Document of
The World Bank

Report No: ICR00001282

IMPLEMENTATION COMPLETION AND RESULTS REPORT
(IDA-46180)

ON A

CREDIT

IN THE AMOUNT OF SDR 26.9 MILLION
(US$ 40 MILLION EQUIVALENT)

TO

MONGOLIA

FOR A

DEVELOPMENT POLICY CREDIT

March 30, 2009

Poverty Reduction and Economic Management Unit
East Asia and Pacific Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of February 15, 2010)

Currency Unit = Mongolian Tugrug
US$ 1.00 = MNT 1439

FISCAL YEAR
[January 1 – December 31]

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
BoM	Bank of Mongolia
CMP	Child Money Program
CPS	Country Partnership Strategy
DPC	Development Policy Credit
ECTAC	Economic Capacity and Technical Assistance Project
EITI	Extractive Industries Transparency Initiative
FSAP	Financial Sector Assessment Program
FSC	Financial Stability Council
FTF	Fast Track Facility
GDP	Gross Domestic Product
GPF	Governance Partnership Facility
IBL	Integrated Budget Law
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
IFI	International financial institution
IMF	International Monetary Fund
ISN	Interim Strategy Note
MoF	Ministry of Finance
MSWL	Ministry of Social Welfare and Labor
NPL	Non-performing loan
OT	Oyu Tolgoi
PD	Program Document
PMT	Proxy-means Test
PRGF	Poverty Reduction and Growth Facility
PRSC	Poverty Reduction Support Credit
SBA	Stand-By Arrangement
SDR	Special Drawing Rights
TA	Technical Assistance

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MONGOLIA
Development Policy Credit

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A. Basic Information			
Country:	Mongolia	Program Name:	Mongolia-Development Policy Credit
Program ID:	P115737	L/C/TF Number(s):	IDA-46180
ICR Date:	04/20/2010	ICR Type:	Core ICR
Lending Instrument:	DPL	Borrower:	MONGOLIA
Original Total Commitment:	XDR 26.9M	Disbursed Amount:	XDR 26.9M
Revised Amount:	XDR 26.9M		
Implementing Agencies: Ministry of Finance			
Cofinanciers and Other External Partners:			

B. Key Dates				
Process	**Date**	**Process**	**Original Date**	**Revised / Actual Date(s)**
Concept Review:	04/21/2009	Effectiveness:	07/08/2009	07/08/2009
Appraisal:	04/29/2009	Restructuring(s):		
Approval:	06/25/2009	Mid-term Review:		
		Closing:	10/30/2009	10/30/2009

C. Ratings Summary	
C.1 Performance Rating by ICR	
Outcomes:	Satisfactory
Risk to Development Outcome:	Moderate
Bank Performance:	Satisfactory
Borrower Performance:	Satisfactory

C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)			
Bank	**Ratings**	**Borrower**	**Ratings**
Quality at Entry:	Satisfactory	Government:	Not Applicable
Quality of Supervision:	Satisfactory	Implementing Agency/Agencies:	Not Applicable
Overall Bank Performance:	Satisfactory	**Overall Borrower Performance:**	Satisfactory

C.3 Quality at Entry and Implementation Performance Indicators			
Implementation Performance	**Indicators**	**QAG Assessments (if any)**	**Rating:**
Potential Problem Program at any time	No	Quality at Entry (QEA):	None

(Yes/No):			
Problem Program at any time (Yes/No):	No	Quality of Supervision (QSA):	None
DO rating before Closing/Inactive status:			

D. Sector and Theme Codes		
	Original	**Actual**
Sector Code (as % of total Bank financing)		
Banking	36	36
Central government administration	24	24
Mining and other extractive	24	24
Other social services	16	16
Theme Code (as % of total Bank financing)		
Macroeconomic management	40	40
Other public sector governance	10	10
Public expenditure, financial management and procurement	20	20
Social safety nets	10	10
Standards and financial reporting	20	20

E. Bank Staff		
Positions	**At ICR**	**At Approval**
Vice President:	James W. Adams	James W. Adams
Country Director:	Klaus Rohland	David R. Dollar
Sector Manager:	Linda Van Gelder	Linda Van Gelder
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F. Results Framework Analysis

Program Development Objectives (from Project Appraisal Document)

i) Fiscal Policy - Improve capital budget planning and execution, and protect the maintenance of basic infrastructure.

ii) Social Protection - Protect the poor during the downturn by retargeting social policies toward the poor.

iii) Financial Sector - Strengthening confidence in the financial sector.

iv) Mining Sector - Clarifying the mining policy framework.

Revised Program Development Objectives (if any, as approved by original approving authority)
The PDO or key indicators were not revised during implementation.

(a) PDO Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :	Fiscal policy and management: Reduce the number of investment projects without feasibility studies in the budget.			
Value (quantitative or Qualitative)	Original 2009 budget contained 30 projects (valued at MNT 19.8 billion) without feasibility studies.	Number of projects without feasibility studies reduced by 30 projects (valued at MNT 19.8 billion).		The original 2009 budget included 36 projects without feasibility studies valued at MNT 50.3 billion. The March 2009 budget revision excluded 34, valued at MNT 22.3 billion.In the July budget revision 3 additional such projects were added.
Date achieved	12/31/2008	12/31/2009		07/31/2009
Comments (incl. % achievement)				
Indicator 2 :	Fiscal policy and management: Maintaining the level of actual expenditures on repairs and maintenance in 2009.			
Value (quantitative or Qualitative)	Baseline: Original 2009 budget allocation for repairs and maintenance of basic infrastructure was MNT 12.4 billion.	2009 budget outturn has maintained allocation for repairs and maintenance of basic infrastructure at MNT 12.4 billion.		The full-year capital repair expenditures in 2009 were just below the target figure at MNT 11.6 billion.
Date achieved	12/31/2008	12/31/2009		12/31/2009
Comments (incl. % achievement)				
Indicator 3 :	Social protection: Progress on data collection for the national beneficiary			

	database based on a proxy-means-test formula.			
Value (quantitative or Qualitative)	The existing social protection system was untargeted with universal social transfers. The prior action aimed to initiate the process of moving to a poverty-focused system with targeting based on a proxy-means test (PMT).	At least 75 percent of the surveys to collect household level data for the national beneficiary database based on a proxy-means-test formula have been completed.		The outcome indicator for social protection is unlikely to be met by December 31, 2010.
Date achieved	04/29/2009	06/30/2009		12/31/2009
Comments (incl. % achievement)				
Indicator 4 :	Financial sector: Resolution of failed Anod Bank.			
Value (quantitative or Qualitative)	When Anod Bank, the fourth largest bank, was taken under conservatorship by the Bank of Mongolia (BoM), at the end of 2008, the public started to lose confidence in the banking sector.	The restructuring/resolution action plan for Anod Bank, the preparation of which was a prior action of the DPC, be implemented.		The bank was put into receivership just ahead of the early December 2009 deadline for this action under the legal requirement that the bank could not remain in the conservatorship of the BoM for more than twelve months.
Date achieved	04/29/2009	06/30/2009		12/30/2009
Comments (incl. % achievement)	The stabilization in deposits during 2009 suggests that the immediate objective of strengthening confidence in the banking sector was achieved (also comment for other financial sector PDO indicators).			
Indicator 5 :	Financial sector: Put in place a contingency planning framework for failed-bank resolution			
Value (quantitative or Qualitative)	Immediate response and contingency measures were needed to address bank failures, restore confidence in the banking system and strengthen banking supervision.	A contingency planning framework for failed-bank resolution is in place.		The Bank of Mongolia indicated that so far there is no formal documentation of these procedures with the resolution process moving on a case-by-case basis, i.e. the specific outcome indicator has yet to be achieved.

Date achieved	04/29/2009	06/30/2009		12/30/2009
Comments (incl. % achievement)				
Indicator 6 :	Financial sector: Crisis management and systemic risk monitoring task force provides information and leads action in case of possible bank failures			
Value (quantitative or Qualitative)	A prior action, met in May 2009, was for the setting up of a crisis management and systemic risk task force with adequate resources and powers.	Crisis management and systemic risk monitoring task force with requisite legal and regulatory powers provides BoM, Financial Stability Council and other agencies with regular reports and leads quick decisive action in case of possible bank failures		In practice, it appears that staff and resources were not adequate for undertaking such a role. There is frequent interaction between the supervision department, the Board of the BoM and the Ministry of Finance on bank restructuring
Date achieved	05/30/2009	06/30/2009		12/30/2009
Comments (incl. % achievement)				
Indicator 7 :	Mining sector: New model investment agreements, including responsible mining practices, are utilized			
Value (quantitative or Qualitative)	The state needed a draft model investment agreement spelling out the basic terms of any investment agreement and to form the basis of negotiations with the private sector. Previously the state had reacting to proposals rather than setting the agenda	New investment agreements utilize draft model investment agreement, including responsible mining practices consistent with the Equator principles.		The signing of the major Oyu Tolgoi (OT) project investment agreement on 6 October 2009, utilized the new agreement format, meeting the outcome indicator.
Date achieved	04/29/2009	06/30/2009		12/30/2009
Comments (incl. % achievement)	Completion of the OT agreement required the state to clarify and solidify its policies on many aspects related to mining project development. It is to be the model agreement for future mining projects subject to investment-specific modifications.			
Indicator 8 :	Mining sector: Adoption and implementation of new Cadastre Regulations			
Value (quantitative or Qualitative)	The process of mineral license approval was an opaque system of internal ministerial	New Cadastre Regulations adopted and implemented		There has been notable progress towards the outcome indicator.

	instructions. This was open to discretionary changes and reversals, facilitating corruption and discouraging applications.			The Ministry of Mineral Resources and Energy has completed the draft Regulations and forwarded them to the Ministry of Justice for review and when approved they will be formally adopted.
Date achieved	04/29/2009	06/30/2009		12/30/2009
Comments (incl. % achievement)				
Indicator 9 :	Mining sector: Responsible mining practices followed and monitored			
Value (quantitative or Qualitative)	Since 2006, the minerals sector had been characterized by uncertainties and a weak regulatory setting.	Responsible mining practices followed and monitored through enhanced regulatory capacity.		There has been ongoing work towards the outcome indicator. This includes the above mentioned technical assistance to the Cadastre office, along with support for new regulations on Occupational Health and Safety.
Date achieved	04/29/2009	06/30/2009		12/30/2009
Comments (incl. % achievement)				
Indicator 10 :	Mining sector: Independent validation of Mongolia#s Extractive Industries Transparency Initiative program.			
Value (quantitative or Qualitative)	Mongolia had made significant progress in the implementation of the EITI. It had prepared and disseminated its first reconciliation report for the 2006 fiscal year and was preparing the second report for 2007.	Independent validation of Mongolia#s national EITI program undertaken.		The independent validation was completed ahead of the deadline of March 10, 2010. The report has been adopted by the government and submitted to the EITI Secretariat.
Date achieved	04/29/2009	06/30/2009		03/31/2010
Comments (incl. % achievement)				

(b) Intermediate Outcome Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :	N/A			
Value (quantitative or Qualitative)				
Date achieved				
Comments (incl. % achievement)				

G. Ratings of Program Performance in ISRs

No.	Date ISR Archived	DO	IP	Actual Disbursements (USD millions)

H. Restructuring (if any)

Not Applicable

1. Program Context, Development Objectives and Design

1.1 Context at Appraisal

Mongolia was one of the East Asian economies hardest hit by the global downturn. The global crisis was transmitted to Mongolia through the channel of mineral prices, especially copper, which collapsed during the second half of 2008. Mongolia's budget relied heavily on mining revenues (30 percent of revenues in 2008) and, with the Central Bank pursuing a de facto peg of the local currency to the dollar, there was a direct transmission of the falling international copper price to revenue losses. While the government did save part of its mining windfall during the "boom" years, it had also funded large increases in untargeted social expenditures, wages and salaries, and poorly-screened investment projects. When the "boom" turned into "bust", the modest fiscal surplus quickly turned into a large deficit (see Table 1) which the fiscal savings of the previous years proved insufficient to fund. At the same time, the current account also swung into a large deficit, and the financial sector, which had been overheating during the boom period, ran into serious problems, with a major bank having to be put under conservatorship. As a result of the crisis, at the time of preparation of the DPC Mongolia faced a major slowdown in expected growth to an estimated 2.7 percent in 2009 from 8.9 percent in 2008 (Table 1).

Table 1. Selected economic indicators at the time of the original Program Document

	2003	2004	2005	2006	2007	2008e	2009f
Real GDP (percent year-on-year, yoy, change)	7.0	10.6	7.3	8.6	10.2	8.9	2.7
Consumer price index (percent yoy change)	4.6	10.9	9.6	5.9	14.1	23.2	9.0
Government balance (percent of GDP)	-3.7	-1.8	2.7	3.3	2.2	-5.0	-6.0
Non-mining balance (percent of GDP)(1)	-5.9	-5.8	-1.3	-7.3	-13.4	-15.3	-9.9
Current account balance (percent of GDP)	-7.1	1.3	1.3	7.0	6.7	-9.6	-6.5
Gross FX reserves (months of imports of goods and services)	2.3	1.8	2.5	4.6	5.0	2.1	3.7
Exchange rate (MNT/USD, end-of-period)	1168.0	1209.0	1221.0	1165.0	1170.0	1267.5	..

Note: (1) Excludes revenues from corporate income tax and dividends from mining companies, the Windfall Profits Tax and royalties.

Source: Bank of Mongolia, National Statistical Office, Ministry of Finance, IMF, and World Bank staff estimates

Faced with major budget and balance of payments deficits, the government requested the assistance of the IMF, the ADB and the World Bank in October of 2008. In parallel, the government also requested financial support from several of its neighbors in exchange for long-term mining export contracts. However, in late 2008, the crisis deepened—with the most visible sign being a fast depreciating currency. Then, by early 2009, as it became increasingly clear to the authorities that the solution lay in agreeing to a program supported by the international financial institutions (IFIs), rather than in mortgaging future mining revenues through bilateral contracts, the government's resolve to take the required policy actions strengthened. As a result, the policy dialogue with the IFIs increasingly gained momentum, and in February a development partners' meeting was convened by the Ministry of Finance and the World Bank to secure commitments for budget support based on a possible IMF program.

The firm commitments of the ADB, Japan and the World Bank made at the donor conference to fill the fiscal financing gap for 2009 and 2010 paved the way for the IMF to go to its Board on April 1 2009, resulting in the approval of an 18-month Stand-By Arrangement (SBA) of US$229 million to provide balance of payments support. The exceptional access under the program, at 300 percent of quota, reflected the significant impact of the external shock and strong policy actions taken by the government, in particular relating to fiscal adjustment, monetary and exchange rate policy, and on measures to address confidence in the banking sector.

As part of the donor agreement, the Bank pledged financing for two single-tranche DPC operations (US$40 million and US$20 million for 2009 and 2010, respectively) to help fill an estimated fiscal financing gap of US$151 million for 2009 and US$67 million in 2010. The rationale for the Bank's DPCs derived from this joint commitment by Mongolia's development partners to support a strong policy package which would manage the downturn of the economy and set the stage for recovery. The policies included a set of fiscal, monetary, exchange rate and financial sector measures (as supported by the IMF and the World Bank) and social welfare reforms supported by Japan, ADB and the World Bank, along with improvements in mining sector policy (supported by the World Bank). In the absence of this budget support package, the fiscal adjustment to the crisis would have had to be even more severe since the scope for alternative non-concessional external financing was limited. Such financing could potentially have led to adverse implications for debt servicing obligations and debt sustainability. The World Bank's single tranche approach was adopted given the considerable economic and political uncertainties at the time of the operation, including the absence of a medium-term policy framework. The operation was processed under the International Development Association (IDA) Financial Crisis Response Fast-Track Facility (FTF) to help the government meet these urgent financing needs, expediting the operational process.

In parallel, the Bank also adjusted its Country Assistance Strategy. The Bank deferred the approval of a nearly completed new Country Partnership Strategy (CPS) and instead adopted an 18-month interim strategy. The two DPCs provided the cornerstone of this strategy which shifted funds from investment projects to these budget support operations (which account for around two-third of the envisaged SDR 60 million notional IDA envelope for FY 2010 and FY 2011). Furthermore, several ongoing TA operations were reoriented so as to best support the DPC policy areas. Under the second Private Sector Development Credit (PSDC2) US$1 million was reallocated to enable the Bank of Mongolia (BoM) to conduct audits by internationally reputable auditors and for crisis-related advisory services. In addition, US$1.3 million was reallocated under the Economic Capacity Technical assistance credit project to support the Ministry of Finance (MoF) with the fiscal reforms to be implemented under the IMF Stand-By Arrangement and the DPC and for technical assistance to strengthen public investment planning.

1.2 Original Program Development Objectives (PDO) and Key Indicators (as approved)

The DPC was designed to support the government's policy agenda in four key areas (see the original policy matrix in Annex A):

i) ***Fiscal Policy - Improve capital budget planning and execution, and protect the maintenance of basic infrastructure.*** The first prior action was to reduce the number of projects without feasibility studies in the March 2009 revision of the 2009 budget by 30 projects (valued at MNT 19.8 billion). This expenditure reduction was equivalent to roughly 10 percent of the fiscal expenditures adjustment required to contain the deficit at 5.8 percent of GDP for 2009. This adjustment was relative to the original budget, which specified a 6.1 percent of GDP deficit but, if not amended, could have resulted in a deficit of around 12 percent of GDP due to the decline in revenues. It was hoped that projects without feasibility studies would then also be removed (without conditionality) in the preparations for the 2010 budget. The second outcome indicator, on maintenance, was for the 2009 budget outturn expenditures on repairs and maintenance of basic infrastructure to be kept at the level of MNT 12.4 billion in line with the prior action on the budgeted amount. The expectation was that the 2010 budget would further strengthen the protection of maintenance expenditures.

ii) ***Social Protection - Protect the poor during the downturn by retargeting social policies toward the poor***. The prior action was that, as a first step, the Ministry of Social Welfare and Labor (MSWL) prepare a time-bound plan to clean up the roster of beneficiaries of the CMP. This aimed to initiate the process of moving from untargeted, universal social transfers to a system which is targeted toward the poor. The targeting would be based on a methodology using proxy-means testing (PMT). This new system required major legal reforms and the development of new implementation systems, including the establishment of new household databases, based on the PMT methodology. With respect to the specified outcome indicator, the goal was for the government to have implemented at least 75 percent of the surveys to collect household-level data for a national beneficiary database, based on the PMT formula. While no fixed deadline was specified in the Program Document, it was envisioned that the government would achieve this outcome by the end of the first year following the DPC's approval by the World Bank Board.

iii) ***Financial Sector - Strengthening confidence in the financial sector.*** In conjunction with the financial sector measures in the IMF SBA, the expected DPC outcomes aimed to strengthen confidence in banks and in the regulatory and supervisory structure. The first prior action was the preparation of an action plan to deal with the Anod Bank, which was under conservatorship with the Bank of Mongolia, based on an audit by international auditors. The expected outcome was that this restructuring/resolution plan be implemented. The second prior action was to improve immediately the daily monitoring of banks' liquidity and asset quality. The third was to establish a crisis management and systemic risk monitoring task force with requisite legal and regulatory powers with the expectation that this task force would provide the BoM, FSC and other relevant agencies with regular reports and initiate quick and decisive action in case of possible bank failures. It was anticipated that the successful and speedy resolution of Anod Bank, together with more intense supervision and increased preparedness, including a contingency planning framework for resolution of failed banks, would restore confidence in the banking system. The aim looking forward was for these measures to help prevent any future systemic bank failures and to resolve any bank failures in a quick and decisive manner.

iv) ***Mining Sector - Clarifying the mining policy framework.*** Under the first mining prior action, the DPC supported the clarification of existing mining policies, in particular with respect to taxation and state ownership, by using the experience gained during the then on-going negotiations of a major mining investment project (Oyu Tolgoi) to develop and adopt new model investment agreements. Instability in the policy framework was a major issue at the time of the design of the DPC. The outcome indicator was that subsequent future investments would then utilize the new model investment agreements developed and adopted by the Ministry of Mineral Resources and Energy. Other expected outcome indicators concerned further improvements to existing mining policies including the adoption and implementation of new Cadastre regulations and the following, and monitoring, of responsible mining practices through enhanced regulatory capacity. Under the second prior action, budget funding would be provided to undertake an independent evaluation of Mongolia's Extractive Industries Transparency Initiative (EITI) program with the expectation that Mongolia would be able to meet the March 31, 2010, deadline for EITI validation.

1.3 Revised PDO (as approved by original approving authority) and Key Indicators, and Reasons/Justification

The PDO or key indicators were not revised during implementation.

1.4 Original Policy Areas Supported by the Program (as approved)

This DPC supported reforms in the policy areas most affected by the economic downturn: (i) fiscal policy and management, given the budget's strong dependence on mining revenues; (ii) social protection, due to the impact of the economic downturn on the poor; (iii) the financial sector, which was overheating when the global crisis hit, and which experienced a major bank failure in late 2008; and (iv) the mining sector, because of the sector's importance in driving the recovery.

Although the DPC was a crisis-response operation, with the time frame limiting the range of feasible prior actions, it was anticipated that these prior actions would lay the groundwork for a better medium-term policy framework in the four policy areas (see Section 3.1). On fiscal policy, measures to improve fiscal management and planning should also be seen in the context of moves towards an improved budgeting process, including a more demanding public investment planning and budgeting process, but also management of mining revenues in a more efficient and counter-cyclical manner. On social protection, the plan to "clean" the existing roster of social security beneficiaries was envisioned as part of a broader social welfare reform focused on consolidating and targeting social transfers, to ensure better protection of the poor and fiscal sustainability of the system. On the banking sector, the prior actions were, along with complementary measures supported by the IMF program, steps towards the medium-term objectives of an improved framework for banking sector resolution and enhanced supervisory arrangements. Finally, on mining, it was hoped that the model investment agreements would be a catalyst for key legal and policy reforms to bring stability to the investment environment, helping to attract more mining investments. Similarly, ensuring the funding of the EITI validation by an external expert should lead to Mongolia completing the EITI compliancy process and achieving improved transparency.

1.5 Revised Policy Areas

None.

1.6 Other significant changes

None.

2. Key Factors Affecting Implementation and Outcomes

2.1 Program Performance (supported by a table derived from a policy matrix)

As mentioned, the DPC was a single tranche operation leading to the disbursement of SDR 26.9 million (US$40 million equivalent) on 23 July 2009. The prior actions were as follows:

Single Tranche	
List of conditions from Program Document	**Status**
Capital budget planning and screening is improved, as demonstrated by the exclusion of 30 projects without feasibility studies from the 2009 budget, as amended in March.	Fulfilled
Capital expenditures for the maintenance of basic infrastructure in the transport, education and health sectors is protected, as evidenced by: (i) the increase in the ratio of capital repairs to new investments from 2.5 percent (in the original approved budget for 2009) to 3.4 percent (in the amended budget for 2009); and (ii) the allocation of MNT 12.4 billion for that purpose.	Fulfilled
The Ministry of Social Welfare and Labor has prepared a time-bound action plan to clean its roster of beneficiaries of the Child Money Program, in order to reduce leakage to the non-poor and improve its targeting on the poor.	Fulfilled
The BoM has prepared an action plan for the restructuring/resolving of the Bank currently under the conservatorship, on the basis of the Bank's portfolio diagnostic and audit carried out by an internationally reputable auditor.	Fulfilled
The BoM has issued a decree requiring that all banks report on a daily basis on key indicators regarding their liquidity and asset quality.	Fulfilled
The BoM has established a crisis management and systemic risk monitoring task force with adequate functions and powers, qualified staff and sufficient resources to carry out its mandate.	Fulfilled
The Ministry of Mineral Resources and Energy has developed and adopted model investment agreements for the mining sector, clarifying Mongolia's mining policy, including taxation and the state's capital participation in new ventures, and incorporating responsible mining practices consistent with the Equator Principles.	Fulfilled
Sufficient resources have been transferred to the Mongolia EITI Secretariat in order to finance an independent validation of its national EITI Program, scheduled to be completed by March 31, 2010.	Fulfilled

2.2 Major Factors Affecting Implementation:

The operation was strongly selective. It focused on the priority policy areas in which the Bank had comparative advantage (as demonstrated by past and on-going ESW and lending operations) and included only 8 prior actions (compared with an average of around 10 prior actions or tranche release conditions for IDA DPCs in FY 2007). The individual elements of the policy matrix were identified from, and supported by, previous analytical work, lending operations and technical assistance work. For example, in the banking sector this included results from a recent FSAP and diagnostic work commissioned in late 2008. Existing technical assistance operations in the fiscal sector were restructured to support the policy measures in the matrix. Of the four main policy areas the capacity to provide this support was most limited in the social protection area as there was no operation available to provide TA immediately, although there was earlier analytical work on the main issues (used in the operational work of the ADB).

The design and implementation of the DPC recognized the parallel, and coordinated, programs of other development partners. This was the case both in terms of the respective policy matrices and in the supporting analytical and technical assistance. The IMF took the lead on overall fiscal issues, including the fiscal deficit target. The Bank actions on investment projects and maintenance focused on improving the efficiency of expenditures within this limit. In the banking sector, the IMF program and DPC policy actions were tightly interlinked. For example, the IMF prior actions for a revision and clarification of the blanket deposit guarantee and for the appointment of a reputable external auditor to assess the failed Anod Bank were supplemented by the DPC prior action to prepare a resolution/restructuring action plan based on a completed such audit. In social protection, the IMF required the passage of new social welfare reform legislation by Parliament, whereas the ADB conditionality focused on the adoption of a plan to reform the social welfare system (1st tranche) and for this plan to be reflected in the 2010 budget (2nd tranche). The Bank's prior action focused on the preparatory work needed to establish the PMT methodology and database on which the new targeted system would be based.

The government was committed in pushing forward the reform agenda in the relevant sectors and was fully engaged with the operation. During the preparation of the operation Mongolia was at an extremely unstable stage in terms of its macroeconomic environment due to the global financial crisis and economic slowdown. Without the financing assistance provided by the IFIs, Mongolia's economic situation would have deteriorated further. The urgency of the situation led not only to the strong partnership among donor partners but also to more effective and efficient interactions with the government agencies.

The policy actions which needed to be taken implied a major effort to correct for past policy mistakes and re-orient economic strategy on a more sustainable path. Hence, this effort needed to be built on strong bi-partisan political support, both within the coalition government, as well as in Parliament. Consequently, intensive efforts at consensus-building between these key stakeholders characterized the design of the support package of the IFIs. Moreover, the Bank's Quarterly, and then, from April 2009, Monthly, Economic Updates provided an important role in dissemination of the rationale for, and progress on, reform measures along with updates on the impact of the crisis on the macroeconomic, financial and corporate sectors. These updates were disseminated widely and received strong local press coverage. In addition, the annual Economic Policy Conferences jointly organized by the World Bank and the government proved important for a further discussion of the policy challenges amongst a wide audience including the media, civil society, domestic policy makers, and donors.

The single-tranche operation was processed under the IDA FTF in parallel with the rapid preparation of IMF support for the country. This expedited the DPC process by shortening the internal approval steps. As a result, management approval was obtained to combine the Concept Note Review meeting and the Decision Meeting into one and then to proceed straight to Negotiations. This was processed in approximately 24 business days – compared to 50-60 business days through the regular process. It then moved from Board Submission to Approval in approximately 10 business days – compared to about 18 business days through the regular process – with funds being disbursed on July 23, 2009.

Four risks to implementation were identified in the DPC PD. The first, a further adverse external mineral price shock, has not materialized to date, with prices continuing their 2009 revival. The risk of additional bank failures in the financial sector has been realized (and is discussed in Section 3.2, including the mitigation performance of the policy measures supported by the DPC). The third identified risk was the potential for political developments or improved mineral prices to derail support for the reforms. The outreach operations of the Bank and other IFIs mentioned above appeared to have played a role in mitigating this risk to date. The final, moderate, risk that was highlighted was that the government might agree sub-optimal mineral export contracts or other non-concessional financing which could affect fiscal sustainability. IFI and bilateral fiscal financing support has helped reduce the need for such financing and the IMF program's performance criteria placed a ceiling on new non-concessional medium- and long-term external debt. So far the government has stayed within the agreed US$200 million limit.

2.3 Monitoring and Evaluation (M&E) Design, Implementation and Utilization:

The monitoring and evaluation framework involved the dialogue of the Bank with the government, along with development partners, combined with ongoing monitoring of data indicators of performance. The increase in the frequency of the Economic Updates from quarterly to monthly from April 2009 was useful in allowing policymakers and the public to follow the crisis in more depth and enhanced awareness of the country's macroeconomic environment.

The macro and fiscal data provided by the authorities is relatively wide-ranging and timely, and allows for monthly monitoring of key macro and fiscal variables. However, it is difficult to measure the social and economic impacts of the downturn and the policy reforms, because there is a lack of timely household- and community-level data. This is crucial, for instance, to assess progress in the social protection policy area, along with the potential impact of the fiscal response to the crisis on household income levels. However, as a timely proxy measure the Bank undertook surveys in April and September 2009 on the unskilled wage rate in informal labor markets in Ulaanbaatar. The surveys allowed the Bank to demonstrate the highly negative shock to the incomes of this category of poor workers at the height of the crisis, but also to document the subsequent turnaround.

2.4 Expected Next Phase/Follow-up Operation (if any):

As envisaged at the time of the DPC operation, a follow-up budget support operation is currently under preparation. In late February 2010 the DPC2 operation received authorization to move to appraisal and negotiations. The operation has a planned Board date in Q4 of FY10, as envisaged during the negotiations that led to the Stand-By Arrangement. The key focus of the operation is to continue and deepen the reforms in the policy areas of the first DPC: Fiscal, banking, social protection, and mining. At the time of the writing of this ICR, these are not different than the ones envisaged in the first DPC. At the same time, there has been a considerable effort to mobilize appropriate technical assistance and support for the authorities to implement their crisis response and medium-term reform agenda. For example, in parallel to the DPC2 operation, an IDA-financed Multi-Sectoral Technical Assistance Project of US$15 million is under preparation covering fiscal policy, social protection and banking.

3. Assessment of Outcomes

3.1 Relevance of Objectives, Design and Implementation (to current country and global priorities, and Bank assistance strategy)

Rating: Highly Satisfactory

The Highly Satisfactory rating reflects an assessment that the objectives, design and implementation of the operation were highly relevant to Mongolia's near- and medium-term priorities, and that the operation formed an integral component of the Bank's assistance strategy to the country. At the time of the operation the Mongolian government was facing a sizeable fiscal financing gap. In the absence of donor support, and in the face of declining revenues and, as discussed in the PD, adverse financing conditions for an external bond, filling this gap would have most likely required additional fiscal spending cuts, substantial domestic financing which would have crowded out the private sector, or external financing at unattractive terms. IFIs had financed around half of the cumulative general budget deficit in the year to September 2009 (around MNT 164.2 billion out of MNT 332.5 billion) with the World Bank DPC providing around MNT 57 billion of budget support. As detailed above, the prior actions were also designed to promote medium-term reforms to enhance the economic recovery.

The DPC operation and the proposed follow-up DPC2 are key pillars of the interim strategy note setting out the Bank's engagement in Mongolia in the near-term. Shifting resources towards these budget support operations entailed a trade-off between the desire to support the policy reforms needed to contain the crisis and create a better medium-term policy framework, on the one hand, and project-based investments, on the other. The two proposed DPC operations represent around two-thirds of the notional IDA envelope for 2009-2010.

3.2 Achievement of Program Development Objectives (including brief discussion of causal linkages between policy actions supported by operations and outcomes)

Overall achievement of PDOs

Rating: Satisfactory

The rating of Satisfactory for the overall achievement of PDOs is based on an equal weighting of the ratings across the four policy areas of the program.[1] Progress in terms of outcomes to date has been relatively limited in the banking sector, and social protection, as opposed to earlier progress on the outcomes in the fiscal area and the mining sector. These assessments are subject to the caveat of the limited time frame between Board approval of the operation in June 2009 and the ICR assessment (conducted during October and November 2009). Indeed, even in the area of social protection important advances have been made in the overall design of the reform, although much work still needs to be done to ensure its successful implementation.

The broad context to the assessment of the achievement of the development objectives is the substantial stabilization of the macroeconomic situation in the period since the operation (see Table 2). The exchange rate and banking sector deposits have stabilized, inflation has fallen and the trade deficit narrowed. Although the fiscal deficit widened during the middle of 2009, it came in at 5.4 percent for the year as a whole, below the June budget amendment target of 5.8 percent of GDP. Finally, the government was able to conclude a major mining investment agreement. As a result of the signing of this agreement, positive sentiment has returned to the mining sector, and GDP growth for 2010 is projected to rebound to 8 percent of GDP, up from around 0 percent in 2009 (which is below the 2.9 percent growth projection at the time of DPC preparation). Although higher than expected copper prices played a fortuitous role, the strong policy actions undertaken by the government, supported by policy conditionality and donor financing of the balance of payments and the budget, were clearly instrumental in stabilizing the economic situation faster than expected. Assessing the exact causal linkages of these developments to the DPC operation, however, is made difficult by the multiple influences on outcomes during this crisis period in Mongolia.

[1] The Satisfactory overall rating is based on the average of a simple mapping of the sectoral ratings to a numerical scale ranging from 6 for Highly Satisfactory to 1 for Highly Unsatisfactory.

Table 2. Selected macro-economic indicators September 2008 to December 2009

	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09
Growth in real industrial production, percent year-on-year	22.2	-31.1	-9.4	-11.3	-13.9	40.1
Trade balance (12-month rolling), US$ million	-822	-1077	-1082	-788	-511	-229
Fiscal balance (12-month rolling) excluding net lending (percent of interpolated GDP)	-1.6	-3.6	-6.2	-6.7	-8.6	-4.2
CPI inflation, percent year-on-year	31.7	23.2	17.2	4.7	-1.9	1.9
Exchange rate MNT per US$, monthly average	1153	1155	1588	1430	1416	1446
International copper price, US$/metric ton	6991	3072	3750	5014	6196	6984

Source: Bank of Mongolia, National Statistical Office, Ministry of Finance, and World Bank staff estimates.

Fiscal Policy and Management

Rating: Satisfactory

The Satisfactory rating for the fiscal policy and management policy area is based on the progress that has been made towards the outcome indicators specified in the program policy matrix, and also the role of the prior actions as steps towards broader reforms in the areas of public investment and improving the management of mineral fiscal revenues.

On the planning and screening of public investment projects, the prior action was the removal in the March 2009 budget revision of 30 projects which had been included in the original 2009 budget without feasibility studies. The outcome indicator was that 30 projects valued at MNT 19.8 billion without feasibility studies were removed from the budget. This was equivalent to saving 4 percent of planned new investment expenditures. In total, the original budget included 36 public investment projects without feasibility studies, valued at MNT 50.3 billion. The March budget revision excluded 34 of these projects, valued at MNT 22.3 billion, i.e. went beyond the prior action and outcome indicator. In the July budget revision 3 additional such projects (totaling MNT 6 billion) were added, leaving 5 projects valued at MNT 34 billion without feasibility studies in the budget. In the 2010 public investment plan (PIP) submitted to Parliament there were only 4 projects without feasibility studies, amounting to less than MNT 8 billion out of a total of MNT 452 billion. The PIP approved by Parliament included an additional 439 projects of which 310, amounting to MNT 77 billion, were without feasibility studies. However, these additions, plus the shifting of the financing from the budget to construction companies for a large portfolio of projects, have raised considerable concerns (prompting, for example, a presidential veto of the budget, which was rejected by Parliament, and an audit of the public investment planning process by the National Audit Office). As a result there is substantial pressure for a further amendment of the budget to rectify these measures (which is a proposed prior action in DPC2).

On maintenance, the budgeted level of capital repairs was maintained in the July revision of the 2009 budget, but the outturn ratio of capital repairs relative to investments has continued to decline over 2009. Under the prior action, MNT 12.4 billion was to be allocated to capital repairs in the March revision of the 2009 budget, implying an increase to 3.4 percent of budgeted investment expenditures, up from 2.5 percent in the original budget. The outcome indicator was that the MNT 12.4 billion budgeted value of capital repairs be realized in the 2009 budget outturn. The full-year capital repair expenditures were just below this figure at MNT 11.6 billion. The 2010 budget approved by Parliament allocated MNT 19.4 billion for capital repairs, or 4.4 percent of investments, not including MNT 8.8 billion allocated to the Road Fund.

Given the close linkage between the prior actions and outcome indicators listed in the policy matrix in the fiscal area, it would also have been useful to provide additional quantitative outcome indicators over specific time-frames. However, as emphasized in the DPC PD, improving the measurement of repair expenditures, for example, is an ongoing challenge, with limited progress to date. The budget line on capital repairs does not include maintenance capital expenditures funded directly by donor funding, or, as mentioned above, by the Road Fund. Unfortunately, high frequency measurable outcome-based indicators of the state of the public capital infrastructure were also not available for this review.

While focusing on specific areas, the prior actions were steps moving forward the fiscal reform agenda on public investment and, more generally, in improving the management of mineral fiscal revenues. The prior actions were initial measures to prevent a further deterioration in the performance of investment expenditures and to emphasize the importance of prioritizing capital maintenance. The government's ongoing efforts to reform the legal framework for budgeting have the potential for significant improvements in this area. The draft integrated budget law includes proposals to limit the ability of Parliament to include projects in the budget which do not have feasibility studies, and requires that there be a central mechanism for evaluating and selecting proposed projects based on whether or not a proposed project meets a strategic need, and is backed up by the appropriate technical and economic analysis. Continued Bank analytical work and technical assistance is focusing on achieving the goal of a more comprehensive and strategic approach to the planning of public investment projects, for establishing more robust criteria for evaluating and selecting projects in the public investment, plan, and for calculating the recurrent cost obligations of capital projects. The World Bank has also been extremely active, along with the IMF, in arguing the case for a move to a structural balance rule for fiscal revenues, as adopted by Chile for example, in order to remove the procyclical effects of future mineral revenue windfalls. This has included the funding of technical assistance executed by the IMF along with a range of outreach exercises, including conferences, a highly effective study visit of MPs to Chile and the dissemination of the regular economic update. These activities appear to have been effective in building domestic political appreciation of the merits of such rules and enhancing the likelihood that the Ministry of Finance's fiscal responsibility law incorporating such measures, which has been submitted to Parliament, might be adopted (with its submission by end-2009 a structural benchmark in the IMF program).

Social Protection

Rating: Satisfactory

The Satisfactory rating for the achievement of program development objectives in the social protection policy area weighs the advances made by the government on social welfare reform since early 2009 against the slower-than-expected implementation of the specific outcome indicator selected during the preparation of the DPC.

The outcome indicator for social protection – to collect at least 75 percent of the household-level data needed to establish a national beneficiary database, based on the PMT formula – is unlikely to be met by December 31, 2010, although this should not impede implementation of the social welfare reform. Data collection to build a beneficiary database will begin in March 2010 and is expected to extend well into the second half of 2010, however. It is not envisioned that this will interfere with the timely implementation of the poverty-targeted benefit, however. Indeed, the social welfare reform law, currently in front of the Parliament, calls for the new poverty-targeted benefit to be introduced at the start of 2011.

Nevertheless, noteworthy progress has been achieved on social welfare reform in Mongolia between January 2009 and January 2010. The key accomplishments include:

1. A social welfare reform law was drafted by the Ministry of Social Welfare and Labor (MSWL) with World Bank technical assistance, cleared by the Cabinet, and submitted to Parliament for approval. The social welfare law is founded on the principles of consolidating and rationalizing the current social welfare system, targeting benefits to Mongolia's poor, and improving the social welfare system's fiscal sustainability.

2. The MSWL, with World Bank and ADB technical assistance, developed a proxy means testing (PMT) methodology to target a new transfer program to the poor. This included development of a proxy means formula, development of a proxy means questionnaire, and implementation of pilot testing of the PMT. Data collection is beginning in March 2010.

3. The proxy means formula was submitted to the National Statistical Office in February 2010 for approval as the official poverty targeting mechanism for Mongolia. Formal approval is expected in March 2010.

4. In what may be considered the first phase of the consolidation of the Mongolian social welfare system, the universal Child Money Program (CMP), the Newlywed Benefit, and the Newborn Benefit were cancelled by the government in November 2009, effective January 2010.

5. To separate the political parties' political commitments regarding redistribution of Mongolia's mineral wealth from the country's social welfare system, the government created the Human Development Fund (HDF) in November 2009 as the vehicle for distributing the country's mineral wealth.[2]

6. The MSWL has begun work on the design of a new flagship poverty-targeted benefit program with technical assistance from the World Bank team.

The developments noted above could not have been foreseen at the time of preparation of the DPC, and were thus not reflected in the milestones. The prior action for social protection in the DPC – elaboration of time-bound plan to clean the roster of beneficiaries of the Child Money Program (CMP) – was fulfilled, but is no longer relevant because the CMP was eliminated in November 2009 as part of the 2010 budget process.

In addition, while progress towards achieving the outcome indicator has been slower than originally expected, the time since approval of the DPC has been important for building a stronger understanding among key stakeholders regarding the rationale for social welfare

[2] The HDF will finance transfers of up to MNT 1.5 million per Mongolian citizen over time, including roughly MNT 100,000 in 2010. While not part of Mongolia's social welfare system, if implemented effectively, HDF transfers will more than cover households losses associated with the CMP and other cancelled benefit, thus effectively serving as a transition mechanism in 2010.

reform and for putting the appropriate building blocks in place to execute the reform. Indeed, in their commitment to respond quickly and forcefully to the crisis, the government and the donor community underestimated the challenges associated with designing a comprehensive social welfare reform, including the development of a new poverty targeting system, the design of a new poverty-targeted benefit program, the process of national consensus-building, and so on. Given its focus on universal transfers, such as the CMP, Mongolia does not have a strong history of poverty targeting and lacked the technical and institutional capacity to develop and implement a proxy means formula and national beneficiary database quickly on its own. Significant time, resources, and technical and institutional capacity have thus been required to develop the building blocks for the new system.

In this context, despite considerable progress, implementation of the social welfare reform (including the new poverty-targeted benefit) will likely face a number of technical challenges. To address these, the World Bank, together with the ADB, is providing technical assistance. Technical support for the roll-out of the PMT is currently being provided by the ADB under its Food Stamps support program, and this technical support is proposed to be extended under the separate World Bank technical assistance operation currently under preparation. Details of the design of a poverty-targeted program, and institutional strengthening required to implement the new program are currently being elaborated by the MSWL with the technical assistance of the World Bank. Efforts are focusing as well on the national roll-out of the PMT and on the development of the needed beneficiary database, so that implementation of the new poverty-targeted benefit program can be started in early 2011 (as proposed in the draft reform law).

It is also worth noting that the DPC engagement has played an important role in the development of a concrete social welfare reform proposal and has served to strengthen the Bank's policy dialogue with the government in this area. Given the challenges associated with the reform, the World Bank has coordinated closely with ADB in putting together technical assistance and financial resources to support the design and early implementation of the reform. The World Bank had produced a body of analytical work on social protection prior to the DPC, which helped make the case for social welfare reform. In addition, the Bank used administrative (AAA) budget to support the government in developing the main parameters of social welfare reform proposal during the second half of 2009. Because the need for technical assistance in implementing the social welfare reform is considerable, a new World Bank technical assistance operation is currently under preparation, which is being designed to accompany a second Mongolia DPC.

Financial Sector

Rating: Moderately Satisfactory

The Moderately Satisfactory rating for the achievement of PDOs in the financial sector reform area reflects some weaknesses in performance against the specified outcome indicators, although this is set against the progress made on the broad objective of improving confidence in the sector.

The prior actions in the financial sector area aimed to support the resolution of immediate banking sector issues but, performance relative to the outcome indicators has been weak, particularly in terms of action on resolution:

- The outcome indicator related to the prior action on the preparation of an action plan for the restructuring/ resolution of Anod Bank was that this plan be implemented. There is a legal requirement that the bank could not remain in the conservatorship of the BoM for more than twelve months, i.e. until early December 2009. The bank was finally put into receivership just ahead of this deadline. The BoM's position is that the resolution was delayed due to the requirement to perform due diligence on an offer for the bank, which was eventually rejected.

- The second prior action concerned the issuance of a decree requiring banks to report daily to the BoM key indicators on liquidity and asset quality. Daily reporting of deposit and loan balances is in place and disseminated. Information on asset quality may not change much on daily basis and, given the stage of development of the banking system, is also difficult to compile by banks (particularly those lending in rural areas). The monitoring system definitely requires further strengthening, particularly in relation to more detailed information on asset quality. However, the system was effective enough to alert the authorities to the deteriorating situation of a bank which reported negative capital. Based on the monitoring, the BoM did issue calls for certain actions to be taken by the bank in question. However, these interventions were not backed up by strong enough sanctions to arrest and correct the deteriorating trend. At the end of November 2009 the bank, Zoos Bank, was taken into receivership.

- The third prior action related to the setting up of a crisis management and systemic risk task force with adequate resources and powers and was met in late May 2009 by Joint Decree No 285/123/62 of the BoM Governor, the Minister of Finance and the Chairman of the Financial Regulatory Commission. The outcome indicator was that this task force be operational. However, in practice, it appears that staff and resources were not adequate for undertaking such a role. There is frequent interaction between the supervision department, the Board of the BoM and the Ministry of Finance on bank restructuring and other important financial sector related issues. In terms of legal powers the BoM has submitted legislative proposals to address some of the issues mentioned in the DPC, for example the lack of legal protection of supervisors. In terms of the outcome indicator of having in place a contingency planning framework for failed-bank resolution, the BoM indicated that so far there is no formal documentation of these procedures with the resolution process moving on a case-by-case basis, i.e. the specific outcome indicator has yet to be achieved.

Nevertheless, the stabilization in deposits during 2009 suggests that the immediate objective of strengthening confidence in the banking sector was achieved. By mid-2009 aggregate deposit outflows from the banking system, which had been particularly high in 2008 Q4 and 2009 Q1, had abated (Table 3). As detailed in the July 2009 World Bank Financial Sector Assessment[3] the authorities had taken a number of policy actions aimed at restoring confidence, for example liquidity support to banks and the introduction of the Deposit Guarantee Law in November 2008. However, concern over the fate of deposits held with the failed Anod Bank, the fourth largest bank by assets, remained, hence the first DPC prior action. As mentioned in Section 2.2, the DPC prior actions in this area, and their contribution to the stabilization of deposits, should be considered in the context of the overall package of measures by development partners, including the IMF and USAID for example, aimed at supporting financial sector confidence.

[3] This assessment of Mongolia's financial system is based on the joint International Monetary Fund and World Bank Financial Sector Assessment Program which was primarily conducted in 2007.

As the banking situation moved into a solvency crisis so action on banking restructuring became increasingly important, the principles of which were supported by the DPC prior actions and whose implementation is currently being assisted through ongoing World Bank activities. The overall financial sector situation evolved from a liquidity crisis through to a second phase of a solvency crisis for some banks, with evidence of a third credit crunch phase. Asset quality has deteriorated – NPLs including loans with their principal in arrears were 22.8 percent of all loans at end-December 2009 (15.2 percent excluding the failed Anod and Zoos banks), up from 17.3 percent in June 2009. Write-downs of loans have hit bank capital. For example, the aggregate level of capital declined by around 12 percent from August to September 2009, although within the commercial banks there is a large differentiation in balance sheet strength. The solvency concerns over Zoos Bank, and its move into receivership, do not seem to have had an adverse impact on overall confidence levels. As the relative riskiness of loans increased, the real interest rates on loans remained high and banks were concerned over finding new capital. The extension of credit contracted, sharply, with loans declining year-on-year in nominal terms from August 2009. Addressing bank asset quality and strengthening capital positions are crucial to promote a revival of credit availability which can support investment and the economic recovery.

Table 3. Selected banking sector indicators September 2008 to October 2009

	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09
Nominal deposits (Index=100 at Sep 2008)	100.0	87.9	95.5	99.2	105.7	118.6
Local currency deposits (Index=100 at Sep 2008)	100.0	84.0	86.9	88.4	96.4	111.0
Foreign currency deposits (Index=100 at Sep 2008)	100.0	97.4	116.6	125.7	128.5	137.6
Share of foreign currency in total deposits, percent	28.9	32.0	35.3	36.6	35.1	33.5
Nominal loans (Index=100 at Sep 2008)	100.0	96.8	98.2	94.0	96.7	97.8
Non-performing loans including principal in arrears as share of total loans, percent	4.8	10.7	14.7	17.3	23.7	22.8
excluding NPLs of Anod Bank	*4.6*	*6.6*	*9.6*	*11.9*	*18.6*	15.2

Source: Bank of Mongolia and World Bank staff estimates.

Mining

Rating: Highly Satisfactory

In the mining sector, the Highly Satisfactory rating reflects the considerable progress that the signing of the major Oyu Tolgoi agreement represents, along with progress on outcome indicators in other areas such as Cadastre regulations and in following responsible mining practices. It is, however, important to note that major challenges remain in order to improve further the investment environment in Mongolia's mining sector.

In the mining sector, the key development has been the signing of the major Oyu Tolgoi (OT) project investment agreement on 6 October 2009, utilizing a new agreement format which now forms the basis for future investment project deals. This meets the DPC outcome indicator of using the draft model investment agreement in new investment agreements (the development and adoption of the original version of this agreement was a prior action). The OT agreement required parliamentary approval of the cancellation of the windfall profits tax (WPT), revision of corporate income tax to extend the loss carried-forward provision from 2 years to 8 years, and amendments to two pieces of legislation to provide permission for private sector construction and management of roads and water supply facilities. These legal changes demonstrated stronger policy reform actions than the DPC envisaged at the time of its design. This agreement is to be the model agreement for future mining projects, such as Tavan Tolgoi, subject to investment-specific modifications. The World Bank is currently assisting the government in moving towards a model agreement which can be adapted to small- as well as large-scale investment projects. It is expected that this will be developed in advance of the Tavan Tolgoi deal, which the government hopes to reach agreement on in early 2010. The next step is then to put the model agreement into regulations.

There has also been notable progress towards the outcome indicator of adoption and implementation of new Cadastre regulations. The revision of the regulations has been assisted by World Bank technical assistance. The Ministry of Mineral Resources and Energy has completed the draft Regulations and forwarded them to the Ministry of Justice for review and when approved they will be formally adopted. This reform should help to move the process of mineral license approval away from the previous opaque system of internal ministerial instructions. This was open to discretionary changes and reversals, facilitating corruption and discouraging applications.

There has been ongoing work towards the outcome indicator of following responsible mining practices and enhancing the regulatory capacity to monitor them. This includes the above mentioned technical assistance to the Cadastre office, along with support for new regulations on Occupational Health and Safety. Technical assistance is also going to provide support for the development of Income Tax Act provisions for mining, a crucial area given the current and future scale of Mongolia's mineral fiscal revenues. The independent validation of Mongolia's national EITI program, part of another DPC outcome indicator, has been completed ahead of the deadline of March 10, 2010, with the validation report noting that Mongolia has made good progress against the work plan and has completed all core activities. The report has been adopted by the government and submitted to the EITI Secretariat.

Despite this recent progress, major challenges remain, and, the general perception of investors on Mongolia's mining investment environment is yet to be improved. While the recent OT deal is significant –requiring around US$ 5 billion of construction costs– a key concern is the propensity of parliament to make *ad hoc* legislative changes to the investment environment. For example, the imposition of the WPT in June 2006 was associated with a sizeable subsequent reduction in applications for mining licenses. The move to complete the OT deal involved the removal of this tax from January 1, 2011. However, from the perspective of investors, this positive step was offset by a recent change to the VAT laws, meaning that exporters of minerals will be unable to claim back their VAT payments on inputs. This move, contrary to the objectives of value added tax, could add around 5-8 percent to mine operating costs and discourage new investment. Such recent changes to the tax environment have confirmed investor perceptions that Mongolia's fiscal regime is unstable. This instability remains a disincentive to exploration and mineral development and reinforces investor calls for stabilized tax environments under investment agreements. This remains an area of focus for future Technical Assistance activities of the Bank.

3.3 Justification of Overall Outcome Rating (combining relevance, achievement of PDOs)

Rating: Satisfactory

The overall outcome rating of Satisfactory combines the Highly Satisfactory rating on the relevance of the DPC's objectives, design and implementation together with the Satisfactory rating for the achievement of PDOs over the limited time frame since completion of the operation. The program design and implementation were well-focused and timely in the crisis situation. Even though the policy actions supported by the operation were focused on managing the downturn and urgently taking corrective action, the DPC and related World Bank work have been used as an opportunity to support the government's moves towards putting in place a better medium-term framework moving forward. However, the crisis situation, and related political and capacity issues, has also meant that on some of the development objectives there has been limited progress on outcomes over the period of assessment. Given the crisis nature of the operation, the achievement rating has been given more weight (two-thirds versus one-third for relevance) in determining the overall outcome rating.

3.4 Overarching Themes, Other Outcomes and Impacts (if any, where not previously covered or to amplify discussion above)

(a) Poverty Impacts, Gender Aspects, and Social Development

While the policy area of social protection is most directly concerned with addressing poverty in the near-term, the other policy areas are also expected to have a medium-term impact. Recent work by the World Bank team suggests that, using a consistent poverty line over time, the poverty rate in Mongolia did fall substantially in the recent years of high economic growth (i.e., 2002/3 to 2007/8). However, there remain substantial vulnerable populations, particularly those in rural areas or in urban ger areas. In addition, the financial crisis may have adversely affected some of the recent poverty-related gains nationwide. Improved targeting of the social protection systems will facilitate channeling gains associated with economic growth more efficiently toward assisting poor and vulnerable groups. Simulation analysis suggests that interventions to make social safety nets in Mongolia better targeted and fiscally sustainable will help to protect the poor against future shocks as well as to reduce poverty. Appropriate management of future mining revenues to ensure it is shared in an equitable manner across the population, and avoiding boom-bust cycles through fiscal reforms and improved banking sector stability, are also important to the welfare of the poor going forward. Environmental concerns, as discussed in the original PD, only directly relate to the mining sector and were addressed by the prior action supporting the introduction of environmentally and socially responsible mining practices following the Equator principles, which complement technical assistance work supporting the development of environmental regulations governing the mining sector.

(b) Institutional Change/Strengthening
(particularly with reference to impacts on longer-term capacity and institutional development)

Many of the policy actions in the DPC, along with the associated technical assistance, analytical work or related projects, are concerned with strengthening the institutions of Mongolia. In particular, the main objective is to support the development of institutions which can channel the future revenues from Mongolia's substantial mineral wealth into providing stable, sustainable and equitable growth and poverty reduction. As part of this broad objective, each policy area also targeted the development of specific institutions, either directly through the prior actions or as medium-term outcomes (see discussion in Sections 1.2 and 3.2). For example, financial sector prior actions addressed the institutional arrangements surrounding the monitoring of banks and crisis prevention and resolution. In mining the prior actions and outcome indicators related to the institutional framework for investment agreements and the mining licensing regime. Eliminating investment projects without feasibility studies from the budget was a step towards improving the institutional framework for the planning of public investment projects, which is receiving continued assistance from the Bank. Ongoing efforts to reform the social welfare system include critical support to strengthen the institutions of social protection, including targeting and management information systems, and government implementation capacity.

(c) Other Unintended Outcomes and Impacts (positive or negative, if any)

Not applicable.

3.6 Summary of Findings of Beneficiary Survey and/or Stakeholder Workshops

Not applicable.

4. Assessment of Risk to Development Outcomes

Rating: Moderate

The rating of Moderate for the risks to development outcomes balances two sets of factors. On the one hand, there are sizeable downside risks across the various sectors of the operation, both in terms of impact and probability of realization. On the other hand, there are upside risks from mineral revenues going forward as major investment projects come on-stream and there is also the potential mitigating factor of a strong domestic policy response when adverse shocks materialize, as was observed in the recent crisis.

There are sizeable risks to the development outcomes of the DPC program, although they may be mitigated by a strong domestic policy response as shown by the authorities during the 2009 crisis. There is a general risk that the political appetite for reform diminishes with further improvements in mineral prices and as the prospect of increased mineral revenue inflows draws closer. The likelihood of political factors playing a major role may increase in the run-up to the elections in 2012. However, there are a number of important mitigating factors. First, the objective of signing major mining agreements has served as a unifying force for the current governing coalition and would be undermined by political and economic instability. This was a motivating factor in the speed and commitment to policy adjustment in response to the crisis. Second, the ongoing programs of IFIs in Mongolia can serve as important anchors supporting the policy reform agenda.

The proper management of Mongolia's future mining revenues can provide immense support to development outcomes in the long-run, although there are near-term fiscal risks. Export and government revenues flowing from the OT project alone could peak at around 55 percent and 20 percent of GDP respectively in 2019. However, avoidance of further boom-bust cycles associated with such flows requires concerted efforts towards adoption of a counter-cyclical and sustainable fiscal regime. Moves to implement a structural balance rule are supported by the Ministry of Finance and development partners but, although the draft law has been submitted to Parliament, it remains to be seen whether, and in what form, such a rule will enter into national legislation. The fiscal deficit, which remains high, could be exacerbated by recent proposals for additional expenditures on a universal cash transfer of OT prepayment funds or on housing subsidies. The impact of going off-track on the macro policy front could be significant, with the poor likely to be particularly affected. An absence of fiscal consolidation combined with the reduced levels of donor budget support in 2011 and 2012 would limit the financing options for the deficit. Increased domestic finance could further crowd out the private sector or there may be the risk of inflationary financing. A sharp fiscal adjustment would lower service provision and investment levels.

On social protection, both political considerations and institutional/technical capacity constraints present risks to further progress on the social welfare reform. Social protection reform remains a sensitive political issue. While policy makers and parliamentarians from both main political parties have voiced support for social welfare reform, as in other countries there remains political pressure to provide universal, non-targeted, benefits, illustrated by recent proposals to use loan pre-payments from the OT deal for such transfers. These pressures could potentially hinder passage of the social welfare reform law which has been submitted to Parliament. There are also lingering concerns about the government's institutional capacity to implement the proposed reforms. These concerns will need to be addressed (e.g., via the technical assistance operation under preparation) to ensure the effective implementation of the proposed poverty-targeted benefit.

In the banking sector, a key risk is the failure to deal with those banks who report insufficient capital levels in an expedient and proper manner, potentially leading to adverse spillovers for depositor confidence. There is a need to put in place clear resolution mechanisms for any banks which are moving towards insolvency and to act upon them swiftly when required. Political involvement in the resolution process also raises concerns over whether future bank problems will be addressed in such a rapid and effective manner. Delayed, and inappropriate, action on resolving failed banks could increase the risk of asset stripping and exacerbate the potential fiscal costs of any required recapitalizations. It could also lead to a fall in the confidence of depositors in individual banks with potentially systemic implications, prompting widescale deposit flight.

The most significant risks in relation to mining are the potential for a return to policy uncertainty and the failure to address the significant infrastructure needs associated with future large-scale mining projects. The recent OT deal is a positive development but another mineral price boom could, as previously, lead to a revival of political interference in the sector, affecting the incentives of the exploration sector to invest in Mongolia. Increasing private sector profits as prices rise could motivate politicians to adjust the tax environment, as in the case of the 2006 imposition of the windfall tax, or the access to land. The infrastructure needs of large-scale mining projects, for example in terms of transportation and power, are considerable. There is a risk that the government may not have sufficient capacity or finance to meet these needs or that the institutional and legal framework is not in place to facilitate sufficient private sector participation. The realization of these two risks would constrain the extent to which Mongolia's resource activities are developed relative to their potential.

5. Assessment of Bank and Borrower Performance

5.1 Bank Performance

(a) Bank Performance in Ensuring Quality at Entry (i.e., performance through lending phase)

Rating: Satisfactory

The rating of Satisfactory reflects an assessment of the Bank's performance as timely, well-focused, using an appropriate instrument and based on strong coordination with development partners.

The proposed single-tranche DPC was supported from the initial stage of the project as an appropriate instrument: It assisted the government's response to the crisis while continuing the policy dialogue with the authorities as they revised their medium-term policy framework. Because there was no robust medium-term plan of the government and given the urgency of the situation, this choice of instrument appears appropriate and timely.

The design of the operation strongly reflected the need for a timely, effective response to the impact of the crisis. While the major objective was short-term policy reform, the operation did agree with the government on the general framework of a new medium-term policy framework, which was contained in the document and the Letter of Development Policy.

In response to the financial crisis, the Bank moved quickly with a short-term response, while also developing a clear view on what can be achieved over the next years. Due to the direness of the situation and in order to help the government meet urgent financing needs, the proposed DPC was processed under the IDA FTF. Also, instead of completing a four-year CAS, the Bank showed flexibility in revising projects in the Interim Strategy Note for 2009-10.

Overall collaboration among partners was highly successful, given the urgency of the situation and the short time span. The operational design was closely synchronized with those of other development partners. In particular, the partnership between the IMF and the Bank was very strong, as detailed in the illustrative joint IMF/WB policy matrix in the program document and in the participation of Bank staff in each of the IMF preparation missions leading up to the SBA Board approval. A joint IMF/Bank mission was also undertaken to Japan which ensured proper coordination with the authorities there. Collaboration with the ADB has also been strong, in particular in the area of social protection, although there have been some issues regarding the division of labor in the beginning of the operation. Nonetheless, there was a general consensus on the priority actions and objectives.

(b) Quality of Supervision (including M&E arrangements)

Rating: Satisfactory

While the prior actions were completed before the loan went to the Board, the monitoring and evaluation of the reform progress has been continuous through dialogue and ongoing technical assistance and analytical work. This is the rationale for the Satisfactory rating on the quality of supervision. In preparation for the proposed second DPC operation, continuous monitoring of the economic situation (which is published in the Monthly Updates), dialogues with the government and follow-ups on the prior actions served as a de facto form of supervision. Dialogue was also supported through on-going technical assistance and project lending across the four policy areas of the DPC.

(c) Justification of Rating for Overall Bank Performance

Rating: Satisfactory

The Bank worked closely with the government and development partners to develop a relevant reform agenda that strategically addressed several core constraints in the country while delivering the program on time. The Satisfactory rating for overall bank performance is based on the Satisfactory ratings for both the quality at entry and quality of supervision dimensions. The design of the operation was appropriate although there could have been an improvement in the technical assistance area. Without adequate TA, it is difficult to move along the agenda in certain areas within a given timeframe. Also, the Bank's decision to respond in a more timely manner through using the IDA FTF was appropriate.

5.2 Borrower Performance

(a) Government Performance

Rating: Satisfactory

The government, and domestic policy-makers, showed a high level of commitment from the outset of the operation and were cooperative in trying to pass all the prior actions in time, although, as the intensity of the economic crisis was viewed to dissipate, there appeared to be some weakening in commitment to moving forward reforms. This was especially noticeable in the banking sector. The interaction with authorities was generally satisfactory but rushed. At the same time, this may have played a positive role in speeding up the operation's process.

(b) Implementing Agency or Agencies Performance

See section (a) on government performance.

(c) Justification of Rating for Overall Borrower Performance

Rating: Satisfactory

The overall borrower performance of Satisfactory reflects the fact that the government was responsive to, and proactive with, the DPC operation and committed their resources and personnel to facilitate the operation process. As a result, the program was delivered on a timely basis and helped stabilizing the country's macroeconomic environment.

6. Lessons Learned

The operation emphasized the crucial importance of understanding the political economy context for policy reforms. The financial crisis highlighted the need for Mongolia to improve its overall policy framework in order to prevent future boom-and-bust cycles, and provided a key window of opportunity for engagement by the World Bank and other partners. There was concern that the 2009 presidential election would interfere with addressing the crisis but, perhaps due to the seriousness of the economic situation and the strength of the bi-partisan government coalition, it played a negligible role in affecting the outcomes of the program. However, as the copper price revived and the perceived threat of imminent crisis receded, calls for the distribution of the gains from mineral revenues towards rural areas and the urban poor are again on the increase. In particular, the active nature of Mongolia's Parliament, combined with the prospect of large increases in future mineral revenues, is testing the government's commitment to move forward on medium-term policy reforms.

Prior strong TA and analytical work, and the ability and resources to scale up such work quickly, are essential for a successful and timely outcome in crisis-response operations. For example, the fiscal policy sector and the mining sectors were better able to achieve their objectives, because a lot of sectoral work was already in place. In the banking sector, the substantial analytical work under the FSAP, which was mainly undertaken in 2007, highlighted risks which were realized in 2008 and 2009, such as the fall in copper prices and exchange rate volatility. However, the speed of the deterioration in the health of the sector which eventually took place was not predicted. Once the crisis hit, after the failure of Anod Bank, substantial analytical work was undertaken to inform the design of the DPC. Significant analytical work on social protection and program targeting in Mongolia also positioned the World Bank well to respond quickly to the government's need to reform the social welfare sector in response to the crisis. Moreover, World Bank technical assistance has been important to the development of the new proxy means test that will form the basis for targeting the new poverty benefit to the poor. The experience from the DPC highlights, however, that sound analytical work and technical support may not be sufficient to implement quickly the range of institutional improvements required to reform a system of social transfers in a low-capacity environment such as Mongolia's. The sorts of institutional capacity-building required to implement a comprehensive social welfare reform take more time than might be optimal during a crisis-period.

Success of a program requires a flexible mindset of, and close coordination amongst, development partners. The general coordination among the donors was highly commendable. There was a good division of labor on fiscal and banking issues in particular between the IMF and the Bank, including the allocation of TA works. On social protection Bank analytical work fed into the operational work of the ADB and the Bank. Indeed, another lesson is that while a selective and focused operational design is commendable, often donors and development partners may rely on World Bank diagnostics and analysis in other areas. This requires the Bank to stretch its resources to be responsive to such needs. Finally, bilateral partners provided valued support to the overall program in a relatively short timeframe. Coordination with the borrower was also highly satisfactory. The urgency of the situation might have played a big role in bringing all relevant players to reach a consensus in a short given period of time. Indeed, this operation is a reminder of the opportunities that crisis situations can present for concerted, and coordinated, action by the government with development partner assistance in moving forward reforms that in "normal" times would likely be subject to greater obstacles. Such situations require the Bank to take a proactive approach, be prepared to change its strategy of assistance as appropriate and to work in coordination, and be in ongoing dialogue, with the government, politicians and other domestic stakeholders, and with development partners such as the IMF.

It is important to gauge from the beginning of an operation the capacity, both technical and political, of the borrower or the implementing agency to implement the proposed reforms. As illustrated in the design of this operation, this assessment has important implications for determining the priorities and sequencing of reforms. The capacity of the borrower was sufficient enough to take strong and painful policy actions when this was required. However, the more complicated reforms that are needed on social protection will require developing more capacity, on the one hand, and, on the other hand, the design of simple implementation systems to make optimal use of the existing capacity. Indeed, the MSWL in comments to this draft noted that the need for a substantial reform may bring risks in implementation and in cooperation.

In crisis operations it is important to anticipate any potential delays in the internal institutional process which could slow disbursement. Despite using the FTF, and the strong support from the Regional Operations Committee to speed up the review process, the Bank's internal procedures still posed some challenges to the task team in terms of the speed of processing of the operation. In this case, the immediate fiscal pressure was somewhat alleviated due to the revival in the copper price, and the seasonality of financing needs. However, it could have been the case that delays in disbursement could have had more serious implications if fiscal financing needs had become acute.

7. Comments on Issues Raised by Borrower/Implementing Agencies/Partners

(a) Borrower/Implementing agencies

(b) Cofinanciers

(c) Other partners and stakeholders

The preparation of this ICR involved discussions with the borrower (including the MoF, MSWL and BoM) and civil society in Mongolia, cofinanciers (AusAID), development partners (ADB and IMF) which are incorporated into the text of this report.

Annex A: Mongolia DPC Policy Matrix

Objectives	Key issues	Prior actions	Outcome indicators	Areas of focus for medium-term policy dialogue
Fiscal policy and management				
Improve capital budget planning and execution	Poor planning and screening of public investment projects	**Capital budget planning and screening is improved, as demonstrated by the exclusion of 30 projects without feasibility studies from the 2009 budget, as amended in March**	Number of projects without feasibility studies reduced by 30 projects (valued at MNT 19.8 billion). Baseline: Original 2009 budget contained 30 projects (valued at MNT 19.8 billion) without feasibility studies	Public investment planning
Protect maintenance of basic infrastructure	Maintenance of infrastructure risks being underfunded during economic downturn	**Capital expenditures for the maintenance of basic infrastructure in the transport, education and health sectors is protected, as evidenced by: (i) the increase in the ratio of capital repairs to new investments from 2.5 percent (in the original approved budget for 2009) to 3.4 percent (in the amended budget for 2009); and (ii) the allocation of MNT 12.4 billion for that purpose**	2009 budget outturn has maintained allocation for repairs and maintenance of basic infrastructure at MNT 12.4 billion. Baseline: Original 2009 budget	Funding for adequate maintenance and repair of key infrastructure in budget Establishment of fiscal rules for management of mining revenue
Social protection				
Protect the poor during the downturn by retargeting social policies to the poor	Social transfers untargeted, inefficient in attaining poverty prevention/human capital objectives, and fiscally unsustainable	**The Ministry of Social Welfare and Labor has prepared a time-bound action plan to clean its roster of beneficiaries of the Child Money Program, in order to reduce leakage to the non-poor and improve its targeting on the poor**	At least 75 percent of the surveys to collect household level data for the national beneficiary database based on a proxy-means-test formula have been completed	Consolidation of existing social transfer programs into new social protection program Targeting of new social protection program, using proxy-means test, staff training, improved national beneficiary database, complaint mechanism, impact evaluation, direct-deposit mechanism

Objectives	Key issues	Prior actions	Outcome indicators	Areas of focus for medium-term policy dialogue
Financial sector				
Strengthen confidence in the financial sector	Immediate response and contingency measures need to be implemented to set precedent for addressing bank failures, restore confidence in banking system and strengthen banking supervision	**The BoM has prepared an action plan for the restructuring/resolving of the Bank currently under the conservatorship, on the basis of the Bank's portfolio diagnostic and audit carried out by an internationally reputable auditor** **The BoM has issued a decree requiring that all banks report on a daily basis on key indicators regarding their liquidity and asset quality** **The BoM has established a crisis management and systemic risk monitoring task force with adequate functions and powers, qualified staff and sufficient resources to carry out its mandate**	Restructuring/resolution action plan for bank placed under conservatorship is implemented A contingency planning framework for failed-bank resolution is in place Crisis management and systemic risk monitoring task force with requisite legal and regulatory powers provides BoM, FSC and other relevant agencies with regular reports and leads quick and decisive action in case of possible bank failures	Risk management, contingency planning, improved regulations and supervision Bank restructuring and recapitalization Amendments to laws on foreclosure of collateral and banking laws
Mining sector				
Clarify mining policy framework	Unstable mining policy framework, in particular around issues of state ownership and taxation	**The Ministry of Mineral Resources and Energy has developed and adopted model investment agreements for the mining sector, clarifying Mongolia's mining policy, including taxation and the state's capital participation in new ventures, and incorporating responsible mining practices consistent with the Equator Principles** **Sufficient resources have been transferred to the Mongolia EITI Secretariat in order to finance an independent validation of its national EITI Program, scheduled to be completed by March 31, 2010**	New investment agreements utilize draft model investment agreement, including responsible mining practices consistent with the Equator principles New Cadastre Regulations adopted and implemented Responsible mining practices followed and monitored through enhanced regulatory capacity Independent validation of Mongolia's national EITI program undertaken	New mining law and policy Operation of mining cadastre Introduction of improved taxation policy Implementation and development of EITI Development and implementation of training plan for Mongolians in relevant mining skills

Annex 1 Bank Lending and Implementation Support/Supervision Processes

(a) Task Team members

Names	Title	Unit	Responsibility/ Specialty
Lending			
Rogier van den Brink	Lead Economist	EASPR	TTL
Zahid Hasnain	Sr Public Sector Spec.	EASPR	Fiscal Policy
Sameer Goyal	Sr Financial Sector Spec.	EASFP	Financial Sector
Andrew Mason	Lead Poverty Specialist	EASPR	Social Protection
Maria Caridad Araujo	Economist	EASHS	Social Protection
Graeme Eric Hancock	Senior Energy Specialist, Mining	COCPO	Mining
Ralph Van Doorn	Young Professional	EASPR	
Shilpa Pradhan	Consultant	EASPR	
Jiyoung Song	Consultant	EASPR	
David S. Colbert	Program Assistant	EASPR	
Martin M. Serrano	Counsel	LEGES	Legal
Junxue Chu	Senior Finance Officer	CTRFC	Disbursement
Altantsetseg Shiilegmaa	Economist	EASPR	
Supervision			
Ashley D. Taylor	Young Professional	EASPR	TTL
Zahid Hasnain	Sr Public Sector Spec.	EASPR	Fiscal Policy
Sameer Goyal	Sr Financial Sector Spec.	EASFP	Financial Sector
Xiaofeng Hua	Sr Financial Sector Spec.	EASFP	Financial Sector
Graeme Eric Hancock	Senior Energy Specialist, Mining	COCPO	Mining
Andrew Mason	Lead Poverty Specialist	EASPR	Social Protection
Maria Caridad Araujo	Economist	EASHS	Social Protection
Lucilla Maria Bruni	Junior Professional Associate	EASHS	Social Protection
Jiyoung Song	Consultant	EASPR	

(b) Staff Time and Cost

Stage	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	USD Thousands (including travel and consultant costs)
Lending		
FY09	48.5	286,000
Total:	48.5	286,000
Supervision/ICR		
FY09	9	35,000
Total:	9	35,000

Annex 2. Beneficiary Survey Results

Not applicable

Annex 3. Stakeholder Workshop Report and Results

Not applicable

Annex 4. Summary of Borrower's ICR and/or Comments on Draft ICR

A request for the Borrower's ICR was made but no report was received. However, the following comments were received on the draft ICR.

- The BoM responded that they did not have any comment but noted they would like to become involved in future projects as they feel it "would benefit the country in regard to further financing".

- The MSWL reviewed the report and requested a number of corrections to the text on social protection which have been incorporated in this document.

- The MoF reviewed the report and did not have either comments or objections. The Vice Minister did however note that he truly believed that "the policy measures taken under the DPC have contributed significantly to our move for reform". It was requested that attention be paid to its translation to avoid any misunderstanding or confusion when the report is made public.

Annex 5. Comments of Cofinanciers and Other Partners/Stakeholders

The preparation and drafting of the report reflected discussions with AusAID, who co-financed the operation, and the IMF and Asian Development Bank. The draft ICR was also shared with AusAID.

Annex 6. List of Supporting Documents

Internal World Bank Documents

Decision Note: Regional Operations Committee: Concept Review Meeting of the Mongolia: Managing the Downturn (DPC) P115737

Mongolia DPC P115737: Appraisal Completion Note and Request for Clearance to Negotiate

Minutes of Negotiations for Financing Agreement Credit 4618 MN

Financial Sector Assessment - Mongolia, July 2009

Publicly available World Bank Document related to this Credit

IDA Program Document For a Proposed Credit In the Amount of SDR 26.9 million (US$40 million equivalent) To Mongolia For a Development Policy Credit, June 1, 2009, Report No. 48794-MN. Available at http://imagebank.worldbank.org/servlet/WDSContentServer/IW3P/IB/2009/06/16/000356161_20090616010025/Rendered/PDF/487940PGD0P115101Official0Use0Only1.pdf

Other World Bank Reports

Mongolia Quarterly Report, February 2009. Available at http://go.worldbank.org/D8H9DQNLZ0

Mongolia Monthly Economic Update and 2009 Retrospective, January 2010. Available at http://go.worldbank.org/KPXAZEM2L0 . See also other Monthly Updates from April 2009.

Interim Strategy Note For Mongolia CY 2009-10, April 20 2009, Report No. 48311 –MN. Available at http://imagebank.worldbank.org/servlet/WDSContentServer/IW3P/IB/2009/04/30/000350881_20090430145844/Rendered/PDF/483110ISN0P102101Official0Use0Only1.pdf

Mongolia - Consolidating the Gains, Managing Booms And Busts, and Moving To Better Service Delivery : A Public Expenditure And Financial Management Review, January 2, 2009. Available at http://imagebank.worldbank.org/servlet/WDS_IBank_Servlet?pcont=details&menuPK=64154159&searchMenuPK=64258124&theSitePK=501889&eid=000333037_20090208230004&siteName=IMAGEBANK

Other Reports and Documents

IMF: Mongolia: Request for Stand-By Arrangement - Staff Report; Staff Supplements; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Mongolia, April 21, 2009. Available at http://www.imf.org/external/pubs/ft/scr/2009/cr09130.pdf

IMF: Mongolia: First Review Under the Stand-By Arrangement - Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Mongolia, August 14, 2009 Available at http://www.imf.org/external/pubs/ft/scr/2009/cr09254.pdf.

IMF: Mongolia: Second Review Under the Stand-By Arrangement and Request for Modification of Performance Criteria, November 5, 2009. Available at http://www.imf.org/external/pubs/ft/scr/2009/cr09311.pdf.

IMF: Mongolia: 2009 Article IV Consultation, Third Review Under Stand-by Arrangement, and Request for Modification of Performance Criteria - Staff Report; Staff Supplement; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for Mongolia, February 24, 2010. Available at http://www.imf.org/external/pubs/ft/scr/2010/cr1052.pdf


RUSSIAN FEDERATION
Lake Baikal
CHINA
CHINA
MONGOLIA
Ulaanbaatar
ULAANBAATAR
Hövsgöl Nuur
Uvs Nuur
Hulun Nur
Gobi Desert
Altay Mountains
Hangayn Mts.
TAVAN TOLGOI
OYU TOLGOI
MONGOLIA
SELECTED CITIES AND TOWNS
PROVINCE (AIMAG) CAPITALS
NATIONAL CAPITAL
RIVERS
MAIN ROADS
RAILROADS
PROVINCE (AIMAG) BOUNDARIES
INTERNATIONAL BOUNDARIES
0 100 200 300 Kilometers
0 50 100 150 200 Miles
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