PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED GRANT

IN THE AMOUNT OF SDR 9.737 MILLION
(US$14.0 MILLION EQUIVALENT)

TO

MONGOLIA

FOR A

GOVERNANCE ASSISTANCE PROJECT

April 12, 2006

Poverty Reduction and Economic Management Unit
East Asia and the Pacific Region
CURRENCY EQUIVALENTS
(Exchange Rate Effective March 31, 2006)

Currency Unit = Tugriks
MNT 1120.37 = USD 1
1 SDR = 1.43783 USD

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

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<th>ADB</th>
<th>Asian Development Bank</th>
<th>GFMIS</th>
<th>Government Financial Management Information System</th>
<th>NGO</th>
<th>Non Governmental Organization</th>
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<td>CAS</td>
<td>Country Assistance Strategy</td>
<td>GOM</td>
<td>Government of Mongolia</td>
<td>OGM</td>
<td>Oil, Gas, Mining and Chemicals</td>
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<tr>
<td>CFAA</td>
<td>Country Financial Accountability Assessment</td>
<td>GPS</td>
<td>Global Positioning System</td>
<td>OSF</td>
<td>Open Society Forum</td>
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<td>CSR</td>
<td>Civil Service Reform</td>
<td>HIES</td>
<td>Household Income and Expenditure Survey</td>
<td>PCU</td>
<td>Project Coordinating Unit</td>
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<tr>
<td>CSRS</td>
<td>Civil Service Reform Strategy</td>
<td>IBRD</td>
<td>International Bank for Reconstruction &amp; Development</td>
<td>PDO</td>
<td>Project Development Objective</td>
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<tr>
<td>DA</td>
<td>Designated Account</td>
<td>ICB</td>
<td>International Competitive Bidding</td>
<td>PEFA</td>
<td>Public Expenditure and Financial Accountability</td>
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<tr>
<td>DMFAS</td>
<td>Debt Management Financial and Analysis System</td>
<td>ICT</td>
<td>Information Communications Technology</td>
<td>PIM</td>
<td>Project Implementation Manual</td>
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<td>DMD</td>
<td>Debt Management Division</td>
<td>IDA</td>
<td>International Development Association</td>
<td>PIP</td>
<td>Public Investment Program</td>
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<tr>
<td>DSA</td>
<td>Debt Sustainability Analysis</td>
<td>IMF</td>
<td>International Monetary Fund</td>
<td>PSC</td>
<td>Project Steering Committee</td>
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<tr>
<td>ECTAC</td>
<td>Economic Capacity Building Technical Assistance Credit</td>
<td>IPSAS</td>
<td>International Public Sector Accounting Standards</td>
<td>PSFML</td>
<td>Public Sector Finance and Management Law</td>
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<td>EGSPRS</td>
<td>Economic Growth Support and Poverty Reduction Strategy</td>
<td>IT</td>
<td>Information Technology</td>
<td>SBD</td>
<td>Standard Bidding Documents</td>
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<td>EIA</td>
<td>Environmental Impact Assessment</td>
<td>JICA</td>
<td>Japan International Cooperation Agency</td>
<td>SPCD</td>
<td>Sectoral Policy Coordination Department</td>
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<td>EITI</td>
<td>Extractive Industry Transparency Initiative</td>
<td>LSMS</td>
<td>Living Standards Measurement Survey</td>
<td>TA</td>
<td>Technical Assistance</td>
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<td>FM</td>
<td>Financial Management</td>
<td>MDG</td>
<td>Millennium Development Goal</td>
<td>UB</td>
<td>Ulaanbaatar</td>
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<td>GAP</td>
<td>Governance Assistance Project</td>
<td>MNE</td>
<td>Ministry of Nature and Environment</td>
<td>UN</td>
<td>United Nations</td>
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<td>GDNT</td>
<td>General Department for National Taxation</td>
<td>MOP</td>
<td>Ministry of Finance</td>
<td>UNCAC</td>
<td>United Nations Convention against Corruption</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
<td>MRPAM</td>
<td>Mineral and Petroleum Resources Authority of Mongolia</td>
<td>USAID</td>
<td>United States Agency for International Development</td>
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TRANSLATIONS
aimag Province
soum District

Vice President: Jeffrey Gutman, EAPVP
Country Manager/Director: David Dollar, EACCF
Sector Manager: Barbara Nunberg, EASPR
Task Team Leader: Shabih Ali Mohib, EASPR
MONGOLIA
Governance Assistance Project

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<td>Social</td>
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<td>Environmental</td>
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MONGOLIA

GOVERNANCE ASSISTANCE PROJECT

PROJECT APPRAISAL DOCUMENT

EAST ASIA AND PACIFIC

EASPR

Date: April 12, 2006
Country Director: David R. Dollar
Sector Manager: Barbara Nunberg

Team Leader: Saiyed Shabih Ali Mohib
Sectors: General public administration sector (100%)
Themes: Macroeconomic management (P); Debt management and fiscal sustainability (S); Regulation and competition policy (S); Public expenditure, financial management and procurement (S); Other accountability/anti-corruption (S)
Environmental screening category: Not Required

Project ID: P098426
Lending Instrument: Technical Assistance Grant

Project Financing Data

[ ] Loan  [ ] Credit  [X] Grant  [ ] Guarantee  [ ] Other:

For Loans/Credits/Others:
Total Bank financing (US$m.): 14.00
Proposed terms: Standard

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<th>Foreign</th>
<th>Total</th>
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<td>0.00</td>
<td>0.00</td>
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<td>IDA Grant</td>
<td>5.01</td>
<td>8.99</td>
<td>14.00</td>
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<td>Financing Gap</td>
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<tr>
<td>Total:</td>
<td>5.01</td>
<td>8.99</td>
<td>14.00</td>
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Borrower:
Mongolia

Responsible Agency:
Ministry of Finance
United Nations Str.-5/1
Mongolia
Tel: 976-11-32-7449
Does the project depart from the CAS in content or other significant respects? Ref. PAD A.3
[ ]Yes [X] No

Does the project require any exceptions from Bank policies? Ref. PAD D.7
[ ]Yes [X] No

Have these been approved by Bank management?
[ ]Yes [ ] No

Is approval for any policy exception sought from the Board?
[ ]Yes [X] No

Does the project include any critical risks rated "substantial" or "high"? Ref. PAD C.5
[X]Yes [ ] No

Does the project meet the Regional criteria for readiness for implementation? Ref. PAD D.7
[X]Yes [ ] No

Project development objective Ref. PAD B.2, Technical Annex 3
To assist the government in (i) improving the efficiency and effectiveness of governance processes in the management of public finances, (ii) promoting transparency and accountability in the performance of public sector functions, and (iii) fostering the investment climate in Mongolia.

Project description [one-sentence summary of each component] Ref. PAD B.3.a, Technical Annex 4
The project is designed around three main components with a small component on project coordination & management: Component A - Public Financial Management; Component B - Transparency and Accountability; Component C - Investment Climate and Component D - Project coordination & evaluation (PCE). Disclosure and transparency activities are mainstreamed in each and every sub-component.

Component A will strengthen fiduciary controls and ensure adequate and relevant disclosure of information for decision makers and the public at large. Component B will enhance transparency and disclosure in the public sector for engendering accountability. Component C will improve the investment climate and public-private interactions. Component D will provide timely and effective support to all project entities in the day to day management and implementation of project components.

Which safeguard policies are triggered, if any? Ref. PAD D.6, Technical Annex 10
NONE.

Significant, non-standard conditions, if any, for: Ref. PAD C.7
Board presentation:

Loan/credit effectiveness:

Covenants applicable to project implementation:
A. STRATEGIC CONTEXT AND RATIONALE

1. Country and sector issues

1.1. Mongolia has made significant progress in its transition from a centrally planned to a functioning market economy. Over the last 15 years, the necessary market institutions, systems and procedures have been put in place to strengthen fiduciary controls, improve planning and execution of public finances, and facilitate private sector development. As a result of these reforms, overall fiscal management has improved, resulting in a modest budget surplus in 2005. The tax effort is high, at 37 percent of GDP, and expenditure controls have helped eliminate expenditure arrears on goods and services. This improved macro-fiscal management has contributed to setting the stage for sustained economic growth. In 2004, GDP growth reached 10.6 percent, and 6.0 percent growth is estimated in 2005.

1.2. Notwithstanding these positive developments, significant challenges remain. Maintaining the growth momentum and reducing poverty will require consolidating past reforms and continuing reforms in the public sector aimed at improving the efficiency and contestability of public resources. Further, as the Government seeks to inculcate the concept of an open government, as emphasized in the Government Action Plan, there will be need for far greater transparency and disclosure of public sector operations. All transparency indicators point to a perception of an opaque government. In addition, as the Government relies more on the private sector as the engine for growth, public service agencies will need to become effective and transparent service delivery units. At the moment, most investment climate surveys indicate that the Government is impeding more than facilitating private sector development. The Government is cognizant of these challenges, and has formulated an Action Plan aimed at implementing a shared growth agenda, improving transparency in the public sector, and eliminating impediments to private sector development.¹

1.3. In the context of the project, three perspectives were considered as critical to address governance issues in Mongolia: (i) consolidating fiduciary controls reforms and improving investment climate; (ii) implementing transparency measures; and (iii) putting in place direct anti-corruption reforms. This approach allows acting on both perception (increasing transparency) and actual corruption (fiduciary and anti-corruption programs). One or more of these three perspectives is present in the areas being addressed in the project, namely:

1.4. Management of Public Finance: Over the last 15 years, the Government has put in place the foundation for a robust public finance management framework. The elements of this foundation include: (i) a fully functional Treasury Single Account system; (ii) a government-wide Financial Management Information System with full financial commitment controls; (iii) a chart of accounts that fully comply with the International Public Sector Accounting Standards; (iv) a Debt Management Office within the Treasury Department where an effective debt recording and monitoring system is housed; and (v) an internally consistent and ambitious of Public Finance Management Law. These elements have contributed to significantly improve fiduciary controls and aggregate budget outturns. However, they need to be

consolidated into a results-based public finance management framework that is linked to the Government’s Action Plan, its medium term budget framework, annual budget and public investment program in any given year. The proposed project will assist the Government in consolidating these elements and systems, in order to enhance fiduciary controls and increase transparency in management of public finance (see Section B3, project components A.1 to A.4).

1.5. **Fostering Public Accountability and Monitoring.** Although the Government has made tangible gains in improving public sector systems and processes, there is very little disclosure of budget, public debt, or procurement information to entities outside of parliament. Even data and analysis conducted to inform the design of public policy, such as raw poverty data from the Living Standard Measurement Survey, Environmental Impact Assessments, etc., are not effectively placed in public domain. This lack of disclosure perpetuates a perception of mismanagement of public resources and fuels unsubstantiated rumors to become rampant. Public opinion surveys conducted since 1995 indicate increasing public concern over corruption. The Government is addressing the issue of transparency by instituting a policy of better information disclosure and by pursuing the promulgation of a more effective Anti-Corruption Law. The Government has asked the World Bank for assistance in these areas through this project (see Section B3, project components B.1. to B.3).

1.6. **Investment Climate.** According to the most recent World Bank investment climate assessment for Mongolia, and a number of related firm surveys, Corruption, Tax Policy, and Tax Administration are three of the five most significant obstacles to a better investment climate in the country. Tax administration is a particularly difficult issue for Mongolian firms, which bear substantial costs for compliance. Elements of Mongolia’s tax regime are modern and successful, including mechanisms that are capable of collecting significant revenues. Furthermore, tax policy instruments include low distortion taxes such as the value added tax. However, the Government agrees that the current tax administration framework imposes a significant burden on taxpayers in terms of compliance, and may provide avenues for rent-seeking behavior. It has asked the Bank, as part of this project, to provide comprehensive assistance toward improving tax administration (see Section B3, component C.1). Another area where problems are perceived is public procurement, which accounted for about USD325 million in 2005. The problems with public procurement emanated from (i) too much centralization of that function within the Ministry of Finance, which slowed the procurement process significantly; and (ii) lack of disclosure, giving rise to perceptions of rent-seeking between procurer and suppliers at the public’s expense. To address these issues, the parliament has promulgated a revised Public Procurement Law that envisages greater decentralization of procurement, improved oversight mechanisms, and greater disclosure. The Government has requested Bank assistance in effectively operationalizing this Law (see Section B3, component C.2).

1.7. **Mining Registry and Cadastre System.** The sustainable development of Mongolia’s solid mineral resources by the private sector has the potential to contribute significantly to poverty reduction and economic growth. The mining sector is a major contributor to the economy, accounting in 2005 for about 18 percent of GDP, 65 percent of industrial output, and 69 percent of export earnings. The mining industry sector directly employs more than 12,000 people, and the informal (artisanal) mining sector may involve more than ten times this number. Mongolia’s geology is complex and its mineral potential vast.
More than 6,000 mineral showings/deposits of 80 different minerals are known. The mining industry's output is historically based on copper, molybdenum, and gold. There has been a rapid rise in mineral exploration in Mongolia due in part to the 1997 Minerals Law, which has played a pivotal role in attracting foreign exploration companies. In 2002, there were 2,595 exploration licenses in Mongolia covering 26 percent of its territory, and this number has recently swelled to around 7000 licenses. Exploration expenditure for 2002 was estimated at USD18.0 million, triple the 2000 expenditure of $6.0 million. In 2004, this increased further to USD98.2 million, some 4 percent of global expenditures, which makes Mongolia one of the top 10 exploration targets in the world. The mining sector's value-added is projected to increase significantly, and its contribution to GDP expected to remain at least 10 percent, on average, over this period. The current mining licensing process is operated manually and provides significant avenue for manipulation, thus contributing to public perceptions of corruption in the issuance of mining permits. The Government has requested the Bank's assistance in improving the current mining registry and cadastre system (see Section B3, component C.3.).

2. **Rationale for Bank involvement**

2.1. In addition to the project development objective of improving public governance processes, the following five criteria were used in determining Bank involvement through this project.

(a) **Government ownership and coherence with the overall reform agenda.** Besides the fact that this proposed project responds to various requests the World Bank has received from different entities in Government (see Annex 1a), project interventions are anchored in the Government Action Plan and the Government’s Socioeconomic Guidelines, as explained above.

(b) **Bank's comparative advantage** – The Bank comparative advantages in the area of governance are:

(i) **Deepening reforms in traditional core competencies.** In terms of core competencies, the Bank has been successfully engaged with public sector reform in Mongolia for more than 5 years, and has assisted the Government in putting in place the building blocks mentioned earlier in Section 1.3. Second, the project builds on Bank experience in other governance projects in other parts of the world such as in Bangladesh, Pakistan, Vietnam, Tanzania, Timor-Leste, Cambodia, Madagascar. These projects have informed the design of this operation. In areas such as tax administration, procurement reform, public sector reform, and transparency in the mining sector, the World Bank brings to the table significant experience with the implementation of technical assistance projects and policy reforms. Following this criterion, the team decided not to engage in issues of central bank governance, as this is a core mandate and comparative advantage of the IMF; and

(ii) **Supporting initiatives for transparency and participatory anti-corruption programs**. In terms of transparency and participatory anti-corruption programs, supporting reforms for transparency, freedom of information, participatory anti-corruption programs is increasingly

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2 For more details, see Daniel Kaufman 2005 paper on “Myths and Realities of Governance and Corruption”

3
recognized as being as much relevant for enhancing governance as supporting reforms in traditional areas of public finances. However, these areas have been under-emphasized so far by international financial institutions.

(c) Sound analytical underpinnings providing relevance. Each of the identified activities should be selected and designed based on sound analytical underpinning explaining their relevance. In preparing the project, the team conducted a comprehensive demand assessment for disclosure, a debt management technical needs assessment, detailed diagnostic work on the current tax administration agency, used findings from the Mongolia Investment Climate Survey, the Public Expenditure and Financial Management Review, and the Mining Report. It also built on analytical work conducted by other development partners in Mongolia such as the USAID corruption report and ADB technical assistance report on Improving Aid Coordination and Management. All analytical work used in preparation of this project is held on file.

(d) Implementation capacity. In selecting each activity, the team carefully analyzed the existing and needed capacity for implementing and sustaining project interventions. As can be seen from the table included in Annex 2, the majority of activities is a continuation of previous engagement where critical capacity has already been built. Each component has adequate resources for additional training and capacity development where needed.

(e) Promotion of synergies and avoidance of overlap with other existing or planned activities. While selecting activities, other development partner involvement was carefully identified as well as critical gaps. Initially, planned activities in areas such as anti-money laundering, customs administration, demand-side activities to strengthen transparency and accountability, support to the Extractive Industry Transparency Initiative (EITI) were eventually taken out of the project as other existing or planned activities by other development partners or by the World Bank itself were identified (see Annex 2).

2.2. When the team applied the five criteria to the overall landscape of governance activity in Mongolia, it became clear that there were already a range of activities underway being supported by the Government and supported by donors. As such, the team used the criteria to select the key high-value governance areas that are consistent with the Government's plan but not currently being addressed through other avenues.

3. Higher-level objectives to which the project contributes

3.1. The project is directly relevant to: (i) the Government Action Plan; (ii) the Socio-Economic Guidelines 2006-2008; (iii) the Government's Economic Growth Support and Poverty Reduction Strategy; (iv) the Bank's Country Assistance Strategy for Mongolia 2004-2007; and (v) the Millennium Development Goals, as approved by the Mongolian parliament in June 2005.

3.2. The Government Action Plan, which is the key policy plan, stresses the need to (i) maintain economic growth momentum and reduce poverty; (ii) foster greater citizen participation in the budget;
(iii) improve access to information; and (iv) promote private sector development. These policy objectives are also enunciated in the Socio-Economic Guidelines for 2006-2008.

3.3. Each component of the project is aligned with the objectives of the Government Action Plan. The component on management of public finance aims to improve the quality of fiduciary controls, budget execution, and reporting, in order to maintain fiscal stability – a necessary condition for sustaining economic growth. The disclosure and accountability component will assist the Government in implementing its policy of openness and availability of data, thereby contributing to freedom of information access. The component on investment climate aims to assist the Government in making public agencies more akin to service delivery agencies. Improving tax administration and public procurement will contribute to the objective of improving the investment climate for private sector development, and reduce the opportunities for rent-seeking in certain private-public interactions, including the mining sector. This is particularly important since the mining sector is a key element of Mongolia’s Economic Growth Support and Poverty Reduction Strategy, which aims to support production and exports and improve the environment for private sector-led development, and is seen as one of the main sources of medium term growth in Mongolia.

B. PROJECT DESCRIPTION

4. The instrument

4.1. The instrument is a five-year Technical Assistance Grant. The project is designed as a multi-sector governance operation, with most of the activities being executed and implemented within the Ministry of Finance. Other implementing agencies include the Civil Service Council, the Mongolian Institute of Certified Public Accountants, the National Statistical Office, the Ministry of Nature and Environment, the General Department of National Taxation, and the Mineral Resources and Petroleum Authority of Mongolia’s Cadastre Office. Project activities are embedded in the fundamental objective of achieving better governance through enhanced public accountability and transparency, and better management of public finance (Figure 1). Technical assistance is the best approach for this type of operation, since human capital development – a necessary condition for sustainable development – is central to all project components. During project preparation, the five-year timeline was deemed appropriate to implement the measures needed to achieve the project’s development objectives. The Project Implementation Plan will identify specific milestones and measures to adequately sequence interventions and monitor progress.

4.2. Investment loan vs. budget support. In principle, support to the Government could be provided through budgetary assistance. However, the weak institutional framework raises some concerns about a purely budgetary support operation. Further, there is a critical need for consolidation and deepening of the economic reforms already put in place through other projects and initiatives, in order to allow Mongolia to effectively access and utilize a budget support-type operation. Only then will investment lending be able to focus predominantly on specialized technical assistance and capacity building efforts, while modernization needs and recurrent costs could be progressively integrated into budgetary assistance from Mongolia’s external partners. Hence, at this juncture, a technical assistance operation is deemed appropriate.
4.3. **Broad vs. narrow focus.** The project could exclusively address public finance, which is one of the key issues for governance reform. However, such a narrow focus would not adequately address other key priorities which the Government Action Plan identifies as necessary to foster greater citizen participation and promote private sector development. Nevertheless, this project will focus on two broad aspects of improved Governance and improved investment climate, namely: (i) greater transparency and disclosure, and (ii) more effective and efficient management of public finances. Figure 1 highlights the inter-linkages between the different components on this project (and what Mongolia’s other external partners are doing). Figure 1 also provides a synopsis of Mongolia’s external partners’ involvement in these areas.

**Figure 1: Project Interventions in Context of Development Objectives**

5. **Project development objective and key indicators**

5.1. GAP aims to improve the efficiency and effectiveness of key governance processes in management of public finance, public accountability and monitoring and investment climate.

5.2. Project performance will be monitored closely through the following list of key performance indicators.
### Table 1: Project Objective, Results and Indicators

<table>
<thead>
<tr>
<th>Project Development Objective</th>
<th>Outcome Indicators</th>
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| To assist the government in (i) improving the efficiency and effectiveness of governance processes in the management of public finances, (ii) promoting transparency and accountability in the performance of public sector functions, and (iii) fostering the investment climate in Mongolia. | o Evidence of improved efficiency and effectiveness of management of public finance framework.  
 o Evidence of improved public accountability and monitoring framework.  
 o Reduced cost of compliance for businesses taxpayers (among pilot group) |

#### Results Indicators

<table>
<thead>
<tr>
<th>Component A (Management of public finance)</th>
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| o Public access to key fiscal information (PEFA: PI-10).  
 o Public debt management strategy adopted.  
 o Medium term public investment program formulated.  
 o Report on loans and grants published.  
 o Government Financial Management Information System (GFMIS) rolled out to additional budget entities and soums.  
 o Promulgation of a Law and regulations governing contracted out workers. |

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<tr>
<th>Component B (Fostering public accountability and monitoring)</th>
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</table>
| o Effective conflict of interest system that complies with the UN Convention against Corruption adopted.  
 o A dynamic website at MOF to promote disclosure is established.  
 o Raw LSMS data made available to the public  
 o LSMS Survey embedded into the annual Household Income and Expenditure Survey exercise. |

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<tr>
<th>Component C (Investment Climate)</th>
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</table>
| o Reduced proportion of audits of business taxpayers (among pilot group).  
 o Improved access to key information on General Department for National Taxation (GDNT) policies, requirements, performance metrics, and taxpayers’ rights.  
 o Use of open competition in public procurement (PEFA: PI-19).  
 o Efficient, timely, and independent operation of the Mining Registry and Cadastre system. |

<table>
<thead>
<tr>
<th>Component D (Project Coordination and Evaluation)</th>
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<tr>
<td>o Evidence of the timely and satisfactory implementation of project components as planned.</td>
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3 Via progress reports and evaluations of surveys.
6. Project components

6.1. The GAP project is designed around three main components with a small component on project coordination and evaluation: (i) Management of public finance; (ii) Fostering public accountability and monitoring; (iii) Investment climate; and (iv) Project coordination and evaluation. Disclosure and transparency activities are mainstreamed into every sub-component. The GAP project will build on the accomplishments of recently completed projects (such as the Bank’s Fiscal Technical Assistance Project and Financial Sector Adjustment Credit). It will also, complement work currently being undertaken under the Bank’s Economic Capacity and Technical Assistance Credit, and by other donors such as the ADB, Japan, USAID and the IMF TA programs. The project will enhance and further deepen ongoing analytical work such as the Poverty Assessment, Investment Climate Assessment, and the Sources of Growth study, which includes reports on mining and cashmere sectors. GAP is fully consistent with the Government’s economic growth support and poverty reduction strategy (EGSPRS) and the CAS discussed by the Board on April 29, 2004 (Document Number IDA/R2004-0069). The proposed components are described briefly below. Annex 1 provides the in-depth rationale for each component and Annex 4 provides detailed descriptions of the interventions in the chosen areas. Estimated costs are summarized in Annex 5.

Component A – Management of Public Finance (MPF): USD3.72 million (including contingencies). As the key area for economic and financial governance, this component aims at strengthening fiduciary controls in the public sector by focusing on four critical areas: (i) strengthening debt management and the public investment program; (ii) decentralizing financial management; (iii) improving the efficiency of civil service expenditure; and (iv) consolidating public sector accounting reform. This component aims to address key systemic issues highlighted in the Mongolia Public Expenditure and Financial Management Review, 2003 and other analytical reports.

− Subcomponent A.1. – Strengthening Debt Management and Public Investment Program: USD1.0 million (including contingencies). Current macroeconomic conditions are favorable for the development of sound public debt management and strengthening the public investment program. However, the high level of debt and the susceptibility of the economy to external shocks imply that debt sustainability will need to be monitored carefully. The Minister of Finance very strongly asked the Bank to prepare a comprehensive debt management technical assistance component that will consider debt management and sustainability holistically. At present, the debt management division (DMD) takes on responsibilities that extend beyond public debt management, as it is usually defined. These responsibilities include procurement compliance, disbursement, project performance and also debt sustainability analysis. The allocation of responsibilities for debt management within the Ministry of Finance should be clarified. This would be best undertaken within an overall review of the structure of the Ministry of Finance, given interlinked and overlapping responsibilities for the public investment program as well. At the same time, there is no formal strategy for debt management in place. In addition, the lack of proper recording of loans and grants, as well as risk analysis tools are sources of significant fiduciary risk. More precisely, while recording of loans in Debt Management Financial Analysis System (DMFAS) seems to be of good quality, there is no recording of grants, and less than perfect recording of on-lent loans. DMFAS is not linked to GFMIS. This leads a possible
disconnect between the debt management and the payment system. The on-lending portfolio is substantial at 75 per cent of the external debt, but a large share of this portfolio is non-performing and not covered by any formal loan-agreement. Further, the lack of disclosure of loans and grants received by government feeds the public perception that donors do not support effective transparency. In addition, having an effective public investment program (PIP) framework will help maintain debt sustainability along with an improvement in management of public finances. At present, the PIP is fragmented among various sources of funding in the Ministry of Finance (MOF) departments, and there is a lack of clarity on medium-term priorities. With assistance from the Asian Development Bank, the Government has prepared a manual on formulating a public investment program, but it lacks capacity to implement recommendations of the manual.

- **Principal target group/beneficiaries:** The project aims to have a positive impact on the entire public sector, providing a framework for sound debt management and an effective public investment program to support sound fiscal policy and debt sustainability. Medium to long run beneficiaries will be the Mongolian taxpayers, as better strategic vision in its borrowing decisions and management of public debt will lead to potential savings of public funds. Ultimately, the poor should benefit through the use of these funds in implementing pro-poor policies.

- **Main project-related outputs and outcomes:** Sound public debt management, supported by fiscally sustainable policies, will tend to reduce the vulnerability of the government’s budget to financial shocks. Development of an effective debt management framework can potentially lead to substantial fiscal savings. Improved capacity to perform Debt Sustainability Analysis (DSA) will help define the fiscal space, and provide important input to the medium-term planning process.

- **Proposed activities are:**
  1. **Strengthening debt management:** (i) Review the allocation of responsibilities for debt management within the MoF. Establish formal procedures for performing regular DSA’s, clearly outlining the deliverables and responsibilities of the involved parties. These tasks will be best undertaken within an overall review of the structure of the MoF; (ii) make available to the public reports on public debt. A first step could be to prepare brief monthly reports for internal consumption; (iii) review and adjust the draft “debt management strategy” to clarify the scope and tasks for debt management. The main tasks for debt management are normally focused on the cost-risk trade-off. Develop a standardized method to facilitate comparison of total costs under different borrowing alternatives. Introduce basic scenario analysis to facilitate cost-risk evaluations; (iv) review the outstanding on-lending portfolio to clarify which loans are non-performing, and to estimate a realistic expected recovery rate. It could be considered to standardize the terms for on-lending; (v) review the adequacy of the number of staff in the DMD, based on the development of this capacity and reform program. Develop training programs for individual staff members of the DMD. The precise format and content of training plans will depend on how DMD’s role evolves; (vi) review debt market development issues, with the purpose of developing an action plan for government debt market development.
- **Strengthening the public investment program**: (i) review and update the existing manual on public investment plan; (ii) build capacity to implement the key recommendations of the manual with the aim of designing and establish an integrated monitoring framework for PIP and strengthen MoF capacity to prepare medium-term PIP forecasts; (iii) establish mechanisms for public disclosure and accountability.

**Implementing agency**: Ministry of Finance

- **Subcomponent A.2. - Decentralizing Financial Management**: USD1.56 million (including contingencies). Currently, the Government Financial Management Information System (GFMIS) is deployed at the Central Treasury - Ministry of Finance, all Regional (21 Aimag) Treasuries, all Ministries, across Ulaanbaatar (UB) Municipality and UB city districts. However, no budget entity or districts (Soums) other than UB city districts are connected to the GFMIS. To execute expenditures, all budget entities must prepare and physically bring all documentation to their designated treasury offices, where the transactions are entered into GFMIS – there is no other financial management system in operation in Mongolia. This results in: (i) significant costs in terms of time and effort for budget entities to manually generate and physically transport information to the respective treasury offices; (ii) disproportionate amount of Treasury staff time is taken on data entry, resulting in less staff time to focus on strategic cash management issues; (iii) slows down pace of budget execution; and (iv) the MoF taking on fiduciary responsibilities that should be handled by budget entities themselves. Although all expenditures are executed through GFMIS, because budget entities are not connected to the system, their reporting formats are different to the consolidated GFMIS reports. This delays the preparation of end year consolidated reports by adding significant staff time at the Treasury for reconciling reports by budget entities with the consolidated financial statements. In order to overcome these difficulties, the government intends to roll-out GFMIS to large budget entities and selective districts in order to improve control, reporting and consolidation, whilst maintaining requisite MoF oversight over financial management.

- **Principal target group/beneficiaries**: Direct budgetary control by budget entities over their budget appropriations will impact positively on overall financial management, thereby improving service delivery to stakeholders. In addition, the Treasury Department human resources will be freed up to effectively manage the Treasury Single Account resources, thereby benefiting all ministries, departments, and agencies across the public sector. Mongolia is the only country in the East Asia and Pacific Region of the Bank to be operating a GFMIS. Roll-out of GFMIS will provide valuable lessons to other countries in the process of implementing financial management information systems with decentralized budget execution controls. Finally, users of public services will benefit from greater budget disclosure and transparency.

- **Main project-related outputs and outcomes**: GFMIS roll-out will help speed up budget execution, thereby improving planning of financial management by budget entities, greater disclosure of budgetary information will increase accountability of public finances, and overall controls
fiduciary controls will increase as MOF staff will be able to devote more resources to ensure budget entities are complying with the financial management guidelines.

- **Proposed activities are:**
  - **Decentralization of financial management:** (i) roll-out of GFMIS to 15 districts (soums); (ii) connecting 72 large budget entities to the GFMIS; (iii) training of staff in effective usage of GFMIS; (iv) improving management reporting; (v) standardizing budget entity wide reporting; (vi) developing fiscal data publication capacity; and (vii) training for use of software and business process change.
  - **Dissemination of budgetary information:** (i) provide technical assistance to develop quarterly budget execution reports and publish them on the Ministry of Finance website (to be strengthened with support from the project); and (ii) develop a system for regular dissemination of funds (budgeted and disbursed) to schools and hospitals.

**Implementing agency:** Ministry of Finance.

- **Subcomponent A.3. – Improving Human Resource Expenditure Management: USD0.7 million** (including contingencies). The Government of Mongolia’s civil service reform plans are enunciated in the Civil Service Reform Strategy (CSRS) that was passed by Parliament in 2004. Support towards implementation of the strategy is being provided by the World Bank through the ECTAC project as well as an IFD grant that is being managed by the Civil Service Council. Government employs more than 120,000 staff in four different cadres. Total expenditure on civil servants in 2004 was about 9 percent of GDP, with average salaries, excluding benefits, of about USD100 – widely recognized as too low to be a performance incentive for staff. Within the Government’s overall civil service reform framework there are three key tools that are not present, that would allow the Government to effectively implement the CSR. These are: (i) lack of methodology to conduct a civil service census – thus it is not possible to ascertain the actual number of civil servants working in the government; (ii) absence of a law or framework to govern contracted-out workers, and (iii) no wage bill modeling tool to conduct impact analysis of different CSR options. This component will assist the Government in developing these three elements.

- **Principal target group/beneficiaries:** Recipients of services rendered by civil servants, as well as the civil servants themselves.

- **Main project-related outputs and outcomes:** Effectively verifying the numbers of civil servants in all four cadres, improving the integrity of the wage bill, and establishing a framework governing contracted-out workers.

- **Proposed activities are:**

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4 These elements are not being supported by ECTAC
➤ **Improving human resource expenditure management**: (i) developing an effective wage bill modeling tool for the Ministry of Finance, the Civil Service Council, and the Ministry of Social Welfare and Labor; (ii) preparing a draft law and implementation regulations governing contracted-out workers; and (iii) devising a robust methodology for and conducting a comprehensive civil service census.

➤ **Provision of information on civil servant to the citizens**: Disclosure of information on civil servants based on the results of the civil service census, consistent with the Law on Civil Service.

*Implementing agencies*: Ministry of Finance and Civil Service Council.

*Subcomponent A.4. – Accounting, Auditing and Quality Assurance System: USD0.46 million* (including contingencies). Under the Public Sector Management and Finance Law, the Government is mandated to move to accrual accounting. In this regard, the Government has already implemented regulations that would gradually phase in accrual accounting, but due to current capacity constraints it is not expected that accrual accounting will be implemented fully over the medium run. However, there is need to assist the Government with operationalization of regulations on tangible and intangible asset valuation, so that gradually, the building blocks to help the government move towards accrual accounting are developed. Currently, the Government is operating on a modified accrual accounting basis. The Government has also undertaken reforms to promote better private sector accounting and auditing. However, compliance has been weak, primarily due to a lack of capacity, training, and knowledge on how best to implement the recently initiated methodologies.

- **Principal target group/beneficiaries**: Asset valuation performed using international accounting standards will help the Government produce reliable financial statements. Private sector audit quality assurance system will benefit the accounting profession, including private corporations.

- **Main project-related outputs and outcomes**: Establishing a set of guidelines manuals to value the Government’s tangible and intangible assets valuation. Improving the quality assurance system to monitor private accounting firms.

- **Proposed activities are**:
  - capacity building for government in properly valuing public tangible and intangible assets;
  - establishing a quality assurance system for monitoring audit firm practices.

*Implementing agencies*: Ministry of Finance and Mongolian Institute of Certified Public Accountants.

**Component B – Fostering Public Accountability and Monitoring (FPAM) – USD1.61 million** (including contingencies). This component will enhance transparency and disclosure in the public sector, to engender accountability. The proposed activities under this component will assist the Government in improving the perception of increasing corruption in the public sector, as highlighted by the World Bank’s governance indicators study and the Investment Climate Assessment.
Subcomponent B.1 – Improve Anti-Corruption Framework: USD0.5 million (including contingencies). Corruption, or more accurately the perception of corruption in the public sector, is on the rise in Mongolia, as reflected in various studies and surveys (e.g., investment climate assessment, USAID corruption report, WBI indicators). Partly in response to these studies, in October 2005 Mongolia ratified the United Nations Convention against Corruption (UNCAC). Parties to the convention must create a transparent procurement system; institute a merit based system for hiring of civil servants; toughen criminal penalties for bribery and other corrupt acts; permit law enforcement authorities to freeze, seize, and confiscate the proceeds of corruption; and take a host of other measures to combat corruption. A parliamentary working group has drafted legislation that would address a limited number of these issues, but consideration has been delayed until the April 2006 session to allow for further refinements to the bill. Given the keen interest of the Government and parliament in improving the anti-corruption framework, GAP will finance technical assistance to bring Mongolian law into compliance with its obligations under UNCAC, and provide further technical assistance and goods to assist with developing a conflict of interest framework and improving the system of income and assets declaration. This component will develop as the appropriate legislation passed.

- **Principal target group/beneficiaries:** (i) staff in different government agencies responsible for implementing various elements of the anti-corruption program, (ii) public officials for conflict of interest prevention and resolution, those required to file asset and income declarations, and those subject to conflict of interest; and (iii) civil society as a whole through targeting civil society perception of corruption climate.

- **Main project-related outputs and outcomes:** The main outcome will be an effective conflict of interest framework for reducing corruption and increasing integrity in the Mongolian public administration. This will be realized by producing such outputs as a functional system of income and asset declaration and disclosure, and a code of conduct framework for conflict-of-interest prevention and resolution.

- **Proposed activities:**
  - Improve the existing framework for anti-corruption, including (i) reviewing the current anti-corruption framework and providing recommendations in order to bring Mongolian laws in compliance with the UNCAC, with assistance in implementing these recommendations; (ii) developing and implementing a framework for conflict-of-interest prevention and resolution, with a focus on asset and income declaration and disclosure; (iii) raising awareness on conflict of interest issues.

**Implementing agency:** Department of Legal Policy at the Ministry of Justice and Home Affairs.

Subcomponent B.2. – Strengthening Public Disclosure of Environmental Impact Assessments (EIAs) and Other Information on Environment and Natural Resources Management: USD0.39 million (including contingencies). Environmentally sustainable policy initiatives for Mongolia will require engaged and informed constituencies that want to support such policies and can hold policymakers accountable for their performance in implementing such policies. Information
disclosure and transparency are critical aspects in the policy process, and are necessary for both the Government’s monitoring and accountability function, and for constituencies to demand accountability from policymakers. Laws and regulations protect the public’s right to environmental information, but effectively this right is severely constrained by bureaucratic hurdles, absence of venues to obtain such information, and low public awareness. Even when agencies would like to disclose information, they often lack the budget and the capacity to do so. As a result, the lack of information sharing adds to a general lack of trust in officials, and to the public perception that political wrongdoing is common and acceptable.

Principal target group/beneficiaries: The implementation of this component is expected to have a beneficial impact on the entire environment and natural resources management sector, which will help achieve environmental sustainability and improved environmental governance. Ultimately, the Mongolian people will benefit from more sustainable environmental management, which will help maintain the substantial contribution of environment and natural resources to Mongolia’s GDP.

Main project-related outputs and outcomes: (i) greater environmental sustainability; (ii) improved disclosure of information; and (iii) better long-term management of environment and natural resources, with greater fostering public accountability and monitoring.

Proposed activities:

- Improve public information disclosure: (i) establish mechanisms for public disclosure of environment and natural resources management information; (ii) develop an integrated public disclosure program for the environment and natural resources management sectors, including relevant ministries, government agencies (e.g., State Specialized Inspection Agency), NGOs, academia, and professional associations; (iii) set up a system for routine placement of basic EIA information (approval requests, non-compliance sanctions, final EIA documents, etc.) in newspapers and on radio, and in universities, municipal libraries, public information centers, chambers of commerce, and relevant websites (Ministry of Nature and Environment [MNE], State Inspection Agency, Open Society Forum [OSF], etc); and (iv) establish a review mechanism to assess the effectiveness of the public information disclosure program.

- Enhance public awareness: (i) design and implement a public awareness campaign to improve the general understanding of EIA procedures, the role of MNE and other relevant government agencies, and the need for fostering public accountability and monitoring; and (ii) improve MNE’s overall outreach capacity at the national and local levels (with particular attention to recently approved and/or amended laws, regulations, and performance standards).

Implementing agency: Ministry of Nature and Environment.

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Information and data to be disclosed include routine measurements of the most relevant parameters for air, water pollution and solid waste management, forest and land degradation, monitoring and enforcement of the implementation of laws and regulations, donors contributions etc.
Subcomponent B.3. – Capacity Building for Data Transparency and Data Access for Poverty Monitoring: USD0.6 million (including contingencies). The National Statistics Office (NSO) has undertaken, with support from donors, major improvements to its system of statistics, including the collection of the first nationally representative Living Standard Measurement Survey (LSMS) in 2002. At the moment the LSMS exercise is separate from the Household Income and Expenditure Survey (HIES) that NSO conducts on an annual basis. Despite progress, NSO still has capacity to continue conducting the LSMS exercise, and has no formal policy about public access to data and information. This component will provide technical assistance in various areas to ensure sustainability of the LSMS exercise without recourse to continuous external support, and to attain the international standard of data openness and transparency.

- Principal target group/beneficiaries: Policymakers and general data users, including the research community, civil society, and the development community.

- Main project-related outputs and outcomes: Formal policy of rules and guidelines for public access to data; a web-based public platform for all household survey datasets and their documentation, and a harmonized/combined survey instrument (HIES and LSMS) starting in 2008.

- Proposed activities:
  - Capacity Building at NSO: (i) harmonize the two main survey instruments (HIES and LSMS); (ii) develop a strategic plan for the NSO to sustain the process of fielding comparable HIES-cum-LSMS surveys in later years within its own annual budget; (iii) develop skills and capacity in NSO on poverty analysis
  - Disclosure of Poverty Data: (i) institutionalize a policy with necessary guidelines for data access to all; (ii) provide/upgrade necessary computer hardware and software as well as develop skills and capacity in NSO to disseminate survey data according to international practices and (iii) disclose and disseminate the 2002 HIES-LSMS datasets and the 2007 HIES-LSMS datasets.

Implementing agency: National Statistical Office

Subcomponent B.4. – Upgrading the MOF Website to a Dynamic Portal: USD0.12 million (including contingencies). The internet is seen as the most cost-effective primary instrument for information dissemination. Even in low-income countries with relatively low internet penetration, targeting the internet as a primary disclosure instrument allows secondary disclosure channels such as NGOs with internet access to relay the information more broadly. The Ministry of Finance is committed to publishing more information and is looking for ways to improve the disclosure of public resources information, including on budget, public debt, and procurement. This component will assist in upgrading the already existing but static version of the MOF website to a dynamic portal, which will allow relevant information to be uploaded and regularly updated. The State
Secretary of Finance has already designated the staff responsible for updating the information that each department posts on the website.

- **Principal target group/beneficiaries:** Policymakers and general data users, including the research community, civil society, and the development community.

- **Main project-related outputs and outcomes:** The main output will be a dynamic portal allowing for access to information. The outcome will improve transparency in the use of public monies.

- **Proposed activities:**
  - Upgrading the MOF website will entail: (i) technical assistance in designing a website that will fulfill the need for disclosure; (ii) purchase of hardware; (iii) development of skills and capacity of MOF staff to create and update informational content to be uploaded to the MOF website.

*Implementing agency:* Ministry of Finance.

**Component C – Investment Climate (IC): USD7.79 million** (including contingencies): This component aims at improving the investment climate in Mongolia by (i) introducing reforms that strengthen the tax administration in a staged process; (ii) supporting public procurement reform; and (iii) establishing an automated mining registry and cadastre system. These issues have been highlighted in the recent Investment Climate Assessment of the World Bank and other analytical reports as key impediments to private sector development in Mongolia.

- **Subcomponent C.1. – Strengthening tax administration: USD4.50 million** (including contingencies). Mongolia’s tax effort, as measured by the ratio of revenue collection to GDP, remains high, at 38 percent in 2005. However, most surveys on private sector development and investment climate analysis have indicated that tax administration and tax policy are significant impediments to Mongolian private sector growth and competitiveness. In the most recent Investment Climate Assessment, over 50 percent of all businesses, and over 60 percent of small/medium enterprises, cited tax administration as a severe or major obstacle to a better investment climate, making it among the top five concerns for businesses in the country. In the same survey, corruption was rated as the number one concern by enterprises.

Tax administration in Mongolia is centralized with the General Department for National Taxation (GDNT). Analysis of Mongolia’s tax administration point to weaknesses in the workflow and organizational arrangements, information systems deficiencies, problems with the tax audit selection framework and excessive contact between inspectors and businesses, lack of clarity in the legal framework, poor transparency and disclosure of tax policies and taxpayer rights, and misaligned incentives for staff to perform their functions effectively. The Ministry of Finance and the GDNT are aware of these problems and have asked the Bank to assist in finding measures to remedy these problems. Tax policy changes are under consideration currently in Parliament, and there will be need to effectively implement these policies. GDNT has already started to introduce measures to
modernize tax administration; for instance, the introduction of one-stop service centers, however there are still shortcomings to the current system and the extent of these measures. The GAP, through its proposed activities under this component, will focus on the critical areas that will improve tax administration, for example, the adoption of a risk management framework for audit selection. This project will not comprehensively reform tax administration, but will rather pilot needed reforms in two key demonstration units of GDNT, as a way of leading into a more comprehensive change agenda over time that will need to be completed outside the context of the relatively limited GAP resource envelope.

- **Principal target group/beneficiaries:** This component will assist the Government in beginning the process of transforming GDNT from solely a tax collection agency to an entity that provides services to taxpayers for effectively complying with tax policies. Primary beneficiaries will be business taxpayers and subsets of GDNT offices which will be part of the pilot phase. In addition, the Ministry of Finance will benefit from an effective GDNT in tax collection.

- **Main project related outputs and outcomes:** (i) Future Investment Climate Assessment shows a reduction in the proportion of firms perceiving corruption and in those citing tax administration as a severe or major obstacle to improved investment climate (among pilot groups); (ii) reduced cost of tax compliance for business taxpayers (among pilot groups), and (iii) demonstration of successful reform path and policies to overall GDNT organization for second phase adoption.

- **Tax Administration-related Outputs:** (i) proportion of tax audits is reduced, and carried out on a targeted basis; (ii) broadening of Mongolian business tax base, as reflected by an increase in the fraction and number of positive taxpayers (assuming no major changes to tax policy); and (iii) increased disclosure of a range of GDNT policies, performance data, procedures and information relevant to taxpayers.

- **Proposed activities (targeted at pilot Departments of GDNT) are:**
  
  > **Improving Tax Administration:**

  *Institutional Development:* (i) Review and strengthen organizational design of GDNT; (ii) Adopt integrity and good governance measures; (iii) Develop GDNT corporate strategic plan; (iv) Review and improve human resource management, incentives, training, and development; (v) Strengthen capacity of State Budget Revenue and Inspection Unit (LTU); and (vi) Improve monitoring of business perceptions and cost of compliance.

  *Tax Operational Process Reengineering:* (i) Amend and update supporting legal framework; (ii) Reengineer tax operational processes; (iii) Establish a Business Development Unit at GDNT to coordinate process reengineering; (iv) Improve workflow processes and specific operational processes with attention to introduction of a Risk Management system; (v) Upgrade taxpayer service, outreach and participation; and (vi) Pilot new systems in LTU and one Ulaanbaatar district tax office.
 ICT and physical infrastructure: (i) Strengthen GDNT IT organization; (ii) Acquire software, hardware and communications equipment to implement the platform defined; (iii) Provide IT technical training to GDNT IT support unit; (iv) Develop business requirements, data architecture, and data sources for the data warehouse implementation, and acquire necessary software platform; and (v) Design and implement back up and contingency plans.

- Enhancing Disclosure of Information for Taxpayers: (i) Improve and expand disclosure, publication, and dissemination of key GDNT performance metrics, rulings, tax law decisions, and policies; and (ii) Publish taxpayer rights and avenues of appeal, and provide all web information in English and Mongolian

Implementing Agency: General Department of National Taxation (GDNT)

- Subcomponent C.2. – Public Procurement Capacity Development: USD1.54 million (including contingencies). Mongolia has made significant strides in improving public procurement. In 2000, Mongolia promulgated a new procurement law. This law significantly centralized procurement and tightened fiduciary controls. However, the centralization of procurement increased procurement lead times (causing delays in procurement) and budget entities felt disenfranchised at the loss of control over funds allocated to them by Parliament. In order to improve procurement efficiency, while maintaining the fiduciary controls over public procurement, the Parliament passed the revised Procurement Law in December 2005. Under the revised Law, budget entities shall be responsible for procuring goods from their budgetary appropriations, while relevant portfolio ministries will procure capital expenditure goods. Under this Law, the Ministry of Finance’s Procurement Policy and Coordination Department has received the mandate of advising procuring entities on effective procurement, carrying out review of procurement processes for capital procurement, facilitating independent review of procurement complaints, as well as overall monitoring and reporting of public procurement performance. The challenge is to implement the Law effectively while maintaining the gains achieved by the 2000 Public Procurement Law. If implemented effectively, procurement lead times will reduce, efficiency of public procurement will increase, and transparency and accountability in public procurement will be enhanced. Effective implementation of this revised law will require significant capacity building, development of a procurement monitoring framework for capital procurement, and training on public procurement across government.

  - Principal target group/beneficiaries: Improving public procurement will increase fiscal space for the entire government, therefore the entire public sector will benefit. Further, effective implementation of the Procurement Law will reduce procurement lead times. This will significantly improve delivery of services by public sector agencies. The positive impact of reducing procurement lead time will be felt by recipients of public services. The revised Procurement Law also provides new innovations in the field of public procurement such as the establishment of an independent panel of experts to review procurement complaints. By effectively implementing such measure, Mongolia will provide lessons to other countries that are endeavoring to improve public procurement in a limited capacity framework.

  - Main project-related outputs and outcomes: The benefits of this component will be multi-layered. By increasing transparency and accountability and enhancing effective supervision of public
procurement, it is expected that efficiency of procurement will improve by between 5-10 percent. Further, with greater disclosure of public procurement, there will be a positive perception effect for the entire citizenry.

- **Proposed activities:**
  - **Public procurement capacity development:** (i) Capacity development at the Procurement Policy and Coordination Department; (ii) Sustainable long-term national procurement capacity development program; (iii) Improving evaluation and monitoring functions of the National Procurement System; and (v) Establishment of procurement complaint review and auditing mechanisms.
  - **Disclosure of information on public procurement:** (i) Disclosure of annual reports on public procurement performance on the Ministry of Finance website.

*Implementing agency:* Ministry of Finance

- **Subcomponent C.3. – Mining Registry and Cadastre System: USD1.75 million** (including contingencies). This component involves the establishment of modern, rules-based, fully computerized, and web-based mining registration, cadastre, and mine-reporting systems with explicit criteria for granting, administering, and foreclosing mining rights, consistent with the Minerals Law and revised regulations. The cadastre will automate and simplify the mining license application process; and will record reliable information about the precise location and ownership of exploration and mining titles, the status of each license, fees paid and amounts due, and the reporting, environmental, and other obligations of licensees. The procedures required to administer the cadastral process will be transparent, public, of general application, and non-discretionary.

- **Principal target group/beneficiaries:** Modernization of the mining registry and cadastre system will benefit: (i) Government, by improving the transparency and administrative efficiency of mineral licensing; enforcing the social, safety, and environmental obligations of license holders; increasing mineral development and collection of license fees; and reducing speculative *excesses* and adverse public sentiment; (ii) Private investors, by strengthening the security of tenure and access to minerals, and reducing risk; and (iii) General population, by improving public confidence in the development of its mineral endowment, and enhancing economic growth and fiscal receipts.

- **Main project-related outputs and outcomes:** The Government’s regulatory role in the mining sector will be supported and strengthened through improved management of the administrative information connected with issuing and processing of mineral rights, resulting in greater transparency and public accountability, reduced processing and response times, access by local government and improved data transfers, and enhanced public access to information. Training activities will also help to improve institutional capacity and the Government’s ability to act as a regulator and facilitator of mining activities. Outcomes are expected to include improved
governance, public confidence and trust and increased private investment in Mongolia’s mining sector.

- Proposed activities:
  - Review and recommend amendments, where necessary, to the licensing provisions of the regulatory framework; assess the technical compatibility of and data exchange with other cadastral systems in other agencies, formulate working procedures for the automated mining registry, cadastre, and online license application system; and validation of the global positioning system (GPS) coordinate system and geodetic transformation procedures.
  - Establish an automated mining registry and cadastre system comprising of the following: (i) Design of a modern web-enabled computerized system for the administration of mining titles, including the supply of hardware, software, and customized programming of the database management system; (ii) Computerization of the working procedures of the mining cadastre, as defined above, in accordance with the provisions of the Minerals Law and revised regulatory framework; (iii) Validation, field verification, and data capture of existing mineral rights, protected areas, and special needs cadastral data; (iv) Provision of digital topographical and basic infrastructure data to improve functionality of the cadastral map; (v) Office rehabilitation and enhanced public online access to the mining cadastre; (vi) Provision of GIS software and associated training to 21 aimag governments to access the new web based system through a telecoms network to be provided by the ADB sponsored National Cadastral Survey and Land Registration Program; and (vii) Broad public dissemination of the purpose, scope, and impact of the cadastral reforms.
  - International study tours to functioning cadastres for policymakers and technical specialists; and training of mining cadastre staff in the technical and legal aspects of the administration of the mining titles and the operation of a fully automated mining cadastre system.


Component D – Project Coordination and Evaluation: USD0.88 million (including contingencies). The program supported by GAP will be implemented under the existing Project Coordinating Unit (PCU – established in September 2004) for the Economic Capacity and Technical Assistance Credit, which is housed in the Ministry of Finance. This unit will be responsible for: (i) Procurement, including all contracting for purchases and the hiring of consultants; (ii) Project monitoring, reporting, and evaluation; (iii) Contractual relationship with IDA; and (iv) Financial record keeping, financial management reports, the Designated Account, and disbursements. Adequate operation of the PCU is a key factor for successful implementation of the project. The present PCU shall consist of a manager and five technical staff and support staff. The PCU shall report to the State Secretary of Finance, Project Director. The PCU, together with a Project Director at the Steering Committee level, will ensure coordination among the various entities directly engaged in project implementation. The Steering Committee (refer to chart in annex 6) will be set up to provide advice and general guidance during project implementation.
Principal target group/beneficiaries: the Project Director, members of the Project Steering Committee, technical working groups, and project stakeholders.

Main project-related outputs and outcomes: effective project implementation; adequate fiduciary controls and monitoring.

Proposed activities:
- adequate staffing of PCU;
- fiduciary compliance, including ensuring and overseeing financial audits;
- capacity building;
- project reporting; and
- project evaluation, including impact assessment of disclosure initiatives and surveys for GDNT.

Implementing agencies: Ministry of Finance and Project Coordinating Unit.

7. Lessons learned and reflected in the project design

7.1. IDA’s experience with similar projects demonstrates the need for: (i) An approach that broadly targets people, institutions, practices and policies (especially the incentive structure); (ii) High level of commitment by the government to the project objectives; (iii) Well defined project objectives consistent with the country’s absorptive capacity; and (iv) Thorough preparation and accurate needs assessment. The project incorporates these lessons and builds on the successes of the recently closed Fiscal Technical Assistance Project (P051855), and supports the on-going work under the Economic Capacity Building and Technical Assistance Credit (P077778). Each component has its rationale from analytical reports like the recent Investment Climate Assessment, the Public Expenditure and Financial Management Review, the Debt Management Technical Needs Assessment conducted by the Bank, and the Mining Report. Previous experience has demonstrated that involving Government counterparts and gaining Government ownership at an early stage of project preparation is an important factor in project success as demonstrated in successful outcomes of Bank-assisted projects.

7.2. Project design benefited from a demand-driven process involving Government officials, parliamentarians, and other key stakeholders, as well as from civil society at large. The validation of each component action plan by the project Steering Committee will ensure high-level support for the proposed activities and necessary synergies among activities.

7.3. Tax administration: The World Bank has had in-depth experience with tax administration reform in both East Asia and the transition economies of the former Soviet Union. This experience has shown that: (i) Change is difficult to roll out comprehensively with limited resources in low-capacity administrative environments. Projects that do well tend to introduce reforms in limited subsets of the organization first, and demonstrate results prior to rolling out to all areas of the tax administration. Consequently, the GAP must be thought of as the first in a series of reforms at different departments of

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6 Case Studies prepared as part of the Institutional Review issued by the Bank in 2002.
7 Lessons Learned from FY03 ICRs and OED Evaluation Summaries.
GDNT – it will begin in the large taxpayer unit and one Ulaanbaatar city district tax office; (ii) Management and organization issues are critical – in tax systems where corruption is a problem, projects that reduce inspector discretion and contact with taxpayers is an essential component, but organizational design and culture must also change accordingly. The introduction of a risk management framework is essential in this regard, and is one of the central components of the project, along with a reorganization of workflow and changes in compensation, incentives, and training. Past experience indicates that all of these changes must be accompanied by an aggressive change management and training program; (iii) Tax administration reform projects need the support of the overarching Ministry and the leadership of the tax administration. This proposed component of the GAP project enjoys strong support from the GDNT hierarchy and the senior levels of the Ministry of Finance.

7.4. **Mining sector.** The World Bank’s recent experience with mining sector operations in Burkina Faso, Ghana, Mauritania, Mozambique, Madagascar, and Tanzania indicates that improving the enabling environment, access to minerals with limited ministerial discretion, and transparency in the registration and licensing process, increases the country’s capacity to attract and sustain private investment in the minerals sector, and increases public trust in the State’s administration of its mineral endowment. Any attempt to administer new mineral legislation without the support of modern cadastre would lead to public mistrust and eventually undermine expected positive results. In the context of a positive metal commodity price scenario, there has been a disproportionate upsurge in mining investment in those countries that have adopted legal, institutional, and taxation reforms. World Bank involvement in the reform process of successful mining countries shows that, for this to occur, the enactment of the necessary legal, fiscal, and environmental policies; the creation of an independent, transparent, and efficient mining cadastre; and the establishment of strong public mining institutions to implement and administer them, have proven to be critical to sector development, economic growth, regional development, and, indirectly, to poverty alleviation.

**C. IMPLEMENTATION**

8. **Partnership arrangements**

8.1. Co-financing of the project by other donors is not being considered at this stage. The components are, nonetheless, being prepared in consultation with relevant donors, notably, ADB, IMF, USAID, JICA, UN, and GTZ, taking into account their support to public sector governance reforms, particularly in taxation, financial management, anti-corruption, and debt management.

9. **Institutional and implementation arrangements**

9.1. On institutional and implementation arrangements, the focus was on instituting arrangements that would: (i) Ensure integrity and effectiveness in the fluid political economy environment; (ii) Maximize project impact by assembling the right mix of stakeholders within government, private sector, and civil society; and (iii) Build long-term sustainability of the project development objectives.

9.2. The overall project implementation arrangements (discussed below) have been designed in such a way that shall deepen reform ownership throughout implementation. Each component implementation
responsibility has been assigned in such way that the successful outcome from component activities is part of the work program agreement (welfare function) for that directorate/agency with the Parliament. In this way successful implementation of each component is already internalized in agency level work programs. GAP will thus provide a combination of technical assistance and investment resources for agencies to reach the objectives they have already signed up to deliver. This will help foster ownership and provide for sustainability of project interventions.

9.3. **Steering Committee**: The proposed structure is a two-level implementation arrangement, with a high-level Steering Committee led by the Deputy Minister of Finance (Chairperson) and comprising the State Secretary of Finance (Project Director); Economic Policy Advisor to the Prime Minister, Economic Policy Advisor to the President, Chairperson of the Mongolian National Chamber of Trade and Industry, Vice President of the National Association of Mongolian Agricultural Cooperatives, the head of the Anti-Corruption Council, Senior Specialist of the Directorate for Legal Policy at the Ministry of Justice and Home Affairs, and the Project Manager. The Project Steering Committee has already been established by Order No. 111 of the Minister for Finance dated April 5, 2006.

9.4. **The Steering Committee** shall provide strategic guidance to the project, and shall direct leads of component implementation agencies to: (i) prepare and finalize all terms of references for each component activity, make all selections of advisors, goods, study tours etc; and (ii) report progress with implementation of the activities. The Steering Committee shall meet on a twice-yearly to review overall project implementation and take any remedial measures needed to address any issues that the review has highlighted. This review shall be prepared by the Project Coordination Unit. Further, a Steering Committee meeting (actual or virtual) can be called at any time to resolve any emerging issue. The decision to call for an actual or virtual meeting shall be made by the Project Director.

9.5. **The Project Director** (State Secretary of Finance) will provide strategic direction to overall project execution issues, and shall address any implementing issues that may arise. He/she shall be supported by a full-time Project Coordination Unit (PCU) headed by a Project Manager. Regular project implementing issues (such as coordinating different component agencies) may be delegated to the PCU director. However, the Project Director will sign-off on all requests for the Bank’s no objection.

9.6. **The Leads of Implementing Agencies**, as identified in respective subcomponents, will be responsible for implementing respective subcomponents. This implies that implementing agency heads will be responsible for: (i) preparing terms of references for assignments/study tours etc; (ii) effective intra-agency coordination; (iii) establishing and monitoring evaluation committees to select consultants/firms; (iv) ensuring component objectives are achieved; and (v) reporting progress with component implementation to the Project Steering Committee, as needed.

9.7. **The Project Coordinating Unit** will be responsible for all project procurement and financial management arrangements. The PCU will be headed by a PCU manager. For details please see Annexes 6, 7, and 8. The PCU will liaise with leads of respective component implementing agencies for coordinating the preparation of terms of references and other component related work plans. Once terms of references have been prepared and finalized by component implementing agencies, and respective
clearance from the Project Director obtained, the PCU shall take care of all contracting, procurement arrangements, and financial management obligations. The PCU will be resourced appropriately.

9.8. **Technical Working Groups:** The project implementation arrangement envisages four working groups, focusing on four different areas: (i) Management of public finance; (ii) Fostering public accountability and monitoring; (iii) Improving tax administration; and (iv) Reviewing the mining regulatory framework and modernizing the mining cadastre. The membership of each working group is shown in the flowchart (see Annex 6). The function of each working group is described below.

**Working Group on Management of Public Finance:** This group will be tasked with disclosure of information on budget execution, loans and grants, and public procurement. However, the responsibility for implementation of each sub-component shall remain with the respective directorate general within the Ministry of Finance. Since each component will improve the Government’s ability to disseminate information, this working group will work to develop reports that shall be disclosed. In conducting this task, the working group will be assisted by an international and a local consultant on budget disclosure practices. Participation by the civil society representative will ensure that the information (detail and format) disclosed is of use to the civil society.

**Working Group on Fostering Public Accountability and Monitoring:** This group will bring together the key agencies for implementing fostering public accountability and monitoring measures (Component B), in order to enhance coordination of activities that span across different agencies. This will help build a peer-group that mutually reinforces disclosure and transparency. The project implementation arrangements will ensure adequate support is provided to this group to execute and monitor each component activity effectively.

**Working Group on Improving Tax Administration:** Even though the technical issues pertaining to improving tax administration (component C.1) shall be handled by the management of the GDNT, this working group will act as a forum for discussion of the impact and efficacy of the outputs and outcomes, particularly the impact of the taxpayer outreach program, improved disclosure initiatives, the functioning of the risk management framework as it relates to tax inspections on the ground, and the monitoring of progress vis-à-vis firm-level survey feedback. This group will essentially provide GDNT management and the Steering Committee with timely feedback on the impact of the tax administration reform on the investment climate.

**Working Group on Implementing the Mining Registry and Cadastre System:** This working group shall be tasked with implementing the mining registry and cadastre system (component C.3.). The responsibility for preparing and finalizing the technical specifications and selection of consultants shall reside with Mineral Resources and Petroleum Authority of Mongolia (MRPAM). This working group will provide the institutional support needed to effectively implement a component that requires inter-ministerial/agency cooperation, and possibly changes in the key business processes within a specialized Government agency.

9.9. Details on institutional arrangements, as well as a flow chart, are included in Annex 6.
10. Monitoring and evaluation of outcomes/results

10.1. Monitoring and evaluation of the results indicators for GAP will be conducted separately for each component, given that it is a multi-sectoral operation involving a number of sectors and themes under five different ministries and agencies. The teams working on each component will prepare, at the beginning of project implementation, a proposal for a monitoring and evaluation system to be used throughout implementation. Each M&E system will identify results indicators and potential sources of data on outputs and outcomes. The relevant advisors under each component will help to set up the system in cooperation with the relevant agencies, so that capacity is built in the agencies to monitor and assess the project’s effectiveness. The PCU shall prepare an annual progress report based on these indicators, and submit it to the Steering Committee so that any corrective measures can be undertaken in a timely manner.

11. Sustainability

11.1. The sustainability of institutional capacity development has generally been a challenge, not only in Mongolia, but in many other countries where the Bank has provided assistance. Challenges to retaining capacity include low wages in the public sector, and the lack of know-how in specialized information technology system maintenance issues. However, in the case of GAP, there are some promising indicators.

11.2. There is evidence of the Government’s commitment to most of the planned activities to be supported under GAP (see annex 1a), and recognition of the need to scale up reforms in the public sector, enhance transparency and disclosure, and improve the investment climate. The Minister of Finance has requested Bank support for improving debt management, assisting with comprehensive reforms in tax administration, implementing the revised procurement law, and rolling out GFMIS to other budget entities. The GAP task team has been impressed with the Government’s commitment to carry forward the reform agenda and the in-depth involvement of respective director generals, heads of agencies, and technical staff in the design of component activities.

11.3. Mongolia is the only country in the East Asia region to have a functioning Government Financial Management Information System. As the Government has already realized the benefits of this system, it has allocated adequate financial and human resources to maintain and use this system sustainably. The Government has skilled staff capable of internalizing training and providing training to others. GAP will assist the Government in deepening and broadening GFMIS deployment, and provide training in effectively using its best practice features to further strengthen fiduciary controls. In this process, the knowledge base on system operations will also broaden significantly. Staff returning from Government-sponsored education programs at foreign universities must work in their parent departments for at least two or three years upon their return to Mongolia. This provides a constant stream of qualified individuals who can quickly train-up and provide training to other staff members. The majority of GAP components support ongoing reforms, where significant capacity development has already taken place and the Government has been able to effectively replenish its human resources. GAP aims to build on this positive momentum by further enhancing capacity and generating positive outcomes.
11.4. **Tax administration:** The Government is highly committed to making needed reforms in GDNT and creating a “service culture” instead of a “policing culture,” as evidenced by their request for, and high prioritization of, World Bank support for tax administration reform. In addition, the reforms enacted through this project should generate sufficient additional revenue and/or savings to the State to make the most of the required changes financially self-sustaining. GDNT management itself is strongly supportive of the program.

11.5. **Mining sector:** Government commitment to the implementation of a fully functional, transparent, and efficient mining cadastre is high. License fees generated from the cadastre’s operation will ensure that this important activity remains financially self-sustaining, politically independent, and publicly transparent.

11.6. In order to ensure that all activities supported by GAP are sustainable and are internalized within Government’s own processes, the task team will facilitate extensive discussions with key counterparts and technical staff during implementation of each component. If any component requires additional budgetary outlays, this shall be discussed with the agency head and financing source before component implementation, in order to ensure that there are adequate resources available post implementation.

12. **Critical risks and possible controversial aspects**

**Table 2: Project Risks**

<table>
<thead>
<tr>
<th><strong>Risks</strong></th>
<th><strong>Risk Mitigation Measures</strong></th>
<th><strong>Risk Rating &amp; Mitigation</strong></th>
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</thead>
<tbody>
<tr>
<td><strong>Overall Project Risk</strong></td>
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<tr>
<td>This governance project touches on a number of very sensitive areas. Several past governance projects have not produced major progress; or progress has been much slower than initially planned. This has been mostly due to: (i) lack of ownership by government; (ii) inadequate clarity on roles and responsibilities of implementing agencies; and (iii) lack of capacity assessment of implementing agencies. Experience of multi-sector governance projects suggests that the broad coverage of the project is both a strength (system-wide) and a risk (oversight, achieving thorough implementation).</td>
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<tr>
<td>- Ensure project components are discussed thoroughly with government. Most components have been requested by Government – see attachment 1a</td>
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<tr>
<td>- Most activities build on on-going successful work which has laid the foundations for each component to build upon.</td>
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<tr>
<td>- Provide clarity in roles and responsibilities of each implementing agency.</td>
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<tr>
<td>- Where implementation spans across more than one agency, ensure that the project coordination unit is staffed appropriately and adequately.</td>
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<td>- Ensure focused training and with managed expectations.</td>
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<tr>
<td>Substantial</td>
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<tr>
<td>Risks</td>
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<tr>
<td><strong>Critical risks for meeting PDO</strong></td>
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<tr>
<td>Shift in focus of Government on project implementation during the 2008 election period.</td>
<td>Detailed action plans and clear identification of responsibilities for each implementing agency and relationship to other actors v/s project implementation arrangements.</td>
<td>Moderate</td>
</tr>
<tr>
<td>Difficulty maintaining personnel once they are trained.</td>
<td>Ensure training is provided to teams rather than individuals, so that even if some people leave, some knowledge is retained. In addition, ensure adequate documentation of changes to key business processes brought about by training. This will help in maintaining continuity.</td>
<td>Substantial</td>
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<tr>
<td><strong>Critical risks for meeting Components’ results</strong></td>
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<tr>
<td>There are internal coordination problems within Government which may impede project implementation.</td>
<td>For certain components that require greater coordination, GAP envisages a working group that is tasked with working under the supervision of the project Steering Committee on component implementation. This working group will be held responsible for outcomes and outputs.</td>
<td>Moderate</td>
</tr>
<tr>
<td>Lack of coordination among donors may push the Government to implement conflicting reforms.</td>
<td>Conduct extensive discussions with donors on GAP components, at both the preparation and implementation stages.</td>
<td>Moderate</td>
</tr>
<tr>
<td>Low pay for civil servants may impede performance orientation, as well as adopting new methods of inspections of businesses.</td>
<td>Devise adequate bonus schemes to engender a service and compliance-focused culture.</td>
<td>Moderate</td>
</tr>
<tr>
<td>Greater disclosure may meet resistance because of stakeholders profiting from lack of disclosure and hence lack of accountability.</td>
<td>Ensure that disclosure remains at the center of outcomes that are expected from project implementation.</td>
<td>Moderate</td>
</tr>
<tr>
<td>Commitment to sector reform/implementation of mining cadastre is not sustained.</td>
<td>Ongoing sector policy dialogue will help keep Government focused on the importance of establishing the cadastre.</td>
<td>Moderate</td>
</tr>
<tr>
<td>Lack of capacity to implement and manage the cadastre.</td>
<td>Project will support specialized consultant services, simplified rules-based on locally supported computerized systems, and associated training for national staff.</td>
<td>Moderate</td>
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</tbody>
</table>
### Table 3: Component Risks

<table>
<thead>
<tr>
<th>Component/Sub-components</th>
<th>Strengths</th>
<th>Risk Rating Rationale</th>
<th>Measures Taken for Ensuring Successful Implementation</th>
</tr>
</thead>
</table>
| A.1. Strengthening Debt Management and public investment program | • Strong demand from MOF.  
• Existing capacity for debt management is good.  
• All functions for PIP planning are already in effect, but fragmented across departments. | • Risk Rating: Moderate  
• May require substantial change in the mandates of departments within the MOF, which may be difficult because of internal coordination problems within the Ministry. | • Work in close consultation with the State Secretary of Finance, and the Minister of Finance, and convince them of the need to mandate appropriate changes.  
Support the ministries with adequate training and capacity development on realigned mandates. |
| A.2. Decentralizing Financial Management | • GFMIS successfully operating for more than 1 year; commitment controls operational.  
• Push from MOF for roll-out of GFMIS to budget entities and large soums; pull from budget entities for GFMIS roll-in.  
• Govt. wishes to disclose more information on budget formulation and execution. | • Risk Rating: Moderate  
• Will require training to budget entities and soum staff, for effective use of the system. | • Adequate training and workshop resources built into sub-component costing.  
• Ensure training is imparted to a wider set of staff so skills are available at each point in time.  
• Pro-active documentation of business processes and system usage/configuration issues.  
• GFMIS implemented by previous Bank project – significant information exists. |
| A.3. Improving Human Resource Expenditure Management | • Govt. cognizant of the need for effective civil service census and wage bill modeling tool for implementing civil service reforms.  
• Govt. has already been implementing contracted- | • Risk Rating: Low  
• There may be delays in drafting the law and implementing regulations governing contracted-out workers, as different stakeholders may have different objectives.  
• It may be difficult to stop paying | • Ensure broad participation for greater consensus on the objectives of contracted out workers scheme. Make sure this consensus is reflected in the draft law and regulations  
• Before commencing activities, ensure CSC and the MOF have issued directives to ensure verification is successful. |
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<td></td>
<td>out worker scheme, and realizes the problems associated with the absence of a legal framework governing contracted-out workers.</td>
<td>salaries to staff who may not be verified at the time civil service census, thereby reducing the accuracy of the census.</td>
<td>• Implementing agencies need to be exposed to other governments that have successfully conducted a civil service census, and have implemented an effective legal framework governing contracted-out workers.</td>
</tr>
<tr>
<td>A.4. Accounting, Audit, and Quality Assurance System</td>
<td>• Govt. has already translated and published the international asset valuation standards but did not have resources for its implementation. • Full understanding of the need for auditor quality assurance system in order to ensure reliability of auditing profession.</td>
<td>• Risk Rating: Low • Fixed asset valuation is new to Mongolia and may need significant training resulting in delay in component implementation. • Quality assurance system may need greater collaboration between the Government and Mongolia Institute of Certified Public Accountants (MICPA).</td>
<td>• Ensure component scope is managed around deliverable implementation of asset valuation. • Extensive consultations of Bank team with Govt. and MICPA.</td>
</tr>
<tr>
<td>B.1. Improve the Anti-Corruption Framework.</td>
<td>• High on Government priority. • New Anti-Corruption Law being debated in Parliament. • High on civil society agenda. • High on opposition agenda. • High on the Millenium challenge Account (MCA) and donor agenda.</td>
<td>• Risk Rating: Substantial • Fragmented responsibilities may dilute implementation. • Very little appreciation in Mongolia of the problem of conflict of interest. • Strong lobby not to publicly disclose income and assets.</td>
<td>• Extensive consultations of Bank team with Government, members of parliament, donors, and civil society organizations in design of the component. • Provide flexible support in areas requested by Parliament. • Champions for change identified within the National Anti-Corruption Council will be key in development and dissemination of the framework on conflict of interest • Project implementation arrangements include a working group on fostering public accountability and monitoring that advises the PSC on component implementation issues. This working group shall be</td>
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## COMPONENT RISK ANALYSIS AND MITIGATION MEASURES

<table>
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| **B.2. Strengthening disclosure of EIAs.** | • Significant support from within MNE for the need to disseminate EIAs. | • Risk Rating: Moderate  
• Dissemination will need substantial mindset change; thus component implementation may be delayed. | • Provide adequate exposure to Ministry management on the benefits of dissemination. |
| **B.3. Capacity building for data transparency and data access.** | • NSO’s website exists as a tool for data dissemination.  
• LSMS exercise already conducted once, so local know-how is present. | • Risk Rating: High  
• NSO may not want to disclosure data, irrespective of technical assistance provided.  
• LSMS integration into the HIES may not be actively pursued by NSO, as financing from other donors to separately conduct LSMS may be reduced. | • Development of data dissemination guidelines as part of component design.  
• Active consultation with other donors to impress upon NSO, the need for comparative surveys on a sustainable basis. |
| **C.1. Strengthening Tax Administration** | • Key priority of the MOF and GDNT.  
• Substantial awareness by GDNT management of problems with tax administration and, tax administration reform supported by Director General’s Office.  
• GDNT has already put into effect many elements | • Risk Rating: Substantial  
• Risk of Delay: Project could be significantly delayed on several possible reasons. These are related to sequencing and dependencies, particularly in a low capacity environment like Mongolia, and include: (i) Delays in reform of tax policy and administration laws, or the need for additional legal changes to support reforms; (ii) mismatch in sequencing of implementation of IT and other key reform activities; and (iii) Needed IT | • Mitigating Delay Risk: The project (i) includes an activity to review and streamline legal framework and appeals process; (ii) will consider COTS software applications to minimize software delay risk. Corporate strategic plan will also define user and functional requirements in advance of IT; (iii) will use experienced turnkey vendor to minimize IT sequencing complexity for GDNT IT group; and (iv) implementation arrangements include a working group on tax administration reform, and long-term engagement of local IT consultants to bolster GDNT IT capacity. |

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8 Component implementation documents include, terms of references, selection of consultants, dissemination activities etc.
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<tr>
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<td></td>
<td>of a modern tax administration, e.g. one stop service centers. GDNT management keen to adopt a service delivery unit approach and pursue active dissemination of information.</td>
<td>development could be complex given IT capacity of GDNT. <strong>Change Management Risk:</strong> Project must manage and resource several key dimensions of change management well to achieve the necessary demonstration effect. These are: (i) lack of reform strategic plan; (ii) staff resistance to reform-induced changes, or incentive structure/regime for tax inspectors may not be changed; and low capacity to manage change and IT. <strong>Resource Risk:</strong> Project envelope may not be adequate for comprehensive reforms and lack of sufficient operational funds by GDNT – reforms will have HR and financial implications.</td>
<td><strong>Mitigating Change Management Risk:</strong> In this regard the project will include: (i) an activity to assist GDNT in preparing a corporate plan and in establishing a unit to manage its implementation via annual action plans; (ii) revision of compensation and incentive structures, address issues of IT staff training and retention, assist with any required legal environment changes necessary to enable needed incentive structure changes; (iii) strengthening anti-corruption and integrity systems in GDNT; (iv) IT staff and users training in key business process management and tools, trainers will be trained and training capabilities upgraded, too (via the WB and JICA projects). For IT skills, GDNT also retains the option to outsource the IT department functions more broadly than it currently does. <strong>Mitigating Resource Risk:</strong> In this regard the project will: (i) focus project in key departments first (large taxpayers unit (LTU) and one Ulan Baatar city district tax office) for effective demonstration effect. GDNT has committed to dedicate a group of senior experienced staff to manage reform implementation in units beyond just LTU; and (ii) Implementation of risk management framework should allow partial redeployment of staff and resources from unneeded field inspections to needed training, planning, and analysis functions.</td>
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<tr>
<td>C.2. Public Procurement Capacity Development</td>
<td>• Parliament promulgated revised Public Procurement Law that can potentially improve public procurement significantly. • Strong request from the</td>
<td>• Risk Rating: Low • Effective implementation of law entails sustained training for capacity building in government, academic institutions, and civil society organizations. • Staff turnover at the Procurement</td>
<td>• Component design focuses on broad capacity building within government (internal monitoring), civil society (external monitoring), and academic institutions (procurement training development). • Project will ensure training is provided to larger teams and on documentation of new processes and</td>
</tr>
<tr>
<td>Component/Sub-components</td>
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| C.3. Mining Registry and Cadastre System | MOF for assistance in this regard, followed up actively by the Director General for Procurement Policy and Coordination Department.  
• Govt. wishes to increase disclosure and transparency in public procurement. | Policy and Coordination can potentially delay project implementation significantly. | procedures. |
| | • Broad consensus on the need to improve the negative public perception and operations of the current mining registry and cadastre system that is necessary to support the implementation of the Minerals Law.  
• Perception of excessive rent-seeking in current system provides the impetus to implement a rules-based mining registry and cadastre information system.  
• Collection of application and license fees generates sufficient resources to ensure the independence of the cadastre and meet the operational cost of the new system | • Risk Rating: **Substantial**  
• New mining registry and cadastre system will require progressive business process change and management training.  
• Law of State Secrets may in the short-term inhibit full use of topographical overlays and full online functionality of the system.  
• Post implementation need to put in place effective maintenance infrastructure. | • Component design internalizes need for specialized training for staff, and exposure of senior management and policy makers on need for a new mining registry and cadastre system.  
• Component financing includes one local consultant who shall be selected by MRPAM, engaged by the project PCU, and be based at MRAM, for effective coordination of this component with the project steering committee.  
• Project implementation arrangements include a working group on the mining cadastre implementation. This group shall report progress on this component to the Steering Committee and shall be tasked with preparing component implementation documents. |
13. Grant conditions and covenants

Conditions for Board Presentation

- None

Effectiveness conditions:

- The Financial Management Manual completed and in a form acceptable to IDA.
- The Recipient will establish a Project Coordinating Unit acceptable to IDA.

Dated covenants:

- Submit project report quarterly and no later than 45 days after the end of each quarter.
- An independent audit firm appointed and acceptable to the Bank by December 31, 2006.
- Submit annual financial statement and audit reports within six months after the end of each financial year.
- Before January 31 of each year (starting January 31, 2008), send the Project Monitoring and Evaluation Report, covering progress in implementing the project and in achieving its development objectives.
- Submit an Implementation Completion Report at the end of the project and no later than six months after the closing date.

Other covenants:

- Maintain the PCU adequately staffed under terms of reference acceptable to IDA, with adequate facilities and reasonable operating costs during the life of the project.
- Maintain the Project Steering Committee throughout the duration of the project.

D. APPRAISAL SUMMARY

14. Economic and financial analyses

14.1. A quantitative and financial analysis is not justified or feasible for this technical assistance project. This is because it is difficult to value the long-term benefits on government of increased fostering public accountability and monitoring, improved fiduciary controls, and investment in institutional strengthening and capacity building, including in human capital. These investments are expected to improve the impact of government policies, public spending, and related activities; enhance productivity in the public sector; and promote private sector development. Consequently, the project interventions are likely to bring high economic and social returns and contribute to the Government’s socio-economic policy objectives. (see Annex 9)

15. Technical

15.1. The technical quality of sub-component proposals to be supported has received considerable attention. The technical design of the sub-components relating to improving debt management, improving tax administration, and decentralizing financial management, are based on analytical assessments, and international best practice, adjusted to suit Mongolia’s administrative structure. These assessments are held in project files.
16. **Fiduciary**

16.1. The Financial Management team has conducted an assessment of the adequacy of the financial management system of this project. The FM assessment, based on guidelines issued by the Financial Management Sector Board on November 3, 2005, has concluded that the project meets the Bank’s minimum financial management requirements, as stipulated in BP/OP 10.02. In the FM team’s opinion, the project will have in place an adequate financial management system that can provide, with reasonable certainty, accurate and timely information on the project status, in the reporting format required by the Bank.

16.2. The overall financial management risk of this project is moderate. The MOF has implemented a number of projects, including Fiscal TA and the current ECTAC. The project will be implemented by various executing agencies supported by the PCU; and guidance and oversight will be provided by the Project Steering Committee. A number of risk mitigation measures have been included in the project’s design in order to improve and strengthen MOF’s financial management and procurement practices, as described in annexes 7 and 8.

17. **Social**

17.1. There are no social issues or concerns emanating from the activities contemplated under GAP.

18. **Environmental**

18.1. The project will not generate direct environmental (or social) impacts and, as such, the project is categorized as ‘C’ for environmental assessment purposes.

19. **Safeguard policies**

<table>
<thead>
<tr>
<th>Safeguard Policies Triggered by the Project</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Assessment (OP/BP/GP 4.01)</td>
<td></td>
<td>[x]</td>
</tr>
<tr>
<td>Natural Habitats (OP/BP 4.04)</td>
<td></td>
<td>[x]</td>
</tr>
<tr>
<td>Pest Management (OP 4.09)</td>
<td></td>
<td>[x]</td>
</tr>
<tr>
<td>Cultural Property (OPN 11.03, being revised as OP 4.11)</td>
<td></td>
<td>[x]</td>
</tr>
<tr>
<td>Involuntary Resettlement (OP/BP 4.12)</td>
<td></td>
<td>[x]</td>
</tr>
<tr>
<td>Indigenous Peoples (OD 4.20, being revised as OP 4.10)</td>
<td></td>
<td>[x]</td>
</tr>
<tr>
<td>Forests (OP/BP 4.36)</td>
<td></td>
<td>[x]</td>
</tr>
<tr>
<td>Safety of Dams (OP/BP 4.37)</td>
<td></td>
<td>[x]</td>
</tr>
<tr>
<td>Projects in Disputed Areas (OP/BP/GP 7.60)*</td>
<td></td>
<td>[x]</td>
</tr>
<tr>
<td>Projects on International Waterways (OP/BP/GP 7.50)</td>
<td></td>
<td>[x]</td>
</tr>
</tbody>
</table>

* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties’ claims on the disputed areas.
20. **Policy Exceptions and Readiness**

20.1. Policy Exceptions: None

20.2. **Readiness**: The following actions took place to ensure readiness for implementation:

- Both procurement and financial management capacity have been assessed, and detailed action plans to strengthen the PCU were agreed upon with the Government and will be carried out prior to effectiveness.

- The institutional structure to lead and monitor the project is in place and the overall Project Steering Committee has already been established.

- Activities to be implemented in the early stages of implementation have been clearly identified, and preparation of relevant terms of reference for these activities are being coordinated by the PCU.

- The general procurement plan is on file and the detailed procurement plan for the first year of the project is being finalized.
Annex 1: Country and Sector or Program Background

MONGOLIA: Governance Assistance Project

Country Context

Mongolia has been implementing wide ranging public sector reforms over the last 15 years in order to transform its public sector from one focused on central planning to one that fosters service delivery and private sector development.

Some of the key reforms have been: (i) promulgating the Public Sector Management and Finance Law – an internally consistent law that sets up the rules and regulations for effective management of the public sector; (ii) implementing a government wide financial management information system to improve fiduciary controls for management of public finance; (iii) established a tax administration system that collected about 38 percent of GDP in revenues each year; (iv) improving the administrative framework for debt management and recording of debt numbers; (v) revised the government chart of accounts consistent with the International Public Sector Accounting Standards; (vi) adopted a medium term civil service reform strategy; and (vii) improving the legal and regulatory framework governing public procurement.

Significant progress has been made in each of the reform areas highlighted above, and the basics of a robust public sector management framework have been put in place. There have been observable successes in the government’s ability in eliminating arrears on goods and services, establishing aggregate fiscal discipline, funds availability to budget entities has improved, and internal control and reporting has significantly improved. However, in order to realize the full benefits of these reforms and engineer a complete transformation of the public sector, there is need to continue consolidate and deepen reforms towards further strengthening management of public finance, enhancing disclosure and transparency of the public sector, and improving the investment climate. Specifics of each are provided below.

MANAGEMENT OF PUBLIC FINANCE AND BUDGET EXECUTION

Debt Management and Public Investment Program:

The Government has recently undertaken significant steps towards improving debt management. Some of these steps have been: (i) establishment of a centralized debt management division under the Treasury Department of the Ministry of Finance in 2001; (ii) operationalizing a debt recording and management information system (DFMAS); and (iii) adopting a set of consistent regulations for improving debt management. These improvements have helped fully reconcile debt numbers and allow the Government to conduct periodic debt sustainability analysis. There is now need to move beyond data reconciliation and basic debt management, to strategic debt management that ensures debt sustainability and debt market development. At this time Mongolia does not have a debt management strategy, leading to adhoc debt contracting, thereby increasing risk of possible debt distress. The Government has requested the
World Bank for assistance capacity building of the debt management unit and for developing a debt management strategy.

The Government also remains cognizant to the need for improving the public investment plan in order to effectively manage and plan the capital budget. In 2002, with support from the Asian Development Bank, the Ministry of Finance has developed a comprehensive manual on how the medium term public investment plan should be formulated. But the Ministry of Finance has inadequate capacity to operationalize the manual and as requested the World Bank to assist in provision of technical assistance and capacity building measures for effectively implementing this manual.

**Decentralizing Financial Management:** The successful deployment of the Government Financial Management Information System (GFMIS) is a milestone in improving fiduciary controls in management of public finance. Successful deployment of GFMIS encompasses many other important changes to business processes instituted by the government. The current deployment is countrywide, with centralized cash execution at the Ministry of Finance – see Figure 1 in this annex. In the current arrangement, budget entities prepare requests for payments manually and physically bring the requests to the designated treasury departments (central and regional). Here these requests are entered into the payment system (GFMIS). This arrangement imposes significant transaction costs and uses up a lot of scarce human resources from budget entities as well as respective treasuries. In addition, because budget entities are not connected to GFMIS, their reporting formats differ significantly from the consolidated reports produced by GFMIS. This makes end-of-year preparation of consolidated reports a time consuming job for the Treasury, as many person-hours are spent in reconciling reports prepared by different budget entities with the consolidated statement held by the Treasury. It is preferable to roll-out GFMIS to large budget entities and districts (soums) so that they can enter information directly into the system, thereby relieving staff from manually performing this function. This will lead to savings in staff time – both at budget entity, as well as at the Treasury Department, improve financial management at the aggregate level, and allow the treasury department to focus more on effective cash management and financial supervision functions. Furthermore, there is need to standardize reporting forms for budget entities so that the task of preparing end-of-year financial statements is made easier.
Human Resource Expenditure Management: The Civil Service Reform Strategy (CSRS) passed by Parliament in 2004 envisages the contracting out of non-core services, decompression of the wage bill, and rebalancing of skill mix of staff from administrative functions to more technical ones. The Bank is already providing support towards implementation of this strategy under the ECTAC project and an IDF grant managed by the Civil Service Council. The Government has recently drafted an implementation plan for the CSRS. However, there are certain tools needed (that are not provided for under the ECTAC and the IDF grant) that will allow the government in achieving its objectives, as contained in the CSRS. Firstly, the government has never conducted a civil service census. This means it is difficult to really determine the demographics of civil servants, including checking if there are any ‘ghost workers’ in the system. Secondly, there is no law or regulations governing contracted out workers, even though the government has started contracting out non-core services. The lack of the law and regulations on contracted out workers means that there is lack of clarity on the status of contractees and their entitlements. Thirdly, the government does not have an effective wage bill modeling tool that would allow for impact analysis of different policy options on civil service reform. There is need to address all three issues in order to complement the on-going work under ECTAC for effective implementation of the CSRS.

Accounting, Auditing and Quality Assurance System: Mongolia has been mandated under the PSMFL to implement full accrual accounting and in this regard the Government has translated and published the International Asset Valuation Standards (IAVS) into Mongolian and organized training for some public
sector entities. However, there is no adequate capacity and technical resources to implement these standards and methodologies in order to properly value the Government’s tangible and intangible assets. Furthermore, there is no quality assurance system for overseeing the private audit firms. As such, deficiencies in audit practices are common. Such deficiencies are affecting the reputation of the audit firms as the audit reports that are issued are put in question. These audit firms are currently auditing projects on behalf of the Bank and other donors. Thus, it is imperative that we monitor their overall quality. The government wishes to implement a consistent methodology for valuation of assets, while the Mongolia Institute of Certified Public Accounts wishes to establish a quality assurance system for private sector audit firms.

FOSTERING PUBLIC ACCOUNTABILITY AND MONITORING:

Notwithstanding the reforms in the public sector, there is very limited disclosure of information in public sector management. Lack of disclosure of information makes it difficult for citizens to hold government accountable in the use of public resources, and gives rise to a perception of deliberate opaqueness, and thereby perceived corruption. The Government is cognizant of this perception and wishes to increase disclosure of information and also to actively pursue measures aimed at anti-corruption. The Governance Assistance Project will assist the Government in the following areas:

Anti-Corruption: The Parliament has recently ratified the UN Convention on Anti-Corruption and is currently debating a new Law on Anti-Corruption. Compliance with the UN convention and effective implementation of the new Law, as and when enacted, will ensure that perception as well as actual corruption is reduced. At this stage, it is not possible to determine what provision will be included in the Law, however, there will be need to assist Mongolia in formulating a conflict of interest framework and to improve the current framework of income and assets declaration for public officials. The concept of conflict of interest is new to Mongolia, as explained by the National Anti-Corruption Council members, and sometimes people enter into conflict of interest situations without knowing. Hence, there is need for a concrete framework on avoiding conflict of interest, along with its active dissemination. On the income and asset declarations of public officials, there is currently an on-going debate about whether such declarations, currently secret, should be made publicly available, and which entity shall perform this function. Irrespective of how this debate is settled, there is need to improve the current income and asset declaration system which is highly fragmented and does not allow for effective access even to internal government functionaries.

Environmental Impact Assessment Dissemination: While new laws and regulations allow for the public’s right to environmental information, in reality the right is severely constrained by bureaucratic hurdles and absence of venues to obtain such information. Aimag governments publish an annual environment report which can be purchased locally, and the Central Laboratory of MNE also publishes a monthly pamphlet of environmental statistics. However, neither is easily available to the public and non-technical people would find both difficult to understand and interpret. The State Professional Inspection Agency does not make public the results of their surveys, the names of confirmed polluters, or the amount of fines levied. Even where officials would like to share information, as is the case with the Public Health Institute in Ulaanbaatar, they lack the budget to widely distribute their findings. For Mongolia to craft and
nurture environmentally sustainable policy initiatives that can also benefit the poor, it needs engaged and informed constituencies that want to support such policies and can hold policy makers accountable for their performance in implementing such policies. Therefore, in order to engender greater accountability, which is needed for preserving the unique Mongolian environment, there is need to actively disseminate environmental impact assessments.

**Data Transparency and Access for Poverty Monitoring:** In 2002 the National Statistics Office conducted Mongolia’s first living standard measurement survey (LSMS), with support from donors. This exercise was done separately from the annual household income and expenditure survey (HIES). Conducting separate LSMS will not be financially sustainable for NSO, without donor support. However, it may be possible to embed the LSMS into the HIES so that the NSO’s budget is sufficient to conduct poverty monitoring adequately. However, to embed the LSMS into the HIES, technical assistance is required. Furthermore, there is no guideline on data access at NSO, this makes access of raw LSMS data difficult. There is need to develop a methodology on data disclosure and assist NSO in putting together processes that will allow for public access to the LSMS data on a sustainable basis.

**Dynamic Website for Disclosure:** Internet is seen as the most cost-effective primary instrument for information dissemination. Even in a low-income country such as Mongolia with relatively low internet penetration, targeting the internet as a primary disclosure instrument allows secondary disclosure channels such as NGOs with internet access to relay the information more broadly. The Ministry of Finance is committed to publish more information and is looking for ways to improve disclosure in public resources information, including budget, public debt and procurement. At the moment the Ministry of Finance has a static website that is not capable of effectively disseminating information or containing dynamic databases. In order to strengthen the tools for disclosure, there will be need to upgrade the static website into a dynamic portal.

**IMPROVING THE INVESTMENT CLIMATE**

**Tax Administration:** Low tax collection is not an issue in Mongolia. According to the IMF, the current revenue to GDP ratio is about 38 percent of GDP. However, tax administration is increasingly seen as a key impediment to private sector development. The main areas of concern are multiple tax inspections and audits, and arbitrary determination of administrative fines by tax inspectors. This outcome is due to some systemic problems with the tax administration regime, including: (i) the absence of an effective risk management framework for tax audits; (ii) inadequate checks and balances on tax inspectors; (iii) a benefit scheme that increases the powers vested with tax inspectors; and (iv) weaknesses in information technology and links between offsite-tax offices to the central offices. The heart of the issue is that there is simply too much contact between tax auditors and business taxpayers: out of about 26,000 registered economic entities, GDNT audits about 10,700 each year. This high level of contact, combined with the wide discretion enjoyed by inspectors, mars the investment climate and provides openings for rent-seeking. The Government is fully aware of these issues and wishes to conduct a comprehensive tax administration reform, including dissemination of greater data on performance of GDNT. The aim of government is to transform GDNT from a solely tax collection and enforcement agency, to a service delivery unit.
**Public Procurement:** At the end of 2005, the Parliament promulgated a Revised Public Procurement Law. The key elements of this revised law are: (i) decentralization of procurement to budget entities for resources appropriated to them, and to sector ministries for capital item procurements appropriated to them; (ii) significantly enhanced role of the Ministry of Finance’s Public Procurement and Coordination Department in procurement review of major transactions to ensure compliance with the new procurement law and regulations, as well as monitoring the overall performance of the national public procurement system; (iii) establishment of administrative review mechanisms of procurement complaints; and (iv) enhance disclosure for information on public procurement including business opportunities, contract awards and decisions of review of complaints, etc. The revised Law, if implemented effectively, will reduce the procurement lead times, and by increasing the transparency and accountability in procurement processes will improve efficiency of public procurement by 5-10 percent annually (In 2005, public procurement – state owned enterprises, state budget entities, and foreign financed projects – amounted to approximately USD 420 million). Effective implementation of the revised law requires: (i) significant capacity development at the Ministry of Finance Procurement Policy and Coordination Department; (ii) capacity development at the budget entity level for effective compliance with the national procurement law and regulations; (iii) development of a comprehensive framework for monitoring and evaluation of capital procurement; and (iv) improving public procurement market practice and devising effective public oversight.

**Mining Cadastre:** The current mining cadastre is largely manual and the process of issuing and managing mining rights is inefficient, time consuming and increasingly vulnerable to potential manipulation and rent-seeking. The evolution of the cadastral activity in Mongolia since the introduction of the new Minerals Law in 1997 is summarized in the table below.

<table>
<thead>
<tr>
<th>Year</th>
<th>1997</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
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</thead>
<tbody>
<tr>
<td>Exploration License Applications</td>
<td>292</td>
<td>461</td>
<td>774</td>
<td>1029</td>
<td>1293</td>
<td>1893</td>
<td>2192</td>
<td>3405</td>
<td>4099</td>
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<tr>
<td>Mining Licenses Applications</td>
<td>96</td>
<td>93</td>
<td>101</td>
<td>87</td>
<td>98</td>
<td>125</td>
<td>151</td>
<td>184</td>
<td>208</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>388</td>
<td>554</td>
<td>875</td>
<td>1116</td>
<td>1391</td>
<td>2018</td>
<td>2343</td>
<td>3589</td>
<td>4307</td>
</tr>
<tr>
<td>Exploration Licenses Issued</td>
<td>153</td>
<td>413</td>
<td>522</td>
<td>751</td>
<td>1048</td>
<td>1160</td>
<td>1274</td>
<td>2132</td>
<td>1768</td>
</tr>
<tr>
<td>Mining Licenses Issued</td>
<td>60</td>
<td>104</td>
<td>91</td>
<td>86</td>
<td>104</td>
<td>123</td>
<td>159</td>
<td>193</td>
<td>201</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>213</td>
<td>517</td>
<td>613</td>
<td>837</td>
<td>1152</td>
<td>1283</td>
<td>1433</td>
<td>2325</td>
<td>1969</td>
</tr>
<tr>
<td>Exploration Licenses Renewed</td>
<td>6</td>
<td>19</td>
<td>27</td>
<td>86</td>
<td>82</td>
<td>161</td>
<td>243</td>
<td>366</td>
<td>526</td>
</tr>
<tr>
<td>Mining Licenses Renewed</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>6</td>
<td>19</td>
<td>27</td>
<td>86</td>
<td>82</td>
<td>161</td>
<td>243</td>
<td>366</td>
<td>526</td>
</tr>
<tr>
<td>Expired exploration. Licenses</td>
<td>-</td>
<td>93</td>
<td>515</td>
<td>362</td>
<td>432</td>
<td>626</td>
<td>660</td>
<td>926</td>
<td>1193</td>
</tr>
<tr>
<td>Expired Mining Licenses</td>
<td>-</td>
<td>25</td>
<td>78</td>
<td>41</td>
<td>38</td>
<td>58</td>
<td>43</td>
<td>64</td>
<td>114</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>-</td>
<td>118</td>
<td>593</td>
<td>403</td>
<td>470</td>
<td>684</td>
<td>703</td>
<td>990</td>
<td>1307</td>
</tr>
</tbody>
</table>

The number of new applications indicates a significant surge in activity in more recent time leading to an increase in pressure on the cadastre, a raising backlog, less transparency and greater potential for corruption. On a more positive note it may be noted that all pending applications (1000 in total) are

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9 Based on Estimates of Authorities
relatively recent (less than 1 year) and consequently substantial backlogs or complicated situations are not anticipated for the transition period from the current situation to the new automated mining cadastre.

A survey of investors\(^{10}\) indicates that mining companies generally view Mongolia as a favorable location for mining investment. Most of those surveyed had a high regard for Mongolia’s mineral potential and felt that the government was responsive and reasonably investor friendly. Investors found the mining and exploration licensing system in Mongolia reasonably effective, however, they expressed concerns about the stability of the system and the lack of transparency within the Cadastre Office. Of particular importance to provide a sense of security for potential investors is the stabilization of the legal, fiscal, and institutional arrangements prevailing at the time of the investment, including the establishment of a transparent, professionally-managed system for the granting of mineral rights. They emphasized that reducing the discretionary power of government, increasing transparency, and improving security to potential investors will help to attract and sustain foreign investments into the mining sector. This is in line with the government’s commitment to increase transparency in mining sector governance, as more recently evidenced by the Government’s public endorsement of the Extractive Industries Transparency Initiative (EITI).

This component will address this by assisting the government in deploying a rules-based automated web enabled mining registry and online cadastral system, international familiarization study tours and training its technical staff at the OGM office staff at MRPAM. The project will finance the design, equipping and establishment of a modern computerized mining cadastre. The cadastre will provide reliable information about the precise location of mining and exploration rights in the territory, protected areas and special needs areas. The cadastral procedures will be transparent, public, of general application, non-discretionary; will limit ministerial discretion in the allocation of rights and respect the priority of the important “first come first serve” principle enshrined in the current Minerals Law of 1997; and will help monitor and enforce social, safety and environmental obligations of license holders.

In addition to this component, the government, in an effort to improve transparency and revenue management, committed to joining the Extractive Industries Transparency Initiative (EITI) at a conference organized by the Bank on EITI in Ulaanbaatar in December 2006. Almost a hundred stakeholders from Government, Parliament, local and international mining and supply companies, local civil society groups, and the media attended where the Prime Minister indicated the Government’s keen interest in moving quickly to implement EITI. This was subsequently confirmed by the exchange of letters between the Government and the Bank and the UK Government’s DFID EITI Secretariat. In January 2006 a government order was issued establishing a National EITI Council charged with implementing EITI. EITI is an international initiative, signed up to by 22 of the world’s 53 most ‘resource-rich’ countries, that outlines a set of specific criteria to help countries to better identify, manage and disclose the windfall resources flowing from oil, gas and mining. EITI provides practical measures to help demonstrate an on going commitment to transparency, better revenue management and ensure Mongolia’s mineral wealth is used for the benefit of its citizens. This will be achieved by formally disclosing on a regular basis all material payments made by mining companies to government and all revenue receipts received by all levels of government from the mining sector and having these reconciled, audited and published on a regular basis. It also sends an important signal to investors that Mongolia is

\(^{10}\) Mongolia Mining Sector – Managing the Future, Husband CA et al, 2004, World Bank Washington DC
committed to maintaining a sound business climate. The Bank, DFID and other donors will provide support and technical assistance to an EITI Secretariat within government to implement the initiative, and to NGOs to build capacity to monitor the process and encourage greater transparency and governance within the sector.
Annex 1a: Request from Government for Assistance

MONGOLIA: Governance Assistance Project

To: Mr. Jemal Ud-Din Kassum
Vice President EAP
Regional Office
World Bank

Date: 14-04-2006
Ref: /\0211

Dear Mr. Kassum,

Subject: Request for Grant

It is my pleasure to inform you that the Government Financial Management Information System (GFMIS) has been operational since January 03, 2005 and this system is being used to keep track of the national finances, enhancing transparency and strengthening fiscal discipline. The GFMIS project is the largest component of the Economic Capacity Technical Assistance Credit (ECTAC) Project assisting the Government of Mongolia in the design and implementation of the public sector management reform program.

Over the last years of the ECTAC implementation we found that the TA needs were not foreseen at the time of the ECTAC design. These additional technical assistance needs are important for the success of the project for the following reasons.

1. Additional training needs for the GFMIS operations: Although GFMIS has been operational since beginning of year 2005; its operations are not sufficiently stable due to limited IT capacity of the MOF staff to effectively manage the system and the functional training needs. It has required substantial technical assistance on the FreeBalance application and Oracle database management, and other tools developed locally. In addition, as the Government is deciding on regional restructuring issues, there will be need to incorporate intergovernmental fiscal issues to make the regional restructuring successful including GFMIS redeployment;

2. TA needs to assist the Government Service Council with formulating laws and devise regulations for contracted out workers. At the moment there is little clarity on the legal status of contracted workers;

3. There is a need to conduct an efficiency review of the General Department for National Taxation. We need to obtain more data concerning the imposition and collection of the individual taxes and its consistency with the level of economic activity. This review should also provide a proposal to improve tax collection from individuals;

4. As part of the new Government Action Plan, the coverage of the procurement reform is being broadened. The resources provided in ECTAC are not sufficient to cover the procurement reform needs; and

5. Additional technical assistance required for the Government Service Council in conducting effective civil service census, as they prepare to implement the ECTAC funded HRMIS.
Annex 1a: Request from Government for Assistance
MONGOLIA: Governance Assistance Project

As you can see the above mentioned aspects are very important for meeting the objectives of the ECTAC project.

Therefore by this letter on the behalf of the Government I kindly request a grant from the World Bank to finance the additional technical assistance needs.

We would like to express our sincere thanks to the World Bank for their continued support to the Government's efforts to formulate an effective public sector management reform.

Thank you for your cooperation.

Sincerely yours,

N. Altankhuyag
Minister for Finance

cc: Mr. David Dollar, World Bank Country Director
    Mr. Salha Meyanathan, World Bank Country Manager
### Annex 2: Major Related Projects Financed by the Bank and/or other Agencies

**MONGOLIA: Governance Assistance Project**

<table>
<thead>
<tr>
<th>AREA</th>
<th>COMPLETED ACTIVITIES</th>
<th>ONGOING ACTIVITIES</th>
<th>PLANNED ACTIVITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management of Public Finances</td>
<td>- Establishment of a Government Financial Management Information System (GFMIS) – Fiscal TA (ICR rating &quot;S&quot;).&lt;br&gt;- Establishment of a debt division at MoF and implemented a debt recording system – Fiscal TA.&lt;br&gt;- Adoption of the Medium Term Budget Framework (MTBF) – ADB Loan.&lt;br&gt;- Promulgation of the Public Sector Management and Finance Law 2003 – ABD Loan. Establishment of the Treasury Single Account and consolidation of financial management – Fiscal TA project.&lt;br&gt;- Technical Assistance on Social Expenditures – IMF Technical Assistance Mission.</td>
<td>- Implementation of commitment accounting and improving management reporting within GFMIS – ECTAC (PSR rating &quot;S&quot;)&lt;br&gt;- Training of debt division staff on sovereign debt management – ECTAC.&lt;br&gt;- Strengthening the MTBF, the fiscal policy statement and development of medium term budget policy framework in pilot ministries ECTAC.&lt;br&gt;- Review of budget entities generating own revenues – policy options for improving current framework; development of a budget forecasting module for GFMIS – ECTAC.&lt;br&gt;- Assisting the Government in implementing performance budgeting – ADB Loan.&lt;br&gt;- Improving Aid Effectiveness – UN project at the Aid Coordination Department MoF.</td>
<td>- Roll-out GFMIS to 72 budget entities and 15 Soums, publication of budget execution reports, and information on funds allocated and released to schools and hospitals – GAP.&lt;br&gt;- Formulation of the national public debt strategy and training on effective debt management – GAP.&lt;br&gt;- Preparation of a medium term Public Investment Program in context of the MTBF – GAP.</td>
</tr>
<tr>
<td>Anti-Money Laundering</td>
<td>- IMF, World Bank and US Treasury technical assistance on drafting the Anti-Money Laundering Law.</td>
<td></td>
<td>- Once the law is approved, ADB Technical assistance on anti-money laundering.</td>
</tr>
<tr>
<td>AREA</td>
<td>COMPLETED ACTIVITIES</td>
<td>ONGOING ACTIVITIES</td>
<td>PLANNED ACTIVITIES</td>
</tr>
<tr>
<td>-----------------------------------------------</td>
<td>--------------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Governance of the Central Bank</td>
<td>• IMF technical assistance for establishing the BoM supervisory board and PRGF framework.</td>
<td>• IMF discussions with authorities on strengthening the supervisory board.</td>
<td>• IMF core mandate – this area is left to the IMF to engage with the authorities.</td>
</tr>
</tbody>
</table>
| Public Procurement, and Audit & Accounting    | • Amendments to the Procurement Law 2000 – leading to promulgation of the Revised Procurement Law; and establishment of a procurement website – IDF Grant on Procurement Reform (GRM rating “S”).  
• Adoption of accounting standards consistent with International Public Sector Accounting Standards; publication of implementation guidelines; and training – IDF on Strengthening Accounting Capacity (GRM rating “S”).  
• PSMFL mandates government to move to full accrual accounting – ADB Loan.  
• Assistance to the National audit board (GTZ), Component of ADB loan and TA. | • Development of standard bidding documents for procurement of textbooks and pharmaceuticals; preparatory work for establishment of independent panel of experts – ECTAC.  
• Developing capacity to perform systems audit in context of the GFMIS – IDF Strengthening Audit Capacity.  
• Adoption of regulations and methodologies for phasing in full accrual accounting in pilot agencies – ADB Loan.  
• Establishment of the Accountant General’s Department at MoF – ADB Loan. | • Comprehensive support towards implementation of revised Law on Public Procurement, including development of a procurement monitoring framework – GAP.  
• Develop a quality assurance system for private audit firms – GAP.  
• Assist with implementation of methodology for valuation of fixed assets – GAP. |
<p>| Civil Service Reform                          | • Formulating the Civil Service Reform Strategy (CSRS) – ADB Loan.                    | • Formulating an implementation plan for the CSRS – IDF for the Civil Service Council (GRM Rating “S”); developing a government wide severance and compensation policy, piloting efficiency reviews in MoF, MoE, and MSWL, deployment of a Human Resource Management Information System – ECTAC. | • Developing a wage bill modeling tool; conducting a civil service census; and formulating a Law and regulations governing contracted out workers – GAP. |</p>
<table>
<thead>
<tr>
<th>AREA</th>
<th>COMPLETED ACTIVITIES</th>
<th>ONGOING ACTIVITIES</th>
<th>PLANNED ACTIVITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Administration Reform</td>
<td>- Implementation of VAT – Fiscal TA and IMF TA.</td>
<td>- Training to tax inspectors for improving tax administration – JICA TA grant.</td>
<td>- Tax administration reform aimed at GDNT Large Taxpayers Unit aimed at improving the investment climate – GAP.</td>
</tr>
<tr>
<td></td>
<td>- Technical Assistance towards improving customs administration – ADB TA Grant.</td>
<td>- Technical Assistance to improve the legal regulatory environment and enhance sector management – AAA Budget.</td>
<td>- Customs Administration Reform Loan, including adoption of single window – Proposed by ADB.</td>
</tr>
<tr>
<td></td>
<td>- Tax policy advise and CGE modeling – USAID.</td>
<td>- Support an EITI secretariat within government and the measures needed to effectively implement EITI; build capacity within civil society groups to monitor the process; improve revenue management; and disseminate – Multi Donor Trust Fund for the global implementation of EITI, managed by the Bank.</td>
<td>- Implementation of a modern fully computerized, rules based mining cadastre and registry system that provides efficient, transparent and fair access to mineral rights; limits ministerial discretion and preserves the principle of “First Come First Served” inherent in the ML; and enhance the management and regulation of the sector – mining component of the GAP project.</td>
</tr>
<tr>
<td>Governance in Land Titling and Transparency in the Extractive Industries.</td>
<td>- Support implementation of the 1997 Minerals Law (ML) and Cadastre Diagnostics - Bank Budget.</td>
<td>- Independent Global Extractive Industries Review (EIR) initiated and funded by the Bank.</td>
<td>- Implementation of a new land titling and registry system – GTZ.</td>
</tr>
<tr>
<td>AREA</td>
<td>COMPLETED ACTIVITIES</td>
<td>ONGOING ACTIVITIES</td>
<td>PLANNED ACTIVITIES</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>--------------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Transparency and Accountability</td>
<td>• Ratification of UN Convention on Anti-Corruption (UNCAC).</td>
<td>• Technical Assistance towards improving the draft law on Anti Corruption – GAP preparation.</td>
<td>• Improving framework for disclosure of incomes and assets by public officials and developing a conflict of interest framework – GAP.</td>
</tr>
<tr>
<td></td>
<td>• Support to NSO on conducting the LSMS – Trust Funds (BNPP, IDF’s) World Bank.</td>
<td>• Developing the demand side of accountability – USAID support.</td>
<td>• Public dissemination of Environmental Impact Assessments - GAP</td>
</tr>
<tr>
<td></td>
<td>• UN support to NSO for improving capacity for poverty monitoring.</td>
<td>• Pilot project to support national poverty and MDGs monitoring and assessment system – UN.</td>
<td>• Assistance on bringing Mongolian laws in compliance with the UN-CAC – UN proposed.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Dissemination of poverty data and embedding the LSMS into the HEIS, and capacity building for NSO in poverty monitoring – GAP.</td>
</tr>
<tr>
<td>Investment Climate</td>
<td>• Investment Climate Assessment, World Bank, 2006.</td>
<td>• TA to Customs Department, ADB – assist with cross-border harmonization trade issues</td>
<td>• Potential support to customs for IT modernization, risk management framework, and improved connectivity – ADB.</td>
</tr>
<tr>
<td></td>
<td>• Private Sector Assessment-ADB TA.</td>
<td>• TA to GDNT to enhance training and HR for tax inspectors and augment training capacity – JICA.</td>
<td>• Targeted TA to GDNT to pilot and model a move from policing to service culture in selected MTA units. Aim to improve tax compliance performance, reduce rent-seeking, and raise business confidence – GAP.</td>
</tr>
<tr>
<td></td>
<td>• World Economic Forum Growth Competitiveness Index, USAID-EPRC, 2005.</td>
<td>• TA to Parliament and GDNT on tax policy reforms – USAID EPRC project.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Private Sector Assessment, ADB 2004.</td>
<td></td>
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</tr>
</tbody>
</table>

NOTE: Highlighted text shows other donor interventions.
Annex 3: Results Framework and Monitoring
MONGOLIA: Governance Assistance Project

Results Framework

<table>
<thead>
<tr>
<th>Project Development Objective</th>
<th>Project Outcome indicators</th>
<th>Use of Project Outcome information</th>
</tr>
</thead>
</table>
| (i) to improve the efficiency and effectiveness of governance processes in the management of public finances, (ii) promote transparency and accountability in the performance of public sector functions, and (iii) foster the investment climate in Mongolia. | o Evidence of improved efficiency and effectiveness of management of public finance framework.  
                                          o Evidence of improved public accountability and monitoring framework.  
                                          o Reduced cost of compliance for businesses taxpayers (among pilot group) | The purpose is to measure aggregate improvement in management of public finance, disclosure initiatives and investment climate. |

Results Indicators for Each Component

<table>
<thead>
<tr>
<th>Component A: Management of public finance</th>
<th>Use of Results Monitoring</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public debt strategy adopted.</td>
<td>To clarify debt management objectives and help clearly define the fiscal space and sustainability of public debt.</td>
</tr>
<tr>
<td>Medium term public investment program formulated.</td>
<td></td>
</tr>
<tr>
<td>Government Financial Management Information System (GFMIS) rolled out to additional budget entities and soums.</td>
<td>To allow large budget entities and sample of soums to have real time information and better control over their budget.</td>
</tr>
<tr>
<td>Promulgation of a Law and regulations governing contracted out workers.</td>
<td>Provide Government with a legal framework to better implement contracted out worker scheme.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Component B: Fostering public accountability and monitoring</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Effective conflict of interest system complying with UN Convention against Corruption adopted.</td>
<td>To ensure more efficient and accountable and citizen-service oriented actions by public servants.</td>
</tr>
<tr>
<td>LSMS Survey embedded into the annual Household Income and Expenditure Survey exercise.</td>
<td>Ensure sustainability and comparability of poverty data over time</td>
</tr>
<tr>
<td>Raw LSMS data made available</td>
<td>Ensure public availability of raw data from the LSMS.</td>
</tr>
<tr>
<td>A dynamic website at MOF to promote disclosure is established.</td>
<td>To ensure easy public accessibility of relevant information on the use of public resources.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Project Development Objective</th>
<th>Project Outcome indicators</th>
<th>Use of Project Outcome information</th>
</tr>
</thead>
<tbody>
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<td>(i) to improve the efficiency and effectiveness of governance processes in the management of public finances, (ii) promote transparency and accountability in the performance of public sector functions, and (iii) foster the investment climate in Mongolia.</td>
<td>Evidence of improved efficiency and effectiveness of management of public finance framework. Evidence of improved public accountability and monitoring framework. Reduced cost of compliance for businesses taxpayers (among pilot group)</td>
<td>The purpose is to measure aggregate improvement in management of public finance, disclosure initiatives and investment climate.</td>
</tr>
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<td>Project Development Objective</td>
<td>Project Outcome indicators</td>
<td>Use of Project Outcome information</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>----------------------------</td>
<td>------------------------------------</td>
</tr>
<tr>
<td><strong>Component C</strong>&lt;br&gt;Investment Climate</td>
<td>Reduced proportion of audits of business taxpayers (among pilot group). Improved access to key information on General Department for National Taxation (GDNT) policies, rulings requirements, performance metrics, and taxpayers' rights. Reduced proportion of tax audits performed among target groups. Use of open competition in public procurement. Efficient, timely, and independent operation of the Mining Registry and Cadastre system.</td>
<td>Roll out reforms to rest of GDNT beyond pilot group Enhance transparency and effectiveness in the use of public resources.</td>
</tr>
<tr>
<td><strong>Component D: Project Coordination and Evaluation</strong></td>
<td>Evidence of the timely and satisfactory implementation of project components as planned.</td>
<td>Progress reports will indicate the degree of project coordination and the success in achieving project development objectives.</td>
</tr>
</tbody>
</table>
### Arrangements for results monitoring

<table>
<thead>
<tr>
<th>Intermediate Results Indicators</th>
<th>Baseline</th>
<th>YR1</th>
<th>YR2</th>
<th>YR3</th>
<th>YR4</th>
<th>YR5</th>
<th>Frequency and Reports</th>
<th>Data Collection and Reporting</th>
<th>Responsibility for Data Collection</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Component A:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Medium term Public investment Program available</td>
<td>List of investment projects included in the MTBF</td>
<td>Formulation work commences</td>
<td>Formulated</td>
<td>Formulated</td>
<td>Formulated</td>
<td>Formulated</td>
<td>Annual</td>
<td>MOF Website</td>
<td>MOF/DMD</td>
</tr>
<tr>
<td>(ii) Debt management strategy available</td>
<td>Not available</td>
<td>Revised</td>
<td>Revised</td>
<td>Revised</td>
<td>Revised</td>
<td>Revised</td>
<td>Annual</td>
<td>MOF Website</td>
<td>MOF/DMD</td>
</tr>
<tr>
<td>(iii) GFMS rolled out to budget entities and soums.</td>
<td>21 Aimags and 0 soum connected (Jan 2006)</td>
<td>0</td>
<td>&gt;10</td>
<td>&gt;20</td>
<td>&gt;15</td>
<td>&gt;5</td>
<td>Annual</td>
<td>Progress reports, physical verification Progress reports</td>
<td>MOF/PCU</td>
</tr>
<tr>
<td>(iv) PEFA: PI-10: access to key fiscal information.</td>
<td>Mongolia Indicator value at D</td>
<td>D</td>
<td>C</td>
<td>B</td>
<td></td>
<td></td>
<td>Every 2 years</td>
<td></td>
<td>MOF/PCU</td>
</tr>
<tr>
<td><strong>Component B:</strong></td>
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<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Formulation of conflict of interests framework</td>
<td>Basic code of conduct</td>
<td>Developed</td>
<td>National campaign/implement</td>
<td>Implement</td>
<td>Implement</td>
<td>Implement</td>
<td>Annual</td>
<td>AC council website</td>
<td>National Anti Corruption Council MOF</td>
</tr>
<tr>
<td>(ii) Dynamic MOF website with updated informational content</td>
<td>Static MOF website without much info</td>
<td>MOF website operational</td>
<td>Relevant information available</td>
<td>Relevant information available</td>
<td>Relevant information available</td>
<td></td>
<td>Bi-annual</td>
<td>MOF website</td>
<td>MOF</td>
</tr>
<tr>
<td>(iii) LSMS raw data readily available</td>
<td>Data are accessible in theory but access in difficult in practice and not advertised</td>
<td>2002 LSMS data available</td>
<td>2007 LSMS data available</td>
<td>Following each LSMS survey</td>
<td></td>
<td></td>
<td>NSO website</td>
<td></td>
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</tr>
<tr>
<td><strong>Component C:</strong></td>
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</tr>
<tr>
<td>(i) Reduced proportion of audits of business taxpayers (among pilot group).</td>
<td>Currently, GDNT audits all taxpayers on a 2-3 year cycle, leading to about 10,700 annual audits from a pool of 26,400 taxpayers (or 41%). GAP will target pool of large and medium</td>
<td>No change – develop baseline data</td>
<td>No change – implement risk management framework</td>
<td>no change</td>
<td>&gt;15% reduction</td>
<td>&gt;25% reduction</td>
<td>Annual reports</td>
<td>GDNT systems</td>
<td>GDNT</td>
</tr>
<tr>
<td>Intermediate Results Indicators</td>
<td>YR1</td>
<td>YR2</td>
<td>YR3</td>
<td>YR4</td>
<td>YR5</td>
<td></td>
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</tr>
<tr>
<td>(i) Improved and expanded disclosure of key GNDT data, policies.</td>
<td>taxpayers first for reduction in audit proportion.</td>
<td>Develop</td>
<td>Publish and Disseminate</td>
<td>Publish and Disseminate</td>
<td>Publish and Disseminate</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>(ii) FR/PI: Publication of biennial performance assessment, report.</td>
<td>GNDT publishes taxpayer assistance information about the program.</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>(iii) MOF/PPCD: New procurement system is in place.</td>
<td>N/A: Baseline to be collected at the end of the first year.</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>(iv) Days to process new licenses</td>
<td>60 days</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
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<tr>
<td>(v) Ability to monitor and report on key indicators</td>
<td>Monthly reporting (e.g. license fee revenues)</td>
<td>-</td>
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<td>-</td>
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<tr>
<td>(vi) Collection of application fees</td>
<td>-</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Data Collection and Reporting</th>
<th>Frequency and Reports</th>
<th>Responsibility for Data Collection Instruments</th>
<th>(a) GNDT published annual performance assessment in 2007 published in 2008 on website.</th>
<th>(b) GNDT performance assessment published annually and updated on website.</th>
<th>(c) GNDT in consultation with stakeholders</th>
</tr>
</thead>
<tbody>
<tr>
<td>(g) GNDT (h) GNDT (i) GNDT</td>
<td>(a) GNDT (b) GNDT (c) GNDT (d) GNDT</td>
<td>-</td>
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<tr>
<td>(j) GNDT (k) GNDT (l) GNDT</td>
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<tr>
<td>(m) GNDT (n) GNDT</td>
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<tr>
<td>(o) GNDT</td>
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<td>(p) GNDT</td>
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<tr>
<td>(q) GNDT</td>
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</table>

<table>
<thead>
<tr>
<th>MOF/PPCD</th>
<th>Procurement Management Information Systems to be established.</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Score A</td>
<td>Score B</td>
<td>Score C</td>
<td>Score D</td>
<td>Score E</td>
<td>Score F</td>
</tr>
<tr>
<td>(&gt;75%)</td>
<td>(50%-75%)</td>
<td>(&lt;50%)</td>
<td>0-18</td>
<td>18-70</td>
<td>(&gt;70%)</td>
</tr>
</tbody>
</table>

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<td>(a) GNDT (b) GNDT (c) GNDT (d) GNDT</td>
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<tr>
<td>(j) GNDT (k) GNDT (l) GNDT</td>
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<tr>
<td>(m) GNDT (n) GNDT</td>
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<tr>
<td>(o) GNDT</td>
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<tr>
<td>(p) GNDT</td>
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<tr>
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<td>0-18</td>
<td>18-70</td>
<td>(&gt;70%)</td>
</tr>
</tbody>
</table>
Annex 4: Detailed Project Description

MONGOLIA: Governance Assistance Project

**Principles of Project Design:** In designing GAP, the following principles were applied: the project should support the Government Action Plan and, more specifically, interventions anchored within agency level Action Plans; it should fit within the Bank’s priorities for Mongolia, as set out in the Country Assistance Strategy; it should cover areas where the Bank can add real value; it should produce measurable results; it should fit within the MOF’s implementation capacity and within the available IDA country/sector allocation; finally, it should strike a balance between activities that implement decisions and those that provide analysis necessary for budget support operations and activities that reinforce the MOF’s institutional capacity.

**Table 4: Project Components and Sub-Components**

<table>
<thead>
<tr>
<th>Component</th>
<th>Sub-Component</th>
</tr>
</thead>
</table>
A2. Decentralizing Financial Management  
A3. Improving Human Resource Expenditure Management  
A4. Accounting, Auditing and Quality Assurance  
B1. Improve Anti-Corruption Framework  
B2. Strengthening public disclosure of EIAs and other environmental information  
B3. CB for data transparency and data access for poverty monitoring  
B4. Upgrading the MOF website to a dynamic portal |
| B: Fostering public accountability and monitoring |  |
| C: Investment Climate | C1. Strengthening Tax Administration  
C2. Public Procurement Capacity Development  
C3. Mining registry and cadastre system |
| D: Project coordination & evaluation | D1: Project coordination & evaluation |

**COMPONENT A: MANAGEMENT OF PUBLIC FINANCE**

Component Objective: To strengthen fiduciary controls and ensure adequate and relevant disclosure of information for decision makers and the public at large.

**Sub-Component A1 - Strengthening Debt Management and Sustainability**

[Leads: Director of Debt Management Unit at the Treasury Department for Debt Management for Strengthening Debt Management work; Director for the Loans and Aid Department and Director of Sector Coordination]

Sub-Component Objectives: Sound public debt management, supported by sound fiscal policies, will reduce the vulnerability of the government’s budget to financial shocks, and potentially lead to substantial fiscal savings. Improved capacity to perform Debt Sustainability Analysis (DSA) and public investment
planning will help clearly define the fiscal space, and provide important input to the medium-term planning.

The Debt Management Division (DMD) was created in 2000, initially with a focus on debt recording, and the Directorate has achieved a great deal since its formation. While a relatively small directorate, the DMD has managed to build substantial capacity by careful staff recruitment, training, and planning of rotation of staff. Now is an opportune time to clarify the functions of the DMD as well as the links between fiscal policy, public expenditure management and public debt management.

With respect to strengthening debt management, the project will work with the debt management unit within the Ministry of Finance’s Treasury Department to design and clarify the strategy, the legal framework and mandates for debt management versus debt sustainability and fiscal policy, support greater disclosure and information availability to the public by making regular reports available, build and consolidate internal capacity for effective debt management including risk management and debt sustainability analysis and a review of the on-lent portfolio.

With regards to formulation of the public investment plan, the project will assist the Loans and Aid Department and the Sectoral Policy Coordination Department (SPCD) in updating and effectively operationalizing the manual on Public Investment Plan prepared by the SPCD with assistance from ADB in 2002. This will help improve planning and formulation of the PIP. This will include assistance to the Government in conducting a review of the core mandates of the two concerned departments in order to determine possible de-fragmentation of departmental responsibilities for better coordination of the PIP. This component will also develop a framework for effective dissemination of the public investment program. These activities will create synergies between GAP and the on-going UN project on improving aid effectiveness being implemented by the Aid Coordination Department of the Ministry of Finance.

GOVERNANCE
Activity A1.1: Debt Management Objectives and Legal Framework: Review the legal framework for debt management, with an objective of strengthening enforcement and clarifying roles, objectives and process for public debt management. [Input: technical assistance]

Activity A1.2: Institutional Responsibilities: Review the allocation of responsibilities for debt management within the MoF. Establish formal procedures for performing regular DSA’s, clearly outlining the deliverables and responsibilities of the involved parties. These tasks will be best undertaken within an overall review of the structure of the MoF. [Input: technical assistance].

Activity A1.3: Reporting and External Audit. Make available to the public reports on public debt. A first step could be to prepare brief monthly reports for internal consumption (related to activity B.4). [Input: technical assistance, training and workshops].

DEBT STRATEGY AND RISK MANAGEMENT
Activity A1.4: Strategic Framework. Review and adjust the draft “debt management strategy” to clarify the scope and tasks for debt management. The main tasks for debt management are normally focused on
the cost-risk trade-off. Risk Analysis. Develop a standardized method to facilitate comparison of total costs under different borrowing alternatives. Introduce basic scenario analysis to facilitate cost-risk evaluations. [Input: technical assistance, trainings & workshops and training abroad].

Activity A1.5.: On-lending Portfolio. Review the outstanding on-lending portfolio to clarify which loans are non-performing, and to estimate a realistic expected recovery rate. It could be considered to standardize the terms for on-lending. [Input: technical assistance].

Activity A1.6.: Government Debt Market Development. Review debt market development issues, with the purpose of developing an action plan for government debt market development. It is important that any activity in this area is closely coordinated with the BoM. [Input: technical assistance].

CAPACITY AND MANAGEMENT OF INTERNAL OPERATIONS
Activity A1.7: Internal Organization and Staff Capacity. Review the adequacy of the number of staff in the DMD, based on the development of this capacity and reform program. Develop training programs for individual staff members of the DMD. The precise format and content of training plans will depend on how DMD’s role evolves. [Input: training & workshops].

Activity A1.8: Processes and Procedures. Develop a Code of Conduct for staff involved in debt management. [Input: technical assistance, training & workshops].

Activity A1.9: Debt Sustainability Analysis: Train MoF staff in charge of DSA and provide software [Input: technical assistance, trainings/workshop, goods].

Activity A1.10: Information Technology Systems Upgrade from DMFAS version 5.2 to DMFAS versions 5.3 and 6.0 (when available). Link the GFMIS with DMFAS. Migrate the Grant recording system to DMFAS. [Input: technical assistance, training & workshops, goods].

PUBLIC INVESTMENT PLAN
Activity A1.11: Review and update the manual on public investment plan. [Input: technical assistance].


Sub-Component A2 - Decentralizing Financial Management
[Lead: Director for Treasury Department, Ministry of Finance]

Sub-Component Objectives: In order to resolve the problems associated with lack of on-line connectivity of budget entities and soums to GFMIS, this component envisages to roll-out GFMIS to 72 large budget entities and 15 soums. These budget entities and soums account for about 56 percent of total expenditures. In addition to resolving problems faced by budget entities due to no on-line connectivity, roll-out of GFMIS will also save staff time at the Treasury departments to focus more on effective cash
management. Furthermore, this component will also assist the Government in enhancing disclosure of budget execution information.

As shown in Annex 1, financial management in Mongolia is highly centralized at the Treasury office, resulting in significant transactions cost by budget entities as well as central treasury in budget execution. This component will roll-out the Government Financial Management Information System to 72 budget entities and 15 soums over the next 4 years. In tandem with the GFMIS roll-out training will be provided to the treasury department in improving best practice cash management practices and in developing budget reports that will inform senior management, as well as be disclosed to public in a timely and sustainable manner on the MoF website.

Activity A2.1: Roll-out of GFMIS to 72 budget entities and 15 Soums and develop standard reporting forms for budget entities for improving financial consolidation exercise. [Input: goods, technical assistance, training, and workshops].

Activity A2.2: Improving cash management [Input: training and workshops].

Activity A3.3: Disclosure of six monthly budget execution reports and publication of funds allocated and disbursed to schools and hospitals on the MoF website. [Input: technical assistance].

Sub-Component Objectives: To develop tools that would allow the government to verify the number of people on the payroll, develop the ability to conduct policy impact analysis of different reform policies, and putting together a framework for contracting out certain non-core services.

In implementing its Civil Service Reform Strategy, the Government wishes to physically verify each person on its payroll – by cadre and demographics. Further, there is a need to develop a model for conducting policy simulation of alternate wage bill reform policies, and to put in place an effective framework governing contracted out workers.

Activity A3.1: Development of a wage bill modeling tool. [Inputs: technical assistance, training & workshops].

Activity A3.2: Preparation of Law and Regulations governing contracted out workers. [Inputs: technical assistance, training & workshops].

Activity A3.3: Formulate a methodology for conducting effective civil service census. [Inputs: technical assistance, training & workshops and training abroad].
Sub-Component A4 – Accounting, Auditing and Quality Assurance System
[Leads: Director General for Department for Accounting Policy and Methodology Ministry of Finance, and Chairman of the Mongolian Institute of Certified Public Accountants (MICPA)]

Sub-Component Objectives: Assist the Government in development and implementation of methodologies on asset valuation and establishment of a system for quality assurance of private audit firms.

The work on implementing methodologies on asset valuation will include development of valuation methodologies for tangible and intangible assets; formulation of draft law on asset valuation; design of asset valuator’s certification program and exam structure; and implementation of those asset valuations in the public sector and its reflection to the government financial statements. The activity on establishing a quality assurance system will establish an Audit Quality Control Committee within the structure of MICPA and responsible for all matters regarding audit quality assurance. In order to enhance its capacity, guideline/manuals on audit quality assurance will be developed and implemented.

Activity A4.1: Effective implementation of methodologies on asset valuation. [Inputs: technical assistance, training, and workshops]

Activity A4.2: Establishing the audit quality assurance system. [Inputs: technical assistance, training, and workshops].

COMPONENT B: FOSTERING PUBLIC ACCOUNTABILITY AND MONITORING

Component Objective: To enhance transparency and disclosure in the public sector for engendering accountability.

Sub-Component B1 – Improving the Anti-Corruption Framework
[Lead: Director of Legal Policy, Ministry of Justice and Home Affairs]

Sub-Component Objectives: Strengthen the framework for conflict of interest prevention and resolution, including support of an effective income and asset declaration by public officials system.

The government, parliament members, and civil society are placing a high priority on addressing corruption – perceived and real. The three areas that unanimously rank as key areas for addressing the rising perception of corruption are: (i) full compliance of Mongolian law with the countries obligations under UNCAC; (ii) developing a comprehensive framework for preventing conflict of interest; and (iii) improving the current fragmented system of income and assets declaration by public officials. The capacity within government and parliament to address these three issues is limited. The concept of conflict of interest is at best nescient in Mongolia, and the awareness of what constitutes a good system of income and assets declaration is inadequate. The government and parliamentarians have requested the Bank to: (i) assist with bringing Mongolian law into compliance with its obligations under UNCAC; (ii)
technical assistance for developing a comprehensive framework for preventing conflict of interest in the public sector; and (iii) improve the current system of income and assets declaration by public officials.

Activity B1.1: Assist the Government in bringing Mongolian laws in compliance with UNCAC. [Inputs: workshops, technical assistance]

Activity B1.2: Develop and implement a framework for conflict of interest prevention and resolution, including strengthening the asset and income declaration system. [Inputs: technical assistance, goods, workshops, and study tours].

Activity B1.3: Raise awareness of corruption and anti-corruption framework including conflict of interest for public officials among public officials, parliamentarians, civil society. [Inputs: training, workshops and study tours].

Sub-Component B2 - Strengthening Public Disclosure of Environmental Impact Assessments and Other Environmental Information
[Lead: Director of Policy, Ministry of Nature and Environment]

Sub-Component Objectives: Improve public information disclosure by establishing mechanisms for public disclosure of environment and natural resources management information. Information and data to be disclosed include routine measurements of the most relevant parameters for air, water pollution and solid waste management, forest and land degradation, monitoring and enforcement of the implementation of laws and regulations, donors' contributions etc. The component will help develop an integrated public disclosure program for the environment and natural resources management sectors including relevant ministries, government agencies (i.e. State Specialized Inspection Agency), NGOs, academia, and professional associations, and set up a system for routine placement of basic EIA information (e.g. approval requests; non-compliance sanctions; final EIA documents etc) in newspapers and on radio, and in universities, municipal libraries; public information centers, chambers of commerce, and relevant websites (e.g. MNE; State Inspection Agency; OSF etc). Further, the component will also establish review mechanisms to assess the effectiveness of the public information disclosure program.

The work will endeavor to strengthen public awareness by designing and implementing a public awareness campaign to improve the general understanding of EIA procedures, the role of the Ministry of Nature and Environment and other relevant government agencies for the management of environment and natural resources, and the promotion of fostering public accountability and monitoring. Further, work will take place on improving MNE overall outreach capacity at national and local levels (with particular attention to recently approved and/or amended laws, regulations, and performance standards).

Activity B2.1: Improve public information disclosure of environmental impact assessments and other environment and natural resources management information. [Input: technical assistance]

Activity B2.2: Strengthening public awareness about environmental impact assessments [Inputs: technical assistance, national workshops & training, disclosure through TV spots and newspapers].

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**Sub-Component B3 - Capacity building for data transparency and data access for poverty monitoring:**

[Lead: Chairman of National Statistics Office]

Sub-component objectives: Assist the National Statistics Office (NSO) in making the LSMS an annual and sustainable exercise by combining the LSMS into the HIES. In addition, put in place mechanisms that will ensure public availability of the raw data from the LSMS.

This component aims to assist the National Statistics Office (NSO) with technical assistance to merge the HIES with the LSMS, over the next two years. This will ensure that the LSMS exercise becomes embedded into the HIES and thus financially sustainable. Further, the project will assist the NGO in publicly disclosing/selling (subject to disclosure guidelines to be prepared with support from GAP) raw poverty survey data to the public.

Activity B3.1: Embedding the LSMS into the HIES. [Inputs: technical assistance, workshops, training, goods].

Activity B3.2: Disclosure of raw LSMS data [inputs: technical assistance and goods]

**Sub-component B.4. – Upgrading the MOF website to a dynamic portal**

[Lead: Head of IT Division, MOF]

Sub-component objectives: Assist MOF in upgrading its website and put in place mechanisms to ensure easy accessibility of relevant information on the use of public resources.

Internet is seen as the most cost-effective and sustainable primary instrument for information dissemination. Even in low-income countries with relatively low internet penetration, targeting the internet as a primary disclosure instrument allows secondary disclosure channels such as NGOs with internet access to relay the information more broadly. The Ministry of Finance is committed to publish more information and is looking for ways to improve disclosure in public resources information, including budget, public debt and procurement. This component will assist in upgrading the already existing but static version of the MOF website to a dynamic portal which will allow relevant information (based on a need assessment undertaken during the project preparation) to be uploaded and regularly updated. The State Secretary for Finance has already designated in focal staff responsible for updating the informational content of each department made available on the website.

Activity B4.1: MOF needs assessment for designing a website which fulfills the requirement for disclosure. [Inputs: technical assistance].

Activity B4.2: Deployment [inputs: technical assistance, goods].

Activity B4.3: Capacity building for website management and update [inputs: training & workshops].

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COMPONENT C: INVESTMENT CLIMATE

Component Objective: Improve the investment climate and public-private interactions.

Sub-Component C1 - Strengthening Tax Administration
(Lead: Director of General of the General Department for National Taxation)

Sub-Component Objective: Implement demonstration reforms in a subset of GDNT units that will pilot approaches that can be implemented across the agency over time and in future projects. The main objectives of the Tax Administration Component are to: (i) ensure the effectiveness and efficiency of the collection of taxes due; (ii) improve the investment climate by moving GDNT operation away from a policing culture to voluntary compliance based on a balance of effective auditing and good taxpayer service, and reduce the compliance burden and cost to taxpayers; and (iii) improve fair treatment, transparency, and integrity of tax administration.

The project will undertake a staged reform of GDNT’s tax administration practices. GAP is designed to be the first effort in a broader multi-year program of reforms with GDNT. This initial phase will emphasize piloting a range of activities in a subset of GDNT offices in order to provide a demonstration effect of the intended changes to the larger organization, and also to account for the relatively low level of capacity in Mongolia and restrictions on the resource envelope for the project. GAP plans to begin reform efforts in the relatively self-contained Large Taxpayer Office, and in one Ulan Bataar city district tax office.

As described above, about 15 activities (in four broad categories of actions) will be rolled out to a limited number of GDNT offices first to pilot and create a flagship example to the rest of the organization, and then progressively introduced to additional units and offices as part of an activity subsequent to the GAP project.

INSTITUTIONAL DEVELOPMENT

Activity C1.1.1: Review and strengthen organizational design of GDNT. This activity aims to ensure effective implementation of specialized functions and cross-functional cooperation at all levels of GDNT to facilitate organizational efficiency and effectiveness in tax administration, including accountability, integrity, monitoring, and internal control. The review covers all the aspects of the organizational design (functional alignments and cross-functional cooperation; core and non-core activities at each level of the organizational structure). The specific outputs include Organizational Map, Functional Map, Work-load Simulation; Premises Plan.

Activity C1.1.2: Integrity and good governance. Review GDNT’s organizational structure to ensure its support of effective internal audit. Develop methods for assessment of tax staff integrity and fair treatment of taxpayers based on standardized and transparent performance indicators. Review and implement Code of Ethics and provide training for new employees as a part of the career development and performance evaluation program.
Activity C1.1.3: Management training, including training in accountability, internal control, language. This activity is designed to analyze management training needs for GDNT, including management training, accountability training, and internal control system training. Study tour for senior managers.

Activity C1.1.4: Develop the GDNT corporate strategic plan and operational plan of GDNT. The scope is to prepare and annually improve GDNT corporate strategic and operational plans to guide overall direction of GDNT and provide context for reform plans, IT plans, etc. This should include a plan for staging the introduction of workflow, HR, risk management, and other reforms through the agency. Expected output: Corporate Plan established and translated into annual operational plan.

Activity C1.1.5: Strengthen HR policy and strategy development. Review and develop transparent policies and planning for recruitment, selection, hiring, promotion, career development and termination. Output: established job/skills profile; responsibilities/roles of each position type.

Prepare workforce strategic planning framework and methodology, including development of career paths for staff of GDNT. Develop remunerations, and performance incentives policies within current and anticipated pay reform environment. The reform measures include the review of existing manuals related to HR personnel, policy, and regulations, and development of new incentive schemes linked to standardized performance measurements (review and establish a standard staff performance indicators). Output: Staff performance indicators, Staffing Plan and Other Resource Plan, Incentive Implementation Plan, Change Management Plan.

Activity C1.1.6: Strengthen training capacity. Review and determine needs for strengthening training capacity of the GDNT with focal attention to Training and Analysis Center and its training branches in Aimag centers. Analyze needs and requirements for distance learning or e-learning. Train trainers to enable them to train pilot office staff in change management issues: new HR policies, new workflows, new audit targeting, new outreach functions, etc.

Activity C1.1.7: Strengthen capacity of the State Budget Revenue and Inspection Unit (Large Taxpayer Unit). Review and clarify the division’s objectives and core business functions, organizational structure, position descriptions and responsibilities of the Division. Identify appropriate level of staff requirements, skills set required, and office equipment. Provide specialized training (including industry—e.g., mining—audit training, tax issue — e.g. double taxation — training, and language training) for the LTU staff. Acquire necessary equipment and facilities for their effective operation, including ability to provide outreach in both paper and electronic formats.

Activity C1.1.8: Supporting legal framework. Review and rationalize the current legal systems to ensure an enabling legal framework for tax administration, including a transparent, effective administrative and judicial appeals system, and simplified processes for registration and administration of SMEs. Delineate necessary legal changes to support the corporate strategic plan and assist with proposing them to MoF and Parliament.
TAX OPERATIONAL PROCESS REENGINEERING

Activity C1.2.1: Establish a Business Development Unit at GDNT to coordinate business process reengineering. Establish business development unit and staff, lead GDNT side in developing corporate strategic plan, working with consultants and lead GDNT in implementing plan.

Activity C1.2.2: Improve workflow processes and specific operational processes with special attention to introduction and implementation of a functioning risk management system.

- Registration (including measures to detect and control non-registration and non-filers).
- Filing and payment processes.
  - Review office processing and collection processes as part of overall implementation of an effective self-assessment system.
- Risk based Auditing
  - Develop risk management framework, including development of audit selection criteria and methods, procedures, information gathering for large taxpayers and for other groups of taxpayers.
  - Review and strengthen audit strategy and annual audit plan.
  - Audit training including training of auditors and audit techniques.
  - Develop data needed for risk management analysis.
- Enforcement
  - Analyze effectiveness and appropriateness of legal enforcement powers.
  - Analyze effectiveness of administration in using its enforcement powers, including cooperation with enforcement forces.
  - Review arrears management and develop a strategy and policies for prioritization of collection and implement plan.
  - Training in enforcement (e.g. investigation techniques).
- Change Management
  - Train staff in pilot units on new processes, systems, incentives, roles, and workflows.
  - Provide public relations campaign and outreach to taxpayers in pilot jurisdictions.
  - Train management and trainers to enable them to roll out changes across GDNT in later phases.

Activity C1.2.3: Taxpayer Service, and Outreach and Participation

- Review current practice in taxpayer service, including the functions and implementation of piloted one-stop service centers, and develop alternative channels to improve taxpayer service and consultation with private sector.
- Training staff working in taxpayer service in tax procedures, communication skills, and their accountability.
- Develop mechanisms for transparency and accountability for staff working in taxpayer service.
- Develop and implement taxpayers charter of rights and obligations.
- Establish an advisory unit that includes taxpayer stakeholders from major categories of businesses and affected aimag government authorities.
- Staff and public perception survey. Through Project Coordination Unit: Conduct annual staff and public perception survey on GDNT strengths and weaknesses and provide baseline data on client satisfaction and cost of doing business.
• The annual public perception survey aims to measure stakeholder feedback to the operation of GDNT. It would cover such areas as tax compliance procedures and cost to business taxpayers; quality of taxpayer service; transparency and corrupt behavior of tax officials. A special outreach/public relations unit within GDNT could be established to handle the monitoring and analysis of surveys.

Activity C1.2.4: Transparency and Disclosure. Develop key indicators, processes, information, and other elements to be published and disseminated broadly to public.

• Review existing published materials on paper and on website.
• Select key performance metrics from HR review.
• Determine overall GDNT performance metrics to publish.
• Identify rulings, policies, laws, appeals processes, and other aspects of GDNT practice to publish.
• Create taxpayer rights statement and publish.
• Review website ease of use and translate to English.
• Publish to website and in paper materials.

Activity C1.2.5: Pilot New Platforms and Reforms. This activity will be focused on introducing the new platforms, policies, and changes – especially the risk management approach – in two offices: 1 Ulaanbaatar city district tax office, and the large taxpayer unit.

• Introduce new risk management framework, new HR/incentive systems, new performance metrics, new workflows, and new tax processes in target offices.
• Revise staffing and balance of positions in each office to reflect new processes and requirements.
• Provide training, change management campaign and training, and support to affected staff.
• Produce intensive taxpayer outreach, education, and training program for business taxpayers on new processes and taxpayer rights vis-à-vis newly re-engineered tax administration.

IT STRENGTHENING AND DEVELOPMENT TO SUPPORT INSTITUTIONAL DEVELOPMENT AND PROCESS RE-ENGINEERING

This subcomponent includes support to setup an IT platform at GDNT headquarters that can handle the initial stage of tax modernization process. Also includes support to develop the necessary skills in the technical personnel to prepare them to manage the new technology, to support the implementation of new business processes coming from the business processes reengineering. Subcomponent would install systems that would support all of GDNT once new processes are introduced across the agency, and support initial introduction of reforms in Large Taxpayer Office and one Ulan Baatar district tax office.

Activity C1.3.1: Strengthen GDNT’s IT organization in preparation for reforms, review existing IT systems, and develop an IT strategy and action plan Objectives: To prepare the IT personnel in strategic planning, hardware, software, services procurement , BPM (Business Process Management ) and IT security. Preparation of overall IT strategic plan that reflects overall corporate strategic plan. Understand existing systems in place and their limitations. Scope: will include techniques to analyze hardware and software tendencies, methodologies to select the appropriate tools for GDNT environment, determination of total cost of ownership for the selected products, alignment of the technological platform with tax administration strategic objectives. Will also cover evaluation of security needs and related
implementation cost. BPM (Business Process Management) first level of training. Output: IT Strategic Technology Plan, TCO (total cost of ownership) for new software platform and security system. BPM tool selection and training program for users. Data base of business processes creation, current large tax payers processes flowcharts loaded in data base.

Activity C1.3.2: Prepare and implement a technology procurement and implementation plan. Acquisition of software base, hardware and communications equipment to implement the new IT platform. Platform would support all of GDNT, hardware would be targeted to support HQ IT unit and target sub-unit for reforms. Implementation of systems control disciplines: capacity and performance management. Objectives: Set up the basic IT platform defined in Activity 1 to implement the new IT support strategy, relieve actual workload of current IT platform, improve service levels and monitor capacity and performance in total IT operation. Scope: Acquire the software, hardware and communications equipment for the platform defined in Activity C1.3.1. Output: All platform components installed and operative. Systems management disciplines for capacity and performance management in place.

Activity C1.3.3: Improve IT Unit Processes and Systems. Define and implement a new application software development process and maintenance practice in line with new products. Implement systems management disciplines Change and Problem management. Define Quality Assurance program. Evaluate outsourcing alternatives. Technical training in selected software development products. Objectives: Establish a modern software development process able to fulfill user requirements on a timely basis. Develop outsourcing market for new software programming. Establish a Quality Assurance program. To have a high level IT software development team in house. Scope: The new application development software process must include procedures for in house development, outsource and software acquisition. It must also include a strong quality assurance process to guarantee software quality delivery to users no matter which source: in house or third party. Output: A software application development process is defined and documented, and must include: user procedures and responsibilities manuals, user manuals to guide interaction with IT, internal audit requirements to validate any software development or acquisition, handling of software changes and problems through Change and Problem management disciplines. Quality assurance detailed process and responsibilities assignment for each participating area: users, software development, production, internal audit.

Activity C1.3.4: Data Warehouse and Risk Management Framework. Develop business requirements, data architecture, and data sources for implementation of the data warehouse; acquire the necessary software platform and train data warehouse administrators. Data warehouse will support all of GDNT operations. Objectives: To implement a data warehouse solution that facilitates delivery of information to internal users. Make users independent from IT department to publish the information they need for their jobs by training them in the use of user-oriented tools. Scope: Define data sources, evaluate their quality, and implement validation systems and procedures as needed. Identify information cycles to load the DW. Install user-oriented tools, train the users in DW usage and modeling techniques. Output: Data warehouse creation road map, users identified and training program defined for user oriented tools and data warehouse modeling. Information flows and information load cycles, IT professionals trained in data warehouse administration.
Activity C1.3.5: Back up and contingency plan design and implementation. Objectives: Guarantee services and information availability for Tax administration internal and external users in case of different catastrophe scenarios. Back up plans for all GDNT IT services. Scope: To put in place the necessary infrastructure and professional resources to develop a back up and operations continuity plan. Output: A contingency and business continuity plan (tested).

Activity C1.3.6: Support for pilot project of business process reengineering, and implement customized Management Information Systems (MIS) to support new business processes. Objectives: systems installed, tested, and operational in the two pilot sub-unit(s) of GDNT, including HR systems, business process systems, data warehouse systems, risk management targeting data profiles, linkages between pilot unit and HQ, etc. Scope: all new systems to support re-engineered of tax processes and implementation of risk management framework, applied in pilot sub-unit. Output: successful implementation in target sub-unit with tested results and necessary changes made.

DISCLOSURE AND TRANSPARENCY
Strengthen disclosure and publication of (a) taxpayer rights, including rights of appeal; (b) GDNT performance metrics, for example, tax collection, number of audits performed by agency per year, compliance rates, client survey data, etc. (c) GDNT rulings and outcomes of administrative court decisions on GDNT cases, and (d) introduction of web-based translation of key materials and information in English to assist foreign investors

Sub-Component C2 – Public Procurement Capacity Development
[Lead: Director for Public Procurement and Coordination Department, Ministry of Finance]

Sub-Component Objectives: This sub-component will provide comprehensive assistance to Government on effective implementation of the revised Law on Public Procurement. Assistance in this regard will focus on reducing the lead time in public procurement, increasing transparency and accountability in public procurement, and enhancing disclosure of information pertaining to public procurement by conducting the following activities:

Activity C2.1: Capacity development at the Procurement Policy and Coordination Department (PPCD) of the MOF: [Inputs: technical assistance, workshops, training, and goods].

Activity C2.2: Sustainable long-term procurement development program: [Inputs: goods, technical assistance, study tour, workshops, and training].

Activity C2.3: Improving evaluation and monitoring functions of the national procurement system: [Inputs: technical assistance, training, workshops, study tour].

Activity C2.4: Establishing procurement complaint review and auditing mechanisms [Inputs: technical assistance, training, and workshops].
Sub-Component C3 - Mining registry and cadastre system

[Lead: Chairman of the Mineral Resources and Petroleum Authority of Mongolia]

Sub-Component Objective: Strengthen the property rights and security of tenure within the mining sector; enhance transparency and government’s regulatory capacity through improved efficiency, information availability and management.

This component will assist the government in deploying a rules-based automated web enabled mining registry and online cadastral system, international familiarization study tours and training its technical staff at the OGMC office staff at MRPAM. The project will finance the design, equipping and establishment of a modern computerized mining cadastre. The cadastre will provide reliable information about the precise location of mining and exploration rights in the territory, protected areas and special needs areas. The cadastral procedures will be transparent, public, of general application, non-discretionary; will limit ministerial discretion in the allocation of rights and respect the priority of the important “first come first serve” principle enshrined in the current Minerals Law of 1997; and will help monitor and enforce social, safety and environmental obligations of license holders.

C3.1 - Technical supervision, regulatory review and definition of cadastral rules and procedures

Activity C3.1.1: Expert technical consultancy to undertake and/or supervise the preparatory activities under this sub component, review and revise the TOR for and assist in the procurement, evaluation and supervision of consulting services for the design, supply, and installation of a modernized world class mining registry and cadastre provided under C3.2 below. [Input: technical assistance].

Activity C3.1.2: An update of the mining cadastre diagnostic study of the existing manual system undertaken in 1997-1998, and synthesis of all geodesic work being undertaken in Mongolia to avoid duplication. Ensure technical systems consistency and compatible and encourage inter ministerial/agency cooperation. [Inputs: technical assistance, workshop and training].

Activity C3.1.3: A review of the licensing rules inherent in the mining and environmental regulatory framework, formulate changes to improve the licensing regulations and accommodate the new computer based mining registry and cadastre and conduct a workshop of the relevant government agencies to consider, agree and implement recommended changes. [Inputs: technical assistance, workshop].

Activity C3.1.4: A detailed definition of the functions and specifications of the working procedures and operating rules of the new mining cadastre consistent with Minerals Law of Mongolia and the revised regulatory framework, and conduct a workshop of the relevant government agencies to consider and agree on the rules and procedures for the new cadastre. [Inputs: technical assistance, training & workshop].

Activity C3.1.5: GPS field verification of representative points of the geodetic network and transformation to the national geodetic coordinate system. [Inputs: technical assistance].
C3.2 - Design, equipping and establishment of an automated mining registry and cadastre system and training of OGMC professional staff

This sub-component will provide turn-key consultancy to design a customized web-enabled rules-based mining registry and cadastre system that incorporates international best practice and which is consistent with the 'first come first served' principal inherent in the Minerals Law of 1997.

Activity C3.2.1: Validation, field verification and correction of existing licenses, protected areas and special needs areas. [Input: technical assistance]

Activity C3.2.2: Design the mining registry and cadastre system, which provides for a modern web-enabled computerized system for the administration of mining titles, including the supply of all hardware, locally supported database management system, standard geographic/GIS software, and computerization of the working procedures of the mining cadastre by local consultants. [Inputs: goods, technical assistance].

Activity C3.2.3: Scanning and digitization of necessary topographical maps, protected and special needs areas, new settlements and basic infrastructure for incorporation as a GIS over-lay in the cadastral map of mineral licenses. [Inputs: goods, technical assistance].

Activity C3.2.4: Specification and procurement of required hardware and software to run the new mining registry and cadastre with connectivity to the walk-in centre and internet and provision for future connection to the Aimag centers. [Input: Goods].

Activity C3.2.5: Capacity Building of mining OGMC staff in technical and legal aspects of the administration of the mining titles and the operation of the mining cadastre system. [Inputs: workshops, training].

Activity C3.2.6: Provision of GIS software and training to Aimag centers to access the central mining registry and cadastre if and when the telecoms and internet connection is reliably established with the Aimag centers and Ulaanbaatar under the ADB supported National Geodetic Survey and Land Registration project. [Inputs: goods, workshops and training].

Activity C3.2.7: Rehabilitation and equipping of the Cadastre Office, and public walk-in and service centre. [Inputs: Goods].

C3.3 - International Training and Study tours for policy makers and cadastre staff

Activity C3.3.1: Facilitate and supervise international study tours to modern and fully functioning cadastres in successful resource rich countries in South America and/or Africa by a selective group of policy makers and technical specialists. [Inputs: training abroad].
C3.4 – Public dissemination.

Activity C3.4.1: Broadly based public dissemination through various media of the purpose, scope and impact of modernized mineral licensing and management system. [Inputs: goods, technical assistance, incremental operating costs].

**COMPONENT D: PROJECT COORDINATION & EVALUATION**

Component Objective: To provide timely and effective support to all project entities in the day to day management and implementation of project components.

Day to day management of the project will be ensured by the project coordinating unit (PCU) which consists of adequate technical staff and is headed by a manager who reports to the Project Director. The PCU is currently implementing the World Bank ECTAC project and its performance has been satisfactory and it was able to effectively close the Fiscal TA project. The technical capacity of the PCU will be further strengthened, in particular in the areas of procurement and monitoring & evaluation.

- **Activity D1:** Project Management [Inputs: technical assistance, goods, incremental operational costs]
- **Activity D2:** Capacity building of PCU and MOF staff. [Inputs: training, workshops]
- **Activity D3:** Compliance with fiduciary requirements [Inputs: technical assistance]
- **Activity D4:** Monitoring and Evaluation. [Inputs: technical assistance, incremental operational costs]
- **Activity D5:** Surveys for GDNT. [Input: technical assistance].
## Annex 5: Project Costs

**MONGOLIA: Governance Assistance Project**

<table>
<thead>
<tr>
<th>Project Cost By Component and/or Activity</th>
<th>Local US $million(*)</th>
<th>Foreign US $million</th>
<th>Total US $million</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Management of public finance</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A1. Strengthening Debt Management and Public Investment Program</td>
<td>1.16</td>
<td>2.43</td>
<td>3.59</td>
</tr>
<tr>
<td>A2. Decentralizing Financial Management</td>
<td>0.49</td>
<td>0.49</td>
<td>0.97</td>
</tr>
<tr>
<td>A3. Improving Human Resource Management Expenditure</td>
<td>0.22</td>
<td>1.28</td>
<td>1.50</td>
</tr>
<tr>
<td>A4. Accounting, Auditing &amp; Quality Assurance</td>
<td>0.20</td>
<td>0.48</td>
<td>0.67</td>
</tr>
<tr>
<td><strong>Fostering public accountability and monitoring</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B1. Improving the Anti-Corruption Framework</td>
<td>0.06</td>
<td>0.40</td>
<td>0.46</td>
</tr>
<tr>
<td>B2. Strengthening Public Disclosure of EIA and other environmental information</td>
<td>0.18</td>
<td>0.19</td>
<td>0.37</td>
</tr>
<tr>
<td>B3. CB for data transparency and data access for poverty monitoring</td>
<td>0.13</td>
<td>0.45</td>
<td>0.58</td>
</tr>
<tr>
<td>B4. Upgrading MOF website to a dynamic Portal</td>
<td>0.06</td>
<td>0.06</td>
<td>0.11</td>
</tr>
<tr>
<td><strong>Investment Climate</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C1. Strengthening Tax Administration</td>
<td>2.43</td>
<td>5.08</td>
<td>7.51</td>
</tr>
<tr>
<td>C2. Public Procurement Capacity Development</td>
<td>0.64</td>
<td>3.60</td>
<td>4.25</td>
</tr>
<tr>
<td>C3. Mining cadastre and Registry System</td>
<td>1.24</td>
<td>0.27</td>
<td>1.51</td>
</tr>
<tr>
<td><strong>Project coordination &amp; evaluation</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Baseline Cost</td>
<td>5.93</td>
<td>7.47</td>
<td>13.40</td>
</tr>
<tr>
<td>Contingencies</td>
<td>0.27</td>
<td>0.32</td>
<td>0.60</td>
</tr>
<tr>
<td><strong>Total Project Costs</strong></td>
<td><strong>5.00</strong></td>
<td><strong>8.99</strong></td>
<td><strong>14.00</strong></td>
</tr>
<tr>
<td><strong>Total Financing Required</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IDA allocation</td>
<td>14.00</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1 The identified tax amount under the Project is approximately USD437,000. The Government has confirmed that IDA grant will finance taxes as well. Under the country financing parameters (dated February 13, 2006) IDA Grant can finance 100% of the total project costs.

2 Figures rounded, totals may not add up exactly.
Annex 6: Implementation Arrangements

MONGOLIA: Governance Assistance Project

**Overall Project Management.** MOF will be the principal executing agency of the project. The PCU will be in charge of the overall project management and in this capacity will elaborate and monitor procurement plans and produce relevant management reports in collaboration with the relevant executing agencies. The heads of the respective executing agencies will be the 'Lead' for their subcomponent and liaise with the State Secretary of Finance: Project Director on qualitative issues and with the PCU Director for matters pertaining to processes and operational aspects of project implementation.

**Steering Committee:** The structure of the project is a two-level implementation arrangement, with a high-level Steering Committee led by the Deputy Minister of Finance (Chairperson) and comprising the State Secretary of Finance (Project Director); Economic Advisor to the Prime Minister, Economic Advisor to the President, Chairperson of the Mongolian National Chamber of Trade and Industry (representing the private sector), Vice President of the National Association of Mongolian Agricultural Cooperatives (representing the civil society), the head of the National Anti-Corruption Council; Senior Specialist from the Department of Legal Policy at the Ministry of Justice and Home Affairs, and the Project Manager. The Steering Committee shall provide strategic guidance to the project, and shall direct component implementation agencies to: (i) prepare and finalize all terms of references for each component activity; and (ii) report progress with implementation of the activities. The Steering Committee shall meet twice-yearly to review overall project implementation and take any remedial measures needed to address any issues that the review has highlighted. This review shall be prepared by the Project Coordination Unit. Further, a Steering Committee meeting (actual or virtual) can be called at any time to resolve any emerging issue. The decision to call for an actual or virtual meeting shall be made by the Project Director.

**Technical Working Groups.** The project implementation arrangement envisages four working groups, focusing on four different areas: (i) management of public finance; (ii) fostering public accountability and monitoring; (iii) improving tax administration; and (iv) reviewing the mining regulatory framework and modernizing the mining cadastre. The membership of each working group is shown in the flowchart (see Annex 6a).

**Project Coordination and Evaluation.** The Project Director will ensure and maintain an effective PCU: fully staffed, equipped and with adequate resources to perform its work. The PCU reports to the Project Director. The latter will provide guidance to the PCU Manager in order to ensure the smooth implementation of the project and provide adequate coordination between the relevant units of the MOF as well as executing agencies outside MOF. The Project Director will be responsible for the overall qualitative aspect of the project and will ensure that project objectives are met and also monitor closely the M&E indicators agreed for GAP. These responsibilities are as follows: convene regular meetings of the Steering Committee and ensure the recording of minutes of meetings that will be kept in the Project Implementation Manual; communicate any pertinent information to the Bank; and collect and analyze qualitative data from relevant units; and prepare and submit to the Bank the annual progress reports based
on subcomponent progress reports, before December 31 of each year, the objective of which is to assess past achievements and to present an action plan for the coming year.

**Role and responsibilities of PCU.** The GAP PCU’s responsibilities regarding project management would be as follows: provide overall management and implementation support to all executing agencies; undertake grant and project accounting; bring issues that may arise and which cannot be resolved at the level of the implementing agencies to the immediate attention of the Project Director, the Steering Committee and/or Bank for resolution; liaise with all implementing agencies and with Bank representatives so as to ensure satisfactory project administration and implementation support; establish in collaboration with all executing units and under the overall guidance of the Steering Committee, the annual work program that will state expected quantitative and qualitative achievements. However, only the Project Director will sign off or authorize sign off on his behalf on all requests for the Bank’s no objection.

**Project Implementation.** The project’s components and subcomponents would be implemented by existing departments of the MOF and other executing agencies outside the MOF as indicated in the respective subcomponents’ description. The PCU will be responsible for the overall management of all project-related activities and will be in charge of all procurement process. Detailed implementation responsibilities for each subcomponent are included in the Project Implementation Manual.

The project organizational flow chart is hereby attached (annex 6a). The organizational chart of the Ministry of Finance and its relevant directorates/units is attached in annex 6b.
Annex 6a: Project Organizational Chart

MONGOLIA: Governance Assistance Project

**Governance Assistance Project Steering Committee**

1. Deputy Minister for Finance – Chairperson
2. State Secretary for Finance – Project Director
3. Economic Advisor to the Prime Minister
4. Economic Advisor to the President
5. Chairperson, Mongolian National Chamber of Trade and Industry (representing the private sector)
6. Vice President, National Association of Mongolian Agricultural Cooperatives (representing the civil society)
7. Head of the National Anti-Corruption Council
8. Senior Specialist, the Ministry of Justice and Home Affairs

**Management of Public Finance Working Group**

Membership:
- All Department Director Generals
- Civil Society Representative with budget expertise.
- International expert on budget
- Local consultant on budget

**Fostering Public Accountability and Monitoring – Working Group**

Membership:
- Director for Fiscal Policy Department, MoF
- National Anti-Corruption Council Nominee
- International Expert on GAP for A/C
- Representative from MNE
- Chairman of NSO
- Representative from Civil Society

1/ Representative must:
   a. Be member of the chamber of commerce
   b. Demonstrate expertise in governance, budget, taxes, and/or economic policy
   c. Not have any conflict of interest with GAP objectives
   d. Not hold political office

**Improving Tax Administration Working Group**

Membership:
- Director General GDNT
- 2 Deputy Director Generals
- Nominee from Min. Industry and Trade
- Civil Society Nominee SC
- 2 members from tax payers association representing large and small taxpayers
- International tax expert engaged by GAP working on tax administration reform

2/ Representative must:
   a. Be member of an NGO/civil society organization
   b. Demonstrate expertise in governance, budget, taxes, and/or economic policy
   c. Not have conflict of interest with GAP
   d. Not hold political office

**Working Group on Implementation of the Mining Cadastre**

Membership:
- Head of Minerals Authority
- Nominee from PM’s Office
- Nominee from President’s Office
- Nominee from MoF Sector Coordination Department
- Nominee from Ministry of Trade and Industry
- Consultant working on the Mining Cadastre deployment
Annex 6b: Ministry of Finance Organizational Chart
MONGOLIA: Governance Assistance Project
Annex 7: Financial Management and Disbursement Arrangements

MONGOLIA: Governance Assistance Project

Executive Summary

The Financial Management team has conducted an assessment of the adequacy of the financial management system of the Mongolia Governance Assistance Project (GAP). The assessment, based on guidelines issued by the Financial Management Sector Board on November 3, 2005, has concluded that the project meets the minimum Bank financial management requirements, as stipulated in BP/OP 10.02. In the FM team's opinion, the project will have in place an adequate project financial management system that can provide, with a reasonable assurance, accurate and timely information on the project status in the reporting format agreed with the project as required by the Bank. Funding source for the project will be 100% IDA Grant (Grant). The Grant proceeds will flow from the Bank into project Designated account (DA) to be established at a commercial bank acceptable to the Bank and managed by a Project Coordinating Unit (PCU) within the Ministry of Finance (MOF).

Audit Arrangement

The Bank requires that project financial statements be audited in accordance with standards acceptable to the Bank. In-line with other Bank financed projects in Mongolia, the Government of Mongolia (GoM) through the PCU, will appoint an independent external auditor, acceptable to the Bank, to conduct the annual audits of the project accounts in accordance with International Standards on Auditing, under terms of reference satisfactory to the Bank. The audit will be financed from the proceeds of the Grant. The auditors will: (a) express an opinion on the annual financial statements; (b) determine whether the Designated Account has (i) been correctly accounted for, and (ii) been used in accordance with the financing agreements; and (c) determine the adequacy of supporting documents and controls surrounding the use of Statement of Expenditures (SOEs) as a basis for disbursement. The auditors will also furnish a separate Management Letter, which will: (a) identify any material weakness in accounting and internal control as well as asset management; (b) report on the degree of compliance of financial covenants of the Grant and Project Agreements; and (c) communicate matters that have come to the attention of the auditors which might have a significant impact on the implementation of the project.

The annual audit report of the project financial statements will be due to the Bank within 6 months after the end of each calendar year. This requirement will be stipulated in the Grant agreements. The responsible entity and timing is summarized below:

<table>
<thead>
<tr>
<th>Component</th>
<th>Submitted by</th>
<th>Due date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project financial statements</td>
<td>PCU</td>
<td>June 30 of each calendar year</td>
</tr>
</tbody>
</table>

Country Issues

Country Financial Accountability Assessment (CFAA) of November 2002 found the overall fiduciary environment is weak and public sector financial accountability system does not function well, and corporate governance remains inadequate in Mongolia. Given the existing weaknesses in the financial
accountability framework, CFAA recommends that ring-fenced control be maintained for Bank financed projects until the systemic weaknesses have been adequately addressed.

Risk Assessment and Mitigation

The overall risks and corresponding mitigating measures are summarized below:

<table>
<thead>
<tr>
<th>Risk</th>
<th>Risk Rating</th>
<th>Risk Mitigating Measures Incorporated into Project Design</th>
<th>Conditions of Negotiations/Board or Effectiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inherent Risk</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Country level</td>
<td>Substantial</td>
<td>Ring-fenced control will be established and maintained for this project until the systemic weaknesses are adequately addressed.</td>
<td></td>
</tr>
<tr>
<td>Entity Level</td>
<td>Moderate</td>
<td>Due to the country issues noted above, a PCU has been established to manage and control this project. This PCU has experience in managing other Bank-financed projects.</td>
<td></td>
</tr>
<tr>
<td>Project level</td>
<td>Low</td>
<td>Sound project financial management system has been in place.</td>
<td></td>
</tr>
<tr>
<td>Control Risk</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budgeting</td>
<td>Moderate</td>
<td>A project annual plan will be prepared consistent with the timing of project activities. The annual plan will be reviewed and monitored by Project steering committee (PSC) on an annual basis.</td>
<td></td>
</tr>
<tr>
<td>Accounting</td>
<td>Low</td>
<td>The PCU will develop and adopt a comprehensive financial management manual.</td>
<td>Before Effectiveness</td>
</tr>
<tr>
<td>Internal Control</td>
<td>Moderate</td>
<td>a) The duties and responsibilities of each implementing agency along with the PCU as it relates to FM will be clearly documented in the financial management manual and distributed to all relevant parties.</td>
<td>Before Effectiveness</td>
</tr>
<tr>
<td></td>
<td></td>
<td>b) The Bank will perform regular supervision and review on Project Report.</td>
<td></td>
</tr>
<tr>
<td>Funds Flow</td>
<td>Moderate</td>
<td>Appropriate approval for withdrawal application by representatives from MOF and implementing agencies.</td>
<td></td>
</tr>
<tr>
<td>Financial Reporting</td>
<td>Moderate</td>
<td>a) Quarterly Project Report will be submitted within 45 days after end of each quarter to the Bank.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>b) Annual audited financial statements</td>
<td></td>
</tr>
</tbody>
</table>
Therefore, the overall FM risk-rating of this project at the appraisal stage is moderate and these risk mitigating measures will reduce specific risks regarding project’s financial management.

**Strengths**

Existing PCU at the MOF has extensive experience in implementing other Bank financed projects such as Economic Capacity Building Technical Assistance Credit (ECTAC) and Fiscal Technical Assistance Project. GAP will be implemented by the existing PCU under the guidance and general oversight of the PSC.

**Weaknesses and Action Plan**

Due to the nature and complexity of project activities, the project will be implemented by various implementing agencies such as Mineral Resources and Petroleum Authority, MOF, Anti-Corruption Council, State Service Council and Ministry of Natural Resources and Environment. The PCU will be responsible for all day-to-day activities including financial management. Although no financial management responsibilities will be assigned to any of the implementing agencies, there may be some difficulties in coordination between PCU and implementing agencies for collecting supporting documents and coordinating activities.

In order to satisfy the Bank’s minimum financial management requirements, the following action plan has been identified to address the weaknesses:

<table>
<thead>
<tr>
<th>Significant weaknesses</th>
<th>Action</th>
<th>Responsible person</th>
<th>Completion Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Difficulties with coordination between the PCU and various implementing agencies</td>
<td>Duties and responsibilities of each implementing agency as it relates to FM will be identified in the financial management manual.</td>
<td>PCU</td>
<td>Before Effectiveness</td>
</tr>
</tbody>
</table>

**Implementation Entity**

A Project Steering Committee (PSC) will have overall responsibility for implementing the project, with the existing PCU being responsible for day-to-day management. The PSC will consist of Deputy Minister of Finance (Chairperson), State Secretary for Finance (Project Director), Economic Advisor to
the Prime Minister, Economic Advisor to the President, Chairperson of the Mongolian National Chamber of Trade and Industry (representing the private sector), Vice President of the National Association of Mongolian Agricultural Cooperatives (representing the civil society), the head of the National Anti-Corruption Council; Senior Specialist from the Department of Legal Policy at the Ministry of Justice and Home Affairs, and the Project Manager. The PSC will provide advice and general guidance to the project during the implementation.

In addition, given the complexity of the project activities and participation of a number of stakeholders, project implementation envisages 4 working groups – (i) management of public finance, (ii) improving tax administration, (iii) implementation of the mining cadastre, and (iv) fostering public accountability and monitoring. These working groups will be tasked by the steering committee to act as advisors to the project implementing agencies and to report implementation progress to the steering committee. The steering committee will have the final say in project execution issues. The Working Group will consist of technical level specialists in each implementing agencies, 1-2 stakeholders in the area of the agency’s competence and will be chaired by the head of the agencies.

Adequate operation of the PCU is a key factor for the successful implementation of the project. The present PCU consists of a project manager, two disbursement and procurement officers (one for ECTAC and one for PHRD II project), project accountant and support staff. The PCU together with a Project Director at the PSC level will ensure the coordination between the different stakeholders affected by and entities participating in the project. This unit will be responsible for: (a) procurement, including all contracting for purchases and the hiring of consultants, (b) project monitoring, reporting and evaluation, (c) the contractual relationship with IDA, and (d) project financial management, including managing the Designated Account and related disbursements.

Adequate project accounting staff with educational background and work experience commensurate with the work they are expected to perform is one of the factors critical to the successful implementation of project financial management. The present PCU proposes to share/use a disbursement and procurement specialist of the PHRD II project to take the financial management responsibilities for the GAP. The proposed financial staff in existing PCU holds an advanced education degree in financial management and has been working in a project’s financial management and procurement position for over three years. It was agreed that in addition to the current staffing level of the PCU will need to engage three additional staff – one procurement analyst, one assistant coordinator for the tax administration component, and one assistance coordinator for the mining cadastre component. Dependent on the workload, the PCU may consider adding another financial accountant. Based on discussions, observation and review of the educational background and work experience of the propose staff identified for financial position in the PCU, the FM team noted that the proposed finance staff seems appropriate for the work they are expected to assume. In parallel with handling the financial management activities of existing PHRD II project, proposed financial staff will be responsible for all financial management activities of the GAP.

The PCU will be responsible for overall coordination of the fiduciary aspects of the project including financial management, accounting, and auditing. In particular, it will be responsible for the following:
Designing and establishing a computerized financial management system including assigning chart of accounts;
- Maintaining up-to-date accounting records and ledgers as well as asset management;
- Preparing project financing plan on a monthly, quarterly and annual basis;
- Recording transactions for all project activities;
- Managing and maintaining Designated Account and its reimbursement;
- Preparing monthly bank reconciliation statements in a timely manner;
- Preparing SOEs, withdrawal applications and supplier records;
- Ensuring that a proper internal control system is in place to achieve accountability at all level;
- Preparing quarterly Project Reports and submitting them to the Bank;
- Preparing financial statements in accordance with consistently applied accounting standards acceptable to the Bank;
- Submitting audit reports; and
- Properly filing and maintaining all accounting forms and supporting documents.

To strengthen financial management capacity and achieve consistent quality of accounting work, the task team has requested that financial management arrangements and discussion of roles and responsibilities be included in the financial management manual (the Manual). This Manual will provide detailed guidelines on financial management, internal controls, accounting procedures, authorization procedures for transactions, planning and budgeting, fund and asset management, financial reporting (including format of FMR, linkages with chart of accounts), responsibilities and duties of key staffs, withdrawal application procedures and auditing arrangements. A draft of the Manual is due to the Bank by April 30, 2006. Once received, the FM team will review it and provide feedback to the PCU on suggested changes. A final version of the Manual will be finalized and distributed to all the relevant financial staff before project effectiveness.

Budgeting

In accordance with cost table prepared for the project, the PCU will prepare an annual work plan and budget which will identify the detailed project activities to be undertaken and the role of different parties in implementation. The annual work plan and budget will be submitted to the PSC for approval, and thereafter to the Bank for no objection. The annual work plan and budget will be using agreed format of FMR.

Accounting

The administration, accounting and reporting of the project will be set up in accordance with Bank requirements. The Bank requires borrowers to prepare financial statements in accordance with acceptable accounting standards. The Bank does not mandate a format of annual financial statements. However, where a borrower prepares financial statements on a cash basis, the Bank encourages the adoption of formats laid out in Cash Basis International Public Sector Accounting Standards (IPSAS), Financial Reporting under the Cash Basis of Accounting. The PCU will adopt the cash basis of accounting for its preparation of the financial statements. Consistent with IPSAS requirements, the financial statements will include the following:

- Balance sheet;
- Statement of receipts and expenditures;
Accounting policies adopted and explanatory notes;
- Designated account statement.

All accounting documents and files, including contracts, will be kept and maintained by the PCU, and made available upon request during supervision missions and audit activities carried out by independent audit firm. The PCU will record and maintain its project accounts using computerized accounting software.

**Internal Controls and Internal Auditing**

There is no independent Internal Audit Department within the MOF and for the project. However, this will not impact the project’s financial management as the PCU management and monitoring and yearly external audits will serve as the mechanism to ensure that financial management controls are functioning appropriately.

**Funds Flow and Disbursement Arrangements**

Funds flow for the Grant proceeds will comply with the requirements of the Bank and MOF. One Designated Account will be opened at a commercial bank acceptable to the Bank and managed by the PCU. The Designated Account (DA) would disburse against all eligible project expenditures. The funds flow will be as follows:

![Diagram of funds flow](image)

If the disbursement amount is significant, the Bank can also make direct payments to the contractors/suppliers as indicated above.

Proceeds of the Grant would be disbursed against eligible expenditure categories as shown in the table below.

<table>
<thead>
<tr>
<th>Expenditure Category</th>
<th>IDA Grant Amount in USD</th>
<th>Financing Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Goods</td>
<td>USD5.23</td>
<td>100%</td>
</tr>
<tr>
<td>2. Consultancy Services</td>
<td>USD6.65</td>
<td>100%</td>
</tr>
<tr>
<td>3. Training and Workshops</td>
<td>USD1.76</td>
<td>100%</td>
</tr>
<tr>
<td>4. Incremental Operating Costs</td>
<td>USD0.36</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Total Project Costs</strong>&lt;sup&gt;11&lt;/sup&gt;</td>
<td><strong>USD14.0</strong></td>
<td>100%</td>
</tr>
</tbody>
</table>

<sup>11</sup> Total project costs are inclusive of taxes. The identified tax amount under the Project is approximately USD437,000. The Government has confirmed that IDA grant will finance taxes as well. Under the country financing parameters (dated February 13, 2006) IDA Grant can finance 100% of the total project costs.
The four disbursement methods: reimbursement, advance, direct payment and special commitment are all available for the project. The SOE limits will be set up in line with procurement post-review threshold, as follows:

<table>
<thead>
<tr>
<th>Expenditures Category</th>
<th>Contracts less than USD Equivalent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Goods</td>
<td>75,000</td>
</tr>
<tr>
<td>2. Consultancy Services</td>
<td>100,000 (for firm)</td>
</tr>
<tr>
<td></td>
<td>50,000 (for individual)</td>
</tr>
<tr>
<td>3. Training</td>
<td>All</td>
</tr>
<tr>
<td>4. Incremental Operating Costs</td>
<td>All</td>
</tr>
</tbody>
</table>

The PCU will retain documentation supporting SOE disbursements during the life of the project. These documents will be made available for review by the auditor and Bank supervision missions. If the auditors or Bank supervision missions find that any disbursements made are not justified by supporting documentation or are ineligible, the Bank may withhold further deposits to the DA until the Borrower has: (a) either refunded the amount involved; or (b) submitted evidence of other eligible expenditures that offset the ineligible amount.

To facilitate disbursements from the Grant proceeds, the PCU shall maintain a USD Designated Account at a commercial bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set off, seizure and attachments. The DA will disburse against all eligible project expenditures and will have an authorized maximum allocation of USD300,000.

Financial Reporting

The un-audited project financial statements will be submitted by the PCU as part of the periodic reports ("Project Report") to the Bank on a quarterly basis (prior to May 15, August 15, November 15 and February 15 of the subsequent quarter). The Project Report shall include: (a) Discussion of Project Progress; (b) Balance Sheet of Project; (c) Sources and Uses of Funds by Disbursement Categories; (d) Uses of Funds by Project Activities; and (e) Output Monitoring Report. The Project Reports shall emphasize linkages between expenditures and physical progress.

Once the Bank has received the quarterly Project Reports from the PCU, the FM team will review the report and the findings of the reviews will be delivered to the TTL and the PCU for their further consideration.

The existing accounting system at the PCU was computerized; auto-generated reports from the accounting software named "Microsoft Navision". It was developed internationally by the "Microsoft Corporation". The software was deemed adequate and suitable for effective monitoring of the project. The system is capable to customize to meet the specific reporting requirements of the project and has necessary modules such as general ledger, fixed asset, sales and receivables, relationship management and purchase and payments. The PCU has requested and the Bank has approved addition funding for
purchase of an additional license and customization for the project. The customized software will be installed and tested before effectiveness.

**Conditionality**

The following time-bound actions are proposed:

<table>
<thead>
<tr>
<th>Action</th>
<th>Responsible person</th>
<th>Completion Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Financial management manual finalized and issued to all relevant staff.</td>
<td>PCU</td>
<td>Before Effectiveness</td>
</tr>
<tr>
<td>3. An independent audit firm appointed and acceptable to the Bank.</td>
<td>PCU</td>
<td>Before December 31, 2006</td>
</tr>
</tbody>
</table>
Annex 8: Procurement Arrangements

MONGOLIA: Governance Assistance Project

1. Procurement for the proposed project would be carried out in accordance with the World Bank’s "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004, and the provisions stipulated in the Legal Agreement. The various items under different expenditure categories are described in general below. For each contract to be financed by the Grant, the different procurement methods or consultant selection methods, estimated costs, prior review requirements, and time frame are agreed upon between the Recipient and the Bank in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

2. Procurement of Goods and Non-consultant Services: A total of about USD 5.23 million of goods and non-consultant services would be procured under this project, including IT systems, office equipment and furniture, etc. Goods estimated to cost USD 100,000 equivalent or more per contract would be procured following International Competitive Bidding (ICB) procedures and the Bank’s standard bidding documents will be used. Domestic preference may be applied in bid evaluation in accordance with the Bank Procurement Guidelines; based on request by Government, goods estimated to cost less than USD 100,000 equivalent per contract would be procured following National Competitive Bidding procedures acceptable to the Bank in accordance with articles 3.3 and 3.4 of the Bank Procurement Guidelines; Goods estimated to cost less than USD 25,000 equivalent per contract would be procured following shopping procedures and project-specific sample documents for shopping procurement will be prepared and adopted; contracts for supply of software obtainable from sole source would be procured on direct contracting basis in accordance with articles 3.6 and 3.7 of the Bank Procurement Guidelines.

3. Selection of Consultants: A total of about USD 6.65 million of consulting services would be required under the project for policy studies and reviews, institutional capacity building, project management and evaluation (including employment of local consultants for the PCU staffing), etc. Contracts for consulting services, each estimated to cost USD100,000 equivalent or more, would be awarded following the procedure of Quality and Cost Based Selection (QCBS); Procedures of Quality-Based Selection (QBS) would be followed for assignments which meet the requirements of paragraph 3.2 of the Bank Consultant Guidelines; Procedure of Single-Source Selection (SSS) would be followed for assignments which meet the requirements of paragraphs 3.10-3.12 of the Bank Consultant Guidelines. Consulting services estimated to cost less than USD100,000 equivalent per contract under this project would be procured following the procedures of Selection Based on Consultants’ Qualifications (CQS); Procedures of Selection of Individual Consultants(IC) would be followed for assignments which meet the requirements of paragraphs 5.1 and 5.3 of the Bank Consultant Guidelines; Least-Cost Selection (LCS) would be used for assignments for auditing the PCU accounts.
4. **Training Workshops, Seminars and Promotion Activities:** A total of about USD 1.76 million would be required for training workshops, seminars, media services, etc. These activities would be disbursed against reasonable actual costs.

5. **Incremental Operating Costs (IOC):** A total of about USD 0.36 million would be required for the incremental operating costs for the PCU and some implementing agencies to cover expenditures of utilities, vehicle maintenance, banking service, communication and internet expenditures, office supplies, public disclosure of procurement activities, in-country travel and per diem allowances for project staff conducting supervisions, etc. The procurement of these expenditures may follow the government procedures acceptable to the Bank and would be disbursed against reasonable actual costs. No government staff salaries will be financed under the project.

### B. Assessment of the agency’s capacity to implement procurement

6. The project implementation will involve a number of government agencies, and an existing PCU within the Ministry of Finance for implementation of an ongoing Bank-financed Economic Capacity Technical Assistance (ECTAC) Project will be strengthened to implement the proposed project. With the arrangements similar to the ECTAC Project, project activities will be carried out by the implementing agencies that are responsible for respective project components. The PCU will coordinate and facilitate the execution of the project activities. However, all of the procurement activities of the project will be centrally planned and carried out by the PCU with technical supports and participation by the responsible agencies; execution of contracts will be managed by the responsible agencies with the PCU’s coordination.

7. An assessment of the procurement capacity of the implementing agencies including the PCU was carried out by Bank missions in January and March 2006. The assessment reviewed the institutional arrangements, staffing plan and the PCU procurement functions for the project, as well as the relevant departments of the Ministry of Finance. To strengthen the procurement capacity of the implementing agencies, an action plan has been agreed, which includes: (i) Preparation of project-specific procurement manual as part of the Project Implementation Manual (PIM), including clearly defined responsibilities of various implementing agencies; (ii) employment of at least one more procurement staff for the project; (iii) procurement training for all implementing agencies. The overall project risk for procurement is average.

### C. Procurement Plan

8. The PCU, at appraisal, developed a procurement plan for project implementation which provides the basis for the procurement methods and time frame of the implementation. This Procurement Plan dated March 27, 2006 has been agreed with the Bank’s task team. This procurement plan is available at the PCU at Government Building-2, United Nations Street-5/1, Ulaanbaatar-210646, Mongolia, Tel/Fax: (976-11) 265782. It will also be available in the project’s database and in the Bank’s external website. The Procurement Plan will be updated in agreement with the Bank’s task team at least annually or as required to reflect the project implementation needs and improvements in institutional capacity.
D. Frequency of Procurement Supervision

9. In addition to the prior review supervision to be carried out from the Bank’s offices, the capacity assessment of the implementing agencies has recommended a launch workshop and one supervision mission to visit the field to carry out post review of procurement actions for every six to eight months.

E. Details of the Procurement Arrangements

<table>
<thead>
<tr>
<th>Procurement Method</th>
<th>Threshold</th>
<th>Prior Review Threshold</th>
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</thead>
<tbody>
<tr>
<td><strong>Goods and non-consultant services</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ICB</td>
<td>≥US$100,000</td>
<td>For goods, all contracts above US$75,000, all contracts awarded on direct-contracting basis, and the first three contracts awarded on NCB basis regardless of their values.</td>
</tr>
<tr>
<td>NCB</td>
<td>&lt;US$100,000</td>
<td></td>
</tr>
<tr>
<td>Shopping</td>
<td>&lt;US$25,000</td>
<td></td>
</tr>
<tr>
<td>Direct contracting</td>
<td>Contracts for goods meeting the requirements of article 3.6 of the Procurement Guidelines.</td>
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</tr>
<tr>
<td><strong>Consulting services</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>QCBS</td>
<td>≥US$100,000</td>
<td></td>
</tr>
<tr>
<td>QBS</td>
<td>Assignments which meet paragraph 3.2 of the Consultant Guidelines.</td>
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<tr>
<td>CQS</td>
<td>&lt;US$100,000</td>
<td></td>
</tr>
<tr>
<td>SSS</td>
<td>Assignments meeting the requirements of paragraphs 3.10-3.12 of the Consultant Guidelines</td>
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</tr>
<tr>
<td>LCS</td>
<td>All assignments for auditing PCU accounts</td>
<td></td>
</tr>
<tr>
<td>IC</td>
<td>Assignments meeting the requirements of paragraphs 5.1 and 5.3 of the Consultant Guidelines</td>
<td></td>
</tr>
</tbody>
</table>

Notes: 1) Short lists composed entirely of national consultants: Short lists of consultants for services estimated to cost less than USD 100,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.
Annex 9: Economic and Financial Analysis

MONGOLIA: Governance Assistance Project

The project will not generate direct income streams or benefits against which costs could be compared. Nevertheless, it was concluded that the project will have substantial fiscal benefits over time for each component. Specifically:

Strengthening debt management and public investment program. Sound public debt management, supported by sound fiscal policies, will reduce the vulnerability of the government’s budget to financial shocks, and potentially lead to substantial fiscal savings. Improved capacity to perform Debt Sustainability Analysis (DSA) will help clearly define the fiscal space, and provide important input to the medium-term planning.

Decentralizing financial management will lead to significant public resources and improvements in quality of service delivery at the agency level. The financial savings will accrue from: (i) speeding up expenditure execution; (ii) reducing the administrative burden both for budget entities and Treasury and thereby savings on transaction costs; (iii) improve fiscal planning and thereby leading to improved cost-efficiency. Improvement in service delivery will come from the fact that budget entities will have more control over their resource usage, and hence allow for advance planning of expenditures, and timely response to emerging issues.

Improving the anti-corruption framework. Corruption is the source of significant costs for the public sector and the economy as a whole. Not only corruption diverts public resources from what it is primarily intended, but it is also the source of significant waste of resources in terms of time spent on rent-seeking activities. Last but not least, because it undermines the rule of law, it contributes to opaqueness and increase transaction costs. For these reasons, adopting an effective system to combat corruption can potentially lead to significant savings of public resources and improvement in service delivery.

Upgrading the MOF website to a dynamic portal. Internet is seen as the most cost-effective primary instrument for information dissemination. Even in a low-income country such as Mongolia with relatively low internet penetration, targeting the internet as a primary disclosure instrument allows secondary disclosure channels such as NGOs with internet access to relay the information more broadly. More generally, improving access to information and transparency leads to enhanced accountability. Greater accountability, in turn, leads to improved efficiency in public sector management.

Capacity building for data transparency and data access for poverty monitoring. The proposed harmonization of two survey instruments will improve efficiency of data generation especially for poverty information. Furthermore, this allows the annual NSO budget to sustain its operation after the WB project is over.

Strengthening Public Disclosure of EIAs and other Environment and Natural Resources Information. Public information disclosure programs are proven to be powerful and cost-effective to complement enforcement of environmental regulations, and improve overall environmental governance. Direct costs for this program will only include those entailing the dissemination of EIAs and other environmental and
natural resources management information. The cost-effectiveness hinges on focus, transparency, community participation, and the ability of the program to leverage on channels generally non accessible to formal regulations; this, in turn, ensures the long-term sustainability of the program both from a budgetary and political perspective. Finally, evidence from countries in the region show that the implementation of these programs could decrease the cost of improving environmental governance and compliance up to fifteen times compared with the costs of legal enforcement.

**Strengthening tax administration.** Improved tax administration will contribute – indirectly – to better private sector growth by reducing direct costs of tax compliance for business taxpayers and increasing predictability and transparency of the investment climate for firms. Over time there will be a dynamic benefit in terms of catalyzing entrepreneurial activity and growth. In addition, through reforms that move to a culture of compliance rather than one of policing, the tax administration efforts – once extended to the entire set of tax operations – are expected result in an increase in the number of positive taxpayers and compliance rates more generally, although the effect of this on the overall revenue collected by the state will depend on changes in tax policy.

**Public procurement capacity development.** Public procurement in 2005 amounted to approximately USD 420 million (state owned enterprises, budget entities, and donor financed projects). The current procurement system has some inefficiencies stemming from: (i) lack of effective competitive contestability for public procurement leading to situations where the government does not manage to get the lowest price and highest value goods/services; (ii) lengthy lead times for public procurement leading to suppliers to put in higher bids than in cases where procurement lead times were shorter; and (iii) limited disclosure of information. It is expected that project interventions will lead to efficiency gains. However, it is difficult to qualify exactly this amount because of problems in measuring efficiency gains.

**Mining registry and cadastre system.** A modern computerized rules-based registry and cadastre system supports the effective implementation of the Minerals Law and contributes to the transparent management and allocation of mineral rights, preserves the property rights in the mining sector and provides fair and easy access to minerals by reputable investors and developers. Experience shows that a competitive and well regarded minerals law is insufficient, and a credible mining cadastre is necessary to attract risk capital and promote significant FDI, reduce rent seeking and patronage inherent in this sector and provide security of tenure and stability within this important sector. The expected benefits resulting from increased investment, reduced costs of doing business and increased productivity are significantly in excess of the nominal investment and operational changes envisaged under this component.

Such benefits are easier to identify than quantify. However, it was concluded that the project cost should be more than compensated due to better planning, implementation and control of the budget. Mongolia’s total expenditures in 2005 were equivalent to USD633 millions. Efficiencies of just half a percentage point of this amount per year (USD3.165 million) would be sufficient to achieve undiscounted payback in less than five years.
Annex 10: Safeguard Policy Issues

MONGOLIA: Governance Assistance Project

<table>
<thead>
<tr>
<th>Safeguard Policies Triggered by the Project</th>
<th>Yes</th>
<th>No</th>
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<tbody>
<tr>
<td>Environmental Assessment (OP/BP/GP 4.01)</td>
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<tr>
<td>Natural Habitats (OP/BP 4.04)</td>
<td>[ ]</td>
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<td>Pest Management (OP 4.09)</td>
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<td>[x]</td>
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<td>Cultural Property (OPN 11.03, being revised as OP 4.11)</td>
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<td>Involuntary Resettlement (OP/BP 4.12)</td>
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<td>Indigenous Peoples (OD 4.20, being revised as OP 4.10)</td>
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<tr>
<td>Forests (OP/BP 4.36)</td>
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<tr>
<td>Safety of Dams (OP/BP 4.37)</td>
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<td>[x]</td>
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<tr>
<td>Projects in Disputed Areas (OP/BP/GP 7.60)*</td>
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<tr>
<td>Projects on International Waterways (OP/BP/GP 7.50)</td>
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<td>[x]</td>
</tr>
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</table>

There are no social and environmental issues or concerns emanating from the activities that are contemplated under the project.

* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas.
Annex 11: Project Preparation and Supervision

MONGOLIA: Governance Assistance Project

<table>
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<tr>
<th>Planned</th>
<th>Actual</th>
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<td>PCN review</td>
<td>10/06/05</td>
</tr>
<tr>
<td>Initial PID to PIC</td>
<td>10/07/05</td>
</tr>
<tr>
<td>Initial ISDS to PIC</td>
<td>10/07/05</td>
</tr>
<tr>
<td>Appraisal</td>
<td>03/15/06</td>
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<tr>
<td>Negotiations</td>
<td>04/10/06</td>
</tr>
<tr>
<td>Board/RVP approval</td>
<td>05/25/06</td>
</tr>
<tr>
<td>Planned date of effectiveness</td>
<td>07/15/06</td>
</tr>
<tr>
<td>Planned date of mid-term review</td>
<td>10/31/09</td>
</tr>
<tr>
<td>Planned closing date</td>
<td>01/15/12</td>
</tr>
</tbody>
</table>

Key institutions responsible for preparation of the project:

- Ministry of Finance
- Civil Service Council
- Mongolian Institute of Certified Public Accountants
- Department of Legal Policy at the Ministry of Justice and Home Affairs
- Ministry of Nature and Environment
- National Statistical Office
- General Department of National Taxation
- Cadastre Office of the Mineral Resource and Petroleum Authority of Mongolia

Bank staff and consultants who worked on the project included:

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shabih Ali Mohib</td>
<td>Task Team Leader, Economist</td>
<td>EASPR</td>
</tr>
<tr>
<td>Altantsetseg Shiilegmaa</td>
<td>Economist</td>
<td>EASPR</td>
</tr>
<tr>
<td>Barbara Nunberg</td>
<td>Sector Manager</td>
<td>EASPR</td>
</tr>
<tr>
<td>Bat-Ochir Tsolomon</td>
<td>Senior Operations Officer</td>
<td>EAPCO</td>
</tr>
<tr>
<td>Batshur Gootiiz</td>
<td>Consultant</td>
<td>EASPR</td>
</tr>
<tr>
<td>Carlos Ricardo Escudero</td>
<td>Lead Counsel</td>
<td>LEGEA</td>
</tr>
<tr>
<td>Charles A. Husband</td>
<td>Lead Mining Specialist</td>
<td>COCPO</td>
</tr>
<tr>
<td>Chorching Goh</td>
<td>Senior Economist</td>
<td>EASPR</td>
</tr>
<tr>
<td>Christine Wong</td>
<td>Operations Analyst</td>
<td>EASPR</td>
</tr>
<tr>
<td>Christopher Finch</td>
<td>Senior Country Officer</td>
<td>EACCO</td>
</tr>
<tr>
<td>David I.</td>
<td>Sr. Financial Management Specialist</td>
<td>EAPCO</td>
</tr>
<tr>
<td>Genevieve Boyreau-Debray</td>
<td>Economist</td>
<td>EASPR</td>
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<tr>
<td>Giovanna Dore</td>
<td>Environmental Specialist</td>
<td>EASEN</td>
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<tr>
<td>Gloria Elmore</td>
<td>Program Assistant</td>
<td>EASPR</td>
</tr>
<tr>
<td>Jacob Young</td>
<td>Junior Professional Associate</td>
<td>EASPR</td>
</tr>
<tr>
<td>Lars Jessen</td>
<td>Senior Financial Officer</td>
<td>BCFBD</td>
</tr>
<tr>
<td>Michael S. Kubzansky</td>
<td>Private Sector Development Specialist</td>
<td>EAPVP</td>
</tr>
<tr>
<td>Ochir Lhagvasuren</td>
<td>Financial Management Analyst</td>
<td>EAPCO</td>
</tr>
<tr>
<td>Name</td>
<td>Title</td>
<td>Unit</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>------------------------------</td>
<td>------------</td>
</tr>
<tr>
<td>Phillip R D Anderson</td>
<td>Principal Financial Officer</td>
<td>BCFBD</td>
</tr>
<tr>
<td>Richard E. Messick</td>
<td>Senior Public Sector Specialist</td>
<td>PRMPS</td>
</tr>
<tr>
<td>Seda Pahlavooni</td>
<td>Information Officer</td>
<td>ISGEG</td>
</tr>
<tr>
<td>Stephen N. Ndegwa</td>
<td>Senior Public Sector Specialist</td>
<td>PRMPS</td>
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<tr>
<td>Sudarshan Gooptu</td>
<td>Lead Economist</td>
<td>EASPR</td>
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<tr>
<td>Tserendagva Gerelgua</td>
<td>Procurement Analyst</td>
<td>EAPCO</td>
</tr>
<tr>
<td>Verena Fritz</td>
<td>Political Economy Consultant</td>
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</tr>
<tr>
<td>Xiaoping Li</td>
<td>Senior Procurement Specialist</td>
<td>EAPCO</td>
</tr>
</tbody>
</table>

Bank funds expended to date on project preparation:
1. Bank resources: USD305,182.00
2. Trust funds: USD 17,927.00
3. Total: USD323,109.00

Estimated Approval and Supervision costs:
1. Remaining costs to approval: USD24,818.00
2. Estimated annual supervision cost: USD95,000.00
Annex 12: Documents in the Project File

MONGOLIA: Governance Assistance Project

Asian Development Bank
Moyes, Roger; Collette, Marilyn; Burns, John; Bekbhat, Sodnom; “GOVERNANCE: Progress and Challenges in Mongolia” October 2004.

Bank of Mongolia

Government of Mongolia
- Economic Growth Support and Poverty Reduction Strategy, 2003, Ulaanbaatar, GOM
- General Guidelines for Socio-Economic Development of Mongolia for 2006-2008
- General Department of National Taxation, Guidelines for Inspections, Taxpayers, and Registration procedures, www.mta.mn, February 2006.

GTZ
- Private Sector Development Project, www.psdp.mn
- Trade Policy and Export Promotion Project, www.trade-policy.mn

International Monetary Fund
- Mongolia: 2005 Article IV Consultation - Staff Report; Staff Statement; and Public Information Notice on the Executive Board Discussion
- Mongolia: Report on Observance of Standards and Codes--Fiscal Transparency Update, 2005

National Statistical Office

Open Society Forum

The Asia Foundation in Mongolia
USAID
- Rup Khadka, Mongolia Economic Policy Reform and Competitiveness Project (EPRC),

World Bank
- IBRD, Doing Business in 2005: Removing Obstacles to Growth, 2005,

Other Sources:
- Foreign Investment Trade Association (FIFTA), “Current Laws on Mongolian Taxes”
- Freedom House “Nations in Transit: Mongolia” 2005
- International Budget Project, Open Budget Project, “Opening Budgets to Public Understanding and Debate: Results from 36 Countries”
  http://www.internationalbudget.org/openbudgets/Appendix1.pdf, November 2005
  http://idep.kdi.re.kr/kp/pdf_papers/Mongolia_1.pdf
- Mongolian Chamber of Commerce and Trade, www.mongolchamber.mn
- Transparency International, “Corruption Perception Index” 2005,
### Annex 13: Statement of Loans and Credits

**MONGOLIA: Governance Assistance Project**

#### Active Projects

<table>
<thead>
<tr>
<th>Project ID</th>
<th>FY</th>
<th>Project Name</th>
<th>Original Amount in US$ Millions</th>
<th>IBRD</th>
<th>IDA</th>
<th>SF</th>
<th>GEF</th>
<th>Cancel.</th>
<th>Undisb.</th>
<th>Orig.</th>
<th>Frm Rev’d</th>
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<tbody>
<tr>
<td>P067770</td>
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<td>MN - Sustainable Livelihoods Project</td>
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<td>5.77</td>
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<td>P077778</td>
<td>2003</td>
<td>MN Economic Capacity Tech. Assistance</td>
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<td>5.50</td>
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<td>P088816</td>
<td>2005</td>
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<td>P074001</td>
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<td>P088992</td>
<td>2005</td>
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<td>P056200</td>
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<td>MN-Transport Development</td>
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<td>P074591</td>
<td>2004</td>
<td>MN-UB SERVICES IMPROVMT 2</td>
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<td>0.00</td>
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<td><strong>136.55</strong></td>
<td><strong>0.00</strong></td>
<td><strong>0.00</strong></td>
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<td><strong>29.25</strong></td>
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#### Mongolia

Statement of IFC’s Held and Disbursed Portfolio
As of 12/31/2005
(In US Dollars Millions)

<table>
<thead>
<tr>
<th>FY Approval</th>
<th>Company</th>
<th>Held Loan</th>
<th>Held Equity</th>
<th>Held Quasi</th>
<th>Held Partic</th>
<th>Disbursed Loan</th>
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<tr>
<td>2004</td>
<td>AgBank</td>
<td>0.00</td>
<td>1.17</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>1.17</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>2001</td>
<td>SEF XACBank</td>
<td>0.36</td>
<td>0.00</td>
<td>0.00</td>
<td>0.36</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>2004</td>
<td>TDB</td>
<td>0.00</td>
<td>0.00</td>
<td>4.89</td>
<td>0.00</td>
<td>0.00</td>
<td>4.89</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Total Portfolio:</strong></td>
<td><strong>0.36</strong></td>
<td><strong>1.17</strong></td>
<td><strong>4.89</strong></td>
<td><strong>0.00</strong></td>
<td><strong>0.36</strong></td>
<td><strong>1.17</strong></td>
<td><strong>4.89</strong></td>
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</table>

Approvals Pending Commitment

<table>
<thead>
<tr>
<th>FY Approval</th>
<th>Company</th>
<th>Loan</th>
<th>Equity</th>
<th>Quasi</th>
<th>Partic</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Total pending commitment:</strong></td>
<td><strong>0.00</strong></td>
<td><strong>0.00</strong></td>
<td><strong>0.00</strong></td>
</tr>
</tbody>
</table>
### Annex 14: Country at a Glance

**MONGOLIA: Governance Assistance Project**

#### Mongolia at a glance

<table>
<thead>
<tr>
<th><strong>POVERTY and SOCIAL</strong></th>
<th><strong>East Asia &amp; Pacific</strong></th>
<th><strong>Low-Income</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2004</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Population, mid-year (millions)</td>
<td>2.6</td>
<td>1,870</td>
</tr>
<tr>
<td>GNI per capita (Atlas method, US$)</td>
<td>600</td>
<td>1,450</td>
</tr>
<tr>
<td>GNI (Atlas method, US$ billions)</td>
<td>1.5</td>
<td>2,547</td>
</tr>
<tr>
<td><strong>Average annual growth, 1998-04</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Population (%)</td>
<td>1.1</td>
<td>0.9</td>
</tr>
<tr>
<td>Labor force (%)</td>
<td>2.3</td>
<td>1.3</td>
</tr>
<tr>
<td><strong>Most recent estimate (latest year available, 1998-04)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poverty (% of population below national poverty line)</td>
<td>36</td>
<td></td>
</tr>
<tr>
<td>Urban population (% of total population)</td>
<td>57</td>
<td>42</td>
</tr>
<tr>
<td>Life expectancy at birth (years)</td>
<td>68</td>
<td>70</td>
</tr>
<tr>
<td>Infant mortality (per 1,000 live births)</td>
<td>56</td>
<td>29</td>
</tr>
<tr>
<td>Child malnutrition (% of children under 5)</td>
<td>13</td>
<td>12</td>
</tr>
<tr>
<td>Access to an improved water source (% of population)</td>
<td>62</td>
<td>78</td>
</tr>
<tr>
<td>Literacy (% of population age 15+)</td>
<td>98</td>
<td>91</td>
</tr>
<tr>
<td>Gross primary enrollment (% of school-age population)</td>
<td>101</td>
<td>113</td>
</tr>
<tr>
<td>Male</td>
<td>100</td>
<td>114</td>
</tr>
<tr>
<td>Female</td>
<td>102</td>
<td>112</td>
</tr>
</tbody>
</table>

#### KEY ECONOMIC RATIOS and LONG-TERM TRENDS

<table>
<thead>
<tr>
<th><strong>1984</strong></th>
<th><strong>1994</strong></th>
<th><strong>2003</strong></th>
<th><strong>2004</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (US$ billions)</td>
<td>0.64</td>
<td>1.3</td>
<td>1.6</td>
</tr>
<tr>
<td>Gross capital formation/GDP</td>
<td>57.8</td>
<td>27.8</td>
<td>37.9</td>
</tr>
<tr>
<td>Exports of goods and services/GDP</td>
<td>29.2</td>
<td>64.5</td>
<td>65.5</td>
</tr>
<tr>
<td>Gross domestic savings/GDP</td>
<td>21.9</td>
<td>13.3</td>
<td>16.3</td>
</tr>
<tr>
<td>Gross national savings/GDP</td>
<td>20.0</td>
<td>21.9</td>
<td>30.1</td>
</tr>
<tr>
<td>Current account balance/GDP</td>
<td>5.9</td>
<td>-7.7</td>
<td>3.9</td>
</tr>
<tr>
<td>Interest payments/GDP</td>
<td>1.5</td>
<td>0.9</td>
<td>0.9</td>
</tr>
<tr>
<td>Total debt/GDP</td>
<td>72.5</td>
<td>116.5</td>
<td>94.1</td>
</tr>
<tr>
<td>Total debt service/exports</td>
<td>10.9</td>
<td>31.2</td>
<td>3.0</td>
</tr>
<tr>
<td>Present value of debt/GDP</td>
<td></td>
<td></td>
<td>83.9</td>
</tr>
<tr>
<td>Present value of debt/exports</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### STRUCTURE of the ECONOMY

<table>
<thead>
<tr>
<th><strong>1984</strong></th>
<th><strong>1994</strong></th>
<th><strong>2003</strong></th>
<th><strong>2004</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>17.2</td>
<td>24.2</td>
<td>20.1</td>
</tr>
<tr>
<td>Industry</td>
<td>27.0</td>
<td>24.5</td>
<td>25.3</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>55.6</td>
<td>33.3</td>
<td>54.6</td>
</tr>
<tr>
<td>Services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Household final consumption expenditure</td>
<td>67.1</td>
<td>61.7</td>
<td>56.8</td>
</tr>
<tr>
<td>General govt final consumption expenditure</td>
<td>19.6</td>
<td>20.0</td>
<td>16.6</td>
</tr>
<tr>
<td>Imports of goods and services</td>
<td>65.1</td>
<td>79.8</td>
<td>85.1</td>
</tr>
</tbody>
</table>

Note: 2004 data are preliminary estimates.

This table was produced from the Development Economics LDB database.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.
PRICES and GOVERNMENT FINANCE

Domestic prices
(% change)
Consumer prices 66.3 46 10.9
Implicit GDP deflator -3.1 66.6 11.6 18.1

Government finance
(% of GDP, includes current grants)
Current revenue 55.8 32.3 37.9 37.3
Current budget balance 2.5 6.0 8.1 9.1
Overall surplus/deficit -5.3 -4.2 -2.1

TRADE
(US$ millions)
Total exports (fob) 367 627 870
Copper 189 165 284
Non monetized gold 11 167 243
Manufactures 84 232 119
Total imports (cif) 370 627 1,021
Food 20 116 159
Fuel and energy 75 174 237
Capital goods 93 265 305
Export price index (2000=100) 91 129
Import price index (2000=100) 104 125
Terms of trade (2000=100) 88 103

BALANCE of PAYMENTS
(US$ millions)
Exports of goods and services 650 407 835 1,210
Imports of goods and services 1,351 425 1,084 1,405
Resource balance -701 -18 -248 -194
Net income -39 -19 -12 -11
Net current transfers 0 75 162 269
Current account balance -740 38 -60 63
Financing items (net) 756 -44 152 -98
Changes in net reserves -16 8 -54 35

Memo:
Reserves including gold (US$ millions) 37 129
Conversion rate (DEC, local/US$) 412.7 1,148.5 1,185.3

EXTERNAL DEBT and RESOURCE FLOWS
(US$ millions)
Total debt outstanding and disbursed 464 1,472 1,517
IBRD 0 0 0
IDA 49 227 287
Total debt service 45 268 41
IBRD 0 0 0
IDA 0 2 4
Composition of net resource flows
Official grants 62 67 72
Official creditors 64 -154 115
Private creditors -22 0 0
Foreign direct investment (net inflows) 7 132 93
Portfolio equity (net inflows) 0 0 0
World Bank program
Commitments 30 8 16
Disbursements 17 29 49
Principal repayments 0 1 2
Net flows 17 28 47
Interest payments 0 1 2
Net transfers 17 27 45

Note: This table was produced from the Development Economics LDB database.

Mongolia

Inflation (%)

Export and import levels (US$ mill.)

Current account balance to GDP (%)

Composition of 2004 debt (US$ mill.)

4/17/06

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