



# Mongolia Country Program Evaluation, FY05–13

An Independent Evaluation

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# Abbreviations

AAA	analytic and advisory activities
ADB	Asian Development Bank
BOM	Bank of Mongolia
CAS	country assistance strategy
CASPR	Country Assistance Strategy Progress Report
CGAP	Country Gender Action Plan
CI	community involvement
CMP	Child Money Program
CPE	country program evaluation
CPS	country partnership strategy
CSO	civil society organization
DBM	Development Bank of Mongolia
DPC	development policy credit
DPL	development policy loan
ECTAP	Economic Capacity and Technical Assistance Project
EEC	Education Evaluation Center
EFA-FTI	Education for All-Fast Track Initiative
EGSPRS	Economic Growth Support and Poverty Reduction Strategy
EIA	Environmental Impact Assessment
EITI	Extractive Industries Transparency Initiative
ESW	economic and sector work
FDI	foreign direct investment
FSAP	Financial Sector Assessment Program
FSL	Fiscal Stability Law
FY	fiscal year
GDP	gross domestic product
GEM	gender empowerment measure
GFMIS	Government Financial Management Information System
IBL	Integrated Budget Law
IBLIP	Index-Based Livestock Insurance Program
IBRD	International Bank for Reconstruction and Development
ICA	Investment Climate Assessment
ICR	Implementation Completion and Results Report
ICRR	ICR Review
ICT	information and communications technology
IDA	International Development Association
IDI	institutional development impact

IEG	Independent Evaluation Group
IFC	International Finance Corporation
IMF	International Monetary Fund
ISN	Interim Strategy Note
ISR	Implementation Status Report
JSDF	Japan Social Development Fund
LAMP	Livestock and Agricultural Marketing Project
LDF	Local Development Fund
MACA	Mongolian Anti-Corruption Agency
MDG	Millennium Development Goal
MIGA	Multilateral Investment Guarantee Agency
MSME	Micro, small, and medium enterprises
MSTAP	Multi-Sectoral Technical Assistance Project
MTEF	Medium-Term Expenditure Framework
NEMO	Netherlands–Mongolia Trust Fund for Environmental Reform
NPL	nonperforming loan
NSO	National Statistical Office
PFI	participating financial institutions
PFM	public financial management
PPP	public-private partnership
PRSC	Poverty Reduction Support Credit
PSD	private sector development
READ	Rural Education and Development
REAP	Renewable Energy for Rural Access Project
SHS	solar home systems
SLP	Sustainable Livelihoods Project
SME	small and medium enterprises
SSMP	Social Security Sector Master Plan
SWF	Sovereign Wealth Fund
SWL	Social Welfare Law
TA	technical assistance
TIMSS	Trends in International Mathematics and Science Study
UBCAP	Ulaanbaatar Clean Air Project
USAID	U.S. Agency for International Development
USIP	Ulaanbaatar Services Improvement Project

*All dollar amounts are in U.S. dollars unless otherwise indicated.*

# Acknowledgments

This evaluation by the Independent Evaluation Group (IEG) of the World Bank Group's program in Mongolia is part of the Clustered Country Program Evaluation for Resource-Rich Developing Countries: Cases of Bolivia, Kazakhstan, Mongolia, and Zambia.

A team led by Florence Charlier prepared the Mongolia evaluation. It was conducted under the guidance and supervision of Geeta Batra (Manager) and Nick York (Director) and the overall direction of Caroline Heider (Director-General, Evaluation). Members of the evaluation team included Basil Kavalsky, Andres Liebenthal, George Polenakis, and Disha Zaidi. Barbara Balaj and Barbara Rice edited the report and Aimee Niane provided administrative support. The report also benefitted from comments provided by peer reviewers William Ascher (Claremont McKenna College), Alan Gelb (Center for Global Development), and Andrew Warner (International Monetary Fund).

IEG is grateful to the numerous representatives of the government, private sector entities, and nongovernmental organizations who provided valuable insights into the Bank Group's program in Mongolia. The team is also thankful to the Bank Group management and country team members, including both previous and current staff working on Mongolia, who provided valuable time, information, and feedback to the evaluation team.

# Overview

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## Highlights

From 2005 to 2013, a mining boom quickly promoted Mongolia from a low-income to a middle-income country. Although the World Bank Group strategy initially overlooked the challenge of the mining boom, the new country management team that came on board in 2005 decided to prioritize mining issues in a more selective framework.

This involved taking a set of bold steps to support Bank Group engagement in the extractive industry, including basing for the first time a senior mining specialist in the field and conducting an in-depth political economy analysis. Building on this, the country team was able to design a comprehensive program of outreach to the government, parliament, and civil society to build a consensus on the need for efficient and fiscally sustainable management of earnings from the revenues derived from the mineral boom.

As a result of this new approach, the Bank was well positioned to support Mongolia during the sharp downturn in mineral prices and exports in 2008–2009. The reshaped agenda was supported by development policy loans in 2009–2010 and technical assistance. The agenda included: (i) engaging with civil society organizations and parliament to build awareness of key challenges and policy trade-offs to achieve a majority consensus on key legislation for countercyclical fiscal management and social transfers targeted to poverty; and (ii) fostering community-driven initiatives in monitoring mining resources and the procurement process.

The Bank also put together an excellent and mutually reinforcing series of projects in the rural sector. These were designed to improve pastoral practices; support community initiatives; expand microfinance; offer an inventive livestock insurance scheme; improve weather forecasting to help herders manage *dzuds* (extremely cold weather conditions); and introduce solar panels, which have enabled herders to connect to the outside world through televisions, computers, and mobile telephones.

The Independent Evaluation Group considers the Bank's performance to be satisfactory; however, its contribution to outcomes remains moderately satisfactory. The Bank revised its strategy to adopt relevant objectives centered on the mining agenda and designed an overall effective program. The Bank displayed flexibility and innovation in implementing the program and built awareness about environmental issues. As to results on the ground, Bank projects have had a highly satisfactory impact in improving rural livelihoods and reducing herders' vulnerability.

However, with the rapid recovery from the global crisis, many of the legislative reforms supported by the Bank to improve fiscal transparency, better target social transfers related to poverty, and restore the soundness of the banking sector have yet to be implemented or owned by the government. In addition, the fiscal situation remains fragile and large off-budget investments financed by international market borrowing are not subject to parliamentary scrutiny.

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## OVERVIEW

Looking ahead, the Bank Group would need to: (i) build demand and capacity for good governance; (ii) pursue efforts to improve public investment; (iii) strengthen domestic capacity for policy simulation; (iv) assist in the strengthening of the banking system; and (v) support fiscal decentralization. In the interests of selectivity, the Bank could scale back its support for the urban sector.

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From FY05 to FY13, Mongolia quickly moved from a low-income to a middle-income country during an economic shift caused by a mining boom. Although the World Bank Group initially designed an ambitious and complex assistance strategy that overlooked the challenge of the mining boom, the new country management team that came on board as the country assistance strategy (CAS) was being adopted promptly decided to prioritize mining issues in a more selective framework. This involved taking a set of innovative steps to support Bank engagement in the extractive industry. For the first time, a senior mining specialist was based in the field to engage in policy dialogue with the government to respond to its needs.

Second, the Bank decided to conduct an in-depth political economy analysis to uncover constraints and identify entry points for Bank support, ranging from the upstream areas of mining rights allocation and revenue and fiscal management to more downstream activities, such as public investment and social transfer programs. These actions contributed

to positioning the Bank as a credible and close partner of the government.

Bank strategy was also flexible in design and in practice throughout the evaluation period. The prominence of technical assistance (TA) operations in the overall program also enhanced overall flexibility and Bank capacity to adjust to evolving priorities. Flexibility is especially important in resource-dependent countries given the potential for price shocks and the ensuing variability in revenues. In 2008–2009, the team reacted promptly to realign the Bank portfolio to help the government cope with the global economic crisis. In particular, this involved shifting the majority of new International Development Association (IDA) resources to development policy credits (DPCs), and intensifying its analytic and advisory activities emphasis on real-time policy advice.

The Bank also developed a well thought-out and customized approach to improve the livelihood of herders and reduce their vulnerability. Though the Bank did not adopt an integrated strategic approach to address rural challenges, it was able to develop a series of mutually complementary

activities that were innovative in their design. These helped to meet the very specific challenges of nomadic life in rural Mongolia. For example, the Bank designed an index-based livestock insurance project that enabled herders to purchase insurance against loss of livestock as the result of *dzuds*.

Bank-sponsored political economy analysis proved key in identifying the constraints to adopting policies for the effective management of revenues from the mining boom. The Bank took on the task of raising government and public awareness of the challenges in managing large mineral endowments. This approach was supported by the findings of political economy analysis that showed the importance of enhancing information and stimulating multistakeholder debates about the governance of the mining sector. The analysis helped identify the key actors, notably the powerful political factions that advocated or opposed different facets of the reform program. It also highlighted the fact that resource-rich countries often face a volatile environment that can precipitate the decision-making process without sound analysis. As a result, the country team devised a comprehensive outreach effort to engage stakeholders in government, the parliament, and civil society.

The Bank followed up with a comprehensive program of outreach and capacity building with the media, parliament, and civil society. This was

financed in part by the Governance Partnership Facility and proved an important avenue to pursue the recommendations emerging from the political economy analysis. Successive changes in government during 2005–2008 created no clear majority, which led to deep divisions on important issues, and challenges to implementing a sustainable reform agenda. Consequently, the parliament assumed a very direct role in policy formulation and introduced populist measures. The Bank crafted a strong and sustained outreach effort to engage individual members of parliament and their factions in order to build a majority consensus around policy reforms, strengthen the management of the mining sector, and target social welfare reforms. Study tours fostered cross-country learning and improved the capacity of members of parliament to deal with these issues. The Bank also partnered with civil society organizations to fortify their role in external budget oversight and monitoring of mining policy and revenue management. In addition, the Bank supported a training program for journalists and helped set up information centers for citizens to access documents. A periodic economic report also became a cornerstone of the Bank's communication policy, helping to raise awareness about economic trends and discuss frankly the risks posed by countercyclical government policies.

## OVERVIEW

Bank analytical work<sup>1</sup> over the review period was relevant, of high quality, and was widely disseminated. The broad dissemination of these analyses through many channels, including the creative exchange with members of parliament, proved essential for Bank readiness to assist the government in formulating a recovery plan during the crisis and informing development policy lending (DPL), multisector TA projects, as well as the program supported by the International Monetary Fund (IMF). The government's appetite for reform in 2008-09 was motivated by the depth of the recession, but one can argue that its adherence (though not sustained after the crisis) to the DPL-supported reform package on fiscal, financial, and social protection issues was facilitated by the prior analytical work and its widespread dissemination.

Through its analytical work and lending program, the Bank Group contributed to bolstering institutions and civil society organizations (CSOs). Sustained TA with the Ministry of Finance greatly contributed to building capacity on macro, fiscal, and public financial management issues. Similarly, Bank assistance over the last decade has strengthened the staff capacity, methodology approaches, and systems of the National Statistical Office. Field interviews noted that counterparts were very appreciative of the true partnership that was established as well as knowledge

sharing with other countries. The Governance Partnership Facility has helped strengthen CSO participation and engagement on mining- and procurement-related issues, thereby building CSO capacity to promote transparency and accountability. The Bank also helped to set up an Economic Research Institute, established in 2010, to stimulate research and policy analysis and enhance outreach.

A notable feature of the Bank program is that a number of the pilot initiatives it supported have been scaled up to the national level. The community initiative component of the Sustainable Livelihoods Program built up the capacity of the local administration to encourage community participation, organize consultation, and prioritize and manage projects, giving an impetus to the decentralization agenda. These pilot efforts contributed to the passage of the 2011 Integrated Budget Law. This law addresses the issue of intergovernmental transfers and the allocation of locally targeted public investment, and boosts citizen participation in proposing and planning public investment projects. The government intends to institutionalize the index-based livestock insurance program by establishing its own reinsurance agency and fund. In the education sector, the recently adopted Quality Reform Program has institutionalized

some of the innovative primary education reforms supported by the Rural Education and Development Project.

However, during the same period, Mongolia set up new institutions aimed at a major expansion of public investment – but with inadequate focus on investment quality and governance. In 2012, Mongolia separated the institutional processes for the capital and recurrent budgets, thereby fragmenting the role of policy making between the Ministry of Economic Development and the Ministry of Finance. The Development Bank of Mongolia (DBM), established in 2011, operates outside of the budget framework and is not subject to government procurement requirements. Not surprisingly, the DBM was used to circumvent the restrictions imposed by the fiscal stability law. The Bank, which had a close relationship with the Ministry of Finance, has had difficulty engaging with the MED. The Bank did not support the creation of the MED, but once established, it sought to provide TA on corporate governance and worked with the Development Bank of Mongolia to prepare a new IDA project on Export Promotion.<sup>2</sup>

## Bank Group Contribution to Results

### FISCAL DISCIPLINE

Bank budget-support operations helped Mongolia weather the severity of the global economic crisis of 2008–2009, and design a program to lay the foundations for sound fiscal management. In particular, the Bank Group’s support helped Mongolia avoid a system-wide spillover of the banking crisis. Furthermore, the program supported the introduction of structural reforms, notably a fiscal stability law together with the creation of a sovereign wealth fund to encourage countercyclical policies, as well as a social welfare law to better target transfers to the population.

However, once the economy recovered, government commitment to these reforms weakened. As the economy rapidly recovered from the global crisis, the impetus for implementing the newly adopted laws and pursuing the reform collapsed. The newly elected government in 2012 turned to shortsighted and procyclical fiscal and monetary policies, leaving the country’s economy exposed to vulnerability to supply, demand, and price shocks for its mineral exports. Hence, progress in lawmaking for the fiscal arena has not shown tangible results on the ground.

### SECTORAL AND CROSS-CUTTING PROGRAMS

The Bank Group has helped establish the underpinnings for improved

## OVERVIEW

mineral sector management, but full implementation will depend on unpredictable political dynamics. Overall, the contribution to strengthening the management of the mining sector was rated as moderately satisfactory. The Bank Group's support was highly appreciated and contributed to the understanding of the balance that needed to be maintained between conserving national resources and encouraging foreign direct investment. However, aside from Extractive Industries Transparency Initiative compliance, the expected outcomes of the Bank's interventions are taking longer to achieve than planned. In addition, the ongoing fiscal and economic crisis has severely curtailed the ability of government agencies to continue financing and building on the improvements brought about by Bank projects, thereby jeopardizing some of the achievements.

The Bank was instrumental in raising the profile of the environmental agenda with the government and helping to promote a vibrant civil society constituency to support it. The environmental impact of mining activities is a threat to the livelihood of herders, with issues emerging around water resources management and growing competition among mining, livestock, and ecological conservation flows.<sup>3</sup> Bank assistance, initially through the Netherlands Trust Fund and more recently through budget

support, contributed to reforming and strengthening Mongolia's environmental management framework, including the adoption of a law on environmental impact assessments that mandates disclosure and public consultation on environmental assessments for all major investment projects.

The Bank, along with other donors, is playing a major role in developing and helping implement Ulaanbaatar's strategy for reducing air pollution. Rapid economic and population growth has seriously worsened air pollution in Ulaanbaatar, resulting in high levels of respiratory diseases. The main contributor is the exposure to fine particulates, especially in winter, as a result of the burning of coal in poorly designed stoves in the outlying *ger* (peri-urban) areas. Bank-supported studies on air quality management played a major role in developing the strategy and contributed to the multi-donor clean air project that is distributing improved stoves. These stoves have been delivered to about 85 percent of the *ger* households and have already led to a 10–15 percent reduction in peak particulate levels.

Bank activities have been successful in improving the quality and availability of water services for the peri-urban areas around Ulaanbaatar, but not their financial viability. The Bank's interventions have not been able to put the water utility on a sound financial footing, which remains a

major concern in relation to its ability to keep pace with the expansion of the ger population and maintain the quality of service.

The Bank Group seems to have lacked a long-term strategic approach to the challenges of supporting private sector development (PSD). Since 2004, Mongolia has made progress in developing the legal and institutional structure for PSD, but there is still much to do in removing the constraints to doing business. Some advisory efforts were dedicated to improving the business and regulatory environment. However, the overall Bank Group involvement does not appear to reflect either the priority given to the issue in strategy documents or its comparative advantage in working in this area. Regarding Bank Group support for small and medium enterprises, there have been some areas of progress on the institutional framework, and recent support for agro-enterprises are all worthwhile programs. However, taken together they do not add up to a strategy.

The evidence of the evaluation mission suggests that the rural program as a whole merits recognition as “best practice.” The Bank supported Mongolia’s rural sector through interventions in a number of different sectors. The impact of the projects is not just a matter of each individually, but rather the synergies between them and the way in which the various

components of these projects reinforced the support for higher living standards for herder households and the adaptation of the traditional nomadic way of life in a modern, growing economy. Bank projects have had a broad impact pertaining to where herders pasture their livestock; how they provide for the pasture and fodder needs of their livestock; how their children are educated; the quality of medical services they receive; their participation in local planning and investment decisions; their ability to watch television, store food in a refrigerator, use computers, communicate with their families by mobile telephones, and receive warnings of bad weather; and how far they need to go to access water for drinking and washing purposes.

The Bank’s analytic work has underlined gender disparities in labor markets, but gender was not mainstreamed in key sector programs. Analytic work points to discrimination based on gender, age, family status, and the absence of childcare. It also highlights the specific challenges women are facing in participating in the mining and construction sectors, and underscores the social risks within the artisanal mining sector. Bank engagement on gender occurred mostly under the sustainable livelihoods program. Specifically, it contributed to meeting the needs of the local community through priority

## OVERVIEW

infrastructure, and through microfinance loans issued to women under these projects. However gender issues have not been addressed in key sectors such as mining, rural livelihoods, urban infrastructure and social protection.

### Conclusions and Recommendations

Based on assessments at the strategic level and at the more specific sector levels, Bank performance was satisfactory; however, the Bank's contribution to outcomes remains moderately satisfactory. The Bank revised its strategy to adopt relevant objectives centered on the mining agenda and design an overall effective program. It displayed flexibility and innovation in implementing its strategy and in building awareness on environmental issues. In terms of results on the ground, Bank projects have had a highly satisfactory impact in improving rural livelihoods and reducing herders' vulnerability. Also, the Bank contributed to the environment for social accountability as the awareness, capacity, and rights of CSOs have improved. However, on the ground, results have yet to be seen. The reforms introduced to improve fiscal transparency, better target social transfers related to poverty, and restore the soundness of the banking sector have yet to be implemented, not to mention "owned" by the current government.

*The Independent Evaluation Group proposes that the Bank concentrate its efforts on first, trying to lock in reforms that would reduce the procyclicality of government policy and, second, streamlining the Bank program.*

**Build the demand and capacity for good governance to strengthen accountability.** It is important for the Bank to continue its efforts to nurture political debate between political parties and, more importantly, with civil society – especially when stability is jeopardized. Biannual economic monitoring, interactions with members of parliament, and engagement with the media (including television) should remain a critical part of the Bank's agenda.

**Pursue efforts to improve public investment.** Recognizing that the government is likely to continue to raise money on the international markets, the Bank's agenda should put a high priority on support to improve the quality of public investment. The Bank should reorient its TA efforts toward supporting improved investment planning, preparation, appraisal, and implementation. It should strengthen its relations with the relevant departments of the newly merged Ministry of Finance and Economic Development Ministry and the Development Bank of Mongolia to assist them in working with the line ministries on better project development.

**Strengthen domestic capabilities for policy simulation.** The Bank should undertake analytic work, together with the Mongolian authorities and independent think tanks, on developing alternative mineral production and export and price scenarios. It should also sponsor discussions about how Mongolia could manage potential price declines.

**Support the authorities in strengthening the banking system.** The comprehensive bank reform program has not been endorsed by parliament, and the lack of follow-up legislation and enforcement of bank regulations jeopardizes macro-financial stability. Progress in this area remains critical to protect the economy from financial vulnerability. The Bank needs to remain engaged in supporting improvements in prudent regulation and supervision.

**Be more selective in supporting private sector development.** The country team might consider focusing on activities where the Bank can have a direct impact on reducing poverty and improving rural livelihoods. For example, the Bank could promote ways to strengthen supply chains for livestock-based activities.

**Support the rural sector within the framework of the government's decentralization program.** The decentralization program is mainstreaming many parts of the Bank's excellent rural program. Bank

efforts should be focused on helping the government to operationalize this program effectively.

**Scale back support to the urban sector.** In the interest of selectivity, the Bank should consider scaling back or eliminating its involvement with Ulaanbaatar. Migration is likely to continue and the capital city will and should remain a major focus for donor activity. However, precisely because other donors such as the Asian Development Bank, the U.S. Agency for International Development, and Japan International Cooperation Agency are active in the city, the Bank's comparative advantage would seem to lie more in areas such as macro-management, governance, and decentralization as well as sectoral programs for infrastructure, finance, agriculture, and education.

## OVERVIEW

**Table O.1. Outcome Rating**

<b>World Bank Group Objectives</b>	<b>Outcome Ratings, FY05–13</b>
Macroeconomic and Public Financial Management Policies	Moderately unsatisfactory
Strengthening Mineral and Environmental Management	
Strengthening Mineral Management	Moderately satisfactory
Strengthening Environmental Management	Satisfactory
Enhancing Economic Diversification and Nonmineral Sector Growth	
Enhancing diversification and private sector development	Moderately satisfactory
Strengthening the financial sector	Moderately satisfactory
Supporting better delivery of Infrastructure	Moderately unsatisfactory
Improving Livelihoods of the Population	
Understanding the sources of poverty	Satisfactory
Improving social protection	Moderately unsatisfactory
Improving rural livelihoods	Highly satisfactory
Improving urban livelihoods	Moderately satisfactory
<i>Overall Rating</i>	<i>Moderately satisfactory</i>

<sup>1</sup> The Quality Assurance Group's review of the analytical work over FY02–06 (11 tasks) found that despite an unfavorable political and institutional context, the Bank's program of analytic and advisory activities was satisfactory.

<sup>2</sup> In October 2014, subsequent to the country program evaluation mission, the Mongolian parliament agreed to reduce the number of ministries and as a result the Ministry of Economic Development was merged with the Ministry of Finance.

<sup>3</sup> Ecological conservation flows refers to the minimum water flows needed to maintain aquatic ecosystems.

# 1. Country Context and Purpose of the Evaluation

This country program evaluation (CPE) evaluates the World Bank Group's operations in Mongolia from FY05-13, as part of a cluster of country evaluations of resource-rich developing countries, also including Bolivia, Kazakhstan, and Zambia.

## Mongolia's Development Challenges

Though its location between Russia and China is strategically beneficial in one sense, Mongolia faces many other geographical challenges, such as low population density, landlocked borders, a harsh climate, and environmental stress. With an area of 600,000 square miles but a population of only 3 million, it is the least densely populated independent country in the world. One-third of the population lives in the capital city, Ulaanbaatar, whereas around 40 percent of the workforce herd livestock in the extensive pasturelands. The country also suffers from extreme winter weather, the *dzuds*, a climatic phenomenon that causes loss of livestock and threatens herders' assets and well-being.

Since the early 2000s, the discovery of large mineral resources has contributed to fiercely contested elections and unstable governments. Mongolia has some of the world's major mineral deposits including coal, copper, gold, and uranium. As the size of mineral resources became known, competition during elections became more intense. Coalition governments had difficulty in delivering a coherent reform agenda, while parliament assumed a very direct and populist role in decision making.

The country is now experiencing a rapid economic transformation, but with increasing dependence on the mining sector. In 2013, the mining sector produced 19 percent of gross domestic product (GDP), over 80 percent of foreign direct investment (FDI), about 90 percent of exports, and nearly 30 percent of government revenues. Agriculture employs about 40 percent of the workforce, but contributes less than 15 percent of GDP. The dominant role of mining in the economy raises many development challenges and well-known risks associated with mining booms.

## ECONOMIC DEVELOPMENT

During Mongolia's Socialist era (1924-1990), governments aimed to transform the nomadic agricultural economy into an industrial one. The economy that emerged was an unsustainable one. It was characterized by large deficits, a subsidy-dependent

## CHAPTER 1

### COUNTRY CONTEXT AND PURPOSE OF THE EVALUATION

industrial base, low livestock productivity from collectivization, and shortages of basic consumer goods. However, health and education outcomes were positive as a result of high levels of investment in social services.

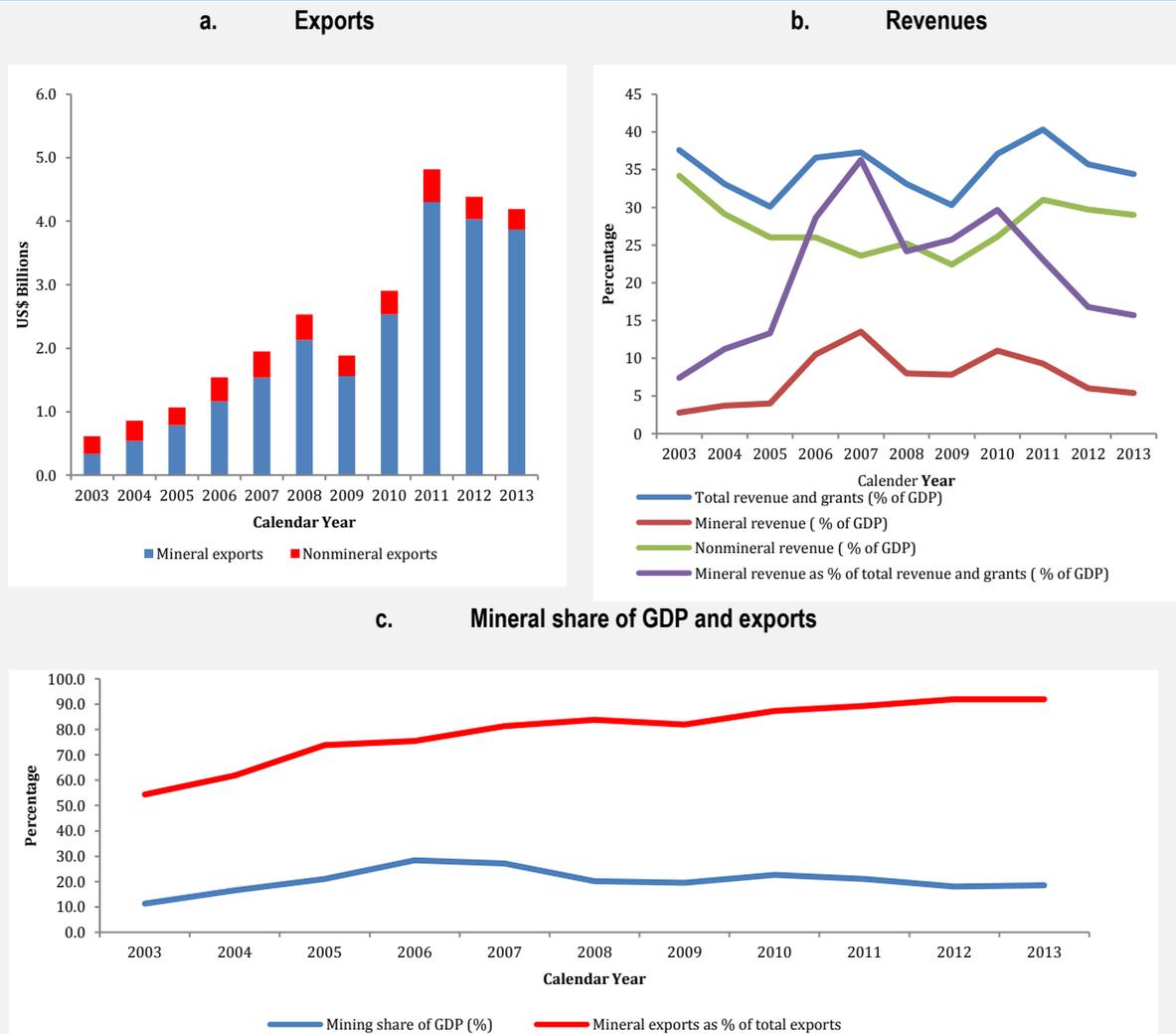
After the collapse of the former Soviet Union, a succession of governments grappled with reestablishing macro-stability and market-based reforms. Mongolia had a difficult transition from the Soviet-style regime after 1990. Although a democratic coalition government started to introduce far-reaching economic liberalization and reform, Mongolia was badly affected by the Asian financial crisis of 1998. The opening of the economy attracted FDI, first in the wool sector, then in mining and other areas.

By 2005 when this evaluation starts, the economy seemed set for a major growth spurt driven by coal, copper, gold, and uranium. Rising global mineral prices from 2003 until mid-2008 and the discovery of copper and gold deposits triggered a mining exploration boom and a rapid expansion in FDI. Annual GDP growth has averaged 8 percent over the past 10 years – among the highest in the region.

The global economic downturn and a sharp decline in copper prices in 2008 hit the Mongolian economy hard. With the local currency pegged to the dollar, there was a direct link from falling international copper prices to tax revenues. During the boom years of 2005–07, large increases in untargeted social expenditures, wages and salaries, and poorly screened investment projects were funded. With the onset of the global crisis, fiscal and current account balances turned negative, inflation rose sharply, and the collapse of the fourth largest bank triggered a crisis in the banking sector.

The economy has recovered substantially since 2009, driven mainly by the rapid rebound of copper prices (see figure 1.1). The economy was also supported in the initial stages by comprehensive and strong macroeconomic adjustment government policies, international budget and balance of payments support, and technical assistance. However, the policies introduced in the wake of the crisis were not implemented. Following the increase of copper prices, the government set aside the fiscal rules, and the coalition government elected in 2012 embarked on expansionary policies, putting the country back on to an unsustainable path.

Figure 1.1. Mining Boom and Bust Cycles from 2003 to 2013



Source: IMF Article IV Consultation Reports.  
Note: GDP = gross domestic product.

## SOCIAL DEVELOPMENT

Poverty incidence has declined substantially over the evaluation period. Poverty fell to an average of 27.4 percent in 2012, although it remained higher in rural (35.5 percent) than in urban areas (23.2 percent). Nomadic families, households headed by women, and recent urban migrants tend to register higher rates of poverty incidence. Inequality in household per capita consumption increased from 32.9 percent in 2003 to 36.5 percent in 2008, as measured by the Gini coefficient.

Substantial progress has also been made with respect to several of the Millennium Development Goals. Maternal and infant mortality rates have steadily fallen over the

## **CHAPTER 1**

### **COUNTRY CONTEXT AND PURPOSE OF THE EVALUATION**

past two decades. There is near universal literacy, and primary and secondary school gross enrollment is over 90 percent. Mongolia's gender gap in health and education favors women rather than men. By contrast, female unemployment in 2008 was 38 percent higher than for men, rising significantly from 18 percent in 2004.

### **Evaluation Objectives and Report Structure**

This CPE evaluates the World Bank Group's operations in Mongolia from FY05–13. It covers one completed Country Assistance Strategy (CAS) for FY05–08, an Interim Strategy Note (ISN) for 2009–2010, and part of the ongoing Country Partnership Strategy (CPS) for FY13–17.

This report is part of the cluster CPE for resource rich developing countries. Each CPE assesses whether the Bank Group assistance supported relevant objectives; if it achieved them effectively and efficiently; and whether institutional development impact was achieved in a sustainable way.

To maintain consistency across the analyses for the four countries, each evaluation follows a similar organizing framework around the core development challenges that arise from a high dependency on natural resources:

- Maintaining macroeconomic and fiscal stability;
- Improving governance and institutions for the effective use of resources;
- Enhancing economic diversification and growth in nonresource sectors; and
- Promoting human capital development and poverty reduction.

In addition, each CPE reviews Bank Group operations around the two cross-cutting themes of gender and environment, as incorporated in the country program.

This report has seven chapters. Chapter 2 summarizes the Bank Group's strategies and provides an overall assessment of its strategic approach. Chapters 3 to 6 assess the relevance and effectiveness of the Bank Group's activities around the four pillars. The concluding chapter draws lessons and recommendations for future Bank Group engagement in Mongolia.

## 2. World Bank Group Assistance to Mongolia

This chapter presents the strategy pursued by the World Bank Group over the FY05–13 evaluation period and assesses its relevance.

### Bank Group Strategy: FY05–13

Bank assistance during the period of this evaluation was guided by three strategy documents.<sup>1</sup> The first country assistance strategy (CAS) covered FY05–08. In view of the global crisis, the country team interrupted the preparation of the next CAS and instead prepared an Interim Strategy Note (ISN) for 2009–2010. The subsequent country partnership strategy (CPS) was not prepared until 2012, covering FY13–17. The focus of the strategy has been evolving along with the shifts in Mongolia’s development challenges (see table 2.1).

**Table 2.1. Strategic Pillars in the FY05–08 CAS, 2009–2010 ISN, and FY13–17 CPS**

<b>World Bank Group Strategy Documents</b>	<b>Pillar 1</b>	<b>Pillar 2</b>	<b>Pillar 3</b>
FY05–08 CAS	Consolidate the transition	Reduce vulnerabilities	Align policies and resources with intended development results.
2009–2010 ISN	Improve macro and fiscal sustainability in a mineral-based economy	Protect the poor and vulnerable	Encourage transparent and prudent mining investments and a more competitive and stable medium-term business investment climate.
FY13–17 CPS	Enhance Mongolia’s capacity to manage the mining economy sustainably and transparently	Build a sustained and diversified basis for economic growth and employment in urban and rural areas	Address vulnerabilities through improved access to services and better service delivery, improved safety nets provision, and enhanced disaster risk management.

*Source:* World Bank.

*Note:* CAS = country assistance strategy; CPS = country partnership strategy; ISN = interim strategy note.

The FY05–08 CAS was well aligned with the government’s 2003 Economic Growth Support and Poverty Reduction Strategy (EGSPRS). The EGSPRS articulated Mongolia’s vision to accelerate pro-poor growth and reduce poverty around five development objectives: (i) ensuring macroeconomic stability and public sector effectiveness; (ii) supporting production and exports and improving the environment for private sector led development; (iii) enhancing regional and rural development and environmentally

## CHAPTER 2 WORLD BANK GROUP ASSISTANCE TO MONGOLIA

sustainable development; (iv) fostering sustainable human development; and (v) promoting good governance and implementing and monitoring the strategy.

However, the development objectives of the EGSPRS and, consequently, the Bank CAS were not appropriate given the initial conditions and challenges that Mongolia was starting to face at the time. Following the adoption of the 1997 mining legislation, a rapid increase occurred in mining exploration licenses. No significant discoveries were made until the world class Oyu Tolgoi copper and gold mine was found in 2001. Even if the full extent of this discovery was not then known, Bank analytical work had already noted the growing importance of the mining sector, which by 2002 was becoming a significant engine of growth. Hence, the CAS's neglect of the sector is difficult to understand. Instead, the CAS was drafted as a follow-up to the previous period to further strengthen the transition process from the pre-1990 economy.

Apart from failing to prioritize the mining sector and the implications of its growth, the FY05 CAS lacked focus and selectivity. As the CAS was broadly aligned with the newly adopted Poverty Reduction Strategy, it contained an ambitious agenda encompassing measures to improve: (i) public sector effectiveness; (ii) the institutional and regulatory environment for the private sector; (iii) the efficiency of infrastructure investments; (iv) the capacity to deliver social services; (v) governance and management of the environment; (vi) municipal service delivery in peri-urban areas; and (vii) on livestock losses during extreme winters in rural areas.

The FY05 CAS was never implemented as the Bank program was realigned to reflect the changes that were occurring. The Bank Country Director who took over in 2005, when the CAS was being approved, realized that the relevance of the Bank's strategy depended on engaging in extractives issues. Therefore, the Bank quickly embarked on realigning and streamlining its program to reflect the prospect of substantial new mining revenues. The Country Director decided to target three areas for support: the mining-related regulatory framework (mining laws and environment law) and infrastructure, fiscal management, and service delivery to reach the poor. This was an unusual choice as the Bank rarely focused its program on mining-related issues, likely because of perceived reputational risks. By making this critical choice, the Bank program became highly relevant. Indeed, the Bank positioned itself as a key partner for the government of Mongolia.

During the 2008 economic crisis, the country team adjusted the strategic direction of the program to address economic vulnerabilities and foster the implementation of good governance reforms. The ISN reflected the priorities of the government to overcome the financial and economic crisis by improving the management of mining revenues, ensuring fiscal sustainability, and restoring the confidence in the banking sector. At the

same time, the program rightly aimed at protecting the poor and vulnerable groups. The ISN supported a set of fiscal reforms for which the Bank had been raising awareness during the preceding three years. Building on this prior engagement, the Bank utilized the 2008 crisis as an opportunity to push forward implementation of these reforms and enhance efficiency, transparency, and accountability in the use of mineral revenues.

The strategy proposed in the FY13–17 CPS suggests that the Bank again needs to clarify how it will position itself in the evolving Mongolian context. The CPS is aligned with Mongolia’s comprehensive National Development Strategy. The Bank aims to help Mongolia build a world-class, mineral-led economy by enhancing the mining economy in a sustainable and responsible way; building a sustained and diversified basis for sharing mining wealth equitably; and addressing vulnerabilities. These objectives are broad, however, and consistent with any number of strategies. Indeed the positioning of the Bank raises some tricky questions. Mongolia is a small state, and the Bank has shown that it can operate effectively at the “retail” level. Its multisectoral interventions in rural Mongolia (discussed in chapter 6) have played a major role in transforming rural living standards and reducing vulnerability. However, as Mongolia is now able to raise resources on the financial markets, the Bank may not have the same ability as before to influence as many sectors. This climate may call for a more modest scope of interventions, keeping the focus on the key mining-related governance challenges and helping to strengthen the quality of investment in urban and rural infrastructure.

## **Risk Assessment and Mitigation**

Initially the country team was not realistic in assessing the internal risk associated with the FY05 CAS, which was submitted to the Board just a few months before the parliamentary election. The team considered the faltering commitment to the EGPRS on which the CAS was based to be a minor risk, expecting that if the opposition group would be elected they would maintain the course of reforms and the poverty reduction strategy. Given repeated changes in government since 1996 that adversely affected continuity, the team’s assumption seems overly optimistic. There was no mitigation strategy in the case that the new government would abandon the EGSPRS. In addition, although the team accurately identified macroeconomic and governance risks, including increasing corruption, nowhere are these risks and the probability of their occurrence linked to a potential mining boom. Also, trade shocks to Mongolia’s major exports were not seen to be a potential risk. Hence, no mitigation strategy was proposed to address the impact of boom and bust cycles driven by global commodity price volatility.

## **CHAPTER 2**

### **WORLD BANK GROUP ASSISTANCE TO MONGOLIA**

The FY13–17 strategy identifies a wide range of internal and external risks that could jeopardize development outcomes and the Bank Group program, and it flags risks directly affecting the Bank Group. These include external factors such as a slowdown in the global economy, climate change, weather variability, and changes in commodity prices. The strategy also recognizes internal risks linked to political factors, rising inequality and social perceptions, increased corruption, and limited government capacity. The strategy also underlines the reputational risk linked to the involvement of the International Finance Corporation (IFC) in the Oyu Tolgoi Copper mine project development, and signals the challenge of retaining competent staff in the rapidly evolving local labor market.

### **Monitoring and Evaluation**

If the FY05–08 CAS, as initially designed to support the EGPRS, had been implemented, its result framework would have been inadequate. The matrix was too complex and displayed many weaknesses. It was difficult to link the proposed policy actions that were supported through Poverty Reduction Support Credits (PRSCs) with some of the outcomes. There were too many outcomes and milestones, including some with little relevance. In several cases, the choice of indicators was not the most appropriate. In other instances, they were overlapping or could not be measured. Lack of detail about the measurement method was also a constraint.

The results matrices of the ISN and CPS were simpler and the outcomes were better aligned with the Bank Group's activities. Overall indicators are more relevant and measurable with the baseline and targeted value defined in most cases. Efforts were made to improve the adequacy of the causal chain between targeted outcomes and milestones and projected or ongoing lending and analytical work.

### **Donor Coordination**

The Bank Group is seen as an influential and constructive partner by the donor community and often plays a leading role. Mongolia does not have a formal framework whereby donors coordinate aid through pooled sector funds or joint strategies. Nevertheless, development partners are cooperating to avoid overlapping efforts through regular information sharing. Whenever donors provide joint support, such as during the 2008 crisis, they make efforts to avoid duplication in conditionality. This was the case, for example, in the assistance provided by the International Monetary Fund (IMF), World Bank, and Asian Development Bank (ADB) to support reforms aimed at stabilizing the banking sector, fostering sustainable fiscal policies, and improving the targeting of social transfers in some sectors. Mongolia seems to be a best practice

example of how Bank and IMF cooperation contributed to the quality of the legislative framework that the government was able to put in place. The Sustainable Livelihoods Program has also become a platform to engage other donors that sought to support rural Mongolia. The program benefited from trust funds from the European Union, Japan, Korea, and Switzerland.

Mongolia has grown out of reliance on external development assistance because of its ability to tap into international financial markets. Consequently, there has been little interest in promoting expanded donor coordination. The Bank Country Manager in Ulaanbaatar has taken some initiative in recent years to call informal meetings of the key donors (i.e., the Bank Group, ADB, the U.S. Agency for International Development, and the Japan International Cooperation Agency) as well as the IMF and the United Nations Development Programme to exchange information and share the Bank's economic analyses.

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<sup>1</sup> The Country Assistance Strategy for FY05–08 and FY13–17 was a joint strategy between the International Development Association and the International Finance Corporation. The Interim Strategy Note also included the Multilateral Investment Guarantee Agency.

### **3. Macroeconomic and Public Financial Management Policies**

Chapter 3 covers activities related to addressing the risks to macroeconomic and fiscal sustainability posed by the short-term volatility and medium-term cycle of natural resource prices, and to improving public financial management (PFM) from the standpoint of the efficient and effective use of the resources generated from both mineral taxation and other sources.

#### **Results**

Over the review period, Mongolia has averaged around 8 percent growth in gross domestic product (GDP) per year. During the first four years of the evaluation period, growth was driven by increased mineral exports and high levels of foreign direct investment (FDI) attracted by the discoveries of substantial copper, gold, and coal deposits. This resulted in investment in the construction and services required to explore and exploit the deposits that had been found. From 2008 to 2010, growth slowed and turned negative in 2009 as commodity prices fell sharply during the global economic crisis. Starting in mid-2010, the economy experienced a rapid recovery following the rebound of commodity prices and the fiscal and monetary stimulus provided by the government and the central bank (i.e., Bank of Mongolia [BOM]). The slower than expected start-up of the Oyu Tolgoi copper mine meant that exports grew slowly. The surge of imports in response to increased domestic demand resulted in a large current account deficit on the balance of payments and a substantial depreciation of the currency. Hence, Mongolia's economy has been increasingly linked to developments in the global minerals market (see figure 1.1). Table 3.1 shows the key indicators for the Mongolian economy during the three phases of the review period.

**Table 3.1. Key Economic Indicators, 2004–2013**

Macroeconomic Indicators	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Annual real GDP growth rate	10.6	7.3	8.6	10.2	8.9	-1.3	6.4	17.5	12.4	11.7
Consumer price index (end-period % YoY change)	10.6	9.2	4.8	14.1	23.2	1.9	14.3	9.4	14.2	12.3
Government balance (% of GDP)	-1.8	2.6	3.3	2.8	-4.5	-5.2	0.5	-4.8	-10.9	-13.5
Total expenditure and net lending (% of GDP)	31.9	25.1	26.2	35.3	37.6	35.5	36.6	45.1	46.6	47.9
Total revenue and grants (% of GDP)	30.2	27.5	33.8	37.9	33.1	30.3	37.1	40.3	35.7	34.4
Current account balance (% of GDP)	1.2	1.2	6.5	6.3	-12.9	-8.9	-15.0	-31.5	-32.6	-27.9
Gross official international reserves (in months of next year's imports of G&S)	1.6	2.1	3.3	3.6	3.0	3.5	3.9	3.9	6.5	3.4
Exchange rate in togrogs per U.S. dollar (end-period)	1,209	1,221	1,165	1,170	1,268	1,443	1,257	1,396	1,392	1,654

Source: World Bank Group data.

Note: G&S = goods and services; GDP = gross domestic product; YoY = year over year.

### PRIOR TO THE CRISIS OF 2004–2007

In 2004, the potential availability of substantial mineral resources was rapidly becoming apparent, although the scale was not yet evident. Later, proposals to develop huge copper and coal reserves, and the associated increase in construction and service activities, made it clear that Mongolia was going to benefit from very large royalty earnings relative to the small size of its population. The government introduced child support transfer payments, initially targeted but with substantial leakages. With an election looming, the payments were made universal in 2007 at a level that, even with growing revenues, was fiscally unsustainable. This first phase saw a sharp increase in dependence on mining exports, which rose from 55 percent of total exports in the early 2000s to 84 percent in 2008. Mining also contributed 31 percent of total government revenues in 2008.

### GLOBAL ECONOMIC CRISIS AND QUICK RECOVERY, 2008–2010

The financial crisis of 2008 and the attendant fall in the prices of copper and coal led to an economic slowdown. By February 2009, copper prices were 65 percent below their level of June 2008. The resulting decline in export earnings and the government's mineral revenues opened up large deficits on both the fiscal and external accounts. Growth in 2009 became negative for the first time during the decade, and the commercial banking sector was at serious risk. The experience of Mongolia's

## **CHAPTER 3**

### **MACROECONOMIC AND PUBLIC FINANCIAL MANAGEMENT POLICIES**

vulnerability to fiscal shocks led to the passage in 2010 of the Fiscal Stability Law (FSL), which set new fiscal rules and a stabilization fund (see appendix C).

The rebound of commodity prices in the course of 2009 led to a quick economic recovery in 2010. The growth rate in 2010 recovered to 6.5 percent and would have been higher except for the abnormally cold winter that resulted in substantial loss of livestock. With an election scheduled for 2012, the government shifted to a highly expansionary policy in 2010. Instead of moving to targeted social transfers, the government replaced the child transfer program with a much broader universal cash transfer drawn from the Human Development Fund, which had been created in 2009. This left little fiscal space for other programs such as investment in the infrastructure needed to support minerals development.

#### **RUN-UP TO ELECTIONS AND THE POST-ELECTION PERIOD, 2011–2013**

Given the fiscal constraints approved by parliament, the government turned to off-budget financing for its programs. In 2011, the Development Bank of Mongolia (DBM)<sup>1</sup> was founded as an institution with the capacity to fund investments that were not subject to the agreed ceilings. Not only was its financing off budget, but it was also not subject to government procurement rules. It was funded by a combination of domestic borrowing and an international bond issue of \$580 million with a government guarantee. In an effort to rein in off-budget expenditures and support the implementation of the FSL, an Integrated Budget Law (IBL) was approved in December 2011. It mandated that only projects that have gone through a proper appraisal process would be considered for financing. According to the IBL, all financing decisions would be made by the Ministry of Finance. In 2012, a new Social Welfare Law (SWL) was approved and replaced universal cash transfers with means-tested benefits. At the time of this evaluation, the law has not yet been implemented.

The 2012 elections brought in a new coalition government that embarked on an expansionary fiscal program. In September 2012 as part of the agreement between the coalition partners, a new Ministry of Economic Development was established with responsibility for planning the capital budget. By this time, the scale of Mongolia's mineral wealth was clear. Ulaanbaatar had become a frequent stop for investment bankers who were advising the government that the highly liquid international capital market could provide a huge amount of potential new funding. In December 2012, the new government borrowed \$1.5 billion, the so-called Chinggis bond, to fund both public infrastructure investments and private sector projects through the DBM. Mongolia was able to secure rates of 4.125 percent on \$500 million of 5-year money, and 5.125 percent on \$1 billion of 10-year money. The issue was hugely oversubscribed. The Ministry of Economic Development was instrumental in launching the bond issue, drawing up a list of off-budget public investment projects, and channeling these

projects through the DBM<sup>2</sup> to start implementing them outside of the budget. Many of these projects were inadequately prepared. A second, smaller part of the funding was earmarked for a host of public and private ventures in services and manufacturing.<sup>3</sup>

The expansionary impact of these fiscal policies was exacerbated by the policies of the BOM, which added a monetary stimulus to the fiscal expansion. During 2013, the BOM embarked on three expansionary programs equivalent to 20 percent of GDP, according to the International Monetary Fund (IMF). The first of these was a price stabilization program of low-cost funding to corporations whose price-setting behavior has a significant impact on the consumer price index, for example, wholesale distributors of meat, flour, and imported petroleum products. The liquidity injection provided banks with funding in the form of one-year time deposits at 7 percent interest to reverse the downward trend in lending growth. The mortgaging program and housing supply support loans aimed to provide low-cost mortgage loans to qualified consumers. The housing supply support provides low-cost funding to construction companies and real estate developers, which has contributed to a real estate bubble in apartment construction in the capital.

During 2013, it became clear that there were likely to be shortfalls against the levels of exports projected from the new mining development. The second phase of the Oyu Tolgoi copper project, a major joint venture between the government of Mongolia and Rio Tinto, was marked by a stand-off between the government and the company on handling cost overruns. The generation of revenue of this second phase, (which was essentially the underground mining part of the project), was no longer likely to begin as planned. In mid-2014, a lengthy negotiation was under way, with the International Finance Corporation as a participant. In addition, the government introduced a foreign investment law requiring parliamentary approval of all investments with majority foreign ownership. It had a chilling effect on new exploration activity, and FDI experienced a sharp slowdown. Although the law was subsequently amended, foreign investors remain hesitant, waiting to see the outcome of the Oyu Tolgoi negotiations.

- Thus far, there is only a rhetorical commitment to a more measured approach to fiscal stability and better risk management. In practice, the policies have added to the risks. With the delays in resource revenues to meet social transfer payments, the government borrowed against future coal deliveries from the large Tavan Tolgoi coal mining project. The expansionary fiscal and monetary policies not only kept growth rates high at 12.5 percent, but also contributed to a large deficit on the current account of the balance of payments as import demand grew and mineral exports slowed. This led to a sharp depreciation of the *togrog*. Far from adopting better prioritization and preparation of public investment, the government is considering a follow-up Chinggis bond, which could finance more

marginal projects. The IMF defines the current set of policies as the “weak policy scenario” if maintained.

### **Bank Group Objectives**

Over the review period, the Bank has consistently considered public financial management a priority area for its support to Mongolia. The Bank’s specific objectives in the macro-fiscal context relate closely to the phase in which particular strategies were developed and implemented.

As discussed, when the FY04 CAS was prepared, there was no clear appreciation of the dominant role that mineral exports were likely to play as a source of government revenues and growth in Mongolia. The macro-fiscal objectives therefore did not reflect Mongolia’s emerging status as a resource-rich country. The CAS was primarily concerned with the macroeconomic and fiscal sustainability of the economy. It underlined the need to improve utilization of limited public resources. In addition, under the heading of public sector effectiveness, the CAS cited the need for better expenditure prioritization and improvement in the quality of infrastructure investments. These are generic objectives, applicable to almost every Bank borrowing member country, and reflect the fact that the special problems of mineral resource dependence had not yet been internalized. The results framework focused on more transparent and timely budgeting and a more careful prioritization of the public investment program.

The new Bank country management that took over in 2005 and 2006 realigned the Bank’s objectives to reflect the prospect of substantial new revenues. With the scale of Mongolia’s mineral resources becoming publicly known, the government was faced with political pressure to increase expenditures at an unsustainable pace. The IMF and the Bank began to create awareness of the risks of price volatility associated with dependence on mineral exports and the need for fiscal stability and countercyclical expenditure management. Simultaneously, the Bank aimed at engaging the government on the issue of targeting social transfers to the country’s poorest groups.

The 2009 Mongolia Interim Strategy Note (ISN) emphasized the immediate crisis management needs. The ISN, which provided a good diagnosis of Mongolia’s exposure to the risks associated with commodity price dependence, advocated a two-pronged strategy for Bank support in the fiscal management area. First, in the short term, it intended to provide support for Mongolia’s fiscal adjustment in the context of the global crisis. Second, in the medium term, it aimed to help the government introduce more sustainable PFM arrangements based on transparent fiscal rules and improved

accountability for expenditure decisions. The ISN results framework was geared to these priorities with an emphasis on the need for appropriate funding arrangements to maintain infrastructure, which was being squeezed out by other expenditures given the tightness of the budget during the global economic crisis.

The latest Country Partnership Strategy (CPS, FY13–17) accurately identifies the need for a robust fiscal policy as the central development challenge facing the country.<sup>4</sup> The CPS highlights a broad agenda of fiscal policy reforms including: (i) improved targeting of social benefits; (ii) proper budgeting for maintenance of public infrastructure; (iii) subsidy reduction through tariff realignment in the utility sector; (iv) improved sustainability of the pension system; and (v) rationalization of health and education financing to ensure improvements in equity and efficiency. However, the results framework for the CPS is light on the macro-fiscal area, with much of the focus on decentralization. It is difficult to discern a coherent results train linking the results framework outcomes to the objectives defined in the CPS.

In conclusion, although the emphasis of the Bank’s support program objectives for PFM in Mongolia has shifted over time, the core directions have been fairly stable over the review period. Four broad directions can be discerned from an analysis of the program documents:

- Support the countercyclical use of resources to smooth volatility, promote macroeconomic stability, and ensure sustainable growth over the longer-term.
- Build the legal, regulatory, and incentive frameworks needed to improve the transparency and efficiency of PFM.
- Strengthen individual and institutional capacity.
- Enhance the development impact of public expenditures, including investment prioritization, preparation, and implementation.

### **Bank Group Contribution to Results**

On the whole, both the World Bank and IMF provide a lukewarm assessment of progress on the macroeconomic and financial management front. According to the most recent IMF assessment, budgeting is still procyclical, and Mongolia’s fiscal framework remains unsustainable (IMF 2012). In its review of the Mongolia CAS (FY05–08) and ISN (2009–2010), the Independent Evaluation Group (IEG) provides an overall moderately satisfactory rating. It states, over the CAS period budget disclosure and management improved, while the reforms on aligning the budget with policies, public sector efficiency and institutions lagged behind. But Mongolia achieved little or no progress toward establishing a [Medium-Term Expenditure Framework] MTEF,

rationalizing public sector salaries and social transfers, or applying rigorous procedures for project selection. The financial sustainability of the pension system did not improve.” Subsequent to the publication of this review, the macro-situation has deteriorated sharply. Similarly, the recent Implementation Completion and Results Report (ICR) Review for the 2003 Economic Capacity and Technical Assistance Project, prepared by IEG in September 2013, rated its development outcome as “unsatisfactory” (see box 3.1).

### **Box 3.1. Progress in Public Financial Management Reforms from 2005 to 2013**

The 2013 ICR Review of the Economic Capacity and Technical Assistance Project (ECTAP) presents a summary of the most recent progress with regard to the public financial management (PFM) reforms in each of the main program areas:

- Creation of a functional, country-wide treasury system – the Government Financial Management Information System (GFMIS) – that greatly enhanced expenditure controls and improved payment processing: The GFMIS, supported under the Fiscal Technical Assistance Project and ECTAP, was launched in 2005 and is credited with a major improvement in budget discipline and a decline in budget arrears by 2011. This is commonly considered the single major PFM reform achievement in Mongolia over the last decade. However, as of late 2013, system functionality remains underutilized. While GFMIS has contributed many of the prerequisites, more needs to be done to improve the quality of budget reporting and availability of budget information.
- Budget planning reforms: Progress toward the Medium-Term Expenditure Framework was quite limited, with no arrangements in place for the regular preparation and update of sectoral expenditure strategies.
- Monitoring: While there are ministry performance indicators in place, these are not yet used for management and budget purposes.<sup>5</sup>
- Investment planning: Project appraisals are mandated in the new Integrated Budget Law (adopted in 2011), but they are not being effectively implemented.
- Accounting and auditing reforms: The Ministry of Finance has established an internal audit department, but it is still in the process of developing a methodology for internal audit of government accounts. While timing of external budget audits has improved, their findings are not regularly made public.<sup>6</sup>
- Procurement: The country’s procurement law was upgraded, and the necessary supporting regulations were adopted. But implementation progress has been slow due to limited capacity and generously granted exemptions from the competitive bidding requirements.

Bank analytic work plays an important role in providing independent monitoring of the economic situation. The Bank started to prepare periodic economic updates during the global economic crisis that initially were produced monthly, then quarterly, and now biannually. They are considered valuable contributions and are a significant input into the general economic analysis and debate in Mongolia. Although specific outcomes

cannot be attributed to them, the general assessment among donors and counterparts is that they add value and merit being continued.

Another important part of the program has been the Bank's efforts to reach out to parliament and civil society organizations. The objective has been to help generate an understanding of the risks associated with mineral resource revenues and to support public demand for good government, efficiency, equity, and an inter-generational balance in using mineral resources. The Bank's outreach to parliament has been substantial, including meetings with members of parliament and parliamentary committees. The Bank has involved them in its dissemination efforts and study tours, allowing them to interact with representatives from countries that are ably managing their mineral resources. The Bank's analytic work is well publicized in the Mongolian press, and the views of Bank staff are frequently sought and quoted in the media.

## Conclusion

Mongolia is exhibiting the symptoms of the "resource curse," with unchecked public spending. This development has been exacerbated by the expansion of off-budget funding through the DBM and a central bank that appears to use monetary policy to magnify rather than rein in fiscal excesses. Further, there is a lack of a clear strategy around managing the exploration and extraction of mineral resources.

The CAS and ISN review that was undertaken prior to the preparation of the new CPS raised some serious questions about Bank performance. It finds that while the Bank's macro-fiscal support in Mongolia properly identified core country needs and priorities, and was based on good analysis, serious problems arose in both the design of project interventions and the quality of implementation. The review points to the weak link between program objectives, policies, and actions to achieve them and the outcomes specified in the results framework. It attributes this to a failure to adequately reflect political constraints in program design, which resulted in unrealistic objectives in several policy areas, including introduction of the MTEF and attempts to reform the system of social transfers. Also, the Bank failed to gain significant traction in enhanced public investment planning, which was one of the two main outcomes in both the CAS and the ISN.

Findings across the four broad directions discerned from analysis of the program documents are discussed here. Bank support in two other areas mentioned in the strategy documents, but not included in the results framework, deserve attention, namely decentralization and the Bank's efforts to support the demand for good governance. The findings in each of the six areas are summarized here.

## **CHAPTER 3**

### **MACROECONOMIC AND PUBLIC FINANCIAL MANAGEMENT POLICIES**

#### **COUNTERCYCLICAL RESOURCE USE**

The Bank worked closely with the IMF and other donors to put together a package of good practice fiscal policy reforms during the crisis, but actual budgeting rapidly shifted back to procyclical patterns. On the one hand, this donor-supported program provided a stimulus to prevent even larger economic contraction from taking place, and on the other, it enabled the package of legislative reforms. Unfortunately, during the post-crisis phase, the initiative slipped away from the donor community. Demands for spending mineral resource revenues, even before they actually accrued to the budget, outstripped the level recommended by the policy makers that were calling for more prudent and sustainable resource use. The IMF no longer has a representative in Ulaanbaatar, whereas the Bank and the Ministry of Finance have had difficulty in engaging and coordinating with the Ministry of Economic Development and the DBM, which raised and disbursed large sums of money with limited parliamentary oversight and without being subject to regular government procurement procedures.

#### **BUILDING THE LEGAL, REGULATORY, AND INCENTIVES FRAMEWORK**

The Bank has contributed to a major overhaul of the legal and regulatory framework for budgeting and expenditure management, but implementation of these laws has lagged in many areas. At this time, the FSL, IBL, and SWL are not being implemented by the new 2012 political coalition. The Bank also supported the development of a Sovereign Wealth Fund (SWF), which can provide for offshore management of future resource inflows in excess of what Mongolia can efficiently invest. The MTEF also appears to be an area where much effort has met little effect. This partly reflects the rapid expansion of the economy whereby the levels of expenditures projected in the MTEF were quickly out of date. At the same time, the movement of much of the investment program off budget in recent years has made the effective use of the MTEF of less interest. In future, it will be important for Mongolia to make use of the MTEF, particularly with the weakness in investment planning and the need for contingent planning and prioritization in the event of shortfalls in revenues from mineral resources.

#### **BUILDING INDIVIDUAL AND INSTITUTIONAL CAPACITY**

In the macro-fiscal area, the Bank's core effort was focused on the Ministry of Finance, which for most of the evaluation period was responsible for both the current and capital budgets. As noted, the ICR Reviews of Bank TA projects question the appropriateness of the Bank's approach, arguing that the systems that were supported were too complex and ambitious and that a more gradual approach would have achieved more. The evaluation mission noted, however, substantial achievements in the Ministry of Finance over the period as a whole. The core institutional structures and most of the systems the Bank helped put into place are working effectively – the mechanics of budgeting have improved, the treasury system and the Government Financial Management Information

System (GFMIS) associated with it are being utilized and are making an important contribution to decentralization. In addition, budget procurement has been upgraded, although off-budget procurement has emerged as a serious problem. These new systems or procedures are being implemented by a well-trained, articulate, and thoughtful staff. The delays in completing individual projects reflect overambitious program design. However, for the review period as a whole, the program seems well conceived. For example, the contractors for the GFMIS have used Mongolia as a model for successful implementation and brought teams of officials from the Kyrgyz Republic and Vietnam to Ulaanbaatar to discuss and learn from their experience.

#### **DEVELOPMENT IMPACT OF PUBLIC INVESTMENTS**

The Bank's inability to get any real traction on capital expenditures has emerged as a major weakness of its institution building efforts in Mongolia. The last 5-year plan included 5,000 investment projects, which rendered the plan meaningless. The incoming country management needs to reposition the Bank to try to extend the close partnership it has with the Ministry of Finance to the Ministry of Economic Development as well. The re-merging of the two ministries in October 2014, subsequent to the country program evaluation (CPE) mission, should provide the potential for the Bank to provide more effective support for better investment planning and preparation in Mongolia.

#### **DECENTRALIZATION.**

In recent years, support for fiscal decentralization has emerged as a major contribution of the Bank. Its involvement in rural areas combined with its support for PFM systems nationwide have given it a unique position in Mongolia, enabling it to identify the needs of local communities and help put in place the mechanisms designed to serve those needs. The IBL is now in place, and regulations have been issued. The perception in official circles is that the Bank's actions have brought forward the implementation of effective decentralization by several years. However, much remains to be done, and local officials are far from satisfied with the arrangements for budget transfers. In addition, local capacity needs to be strengthened, particularly with regard to procurement.

#### **SUPPORT FOR GOOD GOVERNANCE.**

Mongolia was one of six countries within the East Asia and Pacific Region, selected as a World Bank Country Governance and Anti-Corruption pilot. This, like other complementary funding streams, freed up funding and resources for research, analysis and stakeholder engagement. For example, the Bank's major program of outreach to the Mongolian parliament recognizes that in the context of closely contested democratic elections, it is important to reach out both to politicians and the public. The consensus

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among independent interlocutors is that the Bank has done a good job of engaging with parliament. Bank staffers have made presentations to parliamentary committees, and the Bank’s involvement has been instrumental in securing passage of some of the key legislation. Going beyond parliament, Bank reports have been widely disseminated and have received considerable coverage in the media. The Bank has supported capacity building for journalists through a local think tank and other outreach programs, such as financial and economic literacy for the public at large. The Bank needs to continue its efforts to persuade the population that: (i) the ability to borrow abroad (with less favorable interest rates and maturities than those of the International Bank for Reconstruction and Development [IBRD]) is not proof of national maturity; (ii) the use of resources on oversized and under-maintained infrastructure will create new burdens for the future; and (iii) untargeted social transfers are not sustainable. This task will be challenging in the highly politicized environment of economic policy making in Mongolia.

Whereas the Bank has made impressive progress in helping Mongolia put in place the necessary conditions for fiscal sustainability, the political context has resulted in outcomes that are moderately unsatisfactory. No consensus yet exists around the need for a responsible fiscal policy. Short-term political priorities have overwhelmed the efforts of both Finance Ministry officials and donor institutions to support prudent fiscal management for sustainable growth. In this environment, it is difficult to see what more the Bank could have done to foster political will. This rating of moderately unsatisfactory (table 3.2) does not reflect Bank performance<sup>7</sup> (as measured in the review of country assistance or partnership strategies), but rather the lack of sustainable results in the current political setting of Mongolia. The Bank’s ability to take a longer view, to maintain a consistent presence, and to exploit the synergies between its various operations could be an important contributor if and when economic populism ceases to dominate policy making.

**Table 3.2. Summary Rating for Pillar 1: Macroeconomic and Public Financial Management Policy**

<b>Areas</b>	<b>Outcomes</b>	<b>Bank Group Contribution</b>	<b>Ratings</b>
Countercyclical Resource Use	During the financial crisis, a package of good practice fiscal policy reforms was enacted. After the recovery of mineral prices, political pressures resulted in a resort to off-budget expenditures funded by external borrowing. There seems little prospect of a return to fiscal stability in the near term.	The Bank worked closely with the International Monetary Fund and other donors to put together the package of fiscal policy reforms during the crisis. It has also engaged in a major program of outreach to government, politicians and civil society to promote the demand for sound fiscal policies. It failed however to	Moderately unsatisfactory

Areas	Outcomes	Bank Group Contribution	Ratings
		engage with the Ministry of Economic Development, which has been the main force driving the external borrowing.	
Building the Legal, Regulatory, and Incentives Framework	During the crisis, the Government undertook a major overhaul of the legal and regulatory framework for budgeting and expenditure management. Subsequent to the crisis however, the momentum collapsed and many parts of these laws have not been implemented.	Bank support made a major contribution toward putting the framework in place for the legislative package enacted during the crisis. It was unable to secure the implementation of the package however.	Moderately satisfactory
Building Individual and Institutional Capacity	The Ministry of Finance has benefited from donor efforts and is a strong and competent body. The problems relate more to the political direction of institutions such as the Ministry of Economic Development and the Bank of Mongolia, than to the competence of their management and staff.	Bank-supported technical assistance programs provided the capacity building needed by the Ministry of Finance to support the design and implementation of the new legal framework. The Bank also supported the development of a Sovereign Wealth Fund and Extractive Industries Transparency Initiative compliance. The Bank could have engaged more with the Ministry of Economic Development and the Development Bank of Mongolia.	Moderately satisfactory
Maximizing the Development Impact of the Investment Program	The large bond issue has led to a rush to use the funds, but without adequate project preparation and appraisal. The last 5-year plan included 5,000 investment projects, which rendered the plan meaningless. At the same time, basic areas such as road maintenance and small investment programs in the <i>soums</i> (districts) are not getting adequate budget funding.	The Bank's inability to get any real traction on capital expenditures has emerged as a major weakness of its institution building efforts in Mongolia. The incoming country management needs to reposition the Bank to try to extend the close partnership it has with the Ministry of Finance to the Ministry of Economic Development as well.	Moderately unsatisfactory
<i>Overall Rating</i>			<i>Moderately unsatisfactory</i>

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<sup>1</sup> The Development Bank of Mongolia (DBM), a state-owned bank, had many weaknesses including insufficient clarity around its mandate, excessive authority by the parliament to dictate finance of projects, thereby compromising DBM's independence. There was also a lack of clarity around who the government shareholder is, lack of sufficient independence for the board, lack of clear supervision function, and excessive authority to lend funds (50 times equity) (Hasnain and others 2013).

<sup>2</sup> The Minister of Economic Development was chair of the board.

<sup>3</sup> In late 2014 the coalition government collapsed. A new cabinet was approved in December 2014. In October 2014, the Mongolian parliament agreed to reduce the number of ministries and the Ministries of Finance and Economic Development were again merged.

<sup>4</sup> The analysis of the country partnership strategy was informed by the findings of the 2009 Mongolia Public Expenditure Financial Management Review, which provided detailed coverage of fiscal sustainability issues in Mongolia and relevant lessons from better performing resource-rich countries. (World Bank 2009).

<sup>5</sup> The Mining Sector Technical Assistance Project is supporting the implementation of the Lider monitoring system, which aims to monitor performance, risk management, and include an audit tracking system.

<sup>6</sup> Since June 2013 the audit reports are being posted on the website of the Mongolian National Audit Office.

<sup>7</sup> If the Independent Evaluation Group were to rate Bank performance and not outcome (along the methodology used in the review of the Country Partnership Strategy Completion Report), it would give a moderately satisfactory rating based on the discussion presented in this chapter.

## 4. Strengthening Mineral and Environmental Management

This chapter reviews the Bank's contribution to strengthening mineral and environmental management during the evaluation period. The World Bank Group has been involved in Mongolia's mining sector since 1991. Its activities included stabilizing operations at the Erdenet Copper Mine, rehabilitating the Baganuur Coal Mine, reforming the legal and regulatory frameworks, and various initiatives to promote investment in the mining sector.

### Context

Some of the world's richest mineral deposits, including gold, copper, uranium, and coal, have been found in Mongolia. Following the passage of the Mineral Law of 1997, an exploration boom driven by foreign direct investment resulted in the discovery of an impressive pipeline of potential world-class mining projects, including the Oyu Tolgoi copper and gold mine and the Tayan Tolgoi coal mine in the South Gobi province. As a result, by 2002, the mining sector was already accounting for about 9 percent of GDP, 49 percent of industrial output, and 40 percent of export earnings. A mining boom was, indeed, in the making.

The wealth of mineral resources offered the potential for a major contribution to the country's growth, but its continued development depended on the government's ability to manage the attendant challenges and ensure sound governance for the sector. Aside from macroeconomic management risks discussed in chapter 3, the specific challenges related to the need to ensure that the policy framework remained attractive to foreign investors and that the resources would be developed in an environmentally sound and socially sustainable manner. In Mongolia, the legal and regulatory framework for the sector was attractive to foreign investors, but there was concern about a lack of implementing regulations, especially those related to minerals taxation. In addition, the continued development of the sector needed to be supported by a major expansion of the country's infrastructure, including power, water, and transportation.

The expansion of the mining sector will also increase the pressure on the country's fragile natural environment. As the least densely populated country in the world, Mongolia's environment is relatively unspoiled. It encompasses large undisturbed tracts of boreal forest, steppe ecosystems, and the Gobi Desert. These ecosystems support a semi-nomadic culture for about 40 percent of the population and provide a

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habitat for a variety of wildlife. However, overgrazing, forest degradation, and deforestation were negatively affecting biodiversity – key sources of fuel, and vital watersheds. Over the past decade, Mongolia’s rapid economic transformation had opened up large areas to mostly unregulated development, which increased environmental pressures, especially in the South Gobi where the largest mining projects were planned.

Rapid economic and population growth has also seriously worsened air pollution in Ulaanbaatar, resulting in high levels of respiratory diseases. The main contributor to exposure to fine particulates, especially in winter, was the burning of low quality raw lignite in traditional stoves in the *ger* areas that cover the hillsides around the city. Dust from unpaved roads, power plants, industrial boilers, vehicle exhaust, and lack of greenery also contributed to significant concentrations of particulate matter which can reach a level that is 10 times higher than Mongolian air quality standards. A major driver was the influx of largely low-income migrants, who account for more than 60 percent of the city’s population, in turn leading to a rapid expansion of *ger* areas.

## Results

### IMPROVING MINING POLICIES AND RELATED INSTITUTIONS

Over the past decade, the vicissitudes of foreign investment in mining have been strongly influenced by changes in Mongolian mineral laws and policies. These changes created great uncertainty about the government’s attitude toward foreign investment.

- The Mining Law of 1997 reflected a private sector-led development strategy with mining as the lead sector. However, in 2006, this law was amended to increase the role of the state by mandating a 34 percent state equity ownership in every strategically important mining investment. Erdenes MGL was established in 2007 as a state-owned limited liability company to hold and manage the government’s shares. A Windfall Profits Tax, enacted in 2006, led to a significant loss in competitiveness, but was later repealed in 2011.
- The Oyu Tolgoi mining agreement in 2009 boosted investor confidence. However, cost overruns and delays in dividend payments expected by the government produced a backlash against foreign investors, leading to years of still unresolved renegotiations.
- Growing domestic concerns about the extent to which the mining sector was becoming dominated by foreign enterprises led to a 2010 moratorium on new exploration licenses, including a ban on the transfer of mining licenses, which has hampered the entry of new investors. These concerns also led to the enactment of the Strategic Entities Foreign Investment Law in 2012, which

restricts foreign ownership in the mining, banking, and media sectors, and further damaged investor confidence. Given continuing uncertainties, a resolution of protracted discussions around a \$4.5 billion financing package put together by the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) for Phase II of the Oyu Tolgoi project is expected to serve as a major signal about the government's attitude toward foreign investment.

As part of its strategy to attract foreign investors, Mongolia has joined the Extractive Industries Transparency Initiative (EITI). Starting in 2005, it committed to the full disclosure of payments made by and received from mining sector enterprises. A multistakeholder process – involving the government, industry, and civil society organizations (CSOs) – was established. Mongolia issued its first EITI report in 2008 and became fully compliant in 2010. More recently, the program has been expanding its scope to meet the additional requirements that EITI adopted in 2013, which require disaggregation by company and region, information on social investments, and disclosure of licenses and contracts.

Nonetheless, the overall quality of governance remains a concern and threatens to undermine the country's realization of the full benefits from its resource endowment. The Revenue Watch Institute's 2013 Resource Governance Index gives Mongolia a "partial" score of 51/100, ranking it 26 out of 58 resource-rich countries. It rates the institutional and legal setting as "satisfactory" based on a clear revenue collection mechanism and reporting requirements, including for environmental impact assessments. Mongolia's reporting practices are rated as "failing" since little information is made public about mineral deposits to be licensed. The safeguards and quality controls are rated as "weak," reflecting a lack of public oversight of Erdenes MGL, which publishes no financial reports. Finally, the enabling environment is rated as "weak," given the high level of corruption documented by Transparency International and low overall government effectiveness.

#### **IMPROVING ENVIRONMENTAL POLICIES AND RELATED INSTITUTIONS**

Mongolia's environmental management framework has been gradually reformed and strengthened. In 2004, the government adopted the more-integrated river basin approach for water resource management. Since then, river basin boards were established and became operational for six of the country's 29 river basins, with priority given to the South Gobi and the Tuul River, where Ulaanbaatar is located. Environmental control legislation has been updated and modernized, including an amended Law on Air Pollution in 2011, a Water Protection Law in 2012, and an updated Law on Environmental Impact Assessment in 2012 that mandates the disclosure of and public consultations on environmental assessments for all major investment projects.

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Despite these policy and institutional reforms, enforcement has been lagging, and environmental conditions have not improved. Particulate matter pollution in Ulaanbaatar still exceeds applicable standards, and ranks among the highest worldwide. The Tuul River has become heavily polluted, causing frequent fish kills and endangering the capital's water supply. The share of land covered by forests has continued to decline, from 7.3 percent in 2000 to 7 percent in 2010, mainly because of illegal cutting. The increased use of energy, mostly carbon based, has led to a growth in carbon dioxide emissions per capita from 3.1 tons in 2000 to 4.2 tons in 2010.

The growth of the mining sector is exacerbating environmental pressures. Major issues are emerging in water resources management with growing competition among mining, livestock, ecological conservation flows, and human consumption. Most important, the ongoing and planned mining developments in southern Mongolia will require significant quantities of groundwater whose abstraction could have a major impact on local communities and herders.

## **Bank Group Objectives**

### **SUPPORTING THE MINING SECTOR**

Although the FY05 CAS did not have an explicit strategy for supporting the development of the mining sector, the new country team subsequently integrated mining issues into the program. Whereas the document refers to the importance of creating an adequate policy environment for the mineral sector, the CAS matrix does not address this. This is a significant omission given the rapidly growing prominence of the sector, and the fact that a comprehensive World Bank Group mining sector report, issued in early 2004, had highlighted the critical issues (Husband and Songwe 2004). After the strategy was issued, the new country team took on mining issues in earnest. In 2008, a senior mining specialist was placed in the Bank's Ulaanbaatar office to spearhead the mining dialogue and to support the Mining Sector Technical Assistance Project (MSISTAP). The full integration of the mining sector into the assistance strategy was heralded with the official launch of the Bank's mining sector report in Ulaanbaatar in March 2005, over a year after the report had been published.

The 2009 ISN retroactively presented a comprehensive strategy for supporting the development of the mining sector, which is carried over in the FY13 Country Program Strategy (CPS). In the 2009 ISN, the development of the mining sector became a major strategic area for Bank Group engagement. The expected outcomes include the development of a sound regulatory environment, institutional capacity, and infrastructure for world-class mining. In the CPS, the mining sector has been placed front and center in the proposed results matrix. Although not mentioned in the ISN, the

Bank has actively collaborated with several donors for the implementation of the sector strategy.<sup>1</sup>

### **SUPPORTING ENVIRONMENTAL MANAGEMENT**

In contrast to the absence of mining, the FY05-08 CAS included a broad goal for environmental management. The CAS commits the Bank Group to strengthening environmental and natural resource management, mainly by supporting reforms in the institutional and legal framework. In the 2009–2010 ISN and the FY13–17 CPS, the only purely environmental objective relates to reducing winter air pollution by supporting the development and adoption of abatement options.

## **Bank Group Contribution to Results**

### **STRENGTHENING MINERAL RESOURCE MANAGEMENT AND INSTITUTIONS**

The Bank Group's interventions were designed to address the full range of the extractive industries value chain. This encompasses awarding contracts and licenses, monitoring operations, enforcing environmental protection and social mitigation requirements, collecting taxes, distributing revenue in a sound manner, and implementing sustainable development policies and projects (Mayorga-Alba 2009). With respect to the first part of this value chain, the expected outcomes in the 2009–2010 ISN comprised: (i) the review and clarification of mining laws and policies – including taxation issues – and the adoption of a standard investment agreement for mining concessions; (ii) the reform of state mining enterprise governance; (iii) compliance with EITI; and (iv) identification of key infrastructure and environmental options for southern Mongolia. This comprehensive approach was underpinned from 2008 to 2011 by the placement of a full-time mining specialist in the Bank's Ulaanbaatar office.

The Bank supported the clarification and amendment of mining laws and policies through a wide-ranging program of technical assistance (TA) and policy dialogue, backed up by the development policy credits (DPCs). The main TA instrument was the MSISTAP, which was designed to establish key pieces of the policy, fiscal, legal, regulatory, and institutional framework for the mining and extractive sector that would meet the needs of the public sector, industry, and civil society.

The implementation of the most important policy measures prepared under MSISTAP was supported by the two DPCs. In 2009, the first helped clarify Mongolia's mining policy – including taxation and the state's equity participation in new ventures – and incorporated responsible mining practices consistent with the Equator Principles.<sup>2</sup> The second DPC in 2010–2011, supported the development of a mining tax policy paper;

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revision of the mining cadaster operations and processes; and online placement of Environmental Impact Assessments (EIAs) for mining and other projects.

To date, while the laws and policies have been reviewed, their clarification remains a work in progress. In spite of concerted efforts, a standard investment agreement does not yet exist. The MSISTAP supported the preparation of a draft model mineral development agreement, which was adopted in 2009 prior to the first DPC. The 2009 signing of the Oyu Tolgoi mining agreement was intended to signal the adoption of such a standard agreement. But the fact that it is still being renegotiated five years later makes it unlikely that it can serve as a model for the future.

The reform of the public holding company, Erdenes MGL,<sup>3</sup> expected to be in line with the principles of the Organisation for Economic Co-operation and Development, is also still a work in progress. The MSISTAP has been instrumental in supporting the company's establishment as a holding company with modern corporate structures and policies. This includes the preparation of an initial charter and regulations and a corporate strategy, as well as management and governance-related training. Nevertheless, political influence remains strong, and key measures remain to be taken to ensure that its financial reporting and corporate governance practices are up to international standards.

The Bank's support for EITI included TA and capacity building to the government and CSO stakeholders.<sup>4</sup> As of 2014, Mongolia's EITI has made a positive contribution to tax payments and revenue management, but there is little evidence of any impact on governance and accountability. Based on interviews with key stakeholders, the extended and intensive EITI-mandated validation process can be credited with having reduced tax disputes and improved the mining industry's compliance with applicable taxes. Another important impact has been to demonstrate the feasibility of the multistakeholder approach for discussing issues of public interest. Indeed, it has become more familiar for government officials and has facilitated opportunities for CSOs to become involved in other areas, such as budget monitoring and environmental management.

As an integral part of the Bank's strategy for the mining sector, the Bank supported studies that identified the potential impacts associated with the major forthcoming mining projects in the South Gobi. These studies, looking mainly at the Oyu Tolgoi and Tavan Tolgoi mining projects, recommended options for addressing environmental impacts through the development of towns, transport infrastructure, energy, and water resources, as well as the management of environmental issues. The Mining Infrastructure Investment Support Project followed directly from the findings of these studies. Its objective is to facilitate investments in infrastructure to support mining and

downstream processing activities and to build local capacity to prepare infrastructure projects.

### **STRENGTHENING ENVIRONMENTAL MANAGEMENT AND INSTITUTIONS**

In 2005, the Bank was entrusted with the management of the Netherlands–Mongolia Trust Fund for Environmental Reform. Its objectives were to: (i) establish sound baselines of knowledge for environment and natural resources; (ii) raise the visibility of environmental affairs at the local and national levels; (iii) broaden the participation of local communities in environmental activities; and (iv) help the Ministry of Nature and Environment to prioritize responses among the many environment and natural resource issues the country was facing.

The Bank became instrumental in raising the profile of the environmental agenda with the government, as well as in helping to promote a vibrant civil society response. Field interviews confirmed that the project's promotion of environmental messages raised public awareness of the issues and contributed to their inclusion in every political party's campaign platform. Its support for the Environmental Management Plan and the National Environmental Action Plan directly contributed to the expansion of the Ministry of Environment's mandate and power, and enabled it to take a lead role in preparing the government's Green Development Strategy. A small grants program played an important role in strengthening the capacity and increasing the number of environmental nongovernmental organizations from a very low base. Also, while the online posting of EIAs (a prior action under the second DPC) is not yet universally enforced, its implementation for most mining and other major projects represented an important step toward enhancing transparency and providing opportunities for CSO participation in the discussion of sector-related issues.

Another area of the Bank's environmental focus has been the issue of air quality in Ulaanbaatar. A 2007 Bank report reviewed the challenges and opportunities for providing cleaner and more energy efficient heating stoves and fuels as one of the options for addressing the city's serious air pollution problem (World Bank 2009). A subsequent 2011 Bank study concluded that Ulaanbaatar was the most polluted capital in the world, with associated health impacts estimated at about 19 percent of the city's GDP (World Bank 2011). The study also evaluated the major abatement options and recommended a strategy that has informed the design of the Bank's Ulaanbaatar Clean Air Project (UBCAP) and parallel projects by the Millennium Challenge Corporation, the Asian Development Bank, and other donors (World Bank 2012).

The Bank's involvement with the city's air pollution problem, including through its analytical work, helped define and launch a multi-donor effort to address the issues. The IEG mission confirmed that the Bank-supported studies on air quality management

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had played a major role in developing the city's strategy for reducing air pollution, which is being implemented with the assistance of several donors. As part of these studies, the UBCAP is testing, selecting, and distributing improved stoves, which have now been delivered to about 85 percent of ger households. The stoves<sup>6</sup> have already led to a 10-15 percent reduction in peak particulate levels in Ulaanbaatar. The UBCAP is also laying the groundwork for the strategy's next steps by helping establish a testing laboratory, by encouraging the development of better and affordable stoves, and by coordinating with the Japan International Cooperation Agency to strengthen Ulaanbaatar's air quality monitoring agency.

### **Conclusions**

The Bank Group has helped establish the underpinnings for improved mineral sector management, but full implementation will depend on unpredictable political dynamics. Overall, the contribution to strengthening the management of the mining sector was moderately satisfactory. The Bank Group's support was highly appreciated and contributed to institutional strengthening and an understanding of sector issues. However, aside from EITI compliance, the expected outcomes of the Bank's interventions are taking longer to achieve than planned. In addition, the ongoing fiscal and economic crisis has severely curtailed the ability of government agencies to continue financing and building on the improvements brought about by Bank projects, thereby jeopardizing some of the achievements.<sup>7</sup>

The Bank Group's interventions were instrumental in reforming and strengthening the environmental management framework, although enforcement has lagged. The contribution in the strengthening of environmental management was satisfactory (table 4.1). The Bank helped to raise the profile of the environmental agenda with the government and promote a vibrant civil society constituency to support it. Its studies on air quality management played a major role in developing Ulaanbaatar's strategy for reducing air pollution, and the UBCAP is contributing to its implementation in coordination with several major donors. The IFC and MIGA's involvement with Oyu Tolgoi as well as IFC's support – through MSC Holdings (Energy Resources) – for a coking coal project in Tavan Tolgoi helped integrate internationally acceptable performance standards for environmental and social management in the two largest mining projects currently under way.

**Table 4.1. Summary Rating for Pillar 2: Mineral Sector and Environmental Management**

Areas	Outcomes	Bank Group Contribution	Ratings
Mineral Sector Management and Governance	In 2005, as part of its strategy to attract foreign investors, Mongolia joined the Extractive Industries Transparency Initiative and became fully compliant in 2010. Nonetheless, the overall quality of governance remains a concern and threatens to undermine the country's realization of the full benefits from its resource endowment.	The Bank Group has helped establish the underpinnings for improved mineral sector management, but full implementation will depend on unpredictable political dynamics. The Bank Group's support contributed to institutional strengthening and an understanding of sector issues.	Moderately satisfactory
Environmental Management Framework	Mongolia's environmental management framework has been gradually reformed and strengthened. Environmental control legislation has been updated and modernized, including an amended Law on Air Pollution in 2011, a Water Protection Law in 2012, and an updated Law on Environmental Impact Assessment in 2012 that mandates the disclosure of and public consultations on environmental assessments for all major investment projects. Despite these reforms, enforcement has been lagging, and environmental conditions have not improved.	The Bank Group's interventions were instrumental in reforming and strengthening the environmental management framework, although enforcement has lagged. The Bank helped in raising the profile of the environmental agenda with the government and in promoting a vibrant civil society constituency to support it. The International Finance Corporation and Multilateral Investment Guarantee Agency helped integrate internationally acceptable performance standards for environmental and social management in the two largest mining projects now under way.	Satisfactory
<i>Overall Rating</i>			<i>Moderately satisfactory</i>

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<sup>1</sup> For example, the European Bank for Reconstruction and Development has been supporting the creation of an electronic system for preparing the Extractive Industries Transparency Initiative (EITI) reports to enhance its timeliness and accessibility to the public. The Swiss Agency for Development and Cooperation is supporting the government's strategy for managing artisanal mining issues, following an initial launch by the Bank Group's Communities, Artisanal, and Small-Scale Mining Program. The assessment of the South Gobi's water resources, initiated under the Bank's Netherlands-Mongolia Trust Fund for Environmental Reform (known as NEMO), has become a \$7.4 million project funded by the Australian aid agency, AusAID. AusAID has also funded the Responsible Mining Initiative, a civil society-industry network established to understand and address the impacts of mining on local communities. German Technical Cooperation is supporting an environmental protection in mining project. Korea is supporting work on occupational health and safety issues. The Canadian International Development Agency is focusing on strengthening the geological survey, and addressing mine closure and reclamation issues.

<sup>2</sup> The Equator Principles is a risk management framework, adopted by financial institutions, for determining, assessing, and managing environmental and social risk in projects. It is primarily intended to provide a minimum standard for due diligence to support responsible risk decision making.

<sup>3</sup> Erdenes MGL LLC is a state-owned limited liability company that was established in 2007 to represent the government of Mongolia in ownership and development of strategically important mining deposits. It manages the government's 34 percent equity share in all mining investments mandated by a 2006 amendment of the Mineral Law.

<sup>4</sup> Mongolia-EITI Phase I; Mongolia Phase II: EITI Implementation; Mongolia: Post Compliance I; and Improving Civil Society Engagement in EITI in Mongolia.

<sup>5</sup> The air quality analysis was peer reviewed by the Japanese International Cooperation Agency, as another example of the Bank's donor coordination effort.

<sup>6</sup> The stoves reduce particulate matter emissions by about 40 percent compared to traditional stoves. The cost of the stoves (at about \$250 each) and the price subsidy (of about 90 percent, jointly covered by the project and the government) were high. However, a study had concluded that the benefits of reduced health impacts were even higher, and that the promotion of improved stoves was the most efficient first step for the long-term strategy for reducing pollution.

<sup>7</sup> For example, while funding for the independent validation of EITI (a prior action under the first DPC 1 is mandated by law, funding for Mongolia's EITI Secretariat depends on the vagaries of the budget process. Funding for the consultant studies and training needed to nurture the mining sector's legal and policy reform process could also slow down once the Mining Sector Institutional Strengthening Technical Assistance Project is completed in 2015.

## 5. Enhancing Economic Diversification and Nonmineral Sector Growth

Diversification of the economy is critical for long-term sustainable development. Diversifying away from natural resources can help reduce the vulnerability of the economy to commodity price fluctuations, create more jobs and address acute social welfare problems, helping to generate sources of sustainable growth when resources are declining or exhausted.

This chapter discusses the role of the World Bank Group in promoting economic diversification and the entry of the private sector into the nonextractive sectors. It assesses interventions to: (i) support efficient diversification through private sector development (PSD) by reducing the cost of doing business and improving the business environment; (ii) strengthen the financial sector, including expanding access to credit for small and medium enterprises (SMEs); and (iii) lessen critical infrastructure bottlenecks in areas such as energy and transport, including through the promotion of public-private partnerships (PPPs) in infrastructure as well as improvement in regulatory frameworks.

### Enhancing Economic Diversification and Private Sector Development

Mongolia's transition to a market economy has been successful in generating private sector initiatives. The GDP share of the private sector rose from 5 percent in 1990 to about 65 percent in 1999, and trade diversified considerably. The government took measures to enable property ownership, remove price and marketing controls, reduce trade barriers, simplify the tax regime, and develop an enabling environment for attracting foreign investment. A positive supply response to these reforms was seen as early as 1995 in the form of increased investment in mineral exploration and development, greater livestock production, and an increase in small-scale service and trading activities in urban areas.

#### RESULTS

Over the evaluation period, the weight of the mining sector in the Mongolian economy increased steadily. Mineral production represents 20 percent of GDP and 85 percent of exports, which is by far the largest share in the East Asia and Pacific Region. Indeed, it is more in line with the proportions of the oil-producing Gulf states (Hasnain and others 2013). The 2008–2009 global economic crisis resulted in a dramatic fall of copper

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prices by 60 percent and brought into focus the fragility of the Mongolian economy as a consequence of its dependence on mining revenues (figure 5.1).

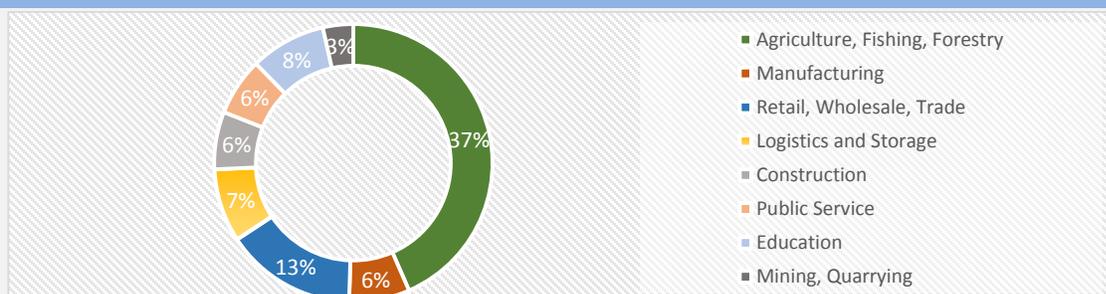
**Figure 5.1. Export Shares of Mineral and Nonmineral Goods, 2007–2012**



Sources: National Development and Innovation Committee; Mongolian authorities, Bank staff estimates, Mongolia Economic Update.

Mining-driven GDP growth is generating little employment for the overall economy. Although the economy grew by almost 100 percent between 2004 and 2014, employment increased by less than 11 percent. The capital-intensive mining sector employs less than 3 percent of the total workforce (see figure 5.2) – mostly foreign construction workers – although it accounts for one-fourth of total GDP. For example, the Oyu Tolgoi project employs about 15,000 workers during the construction phase, or roughly 0.14 percent of Mongolia’s labor force, and will employ only about 3,500 during production (see figure 5.2). By contrast, the labor-intensive agricultural sector contributes 18 percent to the GDP, but employs 37 percent of the workforce. Economic growth resulted in little new employment, and where jobs did increase, it was often at the expense of productivity. During the global economic crisis, the labor market was severely affected, and unemployment reached a record 12.8 percent in 2009.

**Figure 5.2. Employment per Sector, 2012**



Source: National Statistical Office, 2012 data.

Private sector development has been hampered by corruption, government controls, and bureaucratic inefficiencies that increased the cost of doing business. Over the evaluation period, wider policy instability resulted in profound ambivalence towards foreign investment and deep politicization.<sup>1</sup> The most cited impediments to doing business were corruption, lack of finance, and the burden of taxes, according to the Bank's 2004 Investment Climate Assessment (ICA) Survey. The government was still controlling privatized enterprises in key sectors, including copper, meat, cashmere processing, energy, railways, air transport, telecommunications, and banking. Procedures were onerous. Other constraints identified by potential investors included inconsistent and nontransparent implementation of tax policies and customs procedures, a difficult land-leasing regime, and cumbersome investment approval procedures.

The government made legislative amendments to address some of the constraints identified in the 2004 Investment Climate Assessment, but did not follow up with needed administrative improvements. The government adopted a major tax law in 2006 to address some shortcomings, including provisions for loss-carry forward and investment tax credits, but it failed to unify the two-tier tax structure. Tax administration still has to be modernized by adopting and implementing reforms to avoid inconsistencies in the administration of the tax code, particularly the excessive discretion of tax inspectors. In 2008, the government decreased the overall contribution rate for social insurance from 30 to 20 percent to reduce the burden of social security taxes.

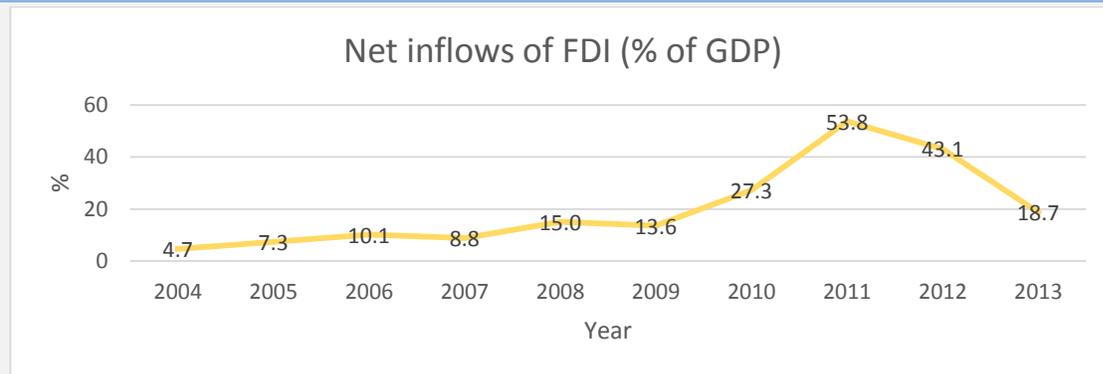
The government also took some legislative steps to tackle corruption. A new anticorruption law requiring income and asset disclosure and introducing sanctions against conflict of interest was passed in 2006. The law created the Mongolian Anti-Corruption Agency (MACA) in charge of preventing, detecting, and investigating corruption cases. It also allows business entities, organizations, and private citizens to report corruption. However, in practice, MACA does not yet have the capacity and authority to be fully effective in investigating corruption cases. Results from the Survey on the Perceptions and Knowledge of Corruption ranked corruption as the second most critical issue in 2006, and the third most important in 2014, after unemployment and inflation. The impacts of corruption on family, politics, and businesses show declining trends but remain significant. However, there is a sharp decline in the reported incidence of bribes at the household level from 28 percent in September 2006 to 8 percent in 2014. In addition, the recent tendency for the party or factions winning the election to investigate corruption on the part of their predecessors and to bring cases to court could be a significant deterrent to corruption.

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Political influence in the award of contracts has been a significant problem. In 2007, the government introduced provisions for direct contracting in the roads and energy sector. As a result, in 2007, 43 percent of all contracts were awarded through direct contracting – allegedly with numerous technically unqualified and politically well-connected companies (Hasnain and others 2013, 47). Acknowledging the need to overhaul procurement, the government is trying to increase transparency and reduce the risks of corruption.<sup>2</sup> In 2011, the government amended the Public Procurement Law and gave a new role to civil society organizations (CSOs) in evaluating bids and monitoring implementation of public contracts, placing Mongolia at the forefront of disclosure and participation in public procurement. CSOs across Mongolia have formed a network called the Public Procurement Partnership to facilitate engagement with the government and foster capacity building. Successful CSO oversight will require the development of sound implementing regulations, appropriate self-regulation by CSOs to minimize conflict of interest and the prevention of CSOs from being “captured” by political and business interests, as well as a sustainable funding mechanism (Hasnain and others 2013). No evidence is yet available on the effectiveness of this new model.

The government has taken measures causing uncertainties for foreign investors. In May 2012, the government adopted the Law on the Regulation of Foreign Investment in Entities Operating in Strategic Sectors (that is, mining, banking, finance, media, information, and communications). The law contained provisions that encumbered the sale of assets and thus the ability of investors to cash in on investments. This in turn caused a sharp fall in foreign direct investment (see figure 5.3). This led the government to reverse its decision, and a new investment law was adopted in November 2013. It eliminated restrictions on private foreign investment, reduced approval requirements for state-owned foreign investment, and introduced a simpler and more open investment process. Further, it established a new agency to assist with the process, and provided an array of investment incentives to create momentum for regaining investor confidence. It is unlikely that the new law will generate a positive FDI response before issues are resolved around Phase II of Oyu Tolgoi.

**Figure 5.3 Net Inflows of Foreign Direct Investment**



Source: World Development Indicators Database.

### BANK GROUP CONTRIBUTION TO RESULTS

Bank Group analytical work and advisory activities identified and addressed some of the main obstacles to improving the business environment. The 2004 ICA raised government awareness regarding the key obstacles impeding the business environment and reinforced the need to amend the fiscal code and pass anti-corruption legislation. The Business Inspection Reform Project supported the enactment of laws, regulations, amendments, and codes that reduced inspection time by 20 percent. IFC's advisory work targeted access to finance through leasing. The Leasing Development Project helped the government develop a leasing law and amendments to other corresponding laws. The new legislation was enacted on January 1, 2007. The project also assisted a cooperating bank in developing a new leasing company in 2006. With IFC assistance through a corporate governance project, the Mongolian parliament adopted a new company law in 2011 to strengthen the country's corporate governance regulations and improve transparency. IFC also supported work on a Corporate Governance Project (2009) and Business Inspection Reform (2008).

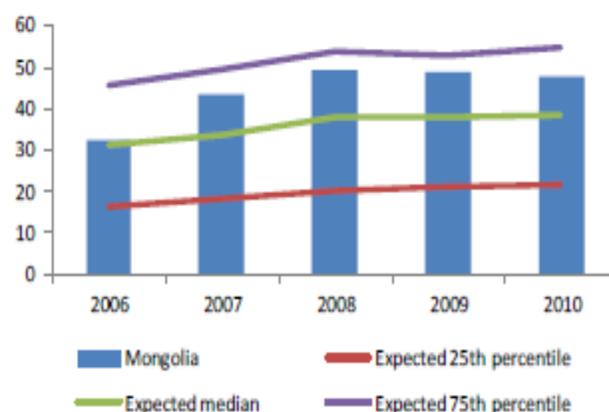
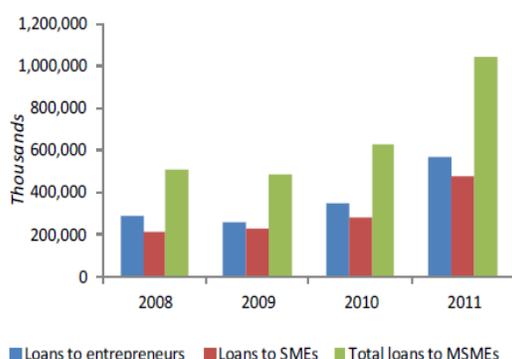
Bank PSD assistance was mainly through increased access to financial resources for the private sector. The Bank's Private Sector Development Credits (PSDC I and II) tackled the mismatch of terms between assets and liabilities of the banks in Mongolia, which limited their capacity to provide longer-term credit to private enterprises. The projects offered a credit line for eligible private financial institutions (PFIs) for on-lending to viable investment projects. It also provided technical assistance to strengthen the financial intermediation function of PFIs, and the financial supervision functions of the Bank of Mongolia (BOM).

Bank support increased the amounts of term lending available to private firms, primarily SMEs. Loans supported by the two PSDCs had an average maturity of three years, whereas PFIs would normally offer only one-year loans from their own

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resources. The quality of the portfolio was good.<sup>3</sup> The loans had a direct and positive effect on SME business activity and relevant employment, plus a likely indirect effect on other banks, inducing them to increase term lending. However, the sub-loans are offered at interest rates that are not market determined.<sup>4</sup> They do not reflect the maturity risk. As such, they risk skewing the credit market and crowding out competitive lending. Sustainability will be an issue as the underlying incentives to commercial banks for term lending have not fundamentally changed. The structural mismatch between the SME need for long-term assets and their access to only short-term liabilities has not been solved.

**Figure 5.4. Access to Finance**



Source: BOM

Source: Bank of Mongolia; Financial Sector Assessment Program Development Module Mongolia Access to Finance Technical Note, June 2012, the World Bank.

IFC's investments also contributed to improving access to finance, especially for micro, small, and medium enterprises (MSMEs) as well as facilitating trade. IFC participated with equity in the two banks with the largest branch network in Mongolia. One of the banks pioneered micro-lending while the other focused on micro-finance. Through additional loans, IFC helped them enhance their capital base and improve access to finance. As a consequence, one of the two banks was able to expand its micro-loan borrowers from 150,000 to 330,000 while increasing total loans from \$64 million to \$480 million – thus supporting livelihoods and employment generation particularly in low-income rural communities. At least 5,000 MSMEs benefited from loans. Apart from equity and loans, IFC developed trade-financing facilities in the cooperating banks. However, they reported that facilities were underused due to scant demand. Instead, they preferred other funding sources since IFC's funds were more expensive to use.

More recently, IFC has begun to invest more actively in PSD outside of the financial sector. In 2008, IFC cooperated with a major holding company to develop residential and commercial properties (\$15 million participation), and later in 2011 to construct a

five-star hotel (\$50 million participation). This cooperation continued in 2012 with a \$15 million mining project and a \$50 million loan to develop a large, affordable housing complex for middle- and lower-income people in 2013. Other projects include a \$2 million investment in a dairy farm in 2011 to expand production, a \$7.5 million participation in the first Mongolian private equity fund for small and medium businesses, and a \$40 million loan in a holding company to support its expansion in sectors such as renewable energy and transport.

The participation of the Multilateral Investment Guarantee Agency (MIGA) was marginal.

- One operation that guaranteed a \$20 million investment in 2006 was canceled in 2007. TDB was the largest Bank in Mongolia when it was established by the government of Mongolia in 1990. TDB was also the first Mongolian corporate in 2007 to successfully complete the public placement of debt in the international capital market and has since been followed by two other Mongolian companies in 2012. IEG concluded the evaluation of the project in FY13, rating the Development Outcome as Excellent. IEG evaluation found that the World Bank Group (i.e., World Bank, IFC, and Multilateral Investment Guarantee Agency) played a key role in the successful privatization of the Bank. The IEG assessment stated, “The process of privatization of financial institutions should be fully aligned with the Host Country’s strategic program for the development of the sector. MIGA’s involvement and close coordination with other leading international development and financial institutions increases substantially the chances of success of the privatization process.”
- Two pipeline projects are not progressing because of political issues around Oyu Tolgoi that are blocking all MIGA engagement.

## **CONCLUSIONS**

The Bank Group seems to have lacked a long-term strategic approach to the challenges of improving the investment climate. Since 2004, Mongolia has made progress in developing its legal and institutional structure, but there is still much to do in removing the constraints to doing business. The 2004 ICA identified key parameters that hampered the investment climate – political corruption and limited access to finance. Some advisory efforts were dedicated to improving the business and regulatory environment, but overall Bank Group involvement does not appear to reflect either the priority given to the issue in strategy documents or its comparative advantage in working in this area.

Despite the emphasis in the strategy documents on supporting increased diversification and competitiveness and improving the investment climate, the Bank Group program

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focused on providing term lending for SMEs. The PSD strategy at the beginning of the evaluation period identified the objective of support for developing a vibrant private sector, with specific targets for FDI and export growth by 2007. In practice, these targets were met with substantial FDI given the mineral discoveries and increased exports. However, there is no clear results chain linking the Bank's programs to these outcomes. The Bank Group provided support through two consecutive lines of credit for on-lending to SMEs, and IFC supported the banks for MSME lending. Several businesses in various sectors benefited, yet the effect was limited. IFC also offered trade finance facilities, which were not used to the full potential.

Private sector development does not appear to have played a major role in the policy dialogue. The Bank Group appears to have been ambivalent about how much focus to put on PSD-related issues in Mongolia and which of these issues to address. Bank Group support for SMEs, some areas of progress on the institutional framework, and recent support for agro-enterprises are all worthwhile activities, but taken together they do not add up to a strategy. Bank lending and analytic work appear to have been operating independently of each other rather than developing synergies. Consequently, this evaluation rates the outcomes of Bank support for PSD as moderately unsatisfactory.

### **Strengthening the Financial Sector**

Natural resource-rich countries face both specific constraints to developing financial systems as well as extra financial stability risks. At the macroeconomic level, the overall demand for finance is usually reduced. The nontradable sector, the competitiveness of which is hurt by Dutch disease effects, tends to reduce its demand for financial services. Furthermore, a commodity boom often generates changes in entrepreneur behavior as they become more interested in rent-seeking opportunities than loans to finance the creation or expansion of their firms. Lending is likely to become riskier as macroeconomic volatility increases and nonnatural resource-based activities are crowded out.

Mongolia suffered back-to-back financial crises in the 1990s, but by 2005, its financial sector had regained momentum and was ahead of other transition economies in East Asia (World Bank 2010a).<sup>5</sup> With support from the International Monetary Fund (IMF), the government restructured the banking system. Overall, the reform process was successful in establishing a basic institutional structure. Bank concentration declined, and the Bank network extended to all *aimags* (provinces). Non-bank financial institutions expanded as well. Financial sector assets grew rapidly from 30 percent of GDP in 1999 to over 60 percent in 2005 and were funded by a sharp increase in deposits.

The ratio of domestic credit to the private sector, which reached 30 percent of GDP, was close to that of lower middle-income countries, and nonperforming loans were maintained at single-digit levels.

Despite this progress, the overall system remained fragile (World Bank 2010a). Prudential regulation and supervision were weakly enforced by the central bank. Non-bank financial institutions had proliferated, but were not adequately supervised, although they were taking deposits from small depositors. The legal and regulatory framework needed revision to align with international standards. Central bank governance and corporate governance of commercial banks were poor. Given the weakness of credit risk management, the exponential expansion of the loan portfolio between 2001 and 2005 entailed potentially higher default risks that were threatening system stability. The government was not prepared for systemic distress.

## **RESULTS**

The 2008 global economic crisis triggered a sharp deterioration in the health of the banking system. The quality of the banking portfolio was heavily concentrated on major local borrowers and sectors that suffered most during the downturn (that is, construction and real estate). This led to the growth of nonperforming loans and a crisis of depositor confidence by late 2008. To restore confidence in the system, the authorities responded with a series of actions including the provision of liquidity support, the introduction of a blanket deposit guarantee in 2009, and a sharp increase in the policy rate. The fourth and sixth largest banks were eventually placed under receivership by late 2009.

The banking sector rebounded quickly after the financial crisis, but this recovery masks lingering vulnerabilities that could trigger another banking crisis. Credit growth resumed in late 2009. Access to finance has improved over the evaluation period, as illustrated by an increase in the ratio of the credit to private sector and deposit increased and in credit to MSMEs and households. Of the population now, 80 percent have bank accounts, in part because of high branch penetration (see figure 5.4). The banking system's assets accounted for 50 percent of GDP in 2011 and 96 percent of total financial sectors, and market capitalization was more than 25 percent of GDP in 2011. However, indicators showed that banking stability was fragile. Loan-to-deposit ratios started to rise again in 2011, and both the ratio of liquid assets to total assets and the z-score<sup>6</sup> remained below the pre-crisis level.

Beginning in 2013, authorities embarked on monetary easing programs that run the risk of overheating credit demand again. To offset a slowdown in credit growth, the BOM allowed banks to offer discounted loans to select industries under the Price Stabilization Program. It also provided liquidity injection to banks and supported low interest rate

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mortgage lending. As a result, by the end of 2013, banking sector vulnerabilities were rising as shown by: rapid credit growth fueled by the BOM's monetary easing policy; an increasing exposure in the construction and real estate sectors; inadequate provisioning; and a rise in nonperforming loans. For example, the loan-to-deposit ratio, which had been increasing since 2010 reached values almost equivalent to those of December 2008 when the bubble burst.<sup>7</sup> The credit risk heightened due to recent currency depreciation and the growth in the share of foreign currency bank deposits, which was about 30 percent of total loans in June 2013.<sup>8</sup> The need for strong bank supervision is demonstrated by the deteriorating situation of the Savings Bank (the fifth largest in the country), which was put into receivership in 2013 and later transferred to the State Bank.<sup>9</sup> In 2014, Moody's Investors Service defined the outlook of the banking sector as negative.

Overall, the transmission channels of systemic risks have been rising. Recognizing these risks, Mongolia adopted some macro-prudential measures but failed to endorse a comprehensive banking reform to maintain durable financial stability. Measures to reduce systemic risks included an increase in the liquidity ratio, tightening of the capital adequacy ratios of five institutions, and a limit on exposure concentration. However, as the banking sector recovered, the momentum for policy reform faded, and the reform agenda remained unfinished. Enforcement of bank regulation was not sufficiently strong, and improvement of corporate governance practices was lagging.

There is scope for better management of systemic risks through improved monitoring of rising interconnectedness, concentrated exposure, and the foreign exchange position. Instead of using countercyclical capital buffers to smooth out the flow of credit, the BOM fueled procyclical systemic risks by easing policies. Furthermore, follow-up legislation was not passed to allow Mongolia to respond quickly to another sharp deterioration of the banking system. In 2009, Mongolia had prepared a comprehensive revised banking law seeking, among other things, to strengthen prompt corrective action clauses, improve the bank resolution framework, and reinforce prudential supervision requirements. However, it was not adopted by the parliament and many sources of vulnerabilities in the financial sector remain.

#### **BANK GROUP OBJECTIVES**

The FY05–08 CAS proposed to support the strengthening of the regulatory framework for the financial sector. It recommended that Bank Group assistance focus on further consolidation of market reforms in order to establish a sound institutional and regulatory environment for private sector-led development.

In response to the global economic crisis, the 2008–2010 ISN aspired to restore confidence in the banking sector. The severe shock in the terms of trade of 2008 exposed

the vulnerability of the banking system and undermined public confidence in it. The Bank Group sought to address bank failures and strengthen the banking system through a revision of the legal framework for the financial sector. IFC would provide support to strengthen financial markets and use its newly created, global crisis response initiatives and activities.

The FY13–17 CPS aimed at developing a deeper, more efficient, and stable financial system. Steps include: (i) identifying, monitoring, and addressing the vulnerabilities of the financial system to make the sector more resilient to future shocks; (ii) improving access to credit; (iii) strengthening financial literacy and consumer protection; and (iv) expanding the range and quality of financial products provided by non-Bank financial institutions, including the development of the domestic capital market. IFC is planning to continue to support the financial markets by introducing more complex and innovative financial products, working closely with its major clients in the banking sector.

#### **BANK GROUP CONTRIBUTION TO RESULTS**

Before the 2008 global economic crisis, the Bank identified the main vulnerabilities of the financial sector and made recommendations to address them. A 2006 Financial Sector Reform Program, done jointly with the Asian Development Bank, recommended strong financial discipline, sound corporate governance and practices, and effective prudential regulation and supervision in the financial system – as well as the implementation of an appropriate legal framework and operational structures for contract enforcement and protection of private property. The 2008 Financial Sector Assessment Program (FSAP), set up before the crisis, proved useful in addressing issues as they arose. At the time of the crisis, the Bank conducted a banking sector review and restructuring program that proposed a hands-on action plan to help with recovery. The 2009 Reports on the Observance of Standards and Codes had clear recommendations for improving corporate governance of financial and other institutions. Field interviews confirmed that these analytic reports were critically needed and proved useful during the crisis.

The Bank Group helped Mongolia develop a modern payments system. By 2007, the BOM had developed a safe and efficient online transaction system between end-users and their banks operating in a cost-effective manner and in full compliance with best international practices.

During the global economic crisis, Bank budget support and TA, complemented by the IMF program, helped restore confidence in the banking system and accelerate the legislative process to strengthen bank supervision and restructuring (IMF 2011). At the time of the crisis, the Bank together with the IMF reacted promptly to provide budget

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support. One key component of the development policy credits (DPCs I and II) was to address banking sector vulnerabilities by restoring the health of balance sheets and rebuilding confidence in the financial sector. In 2010, the Multi-Sectoral Technical Assistance Project (MSTAP) complemented their efforts. It was designed to address immediate banking sector weaknesses and to lay the groundwork for sound regulation. In particular, TA helped the BOM to finalize the liquidation of assets of the failed banks; prepare a bank restructuring strategy; develop and implement a corporate debt restructuring in the mining and construction sectors; and carry out targeted audits of financial institutions. The government approved a revised banking law in January 2010, introducing consolidated supervision and improving the resolution framework. The central bank issued new regulations to increase provisioning for restructured loans and tightened the supervision of related-party loans. The deposit guarantee system was improved. The government also took a comprehensive banking restructuring approach. The Empowering the Banking Sector and Capital Support Program, prepared with support from leading global financial experts recruited through the MSTAP, was submitted to parliament in 2010 but not approved. Instead, the authorities developed a bank-by-bank implementation plan to address capital deficiency in some banks.

IFC was also strongly engaged in the financial sector, especially the banking sector. As noted in para 5.17, IFC engagement in several banks help strengthen and developed the sector, including via mobilizing funds from other partners. Through its advisory services, IFC also assisted actively during the financial crisis. IFC provided: (i) direct financial sector TA (2007–2011) on leasing, both regulatory and operational with the creation of a leasing company, and for housing finance; (ii) advice on the establishment of a credit bureau; and (iii) investee-related TA. Working together with two major banks, IFC provided equity and developed their trade finance facilities.

#### **CONCLUSIONS**

Before the global economic crisis, the Bank's work highlighted Mongolia's limited capacity to provide oversight and the limited ability of most financial institutions to manage risk. The Bank had underscored the need to improve weak corporate governance and internal control mechanisms, but there was no buy-in from the government until the crisis hit.

Policy actions supported by the Bank helped forestall a crisis in 2009–2010, but have not been followed up subsequently. The policy actions taken by the government along with the rapid recovery of the economy helped reduce banking system stress in 2009–2010, and avoid a system-wide spillover of the two bank failures. The Bank program supported legislative progress regarding bank supervision and restructuring, but implementation failed. With the economy's quick recovery, the government's willingness to adopt a comprehensive banking restructuring strategy for the future

waned, and enforcement of prudential norms by the BOM has lagged. Hence, most of the targeted outcomes outlined in the CPS have yet to materialize, and Mongolia remains open to macro-financial vulnerability.

### **Supporting Better Delivery of Infrastructure**

As of the early 2000s, Mongolia had an extensive transport and power infrastructure in relation to its level of economic development, but water and sanitation lagged. Roads and electricity access had expanded rapidly, but considerable gaps remained, especially for access to safe water and sanitation, specifically in rural areas and informal peri-urban settlements. Only about 30 percent of households had adequate access to water and only a little over half of the rural population had access to electricity. In the majority of aimag centers, sewage was collected but flowed untreated into local water bodies. In addition, less than 30 percent of the paved road network was in good condition. Many electrical connections provided enough current for only one light bulb, and electricity distribution losses exceeded 30 percent. In addition, unaccounted for water usage comprises 29 percent of the supply in Ulaanbaatar (World Bank 2007). Appendix C provides more detailed information on the conditions and challenges that the energy, roads, and water sectors were facing at the beginning of the evaluation period.

At the same time, geography, climate, and social topography made development and maintenance of infrastructure costly. The rigorous technical requirements for equipment to operate under Mongolia's climatic extremes, the short construction season, and the long distance from international markets make the construction and maintenance of infrastructure very expensive by global standards. For example, freezing winter temperatures require that water distribution networks be buried some 3 meters below ground level. The extreme temperature range from  $-40^{\circ}\text{C}$  in winter to more than  $40^{\circ}\text{C}$  in summer causes road pavement to become fragile and deteriorate rapidly. With one-third of the population living below the poverty level, the affordability of infrastructure services has important implications for their feasibility and sustainability.

### **RESULTS**

The government has ambitious plans<sup>10</sup> to meet infrastructure needs by spending more than five times the 2011 GDP between 2011 and 2016. It proposes to make major investments in roads, railways, electricity, and an industrial park. However, Mongolia has not yet established the institutions and implemented the policy to ensure that these capital expenditures lead to sustained growth and better lives for Mongolians. As noted, the public investment program is not grounded on a sound macro-fiscal

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framework and public investment management system, resulting in problems of allocative efficiency. Also, the construction sector faces capacity constraints, and similar bottlenecks are found upstream in the availability of raw materials as evidenced by their soaring prices. Another binding constraint is the labor force shortage for the types of work involved, which is further compounded by restrictions imposed by the Labor Law on the hiring of foreign workers. Restrictions in the Customs Law on the import of equipment and noncompetitive procurement practices also create barriers to entry in the construction industry (Hasnain and others 2013).

Access to electricity has significantly improved since 2004, especially in rural areas. In urban areas, the entire population has access to electricity, except for recent migrants and those located in illegal or hazardous areas. Electricity access of the herder population increased from 15 percent of households in 2006 to about 63 percent in 2012, and about 85 percent in 2014.

Over the past decade, the energy sector has continued to reform, with significant progress in its technical performance. The gradual modernization of the regulatory framework enabled the power companies to modernize their management structure, become more commercially oriented and improve their quality of service. Also, a Renewable Energy Law was enacted in 2007, which led to the inauguration of the country's first Wind Power Plant (50 megawatt) in 2013.

The financial performance of the sector has improved but still depends on substantial donor funding and government subsidies. For example, the Ulaanbaatar Electricity Distribution Company, the country's largest, was able to reach 100 percent cost recovery in 2012, but the level fell back to 92 percent in 2013. At the Khovsgol aimag utility visited by the evaluation team, the local tariff was about 17 percent below the full cost recovery level, which was causing delays in performing maintenance and repairs. As a result, whereas the expansion of access is being subsidized by the government, the rehabilitation and upgrading of generation plants still heavily depend on donor support. Investments in new generation, through PPP plants, are being delayed by tariff and other issues. At the root of these problems is the regulatory authority's inability to balance the main requirements of the law, which mandates that tariffs are based on the real costs of operations yet requires them to be affordable to consumers. A 2010 parliamentary resolution directs that all tariffs be brought to the full cost recovery level by 2015.

The road network of Mongolia is continuing to expand, but maintenance has lagged far behind. From 2004 to 2012, the network of improved roads expanded from 5,700 kilometers to 7,900 kilometers, and the share of paved roads increased from 33 percent to 55 percent. Road construction is financed by the state budget and donor loans.

However, road maintenance is financed by the Road Fund, the main revenue for which comes from fuel and vehicle licensing taxes that have not been revised since 1995. As a result, only about 20 percent of road maintenance needs are covered. Hence, work is limited to routine maintenance (for example, clearing of drainage) and minor repairs (for example, filling potholes). It does not include preventive maintenance, medium-level repairs (for example, gravel foundation replacement), or capital repairs (complete rehabilitation). About 60 percent of the national paved road network is in need of urgent capital repair and rehabilitation.

In addition, weaknesses in road planning, management, and supervision continue to hamper the efficiency of investments. Investment planning still lacks coherence and prioritization, as well as a reliable technical and economic appraisal. Over the past decade, road construction works have been transferred to private companies under competitively tendered contracts. Although prohibited by law since 2011, large-scale direct contracting continues for a number of road projects implemented by the Development Bank of Mongolia. The quality of civil works is supervised by the Department of Roads, and contracts are audited by independent entities. In practice, project responsibility is distributed among several entities, most of which are understaffed. This leads to procurement delays and difficulty in making timely decisions. It has resulted in weak implementation rates and significant cost escalation. Although the present situation is much better than during the early 2000s when there was no supervision, the framework remains insufficient to ensure quality (ADB 2011).

The financial performance of Mongolia's water sector has not significantly improved. The Water Supply and Sewerage Authority of Ulaanbaatar City has improved its technical performance. The delivered-to-pumped water ratio increased from 75 percent in 2004 to 82 percent in 2013, indicating that leakage had been reduced. Its revenues, however, covered only about 70 percent of its expenses, causing ongoing delays in maintenance, rehabilitation, and expansion programs, as well as a mounting dependence on the government for its debt repayment. The inadequate water tariff was also blocking the government's efforts to attract private investors to the sector using the PPP approach. The shortfall of investment has led to a growing risk of water shortages, as demand by residential and commercial consumers has rapidly increased. In addition, the rate of groundwater extraction is reaching the limits of sustainability, and industrial pollution has impaired the treatability of water from the Tuul River, the main alternative source of supply.

#### **BANK GROUP OBJECTIVES**

The FY05–08 CAS focused on supporting systemic reforms to improve the efficiency and distributive impact of infrastructure investments. Recognizing the long-term nature of the challenges, the CAS emphasized developing an integrated infrastructure strategy

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with the government to improve the financial sustainability and efficiency of the energy sector, strengthening institutional capacity to manage the road network, and improving the Ulaanbaatar *ger* district's access to clean water (World Bank 2004).

The 2009–2010 ISN signaled a shift in the Bank Group's assistance from countrywide system reform toward a tight focus on helping *ger* populations in Ulaanbaatar, as well as on infrastructure for large mining projects (World Bank 2009). This focus is maintained in the FY13–17 CPS, which also notes the increasing number of people exposed to natural disasters in urban areas (mainly through flash floods and earthquakes), and commits assistance for managing these vulnerabilities (World Bank 2012a).

### BANK GROUP CONTRIBUTION TO RESULTS

In the energy sector, the Bank's interventions have been more effective in improving efficiency than financial performance. The Energy Sector Project played an essential role in supporting the organizational transformation of the power distribution companies from government agencies to commercially oriented utilities, which improved their technical and administrative efficiency. From 2004 to 2013, technical and nontechnical distribution losses were reduced from an average of 31 percent to 15 percent in Ulaanbaatar, and from 32 percent to 13 percent in 6 aimag utilities. The transformation also heightened the service orientation of the utilities. They undertook a major push to expand electricity access by 9–10 percent annually, mainly in previously unserved peri-urban settlements around both the capital and major aimag centers as well as in *soum* centers. Billing and revenue collection improved dramatically by reducing the bill collection period from 100 to 35 days in Ulaanbaatar, and from 77 to 18 days in the aimag utilities (World Bank Group 2014b).

Progress has been made toward setting up a modern energy regulatory regime, but domestic power tariffs are still below full cost recovery levels. The Bank's 2010 energy sector topic paper, prepared in response to the global economic crisis, highlighted these issues (World Bank 2010b),<sup>11</sup> but had only a modest impact. Its main recommendations could not be implemented due to a consistent political reluctance to raise the energy tariffs.

In transport, the Bank's interventions have been only modestly effective at strengthening the management of the road network. The 2001–2007 Transport Development Project supported the achievement of year-round accessibility for the main aimag centers in central and western Mongolia; an improved understanding of the types of pavement appropriate for the country's unusually harsh weather conditions; and the installation of vehicle inspection stations for all 21 aimags (World Bank 2008). Weaknesses in road planning, management, and supervision continue to hamper the

efficiency of investments. In particular, investment planning still lacks coherence and prioritization as well as a reliable technical and economic appraisal.

In addition, road maintenance funding continues to fall short. In 2010, the Bank highlighted the priority of reducing the backlog of rehabilitation and maintenance for constructing new roads (World Bank 2010b). It supported an extensive discussion of these funding issues<sup>12</sup> at the technical and ministerial levels. The “prior actions” of DPCs I and II supported an increase in the government’s overall infrastructure maintenance budget in FY10. However, within that broad category, maintenance spending by the Road Fund itself was barely raised (World Bank 2012b).

### CONCLUSION

Progress has been made on technical management outcomes, but investment planning, electricity cost recovery, and funding of road maintenance remain important weaknesses. Given that the government is spending large sums of money on expanding the infrastructure network, it is particularly important to get this right. The Bank put considerable priority on the deficiencies, but again political considerations took precedence in government programs. In future, the Bank needs to continue to focus strongly on these issues and condition its support on the willingness of the government to address them.

**Table 5.1. Summary Rating for Pillar 3: Enhancing Economic Diversification and Nonmineral Sector Growth**

Areas	Outcomes	Bank Group Contribution	Ratings
Private Sector Development	Since 2004, Mongolia has made progress in developing legal and institutional structure, but there is still much to do in removing the constraints to doing business. Private sector development has been hampered by corruption, government controls, and bureaucratic inefficiencies that increased the cost of doing business.	Despite the emphasis in strategy documents on supporting increased diversification and improving the investment climate, the Bank Group program focused on providing term lending for small and medium enterprises. The Bank Group seems to have lacked a long-term strategic approach to the challenges of improving the investment climate.	Moderately satisfactory
Financial Sector	The 2008 global economic crisis triggered a sharp deterioration in the health of the banking system. The fourth and sixth largest banks were placed under receivership by late 2009. The banking sector rebounded	Policy actions taken by the government and supported by the Bank Group along with the rapid recovery of the economy helped reduce banking system stress in 2009–2010, and forestall a system wide	Moderately satisfactory

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<b>Areas</b>	<b>Outcomes</b>	<b>Bank Group Contribution</b>	<b>Ratings</b>
	quickly after the financial crisis, but this recovery masks lingering vulnerabilities that could trigger another banking crisis. Beginning in 2013, authorities embarked on monetary easing programs that run the risk of overheating credit demand again. In 2014, Moody's Investors Service defined the outlook of the banking sector as negative.	spillover of the stresses in the two banks. The Bank program supported legislative progress regarding bank supervision and restructuring, but implementation failed. Hence, most of the targeted outcomes outlined in the Country Partnership Strategy have yet to materialize, and Mongolia remains open to macro-financial vulnerability.	
Infrastructure	Mongolia has not yet established the institutions and implemented the policy to ensure that these capital expenditures lead to sustained growth and better lives for Mongolians. As noted, the public investment program is not grounded on a sound macro-fiscal framework and public investment management system, resulting in problems of allocative efficiency.	The Bank's energy sector strategy has been more effective in strengthening institutions than financial performance. The outcome of the Bank's interventions in the transport sector has been disappointing. Although the Bank addressed the maintenance funding issue and proposed appropriate remedies, maintenance funding continues to fall short.	Moderately unsatisfactory
<i>Overall Rating</i>			<i>Moderately unsatisfactory</i>

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<sup>1</sup> The parliament's recent decision to seek a mandate by "text message" referendum to support foreign investment is a reflection of how acute a problem this is in Mongolia.

<sup>2</sup> According to publicly available information, 8 percent of the members of parliament own shares in construction companies. The top 10 local construction companies, which combined have received 30 percent of the road construction contracts in the past five years, are owned by either members of parliament or individuals with close ties to the Mongolian People's Party or the Democratic Party (Hasnain and others 2013, 48).

<sup>3</sup> Repayment records were good with no arrears on principal, and nonperforming loans (NPLs) of less than 3 percent on past due interest payments only.

<sup>4</sup> While the commercial interest rate that private finance initiatives would charge on their own resource loans was 31 percent, sub-loans sponsored by the International Development Association were offered at discounted interest rates of 19 percent to 21 percent (local currency loans).

<sup>5</sup> Like other centrally planned economies, banking was conducted by one financial institution only (that is, the State Bank of Mongolia) that did not possess the capacity to respond to market signals such as price and interest rate changes. The mono-banking system was transformed into a two-tier system in 1991, with a central bank and a number of state-owned commercial banks. This system inherited a large percentage of NPLs, most of which were loans to state-owned enterprises. Mongolia suffered from banking crises in 1994, 1996, and 1998–1999, which resulted in financial disintermediation. Of 27 banks licensed between 1990 and 2000, 15 were closed by the end of 2000.

<sup>6</sup> The z-score measures the number of standard deviations that a return realization has to fall in order to deplete equity. Therefore, a higher z-score implies stronger resilience to shocks.

<sup>7</sup> The loan to deposit ratio rose from 77 percent by end 2010 to 128 percent by September 2013.

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<sup>8</sup> Mongolia's relatively high dollarization in conjunction with the relatively small size of non-mining exports suggest that the non-bank private sector may have a considerable foreign currency mismatch with attendant risk (IMF 2014). The 2010 Financial Sector Assessment Program had recommended the establishment of guidelines for foreign exchange lending.

<sup>9</sup> The State Bank was established by the government of Mongolia from the assets of two failed banks, Anod Bank and Zoos Bank, of Mongolia in November 24, 2009.

<sup>10</sup>As specified in Sector Master Plans and the National Medium-Term Development Strategy (Hasnain and others 2013, 23).

<sup>11</sup> The paper highlights the need for new investment in the sector, most desirably undertaken by private investors who should be attracted with realistic tariffs that would need to be increased while minimizing the impact on the poor. It also discusses and ranks a long list of thermal and hydro-generation projects and the possible strengthening of transmission linkages to the Russian Federation and China.

<sup>12</sup> As a source of funding, it recommends appropriate levels of taxes on drivers' licenses, vehicle registration, and road user charges rather than reliance on the government's budget.

## 6. Improving the Livelihood of the Population

The heart of Mongolia lies in the rural *gers* (traditional round tents) that dot the steppes. Mongolia has 45 million head of livestock and less than 3 million people, with 42 percent living in rural areas. Until recently, a majority of the population were nomadic herders who depended on livestock for sustenance and moved to different grazing areas during the year.

In recent years, a substantial population migration to the capital, Ulaanbaatar, of mostly low-income migrants has created vast ger areas in the outskirts of the city where basic infrastructure, hygiene, and sanitation services are very limited or nonexistent.<sup>1</sup> Water is mostly only available through a network of public kiosks or from trucks. Many roads are unsurfaced and in a permanent state of disrepair. The ger areas are also prone to flash flooding and suffer from water pollution from the prevalence of poorly constructed latrines, as well as from soil and land pollution resulting from the open dumping of solid waste (World Bank 2006).

This chapter presents poverty trends, reviews social protection and education policies, and assesses the effectiveness of programs to improve livelihoods in rural and peri-urban areas since 2004. World Bank support for poverty reduction and inclusive growth in Mongolia is discussed in four broad areas of interventions: design of social protection programs, education, rural development, and urban development. Bank interventions in the health sector have been limited to a 2008 trust fund, which is improving the preparedness for and the ability to respond to Avian and human pandemic influenza, and to a 2012 trust fund for building capacity to prepare for emerging infectious diseases. These trust funds are not covered by this evaluation.

### Understanding the Sources of Poverty and Improving Social Protection Policies

#### RESULTS

During the review period, Mongolia experienced social and economic progress. This included, for example, higher educational attainment, lower incidence of illness, and greater access to solar energy and telecommunications. However, one-third of Mongolians remain poor, and aggregate poverty data mask large differences across regions and household dwelling status.

Between 1998 and 2002, Mongolia made considerable progress in reducing the incidence of poverty. The consumption-based measure of poverty fell by 21 percent, and per capita household consumption increased by 18 percent. Nonmonetary

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indicators of living standards also showed some improvement. Infant mortality fell by 14 points (from 35 to 21 per 1,000 births), and access to physicians improved. Access to water and electricity increased more for the poor than for the country as a whole. An important element of these gains was the adoption of a broad social insurance system to reduce economic insecurity and alleviate poverty. But its design was complex, had many redundancies, and suffered from extensive “leakages” and poor coverage of the needy.

The precise decline in poverty trends over the evaluation period is not known. There was a change in methodology used over this time, making adjustments to obtain comparability very difficult. Hence, the country team could not compute a consistent poverty rate estimate from 2005 to 2013. More precisely, no corrected estimates for the period prior to 2010 have been made.<sup>2</sup> Poverty declined over the evaluation period, but the rate of decline in the earlier years was slower. Prior to 2008, the decline was not impressive given the rate of economic growth. By contrast, the poverty decline after 2010 was greater, falling by an average of 5 percentage points per year between 2010 and 2012 (from 38.7 percent in 2010 to 27.4 percent in 2012). The poverty decline in rural areas was faster – 13.5 percentage points over the two years – compared with urban areas (9.9 percentage points). However, with only a few data points, skepticism about the sustainability of this trend remains.

Over the evaluation period, the government failed to implement a coherent agenda for social transfers. On paper, the Social Security Sector Master Plan (SSMP) of 2003 is coherent and well directed, recommending the consolidation of programs and improved targeting. However, successive governments failed to provide a clear implementation strategy. Instead, they introduced or expanded programs in response to populist electoral promises and reversed them during downturns when fiscal constraints became binding.

In 2005, the Child Money Program was introduced on a targeted basis, and in 2006, it was expanded to universal coverage. This change contributed to poverty reduction but at a higher fiscal cost, which progressively became unsustainable because the benefit served as a consumption subsidy for the nonpoor. With the global economic downturn in 2008, the decision was made to scale back and target transfers. The 2012 Social Welfare Law aimed to change the universal social transfer to a well-targeted safety net program that protects the poor and is fiscally sustainable. However, the government that took office in 2012 has not yet implemented this legislation (see box 6.1).

### Box 6.1. Inconsistent Implementation of Social Protection Policies

In January 2005, the government introduced the Child Money Program (CMP) as part of the 2004 election campaign. It was the first attempt to initiate a conditional and targeted cash transfer following good practice. However, implementation issues were rapidly encountered. The program faced large targeting leakages and was perceived as unfair.<sup>3</sup> In addition, monitoring was weak.<sup>4</sup> As a result, the CMP reached most nonpoor households even before it was universalized. An evaluation of the scheme indicated that the CMP had a small impact on reducing poverty and a large impact on high school enrollment, but at a high cost. Social assistance costs skyrocketed and became unsustainable after universalization of the child money transfer in 2006. The CMP quickly became the country's largest social assistance program.

The 2008 global financial crisis and ensuing fiscal crisis in Mongolia restored the government's interest in developing a more efficient and cost-effective system. However, as fiscal space returned, political maneuvers to fund greater social transfers resumed. At first, the government cut social transfers. It also started to draft a plan to use legislation to overhaul the system through the introduction of a new benefit transfer program targeted exclusively to poor households. However, reform momentum plummeted by end-2009 when the economy was recovering and revenues were buoyed through high commodity prices and revenues. In 2010, the lack of a clear policy direction proved costly as the rural poor were left with no social assistance program when the *dzud* devastated their livestock. In early 2012, parliament finally adopted the new Social Welfare Law, which reintroduced more targeted social assistance. However, after the 2012 national elections, the new government suspended the national rollout of the cash-based Poverty Targeted Benefit, which was the centerpiece of the law and resumed the CMP.

The government has not yet adopted the measures passed in 2005 to reform the pension system, and the deficit keeps growing. Pressing pension policy issues are linked to treating different workers and cohorts equitably and achieving predictability and sustainability – the lack of which jeopardizes public credibility and compliance. To increase labor competitiveness and reduce incentives for underreporting, in 2008 the government decreased the overall contribution rate for social insurance from 30 to 20 percent. Despite this reduction in the contribution rate, revenue sources remained stable over the past decade at about 4.8 percent of GDP.<sup>5</sup> However, the overall deficit between contributions and benefits has continued to grow over the evaluation period. Projections of pension insurance contributors and beneficiaries suggest that future increases in population old-age dependency ratios will translate into worsening dependency ratios from 11 percent in 2010 to 53 percent in 2050. The government is working on a new policy proposal and plans to send it to the parliament before the end of 2014.

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### **IMPROVING THE LIVELIHOOD OF THE POPULATION**

#### **BANK GROUP OBJECTIVES**

Over the evaluation period, Bank strategies were designed to protect poor and vulnerable groups. The government received support to: (i) enhance its understanding of poverty and inequality including its gender dimension; (ii) strengthen the national poverty monitoring system;<sup>6</sup> and (iii) adopt reforms to introduce targeted social protection policies. In particular, the 2005 CAS sought to improve the targeting of social assistance programs. During the global economic crisis, a key objective of the ISN was to protect the poor and vulnerable by retargeting social transfers to the poorest. This objective was pursued by the current country program strategy (CPS), which seeks to assist the government in designing and implementing a comprehensive protection system for the poor.

Social protection objectives were relevant and aligned with the country's strategic objectives. The SSMP of 2003 sought to rationalize the system and improve cost efficiency through a clarification of eligibility criteria and decentralization of management. Later, the 2008 Comprehensive National Development Strategy reiterated the goal of implementing a social welfare policy primarily targeting low-income and vulnerable groups. However, as noted, the successive governments failed to produce a consistent implementation plan. Despite the lack of buy-in by the government, the Bank maintained the objective of introducing a targeted social welfare system by trying to progressively build a broader awareness and consensus across parliamentary parties around the need to design and implement a poverty-targeted transfer scheme.

#### **BANK GROUP CONTRIBUTION TO RESULTS**

Over the evaluation period, the Bank produced several poverty-related analytical activities, provided TA support, and maintained a sustained dialogue on poverty issues. The Bank's analytic work included the Mongolia Economic Updates, as well as the 2006 Poverty Assessment and policy notes produced during the economic crisis. The Bank also provided TA through a project to strengthen the National Statistical System of Mongolia (World Bank 2010b). This effort led to the adoption of a new methodology in 2012 to make a quantitative assessment of the poverty rate and assess poverty dynamics. This is a noteworthy achievement compared to the mid-2000s when the official poverty numbers were estimated using inconsistent poverty lines, leading to the drawing of erroneous conclusions on poverty trends over time. The methodology used for estimating the most recent 2010–2012 poverty trends follows international standard practice for consistent poverty estimation over time. It provides policy makers with more accurate indicators to evaluate the impact of public policies. In field interviews, representatives from the National Statistics Office (NSO) expressed the view that the partnership with the Bank to conduct surveys, and announce and publish the results, had been fruitful – playing a critical role in eliminating political disputes over findings.

Bank engagement on social protection issues was mostly through analytical work until the global economic crisis in 2008. The crisis highlighted the need to better protect the poor and improve the fiscal sustainability of the social welfare system. Its reform became one of the key policy areas supported by the 2009 and 2010 Bank development policy credits (DPCs), together with the 2010 Multi-Sectoral Technical Assistance Project (MSTAP).

Prior to the crisis, Bank analytical work attempted to build awareness and foster a generate debate on the need to reform social assistance. The objective was to develop a sustainable scheme that would retarget assistance to the poorest. The Bank was taken by surprise when the government unexpectedly decided to universalize the child money transfer program in 2006. Partly as a result, the Bank launched a political economy study. It concluded that given the reluctance of government to revise the universal policy, the Bank should focus instead on encouraging: (i) monitoring of the impact of the CMP to build evidence of the program's achievements; (ii) public debate on social policies; and (iii) dialogue with key policy makers in the main political parties. The Bank followed up on these recommendations.

The Bank's analysis buttressed the understanding of the limited impact of the universal child transfer program on poverty reduction and its fiscally high and unsustainable costs. The Bank's recommendations focused on policy measures to maximize the social impact of the program at a lower cost, notably through refining the targeting method<sup>7</sup> to reach poor households. It also simplified the implementation arrangements including the payment system.

In 2009, building on the prior analytical work and dialogue, the Bank used the global economic crisis as an opportunity to support the introduction of poverty targeting. The Bank provided budget support to protect the most vulnerable from the downturn through an improvement in the efficiency and fiscal sustainability of the safety net.<sup>8</sup> The DPC Phase I (2009) supported the reconversion of the universal CMP into a targeted program based on a proxy-means targeting formula using the most recent 2007–2008 household data. Since the government terminated the CMP in 2009, the DPC Phase II (2010) together with the MSTAP (World Bank 2010a) supported the development of a social welfare reform through the consolidation of existing social transfers; the establishment of a proxy means test; and the introduction of a poverty-targeted benefit. These operations were implemented in close coordination with the International Monetary Fund's program, and technical assistance from the Asian Development Bank.

Implementation of a targeted and sustainable social welfare system is still a work in progress. The Bank has made major efforts to reach out to parliament to demonstrate the need to build support for a targeted social welfare system. As a result, the

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### IMPROVING THE LIVELIHOOD OF THE POPULATION

government adopted the Social Welfare Law (SWL) in 2012 to overhaul the system. It sought to do this through the introduction of the Poverty Targeted Benefit (based on a proxy means test), a substantial consolidation of benefit programs, and an adjustment in the size of the social transfers to improve longer-term fiscal sustainability. In parallel, the Bank provided TA to build the technical and institutional capacity that was needed to launch the reform. However, this goal proved challenging, and technical work was delayed repeatedly due to capacity, technical, procurement, and political reasons.

The current objective is to help build a database to support the targeted provision of a range of government services (for example, subsidized stoves, medi-cards, and scholarships). Though the government is pursuing the technical work to build this database, it is not yet ready to substitute the multitude of categorical transfers into a coherent set of targeted social transfers as called for by the SWL. The political will is lacking for implementing the law. In 2013, only one targeted program – the food stamp program introduced with ADB support – is included in the budget, and it covers only 5 percent of households. Targeting is still on the agenda of the Ministry of Population Development and Social Protection. During field interviews, interlocutors said that their objective is to first assess the impact of selected transfers, which in general are ineffective and costly to administer, and propose to the parliament their consolidation or elimination before trying to introduce a new poverty-targeted benefit scheme.

The Bank also conducted timely analytical work at the request of the government to evaluate the Mongolia pension scheme and propose policy reforms (World Bank 2011b). The state subsidy for pensions and social insurance is expected to increase substantially under the current policies. Short-term reforms are needed to prevent a severe reduction in benefits for new female retirees in 2015 and male retirees in 2020. Also, benefits for herders and workers in the informal sector are likely to be low because of their limited participation in the pension insurance scheme introduced in 1994, as well as gaps in the provision of pension benefits.

Bank analytical work on pensions made recommendations that were well customized to the Mongolian situation and agreed on by technical staff. However, so far, policy makers have failed to reform the pension system. The 2011 report identified weaknesses in pension insurance schemes and made a number of recommendations. Field interviews noted that the technical team found these reports to be excellent and the recommendations useful. The Bank has provided pension-related training, and the MSTAP project is financing a study on a government request to refine the options proposed in the pension policy reform report. The Director of Social Pensions noted that reforming the system is a top priority of the Ministry.

## CONCLUSION

The Bank's assistance successfully improved the statistical system and strengthened the capacity of the government to understand poverty trends and vulnerability. Field interviews emphasized that the work was "extremely efficient." Through Bank assistance, the NSO avoided wasting both resources and time to reach their current level of expertise in building the capacity to conduct household surveys using approaches in line with international standards. A key outcome of the close partnership with the Bank in designing surveys, conducting joint socioeconomic studies, and announcing jointly the results through the media has been the avoidance of political interference and elimination of disputes over the study's findings, which had been the case prior to 2010. The dissemination process also improved as the survey data are now available to the public.

Regarding social protection, the government has yet to show ownership and commitment to implement the provision of the 2012 Social Welfare Law that calls for introducing sustainable and targeted social transfers. However, this stalemate does not reflect on the Bank's performance. Its dialogue with the government on social assistance through analytical work and lending helped build awareness and understanding by some policy makers regarding the need to design and implement a more efficient and cost-effective social welfare system. Because of the lack of a strong endorsement by political parties, the consensus and impetus for social welfare reform faded quickly in the face of economic growth and an increasing fiscal envelope. The Bank continued to put much effort into reaching out to parliament in order to keep the dialogue alive and push for the adoption of the SWL, which contributed to its adoption two years later than forecast. However, key reforms were put on hold as soon as the law was passed.

Although the government found the Bank's analytical work on pensions very relevant, it has not moved forward with policy reforms. Faced with growing deficits, the government remains committed to proposing pension reform by mid-2014 using Bank TA.

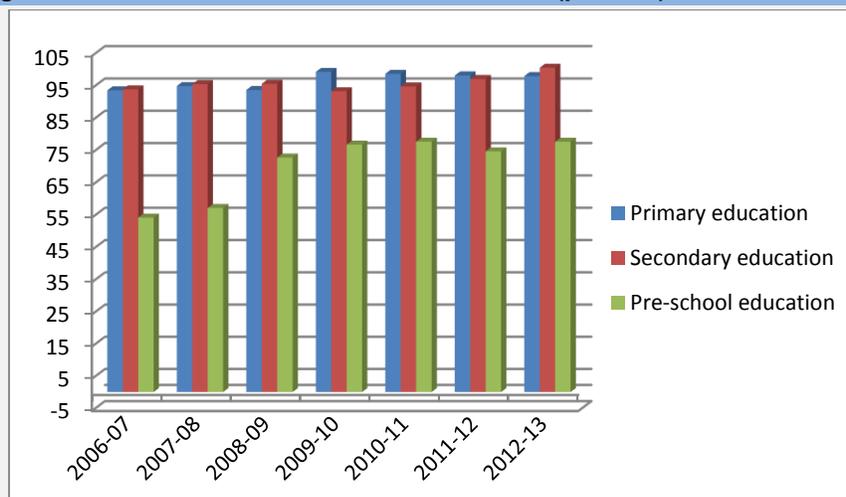
## Improving Education Services

Beginning in 2000, Mongolia started to recover from the drop in school enrollments that followed the fall of Communism. However, there were growing concerns regarding the quality of the education system, as well as disparities between urban and rural areas.

RESULTS

Over the period of 2005–2013, Mongolia extended access to pre-primary and basic education. In particular, gross enrollment ratios in kindergartens rose significantly from 54 percent in 2006–2007 to 77.6 percent in 2012–2013 (see figure 6.1).

Figure 6.1. Gross Education Enrollment Rates (percent)



Source: Fast Track Initiative.

The gender gap in school enrollment was the reverse of most countries that have a similar development level. While there is now little difference in primary school enrollments, more girls than boys are enrolled in secondary school – although the difference has declined in less than a decade from more than 10 percent to 1 percent. At the tertiary level, girls represent 60 percent of enrollment, although this gap is also closing (see appendix B).

These achievements on enrollments resulted from the introduction of several reforms that sought to simultaneously expand and improve access to basic and pre-school education. In 2008, the government further reduced financial obstacles to pre-school enrollment by adopting a law calling for the public provision of food, books, manuals, and appropriate toys for children attending state-owned kindergartens.<sup>9</sup> The government dropped the entrance age in primary school from age eight to six, and expanded the education cycle from 10 to 12 years. The child money transfer program, which provided demand-side financing, helped to cover the private costs of education, such as clothing, food, transport, and books. It had a large impact on high school enrollment among the poor (Araujo 2006).

The government has subsequently shifted its focus to improving the quality of primary and secondary education. It recently introduced a new program called the Educational

Quality Reform Program that has three key elements. The book project is designed to improve the availability and use of learning materials. Teacher development and upgrading is intended to integrate child-friendly teaching practices into the curricula of teaching training institutes. The talent program, which is in 100 pilot schools, provides school grants to increase educational quality. It is too early to assess the impact of these new policies.

The government has not yet set up an institutionalized system to measure enrollments, efficiency, and student performance. Progress has not been made to establish a credible Education Management Information System and a student assessment system to track not only enrollment, but also internal and external efficiency, gender, and social equity as well as student achievements over time.

### **BANK GROUP OBJECTIVES**

**In** the education sector, the Bank's program was aligned with the government's 2006–2015 Education Sector Master Plan as well as with its commitment to the Millennium Development Goals (MDGs). Bank objectives shifted over the evaluation period. In the first CAS, the objective was to improve the financial sustainability of the education system. However, as noted, as the government abandoned the Economic Growth Support and Poverty Reduction Strategy in favor of a MDG-based strategy, the Bank changed the emphasis of its program to address increased access and improved quality of primary education in rural areas. The Bank progressively moved to strengthen participatory processes to foster more responsive and accountable local service delivery, as well as to expand opportunities for early childhood education.

### **BANK GROUP CONTRIBUTION TO RESULTS**

Bank assistance contributed to a transformation in rural primary education through the 2006 Rural Education and Development (READ) Project. This was the Bank's first education project in Mongolia. The objective of the project was to enhance the quality of education in rural primary schools by improving student access to and use of quality learning books and improving teacher pedagogic skills through promoting professional networks. Prior analytical work had revealed huge learning gaps for rural children. Field missions to the provinces suggested that supplying libraries to primary school classrooms together with targeted training to teachers to use more active and rewarding pedagogic methods could be the most effective way to reduce these gaps. The project contributed to shifting the dialogue with the government toward quality, rather than merely access and school construction. Also, with implementation at the classroom level, the project design helped to empower teachers, which was also a positive shift away from a centralized education structure.

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The project has yielded a long list of positive outcomes. Positive outcomes attributed to the READ project include restarting the market for children books;<sup>10</sup> improving student access to and use of books;<sup>11</sup> improving teacher pedagogic skills in reading;<sup>12</sup> and fostering the participation of parents and the community in children's learning. During the field visits, the evaluation team was able to confirm that primary education has moved away from rote learning. In addition, classrooms are now colorful and attractive places, often with upgraded school dormitories and heating provided through the community-based initiative of the Sustainable Livelihoods Program (SLP). The Bank's Education for All-Fast Track Initiative (EFA-FTI) also provided funding for school construction and renovation, both in rural and urban areas. In the words of one official with close involvement in the project, "The program changed the attitudes of parents and also changed how children spent their leisure time. Children stayed in the classroom to read the books or prepare their own story books."

The Bank also made effective use of trust funds to help improve national education services, and included some well-designed components to address the specific challenges of the nomadic life.

- The Education for All annual grant (2007–2009) made through the EFA-FTI<sup>13</sup> aimed to ensure universal completion of basic education, as well as to close the gender and rural/urban gaps in enrollment and school completion by 2015.
- The 2012 Global Partnership for Education focused on early education for children between the ages of two and five. The Trust Fund aimed at providing greater kindergarten capacity in urban and peri-urban areas, and the placement of 100 mobile ger kindergartens in rural areas with large populations of herders' children and low pre-school enrollment rates.<sup>14</sup>
- The 2012 grant from the Japan Social Development Fund (JSDF) seeks to improve the education outcomes of the most vulnerable children between the ages of five and 10 in four educationally underperforming and underserved rural provinces in Mongolia.

Bank analytical work<sup>15</sup> focused on financial efficiency and equity. The Bank made recommendations to introduce incentives for efficiency in school spending; enhance equity across schools, students, and teachers; and promote transparency at all stages of school finances.

The Bank program also contributed to a significant expansion of kindergarten attendance. This was supported through the EFA-FTI and the Early Childhood Education Project, which provided funding for the introduction of mobile kindergartens to bring classrooms to herders during the warm summer months. A 2014 parental

satisfaction survey found that 80 to 90 percent of parents judged the ger kindergarten services as either very good or excellent.

Despite Bank efforts, learning levels are not being effectively monitored. Efforts to track student achievement have been a major area of weakness during the evaluation period. In 2007, the READ project helped the Education Evaluation Center (EEC) to carry out activities related to Mongolia's participation in the 2007 Trends in International Mathematics and Science Study (TIMSS).<sup>16</sup> However, the government decided to discontinue the implementation of TIMSS and the "Progress in International Reading Literacy Study." In 2008, the Bank provided assistance to the EEC to develop a national assessment of student achievement aligned with the new curriculum. It covered the reading and writing of the Mongolian language as well as mathematics at the end of grade 5. There was no follow-up to the 2008 assessment of learning outcomes given the lack of sustainable financing, overall capacity, and government impetus. However, the new IDA project aims to assess early grade learners in math and native language and to support national assessment in Grade 5.

## CONCLUSION

The Bank's policy dialogue and program has made significant contributions to education in Mongolia. The policy dialogue shifted the government's attention toward the need to improve the quality of education. Bank projects introduced reforms in rural primary schools that are now being scaled up at the national level through government policies. Building on the success of READ, the government and the Bank are preparing a new project called the Educational Quality Reform Program to support the government in improving reading and math learning outcomes of primary school children. The project plans to scale up the READ project to achieve national coverage and support the national rollout of the Early and Fifth Grade Reading and Mathematics Assessment to monitor student-learning outcomes.

## Improving Rural Livelihoods

### RESULTS

Rural living conditions have dramatically changed for the better since the mid-2000s. Even with the recent urban migration, more than 40 percent of the population still lives in rural areas. Despite the migration, there is little doubt that rural life is becoming less harsh— and that the quality of life and the economic opportunities for herders have expanded enormously. Most herders now have a mobile phone, television, and refrigerator powered through electricity obtained from solar panels. Most herders have a foot in the capital city, Ulaanbaatar, through children who have enrolled in higher education institutions and stayed there. The younger children often attend school in the

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soum and stay with their mothers or relatives there, later joining their parents in the ger during the summer months.

However, herders remain vulnerable to declines in prices for livestock products. During the global economic crisis, the crash in the price of cashmere combined with higher prices for basic commodities severely squeezed poorer rural households. With little or no savings, herders had to sell livestock for meat in order to cover basic subsistence costs. Moreover, the sale of cashmere wool has been adversely affected by the appreciation of the exchange rate. The government tries to support agriculture by not imposing taxes on herders and subsidizing wool. Similar subsidies are under discussion for meat and milk.

Another hazard is periodic extreme winters (dzuds) that typically cause significant losses of livestock herds in some areas. Climate change has increased the frequency of dzuds. During the most recent dzud of 2009–2010, up to one-third of livestock died. Often the wealthier herders have sufficient supplies of fodder to mitigate the impact. During a dzud, poorer farmers who have lost their livestock often move to the soum, and soum residents in turn may move to the aimag (province) center or even to Ulaanbaatar.

Decentralization has become an important part of the government strategy in recent years. Given Mongolia's large geographic size and widely dispersed population, a consensus has emerged on the need for increased decentralization, which is one of the few policies supported by the government and the opposition. The Integrated Budget Law of 2011 redefined intergovernmental relations and provided funding to each local community. The subsidy system needs revisiting, however, since subsidies are given based on the difference between revenues and expenditures, which eliminates the incentive to raise resources locally. There is discussion of a modest tax on livestock that would generate substantial resources for local communities. In addition to funding for salaries and maintenance expenditures, the Local Development Fund (LDF) has been set up with decisions on its use to be made at the local level. Almost 80 percent of soums are preparing local development plans to determine longer-term expenditure priorities.

Effective decentralization is still a work in progress, however. In recent years, with over-optimistic budgeting at the center, the allocations provided to local authorities through the LDF have not been realized in practice. Nor can local governors reallocate funds from one program to another – budget resources are earmarked for specific activities. In addition, many soums still lack procurement expertise, and training is required.

### **BANK GROUP OBJECTIVES**

Although the Bank has not taken an integrated view of its interventions in rural Mongolia, it has successfully designed interventions in several sectors to improve rural livelihoods and reduce vulnerability. Nomadic systems present an enormous challenge for development given the need to adapt to a widely dispersed and moving population. The Bank's program covers several activities that seem well coordinated on the ground and have jointly produced important learning and synergies. Yet the country strategy documents continue to take a sector-specific approach and to define outcomes as a narrow reflection of project activities. There is scope for taking a more integrated view of rural development, looking at the spatial dimension and migration issues – and encompassing disaster management, environmental degradation, infrastructure provision, social development, and agriculture and livestock production and marketing.

There seems to be a lack of strategizing on decentralization. The Bank has not analyzed or provided advice regarding the regional structures and the administrative responsibilities at various levels of provincial and local government. Mongolia seems to vacillate on decentralization and recentralization over the review period, and the Bank has adapted to these movements rather than trying to influence them. Still, the unplanned synergies between the different parts of the Bank's interventions in rural Mongolia have been significant, and the imputed rather than the written strategy is coherent and has contributed to overall program effectiveness.

### **BANK GROUP CONTRIBUTION TO RESULTS**

The Bank has a consistent and well-formulated program in the rural sector. It evolved out of a serious effort to understand the needs and vulnerabilities of Mongolia's herders and to design programs that relate to their needs. Overall, these efforts provide coverage of almost every area of rural life and form the basis for reducing vulnerability, raising income levels, and enhancing the quality of life. More specifically, the program covers activities to support sustainable pasture management, reduce herders' vulnerability to climatic shocks, diversify income-generating activities, and improve access to physical and social infrastructure (see box 6.2).

### Box 6.2. An Array of Projects to Support Rural Livelihoods

Bank activities address many of the critical challenges faced by the rural population as identified in the 2006 Poverty Assessment.

#### Promoting sustainable pasture management

- Improved pasture management to develop optimal grazing patterns (a comprehensive mapping of pasture areas was undertaken; tractors were given to farm cooperatives to allow them to harvest fodder for winter feeding; and storage facilities were created for fodder).

#### Reducing herder vulnerabilities

- Micro-finance to support off-farm employment in the *soums* (districts) and *aimag* (province) centers.
- Insurance to enable farmers to protect themselves against the *dzud* winters and the associated loss of livestock.
- Emergency disaster management through the development of early warning systems.

#### Improving access to infrastructure

- Community infrastructure selected through participatory mechanisms at the *bagh* (ward) level (each *soum* is divided into three or four *baghs*).
- Decentralization of decision making on local expenditure programs to the aimags and soums.
- Solar panels for providing electricity to the gers scattered through the countryside.
- Enhancing rural connectivity with information and communications technology at the *soum* and *bagh* levels.

#### Improving education services

- Upgrading education through the provision of books to rural communities and new teaching methods including parental involvement in their children's education and encouraging innovation rather than rote learning.
- Prospectively, new Bank support will be provided for:
- Horticulture development through support for gardens in the vicinity of the gers to increase vegetable consumption.
- Moving livestock production up the value chain by quality enhancement and by linking farms to larger processing and distribution enterprises.

## CONCLUSION

Mission evidence suggests that the rural program as a whole merits recognition as best practice.<sup>17</sup> The individual programs are detailed in appendix C. It is not putting it too strongly to say that they have transformed life in rural Mongolia for the better. Apart from individual project results, the projects created synergies between them and the way in which their various components reinforced the support for higher living standards for herder households and the adaptation of the traditional nomadic way of life in a modern, growing economy. For example, the Bank's projects have changed the

way herders provide for livestock pasture and fodder needs, attain access to the closest sources of water, receive warnings about bad weather, buy livestock insurance if they wish, benefit from improved primary education for their children, receive better medical services, participate in local planning and investment decisions, and use energy to watch television, store food, and communicate with their families by mobile telephones.

The program has worked well with the macro-fiscal technical assistance in laying the foundations for Mongolia's decentralization strategy. The Single Treasury system supported by the global financial management and information system (GFMIS) has now been extended to 21 aimags, 330 soums, 14 villages, the city of Ulaanbaatar, and 9 districts, as well as all of the line ministries. The Integrated Budget Law of 2011 provided for the establishment of the Local Development Fund, which was the institutionalization of the Community Initiatives Fund supported by the Bank. Bank analytic work as well as TA activities together with the SLP are making important contributions to the design of an effective decentralization program.

Despite these favorable circumstances, the Bank did not make more of an effort to carry out impact analysis on these programs, although the original designs included impact analysis. This is unfortunate from a Bank-wide perspective since the validation of the approaches adopted in Mongolia would create a strong argument for the relevance of these approaches to other semi-nomadic pastoral economies.

Government commitment has been the key to the success of the program. In the words of the SLP and Livestock and Agricultural Marketing Project (LAMP) Task Team Leader when asked to compare the project with other Bank projects, "The projects are part of the government's program, and they take this ownership seriously. The government will tell you about the project, what is working, and how they propose to scale it up."

## **Improving Urban Livelihoods**

### **RESULTS**

Whereas the provision of municipal services in Ulaanbaatar has been gradually expanding, the overall level of services has not kept up with the rapid expansion of the ger areas. The population of Ulaanbaatar has continued to expand from 711,000 in 2000 to 1.02 million in 2010. It is expected to reach 1.3 million in 2015, with about 60 percent living in the ger peri-urban areas. As of 2012, only around 55 percent of the population had access to heating, water, and sewerage infrastructure on a reliable basis, and this share was falling due to the continued expansion of the ger areas. The inability of

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municipal infrastructure expansion to keep up with population growth had also aggravated environmental conditions, including the pollution of air and soil, which poses health risks such as respiratory diseases and hepatitis.

However, given the low density of ger areas, coupled with the extremely cold climate, the provision of basic public infrastructure is not economically feasible. A 2010 Bank study estimated that the connection of detached houses and gers to central water and heating systems would be extremely costly and uneconomical (Kamata and others 2010). The existing system of public kiosks has emerged as the most practical means of supplying water. As for heating, a 2011 Bank study evaluated the major abatement options and determined that the promotion of improved stoves was the most efficient first step for a long-term strategy to reduce pollution (World Bank 2011).

A series of disastrous flash floods during the summer of 2009 caused extensive damage and raised awareness of Ulaanbaatar's vulnerability to catastrophic risks. Over the past decade, urban sprawl has led to the construction of high rises on the flood plain of the Tuul River south of the city, as well as the expansion of ger districts and other nonpermitted developments on landslide-prone slopes and ravines in the north of the city. Devastation from the floods woke the city up to the need for early warning systems and a more rigorous enforcement of land zoning and construction permitting regulations.

#### **BANK GROUP OBJECTIVES AND CONTRIBUTION TO RESULTS**

The FY13–17 CPS targets improved infrastructure in the poor neighborhoods of Ulaanbaatar. The CPS notes the increasing number of people exposed to natural disasters in urban areas (mainly flash floods and earthquakes) and pollution caused by burning cheap artisan-mined coal for heating in winter, and commits to assistance for managing these vulnerabilities (World Bank 2012). The Bank's major interventions focused on improving the delivery of basic services in the ger areas of Ulaanbaatar, notably the provision of water supply and heating. The Bank also encouraged community-led infrastructure activities. Further, Bank activities attempt to prepare the city to better manage disaster risk.

Regarding water services, the Bank's interventions have been reasonably successful in contributing to improvements in the quality and availability of water for large groups of Ulaanbaatar's peri-urban residents. Approved in 2004, the Second Ulaanbaatar Services Improvement Project (USIP2) was devised to improve water supply to the urban poor in a sustainable manner. The project has been successful in connecting the remaining 30 percent of water kiosks in ger areas previously served by trucks to the city's main water network. Likewise, it led to an attendant improvement in water quality and availability. Partly as a result, ger area residents experienced an important

improvement in their quality of lives in terms of reduced health and safety risks from previously a unreliable water supply, as well as reduced walking distances and waiting in queues at water kiosks in extremely cold temperatures.

Nonetheless, neither Bank projects nor the sector studies were able to help put the water utility on a sound financial footing. The Bank's infrastructure report (World Bank 2007) as well as the Water and Sanitation Sector Topic Paper (World Bank 2010) had recommended increasing the Ulaanbaatar Water Supply and Sewerage Authority's financial autonomy, basing it on a more realistic approach to tariff regulation. However, it had only limited impact. The USIP2 had enhanced the technical and project management capacity of the company, but was only partially effective in strengthening the financial position of the utility (IEG 2013). As a result, the utility has experienced increasing financial losses and a growing dependence on the government to repay its debts. The inadequate water tariff also blocked the government's efforts to attract private investors to the sector using the public-private partnership approach.

Bank-supported community development projects have demonstrated the feasibility and desirability of community participation in the planning and implementation of local improvements. The JSDF-funded, community-led Infrastructure Development and Sanitation Project focused on improving the quality of life for the urban poor. Specifically, it supported the creation and strengthening of citizen representative institutions, and the piloting a community-driven development approach for community participation in building local infrastructure. A follow-up project, the Community-led Infrastructure for the Urban Poor in Ulaanbaatar Phase 2 Project, was designed to assist some 10,000 of the most vulnerable households in ger areas to generate additional income by scaling up community-led infrastructure development activities. This led to the employment of nearly 13,000 previously unemployed ger residents (49 percent women) through work on project-financed small works identified by the receiving communities. The small infrastructure constructed through the project (pathways, foot bridges, drainage, and so on) had an important impact in demonstrating the feasibility and desirability of empowering community groups to take a lead role in undertaking their own projects

Some progress has been made in improving disaster risk management. In response to the summer floods of 2009 and the winter dzud of 2009–2010, the Bank is supporting a project to improve disaster risk management<sup>18</sup> by strengthening the disaster preparedness of Ulaanbaatar. The Bank recently delivered the Flood Risk Management Strategy for UB city with a hazard and vulnerability map in GIS system. As of early 2014, the project had helped to update Ulaanbaatar's flood control regulations. In this context, it has already led to the cancellation of several construction permits in flood-prone areas.

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**CONCLUSION**

Bank activities have broadly achieved their objectives, with the important exception of not being able to help put the water utility on a sound financial footing. The Bank program demonstrated the feasibility and desirability of community participation in the planning and execution of local improvements, and has been successful in improving the quality and availability of water services for the ger areas. However, the fact that interventions have not been able to put the water utility on a sound financial footing remains a major concern in relation to its ability to keep pace with the expansion of the ger population and maintain the quality of services.

**Table 6.1. Summary Rating for Pillar 4: Improving the Livelihood of the Population**

<b>Areas</b>	<b>Outcomes</b>	<b>Bank Group Contribution</b>	<b>Ratings</b>
Poverty and Social Protection	The precise decline in poverty trends over the evaluation period is not known. There was a change in methodology used over time, making adjustments to obtain comparability very difficult. Recent data are more reliable from improved survey and methodology, as well as insulation of the poverty data from political interference. Over the evaluation period, the government failed to implement a coherent agenda on social transfers. Successive governments failed to provide a clear implementation strategy and instead introduced or expanded programs in response to populist electoral promises, and then reversed them during downturns when fiscal constraints became binding. Regarding pensions, the government has not yet adopted measures passed in 2005 to reform the pension system, and the deficit keeps growing.	The Bank's assistance successfully improved the statistical system and strengthened the capacity of the government to understand poverty trends and vulnerability. The Bank's dialogue with the government on social assistance through analytical work and lending helped build awareness and understanding by some policy makers regarding the need to design and implement a more efficient and cost-effective social welfare system. Although the government found the Bank's analytical work on pensions very relevant, it has not moved forward with policy reforms.	Moderately satisfactory
Improving Education Services	Over 2005–2013, Mongolia extended access to pre-primary and basic education. These achievements resulted from the introduction of several reforms that sought to simultaneously expand and improve access to basic and pre-school education. The government has subsequently	The Bank's policy dialogue and program has made significant contributions to education in Mongolia. The policy dialogue shifted the government's attention toward the need to improve the quality of education. Bank projects introduced reforms in	Satisfactory

Areas	Outcomes	Bank Group Contribution	Ratings
	shifted its focus to improving the quality of primary and secondary education, but has not yet set up an institutionalized system to measure enrollment, efficiency, and student performance.	rural primary schools that are now being scaled up at the national level through government policies.	
Improving Rural Livelihoods	Rural living conditions have dramatically changed since the mid-2000s. Most herders now have a mobile phone, television, and refrigerator powered through electricity obtained from solar panels. However, herders remain vulnerable to declines in prices for livestock products. Another hazard is periodic extreme winters ( <i>dzuds</i> ) that typically cause significant losses of livestock herds in some areas.	The Bank's rural programs merit recognition as best practice. It is not putting it too strongly to say that they have transformed life in rural Mongolia for the better. The Bank's projects have changed the way herders provide for livestock pasture and fodder needs, obtain access to the closest source of water, receive warnings about bad weather, buy livestock insurance if they wish, benefit from improved primary education for their children, receive better medical services, participate in local planning and investment decisions, and use energy to watch television, store food, and communicate with their families by mobile telephones.	Highly satisfactory
Improving Urban Livelihoods	The population of Ulaanbaatar is expected to reach 1.3 million in 2015, with about 60 percent living in the peri-urban areas. While the provision of municipal services had been gradually expanding from the center toward the periphery, the overall level of services has not kept up with the rapid expansion of these areas and population.	Bank activities have been successful in improving the quality and availability of water services for the <i>ger</i> areas. However, the Bank's interventions have not been able to put the water utility on a sound financial footing, which remains a major concern in relation to its ability to keep pace with the expansion of the <i>ger</i> population and maintain the quality of service.	Moderately satisfactory
<b>Overall Rating</b>			<b>Satisfactory</b>

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<sup>1</sup> These peri-urban areas are called *gers* because initially when the migrants move they live in tents until they can afford to put up more permanent housing structures.

<sup>2</sup> The Bank produced a policy note to compare trends over 2002–2008 entitled: “Progress in Poverty Reduction in Mongolia : Did poverty decline between 2002/03 and 2007/08.” The paper uses the official poverty line of 2007/08 as a benchmark and recomputed a comparable poverty line for 2002/03. The paper concluded that consumption-based poverty declined substantially (-25.9 points) between 2002/3 and 2007/08. Poverty incidence declined both in rural (from 69.7 to 46.6 percent) and urban areas (from 54.1 to 26.9 percent). Not only the poverty headcount, but also the poverty depth and severity decreased respectively from (-12.9) and (-7.4) over this period.

Through our discussion with the country team, we concur that the methodology used had some weaknesses, and have strong reservations on using the projected estimates, especially an estimate of 61 percent for 2002/3 because of flaws in the methodology used. For example: (i) the adjustments are based on the consumer price index (CPI) which is not always consistent with the change in the cost of the poverty basket; and (ii) If we were to hold any basket constant, it would have been preferable to using an estimate the basket in 2002/3 (an earlier period) as a benchmark. The cost of the poverty basket (even if kept the same between 2002/3 and 2007/8) indeed rose much faster than the CPI, which was used to make adjustments in the paper. The suggested estimates in the paper thus overestimate the rate of poverty reduction. Using the cost of the same poverty basket used in 2002/3 from the survey data (only using secondary sources) would result in a downward adjustment of the poverty line in 2007/8 by less than 10 percent, which would be associated with a lower poverty estimate, but without the dramatic decline implied by the paper.

<sup>3</sup> The proxy means test was not followed, and most non-eligible households receive benefits as local governors influenced the outcome of the targeting formula, and programs officers had limited capacity.

<sup>4</sup> For example, conditionality was not monitored, hence beneficiaries continued to received benefits after they had dropped out of school.

<sup>5</sup> The reduction in the contribution rate was offset by an increase in coverage and real increases in wage (World Bank 2011a).

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<sup>6</sup> One objective of the FY05–08 Country Assistance Strategy (Pillar 3) was to strengthen the reliability and frequency of the national poverty monitoring system and enhance the capacity of the National Statistics Office (p. 23).

<sup>7</sup> Using multivariate proxy means test.

<sup>8</sup> The International Monetary Fund’s program called for a comprehensive review of the social protection system to streamline transfer program and safeguard social safety.

<sup>9</sup> Prior to the law, parents had to pay 50 percent of food costs and other expenses which prove an obstacle to their willingness to enroll their children to pre-school.

<sup>10</sup> In the first phase, the initial purchase of books for rural schools was centralized. However, this was not intended to be replicated in a later stage. In a second phase, the project contributed to the development of an open and transparent system for selecting books based on the distribution of vouchers so that school committees became responsible for the choice of titles when augmenting their stock of classroom library books. The children’s book catalog allows publishers based in Ulaanbaatar to reach schools in rural areas. It enabled these schools to order books using their limited resources. All titles supported in the project were also included in the international children’s digital library (ICDL) and are available on compact disc and online.

<sup>11</sup> The project made learning materials available in rural Mongolia by establishing 3,560 classroom libraries in all 383 rural primary schools. Each school received over 160 books, benefiting a total of 130,000 students. Training was provided for 4,144 rural primary teachers, and 383 school directors. Ninety percent of beneficiary schools reported not having had books prior to the project interventions.

<sup>12</sup> A local professional development network has been set up consisting of 95 core schools and 178 mentor teachers.

<sup>13</sup> To help Mongolia move toward the goal of quality basic education for all, the Fast-Track Initiative (FTI) grant aims to: (i) improve access to and promote completion of basic education (primary and secondary education), with particular attention to rural areas; (ii) improve the quality of basic education; and (iii) expand access to pre-school education in rural areas. The total allocation from the Education for All (EFA-FTI) Catalytic Fund is \$29.4 million for three years. Allocation is made annually. The allocation for each year (disbursed in 2 tranches) is formalized by an agreement and an amendment of the Initial Grant Agreement.

<sup>14</sup> The objective is highly relevant as many children who begin Grade 1 do not benefit from preschool education and are not ready to enter primary school.

<sup>15</sup> Analytic work entailed the 2006 Institutional Review of the Education Sector and the 2009 Public Expenditure and Financial Management Review.

<sup>16</sup> However, because of an issue with Trends in International Mathematics and Science Study (TIMMS) data, the TIMSS report excluded Mongolia from the final report.

<sup>17</sup> More evidence is provided in appendix C.

<sup>18</sup> Mongolia: Improving Disaster Risk Management, \$2.7 million, PHRD grant TF11184, approved 2012.

# 7. Conclusions, Lessons, and Recommendations

## Findings and Lessons

### **PRIORITIZING MINING IN THE COUNTRY PARTNERSHIP STRATEGY**

The Mongolia program recognized the centrality of mining to Mongolia's economy and refocused its strategy to address mining-related challenges. This proved critical for forging the credibility of the Bank and positioning it as a strategic development partner of the government.

### **CONDUCTING A POLITICAL ECONOMY ANALYSIS ALONG THE EXTRACTIVE INDUSTRY VALUE CHAIN**

The team used political economy analysis along with the natural resource management framework to identify key entry points where the Bank could make a positive impact. This innovative engagement helped the Bank better understand how policy choices emerged given political incentives and dynamics. In this context, it helped to focus analytical work on critical issues, and strengthen engagement on government effectiveness.

### **BASING A MINING EXPERT IN THE FIELD AND STRENGTHENING COUNTY OFFICE CAPACITY**

The country team made the right decision in placing a senior lead mining specialist in the field in 2008 – the first time the Bank had taken such a step. This proved valuable in forging a proactive relationship and dialogue with the government and members of parliament.

### **FOSTERING DEMAND FOR GOOD POLICIES**

The Bank team expended much effort in informing public debates; organizing forums to discuss policy trade-offs on national development including a specific debate on fiscal management, social protection, mining-related policies, and banking issues; and supporting capacity building of key stakeholders – the government, parliament, and civil society organizations (CSOs). The team used various channels, regular economic updates, and the media to convey strong messages regarding the risks and opportunities facing Mongolia. These efforts have led to some progress in overall transparency and have helped to strengthen oversight of CSOs in several areas including mining, the environment, budget, and procurement. The Bank also actively fostered knowledge exchange between Mongolia and other resource-rich countries that successfully managed mineral resources and related challenges. This also proved vital for the adoption of the fiscal stability law.

## CHAPTER 7 CONCLUSIONS, LESSONS, AND RECOMMENDATIONS

### ENSURING FLEXIBILITY TO RESPOND QUICKLY TO EVOLVING GOVERNMENT PRIORITIES

The Bank Group was flexible and responsive in its approach. It readjusted its strategy to respond to the mining boom, which had been overlooked in the 2005 CAS. It was also quick to provide budget support during the global financial crisis. The extensive use of TA in the overall portfolio proved very useful in quickly adjusting Bank assistance to country-specific needs, especially at the time of the global economic crisis.

### Recommendations

The evaluation concludes that the Bank provided relevant assistance. Its support prior to the crisis laid the groundwork for improved policies. Its efforts during the global economic crisis contributed to the prevention of a larger economic contraction and strengthened legislation for smoother economic development. However, after 2009, the lack of buy-in by the government to implement these reforms has left unchecked many sources of vulnerability, and the economy remains exposed to boom and bust cycles.

In considering recommendations, it is important to recognize the perspective of the Mongolian government. To date, the main impact of resource availability has been to enrich business magnates. Without cash transfers, the average Mongolian would have seen little benefit from the country's mineral wealth. At the same time, the cash transfer program depleted the budget to the point where there was no fiscal space for much-needed infrastructure investment. The new Ministry of Economic Development contends that it needs the Chinggis bond to fund infrastructure – in effect borrowing against future mineral earnings. The scale of future earnings relative to the small size of Mongolia's population should be sufficient to accommodate the required repayments provided that mineral prices do not fall sharply.

In effect, this context posed challenges for Bank Group interventions that often support the first-best option. To lock in a commitment to reform, the Bank may need to adopt a more progressive approach, opting in some cases for the second-best option that will fit the concerns of policy makers. This point also was raised in the political analysis report that suggested that the Bank “engage in institutional and policy options that fit policy makers' concern and visions as opposed to first-best options” (World Bank 2009).

Nonetheless, the Bank would need to continue to inform all stakeholders through regular briefings about the overall macroeconomic and financial situation – pointing to the risks associated with opportunistic budgetary and monetary policies and the need to make a pledge for more responsible policies in line with good practice.

Recommendations are proposed to encourage the Bank to concentrate its efforts on locking in reforms that would reduce the economy's procyclicality and streamline the Bank support program to enable it to increase the depth of its engagement in key areas.

- **Build the demand and capacity for good governance to strengthen accountability.** It is important for the Bank to continue its efforts to nurture political debate between political parties and civil society, especially when stability is jeopardized. Quarterly economic monitoring, interactions with members of parliament, and engagement with the media (including television) should remain a critical part of the Bank's agenda. Strengthening social accountability is a lengthy endeavor.
- **Pursue efforts to improve public investment.** Recognizing that the government might not refrain from more borrowing, the Bank's agenda should put a high priority on support to improve public investment and safeguard the use of loans. The Bank should reorient its TA efforts toward supporting improved investment planning, preparation, appraisal, and implementation. It should strengthen its relations with the relevant departments of the newly merged Ministry of Finance and Economic Development and the Development Bank of Mongolia to assist them in working with the line ministries on better project development.
- **Strengthen domestic capabilities for policy simulation.** Together with the Mongolian authorities and independent think tanks, the Bank should undertake analytic work to develop alternative mineral production and export and price scenarios. It should also sponsor discussions about how Mongolia could manage potential price declines. The medium-term expenditure framework should be an important part of Mongolia's participation in this work.
- **Support the authorities in strengthening the banking system.** The comprehensive bank reform program has not been endorsed by parliament, and the lack of follow-up legislation and enforcement of bank regulations jeopardizes macro-financial stability. Progress in this area remains critical to protect the economy from financial vulnerability. The Bank needs to remain engaged in supporting improvements in prudent regulation and supervision.
- **Be more selective in supporting private sector development.** The Bank could streamline assistance in developing the private sector. The country team might consider focusing on activities in which the Bank can have a direct impact on reducing poverty and improving rural livelihoods. For example, the Bank could promote ways to strengthen supply chains for livestock-based activities.
- **Support the rural sector within the framework of the government's decentralization program.** Many parts of the Bank's excellent rural program are being mainstreamed by the decentralization program. Bank efforts should be focused on helping the government to operationalize this program effectively.

## CHAPTER 7

### CONCLUSIONS, LESSONS, AND RECOMMENDATIONS

- **Scale back support in the urban sector.** In the interest of selectivity, the Bank should consider scaling back or eliminating its involvement with Ulaanbaatar. Migration is likely to continue and the capital will and should remain a major focus for donor activity. However, precisely because other donors such as the Asian Development Bank, the U.S. Agency for International Development, and the Japan International Cooperation Agency are active in the city, the Bank's comparative advantage would seem to lie more in areas such as macro-management, governance, and decentralization as well as sectoral programs for infrastructure, finance, agriculture, environment and education. Most of these programs will continue to have major components in the capital city. This does not argue for the Bank stepping away, but by allowing other donors to take the lead, the Bank will be able to deepen its engagement in some of the important topics.

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# Appendix A. Gender Thematic Review

## Context

### GENDER STATUS IN MONGOLIA

Contradictions typify gender issues in Mongolia. It has fared well on the Human Development Index,<sup>1</sup> which is a composite measure of health, education, and income indicators indicating parity between men and women. However, the Gender Empowerment Measure (GEM) of the United Nations Development Programme, which measures gender equality based on women’s participation and access to economic and political opportunities, ranks Mongolia as low as 94 out of 109 countries (2009), similar to Cambodia and Syria.<sup>2</sup>

As reflected in table A.1, maternal mortality almost halved between 2005 and 2010, literacy rates were higher among females than males, and women on average live longer than men and with higher life expectancy rates. In particular, gender disparities exist in higher levels of education with far fewer males than females being enrolled.<sup>3</sup> However, women continue to face challenges associated with joining the labor force – where men’s labor force participation is consistently higher over the years – and in political participation where the proportion of seats held by women in parliament is historically very low. Obstacles for working women and female entrepreneurs include child-care responsibilities, especially for low-income mothers. Other obstacles include lack of access to capital markets, skills, and the social support required to lead small and medium business enterprises.<sup>4</sup> Other gender-based disparities include high rates of domestic violence against women.<sup>5</sup>

**Table A.1 Mongolia’s Progress in Achieving Gender-Related Millennium Development Goals**

Millennium Development Goal	1995	2000	2005	2010	2012
Maternal mortality ratio (national estimate, per 100,000 live	—	—	93	47	—
Labor force participation rate, female (% of females ages 15+)	—	56	56	54	—
Labor force participation rate, male (% of male ages 15+)	—	69	60	65	—
Births attended by skilled health staff (% of total)	—	97	99	99	—
Proportion of seats held by women in national parliament (%)	—	11	7	4	15
Life expectancy at birth, female (years of age)	64	66	69	71	71
Life expectancy at birth, male (years of age)	59	60	62	63	63
Literacy rate, youth female (% of females ages 15–24)	—	98	—	99	—
Literacy rate, youth male (% of males ages 15–24)	—	97	—	98	—

Source: World Bank data.

## **APPENDIX A GENDER THEMATIC REVIEW**

### **GENDER DIMENSIONS OF POVERTY**

The gender poverty gap is more pronounced in rural areas than in urban areas. According to the 2007-08 Household Socio-Economic Survey, the poverty gap in the rural areas was 14 percent for females and 13.3 percent for males. In urban areas, the gap is 8.9 percent for females and 7.3 percent for males.

Female-headed households tend to be poor in urban areas, whereas male-headed households tend to be poorer in rural areas, according to the household survey. However, it is important to note that almost eight out of ten female household heads were widowed, divorced or separated, whereas nine out of ten male households were married – often making female-headed households more susceptible to vulnerability and falling into the poverty trap. The average size of female-headed households is three, and four for male-headed households. Also, the average age of the female household head was eight years older than that of the male head.

Political representation for women in Mongolia was 4 percent in 2010, one of the lowest rates for women in politics charted globally, according to the Mongolian Inter-Parliamentary Union. A newly established quota system requiring 20 percent of parliament members to be women has led to a tripling in women’s political leadership from 4 percent in 2010 to 12 percent in 2012. Though this figure represents an improvement, the real changes related to decision making and power dynamics of an increased number of women in politics remain to be seen.

### **Gender Assessment of World Bank Engagement**

A gender assessment was conducted to analyze Bank engagement through a gender lens for Mongolia country strategies, operations, and analytical work during the evaluation period (FY05–13). An emphasis was placed on education and rural livelihoods.

### **GENDER IN COUNTRY STRATEGIES**

Throughout the evaluation period, there is little emphasis on gender issues in country strategies until the FY13–17 country partnership strategy (CPS) period.<sup>6</sup> The latter suggests that while strong progress was made achieving the Millennium Development Goal for maternal health, a downward trend is seen in women’s political participation.<sup>7</sup> The CPS also mentions the Gender Equality Law adopted by the parliament in 2011, and the 20 percent quota for women in parliament designated since 2012<sup>8</sup> to foster greater political participation for women. The CAS FY13–17 also recognizes “persistent inequalities” in economic opportunities for women, including low labor force participation, as well as lower remuneration for women.<sup>9</sup>

Key findings from a portfolio analysis of lending and advisory work conducted for the FY13–17 CPS suggested that the Bank could achieve a much greater impact through better mainstreaming of gender considerations, particularly in key sectors such as mining, rural livelihoods, urban infrastructure, and social protection. The Mongolia Country Gender Action Plan (CGAP) of 2013 provides a roadmap for integrating a gender dimension in Bank projects. However, implementation cannot yet be determined since several projects are ongoing and not closed.

In the international donor context during the CAS FY13–17 period, the World Bank is seen to have a comparative advantage in focusing on gender dimensions of economic development (for example, labor restrictions and pension reform).<sup>10</sup> There is also an emphasis on gender issues as the Bank follows up on a recent series of policy notes on poverty, where it will specifically look at the gender dimension of poverty and inequality.<sup>11</sup> The Bank also plans to disseminate a series of policy notes around “women and the labor markets” and “women and mining.”<sup>12</sup>

#### **GENDER IN ANALYTIC AND ADVISORY ACTIVITIES**

The Bank conducted analytical work on gender issues during the evaluation period focusing on a Gender Assessment (2005), Impacts of the Economic Crisis (2011), Gender Disparities in the Labor Market (2013), Social Impacts of Mining in southern Mongolia, and the CGAP (2013) to implement and monitor gender-related priorities in the FY13–17 CPS.

The 2005 Gender Assessment emphasized evidence from recent studies demonstrating that the impacts of the economic transition were different for women and men. During the transition, poverty increased as previously protected jobs disappeared, and social services were reduced, thereby aggravating the effects of unemployment. The assessment also points to evidence from the census and a Participatory Living Standards Assessment that a disproportionate number of female-headed households are living in poverty, and their proportion is increasing. An increase in migration has disrupted social networks and added pressure on women to manage multiple responsibilities.<sup>13</sup> The recommendations of the 2005 Gender Assessment include systematic gender mainstreaming in implementation and monitoring of existing policies, as well as gender-sensitive budgeting of government poverty reduction programs. However little translation of these recommendations is seen in World Bank programs and project portfolios.

Analytical work regarding the social impacts of mining in southern Mongolia suggests that particular attention should be paid to integrating women into the labor force.<sup>14</sup> The study points out that mining and construction sectors face more challenges relating to

## APPENDIX A GENDER THEMATIC REVIEW

women's labor force participation. There is a 39.2 percent gender gap in the mining sector and a 13.8 percent gender gap in the construction sector. This compares with the service sectors, where the gender gap in the restaurant and hotel sector is 29.6 percent in favor of women. Barriers to women's participation in the labor force include discrimination based on gender, age, family status, and absence of childcare.

The study on the social impacts of mining in southern Mongolia also points to social risks associated with the artisanal mining sector. Since artisanal mining results in development of unplanned settlements, there are associated social problems. These include a lack of basic services affecting human development outcomes, law and order problems resulting from high alcohol consumption, and rampant domestic violence – all of which often disproportionately affect women.<sup>15</sup>

A more recent analysis of the impacts of the economic crisis in Mongolia showed increased discrimination in the labor markets as reflected in widespread discrimination in hiring decisions based on age, gender, and appearance.<sup>16</sup> Women faced additional requirements related to “good appearance and body shape,” and some organizations preferred hiring men since women might incur losses as the result of a one-year maternity leave.<sup>17</sup> In rural areas, microcredit and training in nonpastoral livelihoods encouraged women's entrepreneurial activities.<sup>18</sup> The study also suggested an increase in domestic violence. Unemployment among men and alcohol abuse were seen as the reason for the increase in domestic violence, which was more common in urban areas.<sup>19</sup>

The Bank also conducted a study on gender disparities in labor markets and policy suggestions (2013) in Mongolia, observing that women have a limited presence in managerial positions and entrepreneurial work, with working women taking on additional household and childcare duties than men. The study suggests potential policy actions that can be considered, including improving employment outcomes (wages, career progression) for women in the public sector, introducing more friendly parental leave policies that cover both fathers and mothers, improving childcare services, and introducing affirmative action policies in sectors in which women are underrepresented such as mining. Other suggested policies include promoting awareness of and encouraging the development of appropriately regulated and supervised micro-lending institutions.<sup>20</sup>

The CGAP 2013 provides a roadmap for implementation and monitoring of gender-related priorities in the FY13-17 CPS. The intention is to establish dialog with the country team on how best to support CPS gender objectives to increase development effectiveness. Task teams of specific projects have been asked to ensure that gender sensitive analysis and/or consultations are undertaken, and that gender actions be included in Project Appraisal Development and Results Framework. The CGAP

implementation will be monitored through the CGAP Results Framework. The 2013 Mongolia CGAP is definitely a step in the right direction for integrating and connecting analytical and country strategy work with operations and projects.

## GENDER IN OPERATIONS AND PORTFOLIOS

This section reviews Bank lending in the education and rural sectors.

### *Education Sector Results*

Mongolia has experienced a reverse gender gap in access to education that is progressively closing. In primary education, Mongolia experienced a reverse gender gap until 2005. Boys also tended to disproportionately drop out of school, but the current gender imbalance is less extreme than it was 15 years ago.<sup>21</sup> However, this trend changed by 2010 as the primary school enrollment rates for boys became slightly greater than for girls. However, the gender gap is still reflected in higher levels of female school enrollment in secondary and tertiary education throughout the evaluation period (see table A.2), although this gap is improving over time.<sup>22</sup> The difference in secondary enrollment rates has significantly declined in less than a decade, but girls continue to obtain much more tertiary education than boys do. However, with regard to learning outcomes, achievement tests show little difference between boys and girls, although for both genders the low learning levels are worrisome.

**Table A.2. Education Trends in Mongolia**

Indicators	1995	2000	2005	2010	2012
Adjusted net enrollment rate, primary, female (% of primary school age children)	81.9	93.9	93.1	98.4	96.9
Adjusted net enrollment rate, primary, male (% of primary school age children)	80.3	91.9	91.8	99.6	98.3
Secondary education, general pupils (% female)	57.5	54.9	52.5	51.7	51.6
Literacy rate, youth female (% of females ages 15–24)	—	98	—	99	—
Literacy rate, youth male (% of males ages 15–24)	—	97	—	98	—
School enrollment, tertiary, male (% gross)	—	21.7	33.8	42.5	50.0
School enrollment, tertiary, female (% gross)	—	38.8	55.9	65.2	72.4
School enrollment, secondary, male (% gross)	53.7	58.2	85.6	88.4	101.9
School enrollment, secondary, female (% gross)	71.6	72.2	95.0	94.8	105.1

Source: World Bank data.

Several reasons can be attributed to the reverse gender gap in education, including specific challenges related to the gender dynamics in herding communities. Since men are responsible for cattle, boys are taken out of school for herding.<sup>23</sup> Sons in poorer

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herder families serve as child labor for animal husbandry, and 60 percent of all dropouts for the ages of 8–15 year are boys. The reverse gender gap is also explained by changes in the post-Soviet times; with the fall of Communism, males could resume their traditional role as herders of the family livestock.<sup>24</sup> Under the former Soviet economic system, 60 percent of students in higher education were male, but as the government's vocational and technical training schools closed, young males were encouraged to stay in the countryside.<sup>25</sup> Mongolian culture also encourages parents to pass their inheritance of material possessions, such as herds and land, to sons.<sup>26</sup> At the same time, parents want daughters to have some resources of their own rather than completely depend on their husbands and paternal families.<sup>27</sup> Therefore, they are encouraged to have a tertiary education and become economically independent.

Another barrier to better access to primary education for nomadic communities is delayed school enrollment until the second child is born and reaches school age. Since the school entrance age was lowered twice – in 2005 from 8 to 7 years of age and in 2008 from 7 to 6 years of age – the problem of over-aged school children in remote rural areas is more pronounced today than a few years ago.

The most vulnerable nomadic children face challenges in adjusting to school and dormitory life. Approximately 40 percent of herder families prefer to have their children accommodated in a school dormitory. They face emotional and psychosocial challenges from family separation at a young age (5–10 years of age). Since dormitory space is lacking, especially for students in primary school, a family may need to fall back on other living arrangements, which may include splitting up the household during the school year. For example, the mother might stay with the child near the school, or accommodations might be made with relatives or friends, or separately alone.<sup>28</sup>

Changes in education policies by the government have also led to increased male enrollment rates. For example, the government formulated the Master Plan 2005–2015 for the education sector that contains plans to provide better access to primary and secondary education, and to maintain a gender balance in education services.<sup>29</sup> The abolition of the meat requirement policy (2000), which asked each family to pay in the form of 70 kilograms of meat per year and was essentially a fee charged for meals in school dormitories, helped reduce dropout rates. As this fee was abolished, education costs fell particularly for nomadic families who would often take boys out of school before girls.

## Bank Contribution to Outcome

During the evaluation period, the Bank funded five education projects in Mongolia. The strategic focus was to remove barriers to access and quality of primary education in rural populations, most of which were comprised of herder communities. The Bank also emphasized early childhood education in rural and vulnerable communities. Even though trends on primary school enrollment changed through the evaluation period with more boys being enrolled than girls, direct attribution to the Bank cannot be made.

The Bank's Rural Education and Development (READ) project did not directly emphasize any specific gender issues, but there were spill-over effects.<sup>30</sup> The impact evaluations of 2007–2008 and 2011–2012 looked at the project's gender-related results. They showed that female students achieved higher scores on the reading test than male students; that gender differences had no influence on student writing skills; and that female students had lower scores than male students on vocabulary tests.<sup>31</sup> However, direct attribution to the project is difficult to make.<sup>32</sup> The emphasis on primary education for nomadic communities was also seen in other Bank education projects such as the Education for All–Fast Track Initiative (EFA-FTI), the Mongolia Global Partnership for Education–GPE-ECE Project, and the Improving Primary Education Outcomes Project. Even though the goal of the EFA-FTI Catalytic Trust Fund is to ensure universal completion of basic education and to close the gender and rural/urban gaps in enrollment and school completion by 2015, reports during implementation (such as the Implementation Status Review [ISR]), track only the number of female beneficiaries for the project rather than other indicators that would reflect closing gender gaps in basic education.

More recent education projects seek to better track gender trends. The 2012 GPE-ECE, a follow-up of the FTI, captures gender-disaggregated data. The data show that more boys than girls were in the ger of children aged 2-5 in the urban districts of Ulaanbaatar and where new kindergartens were provided. Data from project team show that the baseline for these ger children for 2009–2010 was 66.8 percent for boys and 69.1 percent for girls. Actual value achieved in 2013–2014 in year four was 73.27 percent for boys, and 73.04 percent for girls.<sup>33</sup> The 2011 Japanese Social Development Fund grant to improve primary education outcomes for the most vulnerable children in rural Mongolia focuses on four educationally underperforming rural provinces. However, they have not yet provided gender-disaggregated data. The ISR (January 2013) mentioned a target percentage for female beneficiaries, but no baseline or current data are found in the most recent ISR.

The recent Education Quality Reform Project (2014) plans to focus on rural areas to tackle the rural-urban education divide, addressing gender gaps as well. However, no

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targeted gender approach is identified in the project, and indicators are limited only to the number of female beneficiaries at this point.

Overall, the Bank's emphasis to close the reverse gender gap in the education sector remained high even though gender-disaggregated data at the project level was not collected. Direct Bank attribution is hard to access in closing the gender gap. However, the primary school level reverse gender gap changed direction during the evaluation period, with higher primary school enrollment rates for boys than for girls.

### ***Rural Livelihoods***

Female-headed households are poorer in urban areas, whereas male-headed households are poorer in rural areas according to the most recent Mongolia household survey (2010).<sup>34</sup> Almost eight out of ten female household heads were widowed, divorced, or separated, while nine out of ten male households were married.<sup>35</sup>

### **Bank Contribution to Results**

World Bank engagement in the rural livelihoods arena was mainly through three projects in the evaluation period: the Sustainable Livelihoods Project I (SLP I, 2002–2008), the SLP II (2008–2013), and the Livestock and Agricultural Marketing (LAMP) Project (2013–2017).

Even though there was no specific emphasis on gender issues, the SLP contributed to improving women's livelihood in rural areas. With the improving access to infrastructure component, the SLP I contributed to an increase in the use of maternity rest homes by herder families with home births.<sup>36</sup> This may have contributed to better maternal and infant health care outcomes. There was also an increase in children from herder families (often the poorest and vulnerable) who benefitted from the availability of dormitories. A total of 30,784 children from poor and vulnerable households were housed there.<sup>37</sup> They were provided with warm blankets, new beds, tables, facilities for reading and playing, learning rooms, and washing rooms. These amenities helped to increase the number of herder and poor children living in dormitories by 12,762.<sup>38</sup> No gender-disaggregated data are available for this component of the project. Outcomes of the project were rated satisfactory both in the Implementation and Completion and Results Report (ICR) through the project team's self-assessment and in the ICR Review by the Independent Evaluation Group.

Women also benefitted from the microfinance component of SLP I. The Micro-Finance Development Fund outperformed its original targets. By project end, approximately \$7.13 million was allocated to Participating Financial Institutions (PFIs) as wholesale loans. A total of 29,021 sub-loans had been disbursed to 141,602 beneficiaries (direct and

indirect), of which 38.3 percent of sub-borrowers were women.<sup>39</sup> The quality of the PFIs' portfolios has been high with a repayment rate of 98.9 percent on the sub-loans.<sup>40</sup> The targeting of poorer households was also successful, with 47 percent of sub-loans lent to households below the poverty line.<sup>41</sup>

The SLP II had better participation and tracking of women beneficiaries in the project compared to the SLP I. A strengthened gender dimension was seen as women were involved in various components of the project. Women's participation in community meetings and decision-making processes increased at the *soum* level and below.<sup>42</sup> On average, women constituted 44 percent of *bagh* meeting participants. The microfinance loans also benefitted women, as 37.4 percent of subborrowers were women compared to 62.6 percent men,<sup>43</sup> even though more men benefitted than women did. Regarding the community involvement (CI) component of the project, it was observed that 69 percent of women were directly involved in the undertaking of local activities as compared to 72 percent of men.<sup>44</sup> Also, more women (94 percent) were aware of the CI mechanism than men (87 percent).<sup>45</sup> Even though the project tracks the number of beneficiaries, little information is found on how more women's participation in the project actually led to greater economic empowerment (in the context of microfinance) or a voice for women (through community participation).

The Livestock and Agricultural Marketing Project (LAMP) has a significant gender emphasis. The project started in 2013, so implementation is still underway. However, it adopts gender mainstreaming as a core aspect of project implementation to ensure equity and empowerment. The LAMP focuses on activity and income diversification, which is expected to have a positive impact on women.<sup>46</sup> Regarding the component on linking herders to markets, the project will pay attention to identifying women's groups (formal and informal) during the beneficiary identification process and identify training and technical support requirements of women's groups through needs assessments and training programs. The pilot horticulture production subcomponent of the project will support income and nutrition diversification through horticulture production and processing. Since this is a pro-poor investment, the horticulture production will focus on female-headed households, groups of unemployed families, and herders with animal heads below the national average to establish basic vegetable production plots.<sup>47</sup> The project will also develop training and services that respond to actual gender or age-based division of labor and technical needs in various aspects of animal production, as women perform most of the young animal care and milking.<sup>48</sup> The social monitoring plan for the project will have relevant indicators for measuring impacts on the participation of women in the project.<sup>49</sup>

## **Conclusion**

Beginning in 2010, there has been an increased emphasis on gender issues during the evaluation period in the CASs, analytical work, and the project portfolio. Since the gender emphasis is recent, translation into the project portfolio and outcomes on the ground are not yet evident. Overall, Bank engagement on gender issues in Mongolia has been limited to livelihoods programs and a spill-over effect from the rural education programs. Little analytical work has translated into gender integration in the project portfolio.

Identifying and integrating more gender-targeted approaches in the Mongolia education portfolio would help to close the reverse gender gap. A focus on vocational training and employment generation programs could also lead to better employment and economic opportunities and reduce gender disparities in labor force participation.

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<sup>1</sup> The Human Development Index is a composite measure of life expectancy, education attainment, adult literacy, and gross national income per capita, with a value of 0.763 for Mongolia in 2010.

<sup>2</sup> Mongolia Gender Action Plan, The World Bank, p.1.

<sup>3</sup> Mongolia Gender Action Plan, The World Bank, p.1.

<sup>4</sup> Mongolia Gender Assessment, ADB (2006).

<sup>5</sup> One-fifth of women surveyed by the National Statistical Office in 2009 report being subjected to physical violence by a husband or partner. Other statistics suggests that one in three women is subject to violence and, one in 10 women is subject to regular physical abuse (Mongolia Gender Action Plan, The World Bank, p. 4).

<sup>6</sup> For example, the Country Assistance Strategy (CAS) of FY05–08 focuses little on gender issues, but recognizes that even though women are active in the economy and society, significant gender disparities persist in poverty, vulnerability, economic opportunity, and working hours.

<sup>7</sup> Mongolia CAS FY13–17, p. 4.

<sup>8</sup> Mongolia CAS FY13–17, p. 4.

<sup>9</sup> Mongolia CAS FY13–17, p. 5.

<sup>10</sup> Mongolia CAS FY13–17, p. 21.

<sup>11</sup> Mongolia CAS FY13–17, p. 25.

<sup>12</sup> Mongolia CAS FY13–17, p. 25.

<sup>13</sup> Source: <http://documents.worldbank.org/curated/en/2005/01/6515598/mongolia-country-gender-assessment>.

<sup>14</sup> The Potential Social Impacts of Mining in Southern Mongolia, p.14.

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- <sup>15</sup> Following an initial launch by the Bank Group's Communities, Artisanal, and Small-Scale Mining Program, donor support for the government's strategy for managing artisanal mining has been taken over by the Swiss Agency for Development and Cooperation.
- <sup>16</sup> The Impacts of Economic Crisis in Mongolia: Findings from Focus Group Discussions – Final version, 2011, p. 4.
- <sup>17</sup> The Impacts of Economic Crisis in Mongolia: Findings from Focus Group Discussions – Final version, 2011, p. 4.
- <sup>18</sup> The Impacts of Economic Crisis in Mongolia: Findings from Focus Group Discussions – Final version, 2011, p. 10.
- <sup>19</sup> The Impacts of Economic Crisis in Mongolia: Findings from Focus Group Discussions – Final version, 2011, p. 11.
- <sup>20</sup> Source: <http://documents.worldbank.org/curated/en/2013/01/17694501/mongolia-gender-disparities-labor-markets-policy-suggestions>.
- <sup>21</sup> [http://www.tc.columbia.edu/faculty/steiner-khamsi/\\_publications/Gitas%20Professional%20Files/Publications%20peer%20review/QualityEquity2009.pdf](http://www.tc.columbia.edu/faculty/steiner-khamsi/_publications/Gitas%20Professional%20Files/Publications%20peer%20review/QualityEquity2009.pdf) - page 411
- <sup>22</sup> Education Quality Reform Project. World Bank. Project Appraisal Document – May 2014.
- <sup>23</sup> Mongolia Learning Week, Independent Evaluation Group.
- <sup>24</sup> Reversal of Fortune: Mongolia's Reverse Gender Gap, 2005. (<http://www.gnxp.com/MT2/archives/003545.html>)
- <sup>25</sup> Reversal of Fortune: Mongolia's Reverse Gender Gap, 2005. (<http://www.gnxp.com/MT2/archives/003545.html>)
- <sup>26</sup> Reversal of Fortune: Mongolia's Reverse Gender Gap, 2005. (<http://www.gnxp.com/MT2/archives/003545.html>)
- <sup>27</sup> Reversal of Fortune: Mongolia's Reverse Gender Gap, 2005. (<http://www.gnxp.com/MT2/archives/003545.html>)
- <sup>28</sup> [http://www.tc.columbia.edu/faculty/steiner-khamsi/\\_publications/Gitas%20Professional%20Files/Publications%20peer%20review/QualityEquity2009.pdf](http://www.tc.columbia.edu/faculty/steiner-khamsi/_publications/Gitas%20Professional%20Files/Publications%20peer%20review/QualityEquity2009.pdf) - page 411
- <sup>29</sup> <http://planipolis.iiep.unesco.org/upload/Mongolia/Mongolia%20Education%20Master%20Plan%202006-2015.pdf>
- <sup>30</sup> The focus on improving access in rural areas is an indirect way to address gender; in rural areas, there is a bigger gap.
- <sup>31</sup> Rural Education and Development Project, Mongolia, ICR, p. 16.
- <sup>32</sup> Rural Education and Development Project, Mongolia, ICR, p. 16.
- <sup>33</sup> "Results Monitoring – Final Outcome and Intermediate Outcome Indicators" – data from project staff.
- <sup>34</sup> Mongolia Household Socio-Economic Survey (2011), pp. 38-39.
- <sup>35</sup> Mongolia Household Socio-Economic Survey (2011), pp. 38-39.
- <sup>36</sup> Mongolia Sustainable Livelihoods Project (SLP) I, ICR, The World Bank, p. 37.
- <sup>37</sup> Mongolia Sustainable Livelihoods Project (SLP) I, ICR, The World Bank, p. 37.
- <sup>38</sup> Mongolia Sustainable Livelihoods Project (SLP) I, ICR, The World Bank, p. 36.

## APPENDIX A

### GENDER THEMATIC REVIEW

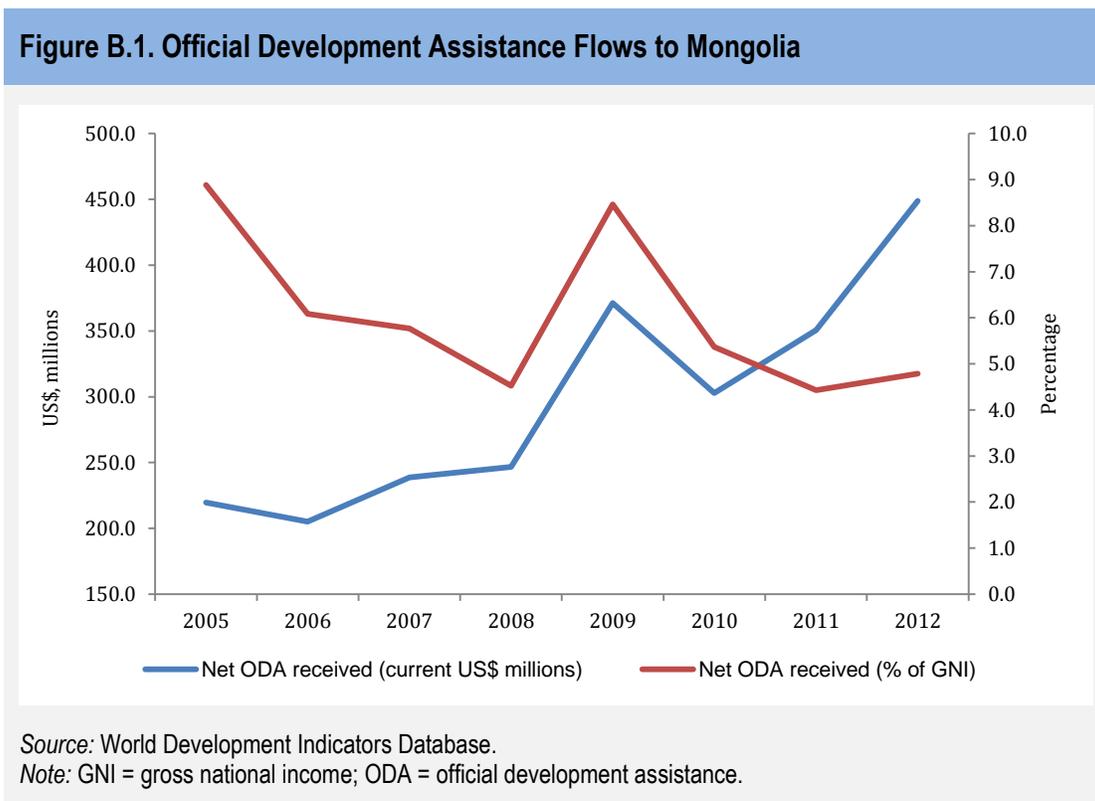
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- <sup>39</sup> Mongolia Sustainable Livelihoods Project (SLP) I, ICR, The World Bank, p. 15.
- <sup>40</sup> Mongolia Sustainable Livelihoods Project (SLP) I, ICR, The World Bank, p. 15.
- <sup>41</sup> Mongolia Sustainable Livelihoods Project (SLP) I, ICR, The World Bank.,p. 15.
- <sup>42</sup> Mongolia Sustainable Livelihoods Project (SLP) II, ICR, The World Bank.
- <sup>43</sup> Mongolia Sustainable Livelihoods Project (SLP) II, ICR, The World Bank, p. 20.
- <sup>44</sup> Mongolia Sustainable Livelihoods Project (SLP) II, ICR, The World Bank, p. 18.
- <sup>45</sup> Mongolia Sustainable Livelihoods Project (SLP) II, ICR, The World Bank, p. 18.
- <sup>46</sup> Mongolia, Livestock and Agricultural Marketing (LAMP) Project, Project Appraisal Document (PAD), p. 29.
- <sup>47</sup> Mongolia, Livestock and Agricultural Marketing (LAMP) Project, Project Appraisal Document (PAD), p. 19.
- <sup>48</sup> Mongolia, Livestock and Agricultural Marketing (LAMP) Project, Project Appraisal Document (PAD), p. 19.
- <sup>49</sup> Mongolia, Livestock and Agricultural Marketing (LAMP) Project, Project Appraisal Document (PAD), p. 57.

# Appendix B. World Bank Group Instruments and Performance Ratings

Appendix B describes the main trends and sector allocations in the World Bank Group's portfolio over 2005–2013 and discusses the performance of Bank operations as well as the overall portfolio risk during this timeframe.

Official development assistance to Mongolia in terms of gross national income has been decreasing over the evaluation period since the mining boom fueled growth and increased gross domestic product per capita (figure B.1). The World Bank Group is a key participant in the donor community for Mongolia and is seen as an influential and constructive partner, often playing the role of a leading partner.



The Bank Group used a variety of instruments to provide financial and knowledge support to Mongolia. This appendix describes the main trends and sector allocations in the Bank Group's portfolio over the evaluation period. It also discusses the performance of Bank operations as well as the overall portfolio risk during this timeframe.

From FY05-13, the Bank Group committed a total of \$253 million in International Development Association (IDA) credits and grants, and \$298.2 million in net

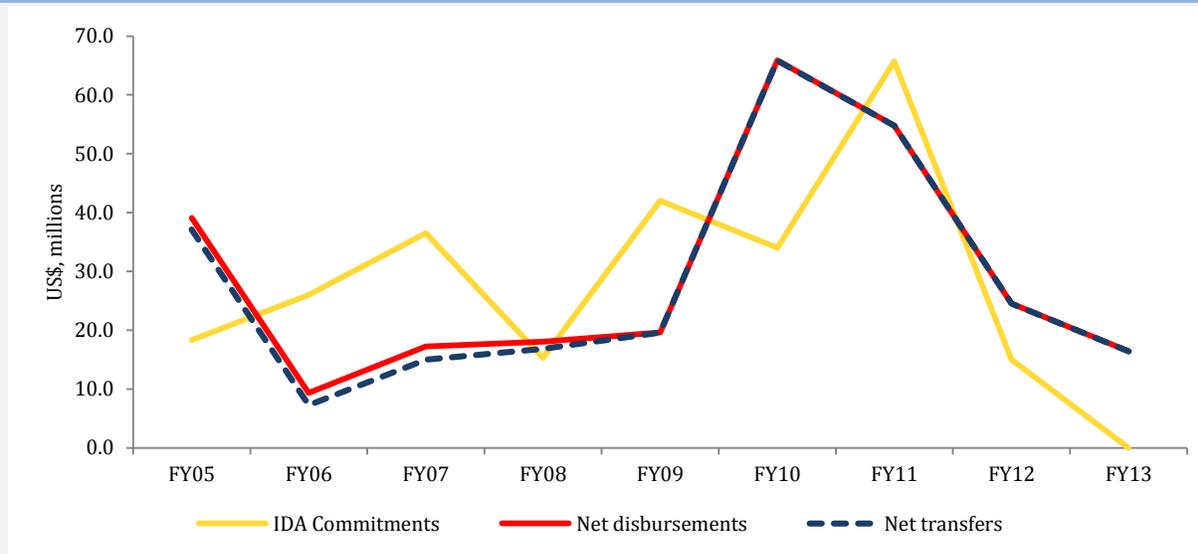
**APPENDIX B**  
**WORLD BANK GROUP INSTRUMENTS AND PERFORMANCE RATINGS**

commitments by the International Finance Corporation (IFC). The Bank also approved \$58 million in trust fund grants during this period. Thirty-six percent of the Bank’s administrative budget was spent on project supervision, 32 percent on analytic and advisory activities (AAA), and 26 percent on lending.

**Lending by the International Development Association**

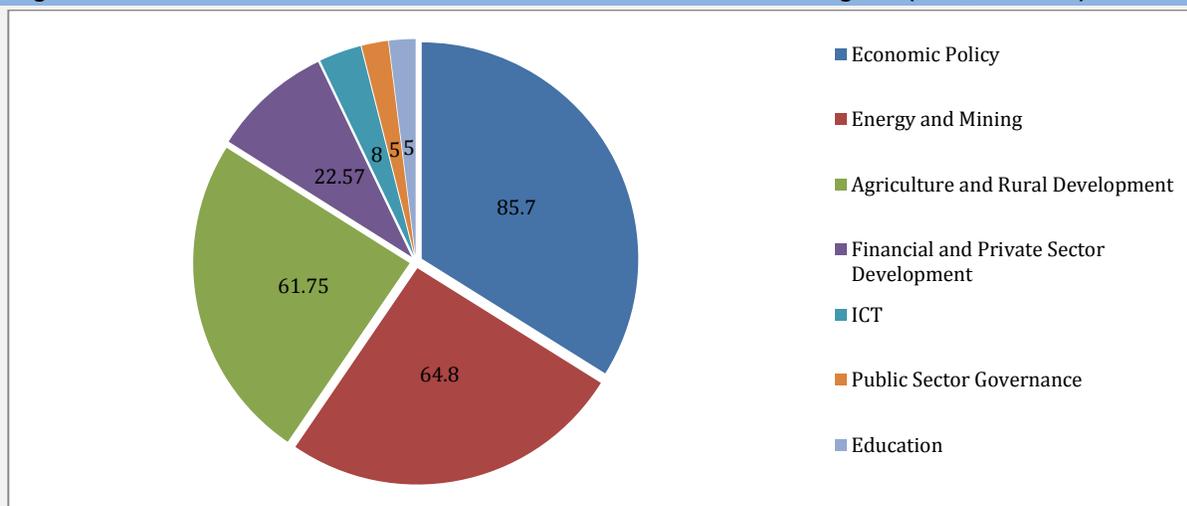
IDA’s lending increased sharply during the financial crisis as Mongolia relied on budget support to ease fiscal adjustment. The trend in IDA commitments is shown in figure B.2. With the exception of the two crisis development policy credits (DPCs) which constituted 28 percent of the total value of IDA commitments during the evaluation period, all of the other lending was through investment loans. Net disbursements to Mongolia surged to an annual average of about \$60 million over FY10–11 because of crisis lending. The annual net disbursements have averaged about \$20 million since FY12.

**Figure B.2. World Bank Commitments and Disbursements to Mongolia, FY05–13**



Source: World Bank Data.

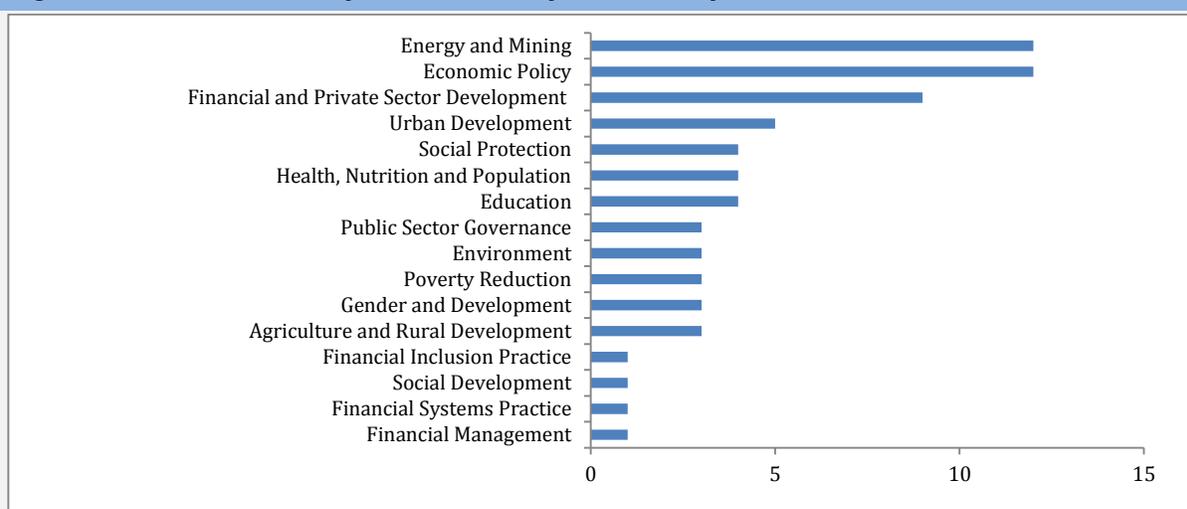
**Figure B.3. Sector Allocations of World Bank Commitments to Mongolia (US\$, millions)**



Source: World Bank data.

Note: ICT = information and communications technology.

**Figure B.4. Number of Analytic and Advisory Activities by Sector Board-FY05–13**



Source: World Bank database.

World Bank activities were concentrated in four broad areas that together accounted for 93 percent of the value of new IDA commitments, including: economic policy, energy and mining, agriculture and rural development, and financial and private sector development. (Figure B.3). Economic policy accounted for the largest share of commitments, most of it from the two crisis era DPCs. Prior to the global economic crisis however, the greater share of IDA commitments were to agricultural and rural development, which accounted for 41 percent of FY05–08 commitments.

## **APPENDIX B**

### **WORLD BANK GROUP INSTRUMENTS AND PERFORMANCE RATINGS**

Regarding nonlending operations, the Bank delivered 69 AAA in Mongolia between FY05 and FY13. These included 47 economic and sector work (ESW) and 22 technical assistance activities. The bulk of AAA focused on economic policy, energy and mining, financial and private sector development, and urban development, which together accounted for 55 percent of the number of AAA products (figure B.4). Examples of key services delivered included: reports on mining; assessments of poverty, the investment climate, and the financial sector; public expenditure reviews; and a report on public investment planning. A notable contribution of the Bank's AAA in Mongolia was the quarterly, and then from April 2009, monthly Economic Updates. These played an important role in disseminating the rationale for, and progress on, reform measures, as did the updates on the impact of the crisis on the macroeconomic, financial, and corporate sectors.

### **Investments by the International Finance Corporation**

The net investment commitment of the International Finance Corporation (IFC) during this period amounted to \$298.2 million for IFC's own account, across 28 investments. Most investments were in the Finance and Insurance portfolio, followed by Construction and Real Estate. A majority of IFC's transactions in Mongolia were long-term loans, which accounted for 84 percent of the investment program. Equity investments amounted to 10 percent (\$29.2 million). In the financial markets sector, IFC's investments supported banking consolidation; increased bank-lending volumes to target underserved segments; and expanded product and service offerings in the market. These investments also included institutional strengthening and advisory work to improve risk management and spread best practice lending standards. IFC also successfully established trade finance lines with five local banks. Other IFC investments include \$50 million for the construction of the first Shangri-La hotel in Mongolia, and a \$30 million investment in MCS Holdings LLC, one of Mongolia's leading private companies, diversified across such sectors as food and beverage, cashmere, and real estate. In the mining sector, IFC is supporting an international consortium in assessing financing of the Oyu Tolgoi copper and gold mining complex.

During the same period, IFC also increased its advisory services in Mongolia and was involved in projects to help develop the business and investment climate and support financial markets. IFC's involvement and advisory services support to Mongolia's Credit Information Bureau helped develop the country's financial markets infrastructure.

## Guarantees from the Multilateral Investment Guarantee Agency

The only operation of the Multilateral Investment Guarantee Agency during the evaluation period was a FY06 guarantee for a \$20 million investment, which was canceled in FY07.

## Portfolio Performance and Risk

IEG assessments of completed Bank operations in Mongolia indicate better development outcome ratings (86 percent, moderately satisfactory or better) than the average for the East Asia and Pacific Region (79 percent) and the Bank as a whole (73 percent) (table B.1). Two projects in the Mongolia portfolio were rated as moderately unsatisfactory or worse. The Economic Capacity Technical Assistance Project was rated as unsatisfactory because it was found to be overly complex, and its design did not adequately account for country conditions. The FY04 Second Ulaanbaatar Services Improvement Project received a moderately unsatisfactory rating because the project was not well designed to meet either its quality of life or sustainability objectives. The design of the project was based on the assumption of future high increases in water tariffs for apartment buildings in Ulaanbaatar, which never materialized because decisions on tariff policy were outside the control of the project.

**Table B.1. IEG Project Ratings by Exit Fiscal Year, FY05–13**

IEG Outcome Rating	FY05	FY08	FY09	FY10	FY11	FY12	FY13	Total
Satisfactory		2					1	3
Moderately Satisfactory	3	1	1	1	2	1		9
Moderately unsatisfactory						1		1
Unsatisfactory							1	1
<i>Grand total</i>	3	3	1	1	2	2	2	14

Source: World Bank data.

IEG's review of closed projects found a significant risk to development outcome in four (36 percent) of the eleven instances where risk was assessed. The total value of loans to these projects was about \$89 million or 51 percent of the value of all projects assessed for risk to development outcome. Three of the four projects in question were approved for FY01–04, and one was approved in FY11. The largest, a \$29.7 DPC Phase II project, faced risks arising from too much dependence on high commodity prices accompanied by a procyclical fiscal policy and uncertain political commitment to reforms.

**APPENDIX B**  
**WORLD BANK GROUP INSTRUMENTS AND PERFORMANCE RATINGS**

The riskiness of the Bank's Mongolia portfolio under implementation increased sharply as of FY08 and has fluctuated since then — albeit remaining below the average of both the East Asia and Pacific Region (EAP) and the World Bank portfolio as a whole. Between FY05 and FY07, no Bank operation in Mongolia (and none of the commitments) was considered to be at risk. This was in contrast to an average of 7.7 percent of projects and 5.5 percent of commitments at risk in the East Asia and Pacific Region, and a world average of 15.3 percent of projects and 13.1 percent of commitments at risk over the same period. At the time of the financial crisis in FY08, the commitments at risk in the active portfolio increased sharply to 10.7 percent, and exceeded the Regional average of 8.5 percent and decreasing thereafter. More recently in FY13, the riskiness of the Mongolia, Region, and world portfolios increased to their highest levels since FY05, both in the number of projects and commitments at risk. The Mongolia commitments at risk stood at 14.7 percent (against the Region, 16.7 percent; and Bank, 23 percent). The proportion of projects considered at risk was 20 percent (against the Region, 22.1 percent; and Bank, 25.1 percent).

# Appendix C. Supplemental Information on the Evaluation Pillars

## Supplemental Information on Pillar 1

### FIRST PHASE: PRIOR TO THE CRISIS, 2004–2007

The Bank supported a comprehensive TA program to improve budgetary and public expenditure management systems and processes.<sup>1</sup> In 2003, the Bank recognized that despite improvements in the previous period, significant weaknesses in Mongolia's public financial management (PFM) framework remained. These included: (i) poor annual budget planning and execution leading to unpredictable budget outcomes and arrears; and (ii) weak accountability of the efficiency and effectiveness of public expenditure programs because of poor monitoring and information.<sup>2</sup> To address these issues, the Bank financed an integrated package of assistance toward the strengthening of budget planning, execution, reporting, and accountability. The program was fully aligned with the government-owned reform strategy and the requirements of the core national budget legislation. As a result, it had broad coverage and an ambitious design<sup>3</sup> (see box C.1).

#### **Box.C.1. Objectives of the Broad Bank-Supported Public Financial Management Program**

The Bank-supported program was comprehensive, targeting a wide range of areas to improve public financial management in Mongolia. The program can be summarized as follows:

- Add discipline to budget preparation, policy planning, and budget formulation through the upgrading of the core legal framework; develop a comprehensive medium-term expenditure framework that would cover both the center of the government and the agency level.
- Improve budget execution and accountability systems through the full rollout of the Government Financial Management Information System (GFMIS) and associated improvements in the quality of budget controls and reporting;
- Strengthen public finance accounting and internal auditing at the central and agency levels.
- Strengthen budget oversight and monitoring by building the capacity of the government to move to a unified accounting system, as well as to improve and expand the functioning of state audit entities.
- Strengthen procurement at the central and agency levels by assisting the government in refining the overall legal framework for procurement.

## APPENDIX C SUPPLEMENTAL INFORMATION ON THE EVALUATION PILLARS

During program implementation, it became clear that the projected timeframe for achieving the outcomes was unrealistic. Reform progress, measured against the program's original targets, was uneven. There were significant delays in achieving some of the objectives, and important parts of the program remain a work in progress. Mongolia did not have in place the necessary basic PFM capabilities on which rapid implementation of such a comprehensive reform package could be securely based. Moreover, during the boom period of 2003–2007, in an environment of greatly expanding public spending,<sup>4</sup> the need for expenditure rationalization became less pressing, which naturally eroded the political will to push for PFM reforms.<sup>5</sup>

The Mongolia Public Expenditure and Financial Management Report, completed in 2009, assessed the progress and set the stage for Bank support during the subsequent crisis (World Bank 2009). The report provided a valuable stocktaking of what Mongolia had achieved to that point and of what still needed to be done. It was a useful input into the Bank's program development and design. However, at the country level, it received attention mostly from the Ministry of Finance. The report confirmed significant progress in the areas of: (i) budget legislation that helped to reduce expenditure leakages and arrears; and (ii) transparency and fiscal discipline, backed by progress with adoption of the Government Financial Management Information System (GFMIS) and treasury automation; (iii) debt management; and (iv) tax administration, primarily in the area of mining taxation.<sup>6</sup> However, major weaknesses remain, notably in effectively using the Medium-Term Expenditure Framework (MTEF),<sup>7</sup> monitoring spending against set performance indicators, and reporting about budget execution on a functional basis. Moreover, progress in the areas of investment project selection, public procurement, external audit capacity, and intergovernmental budget transfers was inadequate.

Overall, in spite of Bank support, Mongolia's fiscal management arrangements failed the test of the commodity boom (2003–2007). The government followed a procyclical policy in 2006–2008 when commodity prices hit record levels. The national MTEF targets proved to be irrelevant, allowing for budget deficits at times of unsustainably high revenue inflows and providing for insufficient public savings. As a result, with annual budget revenues equal to 40 percent of GDP, Mongolia's fiscal space appeared to be quite limited during the crisis. Specifically, the growth in public sector wages and untargeted social transfers, large implicit subsidies (from energy tariffs), and an overstretched public investment program limited the country's fiscal space. The Bank's analytical work also noted concern over the role played by the parliament in the budget process (World Bank 2009). High levels of parliamentary discretion in changing the key parameters of government budget bills had proved to be an important factor undermining overall fiscal discipline.

**SECOND PHASE: THE 2008 CRISIS AND SUBSEQUENT QUICK RECOVERY, 2008–2010**

During the global economic crisis, the Bank supported Mongolia's adjustment to the mineral price decline through two development policy credits (DPCs), approved in 2009 and 2010, and it realigned its TA to implement policy reforms introduced as part of the adjustment program. The DPCs, which drew on the analysis undertaken in the Public Expenditure and Financial Management Report, were designed to help the government accommodate the costs of fiscal adjustments during the crisis and to lay the basis for countercyclical fiscal management. They were relatively large in relation to the Bank program, with combined disbursements of about \$75 million<sup>8</sup> (about two-thirds of the International Development Association's envelope for Mongolia during the period). The Bank and the International Monetary Fund (IMF) had significant policy leverage at the time of the project preparation and negotiations as the government was facing the consequences of earlier expenditure excesses. This was a window of opportunity for the Bank to push for acceleration of the core policy reforms in Mongolia, especially those in support of macroeconomic and fiscal sustainability.<sup>9</sup> The policy objectives supported by the DPCs included: the development of a more sustainable fiscal framework; rationalization of capital budget planning and execution; compliance with the Extractive Industries Transparency Initiative (EITI); and increased efficiency (targeting) of Mongolia's social transfer system.

The Bank (and other donor) support for the adjustment program has made a significant contribution<sup>10</sup> to the achievement of the declared policy objectives. As part of the adjustment program, the parliament adopted major pieces of legislation to lay the groundwork for better fiscal management, including: (i) the Fiscal Stability Law which provided a set of fiscal rules to impose budget discipline on mineral resources over the commodity cycle (see box C.2.); (ii) the Integrated Budget Law which provided for improvements in budget planning and practices at the central and local levels; and (iii) the Social Welfare Law which provided for the introduction of targeted transfers in a phased manner. The ICRs for the two DPCs identify areas where progress was made in the PFM under the adjustment program, including: (i) a reduction in the number of budgeted capital investment projects without feasibility studies; (ii) improved accounting for the contingent liabilities accumulated under the public investment program; and (iii) increased budget financing for priority maintenance of basic infrastructure. Mongolia has become an EITI-compliant country.

### Box C.2. The Fiscal Stability Law

The law imposes fiscal discipline to avoid the temptation to spend mineral revenues immediately, and it supports a stability-oriented fiscal policy. The Fiscal Stability Law (FSL) puts into place three complementary fiscal rules:

- A ceiling on the structural deficit of 2 percent of gross domestic product (GDP), effective from 2013;
- A ceiling on expenditure growth linked to the rate of growth of nonmineral GDP, effective from 2013; and
- A public debt ceiling of 40 percent of nominal GDP, in net present value terms, effective from 2014.

The main rule targets structural balance defined as the difference between “structural” revenues and overall expenditures. Structural revenues are defined as revenues that would be received if the prices of major minerals were at a particular level, defined as a 16-year moving average of mineral prices. Transitional targets are defined for the intervening period until the fiscal rules take full effect.

In addition, “the fiscal framework is supported by a stabilization fund for mineral revenue. When actual revenue exceeds structural mineral revenue, the difference has to be placed in the stabilization fund.”

*Source:* IMF 2014, 35–37.

### THIRD PHASE: THE RUN-UP TO ELECTIONS AND THE POST-ELECTION PERIOD, 2011–2013

Once the global economic crisis was over, the government had no incentive to implement newly adopted fiscal reform laws. Hence, the achievements expected from this DPC-supported package of fiscal reforms did not occur. The overall stance of macroeconomic and fiscal management substantially deteriorated during and immediately after the program’s implementation. As commodity prices recovered in 2010, there was a massive increase in public expenditures in 2010–2012, largely driven by increased spending on universal cash transfers, public wages, and capital spending that was not well prioritized. As reported by the IMF, the fiscal policy was back to its boom-and-bust pattern with a substantially widened budget deficit, high inflation, and negative interest rates (IMF 2012, 9). The central provisions of the FSL became effective in January 2013, and the approved 2013 national budget – the first one expected to be prepared, approved, and executed in line with the new legal requirements – seems in compliance only because the very large expenditures under Mongolia’s borrowing from international markets were taking place outside of the budget.

High quality analytical work in investment planning and budgeting during this third phase has had very little follow-up, despite the importance of the issues. A World Bank report emphasized gaps in national procedures for project selection and appraisal, low

completion rates, and chronic problems with underfinancing of maintenance (World Bank 2010). The follow-up report pointed to the lack of significant progress in project selection and execution (Hasnain and others 2013). The authors also highlighted problems in the implementation of the new procurement legislation, in part because of inconsistency with other pieces of the country's legislation. The report also discussed the risk to the integrity of Mongolia's public investment policy related to the creation of the Development Bank of Mongolia (DBM) and its operation outside of the budget framework.

Support for improvements in investment processing has been hampered by coordination problems between the Ministry of Finance and the new Ministry of Economic Development, as well as the Bank not being able to engage with the latter. The Bank's key partner in Mongolia for most of the period has been the Ministry of Finance with which it has developed a close relationship. In 2012, political machinations led to the formation of the Ministry of Economic Development, which was carved out of the Ministry of Finance and given responsibility for the capital budget. With the major expansion of the investment program undertaken with financing from the Chinggis bond, the prioritization, preparation, and implementation of the investment program became a key to sustainable development. The Bank has been slow to develop a relationship with the Ministry of Economic Development and the DBM, which serves as the off-budget financing arm for many of these projects.<sup>11</sup> No technical assistance had been funded from the Bank projects for the Ministry of Economic Development or the DBM.<sup>12</sup> The Bank continued its program of study tours for other ministries or parliamentarians, but few Ministry of Economic Development or DBM officials appear to have participated in them.

The Bank has also been supporting the Mongolian government in the design of its Sovereign Wealth Fund (SWF). Starting in 2010, the Multisectoral Technical Assistance Project and Governance Partnership Facility provided funds to support the Ministry of Finance with this task. Central to the support has been the involvement of experts from Chile and the organization of an international conference on SWFs. Bank advisers working with the government have proposed three sovereign wealth funds,<sup>13</sup> each to meet a clearly defined economic policy goal. In 2014 parliament approved the setting up of these funds (SWF Secretariat 2014). The three SWFs include:

- The Fiscal Stability Fund was established concurrently with the FSL in 2010 to stabilize volatile mineral revenue and smooth the government's revenue stream.
- The Future Generations Fund, with a long-term investment horizon, was set up to convert a portion of Mongolia's mineral wealth to financial wealth for the benefit of future generations.

## APPENDIX C

### SUPPLEMENTAL INFORMATION ON THE EVALUATION PILLARS

- The Pension Reserve Fund, also with a long-term investment horizon, serves as a financial reserve to guarantee public pension obligations.

Overall, since 2010, the Bank's ongoing PFM support program is modest in its objectives, and progress remains slow. In recent years, Bank-supported TA has contributed to the preparation of new regulations, studies, and training. The single most important achievement relates to the rollout of the GFMIS to all Mongolian local governments (*soums*), which is a key enabler of the government's push toward decentralization. Progress was also recorded with the implementation of a computerized cadaster system and the introduction of a new system for public official assets and income declarations. Program implementation remains slow, especially in the areas of public procurement, payroll management, and the institutionalization of a fully functional MTEF. The 2013 country budget was not backed up by a functional MTEF. Budget revenue projections were overly optimistic, and the capital expenditure side remained weak.

### Supplemental Information on Pillar 3

#### IMPROVING ACCESS TO INFRASTRUCTURE

##### *Energy*

Mongolia had good access to electricity overall, but the distribution was uneven. Its electricity system reached about 67 percent of the population, an impressive achievement when considering its income level and low population density. However, while almost all households in Ulaanbaatar and *aimag* centers and a majority of *soum* (district) households had access to electricity, only 15 percent of the herder population was being served. In addition, the sector was experiencing high levels of technical and commercial losses, below-cost tariffs, and overdependence on donor financing for rehabilitation and expansion.

The electricity sector reform process was under way, but had not yet led to the expected efficiency and equity improvements. As part of the post-Communist transition, the government had restructured the legal and institutional framework to detach policy making from the regulatory function and the operating companies. The Energy Law of 2001 established the Energy Regulatory Authority and the separation of generation, transmission, and distribution operations into separate companies. A 2004 tariff reform had not succeeded in raising overall revenues for the distribution companies, while implicit supply-side subsidies perpetuated high inefficiency in the system. The existing subsidy scheme intended to help the poor was instead benefiting the nonpoor. Hence, a few years after these changes, the operating companies had not yet been able to generate the funds required for investments in new generation capacity or the proper operation and maintenance of existing facilities. The result was poor quality of service and continuing high transmission and distribution losses.

Heating had received little attention from the government, although it was the most acute problem for the capital's poor *ger* households – at least one-fifth of their total expenditures are for heating fuels during winter. In contrast, households in the city center connect to the district grid and spend on average 3 percent of their budget on heating. The poor could not afford cleaner fuels or the more expensive and efficient stoves. They mostly relied on burning low-quality, highly polluting lignite during winter months. As noted in a Bank report (World Bank 2011), the associated health impacts were equivalent to about 19 percent of Ulaanbaatar's GDP, which pointed to a need for public sector intervention.

### **Roads**

The country's road network was also more extensive than would be expected considering its level of development and low population density. In 2004, there were about 5,700 kilometers of improved roads, of which about 1,900 kilometers were hard cover. However, only about 30 percent of the paved road network was in good condition, which was indicative of the inadequate systems and capacities to prioritize investments and undertake road maintenance within the fixed budget constraints. Rapid urbanization had also created a new set of problems for the sector, with many of the new urban residents having poor access to public transport services, and with those services being unaffordable to many of them. In addition, the rapid increase in car ownership with inadequate traffic management had resulted in severe traffic congestion, a high number of traffic-related fatalities, as well as a significant transport contribution to the poor air quality in Ulaanbaatar.

### **Water**

In the early 2000s, Mongolia had a highly unequal and gradually deteriorating water supply system. Whereas the core urban areas were served by relatively sophisticated water supply and sanitation systems, 70 percent of the population living in the surrounding *ger* areas and the countryside had to rely on manually hauling water from public kiosks or natural sources – a particular hardship during the country's long winters. Water was of generally good quality, but the urban supply infrastructure had deteriorated significantly since the pivotal shift from Socialist policy in 1995. Subsequent governments had stressed the promotion of private initiatives and the improvement of water services in *ger* areas. The Water Law was amended in 2004, but the implementing regulations and decrees were not yet in place. In the meantime, inadequate tariff levels had left the water agencies with inadequate funds for maintenance and expansion into *ger* areas, as well as a backlog of rehabilitation needs to improve efficiency and ensure regularity of supply (World Bank 2007).

## Supplemental Information on Pillar 4

### THE BANK PROGRAM IN EDUCATION

This section provides more evidence regarding the positive outcomes attributed to the READ project. These include restarting the market for children's books, improving student access to and use of books, improving teacher pedagogic skills in reading, and fostering the participation of parents and the community in children's learning.

#### ***Restarting the Market for Children's Books***

The book market had collapsed during the economic downturn of the 1990s. READ helped put more than 200 new titles of children's books on the market.<sup>14</sup> Some of the local Mongolian language books for primary school are now available through the International Digital Library.

#### ***Improving Student's Access to And Use of Books***

Before 2006, rural primary schools in Mongolia had almost no books. READ established grade-specific classroom libraries in 383 soum and *bagh* schools,<sup>15</sup> and set up an international children's digital library in a subset of participatory schools.<sup>16</sup> Integrating reading into the curriculum has enhanced overall primary education quality. During field visits, the evaluation mission could see that classrooms in each primary school in the soum had a library corner with a selection of books for each grade.

#### ***Improving Teacher Pedagogic Skills in Reading***

The READ project also supported the development and implementation of a teacher-training program to promote new or improved pedagogic strategies,<sup>17</sup> including interactive learning and the use of digital libraries and laptops,<sup>18</sup> and professional networks. For example, students are asked to prepare their own illustrated books ("small books").<sup>19</sup> At the same time, the books are used to develop critical reading and creative thinking ("big books")<sup>20</sup> and role-playing in the schools. Follow-up surveys in 2007 and 2008 showed that not only had teachers used READ learning materials to improve literacy skills, but they were also used to teach other subjects such as math and science. To stimulate storytelling outside the classroom, READ introduced book bags,<sup>21</sup> which allowed students to take books home and share stories with their families. A focus group discussion with primary school teachers confirmed much enthusiasm for these new and effective teaching methods that also changed the cultural perception of reading.

#### ***Fostering the Participation of Parents and the Community in Children's Learning.***

As a way to reach out and involve parents and the greater community, the project financed a national campaign to promote community and family participation in schools around reading activities, emphasizing the role that parents can play in

monitoring teacher and student performance. Parents became involved in children's homework and in some soums, they had a say in selecting the books from a catalogue.

## THE BANK PROGRAM IN RURAL MONGOLIA

### *Reducing Herders' Economic Vulnerability*

Improved pasture management, micro-finance, and community development have been successfully supported through the Bank's three-phase Sustainable Livelihoods Program (SLP). The SLP was conceived as a long-term involvement that would address the vulnerability and reduce the poverty of herders through carefully piloted activities. The program began in 2001 and is still ongoing. Broadly, the idea was to conduct pilots in 16 soums during the first phase (2001-2007), scale up to all 330 soums in the second phase (2008-2013), and institutionalize the program in the third phase (starting in 2014). Implementation Completion and Results Reports rated the outcomes of the first phase as satisfactory, and the second phase as highly satisfactory.

The Community Initiatives Programs have provided some impetus and the basic model for the government's recent expansion of decentralization. Consultations are undertaken through periodic meetings at the bagh (ward) center.<sup>22</sup> The priorities decided by the herders are then reported back to the soum center where community representatives decide which proposals should go forward. Prior to this community program, there was poor participation in the meetings held at the bagh level. However, herders have quickly come to realize a link between the decisions taken at the bagh and the funding received. Therefore, participation under the project has improved substantially. Another positive feature is the active participation of women and youth.

Decentralization has been supported through Bank analytic work and will be the focus of the third phase of the SLP. The Bank prepared a policy note on fiscal decentralization that was discussed with the government. The note appears to have achieved its objective of creating greater awareness of the policy and logistical issues that need to be addressed in this area. Technical assistance was also provided by the Bank for drafting the legal provisions of the Law on Decentralization and for work on the formulas for revenue transfers. The third phase of the SLP will build on this through working with the Local Development Fund (LDF) of the government to try to ensure its effective use. The LDF is roughly 10 times the amount that the project provided to local communities, and the project will provide technical support to the program.

The Bank designed an innovative livestock insurance to help reduce herders' vulnerability to harsh winters. Insurance has been provided to herders through the Index-Based Livestock Insurance Program (IBLIP), reflecting the realization that the loss of livestock during extremely cold winters was an important cause of poverty in

## APPENDIX C SUPPLEMENTAL INFORMATION ON THE EVALUATION PILLARS

Mongolia. The Bank of Mongolia approached the donor community for advice on what could be done to protect herders. The Bank invited a group of experts to discuss a possible insurance scheme. At that time, index insurance was well established for crops but not for livestock. A workable design evolved from these discussions and was piloted under the SLP Phase 1. The project was initially set up in a few aimags and after successful piloting, scaled up to the country as a whole, starting in 2009. The Bank played a major role in obtaining political buy-in for the IBLIP. It arranged study tours to Indonesia and Switzerland and brought all 21 provincial governors to Washington, D.C. to participate in sessions revolving around international experience. As a consequence, there was a large body of support across institutions for the program.

The program was successful, and 15 percent of the herder population now buys private insurance against loss of livestock in a dzud. The program is entirely handled through the private insurance industry and involves the payment of annual premiums by herders to the local insurance companies who participate in the IBLIP. The Bank project essentially finances a reinsurance program. Seven insurance companies participate in the project, and during the course of the project, they have expanded the number of rural branches from 30-40 to 148. Funds are paid out to herders when there are losses triggered by a severe dzud, which is defined not in meteorological terms but on the basis of the average die-off in the aimag. Hence, the scheme does not trigger moral hazard behavior but instead rewards good fodder management for the herders who save a higher percentage of animals. A successful outreach campaign means that most herders have heard of the IBLIP and understand what it does. In aimags that participated in the pilot, coverage has reached 33 percent of herders, while in the newer ones, it is 10-15 percent. The government intends to institutionalize the approach by establishing its own reinsurance agency and fund.

To further improve pasture management and reduce herder's vulnerability to climate shocks, the Bank is also supporting the Emergency Disaster Management Program. This has taken over the Livestock Early Warning System from the SLP and is extending it. The project<sup>23</sup> supports capacity building at the National Agency for Meteorology, Hydrology, and Environmental Monitoring for the institutionalization and full deployment of a livestock early warning system and the piloting of an emergency feed and fodder production system to help reduce the impact of dzuds on rural livelihoods. This system has provided accurate forecasting of weather conditions and has become a major source of information for the herder community. Herders told the mission that they had been impressed by how accurate the information was within a week of the arrival of a serious weather event.

In future, agriculture and livestock value chains will be supported through the Livestock and Agricultural Marketing Project (LAMP). As part of the preparatory work

for LAMP, the Bank has prepared reports on both the meat and livestock sectors. This project is funded through a trust fund under the Global Agriculture and Food Security Program and represents an important expansion of the range of Bank support. The LAMP will focus on livestock products such as cashmere, leather, and meat for export, as well as meat and milk for the domestic market. It will support the development of enhanced quality standards in these areas. In addition, a small component of the project supports horticulture production in home gardens around the settlements, with the objective of improved diets and living standards of the poor. The LAMP will also address some of the weaknesses that have emerged in the provision of veterinary services and the National Breeding Program that arose after their privatization.

### ***Improving Rural Population Access to Energy and Technology Services***

The Bank contributed to greater electricity access in rural areas from a baseline of 15 percent in 2006 to 85 percent in 2014. Building on a successful pilot supported by the Netherlands, the Renewable Energy for Rural Access Project (REAP) supported the distribution and sales of solar home systems (SHS) to more than 67,000 households, covering about 63 percent of the herder population. A follow-on beneficiary survey found high levels (93 percent) of customer satisfaction and of sustainability of equipment use (90 percent) six years after the purchase of SHS.

The almost universal availability of SHS brought about a dramatic transformation in the herders' lives. Major changes include a switch from candles to fluorescent lamps, from radio to television, and from rare household-to-household contacts to near-universal adoption of mobile phones, as well as access to new appliances (for example, refrigerators). Since initial distribution, most herders have bought additional panels from the market. During field visits, three or four solar panels could be seen outside of almost every ger.

The REAP also accelerated the development of the SHS market. A reliable supply chain and a countrywide system of 50 sales and service centers were established for solar maintenance and repair, and to underpin manufacturer warranties. By mid-2014, the market for SHS and direct current appliances, such as TVs and satellite receivers, had become established over the entire country.

The coverage and use of information and communications technology (ICT) services has grown through support from the 2006 Information and Communications Infrastructure Development Project. It also aimed to increase private sector participation in the delivery of e-government services. An incentive-based participatory arrangement was addressed to private operators, encouraging them to install ICT infrastructure in selected soums, while the project would finance their operating cost for

## APPENDIX C

### SUPPLEMENTAL INFORMATION ON THE EVALUATION PILLARS

a number of years. The arrangement proved successful and helped the operators realize that more demand for services existed than they expected, which led to services offered in the remaining soums on a purely commercial basis. Whereas mobile voice services were available only in about 100 rural soums in 2006, mobile voice and data services became available in all 330 soums in Mongolia within the first three years of project implementation. Moreover, over 150 rural herder communities gained access to public telephone service at the bagh level; 34 soum centers have broadband Internet access for public and private users including schools connected at discounted rates; and a modern social media management system was successfully installed and is operational. Today, operators report full coverage of the Mongolian population and acknowledge that the project boosted the process of sector growth by at least three years.

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<sup>1</sup> Four technical assistance loans totaling \$50 million and focusing mainly on public financial management (PFM) have been made available by the World Bank since 1998.

<sup>2</sup> See the Project Appraisal Document for the Economic Capacity and Technical Assistance Project (ECTAP) approved in 2003.

<sup>3</sup> One reason for the project's ambitious nature is that the government itself (with advice from development partners) had announced a very ambitious set of reform targets inspired by the Organic Fiscal Law (Public Sector Financial Management Law, PSFML) adopted in 2002. The PSFML introduced advanced PFM standards in Mongolia, including the adoption of output-based budgeting, management, and reporting as well as the adoption of accrual budgeting and accounting.

<sup>4</sup> Public investments in Mongolia increased by a factor of 20 in real terms between 2005 and 2012 (Hasnain and others 2013).

<sup>5</sup> As an example of the delays, by the time of its conclusion in 2013, the implementation of the ECTAP had taken almost 10 years and the closing date had been extended three times.

<sup>6</sup> Mining tax collections increased from 2 percent of gross domestic product (GDP) in 2002 to 15 percent in 2007.

<sup>7</sup> The Medium-Term Expenditure Framework (MTEF) has not been effectively integrated into the PFM system despite exposure to effective models of MTEF use, such as from Australia and New Zealand.

<sup>8</sup> This included a grant from the Australian government of \$4 million.

<sup>9</sup> Mongolia can be considered a best practice example of Bank and International Monetary Fund cooperation, which contributed to the quality of the legislative framework adopted by the government.

<sup>10</sup> The Bank financed international experts to work side by side with Mongolian officials in developing the approaches embodied in legislation.

<sup>11</sup> The off-budget spending of the Ministry of Economic Development is equivalent to 10 percent of GDP.

<sup>12</sup> Among the highest priorities for capacity building in the Ministry of Economic Development is the need to implement the provision in the budget law requiring calculation and funding of maintenance costs of investment projects that are being undertaken. This is not yet being done. Inadequate maintenance of infrastructure is a major problem in Mongolia.

<sup>13</sup> These funds draw on the Chilean Sovereign Wealth Fund model, which relies on three funds integrated into fiscal policy through a rule that limits deficits and governs contributions and withdrawals from the funds.

<sup>14</sup> In the first phase, the initial purchase of books for rural schools was centralized. However this was not intended to be replicated in a later stage. In a second phase, the project contributed to the development of an open and transparent system for selecting books based on the distribution of vouchers so that school committees became responsible for the choice of titles when augmenting their stock of classroom library books. The children's book catalog allows publishers based in Ulaanbaatar to reach schools in rural areas and enable these schools to order books using their limited resources. All titles supported in the project were also included in the international children's digital library (ICDL) and are available on compact disc online.

<sup>15</sup> The project made learning materials available in rural Mongolia by establishing 3,560 classroom libraries in all 383 rural primary schools. Each school received over 160 books, benefiting a total of 130,000 students. Training was provided for 4,144 rural primary teachers and 383 school directors. Ninety percent of beneficiary schools reported not having had books prior to the project interventions.

<sup>16</sup> The ICDL includes all 237 Mongolian language children's books. The 383 schools participating in the project were also given compact discs containing all of the books.

<sup>17</sup> A local professional development network has been set up consisting of 95 core schools and 178 mentor teachers.

<sup>18</sup> A number of schools have also received computers under an extension of the Rural Education and Development project.

<sup>19</sup> After spending time in the library, students are encouraged to retell the stories they read to teachers, classmates, and parents. To make this easier, they create "small books" of their own. Gradually, students have become authors, also telling the stories of their lives."

<sup>20</sup> "Big books" are written by teachers and students together in class. These are based on the stories found in the library books and are left open-ended with a big question mark on the last page to engage students.

<sup>21</sup> The book bags effort enables students to take books home and share stories with their families. After they finish reading one bag of books, they return it to school to exchange it for another bag.

<sup>22</sup> The *bagh* is the smallest administrative unit with usually three or four per *soum*. A small bagh headquarters building is located on the grazing lands in the center of a large area comprising a few herders' family. There seems to be widespread recognition of the importance of influencing the decisions taken at the meetings, with consequent high levels of attendance by herders.

<sup>23</sup> The project has enabled the Meteorological Institute to begin testing an improved model for the prediction of pastureland conditions based on weather forecasts and livestock herd size, down to the bagh (community) level. The expected outcome is an increase to six months of the current three-month advance notice for upcoming pasture conditions. This provides local authorities with the time to stock up on adequate winter feed and fodder levels to enable the herds to survive even the most severe winters.

# Appendix D. Reference Tables

Table D.1. Mongolia – List of World Bank Approved Projects, FY05–13

Proj ID	Project Name	Agreement Type	Approval Fiscal Year	Project Status	Total Project Commitment (US\$ millions)	IDA		Revised Closing Date	Sector Board	Latest DO	Latest IP	IEG Outcome rating
						Commitment Amount (US\$ millions)	Trust Fund Commitment Amount (US\$ millions)					
P084766	GEF-Renewable Energy for Rural Access	Global Environment Facility	2007	Closed	3.5		3.5	6/30/2012	Energy and Mining	S	HS	
P088816	Index-Based Livestock Insurance	IDA	2005	Active	7.8	7.8		3/31/2016	Agriculture and Rural Development	S	S	
P088992	Private Sector Development Credit II	IDA	2005	Closed	10.6	10.6		4/30/2011	Financial and Private Sector Development (I)			MS
P092609	Netherlands Trust for the Environment	RETF	2005	Closed	4.0		4.0	9/30/2006	Environment			
P092965	Info & Com Infra Dev	IDA	2006	Closed	8.0	8.0		3/31/2013	Global Information/Communications Technology			
P096328	Rural Education and Development -READ	IDA	2006	Closed	4.0	4.0		2/28/2013	Education			S
P096439	Sustainable Livelihoods II	IDA	2007	Closed	33.0	33.0		6/30/2013	Agriculture and Rural Development			
P098426	Governance Assistance	IDA	2006	Active	14.0	14.0		12/31/2014	Economic Policy	MS	MS	
P099321	Renewable Energy for Rural Access	IDA	2007	Closed	3.5	3.5		6/30/2012	Energy and Mining			MS
P099411	Administrative Regulation	Institutional Development Fund	2006	Closed	0.3		0.3	6/30/2009	Public Sector Governance	S	S	
P099496	Strengthening the Auditors Capacity	Institutional Development Fund	2006	Closed	0.3		0.3	4/6/2009	Financial Management	HS	HS	
P099936	Mongolia-EITI	RETF	2008	Closed	0.3		0.3	12/31/2009	Energy and Mining			
P101446	-Enhanced Justice Sec Services	IDA	2008	Closed	5.0	5.0		6/30/2013	Public Sector Governance			
P102488	GPOBA W3 - Mongolia Univ Access to Tele	RETF	2007	Closed	0.3		0.3	9/30/2008	Global Information/Communications Technology			
P104025	Strengthening Inst Statistical	RETF	2007	Closed	0.2		0.2	6/30/2009	Poverty Reduction			
P104867	Assistance on Avian Flu	RETF	2008	Closed	4.0		4.0	11/30/2011	Health, Nutrition and Population			
P108768	Mining Sector Inst Strength TA	IDA	2008	Active	9.3	9.3		3/31/2015	Energy and Mining	MS	MS	
P108776	EDUCATION FOR ALL EFA-FTI (TF058043)	RETF	2007	Closed	8.2		8.2	12/31/2013	Education	MS	MS	
P108935	Updating the Statistical Master Plan	RETF	2007	Closed	0.1		0.1	12/31/2007	Economic Policy			
P110253	NEMO2 (Recipient executed)	RETF	2008	Closed	2.4		2.4	12/31/2011	Environment			
P111059	Rural Educ. and Dev. (READ) Supplement	IDA	2008	Closed	1.0	1.0		2/28/2013	Education			
P113160	MONSTAT	IDA	2009	Active	2.0	2.0		12/31/2014	Economic Policy	S	S	
P115005	Grant to BTWI, Mongolia	RETF	2009	Closed	0.1		0.1	12/30/2009	Global Information/Communications Technology			

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Proj ID	Project Name	Agreement Type	Approval Fiscal Year	Project Status	Total Project Commitment (US\$ millions)	IDA Commitment Amount (US\$ millions)	Trust Fund Commitment Amount (US\$ millions)	Revised Closing Date	Sector Board	Latest DO	Latest IP	IEG Outcome rating
P115119	Index Based Livestock Insurance AF	IDA	2010	Active	10.0	10.0		3/31/2016	Agriculture and Rural Development			
P115737	Development Policy Credit	IDA	2009	Closed	40.0	40.0		10/30/2009	Economic Policy			MS
P116166	Energy Sector Additional Financing	IDA	2010	Closed	12.0	12.0		8/30/2013	Energy and Mining			
P117011	Mongolia Phase II: EITI Implementation	RETF	2009	Closed	0.3		0.3	10/31/2011	Energy and Mining			
P117421	Development Policy Credit 2	IDA	2011	Closed	29.7	29.7		6/30/2011	Economic Policy			MS
P118109	Mining Infrastructure Investment Supplem.	IDA	2011	Active	25.0	25.0		9/30/2016	Energy and Mining	S	MS	
P119825	Multi-Sector TA	IDA	2010	Active	12.0	12.0		12/31/2014	Financial and Private Sector Development (I)	MS	MS	
P122320	Ulaanbaatar Clean Air	IDA	2012	Active	15.0	15.0		6/30/2017	Energy and Mining	S	S	
P122953	Strengthening Statistical Capacity	RETF	2011	Active	0.7		0.7	12/31/2014	Economic Policy	S	S	
P125445	GPE Early Childhood Education	RETF	2012	Active	10.0		10.0	6/30/2014	Education	MU	MU	
P125504	2nd Sustainable Livelihoods (AF)	IDA	2011	Closed	11.0	11.0		6/30/2016	Agriculture and Rural Development			
P125863	Community-led Infrastructure Dev 2	RETF	2011	Active	2.8		2.8	7/5/2015	Urban Development	S	S	
P125964	Livestock and Agricultural Marketing	RETF	2013	Active	11.0		11.0	1/31/2017	Agriculture and Rural Development			
P126725	E-Health Project	RETF	2012	Closed	0.2		0.2	6/30/2013	Health, Nutrition and Population			
P126994	Mongolia: EITI Compliance Phase I	RETF	2012	Closed	0.3		0.3	5/31/2014	Energy and Mining			
P129392	Institutional Strengthening-Donor Asst Mgmt.	Institutional Development Fund	2012	Active	0.4		0.4	4/5/2015	Public Sector Governance	MS	MS	
P129541	Improving Disaster Risk Management	RETF	2012	Active	2.7		2.7	6/30/2015	Urban Development	MS	MS	
P130760	Improving Primary Education Outcomes	RETF	2012	Active	2.5		2.5	6/21/2016	Education	MS	MS	
P131204	EID Preparedness, Mongolia	RETF	2013	Closed	2.9		2.9	2/28/2014	Health, Nutrition and Population			
P143406	Integrated Budget Law Capacity Building	RETF	2013	Closed	1.0		1.0	12/31/2013	Agriculture and Rural Development			
P143470	Strengthen Corruption Prevention & Monitoring	Institutional Development Fund	2013	Active	0.3		0.3	11/11/2016	Public Sector Governance	MS	MS	
<b>Total</b>					<b>311</b>	<b>253</b>	<b>58</b>					

Source: World Bank database as of June 27, 2014 (includes supplements).

Note: DO = development objective; EID = Emerging Infectious Disease; EITI = Extractive Industries Transparency Initiative; FY = fiscal year; GEF = Global Environment Facility; HS = highly satisfactory; IDA = International Development Association; IEG = Independent Evaluation Group; MS = moderately satisfactory; MU = moderately unsatisfactory; RETF = Recipient-executed trust fund; S = satisfactory; TA = technical assistance.

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**Table D.2. Number and Total Commitment Amount (US\$ millions) of IBRD/Grant Commitments, FY05–13**

Sector Board	FY05		FY06		FY07		FY08		FY09		FY10		FY11		FY12		FY13		Total	
	No.	Amt.	No.	Amt.																
Agriculture and Rural Development	1	7.8			1	33.0					1	10.0	1	11.0			2	12.0	6	73.7
Economic Policy			1	14.0	1	0.1			2	42.0			2	30.4					6	86.4
Education			1	4.0	1	8.2	1	1.0							2	12.5			5	25.7
Energy and Mining					2	7.0	2	9.6	1	0.3	1	12.0	1	25.0	2	15.3			9	69.1
Environment	1	4.0					1	2.4											2	6.5
Financial and Private Sector Development (I)	1	10.6									1	12.0							2	22.6
Financial Management			1	0.3															1	0.3
Global Information/Communications Technology			1	8.0	1	0.3			1	0.1									3	8.3
Health, Nutrition and Population							1	4.0						1	0.2	1	2.9	3	7.1	
Poverty Reduction					1	0.2													1	0.2
Public Sector Governance			1	0.3			1	5.0						1	0.4	1	0.3	4	5.9	
Urban Development													1	2.8	1	2.7			2	5.5
<b>Grand Total</b>	<b>3</b>	<b>22.3</b>	<b>5</b>	<b>26.6</b>	<b>7</b>	<b>48.7</b>	<b>6</b>	<b>22.0</b>	<b>4</b>	<b>42.3</b>	<b>3</b>	<b>34.0</b>	<b>5</b>	<b>69.1</b>	<b>7</b>	<b>30.9</b>	<b>4</b>	<b>15.2</b>	<b>44</b>	<b>311.2</b>

Source: World Bank database as of June 27, 2014 (includes supplements).

Note: FY = fiscal year; IBRD = International Bank for Reconstruction and Development.

**Table D.3. Project Ratings for Mongolia and Comparators, Exit FY05-13**

Country	Total Evaluated		Outcome (% moderately satisfactory or better)		Risks to Development Outcomes (% moderate or lower)		Institutional Development Impact (% substantial or higher)		Sustainability (% likely or highly likely)	
	\$M	No.	\$M	%	\$M	%	\$M	%	\$M	%
Cambodia	383	17	275	59	55	12	—	—	—	—
Ghana	1,848	27	1,253	59	914	41	125	4	130	7
Indonesia	10,412	59	8,789	68	8,453	58	424	5	783	10
Kazakhstan	1,680	11	1,656	91	1,559	73	80	9	97	18
Kyrgyz Republic	305	19	225	79	36	21	37	11	37	11
Lao PDR	182	13	163	92	47	31	25	8	46	15
Mongolia	225	14	200	86	87	50	37	14	37	14
Uzbekistan	293	8	225	75	55	25	29	13	29	13
Vietnam	4,619	38	3,478	89	3,077	71	143	5	143	5
Zambia	686	18	385	61	72	11	97	11	211	28
EAP Region	33,248	294	28,080	79	21,997	56	5,010	12	6,123	15
<b>Total</b>	<b>53,880</b>	<b>518</b>	<b>44,727</b>	<b>77</b>	<b>36,353</b>	<b>51</b>	<b>6,007</b>	<b>10</b>	<b>7,635</b>	<b>13</b>

Source: World Bank database as of June 27, 2014.

Note: EAP = East Asia and Pacific Region; FY = fiscal year.

**Table D.4. IEG Project Ratings for Mongolia, Exit FY05-13**

#	Exit FY	Project ID	Project Name	Commitment Amount (\$M)	Approval FY	IEG Outcome	IEG Risk to development objective rating	IEG Sustainability <sup>a</sup>	IEG Institutional Development Impact
1	2005	P049789	Private Sector Development CR	12.0	1999	MS	#	Nonevaluable	Modest
2	2005	P051855	Fiscal Technical Assistance	5.0	1998	MS	#	Highly likely	High
3	2008	P056200	Transport Development	34.0	2001	MS	Significant	#	#
4	2008	P067770	Sustainable Livelihoods	18.7	2002	S	Moderate	#	#
5	2005	P068071	Financial Sector Adjustment Credit	32.0	2000	MS	#	Likely	Substantial
6	2009	P071023	Financial Capacity Dev. Project	5.0	2002	MS	Moderate	#	#
7	2008	P074001	Mongolia Legal Reform	5.0	2002	S	Negligible To Low	#	#
8	2012	P074591	Ulaanbaatar Services Improvement 2	18.0	2004	MU	Significant	#	#
9	2013	P077778	Economic Capacity Technical Assistance	7.5	2003	U	Significant	#	#
10	2011	P088992	Private Sector Development Credit II	10.6	2005	MS	Moderate	#	#
11	2013	P096328	Rural Education and Development - READ	4.0	2006	S	Moderate	#	#
12	2012	P099321	Renewable Energy for Rural Access	3.5	2007	MS	Moderate	#	#
13	2010	P115737	Development Policy Credit	40.0	2009	MS	Moderate	#	#
14	2011	P117421	Development Policy Credit 2	29.7	2011	MS	Significant	#	#
<b>Total</b>				<b>225.0</b>					

Source: World Bank database as of June 27, 2014.

a. Sustainability and institutional development impact were rated until FY06; risk to development objective is rated for projects from FY07 onward.

Note: FY = fiscal year; IEG = Independent Evaluation Group; MS = moderately satisfactory; MU = moderately unsatisfactory; S = satisfactory; U = unsatisfactory.

**Table D.5. Bank Budget by Cost Structure Category, FY05-13 (in US\$ thousands and percent)**

Sector Board	Total	Project Supervision	Lending	Analytic & Advisory Services	Country Program Support	Client Training
Agriculture and Rural Development	3,693	2,033	1,378	282	—	—
Economic Policy	4,940	2,014	1,404	1,465	—	56
Education	1,759	823	536	401	—	—
Energy and Mining	5,570	2,354	2,108	1,108	—	—
Environment	1,730	176	861	693	—	—
Financial and Private Sector Development (I)	3,144	1,405	497	1,242	—	—
Financial Inclusion Practice	54	—	—	54	—	—
Financial Management	97	—	—	97	—	—
Financial Systems Practice	437	—	—	437	—	—
Gender and Development	291	—	—	291	—	—
Global Information/Communications Technology	913	498	415	—	—	—
Health, Nutrition and Population	708	212	427	19	—	50
Not assigned	6,624	1,691	550	2,383	1,907	93
Poverty Reduction	488	—	23	447	—	18
Procurement	2	—	—	2	—	—
Public Sector Governance	2,065	737	354	931	—	43
Social Protection	1,082	—	150	932	—	—
Transport	272	272	—	—	—	—

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Sector Board	Total	Project Supervision	Lending	Analytic & Advisory Services	Country Program Support	Client Training
Urban Development	1,779	604	495	680	—	—
Water	2	2	—	—	—	—
<b>Total</b>	<b>35,649</b>	<b>12,822</b>	<b>9,198</b>	<b>11,463</b>	<b>1,907</b>	<b>260</b>
Cost structure (percent)						
Agriculture and Rural Development	100	55	37	8	—	—
Economic Policy	100	41	28	30	—	1
Education	100	47	30	23	—	—
Energy and Mining	100	42	38	20	—	—
Environment	100	10	50	40	—	—
Financial and Private Sector Development (I)	100	45	16	40	—	—
Financial Inclusion Practice	100	—	—	100	—	—
Financial Management	100	—	—	100	—	—
Financial Systems Practice	100	—	—	100	—	—
Gender and Development	100	—	—	100	—	—
Global Information/Communications Technology	100	55	45	—	—	—
Health, Nutrition and Population	100	30	60	3	—	7
Not assigned	100	26	8	36	29	1
Poverty Reduction	100	—	5	92	—	4
Procurement	100	—	—	100	—	—
Public Sector Governance	100	36	17	45	—	2
Social Protection	100	—	14	86	—	—
Transport	100	100	—	—	—	—
Urban Development	100	34	28	38	—	—
Water	100	100	—	—	—	—

Source: World Bank database as of June 27, 2014.

**Table D.6. Total Net Disbursements of Official Development Assistance and Official Aid, 2002–2011 (US\$ millions)**

Donor	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Average 2002-12	Cumulative 2002-12	Percentage of total disbursed 2002-12
All Donors Total	207.8	252.1	258.0	219.6	205.1	238.7	246.7	371.2	302.8	350.6	448.8	281.9	3101.2	100.0
DAC Countries Total	158.7	156.8	152.6	135.4	138.3	157.9	184.1	214.4	226.2	262.4	363.0	195.4	2149.9	69.3
Multilateral, Total	44.4	88.6	98.4	53.5	45.9	63.5	57.3	141.7	70.5	85.4	72.4	74.7	821.6	26.5
Japan	79.0	67.3	65.6	56.5	46.9	51.6	60.7	74.7	53.9	75.6	110.7	67.5	742.4	23.9
United States	20.4	16.1	25.9	18.5	12.4	12.7	35.4	34.9	47.2	68.7	122.1	37.7	414.4	13.4
Germany	23.2	29.9	26.5	28.2	29.7	30.3	32.4	25.4	29.1	34.7	43.1	30.2	332.5	10.7
Korea	16.5	5.9	1.9	4.7	5.4	12.9	16.5	32.3	39.2	30.5	31.8	17.9	197.4	6.4
Netherlands	2.6	5.4	9.5	7.5	8.0	11.1	6.6	9.6	8.8	6.3	2.9	7.1	78.3	2.5
Switzerland	1.3	1.5	2.4	2.7	3.7	5.3	8.2	10.4	11.3	15.2	15.2	7.0	77.2	2.5
Turkey	0.3	5.1	5.5	10.3	10.2	10.5	5.3	7.0	5.8	8.1	6.3	6.8	74.4	2.4
EU Institutions	3.1	2.7	4.0	6.4	3.1	2.2	10.6	5.4	13.4	5.0	3.9	5.4	59.9	1.9
Australia	2.2	1.4	1.4	1.5	2.0	3.0	1.7	7.7	6.6	7.4	13.5	4.4	48.5	1.6

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Donor	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Average 2002-12	Cumulative 2002-12	Percentage of total disbursed 2002-12
Czech Republic	0.8	1.7	2.9	3.0	2.7	4.0	6.0	6.8	6.8	4.7	4.1	4.0	43.5	1.4
Global Fund (GFATM)	—	0.9	0.9	2.4	1.7	3.0	4.4	6.2	6.3	4.4	5.4	3.6	35.6	1.1
France	1.0	1.8	5.3	1.2	1.4	0.7	0.9	2.1	5.0	5.2	7.1	2.9	31.8	1.0
Kuwait (KFAED)	4.3	1.1	0.9	8.4	6.1	5.4	0.4	5.9	0.7	-5.1	-0.6	2.5	27.7	0.9
Sweden	2.4	10.6	2.4	2.5	2.6	2.2	1.2	1.3	1.3	0.1	0.1	2.4	26.7	0.9
GEF	—	2.5	3.3	—	—	10.7	—	2.9	0.4	1.7	1.6	3.3	23.0	0.7
Spain	1.4	6.5	2.8	—	0.9	9.0	4.1	-1.3	-0.3	—	—	2.9	23.0	0.7
Canada	0.9	1.2	1.3	1.5	1.3	2.1	1.8	2.7	8.3	0.9	0.4	2.0	22.4	0.7

Source: Organization for Economic Co-operation and Development (OECD). Data extracted in June 2014 from OECD.Stat.

Note: DAC = Development Assistance Committee; EU = European Union; GEF = Global Environment Facility; KFAED = Kuwait Fund for Arab Economic Development; GFATM = Global Fund to Fight AIDS, Tuberculosis and Malaria.

**Table D.7. Mongolia—List of World Bank AAA, FY05–13**

#	Project ID	Project Name	Approval Fiscal Year	Delivered to Client (FY)	Project Status	Product Line	Sector Board	Output Type	Cost of Product (US\$ thousands)
1	P085584	Health Policy Note	FY05	FY05	Closed	ESW	Health, Nutrition and Population	Report	84.0
2	P087538	Gender Assessment	FY05	FY05	Closed	ESW	Gender and Development	Policy Note	28.5
3	P096567	Poverty-Focused Policy Notes	FY05	FY05	Closed	ESW	Poverty Reduction	Policy Note	0.0
4	P079705	TA for Association of Mayors	FY05	FY05	Closed	NLTA	Urban Development	"How-To" Guidance	32.1
5	P091204	Enabling Environ. for Social Actability in Mongolia	FY05	FY05	Closed	ESW	Social Development	Report	125.1
6	P087981	Regional Development	FY06	FY06	Closed	ESW	Economic Policy	Report	33.1
7	P095076	Migrants Remittances to Mongolia	FY06	FY06	Closed	ESW	Financial and Private Sector Development	Report	12.8
8	P085596	Dialogue/ Workshop	FY06	FY06	Closed	NLTA	Social Protection	Knowledge- Sharing Forum	67.6
9	P097368	Evaluation of Poverty-Targeted Program	FY06	FY06	Closed	ESW	Education	Policy Note	67.7
10	P090232	Mining Sector Review	FY06	FY06	Closed	ESW	Environment	Report	27.2
11	P095234	Dialogue & Support of Master Plan	FY06	FY06	Closed	NLTA	Education	Institutional Development Plan	10.5
12	P085062	Financial Sector Work (with ADB)	FY06	FY06	Closed	ESW	Financial and Private Sector Development	Policy Note	139.6
13	P090388	Poverty Assessment	FY06	FY06	Closed	ESW	Poverty Reduction	Report	331.5
14	P085018	Investment Climate	FY06	FY06	Closed	ESW	Financial and Private Sector Development	Report	497.2
15	P097427	Mining Policy Dial/TA Regulatory Reform	FY06	FY06	Closed	NLTA	Energy and Mining	Client Document Review	94.1

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#	Project ID	Project Name	Approval Fiscal Year	Delivered to Client (FY)	Project Status	Product Line	Sector Board	Output Type	Cost of Product (US\$ thousands)
16	P097428	EITI/Mining Policy Dialogue	FY06	FY06	Closed	NLTA	Energy and Mining	Knowledge-Sharing Forum	27.6
17	P086260	CA: Mongolia- Secondary Cities Development Strategy	FY06	FY06	Closed	NLTA	Urban Development	Institutional Development Plan	249.3
18	P096227	CEM - Sources of Growth	FY07	FY07	Closed	ESW	Economic Policy	Report	378.7
19	P088898	Infrastructure Strategy	FY07	FY07	Closed	ESW	Energy and Mining	Report	548.5
20	P097366	PETS & Quality/Relevance of Education (Multi-Country)	FY07	FY07	Closed	ESW	Education	Report	130.7
21	P101259	Monitor I & II	FY07	FY07	Closed	ESW	Economic Policy	Policy Note	28.8
22	P105284	FSAP	FY08	FY08	Closed	ESW	Financial and Private Sector Development	Report	278.0
23	P108777	ROSC Accounting & Auditing	FY08	FY08	Closed	ESW	Financial Management	Report	97.0
24	P107688	Policy Note on Pension Reform	FY08	FY08	Closed	ESW	Social Protection	Policy Note	54.6
25	P099764	Rural Energy Project	FY08	FY08	Closed	NLTA	Energy and Mining	"How-To" Guidance	55.4
26	P102914	Financial Sector TA	FY08	FY08	Closed	NLTA	Financial and Private Sector Development	"How-To" Guidance	1.6
27	P100967	PEFMR	FY08	FY08	Closed	ESW	Public Sector Governance	Report	339.1
28	P108781	Mongolia Quarterly	FY08	FY08	Closed	ESW	Economic Policy	Policy Note	32.5
29	P100209	Urban Heat Pricing & Regulation	FY09	FY09	Closed	NLTA	Energy and Mining	"How-To" Guidance	72.7
30	P110077	Energy Efficient Heating in Poor Urban Areas of Ulaanbaatar	FY09	FY09	Closed	NLTA	Energy and Mining	Model/Survey	210.1
31	P110258	South Gobi Infrastructure & Environment	FY09	FY09	Closed	ESW	Energy and Mining	Report	288.5
32	P096442	Livestock Sector Study	FY09	FY09	Closed	ESW	Agriculture and Rural Development	Report	108.2
33	P114155	Civil Service Policy Note	FY09	FY09	Closed	ESW	Public Sector Governance	Policy Note	92.3
34	P114995	Banking Sector Review	FY09	FY09	Closed	ESW	Financial and Private Sector Development	Policy Note	46.3
35	P111498	Ulaanbaatar Air Pollution Discussion Note	FY09	FY09	Closed	ESW	Energy and Mining	Report	137.0
36	P113165	FY09 Mongolia Quarterly	FY09	FY09	Closed	ESW	Economic Policy	Policy Note	113.2
37	P113933	Ger Area Development Strategy	FY09	FY09	Closed	ESW	Urban Development	Report	192.6
38	P114833	GCMCG: Mongolia Country Assessment	FY09	FY09	Closed	ESW	Financial and Private Sector Development	Report	80.1
39	P111114	Trade Integration	FY10	FY10	Closed	NLTA	Economic Policy	Institutional Development Plan	51.2
40	P100112	Mitigation Sector Reform & Tariff Adj	FY10	FY10	Closed	NLTA	Energy and Mining	"How-To" Guidance	109.1
41	P113761	Policy Note on Higher Education	FY10	FY10	Closed	ESW	Education	Policy Note	102.3
42	P117100	Meat Sector Policy Note	FY10	FY10	Closed	ESW	Agriculture and Rural Development	Policy Note	3.2
43	P115739	Poverty Assessment Policy Note	FY10	FY10	Closed	ESW	Poverty Reduction	Policy Note	135.7
44	P115380	Health Results-Based Financing	FY10	FY10	Closed	NLTA	Health, Nutrition and Population	Knowledge-Sharing Forum	53.1

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#	Project ID	Project Name	Approval Fiscal Year	Delivered to Client (FY)	Project Status	Product Line	Sector Board	Output Type	Cost of Product (US\$ thousands)
45	P119829	Banking Restructuring Program	FY10	FY10	Closed	ESW	Financial and Private Sector Development	Policy Note	401.8
46	P116097	Public Investment Planning	FY10	FY10	Closed	ESW	Public Sector Governance	Policy Note	38.2
47	P118412	Support to Social Welfare Reform	FY10	FY10	Closed	NLTA	Social Protection	Institutional Development Plan	319.3
48	P118704	Ger Area Development Strategy	FY10	FY10	Closed	ESW	Urban Development	Report	120.4
49	P119368	FY10 Monthly Economic Updates	FY10	FY10	Closed	ESW	Economic Policy	Policy Note	149.8
50	P115785	AML/CFT TA Capacity Building	FY11	FY11	Closed	NLTA	Financial and Private Sector Development	"How-To" Guidance	140.3
51	P119796	Diagnostic of Economic Crisis to Infrastructure	FY11	FY11	Closed	ESW	Energy and Mining	Report	45.0
52	P124721	DeMPA Assessment	FY11	FY11	Active	ESW	Economic Policy	Report	54.4
53	P122388	Programmatic AAA Economic Analysis	FY11	FY11	Closed	ESW	Economic Policy	Policy Note	307.7
54	P120713	Reducing Vulnerability of Herders	FY11	FY11	Closed	ESW	Agriculture and Rural Development	Report	204.4
55	P111452	Air Quality Management	FY12	FY12	Closed	ESW	Environment	Report	551.2
56	P120187	NHA Institutionalization	FY12	FY12	Closed	NLTA	Health, Nutrition and Population	TA/IAR	
57	P127829	MTDS Mongolia	FY12	FY12	Closed	ESW	Economic Policy	Report	88.3
58	P108863	NEMO2	FY12	FY12	Closed	NLTA	Environment	TA/IAR	
59	P125823	Country Gender Action Plan	FY12	FY12	Closed	ESW	Gender and Development	Report	24.4
60	P126679	E-Health Development	FY12	FY12	Closed	NLTA	Health, Nutrition and Population	TA/IAR	
61	P122784	Social Protection TA	FY12	FY12	Closed	NLTA	Social Protection	TA/IAR	
62	P114114	ICR ROSC	FY12	FY12	Closed	ESW	Gender and Development	Report	201.7
63	P130033	Programmatic AAA Economic Analysis	FY13	FY13	Closed	ESW	Economic Policy	EW/Not assigned	258.5
64	P129984	FSAP Development Module	FY13	FY13	Closed	ESW	Financial Systems Practice	EW/Not assigned	208.5
65	P145258	MTDS Mongolia (follow-up)	FY13	FY13	Active	NLTA	Economic Policy	TA/IAR	
66	P130296	Financing Municipal Services for Ulaanbaatar City	FY13	FY13	Closed	ESW	Urban Development	EW/Not assigned	188.4
67	P130379	Consumer Protection and Fin Literacy	FY13	FY13	Closed	ESW	Financial Inclusion Practice	EW/Not assigned	6.8
68	P128022	CSO – Mongolia	FY13	FY13	Active	NLTA	Energy and Mining	TA/EPD	
69	P126639	Social Impacts in Mining Areas	FY13	FY13	Closed	NLTA	Energy and Mining	TA/IAR	

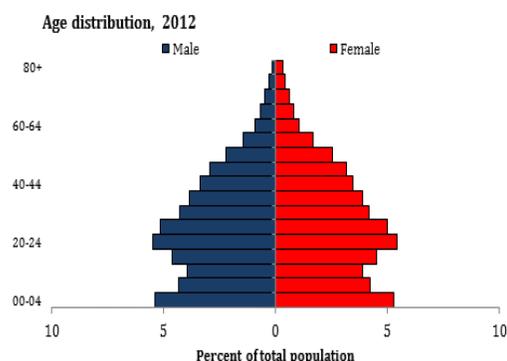
Source: World Bank database as of June 27, 2014.

Note: AAA = analytic and advisory activities; ADB = Asian Development Bank; AML/CFT = anti-money laundering/ combating the financing of terrorism; CEM = Country Economic Memorandum; CSO = civil society organization; DeMPA = Debt Management Performance Assessment; EITI = Extractive Industries Transparency Initiative; ESW = Economic and Sector Work; FSAP = Financial Sector Assessment Program; FY = fiscal year; ICR = Implementation Completion and Results Report; MTDS = Medium-Term Debt Strategy; NEMO2 = Netherlands-Mongolia Trust Fund for Environmental Reform 2; NHA = National Health Accounts; NLTA = Nonlending Technical Assistance; PEFMR = Public Expenditure and Financial Management Review; PETS = Public Expenditure Tracking Survey; ROSC = Reports on Standards and Codes; TA = technical assistance.

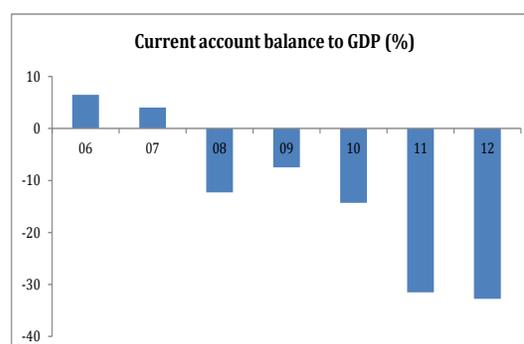
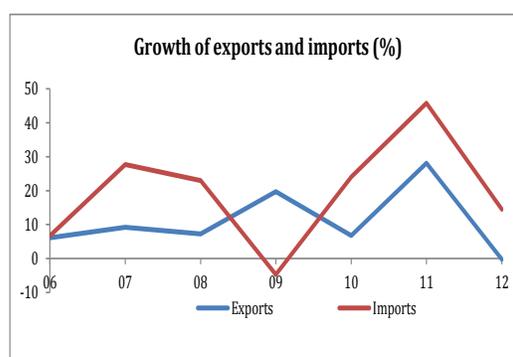
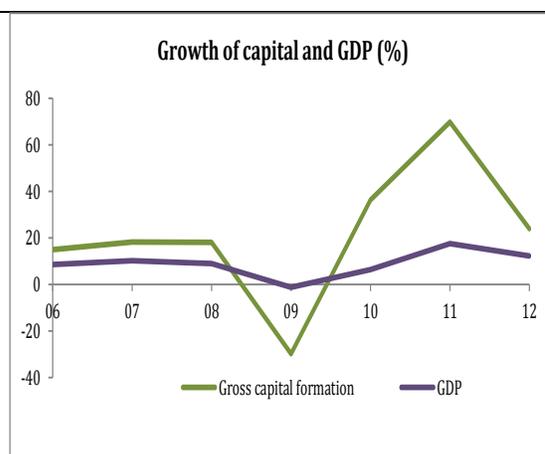
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**Table D.8. Mongolia at a Glance**

POVERTY and SOCIAL					
	Mongolia	East Asia & Pacific	Lower-middle-income		
<b>2012</b>					
Population, mid-year (millions)	2.8	1,992	2,507		
GNI per capita (Atlas method, US\$)	3,160	4,884	1,893		
GNI (Atlas method, US\$ billions)	8.8	9,728	4,745		
<b>Average annual growth, 2006-12</b>					
Population (%)	1.5	0.7	1.5		
Labor force (%)	2.3	0.9	1.4		
<b>Most recent estimate (latest year available, 2006-12)</b>					
Poverty (% of population below national poverty line)	27	—	—		
Urban population (% of total population)	69	50	39		
Life expectancy at birth (years)	67	74	66		
Infant mortality (per 1,000 live births)	23	17	46		
Child malnutrition (% of children under 5)	—	5	24		
Access to an improved water source (% of population)	85	91	88		
Literacy (% of population age 15+)	97	94	71		
Gross primary enrollment (% of school-age population)	117	112	106		
Male	119	111	107		
Female	115	113	104		
<b>KEY ECONOMIC RATIOS and LONG-TERM TRENDS</b>					
	1992	2002	2011	2012	
<b>GDP (US\$ billions)</b>	1.3	1.4	8.8	10.3	
Gross capital formation/GDP	25.7	24.6	62.5	63.5	
Exports of goods and services/GDP	28.9	50.7	62.3	50.9	
Gross domestic savings/GDP	18.2	7.6	38.0	37.6	
Gross national savings/GDP	18.9	—	31.1	33.2	
Current account balance/GDP	-3.6	—	31.5	32.4	
Interest payments/GDP	0.9	1.0	0.3	0.7	
Total debt/GDP	26.9	78.9	29.3	49.5	
Total debt service/exports	17.3	7.7	2.0	4.7	
Present value of debt/GDP	—	—	—	36.0	
Present value of debt/exports	—	—	—	71.1	
	1992-02	2002-12	2011	2012	2012-16
<b>(Average annual growth)</b>					
GDP	3.0	8.1	17.5	12.3	12.1
GDP per capita	2.1	6.6	15.7	10.6	10.5
Exports of goods and services	—	11.8	28.1	-0.2	—
<b>STRUCTURE of THE ECONOMY</b>					
	1992	2002	2011	2012	
<b>(% of GDP)</b>					
Agriculture	27.2	21.5	14.5	17.1	
Industry	36.9	25.6	36.3	32.9	
Manufacturing	19.8	7.3	7.1	7.2	
Services	35.9	52.9	49.2	50.0	
Household final consumption expenditure	65.9	76.3	49.0	48.3	



General gov't final consumption expenditure	15.8	16.1	13.0	14.1
Imports of goods and services	36.4	67.8	86.8	76.9
	<b>1992-02</b>	<b>2002-12</b>	<b>2011</b>	<b>2012</b>
<b>(Average annual growth)</b>				
Agriculture	-2.1	5.3	-0.5	21.3
Industry	4.2	5.2	9.1	10.1
Manufacturing	1.7	3.8	8.3	9.7
Services	2.7	9.6	16.8	13.4
Household final consumption expenditure	—	12.5	13.7	19.8
General gov't final consumption expenditure	—	7.1	12.4	9.4
Gross capital formation	—	15.8	69.9	24.0
Imports of goods and services	—	18.7	45.8	14.5
<b>PRICES and GOVERNMENT FINANCE</b>				
	<b>1992</b>	<b>2002</b>	<b>2011</b>	<b>2012</b>
<b>Domestic prices (% change)</b>				
Consumer prices	—	0.9	9.5	15.0
Implicit GDP deflator	173.7	6.4	12.1	12.0
<b>Government finance</b>				
<b>(% of GDP, includes current grants)</b>				
Current revenue	21.2	30.7	38.0	34.8
Current budget balance	2.4	4.1	8.8	2.8
Overall surplus/deficit	-0.2	-4.6	-6.9	-8.2
<b>TRADE</b>				
	<b>1992</b>	<b>2002</b>	<b>2011</b>	<b>2012</b>
<b>(US\$ millions)</b>				
Total exports (fob)	356	524	4,817	4,385
Copper	160	140	969	839
Non monetized gold	32	118	110	122
Manufactures	117	199	355	315
Total imports (cif)	418	690	6,598	6,738
Food	21	129	483	565
Fuel and energy	88	133	1,274	1,581
Capital goods	137	210	3,297	2,925
Export price index (2000 = 100)	—	84	506	534
Import price index (2000 = 100)	—	92	315	336
Terms of trade (200 = 100)	—	91	161	159
<b>BALANCE of PAYMENTS</b>				
	<b>1992</b>	<b>2002</b>	<b>2011</b>	<b>2012</b>
<b>(US\$ millions)</b>				
Exports of goods and services	391	686	5,439	5,139
Imports of goods and services	446	946	7,593	7,943
Resource balance	-56	261	-2,153	-2,804
Net income	-27	-5	-843	-759
Net current transfers	35	—	238	234
Current account balance	-47	—	-2,759	-3,329
Financing items (net)	88	—	2,786	4,698
Changes in net reserves	-41	-67	-28	-1,369
<b>Memo:</b>				



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Reserves including gold (US\$ millions)	23	267	2,448	4,126
Conversion rate (DEC, local/US\$)	42.6	1,110.3	1,265.5	1,357.6
<b>EXTERNAL and RESOURCES FLOWS</b>				
<i>(US\$ millions)</i>	<b>1992</b>	<b>2002</b>	<b>2011</b>	<b>2012</b>
Total debt outstanding and disbursed	355	1,102	2,564	5,080
IBRD	0	0	0	0
IDA	27	181	447	467
Total debt service	68	54	108	242
IBRD	0	0	0	0
IDA	0	2	9	11
Composition of net resource				
Official grants	37	67	205	297
Official creditors	86	50	28	-22
Private creditors	19	0	16	2,564
Foreign direct investment	2	78	4,715	4,452
Portfolio equity (net inflows)	0	0	9	15
World Bank program				
Commitments	0	29	36	15
Disbursements	27	14	53	27
Principal repayments	0	1	6	7
Net flows	27	13	47	20
Interest payments	0	1	3	3
Net transfers	27	12	44	16

**Composition of total external debt, 2012**

Category	Value (US\$ millions)
Private	2,813
Bilateral	604
Other multilateral	665
IDA & IBRD	467
Short term	297
IMF	234

Source: World Bank Database.

Note: GDP = gross national product; GNI = gross national income; IBRD = International Bank for Reconstruction and Development; IDA = International Development Association.

**Table D.9. Millennium Development Goals**

	1990	1995	2000	2005	2012
<b>Goal 1: Eradicate extreme poverty and hunger</b>					
Employment to population ratio, 15+, total (%) (modeled ILO estimate)	55*	55	57	56	59
Employment to population ratio, ages 15-24, total (%) (modeled ILO estimate)	38*	37	37	33	32
GDP per person employed (constant 1990 PPP \$)	—	—	—	—	—
Income share held by lowest 20%	—	7	7*	—	—
Malnutrition prevalence, weight for age (% of children under 5)	11*	—	12	5	—
Poverty gap at \$1.25 a day (PPP) (%)	—	—	—	—	—
Poverty headcount ratio at \$1.25 a day (PPP) (% of population)	—	—	—	—	—
Vulnerable employment, total (% of total employment)	—	—	57	62*	55*
<b>Goal 2: Achieve universal primary education</b>					
Literacy rate, youth female (% of females ages 15-24)	—	—	98	—	97*
Literacy rate, youth male (% of males ages 15-24)	—	—	97	—	94*
Persistence to last grade of primary, total (% of cohort)	—	68	89	84*	93*
Primary completion rate, total (% of relevant age group)	—	75	87	96	130
Adjusted net enrollment rate, primary (% of primary school age children)	—	81	93	92	98
<b>Goal 3: Promote gender equality and empower women</b>					
Proportion of seats held by women in national parliaments (%)	25	8*	11	7	15
Ratio of female to male primary enrollment (%)	99*	103	101	100	97
Ratio of female to male secondary enrollment (%)	110	133	124	111	103
Ratio of female to male tertiary enrollment (%)	—	227*	179	165	145

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	1990	1995	2000	2005	2012
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	—	46.2	48.6	51.2	52.7*
<b>Goal 4: Reduce child mortality</b>					
Immunization, measles (% of children ages 12-23 months)	92	85	92	97	99
Mortality rate, infant (per 1,000 live births)	76	62	48	34	23
Mortality rate, under-5 (per 1,000 live births)	107	85	63	43	28
<b>Goal 5: Improve maternal health</b>					
Adolescent fertility rate (births per 1,000 women ages 15-19)	37	34	26	20	19
Births attended by skilled health staff (% of total)	—	—	97	99	99*
Contraceptive prevalence (% of women ages 15-49)	—	57*	67	66	55*
Maternal mortality ratio (modeled estimate, per 100,000 live births)	100	120	120	89	68*
Pregnant women receiving prenatal care (%)	—	—	97	99	99*
Unmet need for contraception (% of married women ages 15-49)	—	—	—	14	—
<b>Goal 6: Combat HIV/AIDS, malaria, and other diseases</b>					
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	—	—	—	—	—
Condom use, population ages 15-24, female (% of females ages 15-24)	—	—	—	—	—
Condom use, population ages 15-24, male (% of males ages 15-24)	—	—	—	—	—
Incidence of tuberculosis (per 100,000 people)	405	314	254	225	223
Prevalence of HIV, female (% ages 15-24)	—	—	—	—	0.1
Prevalence of HIV, male (% ages 15-24)	—	—	—	—	0.1
Prevalence of HIV, total (% of population ages 15-49)	0.1	0.1	0.1	0.1	0.1
Tuberculosis case detection rate (% , all forms)	19	39	51	81	66
<b>Goal 7: Ensure environmental sustainability</b>					
CO2 emissions (kg per PPP \$ of GDP)	2	1	1	1	1*
CO2 emissions (metric tons per capita)	5	3	3	3	4*
Forest area (% of land area)	8.1	7.8	7.5	7.3	7*
Improved sanitation facilities (% of population with access)	—	47	49	52	56
Improved water source (% of population with access)	62	63	68	76	85
Marine protected areas (% of territorial waters)	1	—	1	—	1
<b>Goal 8: Develop a global partnership for development</b>					
Net ODA received per capita (current US\$)	6	91	90	87	160
Debt service (PPG and IMF only, % of exports of goods, services and primary income)	17*	10	6	3	3
Internet users (per 100 people)	0	0	1.3	9*	16.4
Mobile cellular subscriptions (per 100 people)	0	0	6	22	121
Telephone lines (per 100 people)	3	3	5	6	6
<b>Other</b>					
Fertility rate, total (births per woman)	4.1	2.7	2.1	2.2	2.4
GNI per capita, Atlas method (current US\$)	1,430	460	470	900	3,160
GNI, Atlas method (current US\$) (billions)	3.1	1.1	1.1	2.3	8.8
Gross capital formation (% of GDP)	29.1	26.8	29	37.5	63.5
Life expectancy at birth, total (years)	60	61	63	65	67
Literacy rate, adult total (% of people ages 15 and above)	—	—	98	—	97*
Population (Total) (billions)	0	0	0	0	0
Trade (% of GDP)	58.6	82.1	121.9	122.4	127.8

Source: World Development Indicators.

\*Figures refer to periods other than those specified.

Note: AIDS = acquired immune deficiency syndrome; CO2 = carbon dioxide; GDP = gross domestic product; GNI = gross national income; HIV = human immunodeficiency virus; ILO = International Labour Organization; IMF = International Monetary Fund; ODA = Official Development Assistance; PPG = public and publicly guaranteed (debt); PPP = purchasing power parity.

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**Table D.10. Mongolia Economic and Social Indicators, 2005–12**

Series Name	2005	2006	2007	2008	2009	2010	2011	2012
<b>Growth and inflation</b>								
GDP growth (annual %)	7.3	8.6	10.2	8.9	-1.3	6.4	17.5	12.3
GDP per capita growth (annual %)	6.0	7.2	8.7	7.3	-2.7	4.8	15.7	10.6
GNI per capita, Atlas method (current US\$)	900	1,120	1,400	1,800	1,790	1,900	2,340	3,160
GNI per capita, PPP (current international \$)	4,440	4,940	5,450	5,920	5,730	5,780	6,770	7,880
Inflation, consumer prices (annual %)	12.7	5.1	9.0	25.1	6.3	10.1	9.5	15.0
<b>Composition of GDP</b>								
Agriculture, value added (% of GDP)	22.1	19.6	20.5	21.4	19.6	16.2	14.5	17.1
Industry, value added (% of GDP)	36.2	43.0	41.9	34.4	33.0	37.5	36.3	32.9
Services, etc., value added (% of GDP)	41.7	37.4	37.7	44.2	47.4	46.3	49.2	50.0
<b>External Accounts</b>								
Exports of goods and services (% of GDP)	58.8	59.4	59.6	54.0	50.3	54.7	62.3	50.9
Imports of goods and services (% of GDP)	63.6	53.5	58.3	67.2	57.5	62.4	86.8	76.9
Current account balance (percent of GDP)	3.3	6.5	4.1	-12.3	-7.5	-14.3	-31.5	-32.7
Present value of external debt (% of GNI)	—	—	—	—	—	—	—	38,5041
Total debt service (% of GNI)	1.8	1.5	1.4	1.5	2.5	3.0	1.4	2.5
<b>Other macroeconomic indicators</b>								
Gross domestic savings (% of GDP)	32.7	41.8	40.1	30.4	27.1	33.1	38.0	37.6
Gross fixed capital formation (% of GDP)	27.9	33.3	35.1	36.2	28.9	32.5	49.4	51.7
Gross fixed capital formation, private sector (% of GDP)	25.8	29.3	29.5	27.0	22.3	25.9	40.2	42.9
Gross savings (% of GDP)	39.6	46.9	42.8	31.2	26.9	27.1	31.1	33.3
<b>Fiscal accounts</b>								
Cash surplus/deficit (% of GDP)	—	2.8	7.1	-3.3	-4.1	3.0	-3.1	-8.5
General government final consumption expenditure (% of GDP)	12.1	11.7	13.1	15.3	14.7	13.7	13.0	14.1
Gross national expenditure (% of GDP)	104.8	94.0	98.7	113.2	107.3	107.7	124.5	125.9
Revenue, excluding grants (% of GDP)	—	37.7	37.6	30.8	26.8	33.7	34.0	30.7
<b>Social indicators</b>								
Health expenditure, public (% of GDP)	3.4	3.1	3.4	3.9	3.9	3.9	3.8	4.0
Immunization, DPT (% of children ages 12-23 months)	99.0	99.0	95.0	96.0	95.0	96.0	99.0	99.0
Improved sanitation facilities (% of population with access)	52.1	—	—	—	—	55.1	—	56.2
Life expectancy at birth, total (years)	65.3	65.7	66.0	66.4	66.6	66.9	67.1	67.3
Mortality rate, infant (per 1,000 live births)	34.3	32.0	29.9	28.0	26.4	25.2	24.0	23.0
Out-of-pocket health expenditure (% of private expenditure on health)	93.6	93.6	93.6	93.0	93.1	93.1	93.1	93.1
Population growth (annual %)	1.2	1.3	1.4	1.4	1.5	1.5	1.5	1.5
Population, female (% of total)	50.2	50.3	50.3	50.3	50.4	50.4	50.4	50.4
Population, total (millions)	2.5	2.6	2.6	2.6	2.7	2.7	2.8	2.8
Poverty headcount ratio at national poverty line (% of population)	—	—	—	—	—	38.7	33.7	27.4
School enrollment, preprimary (% gross)	46.4	54.3	54.4	57.5	76.3	78.5	83.9	85.8
School enrollment, primary (% gross)	98.0	100.8	100.0	103.5	114.4	125.7	122.1	117.0
School enrollment, secondary (% gross)	90.3	89.9	—	—	97.6	91.6	95.9	103.5
School enrollment, tertiary (% gross)	44.7	47.5	46.9	48.5	51.5	53.8	57.6	61.1
Telephone lines (per 100 people)	6.2	7.6	7.1	7.6	7.1	7.1	6.8	6.3
Unemployment, total (% of total labor force)	7.4	6.4	7.2	5.6	5.9	6.5	4.8	5.2

Source: World Development Indicators data as of June 26, 2013.

Note: DPT = diphtheria, pertussis, and tetanus; GDP = gross domestic product; GNI = gross national income; PPP = purchasing power parity.

Table D.11. Mongolia and Comparators: Key Economic and Social Indicators, Average, 2005–12

Series Name	Mongolia	EAP	Kazakhstan	Zambia	Azerbaijan	Chile
<b>Growth and inflation</b>						
GDP growth (annual %)	8.7	4.3	6.7	6.4	14.2	4.3
GDP per capita growth (annual %)	7.2	3.6	5.2	3.4	12.6	3.3
GNI per capita, Atlas method (current US\$)	1,801	6,437	6,266	938	3,958	9,924
GNI per capita, PPP (current international \$)	5,864	10,273	15,809	2,348	11,945	15,755
Inflation, consumer prices (annual %)	11.6	3.9	9.0	10.7	9.0	2.6
<b>Composition of GDP</b>						
Agriculture, value added (% of GDP)	18.9	4.4	5.7	20.9	6.7	3.8
Industry, value added (% of GDP)	36.9	33.4	41.1	34.2	65.6	39.0
Services, etc., value added (% of GDP)	44.2	62.2	53.2	44.9	27.6	57.2
<b>External accounts</b>						
Exports of goods and services (% of GDP)	56.3	33.4	49.3	40.4	59.9	39.2
Imports of goods and services (% of GDP)	65.8	30.8	35.8	36.3	29.6	32.8
Current account balance (% of GDP)	-10.5	—	0.0	-0.6	22.5	0.9
Present value of external debt (% of GNI)	38.5	—	66.0	17.8	19.3	—
Total debt service (% of GNI)	2.0	—	24.2	1.6	1.6	—
<b>Other macroeconomic indicators</b>						
Gross fixed capital formation (% of GDP)	36.9	27.5	26.1	21.4	23.8	21.8
Gross fixed capital formation, private sector (% of GDP)	30.4	—	21.0	16.6	23.6	—
Gross domestic savings (% of GDP)	35.1	30.7	42.0	26.9	54.1	29.2
Gross savings (% of GDP)	34.9	31.9	28.7	21.7	45.9	23.0
<b>Fiscal accounts</b>						
Revenue, excluding grants (% of GDP)	33.0	14.8	—	17.8	44.9	22.9
General government final consumption expenditure (% of GDP)	13.5	16.3	10.9	17.5	10.3	11.4
Gross national expenditure (% of GDP)	109.5	—	86.5	95.9	69.7	93.6
Cash surplus/deficit (% of GDP)	-0.9	-3.0	—	-0.1	12.3	2.7
<b>Social indicators</b>						
Life expectancy at birth, total (years)	66.4	74.1	67.6	52.2	70.0	78.8
Immunization, DPT (% of children ages 12-23 months)	97.3	89.5	98.0	83.3	76.1	93.3
Mortality rate, infant (per 1,000 live births)	27.9	19.4	22.4	66.1	36.5	7.8
Out-of-pocket health expenditure (% of private expenditure on health)	93.3	73.8	98.7	66.5	89.8	64.8
Health expenditure, public (% of GDP)	3.7	4.6	2.3	3.7	1.0	3.1
Population growth (annual %)	1.4	0.7	1.4	2.9	1.4	1.0
School enrollment, primary (% gross)	110.2	109.5	104.5	115.5	95.1	103.9
School enrollment, secondary (% gross)	94.8	75.8	95.5	100.8	98.6	89.5
School enrollment, tertiary (% gross)	51.4	26.6	46.3	—	19.5	58.9
Population (Total)	2.7	2,181.5	15.9	12.7	8.8	16.9
Telephone lines (per 100 people)	7.0	22.9	23.0	0.7	15.5	20.3
Unemployment, youth total (% of total labor force ages 15-24) (modeled ILO estimate)	11.5	10.8	7.2	25.4	14.4	18.9
Poverty headcount ratio at national poverty line (% of population)	33.3	—	12.3	60.5	10.4	14.4
Improved water source (% of population with access)	80.9	89.9	93.2	60.8	79.4	97.9
Improved sanitation facilities (% of population with access)	54.5	67.0	97.3	42.3	79.5	97.1
School enrollment, preprimary (% gross)	67.1	50.8	40.1	—	25.4	92.7
Population, female (% of total)	50.3	49.1	51.8	50.1	50.5	50.5

Source: World Development Indicators data as of June 26, 2013.

Note: DPT = diphtheria, pertussis, and tetanus; GDP = gross domestic product; GNI = gross national income; ILO = International Labour Organization; PPP = purchasing power parity.

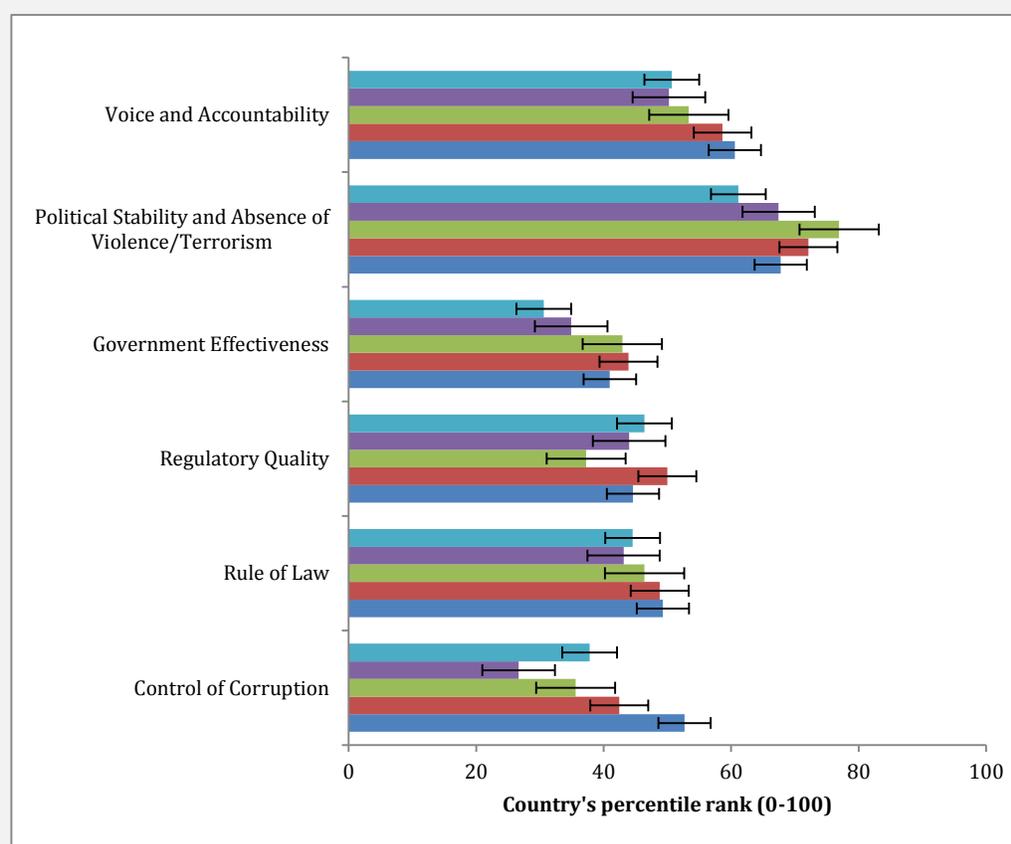
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**Table D.12. Mongolia Selected Gender Indicators Summary, 2005-12**

Series Name	2005	2006	2007	2008	2009	2010	2011	2012
Fertility rate, total (births per woman)	2.2	2.3	2.3	2.4	2.4	2.4	2.4	2.4
Mortality rate, infant (per 1,000 live births)	34.3	32.0	29.9	28.0	26.4	25.2	24.0	23.0
Life expectancy at birth, female (years)	69.2	69.7	70.1	70.4	70.7	71.0	71.2	71.4
Life expectancy at birth, male (years)	61.6	61.9	62.2	62.5	62.8	63.0	63.2	63.5
Life expectancy at birth, total (years)	65.3	65.7	66.0	66.4	66.6	66.9	67.1	67.3
Proportion of seats held by women in national parliaments (%)	6.7	6.6	6.6	4.2	3.9	3.9	3.9	14.9
School enrollment, primary (% gross)	98.0	100.8	100.0	103.5	114.4	125.7	122.1	117.0
School enrollment, primary, female (% gross)	98.0	100.7	99.7	102.8	113.5	124.2	120.6	115.3
School enrollment, primary, male (% gross)	98.0	100.9	100.3	104.2	115.4	127.1	123.5	118.6
Ratio of female to male primary enrollment (%)	100.0	99.9	99.4	98.6	98.3	97.7	97.6	97.2
Ratio of female to male secondary enrollment (%)	111.0	110.0	—	—	107.5	107.3	105.5	103.2

Source: World Development Indicators as of June 26, 2014.

**Figure D.13. Mongolia Governance Indicators: Comparison Between Years 2012, 2010, 2005, 2000, 1996 (top-bottom order)**



Source: Worldwide Governance Indicators.

# Appendix E. Guide to the Independent Evaluation Group's Country Program Evaluation Methodology

This methodological note describes the key elements of the Independent Evaluation Group's (IEG) country program evaluation (CPE) methodology.<sup>1</sup>

CPEs rate the outcomes of World Bank Group assistance programs, not the country's overall development progress.

A Bank Group assistance program needs to be assessed on how well it met its particular objectives, which are typically a subset of the country's development objectives. If a Bank Group assistance program is large in relation to the country's total development effort, the program outcome will be similar to the country's overall development progress. However, most Bank Group assistance programs provide only a fraction of the total resources devoted to a country's development by development partners, stakeholders, and the government itself. In CPEs, IEG rates only the outcome of the Bank Group's program, not the country's overall development outcome, although the latter is clearly relevant for judging the program's outcome.

The experience gained in CPEs confirms that Bank Group program outcomes sometimes diverge significantly from the country's overall development progress. CPEs have identified Bank Group assistance programs that had:

- Satisfactory outcomes matched by good country development;
- Unsatisfactory outcomes in countries that achieved good overall development results, notwithstanding a weak Bank Group program; and,
- Satisfactory outcomes in countries that did not achieve satisfactory overall results during the period of program implementation.

Assessments of assistance program outcome and Bank Group performance are not the same.

By the same token, an unsatisfactory Bank Group assistance program outcome does not always mean that Bank Group performance was also unsatisfactory, and *vice-versa*. This becomes clearer once we consider that the Bank Group's contribution to the outcome of its assistance program is only part of the story. The assistance program's outcome is determined by the *joint* impact of four agents: (a) the country; (b) the Bank Group; (c) partners and other stakeholders; and (d) exogenous forces (e.g., events of nature,

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international economic shocks, etc.). Under the right circumstances, a negative contribution from any one agent might overwhelm the positive contributions from the other three, and lead to an unsatisfactory outcome.

IEG measures Bank Group performance primarily on the basis of contributory actions the Bank Group directly controlled. Judgments regarding Bank Group performance typically consider the relevance and implementation of the strategy; the design and supervision of the Bank Group's lending and financial support interventions; the scope, quality, and follow-up of diagnostic work and other analytic and advisory activities (AAA); the consistency of the Bank Group's lending and financial support with its nonlending work and with its safeguard policies; and the Bank Group's partnership activities.

#### **Rating Assistance Program Outcome**

In rating the outcome (expected development impact) of an assistance program, IEG gauges the extent to which major strategic objectives were relevant and achieved, without any shortcomings. In other words, did the Bank Group do the right thing, and did it do it right? Programs typically express their goals in terms of higher-order objectives, such as poverty reduction. The country assistance strategy (CAS) may also establish intermediate goals, such as improved targeting of social services or promotion of integrated rural development, and specify how they are expected to contribute toward achieving the higher-order objective. IEG's task is then to validate whether the intermediate objectives were the right ones and whether they produced satisfactory net benefits, and whether the results chain specified in the CAS was valid. Where causal linkages were not fully specified in the CAS, it is the evaluator's task to reconstruct this causal chain from the available evidence, and assess relevance, efficacy, and outcome with reference to the intermediate and higher-order objectives.

For each of the main objectives, the CPE evaluates the relevance of the objective, the relevance of the Bank Group's strategy toward meeting the objective, including the balance between lending and nonlending instruments, the efficacy with which the strategy was implemented, and the results achieved. This is done in two steps. The first is a top-down review of whether the Bank Group's program achieved a particular Bank Group objective or planned outcome and had a substantive impact on the country's development. The second step is a bottom-up review of the Bank Group's products and services (lending, analytical and advisory services, and aid coordination) used to achieve the objective. Together these two steps test the consistency of findings from the products and services and the development impact dimensions. Subsequently, an assessment is made of the relative contribution to the results achieved by the Bank Group, other development partners, the government, and exogenous factors.

Evaluators also assess the degree of country ownership of international development priorities, such as the Millennium Development Goals, and Bank Group corporate advocacy priorities, such as safeguards. Ideally, any differences on dealing with these issues would be identified and resolved by the CAS, enabling the evaluator to focus on whether the trade-offs adopted were appropriate. However, in other instances, the strategy may be found to have glossed over certain conflicts, or avoided addressing key country development constraints. In either case, the consequences could include a diminution of program relevance, a loss of country ownership, or unwelcome side effects such as safeguard violations, all of which must be taken into account in judging program outcome.

## Ratings Scale

IEG utilizes six rating categories for **outcomes**, ranging from highly satisfactory to highly unsatisfactory:

Highly satisfactory:	The assistance program achieved at least acceptable progress toward all major relevant objectives, and had best practice development impact on one or more of them. No major shortcomings were identified.
Satisfactory:	The assistance program achieved acceptable progress toward all major relevant objectives. No best practice achievements or major shortcomings were identified.
Moderately satisfactory:	The assistance program achieved acceptable progress toward most of its major relevant objectives. No major shortcomings were identified.
Moderately unsatisfactory:	The assistance program did not make acceptable progress toward most of its major relevant objectives, or made acceptable progress on all of them, but either (a) did not take into adequate account a key development constraint or (b) produced a major shortcoming, such as a safeguard violation.
Unsatisfactory:	The assistance program did not make acceptable progress toward most of its major relevant objectives, and either (a) did not take into adequate account a key development constraint or (b) produced a major shortcoming, such as a safeguard violation.

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Highly unsatisfactory: The assistance program did not make acceptable progress toward any of its major relevant objectives and did not take into adequate account a key development constraint, while also producing at least one major shortcoming, such as a safeguard violation.

The institutional development impact (IDI) can be rated at the project level as: high, substantial, modest, or negligible. IDI measures the extent to which the program bolstered the country's ability to make more efficient, equitable, and sustainable use of its human, financial, and natural resources. Examples of areas included in judging the institutional development impact of the program are the:

- soundness of economic management;
- structure of the public sector, and, in particular, the civil service;
- institutional soundness of the financial sector;
- soundness of legal, regulatory, and judicial systems;
- extent of monitoring and evaluation systems;
- effectiveness of aid coordination;
- degree of financial accountability;
- extent of building capacity in nongovernmental organizations; and,
- level of social and environmental capital.

IEG is, however, increasingly factoring IDI impact ratings into program outcome ratings, rather than rating them separately.

Sustainability can be rated at the project level as highly likely, likely, unlikely, highly unlikely, or if available, information is insufficient, nonevaluable. Sustainability measures the resilience to risk of the development benefits of the country program over time, taking into account eight factors:

- technical resilience;
- financial resilience (including policies on cost recovery);
- economic resilience;
- social support (including conditions subject to safeguard policies);
- environmental resilience;
- ownership by governments and other key stakeholders;
- institutional support (including a supportive legal/regulatory framework, and organizational and management effectiveness); and, resilience to exogenous effects, such as international economic shocks or changes in the political and security environments.

At the program level, IEG is increasingly factoring sustainability into program outcome ratings, rather than rating them separately.

**Risk to Development Outcome.** According to the 2006 harmonized guidelines, sustainability has been replaced with a “risk to development outcome,” defined as the risk, at the time of evaluation, that development outcomes (or expected outcomes) of a project or program will not be maintained (or realized). The risk to development outcome can be rated at the project level as high, significant, moderate, negligible to low, or nonevaluable.

### Box E.1. Understanding the Ratings of World Bank Group Program Over 2005-10

#### *What does the standard IEG CPE methodology rate?*

The rating of the outcome of the Bank assistance program in Tunisia gauges the extent to which major strategic objectives were relevant and achieved.

IEG considered the relevance and implementation of the strategy; the design and supervision of the World Bank Group's lending and financial support; the scope, quality, and follow-up of diagnostic work and other analytic and advisory activities; the consistency of World Bank Group lending and financial support with its AAA work; and the World Bank Group's partnership activities.

For each of the main objectives (set-out from strategic documents), the CPE evaluates the relevance of the objective, the relevance of the Bank Group's strategy toward meeting the objective, including the balance between lending and nonlending instruments, the efficacy with which the strategy was implemented and the results achieved. In short, the report reviews whether the Bank Group did the right thing and did it right.

This evidence-based analysis and the relative contribution to the results achieved by the World Bank Group is provided for each pillar in chapters 3 to 6. The analysis draws on (i) desk review based in particular on CASPR, CASCR, ICR, ICRR, ISR and Aide memoire and (ii) field interviews.

#### *What does the standard IEG CPE methodology not rate?*

The evaluation rates neither the client's overall development progress based on its strategic plans nor does it rate World Bank Group performance per se. CPEs rate the outcome of World Bank Group assistance programs that depend on the joint impact of the Bank Group with the country, partners, and other stakeholders, and exogenous factors.

Can the standard IEG CPE methodology account for World Bank Group programs that are modest in terms of size (as in many middle-income countries)?

Most World Bank Group programs provide only a fraction of the total resources devoted to a client's overall development by development partners, stakeholders, and the government itself.

Bank objectives need to be commensurate to the size of the program. This should be well taken into account at the time the country team define targeted objectives in the CAS/CPS.

*How does the standard IEG CPE methodology account for a difficult external authorizing environment?*

IEG takes into account the difficult environment in as much as the country team was keen to analyze it and take it into account in setting or revising its objectives and targeted outcome. Indeed, it is good practice for Bank Group programs to conduct political economy analysis in particular in difficult environments with instability and political resistance to reforms. This analysis on top of macro and sector analytical work would help the country team to set initially and/or review in the course of the strategy, relevant and credible objectives that take into account the difficult environment. If the country team fails to do so and honestly reports on the difficulties encountered, IEG will take into account the failure to do so in its overall rating.

*How does the standard IEG CPE methodology differ from the “sum of the parts” approach?*

There are no inconsistencies in finding discrepancies between CPE assessment and the average ratings of former IEG project or strategy reviews. Indeed, the CPE methodology does not derive the overall rating of the Bank Group outcome program as the sum of individual ratings of the Bank and the quality of the overall analytical program. First, the methodology gauges the relevance of the projects to realize the objectives set out at the strategic level. Hence, good projects ratings alone are not enough.

Second, ratings based on CASCR reviews and ICRRs are desk reviews conducted at project closure or at the end of strategy periods. By contrast, the CPE assessment is based on the achievement of outcomes based on new evidence (updated quantitative data and qualitative information) gathered during field missions several years after project or strategy closure. Hence, the CPE ratings can better capture the “sustainability” dimension of World Bank Group interventions.

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<sup>1</sup> In this note, assistance program refers to products and services generated in support of the economic development of a country over a specified period.

# Appendix F. Persons Interviewed

## Former Government Officials

<b>Ms. Ayush</b>	Former Director-General, Strategic Policy and Planning Department, former Ministry of Social Welfare and Labor (until 2012)
<b>Ms. Pagma</b>	Former Head, Sustainable Livelihoods Project (SLP), Minister of Finance
<b>Mr. Purevsuren Dorj /Puje</b>	Former Renewable Energy for Rural Access Project (REAP) Project Implementation Unit (PIU) Director
<b>Ms. Saruul</b>	Former Head, Securities Department
<b>Mr. Tengis</b>	Former Head of implementation unit, Sustainable Livelihoods Project (SLP II)
<b>Ms. Sarantuya</b>	Former Project Coordinator, Enhanced Justice Sector Project

## Current Government Officials

### *Ministry of Environment*

<b>Mr. Banzragch Ts</b>	Head of Forest Resource Division
<b>Mr. Enkhbold</b>	PIU Director, Ulaanbaatar Clean air project
<b>Mr. Gantulga</b>	Director General, Policy Implementation and Coordination Department
<b>Mr. Ganbat G.</b>	Head of River Basin Division
<b>Ms. Tsendsuren</b>	Program Manager, Ulaanbaatar Clean air project

### *Ministry of Education and Science*

<b>Ms. Batsukh</b>	Advisor to the Minister
<b>Mr. Bayarkhuu Ts</b>	Head, Finance and Investment Division, Strategic Policy and Planning Division
<b>Mr. Bat-Erdene,</b>	Former Project Director, READ project
<b>Ms. Khishigbuyan,</b>	Former Director, PIU READ
<b>Mr. Sumiyadorj Moonon</b>	Former Fast-Track Initiative (FTI) PIU Director
<b>Mr. Ochirkhuyag</b>	Former FTI project director

**APPENDIX F**  
**PERSONS INTERVIEWED**

*Ministry of Economic Development*

<b>Ms. Ariunaa</b>	Acting Director General, Economic Cooperation and Aid Policy Department
<b>Mr. Munkhjargal</b>	Senior Officer
<b>Mr. Bekhbat</b>	Director General, Dept. of Innovation and Public Private Partnership

*Ministry of Industry and Agriculture*

<b>Mr. Choi -Ish</b>	Head of Strategic Policy and Planning Department
<b>Ms. Khashtsetseg</b>	Former Head, SLP
<b>Mr. Namsrajav</b>	Staff in charge of disaster management
<b>Mr. Olziibold</b>	Head, Index-Based Livestock Insurance Program (IBLIP)

*Ministry of Finance*

<b>Mr. Batbayar</b>	Head, Budget Revenue Division
<b>Mr. Badruun</b>	Senior officer, Debt management division
<b>Mr. Ganbat</b>	Head, Supervision Division
<b>Mr. Khangai</b>	DG, Procurement Department
<b>Mr. Nyamaa B</b>	Director General, Financial Policy and Debt Management Department (formerly counterpart on CSR)
<b>Ms. Oyungerel</b>	Project Manager (Project Management Unit for GAP and Multi-Sectoral Technical Assistance Project [MSTAP])
<b>Mr. Nyamaa</b>	Director-General, Financial Policy and Debt Management Department
<b>Mr. Mandar Jayawant</b>	MD Mongolia Opportunity Fund
<b>Mrs. Munkh-Orgil</b>	Head of External Coordination Division
<b>Mr. Tavinjil,</b>	Director-General, Treasury Department
<b>Mr. Tuguldur</b>	Head, Sovereign Wealth Fund Division

*Ministry of Mining*

<b>Mr. Chinbaatar</b>	Head, Mining Cadaster
<b>Mr. Enkhbat</b>	Project Manager, Mongolia Mining Sector Technical Assistance Project, funded by World Bank
<b>Ms. Nasanbayar</b>	Director General, Strategic Policy and Planning Division,
<b>Mr. Chuluun Ch.</b>	Director General, Strategic Policy and Planning Department, Ministry of Mining

*Ministry for Population Development and Social Protection*

**Ms. Munkhzul** Director General, Social Protection Policy and Implementation Coordination Department, Ministry of Population Development and Social Protection (since 2012)

*Government Agencies*

**Mr. Bold** Chief Economist and Advisor to the Governor, Central Bank

**Mr. Boldbaatar** Director, Monetary Policy Division, Central Bank  
**Ms. Bolormaa** Head of Corporate Governance Program Executing Division, Financial Regulatory Commission

**Mr. Damdinsuren** Head, Mongolian Environmental Civil Council (MECC)

**Mr. Enkhbaatar** Project Director, Mining Infrastructure Investment Support Project (MINIS) funded by World Bank

**Mr. Javkhlan** 1<sup>st</sup> deputy Governor, Central Bank

**Mr. Lkhagvasuren** Director, Deposit Insurance Agency

**Dr. Mendsaikhan** Secretary and Deputy Chairman, Judicial General Council of Mongolia

**Ms. Nurgul** Former Project coordinator, Information and Communications Infrastructure Development Project (ICIDP), Information, Communications Technology and Post Authority (ICTPA)

**Ms. Oyunchimeg** Head, Population and Social Statistic Department of National Statistical Committee

**Mr. Purevsuren** Former PIU director, REAP

**Ms. Sarantuya G.** Director, Institute of Meteorology and Hydrology

**Ms. Saruul** Former Head, Securities, Financial Regulatory Commission

**Mr. Temuulin** General Director, Economic Development Agency, Ulaanbaatar city

*National Companies*

**Mr. Algaa** Chief Executive Officer (CEO), Mongolian National Mining Association

**Mr. Darisuren** Director, Khuvsgul branch, National Center of Auto Transport

**Mr. Davaadorj** Engineer, Khuvsgul Electricity and Power Company

**Mr. Purvesuren** Director, Khuvsgul Electricity and Power Company

**Mr. Tumurkhuu** Director, "Ulaanbaatar Electricity Distribution Network" State-Owned Company

**APPENDIX F  
PERSONS INTERVIEWED**

**Mr. Unen** Director, The Water Supply and Sewerage Authority (USUG)

**Private Sector**

**Mr. Bayan-Altai** Chief Financial Officer (CFO), Max Group  
**Ms. Bayarmaa** Senior Advisor, Environment and Society, Sustainability East Asia LLC, ( Mining sector SESA)  
**Mr. Batbold** Adviser, Human Resources, Erdenes MGL  
**Mr. Bold** Chairman, Tenger Group  
**Mr. Bolor** Deputy CEO, Newcom  
**Mr. Enkhmend** Former Project coordinator, Sky network  
**Mr. Ganbold** CEO, UNITEL  
**Mr. Gankhuyag** CEO, MCS Holding LLC  
**Mr. Jargalsaikhan** Head, SEET Lab  
**Mr. Kato-san** CEO, Khan Bank  
**Ms. Odontuul** Deputy CEO, Credit Department, MD Bank  
**Mr. Orgodol** Deputy CEO, TD Bank  
**Ms. Sunderiya** Senior Lawyer, Legal Department, Erdenes MGL  
**Ms. Susan Giles** Lead Advisor, CEO, Sustainability East Asia LLC, (re Mining sector SESA)

**Other (Parliament, Unions, Cso, Media)**

*Office of the Mayor – Ulaanbaatar city*

**Mr. Bataa** Deputy Mayor, Ulaanbaatar city  
**Mr. Bat-Erdene** Vice Mayor Ulaanbaatar and Clean Air Project Steering Committee Chairman  
**Mr. Enkhbayar** Officer, Strategic Policy and Planning Department.

*Other*

**Mr. Altanbulag** Manager, Moron Vehicle Inspection Station  
**Mr. Baasan** Exec. Director, Mongolia Clean Air Foundation  
**Mr. Baatarsaikhan D.** Head of Civil Administration Unit, Civil Service Council  
**Mr. Batjargal** Executive Director, Mr. Batjargal  
**Mr. Bilgee** Director, Legal Department, Erdenes MGL  
**Mr. Demberel** Member of Parliament and Chairman of MNCC  
**Mr. Dashdorj** Economic advisor to the President

<b>Mr. Davaasuren, MP</b>	Member of Parliament, Chairman, Budget Standing Committee
<b>Mr. Dorjdari</b>	Country Coordinator, Natural Resources and Governance, Open Society Form (OSF)
<b>Mr. Enkh-Amgalan</b>	Head, Center of Policy Research
<b>Mr. Enkhbold</b>	Project Director, Second Ulaanbaatar Improvement Project (Ulaanbaatar Services Improvement Project II) and Japan Social Development Fund II
<b>Ms. Erdenjargal</b>	Director, Open Society Forum
<b>Ms. Lakshmi</b>	Managing Director, Mongolia Economic Forum
<b>Mr. Mitsuaki Toyoda</b>	Resident Representative, Save the Children Mongolia
<b>Ms. Otgonbayaar</b>	Chief Engineer, Khovsgol Electric Distribution Company
<b>Dr. Sambalkhundkev</b>	Former Manager, Civil Service Council
<b>Mr. Bayarbaatar Sandagdorj</b>	Director, Strategic Policy and Planning Department, Office of the capital city Governor
<b>Ms. Tsendsuren,</b>	Operations Manager, Ulaanbaatar Clean Air Project
<b>Mr. Tsolmon</b>	Director, Extractive Industries Transparency Initiative (EITI) Mongolia
<b>Ms. Undral</b>	Democracy Education Center (DEMO)
<b>Mr. Unenbat</b>	Director, Corporate Governance Development Center

## **Multilateral Partners**

### *Japanese International Cooperation Agency (JICA)*

<b>Mr. Iwai Atsumu</b>	Deputy resident representative
<b>Ms. Kaneda Keiko</b>	Project Formulation Adviser
<b>Ms. Sumiya</b>	UB Clean air project
<b>Mr. Wakisaka</b>	Officer in charge of municipal projects

### *German International Cooperation (GIZ)*

<b>Mr. Jochem Theis</b>	Advisor, Integrated Mineral Resource Initiative
<b>Mr. Tserendash Sugarragchaа</b>	Officer in charge of urban development projects
<b>Mr. Zaya Lk.</b>	Project Coordinator, Consolidating legal framework for sustainable economic development project, GIZ

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**PERSONS INTERVIEWED**

*European Bank for Reconstruction and Development (EBRD)*

**Mr. Matthieu Le Blan** Resident Representative  
**Ms. Oyunjargal** Specialist in charge of small and medium enterprises (SMEs)

*Other*

**Mr. Richard Chen** Supervisor, U.S. Agency for International Development (USAID)  
**Ms. Enerel** Financial specialist, Asian Development Bank (ADB)  
**Mr. Erdenesaikhan** Officer in charge of artisanal mining projects, Swiss Development Corporation  
**Mr. Daniel O'Connell** US treasury Debt Consultant  
**Ms. Sezin Sinanoglu** United Nations Resident Coordinator and United Nations Development Programme Resident Representative  
**Jan Shiltenga** Canadian International Development Agency (CIDA)

**World Bank Staff**

*Former*

**Ms. Tsolmon Baasanjav** Investment officer, International Finance Corporation (IFC)  
**Ms. Enkhzaya Chuluunbaatar** Former World Bank consultant on mining  
**Mr. Erdenebat** Consultant at Taimen Conservation Fund, former staff worked on Eg-Uur (IFC, 2003-2008)  
**Mr. Saha Meyanathan** Former Country Manager  
**Mr. Arshad Sayed** Former Country Manager for Mongolia  
**Mr. Tumentsogt Tsevegmid** Former Bank infrastructure specialist

*Current*

<b>Mr. Khairy Al-Jamal</b>	Senior Infrastructure Specialist
<b>Mr. Charles Frempong</b>	Senior Rural Development Specialist
<b>Ms. Coralie Gevers</b>	Country Manager
<b>Mr. Andrew Goodland</b>	Senior Agriculture Economist
<b>Mr. Shan Gooptu</b>	Sector Manager, PREM
<b>Mr. Zahid Hasnain</b>	Senior Public Sector Specialist

**APPENDIX F**  
**PERSONS INTERVIEWED**

<b>Mr. Peter Johansen</b>	Senior Energy Specialist
<b>Ms. Toyoko Kodama</b>	Urban Specialist
<b>Mr. Bryan Land</b>	Lead Mining Specialist
<b>Mr. Taehyun Lee</b>	Senior Economist
<b>Mr. Lasse Melgaard</b>	Country Officer
<b>Mr. Andrew Mason</b>	Social Protection Specialist
<b>Ms. Ekaterina Mikhaylova</b>	Senior Mining Specialist
<b>Mr. Tuyen Nguyen</b>	Resident Representative, IFC
<b>Mr. Alexander Pankov</b>	Sector Leader, FPD
<b>Mr. Prateek Tandon</b>	Senior Economist
<b>Mr. Rogier van den Brink</b>	Lead Economist