

REPORT OF THE FIRST ANNUAL REVIEW OF THE MONGOLIA POVERTY PARTNERSHIP AGREEMENT, APRIL 2001

I. INTRODUCTION AND BACKGROUND

1. A Poverty Partnership Agreement (PPA) was signed between the Government of Mongolia (Government) and the Asian Development Bank (ADB) on 24 March 2000. This PPA formed the basis of the ADB Country Operational Strategic Study for Mongolia (COS) finalized in May 2000 for the period 2000 to 2004. In accordance with the Poverty Reduction Strategy¹ of ADB, the PPA formalizes partnership with the Government setting out a long-term vision and agreed targets for poverty reduction. The PPA provides for an annual review of performance, highlighting key indicators and institutional milestones necessary to monitor progress of its implementation and measures needed to ensure progress towards achieving medium term targets and long term objectives. A copy of the PPA is included as appendix 1.

2. Since the preparation of the COS a number of key surveys and studies have been completed to inform this review. These include the 2000 Participatory Living Standard Assessment, the 2000 Population Census, the 1999 Second National Child and Nutrition Survey, and the Mongolia 2000 Human Development Report, and the Draft Final Report of the National Poverty Alleviation Programme.

3. A Mission was fielded to Mongolia from February 19 to 23, 2001 to initiate discussions with Government and civil society regarding progress in implementing the PPA. A workshop to review the PPA was held on February 20 convened by the Ministry of Social Welfare and Labor and attended by senior government officials, members of Parliament, representatives of Civil Society, and NGOs. Key donor partners were also consulted. This report is based on the findings of that mission as well as consultations on the draft report prepared by the mission held between April 16 and 20, 2001.

4. The report consists of five parts: (i) introduction and background, (ii) recent developments, (iii) progress towards achieving the goals of the PPA, (iv) PPA main targets and performance monitoring indicators, and (v) programming directions for the next three years.

II. RECENT DEVELOPMENTS

A. New Government Policies

5. The Government has adopted a comprehensive Action Program emphasizing poverty and unemployment as major socioeconomic issues. The key priorities of the Action Program are:

¹ Approved by the ADB Board 19 November, 1999.

- i. Facilitate stabilization of the macro-economy, deepen the reform, and intensify restructuring*
- ii. Rehabilitate the banking and financial system*
- iii. Facilitate economic growth by rehabilitating domestic industry and supporting export-oriented industry*
- iv. Support regional and rural development and promote infrastructure development*
- v. Create an equitable social environment for human development, improve the quality of education, health assistance and access to services at all levels*
- vi. Reduce poverty and unemployment and improve the livelihood of the people*
- vii. Implement environmental policy aimed at providing sustainable development and ecologic balance*
- viii. Intensify land reform*
- ix. Improve the living area of the citizenry by reducing pollution in urban areas and by recycling*
- x. Remove the governance crisis and create good governance for human security*
- xi. Develop a democratic civil society with strong ethics that secures citizens' basic rights and fundamental democratic principles by facilitating the independence of the judiciary and a free mass media*

6. The Action Program is fully compatible with the thrust of the PPA, emphasizing inclusive economic growth for sustained poverty reduction, human security, and good governance. The new Government has reconfirmed its full support of the PPA. The Government gives highest priority to poverty reduction, holding that poverty will become a chronic problem if it is not tackled soon. It recognizes that growth alone is not sufficient to eradicate poverty and that, without complementary investment in human development and governance, sustainable poverty reduction cannot be achieved.

7. A Program for Good Governance and Human Security was adopted to support policy formulation, operationalization, and implementation of the priority objectives of the Government Action Program. These priority objectives are divided into four components: (i) economic transition, (ii) equity and social policy, (iii) environment and sustainable development, and (iv) sound governance. The Program for Good Governance and Human Security is chaired by the Prime Minister and each component is chaired by a minister.

B. Heightened Vulnerability due to Shock

8. The two Dzuds in the winters of 1999 and 2000 and the intervening drought in the summer of 2000 demonstrate the vulnerability of population to natural disaster induced shocks. In addition the outbreak of foot and mouth disease experienced in Europe has emerged in Mongolia as well. Unseasonable snowstorms in the spring contributed to the impoverishment of the rural population. Of a total herd size of 30.2 million livestock at the end of 2000, about 2.1million livestock were lost. It is estimated that by the end of the spring, total losses may reach 3.4 to 4.0 million livestock. The loss of animals affects the herder population, those people whose livelihood depends on processing of animal products, as well as all consumers who face higher meat prices.

9. Ecologic imbalances resulting in desertification and degradation of pastureland are emerging as a result of population movement and increase in the number of livestock as a response to the economic dislocations of transition. This is increasing the vulnerability of the rural population to weather induced shocks.

C. Stagnating Poverty as Measured by Income

10. The 1995 and 1998 Living Standard and Measurement Survey showed the incidence of poverty remained at about 36 percent despite positive real growth. Poverty has been disproportionately urban, with 52.5 percent of the population residing in urban areas and 47.5 percent of the population residing in rural areas while 57.2 percent of the poor resided in urban areas and 42.8 percent residing in rural areas. It is anticipated that the severe weather of the last 18 months may tip the balance towards rural poverty.

11. Unemployment and underemployment remain a primary cause of poverty, however there are problems with labor related data. Information on numbers of unemployed are provided by local Labor Registry Offices and are based on the number of registered unemployed. Not all unemployed are eligible for Labor Registry Office services and therefore some do not register. In addition, each year the National Statistics Office collects and publishes results from a labor force survey on the size of the economically active population. These are based on administrative records rather than a household survey as internationally practiced. Results of the 2000 Population Census using international standard criteria for unemployment showed an unemployment of 17 percent, against the official statistic of 4.6 percent for the same period. Underemployment, often a superior indicator to open unemployment, is not recorded in official statistics. There is an urgent need for better employment statistics to support policy and program responses.

D. Increasing Poverty as Measured by Related Factors

12. Although it has always been understood that the pains of transition included a decline in achievements in health, nutrition, and education, the extent to which this decline persists is underscored by the results of the nutrition survey carried out in 1999.² One fourth of children under five are stunted and almost one tenth are severely stunted. Children in rural areas are more likely to be malnourished. Half of all children under five are anemic. Anemia among mothers of children under five is of greater concern because of its implications for maternal mortality and anemia among children. More than half of all mothers of children under five are anemic and in rural areas the incidence of anemia is greater than 70 percent. The incidence of low birth weights of 10.9 percent is considerably higher than in 1997 when it was 5.8 percent. The percentage of low birth weights was significantly greater in rural areas than in cities and raises concerns regarding food security, market access, and maternal nutrition.

13. Government efforts to protect basic health programs have, however, provided some positive achievements. The Infant Mortality Rate (IMR) declined from 46.8 per 1000 live births to 31.2 per 1000 between 1994 and 2000. The Maternal Mortality Rate

² 1999 National Nutritional Survey Report

(MMR) declined from 21.2 per 10,000 live births to 17.5 per 10,000 between 1994 and 1999.³

14. Pre-transition achievements in education have been eroded but this negative trend has been reversed. Enrollment in grades 1 to 8 declined from near universal levels at 99 percent in 1990 to a low of 82 percent in 1997. Concerted efforts by the Government resulted in an increase in enrollment rates to 90 percent in 1999. The decline in the intervening years produced a large number of children whose capacities in the long term have been impaired by the years of lost education.

E. Widening Gap between Urban and Rural Areas

15. The quality as well as the level of health and education services has declined due to decaying infrastructure. There has been little investment in this area in the last ten years and the infrastructure which is a legacy of the pre-transition era, requires high operating costs⁴. Without sufficient funds from government, service institutions are forced to collect fees from users through informal means and without proper accountability and transparency. The Government has been unable to maintain the pre-transition level of access to basic services and support with the result that children drop out of school and families have inadequate access to health services.

16. The widening gap in access to basic social services between urban and rural areas is exacerbated by the very poor infrastructure in rural areas.⁵ This is a significant factor driving the high rate of rural to urban migration. Poor infrastructure was cited in the 2000 Participatory Living Standards Assessment as a leading cause of poverty. "Communities indicate that accessibility to urban centers, particularly Ulaanbaatar, has an important impact on their livelihoods, in terms of access to markets services, and information." Communities said that children from rural areas dropped out of school more often than children in aimag and sum centers due to the problem with distance and transportation. Access to medical services is limited by poor roads, few vehicles, and the high cost of fuel and significantly increased the time needed to respond to medical emergencies.

17. The same low level of infrastructure stifles the development of enterprises that would generate needed employment opportunities. Development of the rural financial sector is necessary to provide financial services to rural enterprises. Roads and bridges are needed to increase access to markets and services. Information technology is needed to improve communications and access to information. Disparity in the cost or availability of electricity, heating, and water are another factor reinforcing the pull of the main population centers⁶. All of these combined represent a significant underlying cause

³ IMR and MMR are reported by the Ministry of Health. The MMR for 2000 has not been finalized.

⁴ For example heating accounts for 50 percent of school operating costs.

⁵ Preliminary results of the 2000 population census show that 86 percent of the urban population has access to safe water as compared to 36 percent of the rural population. 71 percent of the urban population has electricity compared to 1 percent of the rural population. 26 percent of the urban population has a telephone compared to 1 percent of the rural population

⁶ Preliminary results of the 2000 population census show that over 8 percent of the population has migrated within the past five years. The receiving areas were Ulaanbaatar and the Central 1 region with net inflows of 11 percent and 8 percent. All other regions of the country experienced

of urban poverty and the large-scale migration to the country's relatively more densely and well serviced central region.

18. The largely literate Mongolian labor force is the result of human capital developed during the pre-transition era. This capital is rapidly being eroded, as the children today are less educated and less well nourished than their parents. To compete in an increasingly globalized world, Mongolia must rely on the quality of its labor force rather than the quantity. The quality of the labor force depends in turn on the quality of its inputs, education, health, social protection, access to information and technology.

III. PROGRESS TOWARDS ACHIEVING THE GOALS OF THE PPA

A Government

19. In line with the thrust of the PPA, the Government has embarked on a process to develop a more coherent public finance and management system to improve the effectiveness of its poverty reduction efforts. With the assistance of the ADB Governance Reform Program Loan, reforms in public expenditure management are currently being piloted in five line agencies and a public finance management law was drafted and submitted to Parliament. The functions of debt management, planning, and donor coordination have been integrated under the Ministry of Finance and Economy to enable more effective and integrated planning and budgeting processes.

20. Government efforts to maintain macroeconomic stability were affected by the Dzud and the change of government. Nonetheless social sector expenditures were protected and inflation, detrimental to the poor, was kept within single digit levels and positive real growth was achieved.

21. Disbursement for the six-year National Poverty Alleviation Programme (NPAP) ended in 2000⁷. This program established an institutional framework and developed institutional capacity for planning, implementing, and monitoring poverty alleviation programs during the course of its implementation. A National Poverty Alleviation Committee (NPAC) had overall responsibility for Programme implementation while a Poverty Alleviation Programme Office (PAPO) served as the central implementing unit for coordination and responsible for day-to-day management together with Poverty Alleviation Councils – the local implementing units in provinces, districts and sub-districts. NPAC was chaired by the Prime Minister and comprised line ministries, NGOs and civil society representatives.

net outflows, the largest being 10 percent in the Western Aimag regions. The flow is evenly spread across males and females.

⁷ The NPAP defined poverty to include access to sufficient income and essential social services. Local and grassroots-level involvement, a key design component, was encouraged through community participation and decentralized decision making.

22. During the course of implementation, over 12,000 poverty alleviation schemes were carried out at the cost of US\$ 13.37 million⁸ with beneficial economic and social impacts on the lives of many poor people. Income generating schemes and short-term employment created through public works schemes provided income opportunities for at least 30 % of the poor households. Lower than targeted coverage of the income generation scheme resulted mainly from design weakness addressed later in the program. Public works schemes improved the local economic infrastructure and contributed to the improvement of rural health and quality of life. Each of the country's 342 soums benefited from an average of 6 schemes. A combination of different schemes in all soums have helped to increase school and kindergarten attendance, reduce the number of school drop-outs and decrease maternal mortality and infant mortality rates. A National Household Livelihood Development Program is being finalized based on the lessons learned from the NPAP.

23. In addition to the NPAP, the Government undertook a series of complementary programs that have closed or are now drawing to a close. These programs are under evaluation as a possible basis for the design of a subsequent phase. These include the National Programme on the Advancement of Women 1995 to 2000, the Children's Development Program 1991 to 2001, and the National Program in Unemployment Reduction 1996 to 2000. While much valuable experience was gained in the implementation of these programs, they did not achieve their stated targets in part due to a mismatch between program scope and coverage and program budget.

24. The Law on the Importation and Exportation of Labor was approved by Parliament in April 2001. This law provides for the protection of Mongolian international migrant workers and establishes the conditions for the importation of skilled workers to improve the skill of the Mongolian labor force. A new law on Employment was also approved in April 2001 by parliament to address short term and medium term employment creation needs through public works, self-employment, and promotion of employers of the unemployed. The law provides for an employment creation fund as well as for revisions in key labor market policies.

25. Using the PPA as a foundation document, the Government began the process of preparing an Interim Poverty Reduction Strategy Paper (IPRSP) in October 2000 with the support of the World Bank and UNDP. A drafting committee composed of representatives from the Ministry of Finance and Economy, Ministry of Social Welfare and Labor, PAPO, NSO, and NGOs. A draft was submitted to Cabinet in early April 2001 and is being revised for presentation at the Consultative Group Meeting on Mongolia (CGM). Following the CGM, the draft IPRSP will be discussed at a series of regional workshops and will be finalized in a national workshop prior to Cabinet approval. Although the IPRSP draft has not been presented and discussed in its entirety with civil society, large portions were prepared in a highly consultative fashion as part of the development of the Program for Good Governance and Human Security.

⁸ The Programme was financed through domestic resources and external assistance. The main contributors were the World Bank, UNDP, SIDA, and the Dutch Government. ADB provided technical assistance to the Programme's capacity building component.

B. ADB

26. The current COS was finalized in May 2000 based on consultations with the Government and the findings and analytical preparatory work for the PPA. The operational focus of the Mongolia program has directed ADB future interventions in five strategically selected sectors. These sectors are: the financial sector to extent access to financial services beyond the national capital; agriculture sector (for its potential to generate viable small-industry employment and importance to the rural sector); the public sector (for its potential to re-orient the machinery of the Government to become more conducive to and supportive of private sector-led growth), the social sector (to maintain and improve the competitiveness of the Mongolian labor force and provide a safety net for the vulnerable); and urban development to address urban poverty. Within these five strategically selected sectors, ADB has emphasized operations with the greatest potential for poverty reduction through private sector led growth and human resource development.

27. In line with PPA and the COS, the Second Financial Sector Program Loan was approved in June 2000 to provide support for continued financial sector reform and governance reform. The Agriculture Sector Development Program Loan was approved in December 2000 for policy reform and investment activities in the agriculture sector. In response to the January 2001 Joint Appeal of the Government and the UN for assistance in response to the winter disaster, the ADB fielded a special mission to Mongolia for emergency consultations with the Government. This mission concerned assistance ADB could provide in the context of facilitating continued implementation of the PPA.. Preparations of loans for Social Security Sector Development Program, Rural Finance, and Housing Finance Sector have been processed for approval in 2001. Continued assistance in the five sectors has been included for future programs. For example a Second Education Sector Project is under preparation. A Second Health Sector Project and a follow up Governance Reform Program are under consideration. In program and project design, special consideration has been given to maximizing the poverty reduction effect and employment generation impact of the interventions. Special efforts have been made for at least 40 percent of the annual lending operations to be targeted at poverty reduction operations.

C. Civil Society and NGOs

28. The past year has seen the continued emergence of civil society groups and NGOs. Civil Society Groups⁹ and NGOs now play a more active role in advising government and implementation of poverty reduction projects. About 90 NGOs participated in implementation of the National Poverty Alleviation Programme. UNDP and SIDA provided training and capacity building for the NGOS that participated. NGOs remain concentrated in urban areas, primarily in the capital city. Despite this the rural NGOs and civil society organizations have demonstrated their strength in project implementation, particularly the branch offices of the trade unions, the Red Cross, women's NGOs. Women's NGOs, particularly the Liberal Women's Brain Pool and the Mongolian Women's Federation, have been active in the delivery of microcredit programs. While many small NGOs have emerged, improved networking is required to enable their access to information. Capacity building is still needed to enable NGOs to fulfill their roles as service providers and advocates.

⁹ Civil Society Groups include organizations such as the Employers Federation and Trade Unions

IV. PPA MAIN TARGETS AND PERFORMANCE MONITORING INDICATORS

29. The targets to be achieved under the PPA are the International Development Goals using 1990 as the base year for comparison. While the Government supports the direction of these targets as consistent with the 1995 Copenhagen Social Summit Declaration, further review is required to verify they are achievable. In addition, it is suggested that a wider range of indicators as shown in Table 1 be introduced to enable monitoring full progress in implementing the PPA across the various aspects of poverty, human development, and growth during the medium term. These indicators and targets take into consideration the policies and priorities of the Action Program of the Government. NSO will develop leading indicators of poverty using the annual income and expenditure survey. Finally, recent natural disasters, continued low growth, and concomitant slow employment creation seems to suggest a need for setting conservative targets.

V. PROGRAMMING DIRECTIONS FOR THE NEXT THREE YEARS

30. Through this review the Government reiterates its full endorsement of the overall thrust of the PPA. It is noted however that in implementing the PPA, poverty reduction should be considered in all development activities to make the best use of the resources available. Given limited resources, priorities should be clearly established with budget allocation matching funding requirement and efforts should be made to improve donor coordination.

31. In keeping with its heightened focus on poverty reduction the Government will continue to emphasize growth through private sector development and employment generation. In light of emerging vulnerabilities revealed by weather induced shocks, the Government will increase its focus on human resource development, promoting balanced regional development through infrastructure improvement, and narrowing the gap between urban and rural areas.

32. ADB confirms its continued support for the Government's efforts in the five strategic sectors, and agree to work in line with the Government's strategic policies, focusing on promotion of economic reform and poverty reduction. To address the new findings revealed by this joint review, ADB will give greater emphasis on addressing the poverty concern in rural areas and more balanced regional development. Given the importance of infrastructure in poverty reduction more resources will be allocated to finance investment activities in the five strategic sectors to improve access to basic services and infrastructure for the poor and their children. Consideration will also be given to providing continued assistance in the road sector to enhance the integration of the regional economy within the country and the development potential from improved economic cooperation with neighboring economies¹⁰.

¹⁰ The detailed operational program will be discussed in the country programming consultation between ADB and the Government scheduled for 23 to 30 April 2001.

	Growth	Human Resource Development	Governance	Poverty
Long term vision	Inclusive growth	Young enabled to develop their capacities, vulnerable protected	Government systems are transparent and accountable. Gender equality	Poverty sustainably reduced to minimum levels
Medium term Targets (by 2004)	-6 percent real and more uniform regional growth - Single digit inflation-stable or declining Gini coefficient	Achieve an Infant Mortality Rate and under-five mortality rate of 35.1/1000 and 40 ¹¹ Achieve 144/100,000 Maternal mortality rate ¹² Achieve 97.6 percent gross enrollment in elementary school, 85.2 percent in lower secondary school, and 60.5 in upper elementary school.	More than 50% of budgetary bodies prepare output based budgets and submit strategic business plans Adopt international best practices in procurement Improved accountability through greater access to information,	Half the number of poor households between 2000 and 2004
Medium term indicators	GDP and regional GDP Inflation Unemployment and underemployment by location and gender Income distribution	Infant, under-five, and maternal mortality rate, access to clean water, Contraceptive prevalence rates (CPR), Enrollment rates in elementary and junior secondary education by gender and location	Budget submissions Monitoring of public sector performance reports by "Watchdogs" inside and outside of government,	Poverty incidence, depth, and intensity. Expanded income and expenditure survey
Short term indicators	Inflation, GDP, Regional GDP, Unemployment and underemployment by location and gender	Infant and under-five mortality rate Maternal mortality rate Vaccination rates Enrollment rates in elementary and junior secondary education by gender and region	The issuance of administrative decrees and Government resolutions, organizational and administrative change, and enactment by Parliament of economic laws and other such instruments related to financial reforms, Emergency of civil society government watchdog groups	Changes in real expenditure for the bottom 40 and 20 percent of households, urban and rural

¹¹ Based on the Ministry of Health Annual Reports

¹² Based on Ministry of Health Annual Reports

TABLE 2 INDICATORS, BASELINES, AND SOURCES OF INFORMATION			
INDICATOR	BASELINE YEAR AND VALUE	SOURCE	TYPE OF INDICATOR
Growth:			
GDP growth	2000, 1.1 percent	Yearbook	short term
Gini Coefficient	1998, 0.35	Expenditure survey	Medium term
Unemployment and underemployment	2002,	New labor force survey	Medium term
Human Resource Development:			
Infant Mortality Rate per 1,000 live births	1999, 37.3	Ministry of Health	Annual
Under-five Mortality Rate per 1,000 live birth	1999, 49	Ministry of Health	Annual
Maternal Mortality Rate per 100,000 live births	1999, 175	Ministry of Health	Annual
Gross Female Enrollment Rate, grades 1-4, 5-8, 9- 10	2000, 97.2, 86.0, 56.3	MOEC	Annual
Gross Male Enrollment Rate, grades 1-4, 5-8, 9- 10	2,000,95.7, 74.2, 37.6	MOEC	Annual
Gross Enrollment Rate, grades 1-4, 5-8, 9- 10	2000, 96.5, 80.1, 46.8	MOEC	Annual
Governance:			
Proportion of budgetary bodies preparing output based budgets and strategic business plans	2000, 0	MOFE	Long & medium term
Adoption of best international procurement practices		MOFE	Medium term
Increased access to information		Reports from Civil society watchdog bodies	
Poverty:			
Incidence, depth, intensity, by location	1998, 35.6, 11.7, 5.6 Total 32.6, 9.8, 4.4 rural 39.4, 13.9, 7.1 urban	Expenditure survey	Medium term
Change in real expenditures for bottom 40 and 20 percent	2001	Household Annual Income and Expenditure Survey	Annual

