for the portfolio of loans ^b over 2007–2010.	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 2007–2010.	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.