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AND
MULTILATERAL INVESTMENT GUARANTEE AGENCY

COUNTRY PARTNERSHIP STRATEGY
FOR
MONGOLIA
FOR THE PERIOD FY2013-2017

China, Mongolia and Korea Country Management Unit
East Asia and Pacific Region

International Finance Corporation
East Asia and Pacific Region

Multilateral Investment Guarantee Agency

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ABBREVIATIONS AND ACRONYMS

AAA	Analytical and Advisory Activities	IMF	International Monetary Fund
ADB	Asian Development Bank	ISN	Interim Strategy Note
AMC	Asset Management Company	JICA	Japan International Cooperation Agency
CAE	Country Assistance Evaluation	JSDF	Japan Social Development Fund
CGAP	Consultative Group to Assist the Poor	MCC	Millennium Challenge Corporation
CPI	Consumer Price Index	M&E	Monitoring and Evaluation
CPPR	Country Portfolio Performance Review	MDF	Microfinance Development Fund
CPRT	Country Portfolio and Results Monitoring Tool	MDGs	Millennium Development Goals
CPS	Country Partnership Strategy	MDTF	Multi Donor Trust Fund
CSO	Civil Society Organization	MIGA	Multilateral Investment Guarantee Agency
DIME	Development Impact Evaluation Initiative	MSME	Micro Small and Medium Enterprise
DP	Democratic Party	MSTA	Mongolia Multi-sector Technical Assistance Project
EBRD	European Bank for Reconstruction and Development	MTDS	Medium Term Debt Management Strategy
EGSPRS	Economic Growth Support and Poverty Reduction Strategy	NDIC	National Development and Innovation Committee
EITI	Extractive Industries Transparency Initiative	NGO	Non Governmental Organization
ESW	Economic and Sector Work	NLP	National Livestock Program
EU	European Union	NSO	National Statistical Office
FM	Financial Management	OBI	Open Budget Index
FSAP	Financial Sector Assessment Program	OCR	Ordinary Capital Resources, ADB
FSL	Fiscal Stability Law	ODA	Official Development Assistance
FY	Fiscal Year	PFM	Public Financial Management
GAFSP	Global Agriculture and Food Security Program	PPP	Public Private Partnership
GDP	Gross Domestic Product	PRI	Political Risk Insurance
GEF	Global Environmental Facility	RAMP	Reserve Asset Management Program
GIZ	German Society for International Cooperation	READ	Rural Education and Development Project
GNI	Gross National Income	RETF	Recipient Executed Trust Fund
GPF	Governance Partnership Facility	ROSC	Reports on Observance of Standards and Codes
GPE	Global Partnership for Education	SDR	Special Drawing Rights
HDF	Human Development Fund	SIP	Small Investment Program
IAAC	Independent Authority Against Corruption	SLP	Sustainable Livelihoods Project
IBL	Integrated Budget Law	SME	Small- and Medium Enterprise
IBRD	International Bank for Reconstruction and Development	TA	Technical Assistance
ICT	Information and Communication Technology	UB	Ulaanbaatar
ICR	Implementation Completion Report	UNDP	United Nations Development Programme
IDA	International Development Association	UNFPA	United Nations Population Fund
IDF	Institutional Development Fund	UNICEF	United Nations Children's Fund
IEG	Independent Evaluation Group	WBI	World Bank Institute
IFC	International Finance Corporation	WHO	World Health Organization

	IDA	IFC	MIGA
Vice President	Pamela Cox	Karin Finkelston	Izumi Kobayashi
Director	Klaus Rohland	Sergio Pimenta	Kevin Lu
Task Team Leader	Coralie Gevers/Lasse Melgaard	Hyun-Chan Cho/Tomoko Suzuki	Paul Barbour

**FY2013-2017 COUNTRY PARTNERSHIP STRATEGY
FOR MONGOLIA**

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EXECUTIVE SUMMARY

Over the past 20 years, Mongolia has transformed itself from a socialist country to a vibrant multi-party democracy with a booming economy. Mongolia is at the threshold of a major transformation driven by the exploitation of its vast mineral resources and the share of mining in GDP today stands at 20 percent, twice the ratio of a decade ago. The economy grew by 17.3 percent in 2011, compared to 6.4 percent GDP growth in 2010. GDP is expected to grow at a double digit rate over the course of the Country Partnership Strategy (CPS) period.

This economic growth has translated into some benefits for the people of Mongolia. Poverty has been on a downward trend over the past decade. Most recently, it decreased from 39.2 percent in 2010 to 29.8 percent in 2011. Substantial progress has also been made in regard to several Millennium Development Goals (MDGs) at the national level, though significant regional disparities prevail.

To ensure sustainable and inclusive growth, Mongolia will need to strengthen institutional capacity to manage public revenues efficiently and limit the effects of Dutch Disease; allocate its resources effectively among spending, investing, and saving; reduce poverty; and offer equal opportunities to all its citizens in urban and rural areas. It needs to do this in a manner which protects the environment and intergenerational equity.

In 2008, Parliament approved the MDG-Based Comprehensive National Development Strategy of Mongolia. The document sets a 14-year development path: the first phase (2007-2015) will focus on achieving the MDGs and actively developing the country's economy; the second phase (2016-2021) will be dedicated to transitioning to a knowledge-based economy.

The World Bank Group's CPS is aligned with Mongolia's Comprehensive National Development Strategy. It identifies three areas which the World Bank Group will support over the next five years (FY13-FY17):

- *Enhance Mongolia's Capacity to Manage the Mining Economy Sustainably and Transparently.* There are two outcomes: (i) supported the country in developing a regulatory environment, institutional capacity, and infrastructure for world-class mining, and (ii) supported the Government in designing and implementing policies and systems for a more robust, equitable, and transparent management of public revenues and expenditures.
- *Build a Sustained and Diversified Basis for Economic Growth and Employment in Urban and Rural Areas.* There are two outcomes: (i) enhanced the investment climate and financial intermediation, and (ii) created more opportunities in the rural economy for enhanced livelihoods.
- *Address Vulnerabilities through Improved Access to Services and Better Service Delivery, Safety Net Provision, and Improved Disaster Risk Management.* There are three outcomes: (i) worked with the Government on the design, adaptation, and implementation of a comprehensive social protection system that supports the poor, (ii) supported better delivery of basic services (education, health, justice, and infrastructure), and (iii) reduced vulnerability of households exposed to natural hazards and pollution.

The CPS incorporates the lessons identified by the CAS/ISN Completion Report: (i) build in flexibility to take account of transitions and emerging priorities, (ii) ensure alignment, focus on fewer outcomes and ensure a clear results framework, (iii) design programs/projects to minimize implementation challenges, (iv) take a programmatic approach to AAA, and (v) consider the longer-term role of the Bank in Mongolia and ensure flexibility of the Bank's engagement as the country graduates from IDA to IBRD.

The CPS period (FY13-17) spans across two IDA replenishment periods: IDA16 (FY12-14) and IDA17 (FY15-17). The indicative IDA16 allocation for FY12-FY14 is SDR64.8 million. SDR22.7 million has already been firmly allocated for FY12 and IDA16 allocation for FY13-FY14 (SDR42.1 million) is indicative only. During this CPS period, Mongolia will start accessing IBRD resources. A pipeline of projects that could potentially be financed with IBRD funds is being developed, and initial ideas have been included in the lending program.

In delivering its program, the World Bank Group will continue to establish platforms for engagement with Development Partners in areas of strategic relevance to its program. They contribute to enhancing donor coordination and aid harmonization and reducing transaction cost. The Bank will continue playing an active role in formal donor coordination forums by co-chairing meetings of the Government and Development Partners.

As Presidential and Parliamentary elections will take place early on during the CPS period, the World Bank Group will maintain flexibility in its program to adjust to new Government priorities. It will also focus on helping the Government prepare for potential risks such as a slowdown in the global economy, deterioration in governance, and shocks from natural disasters.

I. MONGOLIA – A COUNTRY ON THE VERGE OF AN UNPRECEDENTED MINERAL-LED TRANSFORMATION

A. MANAGING REVENUES AND INVESTING THEM FOR TODAY’S AND FUTURE GENERATIONS

1. ***Mongolia has gone through 20 years of democratic transition and market-based economic reforms.*** Since the end of socialist rule in early 1990, the people of Mongolia have made great strides towards transforming the country into a stable multi-party democracy in which civil society is playing an increasing role and openly calls for greater transparency and accountability. The classic range of post-socialism economic reforms have also been adopted and implemented.

2. ***It is now experiencing a rapid economic transformation that is generated by mineral discoveries.*** The economy has traditionally been based on livestock herding. Starting in the past decade, a boom in mining exploration confirmed the existence of large mineral deposits – notably copper, uranium, coal, iron ore, and gold. Investments are turning these into world class mineral projects: Oyu Tolgoi will become one of the five largest copper and gold mines in the world; the Tavan Tolgoi mine, which the Government is currently negotiating with investors, will supply high-quality coking coal for more than 100 years. The share of mining in GDP today stands at 20 percent, twice the rate of a decade ago. In recent years, the mining sector has contributed around a third of total government receipts, through royalty payments and direct and indirect taxes. In 2011, the export share of minerals reached its highest level yet, 90 percent.

3. ***In 2013, copper and gold output from Oyu Tolgoi will commence, instantly trebling national output of these minerals and resulting in more than a quadrupling of GDP within a few years.*** By 2016, the mining sector is expected to contribute more than half of the GDP. The export share of minerals may hover around 95 percent. When other mines will be developed, notably Tavan Tolgoi, the mining sector share of GDP and of exports will rise even further. The depth of dependence will soon place Mongolia alongside the most highly dependent mineral-rich economies, with Mongolia’s economy more alike with one of an oil-rich state.

4. ***The mining boom carries with it all the well-known risks associated with mineral-dependency.*** These range from the “Dutch Disease” – with its exposure to commodity price volatility, an appreciating currency and inflation, and unemployment in the non-mining sector – to the “natural resource curse”, with rising corruption, deepening inequality, and social disruptions or even conflicts.

5. ***Mongolia is on a cusp of a transformation and has the unique opportunity to overcome many of the development challenges it has faced in the past and to take a path towards sustainable and inclusive growth.*** How can it manage public revenues efficiently? How can it allocate its resources effectively among spending, investing (in infrastructure and human development), and saving? How can it reduce poverty and offer equal opportunities to all its citizens – be it in urban or rural areas? How does it balance the needs of today’s generation with the aspirations of future generations? How does it do so in a way that will respect the environment? Such decisions – and more critically, their implementation – will require a higher level of institutional capacity more in line with other middle-income countries.

6. ***More specifically, mining rents will need to be efficiently and transparently captured by the state as revenues.*** This will depend on the capacity of several public sector institutions, ranging from the mining cadastre to tax administration. So far, Mongolia’s performance in these areas has been

satisfactory and it is working on further needed improvements. For one, fighting corruption will require greater attention, if only for the sheer magnitude of the rents and resource flows involved.

7. ***The mining revenues will need to be proactively and sustainably managed to avoid an appreciating currency, inflation and credit risks.*** This implies adopting counter-cyclical fiscal policies, and avoiding over-borrowing and over-spending. Mongolia has adopted a set of fiscal rules which would achieve these goals under the Fiscal Stability Law (FSL) of 2010 and the Integrated Budget Law (IBL) of 2011. Adhering to the spirit and letter of these laws will be critical for Mongolia to limit the effects of Dutch Disease on the economy. A corollary is to apply the same principles to the private sector, in particular the sectors likely to fall prey to the pro-cyclical trends of a mining-dependent economy (e.g., banking sector, construction). Mongolia scores relatively poorly in this area, based on past and current practice.

8. ***The mining sector, its associated infrastructure, and the upstream and downstream economic sectors will need to be supported in order for the current high growth to continue without running into capacity constraints.*** Given the size of the necessary investments in infrastructure and services, its effective delivery will depend in great part on the soundness of the public expenditure management systems – planning, budgeting, procurement, private financing – and the speed at which the Government can strengthen these systems.

9. ***In the presence of a mining sector which will tend to command priority access to the economy's scarce resources (i.e., capital and skilled labor), the non-mining sectors will face the formidable challenge of being the source of livelihood for a substantial part of the population.*** Successful diversification, often elusive for mineral-dependent economies, will be one of the keys to meeting the objectives of full employment and poverty reduction. Success will depend on providing the type of infrastructure and policies that will reduce the cost of doing business across a range of sectors and maximize the chances of successful innovation.

10. ***It will also depend on improving education services so that a trained labor force can be employed in the mining and non-mining sectors.*** While the expansion of the mining sector will create many opportunities, it is highly unlikely that there will be a seamless shift of workers from the low-skilled agricultural sector, which accounts for nearly 40 percent of total employment, into the expanding ones (mining and private non-tradable sectors such as transportation, construction, financial and retail). Indeed, there are already growing concerns that the ongoing mining boom is fuelling inequality by placing a premium on skilled labor. Investments in quality social services can be both growth- and equity-enhancing, but policy and institutional frameworks and delivery systems which use incremental resources efficiently will be essential.

11. ***As the economic benefits of growth will not be shared equally, the country will need to develop its own approach towards inclusive growth for today's and future generations.*** Concerns about inequality are increasing rapidly, with growing demands for a wider and quicker redistribution of mineral wealth. The impact on public policy is shown in the rising share of universal cash handouts in government expenditures in recent years. While this approach may be satisfactory in the short term, it is fiscally unsustainable and ineffective. It also raises an issue of inter-generational equity: natural resources are depleted to support immediate consumption instead of being invested for the benefit of future generations. It will be important to ensure that some of the mining revenues are invested in human capital, sustainable social protection and population health in a way that enhances equality of opportunity and avoids increased social segmentation. Recent reforms of the social assistance system to replace the untargeted and inefficient cash transfers with a poverty targeted benefit represent a positive step into this direction.

12. ***The present social services system is characterized by structural weaknesses that undermine equity in financing and delivery.*** Channeling huge incremental mineral revenues into these systems risks exacerbating inequalities, and policy and structural changes are needed to ensure that they are equitable, efficient, and of good quality. Reforming the pension system to create a more equitable system across cohorts that takes into account the needs from the older population will be an important part of the policy agenda. The socio-economic prospects of the transformation which is currently taking place depend on how well the process is managed.

13. ***In recent years, Mongolia has studied the experience of a range of mining-rich countries to learn from their achievements and mistakes – including Chile, Canada, Botswana, Norway, and Australia.*** As a result, policymakers are highly aware that turning the mining wealth into sustained prosperity for all Mongolians will require a more developed policy and institutional framework that can address multiple challenges.

B. A UNIQUE OPPORTUNITY TO BUILD ON PAST DEVELOPMENT PROGRESS AND ADDRESS REMAINING CHALLENGES

14. ***Mongolia is a country with a rich nomadic culture that faces a range of natural constraints.*** It is the least densely populated country in the world with 2.75 million people inhabiting a territory three times the size of France. About 1.2 million people live in the capital Ulaanbaatar and the rest are spread across small urban centers and vast steppes where they herd cattle, sheep, goats, horses, yaks and camels. It is the second largest landlocked country in the world, with two giant neighbors that are strong economic locomotives. Living conditions – particularly in rural areas and in poor urban areas – are harsh, and infrastructure services are limited at best. Wintertime temperatures often dip below -30 degrees Celsius, growing and construction seasons are short, and natural productivity is low with arable land constituting only 1 percent of the total area.

15. ***The recent economic transformation has brought significant benefits to the population.*** The GNI per capita went from US\$480 in 2004 to US\$1,890 in 2010. Progress has also been made in regard to several Millennium Development Goals (MDGs) at the national level, though it masks significant regional disparities (see Box 1 and At-A-Glance table in CAS Annex A2). The National Statistical Office (NSO), which estimates poverty through nationwide household surveys, found that poverty remained stagnant around 35 percent between 2002 and 2008, went up to 39.2 percent in 2010, and dropped to 29.8 percent in 2011. Poverty remains higher among the population in rural areas (33.3 percent in 2011) than in urban centers (26.6 percent in 2011). It is worth noting that the national poverty line between 2002, 2008, and 2010 was raised in real terms, but was kept constant between 2010 and 2011¹. If the poverty line had been kept constant in real terms throughout the period, one would have observed a significant reduction in poverty between 2002/2003 and 2008/2009. Improvements in standard of living can also be seen in other measures of wellbeing. For example, the number of heads of livestock per households increased significantly during the same period, in particular among the poorest households.

16. ***Strong economic growth may translate into a further reduction in poverty. Yet, inequality in opportunities and outcomes may rise as the economy increasingly relies on the mining sector.*** Measured through the Gini coefficient, inequality in household per capita consumption increased from 32.9 in 2003 to 35.8 in 2008. Emerging evidence of such divergence can be seen in the rapid increase in salaries of skilled workers juxtaposed to a decline of real wages in the informal sector.

¹ The change in the real poverty line up to 2010 allowed NSO to reflect changing preferences and consumption patterns in a rapidly growing economy but with the consequence that these data are not comparable over time.

Appropriate social policies that promote equality of opportunity in access to basic services, targeted and sustainable social welfare programs to improve secondary income distribution, and other labor and social protection policies would mitigate further increase in inequality.

Box 1: Progress in achieving the Millennium Development Goals (MDGs)

Mongolia has made significant progress towards achieving a number of MDGs, but is off track on meeting certain key goals. It has achieved targets for child mortality (**MDG 4**), and has high primary education enrolment (**MDG 2**). It has made strong progress on maternal health (**MDG 5**), though it will have to further accelerate efforts to achieve the goal by 2015 and will need to reverse the downward trend in women's political empowerment.

Mongolia has made mixed progress towards **MDG 7** on Ensuring Environmental Sustainability. Access to safe drinking water has increased but the proportion of the population using improved sanitation facilities has not changed from 1995 levels. And while progress has been made in integrating sustainable development policies and programs – including an increase in protected water sources – these successes have also been accompanied by worsening environmental degradation in some areas, including increased urban air pollution and desertification.

17. ***School enrolment rates are high for girls and boys at all levels, but significant disparities in educational outcome by location and overall system quality remain a concern.*** The result of the 2008 national assessment showed that sampled Grade 5 students on average scored below 41 percent correct in reading and 32 percent correct in mathematics. The challenge of improving the quality of basic education is compounded by the fact that many children who begin Grade 1 are not ready for school. Currently, 24 percent of those aged 2-5 do not have access to early childhood education due to lack of kindergarten facilities – the vast majority of them from disadvantaged communities. Overall, developing a skills base to support the development of a middle-income country will require sustained reform across all levels of the education and training system, including in partnership with the private sector where appropriate.

18. ***Despite good achievements in health relative to Mongolia's income level, the health system can be improved.*** Mongolia has reached several of the health-related MDGs. However, health care utilization and outcomes are increasingly characterized by large inequalities, both geographic and socioeconomic. There are wide disparities across the country in maternal mortality and child health. Adult mortality rates are on the rise, driven by a rising incidence of non-communicable diseases. The availability and quality of social services in rural areas is hard to maintain and will take on new dimensions with the proposed decentralization of primary health care. Underlying are systemic problems with health services financing and delivery. Social health insurance lacks a long-term strategy for achieving universal coverage. A strategic priority in the health sector is to reorient the system towards a greater reliance on primary care. This will require capacity and systems to monitor quality, and promote greater coordination of care across levels of the health system.

19. ***Much has been achieved in improving gender equality in education and health.*** Education gaps have been reversed at all levels of education and girls now account for more than half of the students in tertiary education. Fertility rates stand today at 2. Maternal mortality was reduced from 130 per 100,000 live births in 1990 to 65 in 2009. However, violence against women remains alarmingly high with almost 20 percent of women surveyed by the National Statistical Office in 2009

reporting to have been subjected to physical violence by a husband or partner². The gender gap in life expectancy is also widening due to a worrying increase in adult male mortality.

20. ***There are persistent inequalities in economic opportunities for women.*** Although labor force participation remains adequate at 56 percent in 2010, average remuneration is lower for women. According to a recent analysis by the World Bank, women tend to retire early and are completely absent in some economic sectors: they continue to be over-represented in unpaid or low-paid jobs and under-represented in lucrative sectors such as transport. Under current policies, women are allowed to retire five years earlier than men, although women live on average seven years longer.

21. ***There has been a marked decline in women's opportunities to express their political voice, but Parliament has recently been taking action in support of women's participation.*** The proportion of women elected to the State Great Khural gradually fell from 23 percent in 1990 to 4 percent today. However, 2011 also saw the passage of two important legislations. A Gender Equality Law was developed with broad consultations and was adopted by Parliament in 2011. The Parliament also recently prescribed a 20 percent quota for women's participation on party lists starting with the 2012 parliamentary elections.

22. ***The rapid mining-driven economic growth also has a significant environmental footprint that is unsustainable.*** Much of the country's growth is derived and will continue to be generated from its natural capital (around 58 percent of country's wealth consist of minerals, forest resources, cropland and pastureland). Some 80 percent of the land area is grassland, representing the largest remaining contiguous area of common grazing in the world, with large herds of migratory gazelles and the world's largest population of wild ass. In the past two decades, a combination of human actions and natural causes has led to a significant decline in grassland quality: 70 percent of Mongolia's grasslands are affected by desertification, and the forest area has decreased by 25 percent. Human actions include changes in conventional livestock husbandry leading to overgrazing, and poor management of mining activities.

23. ***Major issues are emerging in water resources management, with growing competition for water use for mining, livestock, conservation flows and human consumption.*** Water resources are rapidly declining and the quality is believed to be deteriorating quickly. The on-going and planned mining developments in southern Mongolia will require significant quantities of groundwater. The impact of abstracting up to 350,000 cubic meters of groundwater per day on local communities and herders are as yet unknown. **Their livelihood** depends on groundwater from wells and springs.

24. ***Mongolia is highly vulnerable to climate risks because of its geographic location, extreme weather and fragile ecosystems.*** Climate risks in the country pose serious burdens on its development with an array of interrelated consequences for every sector of the society. They can affect peoples' living standards both short and longer term. According to Mongolia's National Action Program on Climate Change, the future climate scenarios project: (i) increased air temperature (2.1°-3° Celsius and 3.1°-5° Celsius by mid and end century respectively), the rate of increase is 2-3 times higher than the global average; (ii) increased precipitation in some areas; and (iii) reduction of water resources and arable land as potential evapo-transpiration increases would be 6-10 times higher than precipitation increases. Melting of permafrost, which covers more than 60 percent of the territory of Mongolia, will have adverse impacts on agriculture, water resources and infrastructure development. Agriculture and livestock, which are already heavily exposed to climate risks (such as dzuds -

² "Gender Based Violence in Mongolia – overview of studies and preventive actions", 2010/11, UNICEF, UNDP and UNFPA jointly with the National Committee on Gender (NCGE) and Center for Excellence in Social Work.

extremely harsh winters in which livestock is unable to find fodder under the snow cover), will continue to remain vulnerable, and large shocks will affect Mongolia's society and overall economy.

25. ***Agriculture employs about 40 percent of the workforce, but contributes less than 15 percent of GDP.*** Livestock constitutes 63 percent of the assets of rural households. Still, almost half of the herders live on incomes below the national poverty line. The majority of herders have fewer than 100 heads of livestock, which is considered too few to provide sufficient income to support a household. The effects of dzuds — and consequent high levels of livestock mortality -- have had a major impact on rural poverty. A series of dzuds between 1999 and 2002 were unprecedented but have been surpassed by events in 2009/10, as a result of which close to 10 million of the country's estimated 44 million livestock perished. While there is no scientific evidence that climate change is leading to more frequent or severe dzuds, there are fears that such events will become more frequent and/or severe while the country is also getting warmer and drier. The devastating loss of livestock as a result of these climate events has prompted a large number of herders to move to urban areas in search of employment.

26. ***In addition to having to contend with climatic risks, the development of the livestock sector is limited by its lack of integration into global supply chains, and lack of higher value-added production.*** Herders are increasingly exposed to shocks in international commodity, specifically cashmere, prices. Cashmere, considered a luxury good, is particularly volatile and sensitive to economic turn downs in consumer markets. In addition, livestock sector management is not meeting international standards of production that would enable it to export on a large scale to international markets. Furthermore, Mongolia's livestock sector is vulnerable to infectious diseases which could be better controlled. Diseases such as foot and mouth and brucellosis are prevalent despite substantial but not prioritized public spending on disease prevention. Over the longer term, the risk remains that "Dutch Disease" may erode the competitiveness of the agricultural sector as it would be unable to raise its prices in response to rising domestic input prices.

27. ***Mongolia's rapid urbanization adds pressure to urban services, particularly in Ulaanbaatar and small cities close to mining sites.*** An increasing share of the population has moved to urban centers in search of better economic opportunities and social services. Ulaanbaatar has seen its population doubled to 1.2 million³ in just two decades and it is expected to reach 1.9 million by 2030⁴. Most of Ulaanbaatar's in-migrants settle in unplanned peri-urban "ger areas". These informal settlements currently comprise 60 percent of the city's residents and 90 percent of its administrative area. Until recently they were viewed as temporary and did not benefit from the city's development planning or investments. Most urban infrastructure was constructed in the 1970s, and utility services, such as water supply, heating, and electricity, have reached capacity limits. As a result, residents in ger areas suffer from limited or no access to public services. Over 95 percent of roads are unpaved. They become impassible due to rain or ice and in the summer, rising dust also contributes to air pollution. Ger area residents suffer from higher rates of unemployment and rely more heavily on the informal sector for their livelihoods.

28. ***The urban environment, in particular air quality, is fast deteriorating causing significant health problems.*** To heat their homes in winter and cook, nearly 85 percent of urban residents rely on wood- or coal-burning stoves that are highly polluting. On a cold winter day, the concentration of particulate matters in Ulaanbaatar's ger areas can be up to 35 times higher than the WHO standards, leading to a high incidence of respiratory diseases, especially for children, and cardiovascular

³ According to 2010 Population and Housing Census, the population of UB city is 1.16 million.

⁴ JICA, the Study on City Master Plan and Urban Development Program for Ulaanbaatar City. (2007).

diseases. A recent World Bank study⁵, undertaken with the cooperation of the Ministry of Health, estimated that 1,600 people die prematurely every year due to high air pollution. In winter, Ulaanbaatar is not only the coldest capital in the world; it is also the most polluted.

29. ***An increasing number of people are exposed to natural disasters in urban areas.*** Poorly maintained storm water management facilities, low quality housing in hilly areas, degradation of land water retention capacity, and desertification in watershed areas have meant that Ulaanbaatar is becoming increasingly prone to flash floods. In addition, Ulaanbaatar is also situated in one of the most seismically active parts of the world, experiencing 30 to 50 quakes above 5.0 on the Richter magnitude scale on an annual basis. The Government has prioritized the protection of the population against natural disasters, and it recently approved policies and strategies to improve the legal environment for disaster management. Nevertheless, flash floods in 2009 and the 2010 dzud showed how much further work is still required to reduce people's vulnerability to disasters.

30. ***Finally, connecting people, services, and businesses across the vast land is a challenge.*** While there are nearly 50,000 km of roads throughout the country, 90 percent are earthen or gravel. Of the paved network that is more than 10 years old, less than 30 percent are considered to be in good condition. The main transport artery for goods is the Trans-Mongolian Railway that links to China and Russia. The biggest task is for Mongolia to build a transport and energy infrastructure to support the extraction, processing, and exportation of minerals. A World Bank study estimated the investment needs at US\$5 billion in Southern Mongolia only. On the positive side, Mongolia has been able to facilitate the development of a telecommunications network across the country. Today, all soums are covered by cellular phone services and they are increasingly accessing the internet. In 2008, 67 percent of the population owned cell phones and today's numbers will be significantly higher. Mobile telephony is opening a range of possibilities for delivering better and faster services – such as banking, weather information, or other government services – to the most remote parts of the country.

C. ECONOMIC CONTEXT

31. ***The economy grew by 17.3 percent in 2011***, compared to 6.4 percent GDP growth in 2010, and well above the average 9 percent seen during the previous mining boom in 2004-08. The fastest growing sector was wholesale and retail trade, which expanded by 43 percent during 2011 and contributed 4 percentage points to overall growth in 2011. Meanwhile, mining and manufacturing expanded by 8.7 percent and 16 percent during 2011. Agricultural output, which had contracted sharply during 2010 due to a dzud, was flat in 2011.

32. ***Inflation pressures continue to build, reflecting expansionary fiscal policy.*** Consumer price increases also remained in double digits during 2011, reflecting the effects of an expansionary fiscal policy stance in an already booming economy.

33. ***Government spending in 2011 was 56 percent higher than the previous year, and the 2012 budget seeks to ramp up spending further by 32 percent.*** The increased spending reflects pre-election year pressures and efforts to make good on earlier political promises for large cash handouts and increases in infrastructure spending. Revenues in 2011 were 43 percent higher than in 2010 thanks to growing receipts from royalties and dividends. As a result, the 2011 overall deficit amounted to only 3.6 percent, albeit a deterioration from the balanced budget achieved in 2010. Since 2011, the budget has been based on estimates of structural (i.e., long-term) mineral revenues as

⁵ World Bank, Air Quality Analysis of Ulaanbaatar: Improving Air Quality to Reduce Health Impacts, 2011.

required by the Fiscal Stability Law, with the difference between actual revenues and structural revenues (around 2 percent of GDP) saved in a Fiscal Stability Fund. By this measure, the 2011 structural deficit (structural revenues less actual expenditures) stood at 5.8 percent. The structural deficit budget is forecast at 3 percent of GDP for 2012.

34. ***To control inflation, monetary and fiscal policies need to work in tandem.*** The Bank of Mongolia raised the benchmark rate three times and the banking sector reserve requirement ratio to 11 percent. In order to contain inflation, it is important to pace government spending to avoid a wage-price spiral if higher inflation expectations become entrenched.

35. ***Recent history is a reminder that Mongolia's economy can go through boom-and-bust cycles.*** For instance, between 2004 and 2008 the economy grew at 9.1 percent on average annually, but growth plummeted to minus 1.3 percent in 2009 when global commodity prices collapsed. It had dire consequences for the Mongolian economy, including its banking sector. (See Box 2)

Box 2: The tale of a mining-dependent economy – the 2008 bust and the adoption of the Fiscal Stability Law

The macroeconomic situation deteriorated sharply during the latter half of 2008 due to plummeting global copper prices and the global economic downturn. The fiscal shock was large, causing the overall government balance to shift from a surplus of 2.9 percent of GDP in 2007 to a 5.4 percent deficit in 2009. Similarly, the external balance swung from a surplus into a deficit as export proceeds fell by one quarter in 2009. Inflation, which had peaked at 34 percent (year-on-year) in August 2008 due to large increases in domestic spending, loose monetary policy, and a de facto fixed exchange rate, turned negative for a brief period in the latter half of 2009 as the economy contracted sharply. Economic growth, which had been averaging 9.1 percent per year, came to a grinding halt and real GDP declined by 1.3 percent in 2009. The bust was compounded by the international economic crisis and a harsh winter “dzud” in 2009-2010.

The banking sector was particularly hard hit by the economic slowdown as the significant vulnerabilities accumulated during the prior period of economic boom were exposed. The unhedged foreign currency, and heavy credit concentrations in construction and mining sectors, resulted in dramatic deterioration of loan quality and erosion in banks' capital positions. In parallel, the abrupt drying up of external funding combined with chronic maturity mismatches led to pressures on liquidity. With the system's non-performing loans reaching 20 percent, the credit mechanism came to a virtual standstill and public confidence in the banks eroded rapidly. Two medium sized banks had to be put into bankruptcy in late 2008–2009 following a run by depositors. Only the introduction of a blanket deposit guarantee by the authorities, as well as the rapid economic turnaround, helped prevent the continued deposit outflow and more bank failures.

The Government reacted by adopting a strong legal foundation for a sound macroeconomic and fiscal framework. Three complementary fiscal rules form the basis of the ***Fiscal Stability Law*** (FSL) which passed with overwhelming majority in Parliament in June 2010. Under this law, the budget framework adopts a structural balance and saves the mineral revenues, which are the result of mineral prices higher than the long-term price projections, in a stabilization fund, following the example of Chile. The fiscal rules put strict limits on the structural fiscal deficit, public expenditure increases, and public debt. However, the essence of the FSL kicks in only in 2013, when a structural fiscal deficit of no more than 2 percent of GDP needs to be adhered to. If implemented fully, the FSL will go a long way to minimize strong currency appreciation and excessive public spending and borrowing.

The combination of strong policy action, supported by balance of payments and budget support from key development partners, together with a rebound in the copper price and the successful negotiation of the Oyu Tolgoi mining project, successfully stabilized the economic situation. The country successfully concluded an 18-month Stand-By Program with the IMF in October 2010.

36. *Mongolia's economy is expected to grow at a double-digit rate over the CPS period.* As significant investments are required to extract Mongolia's mineral resources and transport them to markets, large multiplier effects on related sectors, particularly infrastructure, transport and utilities are expected. (see Table 1) For example, an estimated US\$5 billion is needed in the Southern Mongolia region by 2015 for investment in railways, electricity, towns, and water, a substantial financial injection into the economy.⁶

Table 1 - Mongolia: Medium Term Forecasts

	2009	2010	2011	2012f	2013f	2014f	2015f	2016f
Real GDP (% yoy change)	-1.3	6.4	17.3	15.2	20.5	15.7	9.0	15.5
CPI (% yoy change, eop)	1.9	14.3	11.1	12.0	7.0	5.0	5.0	5.0
Copper Prices (2005=100)*	140.5	205.0	250.3	241.5	241.5	241.5	241.5	241.5
Government expenditures (as % of GDP)	35.2	36.6	44.2	39.1*	31.5	28.0	32.4	35.1
Government revenues (as % of GDP)	30.2	36.6	40.6	38.1*	32.1	31.2	33.5	34.9
Government balance (% of GDP)	-5.0	0	-3.6	-1.0*	0.5	3.2	1.1	-0.2
Structural govt balance	-6.8	-2.8	-6.3	-6.5	-2.0	1.8	-0.1	-0.5
Current account balance (% of GDP)	-9.0	-14.3	-35.0	-13.6	1.9	6.0	12.0	12.2
Foreign exchange reserves, net (US\$m)	1,145	2,091	2,274	4,127	4,452	4,601	5,399	6,136
(In months of next years' imports of goods and services)	3.7	4.3	5.1	5.6	8.8	8.8	8.8	8.8

Sources: NSO, IMF, World Bank. * 2012 estimates are from the 2012 budget.

37. *Looking ahead, Mongolia is better equipped today to face a potential international financial crisis.* It has adopted a fiscal framework scheduled for full implementation starting in 2013. Although it has not implemented a complete banking sector reform, the Bank of Mongolia is better positioned to exert its supervisory role over banks. Finally, the Social Welfare Reform Law ensures that basic social protection will be provided to the poorest.

D. POLITICAL, INSTITUTIONAL AND GOVERNANCE CONTEXT

38. *Since the end of socialist rule in early 1990, Mongolia has built a multi-party democracy.* Two leading political parties, the Mongolian People's Party (MPP, previously known as the Mongolian People's Revolutionary Party) and the Democratic Party (DP) have ruled in alternation – at times at a rapid pace. Transition from one Government to the other was for the most part peaceful but the Parliamentary elections in June 2008 were marred by claims of voting fraud. The next parliamentary elections are scheduled for June 2012 and the presidential election will take place in 2013.

39. *The political landscape is characterized by open and free public debate.* Parliament actively and openly debates new laws. The opposition is vocal and able to get its views heard. The President of Mongolia has increased the involvement of civil society organizations and citizens' groups by

⁶ World Bank (2009)

organizing regular Citizens' Halls to debate matters of importance for the country. Civil society would gain further influence if it had the capacity to organize itself into a powerful force for change and accountability. There is an abundance of media outlets (i.e., written press, TV channels) representing different affiliations and opinions, often highly influenced by the interests of the media owners. Journalists can attend and report on Parliament's meetings and parliamentary decisions are all posted on the internet within a short period of time. Most recently, the country passed a milestone by enacting a Law on the Right to Information.

40. ***As Mongolia becomes a middle-income country, it faces a range of complex institutional challenges.*** (i) a scaling up of existing institutions particularly in public expenditure management to manage the mineral wealth and invest in the considerable infrastructure to develop and benefit from the new mines; (ii) the development of a new set of institutions that would enable it to access international markets and develop a range of financing products; and (iii) structural reforms of service delivery systems to ensure an efficient institutional base for effective deployment of incremental public resources.

41. ***Public sector institutions have already gone through a first phase of transformation during the market-based reforms but they will need to evolve further.*** While budget execution and treasury management have improved significantly at the central level and are undertaken by competent staff, Mongolia still has to tackle a series of limitations: unpredictable budgets, little long term planning, poor public investment management, insufficient capacity in line ministries to forecast needs, relatively low civil servant salaries at the senior level, and the difficulty to attract people to public sector positions in the countryside.

42. ***The country recently decided to decentralize core services.*** This is bringing decision-making closer to the people, but also raises a range of implementation issues in the short and medium term. Decentralization offers a host of opportunities for greater civic participation in priority setting and oversight of services and can significantly improve governance and transparency. Yet, decentralization of social services also requires common national standards and systems, and effective equalization of basic services across the country. Getting the decentralization process right is instrumental to staving off discontent on the part of rural and poorer urban populations and ensuring that equality of opportunity to basic services is assured. Global experience suggests that the risks in achieving an effective decentralization are substantial and offer many lessons for Mongolia to avoid pitfalls in its own reforms.

43. ***Mongolia fares better than many comparator countries in setting up the regulatory and institutional framework for greater transparency.*** In 2006, it adopted a new Anti-Corruption Law and established an Independent Authority Against Corruption (IAAC) that is still in nascent stage. Mongolia adhered to the Extractive Industries Transparency Initiative (EITI) in 2005 and became EITI compliant in the span of five years. All civil servants and elected officials have to file Income & Assets Disclosure forms annually. Thanks to work undertaken in the past few years to improve public financial management – in particular on the quality and quantity of public budget information – Mongolia stands out for its remarkable progress on the Open Budget Index (OBI): between 2006 and 2010, the OBI increased from 18 to 60, placing Mongolia second behind South Korea in East Asia. Per the revised Public Procurement Law, civil society groups are mandated to participate in public procurement, specifically in bid evaluation and ex-post monitoring of government contracts.

44. ***Many difficulties remain concerning corruption, conflicts of interest and political fragmentation.*** Patronage links within a small population are embedded in political parties, regional networks, and business conglomerates. For example, many financial institutions have significant

shares in non-financial companies and vice-versa which has led to distortions in the allocation of credit. Such problems have led to the recent adoption of a law on Conflicts of Interest that will require (i) agencies to adopt and enforce a code of ethics and (ii) public servants to register private interests with the IAAC starting from July 2012. In addition, channels for citizen accountability in service delivery have been piloted but still remain to be institutionalized as part of the broader governance framework.

45. ***The mining boom is increasing opportunities for greater corruption and could drive policymaking towards more populism and patronage.*** As mandated by the Anti-Corruption Law, the IAAC developed a Corruption Index based on qualitative and quantitative indicators, including households, experts, and businesses perceptions of corruption, as well as agency self-assessments. The perceptions survey revealed that 13 percent of respondents claimed to have paid a bribe to a public official in the preceding 12 months. Transparency International's Corruption Perceptions Index ranks Mongolia 120 out of the 183 countries measured. The Worldwide Governance Indicators reflect a deterioration of all indicators over the past decade, except in regulatory quality (see Attachment 3). According to Transparency International's 2010 Global Corruption Barometer, 73 percent of the population surveyed in Mongolia reported that corruption had increased in the previous three years; only 7 percent thought that corruption had decreased. They perceived political parties, Parliament, the judiciary, and police as the most corrupt. Half of the respondents considered the Government's actions in the fight against corruption to be ineffective.

46. ***Significant vulnerabilities and opportunities for corruption exist across Mongolia's government agencies.*** To date, many government agencies lack proper resources, including specific routines for internal checks, internal and external auditing, and efficient processes that limit corruption. Poor performance in the public management system is also caused by the absence of effective performance measuring systems.

47. ***Despite greater efforts at transparency, the country is struggling to establish a culture of accountability.*** While an adequate policy framework is in place, there appears to be a gap between enacted rules and actual practices. In part with Bank support, Mongolia has successfully implemented "first generation" public financial management (PFM) reforms – including the establishment of a consistent legal framework and effective systems for budget execution, monitoring and reporting. Public revenues from mining will increase exponentially over the next few years. A stronger sense of transparency and accountability at the national, local and corporate levels will be vital to secure the transformation of non-renewable mineral resources into renewable assets.

48. ***Although outspoken, media and civil society have a limited capacity to serve as a check on Government.*** As of early 2010, there were 3,840 media practitioners in 383 media outlets throughout Mongolia with 1,709 journalists and contributors. This large number notwithstanding, most media is controlled by the business-political elite and rigorous investigative journalism is scarce and often under pressure. Similarly, the capacities of civil society organizations to report, track and follow up on corruption and mismanagement are limited.

49. ***Mongolia is facing typical circumstances of countries with small populations and these need to be better reflected when addressing governance and anti-corruption issues.*** Small countries are exposed to a higher vulnerability to corruption since the small size of the population translates into a close interface between the public and private sectors. People are related, are friends, have gone to school together. This closeness influences government operations and actions. On the other hand, in a small knit community it is also difficult to hide corruption and other mechanisms can come in to control unethical behavior. Further efforts to curb corruption need to build on these particular

challenges especially by promoting government transparency and accountability, allowing for controlled flexibility in hiring and other public-private engagements, and by creating a better understanding of the cost and societal impact of corruption.

II. LESSONS LEARNED FROM PAST WORLD BANK GROUP ENGAGEMENT IN MONGOLIA

50. ***Today, IDA net commitments in Mongolia stand at US\$220 million, compared to US\$136.6 million in FY05, and are provided through 14 projects.*** The IDA net commitments include grants and credits. The majority of the projects support infrastructure development, economic governance and institutional strengthening of the mining sector. A Country Portfolio Performance Review (CPPR) in 2011 concluded that the portfolio is well aligned with government priorities.

51. ***Mongolia has also benefited from considerable trust fund support that is closely aligned with the country's priorities.*** Contributions from donors increased to US\$74.5 million in FY11, up from US\$23.55 million in FY05. A total of 42.5 percent of the donor resources in the active trust fund portfolio have been provided as co-financing of IDA operations.

52. ***IFC's committed investment portfolio in Mongolia currently stands at US\$131.2 million.*** This includes equity, loans, convertible loans, and trade finance lines. In FY11, IFC achieved a record-high level of investment committing US\$83 million in seven projects. It also secured important donor funding to provide advisory services in Mongolia, allowing it to increase significantly its programs. Currently, its three advisory services programs focus on (i) Investment Climate (Business Inspections Reform); (ii) Corporate Governance; and (iii) Access to Finance (trade finance, leasing, credit information, mobile banking). IFC, in close coordination with the Bank, is also exploring advisory services to support the Government of Mongolia's effort to form Public-Private Partnerships, mainly in the infrastructure sector.

53. ***Past engagement in Mongolia was guided by the Mongolia Country Assistance Strategy (CAS) FY05-FY08 and the Interim Strategy Note (ISN) 2009-2010.*** These were discussed by the World Bank Executive Directors in April 2004 and May 2009 respectively. Both strategies were fully aligned with government strategies, including the Economic Growth Support and Poverty Reduction strategy (EGSPRS) as well as the subsequent Government Action Plan (2008-2012) and the National Development Strategy (2008-2021).

54. ***The CAS FY05-FY08 was built around the five main pillars of the Government's Economic Growth Support and Poverty Reduction Strategy.*** These were (1) ensuring macro-economic stability and public sector effectiveness; (2) supporting production and exports and improving the environment for private sector-led development; (3) enhancing regional and rural development and environmentally sustainable development; (4) fostering sustainable human development, and (5) promoting good governance, and implementing and monitoring the strategy. Within these pillars, the CAS was organized around three main objectives, namely (i) consolidating the transition; (ii) reducing vulnerabilities, and (iii) strengthening the alignment of policies and resources around results. A results framework was designed around these objectives in clusters of key results areas and 20 outcomes. The progress towards the achievements of these outcomes was to be monitored through multiple indicators and milestones.

55. ***The CAS implementation was rapidly affected by two external events.*** First, a period of political uncertainty followed the 2004 elections and the ensuing Governments did not have a program of reforms that could be supported through a series of budget-support operations as earlier planned. Second, the CAS had not foreseen the speed at which the mining boom would occur and the

range of new development challenges that it brought about. The team thus re-adjusted its approach to consolidating the transition and reducing vulnerabilities and initiated a series of mining-specific work. This work was later reflected in the ISN 2009-2010.

56. ***The ISN 2009-2010 was formulated with a view to supporting the Government's efforts to restore economic stability in the aftermath of the economic crisis that affected the country during the latter half of 2008 and 2009.*** The ISN outlined Bank Group support in the following areas: (i) improving macro and fiscal sustainability in a mineral-based economy; (ii) protecting the poor and vulnerable; and (iii) encouraging transparent and prudent mining investment and a more competitive and stable medium-term business investment climate. A results framework included these goals and related outcomes and milestones.

57. ***Under the CAS and ISN, the Bank Group's analytical and advisory activities (AAA) provided substantial support to operations, and informed the Government's reform path and response to the economic crisis.*** The Bank is generally considered by the Government, development partners, and other national stakeholders to have strong comparative advantage in analytical and policy work, including bringing in global innovations and best practice. Examples of the analytical and policy work undertaken in recent years include the Mining Sector Review (2006), the Country Economic Memorandum (2007), Public Expenditure and Financial Management Review (2008), ROSC Accounting and Auditing Review (2008), Livestock Sector Study (2009), South Gobi Infrastructure and Environment (2009), Civil Service Reform (2009), Public Investment Management Review (2010), Banking Restructuring Program (2010), and Poverty Assessment Policy Notes (2010). The Bank also produces regular Economic Updates that are well received by stakeholders. IFC significantly increased its advisory services in Mongolia to help develop the business and investment climate and support financial markets.

58. ***Strong alignment of IFC and the Bank's strategic priorities created critical synergies.*** IFC and the Bank maintained a strong working relationship in both investment and advisory services in the areas of mining and infrastructure, financial markets, agriculture, corporate governance and SMEs. For example, during the CAS and ISN periods, IFC made a number of investments and provided advisory services supporting banking consolidation, including a variety of new investment products and advisory work to improve risk management and spread best practice lending and environmental and social standards, which complemented the Bank's program following the 2008 banking crisis. IFC's approach to mining and infrastructure sector is also fully aligned with the Bank's strategic priorities.

59. ***The CAS and ISN Completion Report (Attachment 4) rated the performance of the CAS as moderately unsatisfactory and the ISN as satisfactory.*** The overall rating of both the CAS and the ISN was moderately satisfactory.

60. ***From an implementation perspective, the portfolio performance has been satisfactory.*** The disbursement ratio for FY11 was 29.3 percent, above the regional average of 22.4 percent. There is one problem project that is being restructured. All 13 projects which exited the portfolio in the past decade have been rated moderately satisfactory or satisfactory by IEG.

61. ***The CAS and ISN completion report identified the following key lessons with implications for the design and implementation of the FY2013-FY2017 CPS:***

- ***Build in flexibility to take account of transitions and emerging priorities.*** Alignment of the country strategy with national priorities and development plans is integral, but flexibility to accommodate emerging and unforeseen developments must be incorporated.
- ***Ensure alignment, focus on fewer outcomes and ensure a clear results framework.*** The results agenda should: (i) be aligned with selected national development priorities, (ii) take into account activities of development partners, (iii) engage in areas with strong client demand where the Bank Group has a comparative advantage; (iv) be simple and only have a few selected outcomes and clearly monitorable indicators; and (v) link directly with proposed activities.
- ***Design programs/projects to minimize implementation challenges.*** Given capacity constraints, simplification of project designs should be a priority, though this should not prevent the Bank to work with the Government on pioneering innovative approaches. Greater reliance on country systems should be explored in conjunction with capacity strengthening.
- ***Take a programmatic approach to AAA.*** The Bank should consider multi-year programmatic ESW and TA programs in key areas (e.g., public expenditures, governance, service delivery and decentralization) while continuing with responsive policy notes and advisory pieces.
- ***Consider the longer-term role of the Bank in Mongolia.*** Ensure flexibility of Bank's engagement as the country graduates from IDA to IBRD and while continuing to provide strong analytical and advisory services, focus resources on "piloting" new approaches and improving the implementation capacity of the Government. Mongolia will become less reliant on ODA, and some donors may reorient their support to other low-income countries, affecting the ability to mobilize Trust Fund resources.

62. ***In preparation for this FY2013-2017 Country Partnership Strategy, the World Bank team also undertook specific reviews of its portfolio from three perspectives: overall performance, integration of gender, and furthering of governance objectives.*** The World Bank Institute has also undertaken a case study on the World Bank's overall effectiveness in supporting Mongolia's mining transformation as part of its learning series on Governance and Extractive Industries.

63. ***The Country Portfolio Performance Review (CPPR) undertaken in 2011 provided a range of recommendations to improve portfolio performance further.*** Among others, the CPPR recommended more disciplined supervision reporting and recording, better integration of non-blended trust funds in the overall portfolio, and pointed to the opportunity cost associated with the prevailing pattern of extending projects beyond their original closing date. The review also pointed to the need to systematically ensure the involvement of safeguard specialists in the operations in the country.

64. ***The portfolio of lending and advisory work was also analyzed as to the integration of gender considerations in key Bank projects and policy recommendations.*** Specifically, the review assessed four aspects:

- Overall adequacy of the attention to gender issues;
- The identification of gender issues during preparation of projects and AAA;
- The inclusion of specific measures to ensure gender inclusion in program benefits during implementation or in analytical work; and,
- The adoption of mechanisms to monitor gender impacts.

Key findings were that the Bank could achieve much greater impact through better mainstreaming of gender considerations, particularly in key sectors such as mining, rural livelihood, urban infrastructure, and social protection. While the Bank recently undertook analytical work specific to gender (e.g., women and the labor market) and systematically monitors the benefits for women in certain projects (e.g., Enhanced Access to Justice, microfinance component of the Sustainable Livelihood Program), it could do so more consistently. The Bank should consider at the concept stage of each project or analytical work if there are gender dimensions that could be addressed and monitor these throughout implementation. In addition, the review flagged that the World Bank could take a more active role in disseminating the recently approved Law on Gender Equality.

65. *Finally, the Bank reviewed how it could strengthen its engagement in governance and anti-corruption.* Mongolia is one of the C-GAP pilot countries that benefits from support from the Governance Partnership Facility in the East Asia and Pacific region. The Bank has helped advance a series of institutional reforms under the CAS and ISN, working closely with the IAAC, the Ministry of Finance, Parliamentarians, CSOs and media. GPF grant funding proved critical to the Bank undertaking outreach and advocacy for reform. Going forward, Bank support will be required not only to advance the design of reforms but also to strengthen their implementation.

III. THE GOVERNMENT’S DEVELOPMENT PRIORITIES AND HOW THE WORLD BANK GROUP WILL SUPPORT THEM

A. MONGOLIA’S MEDIUM-TERM PRIORITIES

66. *Over the past few years, the Government has developed and adopted a series of strategic documents outlining its development goals.* In 2008, the Government defined the Millennium Development Goals-Based Comprehensive National Development Strategy of Mongolia which was approved by Parliament. The document sets a 14-year development path “aimed at promoting human development in Mongolia, in a humane, civil, and democratic society, and developing intensely the country’s economy, society, science, technology, culture and civilization in strict compliance with global and regional development trends.” The objective is “to protect and strengthen Mongolia’s sovereignty, and develop it into a middle-income country through achieving its MDGs attaching high priority to promoting private sector-led dynamic economic growth, human development including education, healthcare, as well as sustainable development of science, technology and environment, strengthening intellectual development and human capacity; creating knowledge-based economy sustained by high technology, which respects environmentally friendly production and services; fostering a democratic system of governance, which serves its citizens, protects human rights and freedoms, and is free from corruption and red tape.” The Strategy covers two phases: the first phase (2007-2015) will focus on achieving the MDGs and actively developing the country’s economy; the second phase (2016-2021) will be dedicated to transitioning to a knowledge-based economy.

67. *Progress towards the Millennium Development Goals is being assessed regularly by the Government, with the support of the United Nations Development Program.* The most recent report “Third National Report on the Millennium Development Goals Implementation” was released in 2011. The report is forthcoming in its assessment of progress and attempts to provide policy recommendations to accelerate progress, in particular regarding the three MDGs identified as lagging by National Statistical Office data – i.e., poverty⁷, gender equality, and environment.

⁷ When adjusting the national poverty line to new consumption patterns over time, it appears that the poverty level between 2002 and 2008 as measured by the NSO remained stable.

68. *Although the Comprehensive National Development Strategy sets a broad framework, it does not spell out a specific action plan.* Some sectors – such as health, agriculture, and environment – have come up with strategies that are more specific. However, the Government often lacks the capacity to translate those strategies into concrete action plans with clear allocation of accountabilities around which ministries, agencies at the national and local level, private sector, civil society and development partners can plan and coordinate actions.

69. *The lack of a national actionable plan does not prevent the Government – and policymakers in general – to give a sense of the directions in which they would like the country to head.* Based on public statements and policy decisions, key objectives can be described as follows:

- to **be a world-class mineral-led economy**. There is a shared conviction that mineral resources present a unique opportunity for Mongolia to rapidly become a middle-income country. There is also a shared understanding that for the mining wealth to materialize, an appropriate regulatory framework – covering not only mining financial aspects but also labor, social and environmental dimensions – needs to be in place, infrastructure to facilitate the mining exploitation is to be planned and built, and a labor force has to be trained.
- to **diversify the economy** by building on the non-mineral economic basis (e.g., agriculture, tourism). As of now, the Government has adopted different schemes that rely mostly on subsidies of various forms for specific industries (e.g., Small and Medium Enterprises fund, cashmere and meat bonds, national livestock program).
- to **share the mining wealth** among the Mongolian population. There are strong expectations among the population that the benefits extracted from the land will be shared among all. During the 2008 elections, political parties committed to distribute the equivalent of US\$1,500 per person during their government tenure. The Government is now making good on its promise by channeling mining royalties, dividends and prepayments into a Human Development Fund (HDF) and distributing them in the form of (i) a universal cash transfer of about US\$16 per person per month, (ii) stipends, and other universal benefits; and (iii) a scheme to distribute shares of Erdenes MGL, the state-owned enterprise which regroups all strategic mining assets. While well intentioned, the HDF approach is fiscally unsustainable, accounting for around 10 percent of total public spending. It would be more efficient to use mining revenues to reduce poverty if it was targeted at the poorest families. Therefore, as part of the preparation for the 2012 elections, political parties have committed to refrain from making cash promises and to discontinue universal HDF cash payments from July 2012 onwards. In its place, Parliament adopted in January 2012 a social welfare reform that is based on a redistribution system that targets the poorest. The national debate is now about making growth inclusive.
- to **continue strengthening the country's democratic tradition** by involving civil society and local communities in decision processes. The institutional framework in Mongolia allows for the open involvement of civil society in public decisions and was further advanced by the recently approved Integrated Budget Law.
- to **develop a modern financial capability** in line with Mongolia's middle-income status. The country is equipping itself with financial instruments that would help it fund its development needs in a more flexible way over time. In addition to requesting IBRD and

OCR status with the World Bank and Asian Development Bank, it recently established the Mongolian Development Bank which will focus on financing infrastructure projects. The Government is issuing domestic treasury bonds and is considering issuing foreign-denominated bonds. Finally, as part of an ambitious strategy to develop domestic capital markets, the Government has signed a partnership agreement with the London Stock Exchange to build capacity at the Mongolian Stock Exchange.

70. ***Based on a range of consultations undertaken with stakeholders (including an anonymous client survey – see Box 3), these goals are broadly shared across the population.*** There is of course diversity in the ordering of the priorities among groups – for example, some put greater emphasis on the development of the rural economy while others focus more on developing infrastructure in mining areas. Civil society in particular conveyed the need for the World Bank to continue supporting the country in building institutions of accountability, not only in the mining sector but in the broader economy.

Box 3: Client Survey

In June and July 2011, 538 stakeholders of the World Bank in Mongolia were invited to provide opinions on the Bank’s assistance in a country survey. Stakeholders included Members of Parliament, officials from government ministries and agencies, provincial officials, project staff, civil society organizations, NGOs, private sector, media, trade unions, the judiciary and members of the academic community. The response rate was 58 percent. The survey pointed to the following lessons:

- Respondents valued the Bank’s policy and economic advice most, followed by its technical assistance;
- Governance/government effectiveness were considered the key development priority in the country, and private sector growth, mining, and basic infrastructure development were seen as critical elements to poverty reduction and economic growth;
- Respondents indicated that the Bank was most important in strengthening infrastructure development and in encouraging greater transparency in governance, and believed that most focus should be on government effectiveness and improving basic infrastructure, and to a lesser degree on private sector growth and investment, education, poverty reduction, growth and improving natural resource management. Nearly half of all respondents indicated that the Bank should be more involved in Mongolia’s development strategies;
- Respondents indicated that the Bank should work more closely with NGOs, the private sector, local Government and academia;
- A number of stakeholders believed there is not enough public disclosure of the Bank’s work; and,
- The survey also indicated a perceived decline in the Bank’s efficiency and speed with which funds are disbursed, as well as more cumbersome procurement requirements.

Across all respondents, the Bank’s overall effectiveness and the perception of an institution that plays a relevant role in Mongolia’s development received a mean rating of 7 on a 10 point scale.

B. RESOURCES THAT THE WORLD BANK GROUP CAN PROVIDE TO SUPPORT MONGOLIA’S DEVELOPMENT PRIORITIES

71. ***This Country Partnership Strategy lays the foundation for Mongolia’s access to IBRD resources.*** In the span of six years, Mongolia’s GNI per capita has nearly quadrupled from US\$480 in 2004 to US\$1,890 in 2010, a level well above the 2010 cut-off mark set for low-income of US\$1,005 per capita. In light of its economic advancement, the Mongolian Government has requested the World Bank to change the country’s status from “IDA-only” to “Blend” enabling access to resources on a non-concessional basis as well as concessional resources. While balancing

the number of positive developments that have taken place in the past two years in Mongolia with the risks associated with the development of a mineral-rich economy, the World Bank has decided to declare Mongolia creditworthy for IBRD lending.

72. ***A key element for consideration when deciding on IBRD's exposure to Mongolia is the country's management of its public debt and how it is expected to evolve in coming years.*** The establishment of the Fiscal Stability Fund and the issuance of government guarantees to the Development Bank imply a need to gradually expand the focus from the public debt, to the risk exposure of the overall balance sheet of the Government, i.e., monitoring and managing risks related to direct and contingent assets and liabilities, and to exogenous shocks. Both the World Bank and the IMF are committed to continue providing guidance and share experiences with the Mongolian Government in this critical area and the authorities are receptive to such work.

73. ***Mongolia will benefit from a full IDA allocation under IDA16 (FY12-FY14) as a blend country.*** The CPS period (FY13-17) spans across two IDA replenishment periods of IDA16 (FY12-14) and IDA17 (FY15-17). The indicative IDA16 allocation for the FY12-FY14 period is SDR64.8 million⁸. Out of this IDA16 allocation, SDR22.7 million has been firmly allocated for FY12. The IDA16 allocation for FY13-FY14 (SDR42.1 million) is indicative only, and the actual allocation will depend on: (i) total IDA resources available, (ii) the country's performance rating; (iii) the performance and assistance terms of other IDA borrowers; (iv) the terms of IDA's assistance to country (credit and blend terms for Mongolia) and; (v) the number of IDA-eligible countries. As Mongolia will now be a "Blend" country, the borrowing terms that will apply to IDA resources are the following: a 25-year maturity, a 5-year grace period, and a 1.25 percent interest charge.

74. ***The Blend status not only increases resources to Mongolia, it also expands the types of financial products and services.*** In addition to a full IDA allocation for the period of FY12-FY14, Mongolia will gradually start accessing IBRD resources that would be used for investment operations. At this stage, a pipeline of projects that could potentially be financed with IBRD funds is being developed. Initial ideas have been included in the lending program. Once the IBRD lending program is firmed up, it would be presented as part of the CPS Progress Report or with the first IBRD-funded operation, whichever comes first.

75. ***IFC can play a critical role in assisting Mongolia to address its private sector development needs on multiple fronts.*** IFC offers three lines of services: Investment Services, Advisory Services, and through its Asset Management Company (AMC). IFC's investment services provide a broad suite of financial products including loans, equity, trade finance, structured finance, risk management products and syndicated loans in all sectors and enable companies to manage risk and broaden their access to foreign and domestic capital markets. IFC advisory services offer advice in a broad range of topics aimed at private sector development, from helping the Government implement reforms to improve their business environment, to promoting sustainable business practices at firm level, advancing good corporate governance practices, building the capacity of small firms and small-scale farmers, advancing women in business, promoting higher environmental and social standards, and engaging the private sector in climate-change solutions. IFC also promotes access to finance both through investment services and advisory services. IFC's AMC, a wholly owned subsidiary of IFC, was created to channel the resources held by sovereign funds, pension funds and other institutional investors to investment opportunities in developing countries. In this process, IFC expands its development reach by "crowding in" commercial investors by demonstrating the financial benefits and growth opportunities as well as the development impact of investing in these markets. IFC is

⁸ Equivalent to about US\$101million as of February 2012.

exploring future investment opportunities in the financial markets, manufacturing, and agriculture sectors, and is committed to enhancing its program during the new CPS period.

76. In addition to IFC's investment programs, IFC has significantly increased its advisory services with over US\$1.5 million projects funded by IFC, two donors (Japan and Netherlands) and clients to develop the investment climate and support financial markets. In April 2011, existing advisory programs received an additional US\$2.5 million from Japan, bringing the total funding to nearly US\$ 4 million.

77. ***Mongolia is a strategic priority for the Multilateral Investment Guarantee Agency (MIGA) and it is exploring opportunities related to the mining sector.*** MIGA's other strategic priorities are South-South transactions, complex infrastructure projects, and supporting financial sector institutions to enhance access to finance. MIGA's focus in Mongolia will be to support sustainable development of the mining sector, associated industries and also enhance financing for infrastructure.

78. ***MIGA can provide support and incentives for foreign investors looking at entering the Mongolian market.*** Through its Political Risk Insurance (PRI) product, MIGA offers reassurance for investors concerned about political interventions or disruptions which might affect their returns. MIGA's main covers offer protection against Transfer or Convertibility Restriction, Expropriation and Breach of Contract risk, War and Civil Disturbance risks. With uncertainty in the political, economic or regulatory environment, these guarantees offer protection for investors unsure about counterparty risk with the Government or about how more conventional political disruptions and civil disturbances might cause physical damage or disrupt their operations. In the Mongolian context, MIGA's guarantee product could support the mining sector through supporting investors, and buffering the reform of the sector to encourage new exploration and socially sustainable development. The reassurance offered by MIGA guarantees would potentially be particularly useful for investors uncertain about further Government interventions and policy changes in the sector.

79. ***More recently, MIGA has launched a new cover, guaranteeing the Non-Honoring of a Sovereign Financial Obligation, a coverage which provides credit enhancement in transactions involving sovereign and sub-sovereign obligors.*** Again, this may fill a local need, as the primary beneficiaries here would be commercial lenders that provide loans to public sector entities for infrastructure and other productive investments. Finally, MIGA offers a more streamlined product under its Small Investment Program (SIP) where it offers the standard basic covers to smaller investors entering a foreign market.

80. ***In addition to providing resources, the World Bank Group's programs can be platforms for engaging with other Development Partners on strategic priorities.*** At US\$74.5 million, the Recipient Executed Trust Fund (RETF) portfolio is equivalent to more than one third of Mongolia's IDA portfolio. In fact, half of the RETFs co-finance IDA projects, successfully leveraging resources from donors for the benefit of the client. The World Bank will continue its practice of establishing platforms for engagement with Development Partners in areas which the Bank has determined as strategic for its program and in which it has established a comparative advantage through its analytical work. An example of such approach is the ongoing rural program (see Box 4). Such approach has the benefits of further enhancing donor coordination and aid harmonization, reducing the transaction cost of receiving overseas development assistance on the part of the Government, and increasing the impact of the work of the Bank.

Box 4: Using WB programs to engage other Development Partners and generate greater impact

The Sustainable Livelihoods Program (SLP) was launched in 2002 to address poverty and vulnerability, primarily in rural areas, by developing mechanisms to support the livelihoods of rural citizens. This is a long term objective, to be achieved through a three phased Adaptable Program Loan, during which the approaches would be piloted, then scaled up and ultimately embedded in policy and institutions, with capacity and tools in place for sustainability. In addition, a separate project, the Index-based Livestock Insurance Project (IBLIP), was spun out of SLP to provide an innovative and market-based tool for rural risk management. The core financing for the program has come from IDA with, to date, a total of US\$63 million for SLP (first and second phases) and US\$18 million for IBLIP (including Additional Financing). However, trust fund support has been equally important. Trust Funds amounting to US\$25 million – from Japan (PHRD and JSDF), FIRST, Swiss Development Cooperation, European Union, and Korea – have supported the initial (often innovative) design work, have financed the costs of high caliber international technical assistance, have supported the capacity of local institutions and the improved focus on results, including M&E systems and impact assessment. Development Partners have increasingly recognized the Government's preference to use the Bank's rural portfolio (SLP and IBLIP) as a platform for support to rural Mongolia and have aligned around the themes of promoting innovation, supporting community based approaches to local development, and creating opportunities for sustainable livelihoods. In some cases, such as for the European Union, the support is its largest single commitment in Mongolia. The TF support has therefore helped partners increase their visibility in the country while enabling IDA to leverage additional funds to push forward innovation and capacity building and ultimately increase the impact of IDA resources.

81. *Finally, the World Bank Group will continue to support the economic development of Mongolia through a range of Analytical and Advisory Activities.* As Mongolia becomes a middle-income country that can rely more and more on its own resources to finance its development, the World Bank's key contribution to Mongolia's development will increasingly take the form of knowledge, in-depth analyses, experience sharing with other countries, and the facilitation of training activities. Such activities will be organized around programmatic areas that are aligned with the development priorities of the country. They will take the form of core economic and sector work, just-in-time policy notes, technical assistance, and South-South exchanges. The World Bank Group will continue to invest in reaching out to policymakers in Government, Parliament, private sector companies, academia, civil society and media while developing these products.

C. STRATEGIC AREAS THAT THE WORLD BANK GROUP WILL SUPPORT AND EXPECTED RESULTS

82. *The strategic areas that the World Bank Group will support reflect the country's development challenges and government priorities, and builds on the priorities outlined in the ISN 2009-2010.* Extensive consultations with key stakeholders reveal a strong desire for the World Bank Group's program to continue along the lines outlined in the Interim Strategy Note 2009-2010. The World Bank Group will continue to support the country's efforts to transform its economy into a world-class mining economy, to support economic development in urban and rural areas, and to address vulnerabilities. But there will also be an increased emphasis on economic diversification, decentralization, and equitable access to social protection and basic delivery so that growth is more inclusive. The widened focus in the program will not translate automatically into additional projects but rather will be achieved by adapting ongoing projects (e.g., Multi-Sector TA), designing planned projects to the new needs (e.g., SLP3), and by providing analytical support depending on the Bank Group's comparative advantages.

83. *The proposed activities are well aligned and complementary to the priorities and projects of other Development Partners.* (See Attachment 6). Development Partners' ongoing commitments to Mongolia stand at US\$3.2 billion. The largest ODA contributors are: JICA, the People's Republic of

China, ADB, the Millennium Challenge Corporation, and the World Bank. JICA invests heavily in infrastructure (particularly urban) and education; PRC has ramped up its support in the areas of transport, housing development, manufacturing and agricultural processing; ADB focuses on energy, transport, water and other municipal services, education, and health. MCC has selected five areas for engagement, the most important ones being land rights, transport corridors, vocational education, air pollution, and health. In areas where there is joint interest, efforts are made to focus on different sub-sets. For example, in the education sector, ADB is the lead donor and strongly supports improvements in secondary and tertiary education; MCC, GIZ, EU, and UNDP focus on technical and vocational training; JICA, UNICEF and the World Bank support early childhood education and primary education. In the area of gender, the World Bank participates in the in-country UN Gender Thematic Group; UNDP, UNICEF and UNFPA have a comparative advantage in advancing women's political representation and fighting against gender-based violence, while the World Bank will work more on the gender dimensions in economic development (e.g., labor restrictions, pension reform). The Bank plays an important overall donor coordination role through its co-chairing with the Government of the annual Meeting of the Government of Mongolia with Development Partners.

Table 2: Indicative CPS program

Ongoing Projects	CPS Pillar	US\$ M	Indicative Financing Program	CPS Pillar	US\$ M
Energy Sector (FY01)	2	42.0	Ulaanbaatar Clean Air Project (FY12)	3	15
Economic Capacity TA (FY03)	1	7.5	E-Government Project (FY13)	1	15
Ulaanbaatar Services Improvement (FY04)	3	18.0	Sustainable Livelihoods 3 Project (FY13)	1,2,3	>30
Index-Based Livestock Insurance (FY05)	3	17.8	Third Ulaanbaatar Services Improvement Project (FY13)	1,3	20
Governance Assistance (FY06)	1	14.0	<i>SME Access to Finance Project (FY14) (IDA-IBRD)</i>	2	15
Information and Comm. Infrastructure Devt. (FY06)	2	8.0	E-Health Project (FY14)	3	15
Rural Education and Development READ (FY06)	3	5.0	AF – Mining Sector Institutional Strengthening (FY15)	1	IDA
Sustainable Livelihoods II (FY07)	3	44.0	AF – MONSTAT (FY15)	1	IDA
Renewable Energy for Rural Access (FY07)	2	3.5	<i>Transmission Line Project (FY15) (IBRD)</i>	3	50
Renewable Energy for Rural Access-GEF(FY07)	2	3.5	<i>District Heating Project (FY15) (IBRD)</i>	3	50
Mining Sector Institutional Strengthening (FY08)	1	9.3	Social Protection Administration Project (FY16)	3	IDA
Enhanced Justice Sector Services (FY08)	3	5.0	Index-Based Livestock 2 Project (FY16)	2,3	IDA
MONSTAT (FY09)	1	2.0	-----		
Multi-Sector TA (FY10)	1	12.0	<i>Note: AF = Additional Financing</i>		
Mining Infrastructure Investment Support (FY11)	1	25.0	<i>Items in italics are indicative IBRD financing</i>		
Major Ongoing Trust Funds (RETFs)	CPS Pillar	US\$ M	Key Ongoing and Indicative Nonlending Program		FY
EC TF: Sustainable Livelihoods 2	2,3	14.00	Reserves Assets Management Program (TA)	1	Cont
Education for All – Fast Track Initiative	3	29.40	Financial Sector Assessment Program (ESW)	2	12
EITI Grant (outreach)	1	0.25	Programmatic Social Protection (ESW)	3	12-13
GPE: Global Partnership for Education	3	10.00	Programmatic Agricultural Policy Review (ESW)	2	12-13
Korea TF: Index-Based Livestock Insurance	2,3	0.70	Programmatic Financial Sector Monitoring (ESW)	2	12-13
Korea TF: MONSTAT	1	1.40	Programmatic Mining Sector (TA)	1	12-13
Korea TF: Multi-sector TA	1,2,3	0.50	Programm. Municipal Financing for Ulaanbaatar (ESW)	1	12-13
MN-FS: Renewable Energy for Rural Access	2,3	6.00	Programmatic Poverty Analysis (ESW)	3	12-13
PHRD TF: Sustainable Livelihoods 2	1,2,3	3.90	Debt Management Strategy (TA)	1	12-13
			Programmatic Economic Policy/Qtrly Updates (ESW)	1	12-14
			Finan. Literacy and Consumer Protection Assessmnt (TA)	2	13
			Poverty and Inequality Study (ESW)	3	13
			Gender Action Plan (ESW)	3	13
			Programmatic Accountability/Service Delivery (ESW)	3	13-14
			[Admin. Courts/Executive Accountability (ESW)]	3	14
			Procurement Assessment (TA)	1	14
			Disaster Preparedness (TA)	3	14
Major Indicative/Planned Trust Funds					
AusAid TF: Groundwater Mgmt in South Gobi	1	6.00			
AusAid TF: Mining and the Environment	1	Tbd			
FIRST Initiative: Financial Sector Stability	2	0.20			
GAFFSP: Livestock-Based Livelihoods Improvement	2	11.00			
GFAHI MDTF: Avian and Human Influenza 2	2	2.50			
JSDF: Primary Educ. Vulnerable Rural Children	3	2.60			
SDC (Swiss): Participatory Planning/Decentralizatin	3	0.60			

Notes:

Pillar 1: Enhance Mongolia's Capacity to Manage the Mining Economy sustainably and transparently

Pillar 2: Build a Sustained and Diversified Basis for Economic Growth and Employment in Urban and Rural Areas

Pillar 3: Address Vulnerabilities through Improved Access to Services and Better Service Delivery, Safety Net Provision, and Improved Disaster Risk Management.

84. *In designing and implementing projects and providing advice, particular attention will be paid to enhancing the capacity of institutions so that they can manage more effectively and transparently.* In particular, the Bank will support Mongolia's anti-corruption efforts through specific project work and by mainstreaming good governance and anti-corruption mechanisms in Bank operations. As it is feasible, the Bank will seek to support enhancements in lead agency operations (i.e., enhancing agency structures and operations for greater transparency and accountability) in various sectors the Bank is working with (i.e., Mining, Environment, Health, Justice, etc.). The Bank will seek to support the Government's efforts to create stronger government institutions and to engage a broader stakeholder group to develop more effective citizen engagement to generally develop greater government and societal resilience to corruption.

PILLAR 1: ENHANCE MONGOLIA'S CAPACITY TO MANAGE THE MINING ECONOMY SUSTAINABLY AND TRANSPARENTLY

85. Through its ongoing program and new activities, the World Bank Group will support the Government, private business and civil society (i) in developing a world-class mining environment that takes into account social and environmental considerations, and (ii) in strengthening its management of public revenues and expenditures. In doing so, the World Bank Group will aim to bring greater transparency and accountability to the entire mining value chain through better policies and institutional capacity building. The programs of the World Bank, IFC, and MIGA will be tightly coordinated.

86. Outcome 1.1 – Support the country in developing a regulatory environment, institutional capacity, and infrastructure for world-class mining.

- Improve regulatory environment and strengthened environmental management capacity. Building on the work undertaken so far, the World Bank Group will rely on the ongoing Mining Sector Institutional Strengthening Technical Assistance Program (MSISTAP) to provide advice and technical assistance, which will include a focus on environmental and social safeguards.

- Possible “good practice” investments by IFC and MIGA. IFC is leading an international consortium together with EBRD for a debt financing of US\$3.6 billion for the Oyu Tolgoi copper mine development. MIGA has been asked to provide a guarantee for the participating commercial banks.

- Better planning of critical infrastructure in support of the mining sector and neighboring communities. The Mining Infrastructure Investment Support project (MINIS) supports the preparation of regional infrastructure investment plans that examine infrastructure needs comprehensively. Some of these projects may be developed as Public Private Partnerships with the support from the various WBG institutions (IBRD, IFC, and MIGA).

- An institutional set-up for greater transparency and accountability. Mongolia's reporting systems will be further enhanced with World Bank support. EITI Mongolia will continue to improve the scope and quality of the revenue data, look into legislating mining revenue transparency, and expand outreach among civil society, Parliamentarians, and the population. The World Bank will continue to use GPF resources to generate greater demand for good governance in the sector.

87. Outcome 1.2 – Support the Government in designing and implementing policies and systems for a more robust, equitable and transparent management of public revenues and expenditures

- Continued implementation of fiscal, economic and monetary management policies that aim to mitigate the impact of Dutch Disease. The World Bank will focus on supporting the Government in implementing the Fiscal Stability Law and the Integrated Budget Law through the ongoing Multi-Sector Technical Assistance Credit and through analytical and advisory services. Through the Reserve Asset Management Program (RAMP), the World Bank is also making available to the Bank of Mongolia a structured program of training opportunities and tools to enhance its management of reserve assets.

- Improved implementation of planning, budgeting, procurement, expenditure management, financial reporting, auditing, assets and liabilities management policies through continued technical assistance and advice. Building on past and ongoing efforts (ECTAC, GAP, and MSTA projects) to improve the planning and budgeting capacity of the Government, the World Bank will work closely with the National Development and Innovation Committee (NDIC) and the Ministry of Finance to improve its capacity in assessing and planning public investments.

- Roll-out of the decentralization plan for a more participatory and equitable budget that reflects local needs and priorities. Regulations will be developed with MSTA support and implementation and capacity building will be supported through the third Sustainable Livelihoods Program. This will be undertaken in partnership with the Swiss Development Cooperation and in coordination with other Development Partners.

- More transparent and citizen-oriented public management through better data and e-Government. NSO has been implementing successfully a statistical capacity building project (MONSTAT). The World Bank will also explore the possibility of developing an e-Government project, closely synergized with an Open Data Initiative. This would be in line with Mongolia's commitment to participate in the Open Government Partnership.

PILLAR 2: BUILD A SUSTAINED AND DIVERSIFIED BASIS FOR ECONOMIC GROWTH AND EMPLOYMENT IN URBAN AND RURAL AREAS

88. The World Bank Group will support the Government's efforts to diversify the economy and generate employment by (i) enhancing its overall competitiveness and (ii) strengthening the competitiveness of the agricultural sector.

89. Outcome 2.1 – Enhance the investment climate and financial intermediation

- An improved investment climate. IFC will continue to build on its business inspections project to raise the competitiveness of Mongolian firms, especially SMEs, by making business inspections more efficient, effective and transparent.

- A deeper, more efficient and stable financial system. The Bank will employ a range of analytical and lending instruments to support the authorities in: (i) identifying, monitoring and addressing the existing and new vulnerabilities in order to make the sector more resilient to possible future shocks; (ii) improving access to credit for the MSME sector and general population, including in rural and remote areas, and strengthening financial literacy and consumer protection; and (iii)

expanding the range and quality of financial products provided by non-bank financial institutions, including the development of the domestic capital market. IFC will continue to support the financial markets in Mongolia by introducing more complex and innovative financial products, working closely with Khan Bank and XacBank, in which IFC is a shareholder.

- Better corporate governance through the deepening of accounting, reporting and auditing reforms. Through its FIRST initiative and the MSTA technical assistance, the World Bank will assist entity-level implementation of internationally recognized financial reporting standards and internal control systems in major public-interest entities, and facilitate the introduction of simplified and effective financial management practices in small and medium-sized enterprises (SMEs).

90. **Outcome 2.2 – Create more opportunities in the rural economy for enhanced livelihoods**

- A more productive, healthier and sustainable livestock sector. The Bank will provide investment and analytical activities including implementation of the Livestock-based Livelihoods Improvement Project, financed by the Global Agriculture and Food Security Program (GAFSP) and evaluated for its impact with DIME support. The World Bank will also undertake a follow-up project to the successful ongoing AHI project.

- Higher quality and higher value agribusiness through a combination of IFC investments and business advisory. IFC's recent investment in Suu JSC's dairy company will help to expand its network of raw milk herders from 2,500 to 4,000. IFC will continue to assist agribusiness modernize production equipments, raise food safety standards, develop supply chains and address working capital needs. Complementing the World Bank's work on animal health, IFC is also assisting the Government in the drafting of a Food Security Law to bring food safety inspections to international standards.

- Greater outreach and innovation in microfinance products in rural areas. The Bank has had a long and successful engagement in microfinance development in rural areas since the establishment of the Microfinance Development Fund (MDF) under the Sustainable Livelihoods Program. The Bank will continue to support the increased access to financial services in rural economies, through continued support for the MDF (under the Sustainable Livelihoods Program 3), including support for new financial products (such as loan guarantee funds to address collateral shortfalls) and for the use of ICT for rural finance.

PILLAR 3: ADDRESS VULNERABILITIES THROUGH IMPROVED ACCESS TO SERVICES AND BETTER SERVICE DELIVERY, SAFETY NET PROVISION AND IMPROVED DISASTER RISK MANAGEMENT

91. In addition to promoting employment creation through economic diversification, the country is trying to reduce poverty and vulnerability by: (i) decentralizing more authority to local Governments and urban districts, including the delivery of health, education and social welfare services; (ii) implementing the reformed social assistance system that supports first and foremost poor people and possibly reforming health insurance as well as the pension system to promote more equitable, efficient and sustainable social insurance programs; (iii) improving living conditions for the people of ger areas through infrastructure investments, housing expansion, and better service delivery; and, (iv) acting on several sources of vulnerabilities that have traditionally affected Mongolia: climate risks in rural areas, disaster risks in urban areas

92. Outcome 3.1 – Work with the Government on the design, adoption and implementation of a comprehensive social protection system that supports the poor

- A better understanding of poverty and inequality, including its gender dimensions. The World Bank will continue its cooperation with NSO and will support them in their analysis and dissemination of poverty data.. Following the recent series of policy notes on poverty, it will enhance analysis of inequality and policy responses such as safety net reform, as well as strengthen the focus on labor market and employment dynamics as structural change deepens. In those analyses, the World Bank will look specifically at the gender dimension of poverty and inequality. It will also disseminate a series of policy notes around “women and the labor markets” and “women and mining”.

- A successfully implemented poverty-targeted safety net. The World Bank will continue to provide support to the Government as it moves towards a more targeted and transparent system, under the social protection component of the Multi-Sector Technical Assistance (MSTA) project and technical assistance financed by a Korean Trust Fund. The Bank will also explore a possible Social Protection Administration Implementation support operation once the MSTA support winds down.

93. Outcome 3.2 –Support better delivery of basic services (education, health, justice, and infrastructure)

- More responsive and accountable local service delivery through a strengthening of participatory processes. Under the Sustainable Livelihoods Program, participatory methods have demonstrated the effectiveness of community engagement to plan and deliver local development projects. This approach is being adopted as government policy and the Bank will continue to support the Government at all levels and communities to operationalize the emerging policy framework.

- Expanded opportunities for early childhood education and more efficient systems for health services. With funding support from the Global Partnership for Education (GPE), the World Bank will support the Government’s efforts to increase the provision and quality of early childhood. An E-health project – developed in partnership by the Ministry of Health, Korea and the World Bank – would help improve access to secondary and tertiary level clinical services through strengthening of the referral process between hospitals. It will work closely with other development partners already involved in the sector such as ADB.

- Better infrastructure planning and prioritization of investments in poor neighborhoods of Ulaanbaatar. Ulaanbaatar Services Improvement Project 3 (USIP3) will aim to support the prioritization of infrastructure investments in ger areas through an integrated district level planning system and targeted investments in selected areas. The World Bank will also explore with the Government how it can encourage affordable and energy-efficient housing development.

- Greater consistency in judicial decisions and greater predictability of the judicial system. Issues relate to lacking capacities of judges and prosecutors, increasing allegations of corruption, lack of access to justice in rural areas, and limited public trust in the justice sector. In addition, lack of access to relevant information is at the core of ineffective management and opacity of operations. The Bank provides support to strengthen these areas through the ongoing Enhanced Justice Sector Services Project.

94. **Outcome 3.3 -- Reduce vulnerability of households exposed to natural hazards and pollution**

- Cleaner air in Ulaanbaatar. A platform for cooperation among several development partners (e.g., ADB, EBRD, GIZ, MCC) has been developed to assist the Government's coordinated efforts to improve air quality in Ulaanbaatar. The Clean Air Project provides financing for a combination of short-term and medium-term measures. The project may also lay the foundation for a World Bank investment in the expansion of the electricity transmission system or a modernization of district heating during this CPS period, possibly with IBRD resources.
- A comprehensive approach to risk management in the livestock sector. The Bank will build on the ongoing SLP – where the Pastoral Risk Management component supports herders and local authorities to better plan and prepare for winter – and the Index-based Livestock Insurance Project (IBLIP) which provides a tool for herders to protect themselves from asset loss.
- A city better prepared to manage disaster risk. Technical assistance funded by GFDRR will be provided to improve the disaster preparedness of the Municipality of Ulaanbaatar. Based on assessment of hazards and vulnerability, a disaster risk management plan for Ulaanbaatar city will be developed in close coordination with JICA. JICA will focus on earthquake risks, while the Bank team will look into flood risks in the city.

IV. IMPLEMENTATION MODALITIES AND RISKS

A. IMPLEMENTATION AND MONITORING OF THE COUNTRY PARTNERSHIP STRATEGY

95. *The Bank will work towards greater use of country systems in the CPS period.* This will be pursued by moving towards full financial management of projects within the Government's Public Financial Management systems, and by moving towards managing project funds through the Government's Treasury Single Account System. The use of the Treasury Single Account System and the Government Financial Management Information System will be rolled out to all Bank-financed projects by the end of the CPS. Furthermore, projects will eventually be audited as part of the overall audit of the government accounts by the Mongolia National Audit Office.

96. *The Bank will strengthen the implementation of the portfolio and increase the focus on results.* The quality of portfolio implementation continues to be satisfactory, as evidenced by the review of ICRs by IEG, yet there is scope for improvement, particularly as it relates to timely project completion. Institutional capacity strengthening at national and sub-national level will remain a core area of focus during the CPS period. At the initiative of the Ministry of Finance, emphasis will be placed on grouping Project Implementation Units around key sectors so that they are better aligned with Ministries and can implement multiple donor-funded projects.

97. *The Bank will invest in measuring the impact of Bank-funded projects and in sharing lessons.* During the CPS period, the World Bank will undertake impact evaluations of projects that are considered innovative and have potential lessons for Mongolia as well as other countries. Specifically, it will evaluate the ongoing Rural Education and Development (READ) project, the ongoing Index-Based Livestock Insurance Project, and the new Livestock-based Livelihoods Improvement Project.

98. ***The Bank will also pay greater attention in ensuring that projects that will be developed during this CPS period are gender-informed.*** In line with the IDA16 commitments, projects and analytical products that may have an impact on gender – such as the Sustainable Livelihoods Program, the Ulaanbaatar Services Improvement Project, and the Social and Environmental Assessment of mining – will take such impact into consideration starting from the design stage and will integrate gender-differentiated results in their monitoring and reporting system. Such work has already been initiated for several of the projects under preparation.

99. ***The CPS Results Framework will be the key instrument for monitoring progress of the Bank's program of support.*** The framework is embedded in the first phase of the MDG-based Comprehensive National Development Strategy of Mongolia (2007-2015), and narrows down the range of outcomes to those that the Bank can demonstrably influence over the CPS period. Use of the Country Portfolio and Results Monitoring Tool (CPRT), a web-based system for monitoring CPS progress, will be explored. The Bank will also conduct regular Country Program Portfolio Reviews (CPPR).

100. ***The Bank will strengthen the Government's ability to manage donor financed development projects.*** The Bank will support the Government's decision to establish result-oriented Monitoring and Evaluation (M&E) systems with a focus on effective and efficient delivery of intended results of development projects, strengthening M&E capacity and enhance the quality and accessibility of information for decision makers and stakeholders. In the shorter term, this will increase the Government's ability to monitor the implementation of ODA projects, in the long run it will be an important instrument to design and manage investment programs supported by the Government's own budget.

101. ***Mongolia will have access to incremental resources and will be eligible for IBRD financing with the presentation of this CPS to the World Bank Board of Executive Directors.*** The Bank Treasury will provide training to government officials early in the CPS period to ensure that Mongolia can take full advantage of the range of IBRD financing instruments.

102. ***The Bank will prepare a CPS Progress Report in FY14 to evaluate progress towards the outcomes outlined in this CPS and make adjustments as required.*** The Progress Report will consider any changes required to respond to the policies of the incoming Government. Any changes to the program will be reflected in the project results framework. In particular, the Progress Report will include a firm IBRD lending program for the remainder of the CPS period.

103. ***The World Bank Group will also invest in greater outreach.*** The World Bank is upgrading its website and is committed to disclose all documents, in line with its Access to Information policy. It will continue to make use of the GPF resources to facilitate dissemination and encourage dialogue around key policy documents prepared with World Bank support.

B. MANAGING RISKS

104. ***The World Bank Group may need to address several risks during the implementation period of the CPS.*** They range from an unstable global economy with uncertain future prospects, domestic macroeconomic stability and management, to political uncertainty as both Parliamentary and Presidential elections will take place during the CPS period. Natural disasters such as the increased frequency of severe dzuds pose particular risks to the rural parts of the population who remain especially vulnerable to climate risk and variability.

105. ***Slowdown in the global economy.*** Mongolia's economic outlook is dependent on global macroeconomic factors, in particular commodity prices. Should China's economy be significantly affected by a global economic downturn, it would have major consequences for Mongolia. Dialogue with the Government on macroeconomic fundamentals, in close consultation with the IMF, will remain a key priority during the next CPS period. Regular monitoring and analysis of the macroeconomic and financial indicators, including debt sustainability analysis and banking supervision, will be continued in the next CPS period.

106. ***Medium term prospects are bright, but in the near term the country remains at risk of repeating the boom-bust cycle of the past decade.*** Public sector spending remains strongly procyclical. The Bank of Mongolia has been quick to raise policy rates and reserve requirements. Its efforts to control rising inflation could be more than offset if extraordinarily large fiscal injections for 2012 materialize as currently considered. Lack of management of public debt could be destabilizing as the country is exploring new avenues to raise significant resources to finance the pressing infrastructure needs. The establishment of the Fiscal Stability Fund and the issuance of government guarantees to the Development Bank, among others, shift the focus from public debt to the risk exposure of the overall balance sheet of the Government. The World Bank will continue to work with the Ministry of Finance, the Bank of Mongolia and the National Development and Innovation Committee to strengthen its capacity, making available its Medium Term Debt Management Strategy (MTDS) toolkit.

107. ***Other external risks include climate change, weather variability and its impact on international prices for agricultural goods.*** Dzuds, droughts and unexpected temperature fluctuations are likely to increase as climate variability becomes more pronounced. The Bank will work closely with the authorities to reduce vulnerabilities of herders and increase the resilience of ecosystems, both through investment operations and AAA work.

108. ***Rising inequality and social perceptions.*** Global experience suggests that the risks of further increases in inequality are real and may create social tensions if left unmanaged. The Bank will work with the Government and other partners, first to understand the dynamics and drivers of inequality, and also to support public programs to promote greater equality of opportunity and mitigate the possible negative distributional effects of the resource-driven growth model.

109. ***Political risk in Mongolia, in particular the commitment to sustaining the reform agenda, is driven by upcoming elections.*** Parliamentary elections are scheduled for June 2012 and the Presidential election will take place in 2013. Broad consultations undertaken in preparation of this CPS point to general support for its key strategic objectives across the aisles of Parliament. Some differences among political parties and stakeholders in resolving trade-offs between some of these objectives exist, of course. Thus a different order of priorities may emerge depending on the outcome of the 2012 elections. The World Bank Group will inform the choices of the current and future Governments through good and timely analytical and advisory work. But it will have to remain flexible in its approach as highlighted by the experience with the CAS 2004-2008.

110. ***The inflow of large amounts of financing for the mining sector poses the risk of increased corruption, including in World Bank-funded projects.*** The World Bank will continue to advocate for better governance and to work closely with the Independent Authority Against Corruption. From an operational perspective, it will use its projects to promote greater transparency and accountability. In particular, it will organize a preventive training workshop on corruption and ethics for all staff from the Project Implementation Units and from key Ministries, with the strong support of the Ministry of Finance.

111. ***The World Bank Group may also expose itself to potential reputational risk by getting associated with the Oyu Tolgoi copper mine project development.*** The Oyu Tolgoi management and the sponsor are set on making the mine development exemplary and sustainable from a technical, social, and environmental perspective. However, due to its sheer size, the complex nature of mining development and the economic impact to the country, the Oyu Tolgoi carries a significant importance and may attract strong public attention and criticism. The World Bank Group's overall strategy is to have a close coordination among the various institutions involved (Bank, IFC, MIGA) so that the Group takes a balanced and comprehensive approach towards the mining sector which should help manage risks better.

112. ***Capacity of the Government in implementing an increasing number of projects may be lagging.*** While there is a great desire to implement a series of investments, these projects are often more complex in nature – from an institutional as well as financing perspectives – than past investments. The World Bank Group will continue to invest resources in implementation support and will undertake regular portfolio reviews jointly with the Ministry of Finance to identify and address potential problems early on.

113. ***As the country demands more complex products from Development Partners, the World Bank Group will need to focus on attracting and retaining competent staff.*** With the mining boom, the local labor market is evolving rapidly and the WBG will need to be attentive to maintaining its competitiveness.

114. ***Finally, the transition to non-concessional lending should also lead to a more active involvement from the Ministry of Finance in determining the overall World Bank program, and from other non-concessional financiers, in Mongolia.*** In many middle-income countries, the Ministry of Finance is a key coordinating agency across Ministries and determines the activities for which the country will borrow, based on its financing capacity and the development needs. The WBG will work with the Ministry of Finance to enhance its coordinating and management function for international development financing.

V. ATTACHMENTS

Mongolia: CPS FY2013-2017: Results Matrix⁹

Country Development Goals	Issues and Obstacles	CPS Outcomes	Milestones	WBG Program
Pillar 1: Enhance Mongolia’s Capacity to Manage the Mining Economy Sustainably and Transparently				
<p>Be a world-class mineral-led economy CNDS¹⁰ Goal: “<i>Exploit mineral deposits of strategic importance, generate and accumulate savings, ensure intensive and high economic growth, and develop modern processing industry.</i>”</p> <p>CNDS Goal: “<i>Protect nature and environment in mining sector and maintain the ecological balance.</i>”</p> <p>Continue developing the mining sector in a sustainable and responsible way</p>	<p>- Mining policy and regulatory environment still evolving with key tests ahead such as new mineral law</p> <p>- Implementation challenges for weak and poorly coordinated public institutions</p> <p>- Capacity constraints on rate and pattern of growth of the sector (e.g., transport and power bottlenecks and suboptimal solutions; local skill shortages)</p> <p>- Risk of mining sector commanding priority access to scarce local capital and skilled labor creating challenges for non-mining sectors to provide livelihoods</p>	<p>Outcome 1.1 Supported the country in developing a regulatory environment, institutional capacity, and infrastructure for world-class mining</p> <p><i>Indicator 1:</i> Number of public/PPP mining-related infrastructure assets ready for tender Baseline: 0 (FY12) Target: At least 2 (FY17)</p> <p><i>Indicator 2:</i> Number of infrastructure feasibility studies carried out financed by the WBG Baseline: 0 (2012) Target: 8 (FY17)</p> <p><i>Indicator 3:</i> Aimag-wide management and monitoring plans for groundwater use prepared and in use (cumulative) Baseline: 0 (2012) Target: 2 aimags (FY17)</p>	<ul style="list-style-type: none"> • Completed consultative process to develop new mineral law • Prepared new mineral law and model mineral investment agreement appropriate for responsible mining development • Enhanced corporate governance of state-owned mining interests • Prepared regional infrastructure investment plans to holistically support mineral development • Sustained Responsible Mining Initiative tripartite dialogue • Enhanced government capacity to assess and prepare investments in infrastructure • Pilot institutional structure for groundwater management established and functioning with appropriate staffing • Completed Strategic 	<p>Ongoing Financing:</p> <ul style="list-style-type: none"> • Mining Sector Institutional Strengthening TA Project (FY08) • Mining Infrastructure Investment Support Project (FY11) • TF EITI (Extractive Industries Transparency Initiative): Grant <p>Indicative Financing:</p> <ul style="list-style-type: none"> • Additional Financing – Mining Sector Institutional Strengthening Project (FY15) • IFC: Oyu Tolgoi Project Finance • MIGA Guarantee: Oyu Tolgoi • TF AusAid: Strengthen Groundwater Management in Southern Gobi • TF AusAid: Mining and the Environment <p>Key Ongoing and Indicative AAA:</p> <ul style="list-style-type: none"> • TA Programmatic Mining Sector (FY12-13)

⁹ The program for the second half of the CPS will be further defined during the mid-term review and presented in the CPS Progress Report.

¹⁰ CNDS: Comprehensive National Development Strategy of Mongolia: 2007-2015 (Phase 1)

Country Development Goals	Issues and Obstacles	CPS Outcomes	Milestones	WBG Program
	- Unsustainable use of natural resources, especially groundwater in southern Mongolia		Environmental and Social Assessment (SESA) focusing on the mining sector including gender dimensions	
<p>Share the mining wealth</p> <p>Manage public revenues in a transparent and accountable way and invest them effectively to enhance today's growth as well as save for rainy days and future generations</p>	<p>-Need to capture mining rents efficiently and transparently by the state as revenues, and sustainably managed to avoid currency appreciation, inflation, and debt buildup</p> <p>- Growing inequality and demand for wider and quicker redistribution of mineral wealth</p> <p>-Scaling up existing institutions, particularly in public expenditure management</p> <p>- The Human Development Fund approach fiscally unsustainable</p> <p>- Municipality of Ulaanbaatar's budgeting formats lack transparency</p>	<p>Outcome 1.2: Supported the government in designing and implementing policies and systems for a more robust, equitable, and transparent management of public revenues and expenditures</p> <p><i>Indicator 1:</i> Time over-runs in public investment projects (sample of road projects) Baseline: 70% (2010) Target: Less than 70% (FY17)</p> <p><i>Indicator 2:</i> Percentage of citizens satisfied with the mechanisms and outcomes of Community Initiative Fund investment Baseline: (FY12) Outcomes: 85% Mechanism: 86% Target: (2013 end of SLP2) Outcomes: Remains above 80% Mechanism: Remains above 80%</p> <p><i>Indicator 3:</i> Local Development Fund indicator and target to be identified during the preparation of the Third Sustainable Livelihoods Project</p>	<ul style="list-style-type: none"> • Implemented Fiscal Stability Law: (i) structural deficit of less than 2% of GDP by 2013; (ii) government expenditure growth limited to non-mineral GDP growth by 2013; and (iii) Net Present Value of debt to GDP ratio of 40% by 2014 • Improved EITI Mongolia's scope and the quality of revenue data • Expanded EITI's outreach to civil society and parliamentarians • Enhanced management of reserves by Bank of Mongolia through the Reserves Advisory and Management Program (RAMP) • Improved NDIC's capacity in assessing and planning public investments • Municipality of Ulaanbaatar adopts an improved budgeting system 	<p>Ongoing Financing:</p> <ul style="list-style-type: none"> • Economic Capacity TA Project (FY03) • Governance Assistance Project (FY06) • MONSTAT Strengthening the National Statistical System Project (FY09) • Multi-sector TA Project (FY10) • TF EITI (Extractive Industries Transparency Initiative): Implementation Support and Civil Society Organization Outreach • TF KTF (Korea): MONSTAT • TF KTF (Korea): Multi-sector TA <p>Indicative Financing:</p> <ul style="list-style-type: none"> • E-Government Project (FY13) • Third Ulaanbaatar Services Improvement (District Planning) Project (FY13) • Sustainable Livelihoods 3 Project (FY13) • Additional Financing - MONSTAT Strengthening the National Statistical System Project (FY15) <p>Key Ongoing and Indicative AAA:</p> <ul style="list-style-type: none"> • ESW Programmatic Economic Policy (Quarterly Economic Updates) (Continuous) • TA Reserves Assets Management Program (Continuous)

Country Development Goals	Issues and Obstacles	CPS Outcomes	Milestones	WBG Program
				<ul style="list-style-type: none"> • TA Debt Management Strategy (FY12-13) • ESW Programmatic Municipal Financing for Ulaanbaatar (FY12-13) • TA Procurement Assessment (FY14)
Pillar 2: Build a Sustained and Diversified Basis for Economic Growth and Employment in Urban and Rural Areas				
<p>Diversify the economy CNDS Goal: “<i>Intensively develop export-oriented, private sector-led, high technology-driven manufacturing and services, with particular focus on information, communication development, transit transportation, logistics, financial mediation services, deeper processing of agricultural products, and create a sustainable, knowledge-based economy.</i>”</p> <p>CNDS Goal: “<i>Enhance banking and financial system and services.</i>”</p>	<ul style="list-style-type: none"> - Threat of “Dutch Disease” - Continued appreciation of the Tugrik - Level of financial intermediation low - Critical infrastructure gaps and poor management and delivery of public services 	<p>Outcome 2.1 Enhanced the investment climate and financial intermediation <i>Indicator 1: Average number of days to comply with business regulations</i> Baseline: 12.6 (FY12) Target: 10 (FY17)</p>	<ul style="list-style-type: none"> • Established movable collateral registry • Adopted action plan for consumer protection in the financial sector • Improved corporate governance of IFC bank investments • Implemented International Financial Reporting Standards in some of the public-interest entities supported by IFC 	<p>Ongoing Financing:</p> <ul style="list-style-type: none"> • Multi-sector TA Project (FY10) • IFC Advisory Services: Corporate Governance • IFC Advisory Services: Inspection Services • TF KTF (Korea): Multi-sector TA <p>Indicative Financing:</p> <ul style="list-style-type: none"> • Small and Medium Enterprise Access to Finance Project (FY14) • TF FIRST (Financial Sector Reform and Strengthening) Initiative: Improving Financial Sector Stability • IFC <p>Key Ongoing and Indicative AAA:</p> <ul style="list-style-type: none"> • ESW: Financial Sector Assessment Program (FSAP) Development Module (FY12) • ESW Financial Sector Monitoring and Policy Dialogue (FY12-13) • TA Financial Literacy and Consumer Protection Assessment (FY13)
<p>National Livestock Program (NLP) Goal: “<i>To develop a livestock sector that is adaptable to climate change and social</i></p>	<ul style="list-style-type: none"> - Half of the herders live on an income below the national poverty line - Development of 	<p>Outcome 2.2 Created more opportunities in the rural economy for enhanced livelihoods <i>Indicator 1: Number of loan</i></p>	<ul style="list-style-type: none"> • Reviewed agricultural price support and subsidy policies • Supported new financial products including loan 	<p>Ongoing Financing:</p> <ul style="list-style-type: none"> • Index-Based Livestock Insurance Project (FY05) • Information and Communications Infrastructure Development

Country Development Goals	Issues and Obstacles	CPS Outcomes	Milestones	WBG Program
<p><i>development and create an environment where the sector is economically viable and competitive in the market economy; to provide a safe and healthy food supply to the population; to deliver quality raw materials to processing industries; and to increase exports.”</i></p> <p>Address vulnerabilities affecting certain segments of the population</p>	<p>livestock sector limited by lack of integration into domestic and global supply chains and weak provision of productivity enhancing services (animal health, animal breeding and nutrition)</p> <p>- Herders are increasingly exposed to shocks in international commodity prices, and specifically to cashmere prices.</p> <p>- Access to finance in rural areas limited by high costs of borrowing</p>	<p>beneficiaries from the Microfinance Development Fund at <i>soum</i> level and below</p> <p>Baseline: 29,133 (2008) Target: 39,330 (2013)</p> <p><i>Indicator 2:</i> Household income generated from agricultural production and processing in pilot soums under the Global Agriculture and Food Security Program supported livestock project</p> <p>Baseline and target to be determined during project preparation</p>	<p>guarantee funds to address collateral shortfalls</p> <ul style="list-style-type: none"> Increased use of ICT for rural finance Drafted Food Security Law 	<p>Project (FY06)</p> <ul style="list-style-type: none"> Sustainable Livelihoods II Project (FY07) Renewable Energy for Rural Access Project plus GEF Component (FY07) TF KTF (Korea): Index-Based Livestock Insurance TF EC (European Commission): Sustainable Livelihoods II TF MN-FS: Renewable Energy for Rural Access TF PHRD (Policy and Human Resources Development): Sustainable Livelihoods II IFC Advisory Services: Food Safety <p>Indicative Financing:</p> <ul style="list-style-type: none"> Sustainable Livelihoods 3 Project (FY13) TF GFAHI: Avian and Human Influenza 2 Project TF GAFSP (Global Agriculture and Food Security Program (GAFSP): Livestock-Based Livelihoods Improvement Project IFC Investments in agribusiness Index-Based Livestock 2 Project (FY16) <p>Key Ongoing and Indicative AAA:</p> <ul style="list-style-type: none"> ESW Programmatic Agricultural Policy Review (FY12-13)
<p>Pillar 3: Address Vulnerabilities through Improved Access to Services and Better Service Delivery, Safety Net Provision, and Improved Disaster Risk Management</p>				
<p>CNDS Goal: <i>“Implement a social welfare policy primarily targeting low</i></p>	<p>- Half of the workers in the informal sector do</p>	<p>Outcome 3.1 Worked with the government on the design, adaptation, and</p>	<ul style="list-style-type: none"> Analyzed and disseminated poverty data Disseminated policy notes 	<p>Ongoing Financing:</p> <ul style="list-style-type: none"> Multi-sector TA Project (FY10)

Country Development Goals	Issues and Obstacles	CPS Outcomes	Milestones	WBG Program
<p><i>income and vulnerable groups.”</i></p> <p>Address potentially growing perceptions that all are not afforded the same opportunities – between rural and urban areas, between rich and poor</p>	<p>not earn enough to meet basic needs</p> <ul style="list-style-type: none"> - Fragmented multiple social welfare benefits are not targeted and nontransparent - Unsustainable universal cash transfer system -Risks of vulnerable groups being further marginalized - Building connectivity between people, services, and businesses is a challenge due to size of country 	<p>implementation of a comprehensive social protection system that supports the poor</p> <p><i>Indicator 1:</i> Proportion of poverty-targeted benefits going to poor households Baseline: 0% (FY12) Target: >80% (2014)</p>	<ul style="list-style-type: none"> on women and labor markets, and women and mining • Completed Gender Action Plan • Assessed gender dimensions of poverty and inequality • Introduced a poverty-targeted social assistance benefit, a new targeting mechanism, and more integrated beneficiary information management • Developed options for pension reform that balance fiscal and social concerns (including gender) 	<ul style="list-style-type: none"> • KTF (Korea): Multi-sector TA <p>Indicative Financing:</p> <ul style="list-style-type: none"> • Social Protection Administration Project (FY16) <p>Key Ongoing and Indicative AAA:</p> <ul style="list-style-type: none"> • ESW Social Protection (including pension reform) (FY12-13) • ESW Programmatic Poverty Analysis (FY12-13) • ESW Poverty and Inequality Study (FY13) • Gender Action Plan (FY13)
<p>CNDS Goal: “<i>Achieve the MDGs and provide for an all-round development of Mongolian people.</i>”</p> <p>CNDS Goal: “<i>Strengthen government institutions and improve legal environment to ensure transparency and accessibility of public services.</i>”</p>	<ul style="list-style-type: none"> - Significant disparities in educational and health outcomes by location and socio-economic groups - Substantial challenges of building efficient and accountable delivery systems for social services in a decentralizing environment, especially at local levels - Weak capacity of the court systems 	<p>Outcome 3.2 Supported better delivery of basic services (education, health, justice, and infrastructure)</p> <p><i>Indicator 1:</i> Number of fixed ECE facilities/ kindergartens built under Bank-supported projects Baseline: 0 (2012) Target: 37 (2014)</p> <p><i>Indicator 2:</i> Number of children attending new mobile ger kindergartens Baseline: 0 (2012) Target: 1,500 (FY17)</p> <p><i>Indicator 3:</i> Access to legal information and advice across all Ulaanbaatar districts and</p>	<ul style="list-style-type: none"> • Completed study on accountability of service delivery in a decentralizing government focusing on health and education • Improved Ulaanbaatar municipality infrastructure planning and investment prioritization with community participation • Identified key challenges for efficient functioning of Municipality of Ulaanbaatar’s budgeting system • Expenditures for key services are reflected in the municipal budget 	<p>Ongoing Financing:</p> <ul style="list-style-type: none"> • Ulaanbaatar Services Improvement Project (FY04) • Rural Education and Development (READ) Project (FY06) • Information and Communications Infrastructure Development Project (FY06) • Sustainable Livelihoods II Project (FY07) • Renewable Energy for Rural Access plus GEF Component (FY07) • Enhanced Justice Sector Services Project (FY08) • TF EC (European Commission): Sustainable Livelihoods II • TF EFA-FTI (Education for All

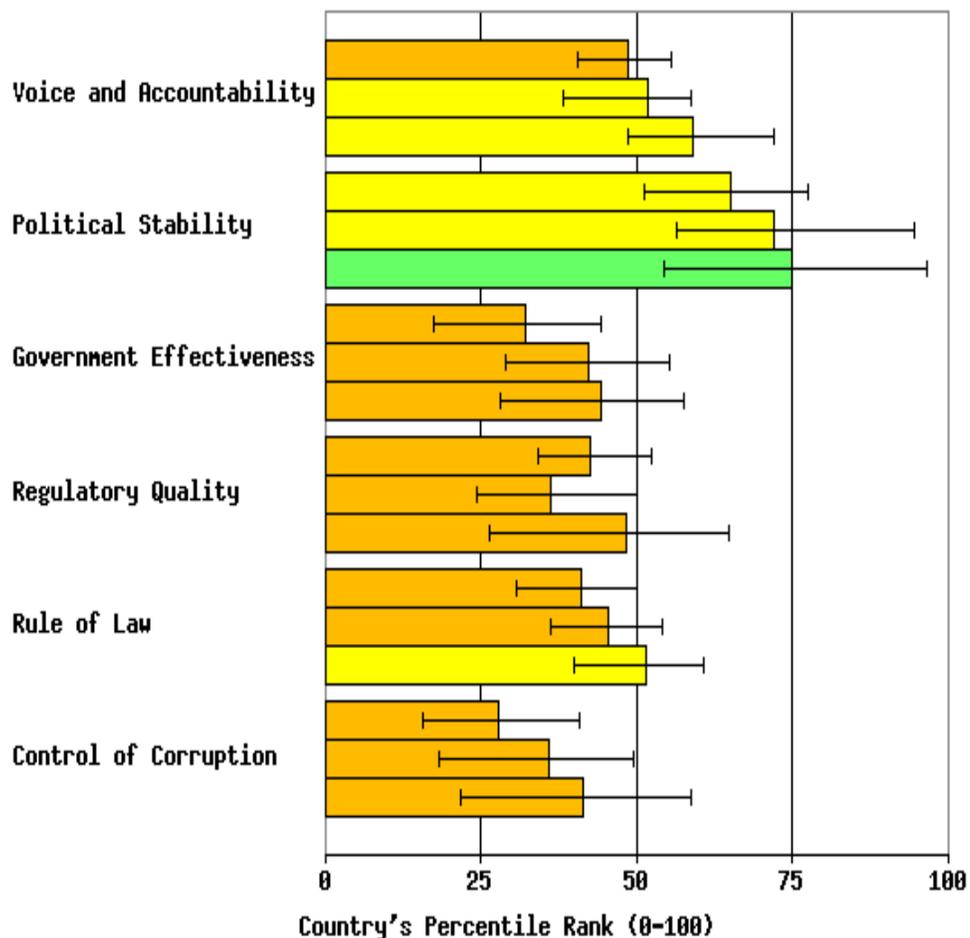
Country Development Goals	Issues and Obstacles	CPS Outcomes	Milestones	WBG Program
	<p>and lack of access to justice in rural areas</p> <ul style="list-style-type: none"> - Lack of access to judicial information - Infrastructure investments in ger areas not fully prioritized - Rapid urbanization putting pressure on urban services 	<p>aimags</p> <p>Baseline: No value related information available; no paralegals available; no information in minority languages available (2012)</p> <p>Target: 60% of Ulaanbaatar districts and aimag centers distribute legal information in central community locations; paralegals providing advice in 60% of aimag centers, soums, and horoos; 10 laws available in minority languages (FY17)</p> <p><i>Indicator 4:</i> Number of people in pilot ger areas with access to an all-season road within a 500 meter range</p> <p>Baseline: 25,000 (2012)</p> <p>Target: 60,000 (FY17)</p> <p><i>Indicator 5:</i> Number of people in pilot ger areas provided with access to regular solid waste collection</p> <p>Baseline: 0 (2012)</p> <p>Target: 69,000 (FY17)</p> <p><i>Indicator 6:</i> Number of sub-projects identified through the district planning process launched</p> <p>Baseline: 0 (2012)</p> <p>Target: 8 (FY17)</p>	<ul style="list-style-type: none"> • Utilized justice sector data as part of a framework for court administration, budgeting, and planning • Applied IT solutions to enhance access to justice information including use of websites and mobile phones 	<p>Fast-Track Initiative) Catalytic TF</p> <ul style="list-style-type: none"> • TF MN-FS: Renewable Energy for Rural Access <p>Indicative Financing:</p> <ul style="list-style-type: none"> • Third Ulaanbaatar Services Improvement Project (FY13) • Sustainable Livelihoods 3 Project (FY13) • E-Health Project (FY14) • Transmission Line Project (FY15) • District Heating Project (FY15) • TF Multi-donor TF: Global Partnership for Education • TF JSDF (Social Development Fund): Improving Primary Education Outcomes for the Most Vulnerable Children in Rural Mongolia • TF SDC (Swiss Development Cooperation): Participatory Planning/Decentralization Support <p>Key Ongoing and Indicative AAA:</p> <ul style="list-style-type: none"> • ESW Programmatic: Accountability and Service Delivery in a Decentralized Environment (FY13-14) • [Possible ESW Administrative Courts and Executive Accountability (FY14)]
<p>CNDS Goal: “Create a sustainable environment for development by promoting capacities and measures on adaptation to climate change, halting</p>	<ul style="list-style-type: none"> - Dzud events remain a threat to livelihoods - Herders exposed to climate-related risks that can affect living 	<p>Outcome 3.3 Reduced vulnerability of households exposed to natural hazards and pollution</p> <p><i>Indicator 1:</i> Percentage of herders participating in the</p>	<ul style="list-style-type: none"> • Agreed on roadmap for transitioning index based livestock insurance institutional structure • Explored ways to provide universal coverage for 	<p>Ongoing Financing:</p> <ul style="list-style-type: none"> • Index-Based Livestock Insurance Project (FY05) • Sustainable Livelihoods II Project (FY07) • TF KTF (Korea): Index-Based

Country Development Goals	Issues and Obstacles	CPS Outcomes	Milestones	WBG Program
<p><i>imbalances in the country's ecosystems and protecting them.</i></p> <p>Implement policies and strategies to improve the legal environment for disaster management</p>	<p>standards</p> <ul style="list-style-type: none"> - Severe winter air pollution in Ulaanbaatar - Populations vulnerable to disaster risks - Increasing number of urban migrants are exposed to natural disasters, including seismic events 	<p>Livestock Risk Insurance scheme</p> <p>Baseline: 9.13% (FY12) Target: 15% (2014)</p> <p><i>Indicator 2:</i> Coverage of targeted households without eligible stoves</p> <p>Baseline: tbd based on consultations with donors and Ulaanbaatar City Target: 60% of targeted households (FY16)</p> <p><i>Indicator 3:</i> Number of people in pilot ger areas protected from inundation</p> <p>Baseline: 0 (2012) Target: 19,000 (FY17)</p>	<p>uninsurable catastrophic losses to those herders not already holding insurance policies</p> <ul style="list-style-type: none"> • Extended Livestock Early Warning System and linked to disaster management agencies • Principal recommendations and action plan developed by the Ulaanbaatar Clean Air Project for selected medium-term abatement measures approved by relevant counterparts • Developed disaster risk management plan for Ulaanbaatar (earthquakes and floods) • Developed hazard and vulnerability database for Ulaanbaatar 	<p>Livestock Insurance</p> <ul style="list-style-type: none"> • TF PHRD (Policy and Human Resource development): Sustainable Livelihoods II <p>Indicative Financing:</p> <ul style="list-style-type: none"> • Ulaanbaatar Clean Air Project (FY12) • Sustainable Livelihoods 3 Project (FY13) • Transmission Lines Project (FY15) • District Heating Project (FY15) • Index-Based Livestock 2 Project (FY16) <p>Key Ongoing and Indicative AAA:</p> <ul style="list-style-type: none"> • TA GFDRR: Disaster Preparedness (FY14)

Worldwide Governance Indicators for Mongolia (2010, 2005, 2000)

MONGOLIA

Comparison between 2010,2005,2000 (top-bottom order)



Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), The Worldwide Governance Indicators: Methodology and Analytical Issues

Note: The governance indicators presented here aggregate the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, and international organizations. The WGI do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent. The WGI are not used by the World Bank Group to allocate resources.

Mongolia CAS and ISN Completion Report

MONGOLIA CAS AND ISN COMPLETION REPORT FINAL - 3/19/2012

Date of CAS (FY05-FY08): April 5, 2004 (Report No. 28419-MOG)

Date of Interim Strategy Note (CY09-CY10): April 20, 2009 (Report No. 48311-MN)

Period Covered by the Completion Report: July 1, 2004 to June 30, 2011

Summary of Evaluation Ratings

Program Performance

The Completion Report combines a moderately unsatisfactory rating of the achievements of the FY05-FY08 Country Assistance Strategy (CAS), and a satisfactory rating of the Interim Strategy Note (ISN) programs into an overall conservative rating of *moderately satisfactory*. Important differences characterized the performances of the two strategies, with the ISN providing timely and flexible support to Mongolia in the aftermath of the global financial crisis, drawing on important lessons learned in the implementation of the CAS, which faced challenges adjusting to changing political realities.

The CAS was strongly aligned with the Government's growth and poverty reduction strategy (Economic Growth Support and Poverty Reduction Strategy, EGSPRS), set an ambitious set of outcomes at the time it was designed, and defined a results framework against which progress would be monitored. The CAS also envisaged launching a PRSC series that would support the reform process in the country and underpin much of the work of the Bank. However, the reform agenda as identified in the CAS was not implemented as other priorities emerged following the 2004 general elections, including the growth of the mining sector and expansion of public expenditures boosted by high mineral prices. The Bank found that the CAS had relied too heavily on the PRSC as the choice of instrument, as also reflected in the various indicators identified in the results matrix. When circumstances prevented these from going forward, the Bank embarked on a re-alignment of its program with the development of new projects (e.g., Extractive Industries Transparency Initiative (EITI), Mining Technical Assistance, the Governance Assistance Project, etc.) and a strengthened focus on governance, supported by an extensive political economy analysis of the country and in particular its mineral resources sector.

While the program performance of the CAS in light of the above is rated as moderately satisfactory, much of the work undertaken during this period was instrumental in setting the stage for considerably more flexible and aligned Bank support during the ISN 2009-2010. The formulation of the ISN took place at a critical time, with the onset of the global financial crisis in 2008, plummeting copper prices, and a domestic macro-fiscal crisis, and attention focused on adopting a sustainable fiscal management framework, including a prudent assessment of revenues and more targeted and better planned expenditures. Support was provided in the form of technical assistance (funded through projects as well as the Governance Partnership Facility, GPF) as well as budget support (including allocation from the IDA Crisis Window). This re-alignment of the program meant that some projects under preparation were dropped. The Bank also mobilized the support of other donors in the country,

building consensus around a coordinated platform of assistance to Mongolia. Moreover, it ensured the support of the new coalition government, which was keen to take decisive action to address the impact of the crisis. The comparative success of the ISN was enabled in part through lessons learned in the implementation of the CAS, but is also the result of a design that was more flexible and nuanced, providing vital support to the country at a turbulent time. For this reason, the rating of the ISN is satisfactory.

CAS and ISN outcomes and milestones in key areas were fully or partially achieved (supported by Bank instruments), such as the enactment of fiscal regulations, stronger public financial management, improved mining sector management and governance, reduction of vulnerabilities, and expansion of mobile telephony and internet coverage and access. In addition, the Bank was able to introduce community participatory processes in several of its activities to enhance their effectiveness and transparency.

Bank's Performance

The Bank's performance in supporting the delivery of the Mongolia CAS and ISN results is considered to be ***moderately satisfactory***. After a period of adjustment following the 2004 elections, the Bank was able to adjust nimbly to changing circumstances and deliver a substantive portion of the envisaged CAS program (albeit with some delays, adjustments, and the addition of some new operations) that exceeded the IDA commitment targets. Through activities that were already under way, including adjustments to ongoing and planned operations and technical assistance (TA), the Bank responded rapidly to the authorities' request for support during the crisis including two key budget support operations which provided the cornerstone of the interim strategy. The Bank continued to support the program with relevant AAA and TA, and helped mobilize Trust Funds (e.g., education, environment, governance) aligned to the objectives of the CAS. The completed and ongoing operations are all rated satisfactory or moderately satisfactory for outcomes, development objectives, and implementation progress by the Implementation Completion and Results (ICR) reviews, Implementation Status and Results (ISR) reports, and Independent Evaluation Group (IEG) evaluations. Nevertheless, weaknesses in the design of the strategy, in part exposed when it became apparent that the envisaged PRSC series could not move ahead, are a key factor in the moderately unsatisfactory rating.

During the CAS and ISN periods, the International Finance Corporation (IFC) made a number of investments in Mongolia totaling US\$152 million and provided advisory services in key areas to complement the Bank's strategy by promoting the private sector development. IEG's evaluation on one of the IFC investments conducted in FY10 was rated "Mostly Successful".

I. Introduction

1. The Bank Group's FY05-FY08 CAS for Mongolia was discussed by the Board in April 2004, just before parliamentary elections scheduled for June 2004. The CAS was aligned with selected priorities of the EGSPRS (discussed by the Bank's Board in September 2003 along with the Joint Staff Assessment Note). Even though the risks of such timing were known, the Bank proceeded with the formulation and presentation of the CAS as the commitment to the EGSPRS reform agenda was expected to be maintained regardless of the election outcomes. In view of the broad consultations undertaken by the Government, the possibility of weakening commitment to the EGSPRS was assessed by the Bank's Mongolia Country Team as a minor risk. Furthermore, the Bank's Mongolia program had operated without a CAS for the preceding three years: the previous CAS covered FY99-

FY01 and the next one was held back pending the finalization of the EGSPRS so that the Bank's strategy could be aligned.

2. No single party won a clear majority in the June 2004 national election, leading to an extended period of political change and a series of coalition governments. Some aspects of the EGSPRS implementation lost momentum after the departure of its main supporters following the change in government. While there was still overall commitment to the poverty reduction agenda with broad ownership of the program, the frequent political changes led to a fragmented and shifting development agenda as well as a shorter-term focus. The June 2008 elections gave the Mongolia People's Revolutionary Party (MPRP) a majority but perceptions of voter fraud triggered protests. These turned violent, with five people killed. After these traumatic events, the MPRP formed a coalition government with the Democratic Party to mend fences.

3. With the end of the FY05-FY08 CAS coverage, and in response to the Government's request for immediate support in the face of the unexpected and severe economic downturn precipitated by falling mineral prices and the global financial crisis, the Bank prepared an ISN in April 2009 for the next 18 months through the end of CY2010¹¹. The ISN reflected the major initiatives, analysis, and dialogue that were already underway (such as improvements in the mineral regulatory framework) and emerging priorities (e.g., social protection in face of the crisis, and fiscal management). The Country Partnership Strategy (CPS) that was under preparation was postponed given the uncertainties about the length and depth of the downturn. This Completion Report covers both the FY05-FY08 CAS and the CY09-CY10 ISN.

II. Progress towards Mongolia's Long-term Development Outcomes

4. The Mongolia EGSPRS (issued by the Government of Mongolia in June 2003) was viewed as a comprehensive document which aimed to foster development and human welfare and reduce poverty by accelerating private sector-led and broad-based equitable growth, and improving the efficiency of public expenditures. The EGSPRS articulated key development challenges and priority actions organized around five main pillars: (i) ensuring macroeconomic stability and public sector effectiveness; (ii) supporting production and exports and improving the environment for private-sector-led development; (iii) enhancing regional and rural development and environmentally sustainable development; (iv) fostering sustainable human development; and (v) promoting good governance, and implementing and monitoring the strategy. The joint Bank-Fund staff assessment noted its strengths as aligning national development goals – including the Millennium Development Goals (MDGs) – with sector strategies and programs; shifting the poverty strategy from income transfers and safety nets to growth and sustainable human development; and the potential to align donors and stakeholders with the strategy. It also noted important areas for improvements: addressing weaknesses in the underlying sectoral and thematic strategies; fitting programs in areas of agreement with budgetary resources; and undertaking more diagnostic analysis.

5. The 2004 coalition government, with the strong support of the President, adopted the Government Action Plan (GAP, 2008-2012) and National Development Strategy (NDS, 2008-2021) based on the MDGs. The ambitious NDS agenda emphasizes (i) achieving the MDGs (reducing poverty, promoting gender equality, environmental sustainability, improving health and education

¹¹ A draft CAS Progress Report was initiated in early 2007, but then shifted to preparation of a full four-year CPS at the Government's request. However, the draft CPS was delayed following an unexpected change in government in late 2007, and again by the June 2008 parliamentary elections. (Source: Mongolia ISN, 2009, p.15, paragraph 51)

services, and strengthening human rights); (ii) developing an export-oriented, high-tech, knowledge-based economy; (iii) exploiting strategic minerals to build savings, growth, and modern processing industry; (iv) developing regions and infrastructure to reduce urban-rural disparities; (v) halting ecosystem imbalances; and (vi) consolidating political democracy and an accountable system free from corruption and red tape. However, while the GAP, NDS, and socio-economic development guidelines were fully integrated with the MDGs, they were not prioritized, costed and linked to financing sources and a Medium-Term Expenditure Framework (MTEF).

6. Until 2008, the economy performed strongly, due in part to favorable weather and high mineral prices for copper and gold. Rising global mineral prices sparked a boom in mineral exploration and contributed to rapidly rising government revenues. With improved economic performance, the poverty incidence declined to 35.2 percent in 2007-8 from 61.1 percent in 2002-3. However, the macroeconomic situation deteriorated sharply during the latter half of 2008 with the global economic downturn and plummeting global copper prices. Growth fell and inflation reached 34 percent (year-on-year) in August 2008 due to a combination of expansionary fiscal and monetary policies and a *de facto* fixed exchange rate. The economy has since rebounded strongly from the sharp drop in outputs in late 2008 and early 2009, largely as a result of policy actions taken by the Government during the crisis. Estimates suggest real GDP grew by 6.1 percent (year-on-year) in 2010, after declining 1.3 percent in 2009. A balanced budget was achieved in 2010, reflecting underlying improvements in the economy and the recovery in commodity prices. A recent major achievement was the passage of the Fiscal Stability Law (2010) which greatly strengthens the medium term fiscal framework.

7. While the country has reached or will reach many of the MDGs at an aggregate level by 2015, there are strong disparities across the country. The EGSPRS aimed to reduce under-five mortality by two-thirds from 87.5 per 1,000 births in 1995 to 29.2 by 2015. It also set the goal of halting and reversing the spread of TB. Primary education enrolment rates were set to increase from 91 percent in 2000 to 100 percent by 2015. Mongolia has done well in extending access to basic education and early childhood education. The gross enrollment ratio in primary education reached 99 percent in 2010, and 76 percent for early childhood education, well ahead of schedule. However, learning achievement is low, particularly in rural areas. Under-five mortality (U5MR) fell to 23.8 in 2008, already below the target set for 2015, reflecting significant historical health sector investments. However, there are large rural-urban disparities in the U5MR and infant mortality rates. Adult mortality rates are on the rise and are linked to the rising incidence of non-communicable diseases. Available data on access to curative health services, although incomplete, suggest that high levels of out-of-pocket payments (about 90 percent spent on outpatient care and medicines) constitute a significant financial burden to households. The Ministry of Environment and Tourism prepared a Strategy on Environmental Policy Reform (2011- 2021) that covers a wide range of priority areas, and will be supplemented by the development of a national environmental action plan.

III. Program Performance

8. The FY05-FY08 Mongolia CAS focused on five sets of development challenges: (i) ensuring macroeconomic stability and public sector effectiveness; (ii) supporting production and exports and improving the environment for private sector-led development; (iii) enhancing regional and rural development and environmentally sustainable development; (iv) fostering sustainable human development; and (v) promoting good governance and implementing and monitoring the strategy. In response to these challenges, the World Bank Group's support was organized along three main objectives: 1) consolidating the transition; 2) reducing vulnerabilities; and, 3) strengthening the

alignment of policies and resources around results. A results framework was designed around these objectives in clusters of key results areas and 20 outcomes. Progress towards achieving outcomes was to be monitored through multiple indicators and milestones. (Attachment 1 provides details of the overall status on the progress and achievement of the outcomes as well as the indicators and milestones.)

IFC's strategic priorities in Mongolia are to complement the World Bank Group's strategy by promoting the private sector development. Specifically, IFC's support was focused on three key areas through investments and advisory services to help Mongolia position itself for sustainable growth and support job creation: (i) support stability and foster the development of financial markets; (ii) contribute to the sustainable development of the mining sector and associated infrastructure sectors; and (iii) support the development of industrial and agribusiness sectors with a particular focus on small and medium enterprises. Crisis response, business and investment environment, climate change mitigation and food security were important themes within these key strategic areas.

9. The CAS program targeted systemic and institutional reforms viewed as important to achieving overarching EGSPRS objectives. It focused on private sector-led growth, reform of the public sector, and reducing household vulnerabilities and proposed annual, single-tranche Poverty Reduction Support Credits (PRSCs) to support the implementation of priority EGSPRS objectives. The PRSCs were intended to (i) provide a framework for the Bank's analytical work, dialogue and lending and to leverage Bank resources with other donors around a medium-term reform program; and (ii) be sequenced over the four-year CAS period based on readiness (e.g., PRSC I would focus on public sector reform, PRSC II on private sector development, and PRSC III on the social sectors). Selective lending operations and TA were also envisaged to build institutional capacity, implement reforms (e.g., public expenditures, infrastructure), and to pilot new approaches (e.g., Sustainable Livelihoods Project). During the course of CAS implementation, the program evolved to address emerging priorities and circumstances. The ongoing portfolio and lending program were adjusted to meet challenges, while some other operations, such as budget support credits, were deferred.

10. The ISN (CY09-CY10) was presented to the Board against the backdrop of government efforts to grapple with the economic crisis during the latter half of 2008. The Government was focused on restoring economic stability moving away from the populist but unsustainable policies pursued during the boom years. The ISN identified overcoming the natural resource curse as the most significant medium-term development challenge. It also identified the need for policy adjustments to address the economic crisis, protect vulnerable groups from the impact, stabilize and restore confidence in the financial sector, as well as the need to urgently develop crisis management capacity. The ISN embodied the Bank Group's existing strategic policy directions and activities in support of the Government's actions to address the short and medium-term challenges. Accordingly, the ISN proposed Bank Group support in the key strategic areas of (i) improving macro and fiscal sustainability in a mineral-based economy; (ii) protecting the poor and vulnerable; and (iii) encouraging transparent and prudent mining investments and a more competitive and stable medium-term business investment climate. A results framework included these goals and related outcomes and milestones (see Attachment 1 for recent status).

CAS Objective 1: Consolidating the Transition

11. To deepen the transition to a market economy, the CAS focused on removing the remaining barriers to effective public service delivery and private sector development. It prioritized support to reforms geared towards building a more performance-oriented public sector. Specific reforms goals

included a better alignment of public expenditures with policies, an improved investment climate, sustainable infrastructure investments, and increased sustainability of social sector financing.

12. Strengthened systems and capacities to align public resources with policy priorities. The objective of consolidating reforms for a more performance-based public sector was partially achieved with the establishment of a functional Treasury Single Account (TSA) and Government Financial Management Information System (GFMIS), as well as greater public access to budget information. While the goal of aligning a comprehensive (including donor financed projects and recurring investment costs) MTEF/EGSPRS priorities and costed sector plans was not achieved, progress was made on aligning the public investment program with national and sectoral priorities. This included requiring the completion of feasibility studies before an investment project enters the budget. These institutional improvements were supported by policy triggers under the Development Policy Credits (DPCs I and II) and are now included in the draft of the new integrated budget law, expected to be passed by Parliament in 2011. The fully functional GFMIS is an important achievement for Mongolia, particularly compared with the experience of such projects in other countries. On the downside, the goal of establishing an incentive-based civil service has had limited achievements. There has only been minor broadening of the salary range and the staffing mix is still not in line with MTEF/EGSPRS objectives. Such civil service reforms have proven to be difficult to implement effectively in many parts of the world and Mongolia is no exception. Bank-supported projects contributed to the outcomes and AAA pieces were effectively used to bring greater realism to the agenda.

13. Improved policy, regulatory, financial environment for PSD. The establishment of a sound enabling environment for the private sector, including deepening financial intermediation, was partially achieved but was negatively impacted by the macroeconomic and financial downturn in 2008. While the Investment Climate Assessment (ICA) and Sources of Growth Country Economic Memorandum (CEM) identified the major impediments to stronger private sector development, the overall investment climate is still challenging (e.g., Mongolia's declining relative ranking in the *Doing Business* ratings), though progress was made in some selected sectors (e.g., mining and agriculture). Both IDA and IFC teams closely coordinated their activities and collaborated in such areas as corporate governance and Doing Business, and maintained a dialogue regarding the development and the potential for private sector engagement in mining and other infrastructure sectors. The national PSD strategy is still to be endorsed by the authorities, though many recommendations of the background technical note are being implemented. The Private Sector Development Credit II, Legal and Judicial Reform Project, and the Financial Capacity Development Project supported the strengthening and effective implementation of reforms to facilitate PSD. Most of the indicators and milestones for improving the financial environment for PSD were met, but the severe banking crisis exposed acute vulnerabilities in the sector, arising in part from inconsistent enforcement of sound supervisory practices. The two DPCs supported more consistent enforcement of bank supervision, resulting in a bank-by-bank supervision action plan.

14. Strengthened policy and institutional framework to support cost-effective and sustainable infrastructure investments. Mongolia's recent experience with the mineral price boom-bust cycle and resulting fiscal crisis exposed weaknesses in the public spending framework, the Public Investment Program (PIP) process, and the role of short-term political economy incentives, particularly related to infrastructure expenditures. However, corrective measures, including legislative reforms, are being phased in to smooth future public revenue windfalls and expenditure policies. These measures were linked to the development partner-supported reform program triggered by the crisis of 2009. There was progress in improving the financial performance of the energy sector

and improving electricity access in rural areas. The Bank was actively engaged in energy through projects and AAA such as Infrastructure Strategy and South Gobi Infrastructure and Environment. To improve road infrastructure, the Transport Development Project (FY01-FY08) aimed to strengthen the planning and asset management capacities of road sector entities. However, in light of limited accomplishments, the World Bank opted for phasing out of the road sector. Meeting the CAS outcome of increased ICT (Information and Communication Technology) access and coverage in Mongolia has been particularly successful. With World Bank financed subsidies combined with private sector subsidies from the Universal Service Obligation Fund (established with support from the Global Partnership on Output Based Aid), all 335 soums have been provided with access to reliable and affordable mobile voice services, with an additional 34 soum centers now equipped with broadband internet access for public and private users. Schools are connected at discounted rates, there is wider access to internet cafés, and a network of over 170 satellite public telephones serve herders in remote areas beyond the reach of the mobile networks. The partnership with the private sector to promote these services has been instrumental in contributing to the sustainability of the outcome.

15. Strengthened social service financing and institutional capacity. There was limited progress in improving the financial sustainability and targeting of the pension and social insurance program due to modest Government interest in advancing such reforms at that time. More recently, there has been renewed interest in Bank technical assistance on various pension system reform areas. The Bank has been providing advice to the Government on issues related to the Poverty Targeted Benefit (PTB) scheme and the Social Welfare Law (SWL) as part of the key reform areas initiated during the crisis and supported by two DPCs from the Bank's side. In this context, the Bank supports the Asian Development Bank (ADB) in the implementation of the second phase of the Proxy Means Testing (PMT) survey and through the social protection component in the Multi-Sectoral TA Project. Other ministries (health and education) have also expressed interest in using PMT to target beneficiaries. Progress was made on education sector outcomes to improve the delivery of services by better linking needs with spending. The Bank facilitated the education outcomes through: (1) the Education for All Fast Track Initiative (EFA FTI) Catalytic Fund grant that supports the improvement of education access and quality, particularly for herders' children; (2) an IDA grant for the Rural Education and Development (READ) Project which provides classroom libraries and teacher training to raise the literacy skills of students in Grades 1-5; (3) and additional IDA financing to support the use of net-books to improve learning. The major impact has been an improvement in the learning environment and facilities, which in turn has laid the foundation for improvement in reading skills in rural schools. Although Mongolia received an Education Program Development Fund (EPDF) grant to participate in the international assessment of the Trends in International Mathematics and Science Study (TIMSS) and Program of International Reading Literacy Study (PIRLS), the Ministry of Education, Culture and Science (MECS) decided not to implement the full scale survey in 2011. Meanwhile, Mongolia has applied for an EFA FTI Graduation Grant to finance the building of kindergartens. For higher education, the accreditation system is being improved thanks to Bank analytical work being implemented under an ADB education project. As part of CAS selectivity and in light of the strong involvement by ADB in this sector, Bank support to the health sector was at the margin through small grants. However, the client and partners value the Bank's role in global best practices, knowledge and innovation (e.g., AAA on output-based budgeting in the health sector funded by seed grant from the Results Based Financing Trust Fund).

CAS Objective 2: Reducing Vulnerabilities

16. As part of the CAS, the Bank set the objective of increasing support to efforts aimed at reducing risks to vulnerable populations, particularly in rural areas, and to improve the delivery of services. It would support innovative and pilot initiatives (such as livestock insurance), better natural resource management, sustainable regional development and stronger municipal governance and urban services including for ger areas.

17. Strengthened risk management and growth to reduce rural vulnerability. Under this results area, the twin CAS objectives were (i) strengthen systems that reduce risk and improve service delivery to vulnerable populations, and; (ii) address the key sources of rural vulnerability by expanding support. Both the Sustainable Livelihoods Project (SLP) and the highly innovative Index-Based Livestock Insurance Project (IBLIP) helped to address risk and vulnerability, with the latter providing livestock insurance coverage to 14 percent of targeted herders, a rate higher than originally envisaged. Based on its early success, IBLIP is now being expanded nationwide to protect herders from the vulnerability of natural and environmental risks and to improve the country's risk management system. Almost 36,000 sub-loans, for a total of US\$30.4 million, have been disbursed by banks and non-bank financial institutions under the micro-finance component of the SLP, benefitting almost 164,000 people directly or indirectly. The project has made major contribution to decentralization in the country, first and foremost by piloting a model of community participation in public investment at local level, with lessons from the project incorporated in the integrated budget law. SLP is also helping more than 176,000 herder families improve their pastoral management skills, emphasizing winter preparedness and a reduction in the vulnerability of livestock. The targeting of community level infrastructure projects (e.g. renovation of school dormitories) also seem to be succeeding with high satisfaction rates among beneficiaries.

18. Strengthened environmental and natural resource management. The Bank supported efforts to improve national and community level environmental governance and natural resource management (NRM), which has obvious linkages to vulnerability. The Bank-administered Netherlands-Mongolia Trust Fund for Environmental Reforms (NEMO 1 and 2) helped generate a range of activities and analyses to advance environmental protection and the sustainability of NRM, including through improvements in environmental laws and standards. Also under NEMO, the Steppe Forward Programme produced the Mongolian Biodiversity Databank, and the legal framework for NRM was revised. A series of studies were carried out to deepen the understanding of environmental issues such as ground water resource and managing the mining impact on the environment. Public consultations and access to information on Environmental Impact Assessments (EIA) were actively promoted. The publication of all existing EIAs on the internet was further supported by DPC2. The CAS outcome for piloting community-based NRM systems in selected soums was indirectly supported through the Sustainable Livelihoods Projects.

19. Improved municipal service delivery for Ulaanbaatar peri-urban residents. Progress was made in improving service delivery to vulnerable groups in the peri-urban areas of the capital. Provision of water supply and kiosk operations improved gradually, directly benefiting the low-income ger households. Under the Bank-funded Second Ulaanbaatar Services Improvement Project, about 280 water kiosks and 100 individual connections for water and sanitation have been made in the ger area of Ulaanbaatar. As a result, the number of people per water kiosk has been nearly halved to 892 with approximately 300,000 benefitting. The service performance of the Water Supply and Sewerage Authority was improved by reducing unauthorized water and electricity consumption. Operation costs were also reduced, while water and wastewater tariffs were increased over the past three years. However, the water utility's financial sustainability of has still not been achieved.

20. Improved viability of initiatives to reduce rural-urban disparity. The CAS proposed to inform the Government's regional development strategies (which aimed to reduce disparities and included large infrastructure investments) with analytical work, analysis of options, and the study of cross-country experiences with such efforts. However, the post-2004 government had less interest in regional development strategies, except in South Gobi where most of the mining boom is happening. The Bank thus undertook a large piece of AAA, the Southern Mongolia Infrastructure Strategy which looked at the institutions and investments needed to support the growth potential of Southern Mongolia.

CAS Objective 3: Strengthening the Alignment of Policies and Resources Around Results

21. In alignment with a key pillar of the EGSPRS, the CAS aimed to strengthen the national institutional framework and capacities to design, implement, and monitor the country's poverty reduction strategies and programs in close coordination with other development partners. Supporting the government efforts to formulate and implement the related sector strategies and building consensus would be important as well as the coordination and harmonization of donor procedures. After the EGSPRS was adopted, the country priorities evolved and the EGSPRS could no longer be used as a platform for coordination and development effectiveness. The Bank adjusted to these new realities and focused on enhancing donor coordination and ensuring results within the Bank-funded activities.

22. To support stronger aid coordination and harmonization, the Bank assisted the Government in moving from the Consultative Group mechanism focused on pledging aid to the more operational biannual Technical Meetings (TM) and Sector Working Groups (SWG). The TM mechanism was particularly effective in coordinating support to the Government in addressing the 2008-2009 economic crisis. The World Bank played the coordinating role with the IMF, the ADB, JICA, and USAID in mobilizing the budget support needed to support the Government's action plan. The combination of strong policy actions and adequate external resources played a major role in the country's ability to mount a quick turn-around, and laid the foundation for a significant improvement in its medium to long-term development strategy. The Bank adjusted quickly to the crisis by reallocating two-thirds of its IDA envelope to development policy lending, supported by existing or restructured TA projects and just-in-time AAA. Donor coordination in sectors such as education (e.g., sector-wide approach around the Fast Track Initiative) and mining has been useful.

23. While some progress has been made on the harmonization agenda, leadership in coordinating aid at all levels by the Government needs further strengthening. Official Development Assistance (ODA) is now included in the budget (with the Bank setting good practice), but there are still issues with lack of transparency and limited dissemination of aid-related statistics and information. The Government is now moving towards partnership relations with the donors that are more in line with its emerging middle-income country status, signaling its desire to rely more on its own resources rather than on aid.

ISN Objectives

24. Under the ISN, the Bank sought to support the authorities' urgent response to the crisis and associated reforms to improve medium-term economic management, with a particular focus on the economy's mineral dependence. The 2008 severe economic downturn gave an opportunity for the Government to revisit its financing mechanisms and management of mineral resource revenues. The

Bank, through the Economic Capacity Building TA and the Governance Assistance Project as well as policy dialogue, had already been actively working with the Government to strengthen pro-cyclical fiscal management, investment planning, and the linkages among the various strategies and policy documents such as the Government Action Plan (GAP), the Medium-Term Budget Framework (MTBF), and the Socio-Economic Guidelines (SEG). While the crisis exposed substantial policy weaknesses, it also provided the opportunity to correct these and initiate a series of significant reforms in key areas. The ISN formalized this reform agenda and articulated the program for CY09-CY10 under three strategic areas.

25. ISN Strategic Area 1: Improve Macro and Fiscal Sustainability in a Mineral-Based Economy. The crisis provided the opportunity to support major policy reforms which had been stalled for a long time. These reforms were supported by an IMF-led stabilization package, with budget support being provided by the ADB, Japan, Australia, the US, India, and the World Bank. The 2010 Fiscal Stability Law (FSL) was the centerpiece of these reforms and its implementation is currently being phased in. The 2011 budget available for current expenditures is already based on smoothed-out mineral prices, with the balance being saved in a stabilization fund. However, the structural balance rule that caps the deficit to a certain level of GDP will only start being applied in 2013. While the Bank, in order to avoid cross-conditionality, did not include passage of the FSL in the DPCs, it supported the drafting of the legislation and organized an intense outreach program to Parliament with the view of building consensus around the law. The Bank's crucial role is widely acknowledged. Similarly, improvements to the PIP were given important momentum during the crisis and have now been included in the new integrated budget law. In the banking sector, the supporting program met the original objectives of restoring confidence in the banking system, although it did not fully address the problem of underlying financial sector vulnerabilities, which continue to make the system prone to future crisis.

26. ISN Strategic Area 2: Protect Poor and Vulnerable Groups. The ISN outcome of retargeting social assistance to the poorest has gained traction with the development of a methodology for Proxy-Means Testing (PMT) and the roll-out of the survey to build the national beneficiary database. The official implementation of the PMT-based Poverty Targeted Benefit scheme is pending the enactment of the Social Welfare Law. In the meantime, the universal Child Money Program (CMP) has been replaced by universal cash transfers from the Human Development Fund. The Sustainable Livelihoods Project, in particular through its Community Initiatives Fund component, addresses the vulnerability of rural populations. It has supported the community-led investment projects, including renovation of dormitories and schools, improved healthcare facilities, improvements in local infrastructure (from public bath houses to street lighting), and increased economic opportunities (e.g., through the construction of hay storage facilities and water points for cattle). The Index-Based Livestock Insurance Program is already available in 15 aimags and addresses pastoral and disaster risk management. Bank support for reducing vulnerabilities in urban areas aimed to enhance municipal planning capacity and urban services with a focus on ger areas. Key analytical and diagnostic pieces have already been completed and are informing policies and providing clear cost-benefit choices. Additional financing for the Energy Project is improving the reliability and financial sustainability of electricity distribution companies. The performance of these outcomes is satisfactory as many of them are partially or fully achieved and each outcome addressed the urgent needs of the Ulaanbaatar municipality.

27. ISN Strategic Area 3: Encourage Transparent and Prudent Mining Investments and a More Competitive and Stable Medium-term Business Investment Climate. The program has been successful in pursuing objectives aimed at improving the management of the sector, although

the remaining challenges are substantial. The legislative framework for mining is evolving and should soon reach a stable stage more consistent with international good practices. Establishing a balanced and sustainable fiscal regime for the mining sector remains the greatest challenge. Constantly changing provisions, with sometimes aggressive taxation, discourage investments in exploration and development by reputable companies and encourage corruption and tax evasion by less credible companies. The repeal of the windfall profits tax was well received but was then somewhat replaced with a high royalty regime supported by government-fixed commodity prices. Bank engagements that are making significant contributions include the Mining TA Project, the DPCs, and the Governance Assistance Project. Ad hoc fiscal regime changes are a strong disincentive for investment and should remain a major focus of future efforts for dialogue and engagement. Since the opening of Oyu Tolgoi, one of the world's largest copper mines, and Tavan Tolgoi, a six billion ton coal resource, the Bank has focused on support to ensure that mining revenues are translated into positive development outcomes. These efforts have included strengthening governance across the mining value chain by promoting broader and more informed public accountability. Key achievements included the EITI compliant designation received by Mongolia in 2010 and improvements in the transparency of the mining cadastre. Understanding the long term importance of Oyu Tolgoi as a critical growth source for the development of the country, IFC, in close coordination with the Bank, has been working closely with the private developer and partner banks with a goal to arrange a multi-billion US\$ debt financing package for the sustainable development of this world class mine project, as well as actively engaging in technical, environmental and social due diligence and advisory services initiatives including community development program.

28. Throughout, the World Bank placed a strong emphasis on encouraging greater transparency and accountability. Starting with an in-depth political economy analysis, the Bank aimed to foster public dialogue around key development issues anchored in facts and informed by other countries' experiences. It did so on both the supply and demand sides of governance, the latter thanks to the support of the Governance Partnership Facility (GPF). For example, in addition to advancing greater transparency in the allocation of mining licenses through the reform of the mining cadastre, the Bank also initiated the establishment of an independent think tank and supported the training of Mongolian journalists in economic and mining matters.

IV. Bank's Performance

29. The Bank did well to adapt to the evolving circumstances soon after the 2004 CAS was discussed. In September 2005, the Bank agreed with the new government to refine the CAS priorities and deliverables. With the PRSC series stalled, the Bank reformulated its approach to focus on key planned investment lending often modified to meet emerging challenges (e.g., Private Sector Development Credit II, Rural Education Development), additional operations to meet new priorities (e.g., Governance Assistance Project, Renewable Energy for Rural Access, Enhanced Justice Sector Services), technical assistance (e.g., Mining Sector TA), and non-lending technical services aimed at achieving the key development goals and outcomes that had been identified in the CAS. It was also successful in raising grant resources to address the country's needs, with resources for recipient executed trust funds more than tripling from US\$23.55 million in FY05 to US\$74.5 million in FY11. Moreover, the Bank mobilized resources from donors to co-finance a range of IDA operations, facilitating strengthened donor collaboration and coordination at the sector level. Examples of this include, among other, EU support for SLP2, its largest commitment in Mongolia, Swiss and Korean support for IBLIP, Japanese support for project preparation and the Ulaanbaatar Services Improvement Project, and support from the Netherlands for NEMO and the Renewable Energy

Project, etc.. As the 2008-2009 economic crisis deepened, the Bank Group deferred the approval of the next CAS and instead adopted an 18-month ISN to support the Government's urgent priorities. The ISN incorporated major Bank initiatives that were already underway (e.g., the focus on the mining sector) and framed the Bank's program around key priority areas needed to stage a quick recovery and form the basis for an improved medium-term policy agenda.

30. Two DPC budget support operations provided the cornerstone of the interim strategy and accounted for US\$70 million of the indicative ISN FY09-FY11 IDA envelope of US\$90 million (actual IDA commitments over FY09-FY11 now stand at US\$131 million). In addition, components of several ongoing operations were reoriented to support the DPC policy areas. The DPCs were designed to help the Government manage the economic downturn triggered by the collapse of copper prices and helped meet urgent financing needs. The single-tranche DPC-1 supported reforms in the areas of fiscal policy and management, social protection, the financial sector, and the mining sector. Collaboration among key partners (e.g., IMF, ADB, Japan, US) was close and effective given the urgency of the situation and the short time span for preparation. DPC-2 supports the significant reforms that the Government has undertaken since the economic crisis in 2008 including sustaining the economic recovery and developing a stable fiscal framework through improved fiscal policy and management; designing a social protection system that supports the poorest people through economic downturns; preparing a framework for a sounder financial sector; and maintaining an attractive investment climate for mining. The ICR review rated DPC-1 as being satisfactory while the IEG rating, which was provided one year after the approval of the DPC and before the passage of the Fiscal Sustainability Law, was moderately satisfactory.

31. Overall, the Bank has been able to make substantial progress in assisting the Government in key areas selected for support under the CAS and the ISN (strengthening public financial management and fiscal and public investment policies; addressing the needs of poor rural residents; supporting infrastructure development, with particular success in the ICT sub-sector; improving the alignment of resources with policies; and moving towards greater clarity of the mining sector policies and safeguards. In some areas where the Bank did not have substantial IDA allocations, it was able to leverage other resources, co-financing, and TFs, and also provide support through AAA and global cross-country experience sharing. The approval of a GPF for Mongolia was a key pillar of the increased outreach to stakeholders undertaken by the Bank to support the Government's response to the crisis and the increased appetite for demand-driven initiatives to improve accountability in public service delivery. However, there was slower traction in other areas such as designing and launching the MTEF, civil service reforms, social welfare reform, and restructuring of the banking sector.

32. **Lending Volumes.** Over the FY05-FY08 (CAS) period, the Bank approved 10 projects worth US\$99.6 million (of which US\$50.1 million as IDA credits, and US\$49.6 million as grants). Under the ISN, the Bank approved an additional US\$130.7 million of IDA financing (Mongolia is currently not eligible for IDA grants) during FY09-FY11 with the approval of seven projects, including two DPCs for US\$69.7 million. (See Attachment 2). During the FY05-FY08 CAS period, IFC committed US\$57.6 million of debt and equity financing in eight projects; during the ISN period, IFC provided additional US\$94.4 million in 14 projects. FY11 saw a record level of commitments in a given FY with US\$83.3 million and seven projects.

33. **IFC's Performance.** During the CAS and ISN periods IFC made a number of investments in Mongolia, which were strongly aligned with the WBG and IFC strategy. In the financial markets sector, IFC's investments supported banking consolidation; increased banks' lending volumes to target underserved segments, and expanded product and service offerings in the market. These

investments also included institutional strengthening and advisory work to improve risk management and spread best practice lending standards. IFC has successfully established trade finance lines with five local banks. IFC's involvement and advisory services support to Mongolia's Credit Information Bureau helped develop the country's financial markets infrastructure. IFC is also enhancing the investment activities in the real sector with a focus on local corporations with diversified portfolios, which in FY08 led to a US\$30 million investment in MCS Holdings LLC, one of Mongolia's leading private companies diversified across such sectors as food and beverage, cashmere, and real estate. FY11 became a record year for IFC in Mongolia in terms of its investment activity (investments have been made in seven projects worth US\$83.3 million, including US\$50.0 million for the construction of the first Shangri-la hotel in Mongolia, US\$20.0 million sub-debt in Khan Bank, US\$7.0 million in the first private equity fund specialized in SMEs, and US\$2.0 million in Suu Dairy, the largest dairy company in the country).

During the same period, IFC significantly increased its advisory services in Mongolia with over US\$4 million in projects funded jointly by IFC, the governments of Japan, Netherlands and clients, to help develop the business and investment climate and support financial markets. There are three ongoing advisory projects in Mongolia focused on Investment Climate (Business Inspections Reform), Corporate Governance and Access to Finance (trade finance, leasing, credit information, mobile banking). IFC, in close coordination with the Bank, is also exploring PPP advisory services to the Government of Mongolia.

34. Analytical and Advisory Activities. The CAS planned an ambitious AAA program for Mongolia and placed strong emphasis on collaborative efforts, more effective implementation, policy linkages, consensus-building, and dissemination. (See Attachment 3). Key AAA delivered to the client include major reports on mining, cashmere, and the enabling environment for social accountability; infrastructure strategies; assessments of poverty, the investment climate, and the financial sector; public expenditure reviews; a report on public investment planning; and an extended series of Netherlands-financed reports on Mongolia's environment. ESW products focused mostly on economic and public sector governance followed by infrastructure, rural development, finance, and social sectors. Many of the completed tasks offered the Government and development partners the much-needed basis to advance the policy and sector dialogues. The individual elements of the DPC policy matrices, for example, were identified from, and supported by, previous analytical work, including in the banking sector where the results from a recent Financial Sector Assessment Program (FSAP) and other diagnostic work were extremely relevant and timely. The Multi-Sectoral TA Project is addressing accounting and auditing weaknesses identified by the AAA Report on the Observance of Standards and Codes (ROSC). The Bank's quarterly, and then, from April 2009, monthly, Economic Updates played an important role in disseminating the rationale for, and progress on, reform measures, along with updates on the impact of the crisis on the macroeconomic, financial and corporate sectors. A QAG review of 11 tasks (over FY02-FY06) found that despite an unfavorable political and institutional context, the Bank's AAA program was satisfactory in its strategic relevance, quality, and dissemination.

35. Results Framework. The analysis of the challenges in the CAS underestimated the political economy realities, and the proposed strategy was somewhat complex and ambitious. The strategy was predicated on robust macroeconomic management, strong adherence to the poverty reduction objectives of the EGSPRS, and continued commitment and implementation of the reform programs including substantive institutional changes. Events were overtaken first by the uncertainties subsequent to the 2004 election, and then by the windfall earnings from mineral exports and the impact of the natural resource curse. They were further exacerbated by public expenditures and

policies which were dominated by short-term perspectives and “pork barrel” political economy considerations. In retrospect, the design of the results framework was overly intricate with too many outcomes, indicators and milestones (some of which were not amenable to clear monitoring). Outcomes and indicators described in the text and text tables did not match the matrix and there were overlaps among some of the outcomes. The ISN results matrix is relatively simpler and outcomes are better aligned with proposed Bank Group instruments, including the planned DPC prior actions.

V. Key Lessons and Recommendations

36. The lessons and recommendations for the next Country Partnership Strategy (CPS) draw upon the evaluation of the performance of the CAS and ISN, as well as feedback received from various stakeholders. Most counterparts viewed the Bank’s comparative advantage as an effective convener, especially in donor coordination, and as a major global institution guided by a strategic focus on results and analytical strength with the ability to create significant and effective knowledge products. However, some who worked with the Bank during the CAS period saw the EGSPRS as a complex Bank-Fund instrument that was needed to facilitate the allocation of significant amounts of concessional funds to Mongolia.

37. Some key lessons and suggestions for the next CPS include:

- *Build in flexibility to take account of transitions and emerging priorities.* While the alignment and synchronization of the Bank’s country strategy with selected national priorities and development plans are the correct approaches to ensure broad ownership and commitment, efforts should be made to build in flexibility to accommodate government and electoral transitions as well as emerging and unforeseen developments. Undertaking consultations of proposed CPS priorities and instruments with wider segments of stakeholders, including parliamentarians and political entities in the opposition, could also reduce risks. Maintaining flexibility, alternative programming, and strong dialogue on strategic priorities across key ministries, parliamentary committees, and civil society will be essential. This will be particularly critical as the Mongolian economy is expected to grow rapidly over the next five years and its needs may change rapidly too.
- *Focus on fewer outcomes and ensure a clear results framework.* The last CAS had an ambitious and complex results framework with multiple outcomes, indicators, and milestones. The next CPS should have a results agenda which (i) is aligned with selected national development priorities, (ii) takes account of the activities of development partners, (iii) engages in areas with strong client demand where the Bank has a comparative advantage and track record of performance in the country, but at the same time supports innovation by bringing in global experience; (iv) is simple and has only a few selected outcomes and clearly monitorable indicators and milestones; and (v) links directly with proposed instruments and activities. In fact, the CPS results framework should adopt existing and proposed project-level outcomes and indicators to the extent possible. Benchmarks and monitoring mechanisms should be set up as early as possible.
- *The advancement of sound development policies – be it through investment lending, budget support, and AAA – is the most sustainable impact of the Bank in Mongolia.* Over the past seven years, policies and innovations have been introduced successfully through investment lending (e.g., ICT project, IBLIP) as well as budget support operations (e.g., the FSL through DPC-1).

These were supported by quality analytical work and had strong ownership within the Government. The crucial importance of understanding the political economy context for policy reforms also needs to be underscored.

- *Design programs/projects to minimize implementation challenges.* Given capacity constraints, simplification of project design should be a priority in Mongolia. This does not, however, imply that projects should not be innovative. Mongolia has, in fact, proven that it can implement innovative and technically complex projects with significant policy impact (e.g., IBLIP). Furthermore, to reduce the implementation costs, greater reliance on country systems for procurement processes and financial management could be explored in conjunction with capacity strengthening as warranted. Repeater projects, programmatic lending (for example in urban development, direct poverty support, Public Financial Management), and additional financing operations can also reduce costs.
- *Take a programmatic approach to AAA.* Given the longer-term nature of the engagement in Mongolia and the fact that Mongolia will increasingly value the Bank for its knowledge contributions, the Bank should consider multi-year programmatic ESW and TA programs in key areas (e.g., public expenditures, governance, civil service reforms) while continuing with responsive, just-in-time policy notes and advisory pieces, and systematic follow-through on AAA findings and recommendations.
- *Consider longer-term role of the Bank in Mongolia.* The role of the Bank in Mongolia will need to adjust as the country graduates from IDA to IBRD status during the period of current CAS. Mongolia will become less reliant on ODA, and some traditional donors may reorient their support to other low income countries, which in turn may affect the ability of the Bank to mobilize Trust Fund resources. This will require strategic selectivity and emphasis on areas where the Bank has a comparative advantage.

Summary of Mongolia CAS (FY05-FY08) and ISN (CY09-CY10) Programs Self Evaluation [3/14/2012]

CAS Outcome/ Cluster of Outcomes Outcome Indicators (baseline and targets)	Status and Evaluation Summary	Financing (Lending and Grants) and Non- lending Activities that Contributed to the Outcome ¹²	Key Lessons and Suggestions for the New CPS
CAS Objective 1: Consolidating the Transition			
Results Area A: Strengthened systems and capacities to align public resources with policy priorities			
<p>Outcome 1: The Government effectively targets and manages expenditures to support national development priorities</p> <p>Outcome indicators:</p> <p>Comprehensive MTEF aligned with EGSPRS priorities and costed, prioritized sector plans with ceilings updated based on M&E feedback</p> <p>Strengthened financial management and procurement systems; 100% of all public accounts included in TSA; deviations between planned and actual spending decrease by 50%</p> <p>General public including NGOs have access to all budget and parliamentary</p>	<p>Not achieved. Sector ceilings are currently not enforced and there is no comprehensive MTEF based on bottom-up sector priorities. However, program classification was introduced in the chart of accounts starting in 2009.</p> <p>Achieved. Functional TSA and Government Financial Information System (GFMS) have greatly improved expenditure payments and cash management.</p> <p>Achieved. Mongolia's score has improved from 18 (out of 100) in 2006 to 60 in 2010 in the International Budget Partnership's Open Budget Index (OBI) ranking. Mongolia is now ranked among the</p>	<p>Financing: Fiscal Accounting TA (FY98-FY06; ICR=S; IEG=MS); Economic Capacity Building TA (FY03); Governance Assistance Project (FY06)</p> <p>Non-lending: Public Expenditure and Financial Management Review (FY08); Public Expenditure Tracking Survey (PETS) Education (FY07); Improving Public Investment Planning and Budgeting (FY10)</p>	<p>The MTEF goal was not achieved because, as has been the common experience in many countries, the reform was too complex given the capacity on the ground. A less ambitious approach, with embedded advisors providing technical assistance to the Government on phased implementation, should have been pursued.</p> <p>GFMS was funded through three projects: the Fiscal TA (now closed), ECTAC, and GAP. It succeeded due to close Bank supervision, and sound project management on the ground.</p>

¹² For projects, years in parentheses refer to FY of approval, and if closed, also FY of completion. Implementation Completion and Results (ICR) and Independent Evaluation Group (IEG) ratings are provided where available. S: Satisfactory; MS: Moderately Satisfactory. The most recent Implementation Status and Results (ISR) ratings of Development Outcome (DO) and Implementation Progress (IP) for ongoing projects in the portfolio are provided in CAS Standard Annex B8. For AAA, the year in parentheses refers to the FY of delivery to the client.

<p>documents on a timely basis</p> <p>Intermediate indicators:</p> <p>By 2006, MTEF includes comprehensive, costed PIP including donor financed projects, recurrent investment costs</p> <p>GFMS fully operational in central agencies and at aimag level; procurement processes streamlined</p> <p>Detailed functional and economic allocation of budget, at national /local levels, available to public within 6 months of completion</p>	<p>countries that make significant fiscal and budget information public.</p> <p>PIP does not include donor-financed projects or recurrent investment costs</p> <p>GFMS, operating across the country at the central, aimag, and soum levels, has greatly improved payments and cash management.</p> <p>The frequency and volume of budget information published have increased considerably, and now include the Executive Budget Proposal, monthly and year-end budget execution reports, and audit reports</p>		
<p>Outcome 2: Improved civil service capacities and systems to manage for development results</p> <p>Outcome indicators:</p> <p>Decompression of civil servant salaries from about 2.74 in 2001 to about 5 in 2007; bonuses linked to performance evaluation</p> <p>Staffing mix at sector levels consistent with MTEF and EGSPRS goals</p> <p>Intermediate indicators:</p> <p>Adoption and implementation of Civil Service Reform Strategy and action plan to</p>	<p>Not achieved. Pay compression was 3.1 in 2008; bonuses are not linked to performance evaluation. Salary raises in Mongolia have been across-the-board and have not addressed pay compression. However, civil service pay, on average, is not unattractive when benefits and job security are factored in.</p> <p>Not observable. There is no functional MTEF that would guide staffing mix at the sector level.</p> <p>There has been no progress to rationalize the wage bill or to revise the civil service pay scales. There was some progress in simplifying the pay structure for teachers through merging of several allowances in 2007.</p>	<p>Financing: Economic Capacity Building TA (FY03); Governance Assistance Project (FY06)</p> <p>Non-lending: Civil Service Policy Note (FY09) <i>(Towards a High Performing Civil Service)</i></p>	<p>The relative lack of progress on civil service reform is not surprising given the World Bank's general experience (see 2008 IEG evaluation). The Bank was too ambitious in this regard, with a large (US\$0.9 million) QCBS contract with a consulting firm to design a civil service reform strategy which resulted in hundreds of pages of reports of variable quality that could not be implemented. The Bank's approach to the HRMIS was also weak, with insufficient upfront analytical work to understand the HR arrangements in Mongolia and the challenges that developing such a system would entail. Once the ESW report was completed in 2009, and the challenges recognized, the approach was changed and currently a much more modest HRMIS is under development.</p>

<p>rationalize wage bill in line with PRSCs; civil service pay scales revised</p> <p>Civil Service Council capacity, authority strengthened to manage personnel planning, deployment, control; HRMIS in place</p>	<p>The Civil Service Law was amended in 2008 in line with some of the recommendations of the Civil Service Reform Strategy. Notable changes include increased autonomy of the Civil Service Council giving it responsibility for determining the classification, ranking, and grading of civil servants, and for annually benchmarking civil service pay with private sector comparators; and giving it increased authority in dispute resolution. Comprehensive HRMIS is not in place. The bidding was cancelled three times and the scope of the project has been reduced. Currently, a scaled-down HRMIS is under development.</p>		
<p>Results Area B: Improved policy, regulatory financial environment for PSD</p>			
<p>Outcome 3: Improved enabling environment for private sector-led growth</p> <p>Outcome indicators:</p> <p>Government, donor resources aligned to prioritized reform agenda to support PSD, including mining, livestock, other sectors</p> <p>Public, including businesses, able to easily access all laws, regulations, policies, and their drafts; citizens able to appeal administrative decisions</p>	<p>Achieved. Investment Climate Assessment (2006) and Sources of Growth Country Economic Report (2007) identified a set of concrete recommendations aimed at promoting private sector activity and greater integration with the global economy in a way that leads to job creation, broad-based growth and poverty reduction. A number of these recommendations have been since implemented by the authorities, including streamlining of foreign trade procedures, and reduction of tax burden. Work on simplification of the inspection regime and corporate governance reform (including overhaul of the company law) is currently underway. Lines of credit from the Bank and other donors facilitated access to finance by private SMEs. In addition, significant progress has been made in improving the investment climate and business environment in specific sectors including mining and agriculture.</p> <p>Achieved. Access to legal and judicial information was improved by creating a virtual legal information portal and allowing for more efficient dissemination of laws and other legal information among government ministries and agencies through the creation of the electronic United Information Network (UIN) in the National Legal Center (NLC). As a result, the NLC provided (i) legal and judicial information to 30 government organizations, agencies and ministries; and (ii) facilitated public access to this information via two websites containing the laws of Mongolia, court decisions, decrees of ministries</p>	<p>Financing: Legal and Judicial Reform Project (FY02-FY08; ICR=S; IEG=S); Enhanced Justice Sector Services Project (FY08); Development Policy Credit 1 (FY09-FY10; ICR=S; IEG=MS); Development Policy Credit 2 (FY10)</p> <p>IFC: Mongolia Corporate Governance Project; Reforming Business Inspections Project</p> <p>Non-lending: Investment Climate (FY06); CEM Sources of Growth (FY07); ROSC Accounting and Auditing Review (FY08); Corporate Governance ROSC Assessment (FY09);</p>	<p>The WBG's engagement has proven to be most effective when policy advice and TA were complemented by an investment loan (LJRP). The impact of analytical work such as the ICA and Country Economic Report chapter has been more limited, partly because it was not systemically followed through by the Bank team due to the need to direct limited internal resources to more urgent work in the financial sector. Although interventions at the sectoral level (e.g., mining and agriculture) have resulted in an improved enabling environment in relevant industries, the overall investment climate for private firms is still challenging, as shown by Mongolia's slipping in Doing Business rankings in recent years. In particular, regulations for opening and closing a business, trading across borders, and getting credit result in costs to business that are higher than in most other East Asian economies. Prompt and consistent enforcement of regulations is also an issue. Going forward, it would be advisable for the WBG to agree with the authorities and other donors on a time-bound plan for dealing with the identified impediments to private sector operations, and allocate commensurate TA and lending resources in support of the plan implementation. In view of the anticipated mining boom, it is particularly important to focus on enhancing competitiveness of private firms working in other sectors in order to maintain a degree of economic diversification.</p> <p>There needs to substantial and sustained effort to maintain and expand the web portals and the UIN and to publicize the existence and utility of this database in order to ensure an increase in the number of public users of these internet sites.</p>

<p>Intermediate indicators:</p> <p>Development/adoption of PSD strategy which includes clearly articulated public policy agenda for private sector growth</p> <p>National legal information center has full library and database of laws and regulations; administrative courts staffed, trained, and opened</p>	<p>and government agencies, and court commentaries. The success of these websites was illustrated by 2007 survey results which showed a 100% increase in public access to information about the courts system through the internet, a year after the websites were fully activated. In addition, the Bank supported the establishment of the newly created administrative courts and the new Supreme Court Chamber for administrative cases. These courts are functioning well and citizens have ready access to the appellate level.</p> <p>In 2008, the Bank prepared a PSD technical note at the request of the Government with the aim to provide the authorities with the analytical foundation for a country PSD strategy. Although many recommendations from the above report have since been taken into account by the authorities, the national PSD strategy was not adopted formally due to the onset of the financial crisis in late 2008.</p> <p>The national legal information center was established, including a comprehensive library of laws and regulations. The legal information website was set up and is being maintained. Administrative courts have been staffed and trained. The establishment of the NLC allowed for the creation of a new legal institution in Mongolia capable of providing the MOJHA, the judiciary and the legal profession with research and training capacities. In combination with the UIN's legal and judicial databases, connected electronically to 30 government ministries and units, and provision of access to the public at large through on-site free computer use and library facilities, increased efficiency and transparency in providing access to the full corpus of Mongolian law and court decisions to end users were accomplished.</p>	<p>Trade Facilitation and Integration (FY10); Annual Doing Business Reports (regular); PSD Technical Note (2008)</p>	<p>Increasing information sharing among agencies and ensuring optimal public access and utilization of the new justice system services would also depend on strong capacity building efforts within the system and public information strategies and campaigns by the court and broader justice system.</p> <p>The new CPS should build on the foundations created by the LJRP and the follow-on Enhanced Justice Sector Services Project (EJSSP), currently under implementation. The EJSSP is supporting important interventions in the development and implementation of comprehensive legal education reform (strengthening of law professors, development of standards of legal clinics, development of student handouts), and a bilingual public information strategy. While the ISN did not highlight the justice sector as a focus area, the proposed CPS could link the ongoing project to the cross-cutting theme of Building Capacity to Manage the Crisis and Improve Governance in the Medium-Term. As the extractive industries grow, the need for individuals and the business community to understand their rights and how to access the justice system rises, and with it the need to ensure that the system can respond.</p>
<p>Outcome 4: Increased banking sector stability reduces risks, costs of credit</p> <p>Outcome indicators:</p> <p>Enforcement of strengthened financial sector regulatory framework: reduction in NPLs from 8% of assets to below 5% by 2007; improved rating for compliance with Basel Core Principles for</p>	<p>Partially achieved. The NPLs decreased to 5.3%, but this improvement masked significant vulnerabilities in the banking system which became exposed in late 2008 when Mongolia felt the impact of the global financial crisis. The weak credit risk management by banks combined with the lax supervision regime resulted in NPLs reaching 25% in 2009, although the number has dropped to 10% by late 2010. The assessment of Basel Core Principles conducted during the last FSAP found that banking supervision is relatively well developed in comparison to other countries at Mongolia's stage of transition.</p>	<p>Financing: Financial Capacity Development Project (FY02-FY09; ICR=MS; IEG=MS) Private Sector Development Credit 2 (FY05); Index-Based Livestock Insurance Project (FY05); Development Policy Credit 1 (FY09-FY10; ICR=S; IEG=MS);</p>	<p>The severity of the 2008-2009 banking crisis in Mongolia has shown that strengthening of the financial sector remains a critical part of the development agenda. The main lesson emerging from the Bank's engagement in the financial sector is that the AAA and TA tools are not sufficient for dealing with deep-seated and politically sensitive issues. While diagnostic work and TA are important, they need to be complemented by policy-based lending that would support implementation of lasting reforms in the sector. It is important that the new CPS gives adequate attention to the dual objectives of improving the scope and cost of</p>

<p>effective banking supervision</p> <p>Strengthened legal and regulatory environment for livestock insurance and leasing industry</p> <p>Intermediate indicators:</p> <p>Implementation of updated medium-term financial sector strategy; strengthened legal and regulatory framework as specified in the PRSC policy matrix, adoption of AML/CFT Law</p> <p>Adoption of Insurance Law</p>	<p>However, the banking crisis has demonstrated that enforcement of existing regulations needs to be improved.</p> <p>Achieved. The Insurance Law was revised in 2004 and enabled the development and selling of index based insurance. The Bank is now working with the Government on a separate index based livestock insurance law (currently in draft). The Law on Financial Leasing was enacted in 2006, making leasing activities much more attractive for investors, both foreign and domestic. Mongolia also amended its tax legislation to create favorable tax treatment for leasing and encourage investment in fixed assets.</p> <p>Separate strategies were developed in 2006-2007 for the banking sector and non-bank financial institutions, but the implementation got side-tracked in 2008 due to the severe banking crisis. The PRSC operations did not take place, but substantial improvements in legal and regulatory framework were made during the crisis period. In 2006, Mongolia passed an AML/CFT law (Law on Combating Money Laundering and Terrorist Financing) and established a Financial Intelligence Unit. Since then, Mongolia has made significant progress on the AML/CFT agenda, including amending the criminal code, strengthening the supervision of banks and further building the capacity of the FIU.</p> <p>Following the series of revisions in 2004, there were no other substantial changes in the Insurance Law</p>	<p>Development Policy Credit 2 (FY10)</p> <p>IFC: IFC Leasing Development Project</p> <p>Non-lending: Financial Sector Mid-Term Review (FY06); Financial Sector Assessment Program (FSAP) (FY08); Analysis of the Banking Sector Vulnerabilities (FY09); Financial Sector TA (FY08)</p>	<p>financial intermediation while making the system more resilient to possible future shocks.</p>
<p>Results Area C: Strengthened policy and institutional framework to support cost effective and sustainable infrastructure investments</p>			
<p>Outcome 5: Well costed and prioritized PIP, aligned with the MTEF, allocates resources across infrastructure sectors</p> <p>Intermediate indicators:</p> <p>Integrated infrastructure strategy supports prioritization of investments and policy and institutional reform agenda</p>	<p>Partially achieved. Mongolia's Public Investment Plan (PIP) remains poorly aligned to national and sector strategies, and contains a majority of projects that have not gone through a proper appraisal or sound costing. However, some institutional and organizational reforms are in process that, if implemented well, should improve the PIP. These reforms include: (i) the Fiscal Stability Law (passed in 2010) that strengthens the MTEF and smoothes and limits public expenditure growth (pro-cyclical expenditures are one of the reasons for a poor PIP); (ii) changes to the legal framework (currently in the draft stage) for planning and budgeting (the Integrated Budget Law and the Law on Development Policy and Planning) that would strengthen the PIP; (iii) the establishment of the NDIC as the agency responsible for strategic planning and appraisal of large infrastructure projects, thereby elevating the priority of this area and partially addressing the capacity gaps in the MoF; (iv) the preparation, by the NDIC, of draft project appraisal and project evaluation guidelines for projects to enter the PIP; and (v) rationalization of the PIP in 2009 and 2010 to remove some projects that did not have appropriate technical drawings or were not</p>	<p>Lending: Development Policy Credit 1 (FY09-FY10; ICR=S; IEG=MS); Development Policy Credit 2 (FY11); Economic Capacity Building TA (FY03); Governance Assistance Project (FY06)</p> <p>Non-lending: Infrastructure Strategy (FY07); South Gobi</p>	<p>The combination of AAA, TA, and the DPCs has been important for the progress achieved to date. The AAA diagnostic work identified the deficiencies and the areas for reform. The ECTAC and GAP TA projects provided the consultancy support and overseas training and study tours to try to implement some of the recommendations, and to expose Mongolian policy-makers to good international examples. The overseas exposure was particularly important for the passage of the FSL. The DPC conditionality on removing projects without feasibility studies not only helped improve the 2009 and 2010 PIPs, but more importantly, gave prominence to this issue among Mongolian parliamentarians.</p>

	well-costed.	Infrastructure and Environment (FY09); Improving Public Investment Planning and Budgeting (FY10)	
<p>Outcome 6: Improved financial sustainability and efficiency of energy sector</p> <p>Outcome indicators:</p> <p>Inter-company arrears settled; reduction in energy quasi-fiscal activities from 1% of GDP in 2003</p> <p>Rebalanced tariffs recover full cost of providing electricity, but maintain access for poor and rural groups</p> <p>Ulaanbaatar electricity distribution losses is reduced from 34% in 2003 to less than 20 % by 2007</p> <p>Public-Private partnerships in place (including financing arrangements) to implement sector investment program</p> <p>Government, donors resources aligned to energy</p>	<p>Not achieved. Despite periodic write-offs and decisions to reduce interest rates of sovereign guaranteed loans, the inter-company arrears keep increasing. As of the end of 2010, inter-company arrears between energy companies were still high (receivables Tg 25.3b and liabilities of Tg 29.3b). The receivables and liabilities in energy sector stand at 2 - 2.4% of GDP in 2010. Various reasons, including low tariffs, which do not allow companies to fully recover operational expenses, imperfect power market structure and financial structure, and incomplete energy sector restructuring contribute to increasing arrears.</p> <p>Not achieved. After several price adjustments since 2007, the retail tariffs for electricity has reached US 6 cents per kWh.</p> <p>Partially achieved. Ulaanbaatar electricity distribution losses were reduced from 34% in 2003 to about 21% in 2010. Energy Project PIU and Ulaanbaatar Electricity Distribution Network (UBEDN) estimated that additional revenues of about Tg 7b were collected due to reduced losses and increased collections. The UBEDN could not meet the target fully because the influx of migrants from rural areas is continuing and there are still areas with high non-commercial losses.</p> <p>Not observable. Because of the economic crisis and the shift of the Bank program to emphasize Development Policy Credits (DPC), the priorities have shifted from long-term to short-term activities (e.g., covering budget deficit).</p> <p>Achieved. The Bank financed the Renewable Energy for Rural Electricity Access Project (REAP), and supported the Government’s</p>	<p>Lending: Energy Sector Project (FY01); Renewable Energy for Rural Access Project (REAP) (FY07); GEF Renewable Energy for Rural Access (FY07); Energy Sector Additional Financing (FY10)</p> <p>Non-lending: Infrastructure Strategy (FY07); Ulaanbaatar Air Pollution Discussion Note (FY09); Rural Energy Project TA (FY08); Urban Heat Pricing and Regulation (FY09); Improving Public Investment Planning and Budgeting (FY10); Energy Efficient Heating in Poor Peri Urban Areas of Ulaanbaatar (FY09); Mitigation Sector Reform and Tariff Adjustment (FY10); South Gobi Infrastructure and Environment (FY09)</p>	<p>With the implementation of REAP, the Government’s “100,000 solar ger” program will be completed by the end of 2011. There are still about 60,000 households in rural areas without any electricity access. More analysis of key constraints and options for improving access is needed. It will be important to further promote the policy dialogue on renewable energy and the regulatory framework. ESW on infrastructure and financial performance (including tariffs) of the sectors could further promote the policy dialogue and the strengthening of regulatory capacity in energy and other infrastructure sectors. The Bank should continue to support these areas with other donors (e.g., USAID). Mongolia is entering a crucial stage where the mining sector will drive rapid economic development and significant financial resources are needed to support mining infrastructure. Within the Mongolia Mining Infrastructure Investment Support Project (to be effective) more pre-investment as well as feasibility studies for electricity generation can be undertaken.</p> <p>Donor coordination within the Ulaanbaatar Clean Air Program (UB CAP) has proven to be very effective resulting in the mobilization of substantial funding and the Bank should scale up this approach.</p>

<p>strategy, including further development of strategy for access</p> <p>Intermediate indicators:</p> <p>Adoption of main elements of financial restructuring of energy enterprises including account receivables to less than 45 days by 2007</p> <p>Transitional measures articulated to mitigate social impact to vulnerable groups</p> <p>Pre-investment work completed to facilitate private-public partnerships in new heat and electricity generation</p> <p>Analysis completed of key constraints and options for improving access</p>	<p>“100,000 solar ger” program along with other donors (e.g., Japan, China, and GEF). The proposed “UB Clean Air” program served as a platform for coordination of donor activities for air pollution reduction in Ulaanbaatar. Major donors included ADB, Millennium Challenge Account (MCA), JICA, EBRD and GIZ.</p> <p>Account receivables for Ulaanbaatar Electricity Distribution network has reached 42 days.</p> <p>The Energy Regulatory Authority (ERA) introduced lifeline tariffs for low-income people.</p> <p>There are several PPP projects, such as Power Plant #5 and Tavantolgoi power plant. Though the Bank and IFC offered due diligence and transaction advice for Power Plant #5 in Ulaanbaatar in 2008, the client (at that time the Ministry of Fuel and Energy) did not take the advice.</p> <p>No activities were planned or undertaken during the CAS period. Within the REAP, there will be surveys on the current status of electrification in rural areas, which will be implemented during summer 2011.</p>		
<p>Outcome 7: Strengthened institutional capacity to manage the road network to meet objectives of equitable growth, service delivery, and rural access</p> <p>Outcome indicators:</p> <p>Stronger linkage of transport ODA with widely agreed policy and institutional reform agenda and prioritized investment program</p>	<p>Partially achieved. The Ministry of Roads, Transport, Construction and Urban Development (MRTCUD) has prepared a five-year investment plan for the road sector, which includes prioritized investments. Most of the large projects are centered on supporting the mining sector, which supports the Government’s stated policy. However, the process for identifying priority road sector investments</p>	<p>Lending: Transport Development Project (FY01-FY08; ICR=MS; IEG=MS)</p> <p>Non-lending Infrastructure Strategy <i>(Foundation for Sustainable Development: Rethinking the Delivery of</i></p>	<p>A more robust prioritization process should be instituted with greater consideration on economic rates of return when considering new road investments. Mongolia’s road engineering standards and materials requirements, especially for pavement, are dated and in some cases inadequate to accommodate the country’s harsh climatic conditions. Adequate supervision and testing of materials during construction is essential. One permanent road lab and several basic mobile road labs are not sufficient. Consideration should be given to creating additional mobile road labs and stationing them on-site during large road works projects, or to establishing small road labs in key Aimag centers to alleviate the burden on the existing road lab and ensure better coverage. Enhanced supervision of works during construction would encourage the use of</p>

<p>Ministry of Infrastructure implementing credible plan for managing their roads within fixed budget constraint, including reliable assessment of fixed and recurrent costs of Millennium Road; gravel vs. paved roads; [increase in number of km of roads in good and fair condition]</p> <p>Intermediate indicators:</p> <p>Updated roads sector strategy in place with investment criteria taking recurrent costs into account</p> <p>Three-year forward rolling plan and budget of investment and recurrent costs in the road sector</p> <p>Maintenance management system in place</p>	<p>outside of the mining sector is largely political. There is a focus on new construction, rather than maintaining existing road assets (90 percent of budgets go to new construction). It is estimated that more than 3,000 km of roads require reconstruction, and this large backlog of rehabilitation and maintenance should have priority over the construction of new roads.</p> <p>Partially achieved. The Road Supervision and Research Center (RSRC) regularly carries out traffic counts and roughness measurements and maintains the information in a database (both paper and electronic versions). However, the information is not unified using a common software. Traffic counts are taken every three months, but the entire spectrum of measurements is only done every three years for existing roads, and every five years for new roads. While input from traffic counts and roughness measurements are considered when preparing annual road maintenance plans, the approach is not systematic based on need so much as it is based on condition surveys, including visual surveys, which are typically carried out at the request of MRTT. In addition, each Aimag receives a percentage of available maintenance funds based on the length of paved roads in their jurisdiction.</p> <p>While criteria for building new roads have been defined, they are not regularly applied. Also, most road maintenance activities are not tendered competitively, but awarded to one of 18 state-owned companies.</p> <p>The MRTCUD regularly provides three-year plans and updates them periodically.</p> <p>There is a system for road maintenance in place. The RSRC regularly carries out traffic counts (quarterly) and road roughness measurements (annually). A lack of control on overloading contributes to the poor quality of roads throughout the country. Although the Road Act allowed for limits to be established, they are rarely enforced, and there is little consideration given to the size, weight and loads imposed by vehicles on the road network.</p>	<p><i>Infrastructure Services in Mongolia) (FY07)</i></p>	<p>appropriate methods, equipment, and quality materials. While axle load limits have been established for the country, they are rarely enforced. Weigh-in motion traffic sensors and heavy vehicle weigh bridges should be installed and regulations enforced to deter overloading.</p>
<p>Outcome 8: Improved regulatory environment and financing mechanism to promote expansion of ICT infrastructure and</p>	<p>Achieved. The Universal Service Obligation Fund (USOF) was established and operationalized to promote the expansion of access to ICT services in rural and underserved areas and the financing of USOF was secured by a law requiring all licensed telecommunications operators to contribute 2% of their taxable income to the fund.</p>	<p>Financing: Information and Communications Infrastructure Development</p>	<p>The focus on creating a favorable policy and regulatory environment for private sector investments and competition was key for the dramatic improvement of service delivery. The strong commitment of the Communications Regulatory</p>

<p>services</p> <p>Outcome indicators:</p> <p>Universal access strategy and service fund in place (number of households with access to a telephone increases from 17% in 2002 to 30%)</p> <p>Increased private sector participation in the provision of ICT infrastructure and services with over 85% of ICT services provided by private sector</p> <p>Intermediate indicators:</p> <p>IT law approved that provides for favorable legal framework for IT sector; government strategy for its use of ICT developed.</p> <p>Tariffs for local phone calls increased; annualized charges for two MBP circuits reduced; interconnection charges rationalized</p>	<p>Moreover, competition in the sector increased significantly (two additional private mobile operators were licensed) and the transparency and predictability of the regulatory process were improved (a regulatory public consultation process was established in 2007; the share of spectrum applications approved and assigned within 15 working days increased from 50% in 2005 to 75% in 2009; the share of regulatory decisions published increased from 58% in 2005 to 100% in 2009) resulting in sustained investments in the sector (US\$37.6m in 2005, US\$93.2m in 2007, US\$63.6m in 2008, and US\$46.9m in 2009).</p> <p>Achieved. The World Bank supported the development and implementation of the Government’s Universal Access Strategy and Policy, which included the establishment of USOF to provide subsidies for the expansion of ICT services into rural areas. The share of households with access to a telephone increased beyond forecasts and is significantly higher than 30%. There are over 1.9 million telephony subscribers with about 600,000 household covered.</p> <p>Achieved. The sector is dominated by privately owned companies. Two additional private mobile operators were licensed resulting in four private mobile operators competing in the mobile sector. The fixed line operator (MTC) is 40% privately owned (54% owned by the Government) but its market share is small and declining. The fully Government owned ICNC is a wholesale operator providing services to the other operators..</p> <p>No new ICT law was approved but there were several amendments to the existing law and a package of ICT laws has been submitted to the Parliament recently. Overall, the legal framework is fairly favorable. The E-Mongolia National Program originally approved in 2005 was updated in 2009.</p> <p>Telephony tariffs and interconnection rates have been restructured and, overall, the cost dropped significantly for users. The target for the local call tariff lost relevance due to technological developments in the sector.</p>	<p>Project (FY06); GPOBA funded Rural ICT Pilot Project; TF Project Support (PHRD)</p> <p>Non-lending: Infrastructure Strategy (FY07)</p>	<p>Commission was a major success factor. Furthermore, skills transfer and ownership of the program by the Government were critical, and consultations with operators and stakeholders helped to bring them on board.</p> <p>The Government and ICT operators have expressed to the World Bank their appreciation for its support to this program and have asked it to consider continuing its support for this initiative. Next steps would be to assist initiatives to improve the quality and reach of the mobile network infrastructure, and to extend the broadband services to more soum centers.</p> <p>Going forward, The Bank should engage with the Government on a new ICT and economic growth agenda that includes broadband access, content and applications relevant to Mongolia, building new economy skills for the young population, developing a private sector led IT/ IT enabled services industry in niche segments/markets, and using broadband/mobile phones for the delivery of public services especially in rural areas.</p>
<p>Results Area D: Strengthened social service financing and institutional capacity</p>			
<p>Outcome 9: Improved financial sustainability and targeting of social protection systems</p>	<p>Not achieved. Social assistance continues to rely on the provision of categorical benefits. The Poverty-Targeted Benefit (PTB) envisaged under the new Social Welfare Law (SWL) could not be implemented as the SWL has not been passed by the Parliament. The fiscal costs of</p>	<p>Non-lending: Policy Note on Pension Reform (FY08)</p>	<p>Government commitment and interest are key to moving forward the pension and social protection system reforms.</p>

<p>Outcome indicators:</p> <p>Long term projection shows improved financial sustainability of pension system</p> <p>No major structural benefit gaps exist between age cohorts at the introduction of the new program</p> <p>Regular IAS standard audits of SSIGO show that accounts are well maintained, and that internal control is appropriately enforced</p> <p>LSMS data shows that exclusion and inclusion errors of social assistance programs reduced</p> <p>Intermediate indicators:</p> <p>Long term projection model developed and maintained</p>	<p>social transfers as a share of GDP have been increasing over the reporting period. Universal cash transfers from the Human Development Fund (HDF) during 2010 (and planned for 2011) have been the key reason behind rising fiscal costs of social transfers recently. With respect to the pension system, the Bank's recent estimates indicate that holding replacement rates, retirement ages and contribution rates constant, the fiscal costs of the pension system will substantially increase over time. Significant policy changes would be needed to ensure that fiscal costs are sustainable over time.</p> <p>Not achieved. The pension agenda has seen little progress over the reporting period. However, in 2010 the Government expressed renewed interest in the Bank's support (technical assistance) in various areas of pension system reforms. It was agreed that moving forward, the Bank's pension team will provide policy advice to the Government on: (i) formulation of a Pensions Law revising existing parameters including initiation of a process of modeling baseline projections and reform options for the current social security scheme; (ii) design of a savings program for the herders and informal sector; (iii) potential expansion and restructuring of the old age income assistance program; and (iv) determination of the objectives in the potential establishment of a social security reserve fund. However, these recommendations have not been reflected in the policy changes yet.</p> <p>Not achieved. Addressing the existing gap between pre-1960 and post-1960 cohorts would require changes to the pension system. No changes have taken place yet.</p> <p>Not observable. The existing information indicates that SSIGO accounts are well maintained. However, no rigorous assessment of this was conducted.</p> <p>Not achieved. Social assistance programs have not been changed in any significant way, and the Poverty-Targeted Benefit (PTB) has not been introduced. Hence, the targeting performance remains unchanged.</p> <p>The SSIGO staff has received the training from the World Bank on the analysis of the pension system and making projections using PROST</p>		<p>The Bank's team keeps engagement with the Government in this area, and there has been recent renewed interest from the Government in the policy discussions on the directions for the pension system reform.</p>
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<p>by the Ministry of Social Welfare and Labor and State Social Insurance Government Organization (SSIGO)</p> <p>Short term budgeting model used in preparing program budget and monitoring expenditure</p> <p>Action plan adopted that improves financial management of SSIGO; SSIGO included under TSA</p> <p>Analysis of household survey data completed on targeting efficiency</p>	<p>model. It is not entirely clear though to what extent SSIGO staff has a capacity to undertake such an analysis independently without support of the World Bank consultants.</p> <p>No information is available on the status of this indicator.</p> <p>No information is available on the status of this indicator.</p> <p>The analysis of targeting efficiency using the household survey data was performed using ADEPT SP software. The results still need to be reflected in a write-up.</p>		
<p>Outcome 10: Improved sustainability and allocation of health financing</p> <p>Outcome indicators:</p> <p>Public goods and primary care increase from 15% to 30%</p> <p>Increased spending on provinces with greater health needs (e.g., greater than national standardized mortality ratio)</p> <p>Hospital spending decreases from 85% to 70% of total health spending</p> <p>Increased availability of essential drugs in rural areas</p>	<p>Not evaluated given little WBG engagement during the CAS period.</p>		<p>The Bank was not a significant player in the health sector during this CAS period. Bank contributions have been at the margin through small grants. However, the Government and partners view the Bank as important for bringing in global best practice, knowledge and innovation to the sector. The Bank's knowledge products are highly valued.</p>

<p>Strengthened standards for quality, conditions for public financing of private facilities enforced</p> <p>Intermediate indicators:</p> <p>National health accounts include private out of pocket spending, health insurance, public budgets</p> <p>Government strategy clarifies responsibilities between health insurance and state budget, coordinates payment systems to encourage primary care and improved efficiency of hospital sector; optimization process for Ulaanbaatar hospitals including new financing mechanism</p> <p>Strengthened system to track availability and price of essential drugs; improved public procurement, distribution of drugs</p> <p>Government strategy includes role of private sector in health</p>			
<p>Outcome 11: Improved education financing, standards, and monitoring</p> <p>Outcome indicators:</p> <p>MTEF for education</p>	<p>Partially achieved. Progress has been made in all subsectors of</p>	<p>Financing: Rural Education and Development (READ) Project (FY06); EPDF Grant: Education for All-Fast Track Initiative</p>	<p>The Bank's engagement in the education sector in Mongolia has made a positive contribution. A programmatic approach and budget to support longer-term engagement would be more effective.</p>

<p>finalized and more efficient financing norms, specially for institutions of higher education, are in place and being used</p> <p>Increase in number of accredited institutions</p> <p>Modernized system measures student achievement, life skills and disseminates results of academic achievement</p> <p>Intermediate indicators:</p> <p>More efficient financing norms for all levels of education consistent with MTEF policies and targets</p> <p>Accreditation system initiated; a full accreditation process begun for higher education institutions</p> <p>Improved M&E system in place and piloted in limited number of schools</p>	<p>education. The MTEF has been finalized, but the mechanism for improving efficient financing norms still has room for improvement. Higher education institutions are being consolidated to improve quality and efficiency. This reform is still underway.</p> <p>Partially achieved. Accreditation is being improved, but this may not necessarily be reflected in the number of institutions accredited because institutions are being consolidated or merged.</p> <p>Partially achieved. The Education Evaluation Center which has been responsible for handling university entrance examinations and student assessment has undergone a leadership change. Its capacity can benefit from further strengthening. The international assessment exercise in the Third International Mathematics and Science Study (TIMSS) and Progress in International Literacy Study (PIRLS), in which Mongolia's participation was financed by an EPDF grant, has been terminated by a ministerial decision. The survey was not conducted and the unused funds will be returned.</p> <p>Mongolia's public spending on education has been equitable and pro-poor as a very large share goes to basic education, and higher education is financed in large part by private expenditures. The State Training Fund provides financial assistance to tertiary education students. However, it could be further improved to ensure better targeting and thereby help ensure access to more disadvantaged students.</p> <p>An accreditation system is already in place and has begun the process. Its mandate goes beyond higher education and covers technical and vocational education and training as well. However, it can be further strengthened.</p> <p>M&E has been improved. However, due to personnel changes, it is unclear whether the improvement has been institutionalized.</p>	<p>Non-lending: Public Expenditure and Financial Management Review (FY08); Civil Service Policy Note (FY09); Policy Note on Higher Education (FY10); Public Expenditure Tracking Survey (PETS) Education (FY07)</p>	<p>As the 2012 elections draw near, decisions have been increasingly driven by political considerations. Future grant support should be Bank-executed to maintain a more neutral position for assistance to education.</p>
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CAS Objective 2: Reducing Vulnerabilities

Results Area A: Strengthened risk management and growth to reduce rural vulnerability

<p>Outcome 12: Strengthened systems, new mechanisms piloted, to reduce rural risks</p>		<p>Financing: Sustainable Livelihoods Project 1 (FY02-FY08; ICR=S; IEG=S);</p>	<p>The Pastoral Risk Management component activities have been scaled up under SLP2. One of the key lessons is that investment and capacity building under the project have not changed herder behavior, particularly with respect to herd</p>
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<p>Outcome indicators:</p> <p>Dzud-related animal losses in target aimags reduced by 33% compared to other aimags by 2007</p> <p>3-7% of targeted herders covered by livestock insurance by 2008</p> <p>Policy measures formulated to assist herders through fiscally responsible social protection programs</p> <p>Intermediate indicators:</p> <p>Integrated risk preparedness strategy for livestock production developed, piloted, adopted in 8 selected aimags by 2006</p> <p>Legal framework established under Insurance Law, index-based insurance system piloted, policies sold commercially, contingent financing mechanism in place</p> <p>Policy analysis conducted regarding options to cover herders under social protection programs</p>	<p>Not observable. This indicator was from the first phase of the Sustainable Livelihoods Project, and as it was not a good indicator, it was not included for the second phase, SLP2. Dzud conditions vary widely among aimags and such comparisons are difficult to make and are meaningless.</p> <p>Achieved. By 2008, 14% of herders in the three pilot aimags bought insurance.</p> <p>Not achieved. Formal policy measures were not formulated, though analytical work was conducted with respect to post dzud assistance for herders (see outcome indicator below).</p> <p>The activities under the Pastoral Risk Management Component of SLP1 were all completed, and herders in the pilot aimags were taking more actions to prepare better for winter and mitigate risk. However, a formal strategy was not adopted.</p> <p>The Insurance Law was revised in 2004 and enabled the selling of index based insurance. Thus, a legal framework had been established. The legal framework is being strengthened further and it has been agreed with the Government that a separate index based livestock insurance law is required and is in draft. The index based livestock insurance system has been piloted; policies are sold commercially; and contingent financing mechanisms are in place.</p> <p>Under the TFESSD financed study, “Structuring Dzud Disaster Preparation, Financing and Response to Increase Resilience of Herder Households to Climatic Risk”, a study was made on how to introduce a structured, transparent system for providing social transfers to herders following severe dzud.</p>	<p>Sustainable Livelihoods Project 2 (FY07); Index-Based Livestock Insurance Project (FY05); IBLIP Additional Financing (FY10)</p> <p>Non-lending: Livestock Sector Study (FY09); Meat Sector Policy Note (FY10); Trust Fund for Environmentally & Socially Sustainable Development (TFESSD) financed study “Structuring Dzud Disaster Preparation, Financing and Response to Increase Resilience of Herder Households to Climatic Risk” (FY11)</p>	<p>sizes and overgrazing. The mid-term review of the project concluded that: “Ultimately, despite the positive impacts of project activities, these have been ineffective in the face of the prevailing incentive structure and market failure which encourage herders to overstock and degrade pasture resources.” Under SLP2, there is increasing focus on some of the prevailing incentive issues in a common access scenario. Options are being explored to pilot, for example, pasture user fees. This remains a critical area for engagement for the Bank, working closely with other partners (e.g., Switzerland, UNDP).</p>
<p>Outcome 13: Enhanced environment for private sector-led growth in rural areas</p> <p>Outcome indicators:</p>		<p>Financing: Sustainable Livelihoods Project 1 (FY02-FY08); ICR=S; IEG=S); Sustainable Livelihoods Project</p>	<p>The Bank is following up the analytical work with investment operations including the Integrated Livestock-based Livelihoods Program, to be financed under the Global Agriculture and Food Security Program (GAFSP). There may also be a request for IDA co-financing.</p>

<p>Policy interventions identified to intensify and diversify livestock production and marketing systems</p> <p>10% of target beneficiaries in selected <i>aimags</i> have access to microfinance services by 2007</p> <p>Improved targeting of community-level infrastructure projects -- 75% of target community members satisfied with procedure for identification, selection, and implementation</p> <p>Intermediate indicators:</p> <p>Analytical work on rural supply chains, livestock sector</p> <p>Outreach of institutionally and financially sustainable micro-finance services to targeted poor achieved in 8 aimags by 2006</p> <p>Efficient, socially inclusive, transparent mechanisms established in 8 aimags to execute investments in</p>	<p>Achieved. Several analytical pieces have been completed which have examined these issues (Livestock Sector Study; Mongolia Country Economic Memorandum). The Bank can take some credit for influencing the National Livestock Program, endorsed by Parliament in 2010, which takes forward the policy agenda for livestock intensification.</p> <p>Achieved. The SLP1 ICR noted that about 15% of target population were sub-borrowers from the Microfinance Development Fund (MDF).</p> <p>Achieved. This indicator has been difficult to track, not least because it tries to capture too much in one figure. The SLP1 ICR was inconclusive: "Actual numeric value for this indicator is not available. High satisfaction rates are provided by different studies for different procedures". No specific survey was carried out to assess the Local Initiatives Fund (LIF) process from a range of community perspectives. Monconsult (2006): 37% of respondents felt that selection processes were transparent, open and fair; 72% of community members ranked Household Livelihoods Support Councils' (HLSC) performance as average to excellent; 50% noted a slight or major change in community participation, initiatives, and sense of self-responsibility. Community scorecards in Household Livelihoods Support Program Office (HLSPO) indicate a 93% satisfaction rate. This indicator is also tracked in SLP2 with an improved system compared to SLP1. The October 2010 mission found that satisfaction with the mechanism was 88% and satisfaction with outcomes was 77%.</p> <p>Undertaken.</p> <p>Met.</p> <p>Completed.</p>	<p>2 (FY07)</p> <p>Non-lending: Livestock Sector Study (FY09); Meat Sector Policy Note (FY10); CEM Sources of Growth (FY07)</p>	<p>The improvement in access to rural financial services has been quite dramatic, aided by the emergence of strong micro-finance institutions. As the recent financial crisis showed, however, the system is not robust, and more could be done. Specific areas for potential engagements include developing community based financial institutions (to provide competition to banks, and also to serve the un-bankable) and increased consumer education.</p>
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infrastructure and local services by 2005			
Results Area B: Strengthened environmental and natural resource management			
<p>Outcome 14: Strengthened institutional capacity for management of environment and natural resources</p> <p>Outcome indicators:</p> <p>Implementation of road map to strengthen legislative and institutional framework to improve management of environment and natural resources, with priority on mining and forestry</p> <p>Environmental expenditures aligned with environmental priorities</p> <p>Improved public participation in EIA and access to data and information on environment and natural resources management</p>	<p>Achieved. Under NEMO2, support continues to be provided to improve environmental laws and standards to manage the country's natural resources by: (i) developing drafts to eliminate discrepancies and duplications in laws relating to industry; (ii) renewing the laws and regulations (rules, regulations, methods) on EIAs, and increasing the accountability of IA (e.g., ecological agreements); and (iii) supporting advocacy activities to help the passage of the drafts through Parliament. The FAO provides on-going support to newly established forestry brigades. Under NEMO2, the Ministry of Nature, Environment and Tourism (MNET) is building upon FAO's activities by developing detailed training plans and implementing a professional and methodical program of training sessions for a number (up to 10) of inter-soum forest units. The intent is to improve awareness and strengthen the understanding of the roles of the local units to better manage forests under their jurisdictions. Support is also being provided for two local environment and tourism departments at Dalanzadgad and Khovd aimags to improve how they function and how they carry out their duties and responsibilities.</p> <p>Partially achieved. Beginning in 2008, the MNET introduced program- based budgeting. The Bank is helping to improve this scheme through its AAA products such as the 2009 Study to Review Environmental Expenditures. Currently, work is ongoing to improve inter-sectoral coordination in environmental policy, as well as collecting information on spending by the private sector to comply with environmental guidelines.</p> <p>Achieved. The MNET has revised its law on EIAs and will submit it to Parliament for ratification during the 2011 spring session. The Bank also assisted in establishing an EIA database with some 2,500 records which are publicly available on the internet (http://geodata.mn-ngic.mn/eia). The Guidelines for Conducting EIAs were revised in 2010 through a Decree issued by the MNET minister.</p>	<p>Financing: TF NEMO 1 & 2; Mining Sector TA Project (FY08)</p> <p>Non-lending: South Gobi Infrastructure and Environment (FY09); Ulaanbaatar Air Pollution Discussion Note (FY09)</p>	<p>A key lesson is the need for counterparts to take ownership in developing and implementing proposed reforms. Although implementation might take longer and require more oversight and guidance, there is far greater potential for reforms to be sustained.</p>

<p>Intermediate indicators:</p> <p>Identification of the key changes needed to strengthen the institutional and legislative framework for environment and natural resource management</p> <p>System developed within public expenditure reforms to track environmental/natural resources revenues and expenditures</p> <p>Regulations formulated to institutionalize public consultation and participation in EIA process</p>	<p>The MNET conducted a review of environmental laws and regulations in 2010 in an effort to identify needed revisions and amendments to eliminate potential contradictions among different environmental laws. During the review process, MNET identified a number of key changes. Also, Mongolia has strengthened important policy documents governing natural resources, including the National Water Program (2010), National Plan for Combating Desertification, and National Action Plan on Climate Change and Adaptation.</p> <p>System not developed.</p> <p>The proposed revised Law on EIAs has two important aspects: (i) public consultation when EIAs are prepared; and (ii) public access to information and the detailed EIAs. The draft law will be submitted to Parliament during its 2011 spring session.</p>		
<p>Outcome 15: Community-based natural resource management systems piloted in three soums that systematically include participation of local government and civil society in natural resource decisions and monitoring</p> <p>Intermediate indicators:</p> <p>Revised procedures for public participation in environment /natural resource management developed and disseminated in targeted soums</p>	<p>Achieved. Under SLP2, the Bank supports pasture/range management and the development of community-based approaches which have been piloted and scaled up. Under the dropped Forestry Project, it was planned to support community based forest management, though ultimately this was not supported by the Ministry of Finance.</p> <p>The guidelines for pasture management planning and implementation were developed under SLP1 and the implementation is now supported under SLP2. The guidelines are government policy, under the supervision of the Land Agency.</p>	<p>Financing: Sustainable Livelihoods Project 2 (FY07); TF NEMO 1 & 2</p> <p>Non-lending: South Gobi Infrastructure and Environment (FY09); NEMO-funded studies (various)</p>	<p>These outcomes were directly supported under SLP2.</p>

Mongolia: CAS Completion Report

Planned IDA Financing Program and Actual Deliveries

CAS PLANS (April 5, 2004)	IDA	Status of deliveries			
		US\$M	US\$M		
Project			Credit	Grant	
TOTAL FY05-FY08	88		50.07	49.55	
FY05 Program	19		18.32		
PRSC-II	10	Dropped			
Index-Based Livestock Insurance Project	5	Delivered (5/26/05)	7.75		
Private Sector Development	4	Delivered as Private Sector Development Credit 2 (6/28/05)	10.57		
FY06 Program	26		0.00	26.00	
PRSC-III	10	Dropped			
Social Sector TA	3	Delivered as Rural Education and Development (READ) Project (5/23/06)		4.00	
Infrastructure Project	13	Delivered as ICT Infrastructure Development Project (6/8/06)		8.00	
		<i>Additional Actual Projects</i>			
		Governance Assistance Project (5/23/06)		14.00	
FY07 Program	20		23.30	16.70	
PRSC-IV	9	Dropped			
Second Sustainable Livelihoods Project	8	Delivered (6/19/07)	19.80	13.20	
Judicial and Public Sector Reform TA	3	Deferred to FY08			
		<i>Additional Actual Projects</i>			
		Renewable Energy for Rural Access Project (REAP) (12/9/06)	3.50		
		GEF Renewable Energy for Rural Access Project (12/9/06)		3.50	
FY08 Program	23		8.45	6.85	
PRSC-V	9	Dropped			
Infrastructure Project	8	Dropped			
Land Administration and Management Project	3	Dropped			
Forestry Project	3	Dropped			
		<i>Additional Actual Projects</i>			
		Enhanced Justice Sector Services Project (6/26/08)	3.35	1.65	
		Mining Sector TA Project (6/26/08)	5.10	4.20	
		Additional Financing for Rural Education and Development Project		1.00	
INTERIM STRATEGY NOTE PLANS (April, 2009)		COMPLETION REPORT (May, 2011)			
TOTAL FY09-FY11	90		130.70		
FY09 Program	2		42.00		
MONSTAT (Statistical Development)	2	Delivered (6/12/09)	2.00		
		<i>Additional Actual Projects</i>			
		Development Policy Credit 1 (DPC) (6/25/09)	40.00		
FY10-FY11 Program	88		88.70		
Development Policy Credit 1 (DPC-1)	40	Delivered in FY09			
Development Policy Credit 2 (DPC-2)	20	Delivered (10/18/10)	29.70		
Other projects	28	Multi-Sectoral TA Project (6/28/10)	12.00		
		<i>Additional Actual Projects</i>			
		Additional Financing for Index-Based Livestock Insurance (2/23/10)	10.00		
		Additional Financing for Energy Sector (3/25/10)	12.00		
		Mining Infrastructure Investment Support Project (5/10/11)	25.00		
Total CAS + ISN period	178		230.32	180.77	49.55

CAS/ISN Completion Report Attachment 3

Planned Nonlending Services and Actual Deliveries

CAS PLANS (April 5, 2004)	STATUS OF DELIVERIS
<i>Activity</i>	
FY05 Program	
Consultative Group Meeting	Delivered
Economic Monitor	Delivered regularly
Environment Monitor	Dropped
Financial Sector Review	Delivered as Financial Sector Mid-term Review FY06
Integrated Infrastructure Strategy	Delivered as Infrastructure Strategy FY07
Poverty Assessment	Delivered FY06
PSD Strategy (Investment Climate/Supply Chains)	Delivered as Investment Climate FY06
Public Expenditure Tracking Survey	Delivered as PETS Education FY07
Regional Development Note	Delivered as Regional Development Policy Note FY06
Social Sector Strategy	Dropped
	<i>Additional deliveries</i>
	Enabling Environment for Social Accountability in Mongolia
	Gender Assessment
	Health Policy Note
	Poverty-Focused Policy Notes
	Support to the Association of Mayors
FY06 Program	
CEM/DPR (Sources of Growth)	Delivered FY07
Civic Engagement Assessment	Delivered as Strengthening Parliament, Media & Civil Society FY11
Consultative Group Meeting	Delivered as semi-annual Technical Meetings
CPAR/CFAA	Dropped
Decentralization Study	Dropped
Economic Monitor	Delivered regularly
Livestock Support Services Study	Deferred
Social Monitor	Dropped
Social Sector AAA	Dropped
	<i>Additional deliveries</i>
	Dialogue and Support of Master Plan & Fast Track Initiative
	Evaluation of Poverty-Targetted Program
	Migrants Remittances to Mongolia
	Mining Policy Dialogue/Regulatory Reforms
	Review of the Environment & Social Policies in Mining
	Secondary Cities Development Strategy
	Judicial Reform Programme
FY07 Program	
Consultative Group Meeting	Delivered as semi-annual Technical Meetings
Economic Monitor	Delivered regularly
Environment and Social Development AAA	Dropped
Environment Monitor	Dropped
ICT Strategy	Dropped
Infrastructure AAA	Dropped
Natural Resource Use Strategy	Dropped
Public Expenditure Review/Integrated Fiduciary Assessment	Delivered as Public Expenditure and Financial Management Review FY08
Regional Trade Study	Deferred
Social Sector AAA	Dropped
FY08 Program	
Consultative Group Meeting	Delivered as semi-annual Technical Meetings
Economic Monitor	Delivered regularly
Environment and Social Development AAA	Dropped
Financial Sector Assessment	Delivered as Financial Sector Assessment Program (FSAP) FY07
Human Development Assessment	Dropped
Infrastructure AAA	Dropped
Investment Climate/Private Sector Assessment	Dropped
Social Monitor	Dropped
	<i>Additional deliveries</i>
	Financial Sector Technical Assistance
	Rural Energy Project

Planned Nonlending Services and Actual Deliveries, continued

CAS PLANS (April 5, 2004)	STATUS OF DELIVERIS
<i>Activity</i>	
INTERIM STRATEGY NOTE PLANS (April, 2009)	COMPLETION REPORT (May, 2011)
FY09-FY10 Program	
Air Pollution Work	Delivered as Ulaanbaatar Air Pollution Discussion Note FY09
Analysis of Banking Sector Vulnerabilities	Delivered as Banking Sector Vulnerabilities FY09
Civil Service Policy Note	Delivered FY09
Corporate Governance ROSC Assessment	Delivered FY09
Economic Monitor	Delivered regularly
Ger Area Development Strategy	Delivered FY09
Insolvency and Credit Rights ROSC	Delivered as ROSC Accounting and Auditing Review FY08
Livestock Sector Study	Delivered as Livestock Sector Study FY09
Mining Background Notes	Delivered as Mining Sector Policy Dialogue FY06
Policy Notes on Pension Reforms	Delivered FY08
Poverty Assessment	Delivered as Poverty Assessment Policy Note FY10
Public Expenditure and Financial Management Review	Deferred
Southern Mongolia Infrastructure Study	Delivered as South Gobi Infrastructure & Environment AAA
Technical Meetings	Delivered??
Trade Facilitation and Integration	Delivered FY09
	<i>Additional deliveries</i>
	AML/CFT Capacity Building
	Enhancing Policies and Practices for Ger Area Development
	Health Results-Based Financing
	Meat Sector Policy Note
	Mitigation Sector Reform and Tariff Adjustment
	Policy Note on Higher Education
	Public Investment Planning

Note: Only AAA with actual delivery date to the client during the CAS-ISN period are included, thus excluding active and dropped activities.

World Bank Group Financial Products for IBRD Clients

		IBRD	IDA	IFC	MIGA
ELIGIBILITY		Middle-income country governments and sub-national entities (with government guarantee)	Low-income country governments	Private sector clients	
FINANCING	Financing	<ul style="list-style-type: none"> • IBRD Flexible Loan • Local currency loans • Subnational finance 	<ul style="list-style-type: none"> • Credits • Grants • IBRD Flexible Loan for enclave operations 	<ul style="list-style-type: none"> • IFC A-Loan • Equity finance • IFC C-Loan • Subnational finance* • Local currency loans • IFC B-Loan (third parties) • Parallel loans (third parties) 	
	Contingent Financing	<ul style="list-style-type: none"> • Deferred Drawdown Option (DDO) 	<ul style="list-style-type: none"> • DDO for IDA Blend countries 		
RISK MANAGEMENT	Credit Enhancement	<ul style="list-style-type: none"> • Partial risk guarantees (PRGs) • Partial credit guarantees (PCGs) • Policy based guarantees (PBG) 	<ul style="list-style-type: none"> • Partial risk guarantees • IBRD PRGs/PCGs/PBGs for IDA Blend countries • IBRD PRGs for enclave operations 	<ul style="list-style-type: none"> • Partial risk guarantees • Full/partial credit guarantees • Credit-linked guarantees • Trade finance guarantees • Mezzanine investments in securitizations • Risk sharing facilities • Guaranteed offshore liquidity facility 	<ul style="list-style-type: none"> • Political risk insurance
	Hedging Products	<ul style="list-style-type: none"> • Currency swaps • Interest rate swaps • Interest rate caps and collars • Commodity price swaps 	<ul style="list-style-type: none"> • IBRD Hedging products for IDA Blend countries 	<ul style="list-style-type: none"> • Currency swaps • Interest rate swaps • Interest rate caps and collars • Commodity price swaps • Swap guarantees • Carbon delivery guarantees 	
	Disaster Risk Financing	<ul style="list-style-type: none"> • Weather hedges • Catastrophe Risk Deferred Drawdown Option (Cat DDO) • Insurance pools • Catastrophe bonds 	<ul style="list-style-type: none"> • Weather hedges • Catastrophe bond • Insurance pools 	<ul style="list-style-type: none"> • Weather hedges 	
ADVISORY	Client Advisory Services	<ul style="list-style-type: none"> • Asset management (central banks, sovereign wealth funds and public pension funds) • Asset-liability management • Capital market access strategy and implementation • Commodity risk management • Public debt management • Transaction processing, reporting and IT 	<ul style="list-style-type: none"> • Asset management • Commodity risk management • Public debt management 	<ul style="list-style-type: none"> • Access to finance • Investment climate • Environmental and social sustainability • Infrastructure advisory • Corporate advice 	<ul style="list-style-type: none"> • Investment strategy related to political risk • Dispute resolution • Environmental and social sustainability

Development Partners Matrix (Financial and Analytical Assistance)

	Lead role in sector	Active Engagement	Planning new engagement by 2015	Leaving sector by 2015	Waiting for info																										
	Canada	Germany	Netherlands	United Kingdom	United States	UNDP	UNICEF	UNFPA	UNESCO	UNICR	UN HABITAT	UNV	FAO	WHO	WFP	ILO	ADB	EBRD	IMF	World Bank Group	AusAid	EC	GIZ	JICA	KOICA	LuxAid	MCC	SDC	USAID		
Sectors and subsectors																															
1. Education																															
1.1 Early childhood development																															
1.2 Primary education																															
1.3 Secondary education																															
1.4 Vocational training																															
1.5 Tertiary Education																															
2. Health																															
2.1 Health policy & management																															
2.2 Basic health care																															
2.3 Basic health infrastructure																															
2.4 Nutrition																															
2.5 Immunization & infectious disease control																															
2.6 Health education																															
2.7 TB control																															
3. Population and reproductive health																															
3.1 Reproductive healthcare																															
3.2 Family planning																															
3.3 STD control, incl. HIV/AIDS																															
4. Water and sanitation																															
4.1 Water sector policy																															
4.2 Water supply																															
4.3 Wasterwater																															
4.4 Basic sanitation																															
4.5 River basins management																															
5. Government and Civil Society																															
5.1 Public sector policy and administrative management																															
5.2 Public finance management																															
5.3 Decentralization																															
5.4 Anti-corruption organizations and institutions																															
5.5 Legal and judicial development																															
5.6 Democratic participation & civil society																															
5.7 Elections																															
5.8 Media and access to information																															
5.9 Human rights																															
5.10 Gender																															
6. Other social and infrastructure services																															
6.1 Social protection/welfare policy																															
6.2 Employment policy																															
6.3 Housing policy & low-cost housing																															
6.4 Statistical capacity building																															
7. Transport																															
7.1 Road																															
7.2 Railway																															
7.3 Air transportation																															
8. Communications																															
8.1 Communications policy																															
8.2 ICT																															
9. Energy																															
9.1 Energy policy																															
9.2 Power generation																															
9.3 Power transmission & distribution																															
9.4 Renewable energy																															

Development Partners Matrix (Financial and Analytical Assistance), continued

	Lead role in sector	Active Engagement	Planning new engagement by 2015	Leaving sector by 2015	Waiting for info																										
	Canada	Germany	Netherlands	United Kingdom	United States	UNDP	UNICEF	UNFPA	UNESCO	UNWCR	UN HABITAT	UNV	FAO	WFP	WFP	ILO	ADB	EBRD	IMF	World Bank Group	AusAid	EC	GIZ	JICA	KOICA	LuxAid	MCC	SDC	USAID		
Sectors and subsectors																															
10. Banking and financial services																															
10.1 Financial sector policy																															
10.2 Central Bank																															
10.3 Financial intermediaries																															
10.4 Microfinance																															
10.5 Capital markets development																															
11. Business development																															
11.1 Business support services & associations																															
11.2 Privatization																															
11.3 Public Private Partnerships																															
11.4 Corporate governance																															
11.5 Investment climate																															
12. Agriculture																															
12.1 Agricultural policy & management																															
12.2 Agricultural development																															
12.3 Food crop production																															
12.4 Livestock																															
12.5 Agricultural services (research, extensions, cooperatives)																															
12.6 Integrated rural development																															
13. Forestry																															
14. Fishing																															
15. Industry																															
15.1 Industrial policy																															
15.2 SME development																															
15.3 Agribusiness																															
15.4 Textile industry																															
16. Mining																															
16.1 Mineral policy and regulatory framework																															
16.2 Mining and environment																															
16.3 Mining and social policy																															
16.4 Mining and transparency (EITI)																															
16.5 Mining and economic management																															
17. Trade policy																															
17.1 Trade policy																															
17.2 Trade facilitation																															
17.3 Multilateral trade negotiations & agreements																															
18. Tourism																															
19. Multi-sector / Cross-cutting																															
19.1 Environmental policy & management																															
19.2 Biodiversity																															
19.3 Climate change adaptation																															
19.4 Climate change mitigation																															
19.5 Disaster risk management																															
19.6 Land management																															
20. Economic management																															
20.1 Macroeconomy																															
20.2 Fiscal management																															
20.3 Treasury management																															
20.4 Debt management																															

The following countries have bilateral programs: Australia, China, Czech Republic, France, Russia, Turkey

Standard CAS Annexes

Annex A2: Mongolia At A Glance

Mongolia at a glance

2/27/12

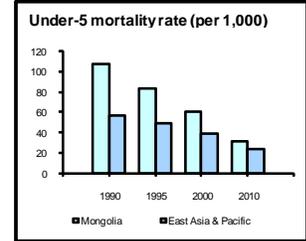
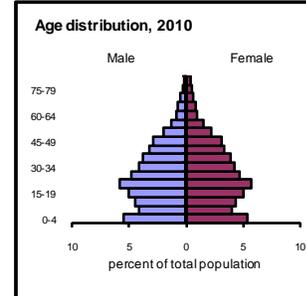
Key Development Indicators

(2010)

	Mongolia	East Asia & Pacific	Lower middle income
Population, mid-year (millions)	2.8	1,962	2,465
Surface area (thousand sq. km)	1,564	16,302	23,582
Population growth (%)	1.6	0.7	1.5
Urban population (% of total population)	58	46	40
GNI (Atlas method, US\$ billions)	5.2	7,224	4,091
GNI per capita (Atlas method, US\$)	1,870	3,683	1,660
GNI per capita (PPP, international \$)	3,630	6,609	3,704
GDP growth (%)	6.4	9.6	7.3
GDP per capita growth (%)	4.7	8.8	5.7

(most recent estimate, 2004–2010)

Poverty headcount ratio at \$1.25 a day (PPP, %)	22	17	..
Poverty headcount ratio at \$2.00 a day (PPP, %)	49	39	..
Life expectancy at birth (years)	68	72	65
Infant mortality (per 1,000 live births)	26	20	50
Child malnutrition (% of children under 5)	5	9	32
Adult literacy, male (% of ages 15 and older)	97	96	80
Adult literacy, female (% of ages 15 and older)	98	91	62
Gross primary enrollment, male (% of age group)	110	111	110
Gross primary enrollment, female (% of age group)	110	112	104
Access to an improved water source (% of population)	76	88	84
Access to improved sanitation facilities (% of population)	50	59	45

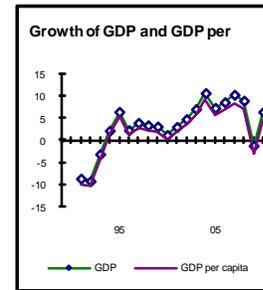


Net Aid Flows

	1980	1990	2000	2010 ^a
(US\$ millions)				
Net ODA and official aid	..	13	217	372
Top 3 donors (in 2008):				
Japan	..	2	105	75
United States	..	0	13	35
Korea, Rep.	..	0	2	32
Aid (% of GNI)	..	0.5	19.2	8.5
Aid per capita (US\$)	..	6	90	137

Long-Term Economic Trends

Consumer prices (annual % change)	..	325.5	8.1	10.2
GDP implicit deflator (annual % change)	..	93.3	12.0	20.0
Exchange rate (annual average, local per US\$)	3.0	5.0	1,076.7	1,357.1
Terms of trade index (2000 = 100)	..	..	100	28



1980–90 1990–2000 2000–10
(average annual growth %)

Population, mid-year (millions)	17	2.2	2.4	2.8	2.6	10	1.3
GDP (US\$ millions)	2,310	2,561	1,137	6,200	..	10	7.2
				(% of GDP)			
Agriculture	16.7	12.9	30.9	16.2	..	0.3	4.6
Industry	25.0	42.5	25.0	37.5	..	15	5.8
Manufacturing	..	21.0	7.5	7.3	..	-6.6	6.1
Services	58.3	44.7	44.1	46.3	..	-0.9	8.9
Household final consumption expenditure	52.3	68.7	69.6	53.1	..	..	2.4
General gov't final consumption expenditure	24.9	24.4	15.3	13.7	..	..	5.9
Gross capital formation	70.0	29.1	29.0	40.8	..	..	6.7
Exports of goods and services	23.9	18.3	54.0	54.7	..	..	10.2
Imports of goods and services	71.0	40.3	67.9	62.4	..	..	14.8
Gross savings	22.3	5.6	23.0	26.5			

Note: Figures in italics are for years other than those specified. 2010 data are preliminary. .. indicates data are not available.

a. Aid data are for 2009.

Development Economics, Development Data Group (DECDG).

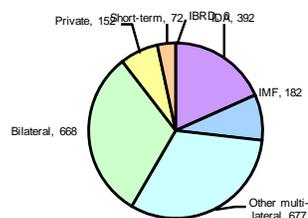
Balance of Payments and Trade	2000	2010
<i>(US\$ millions)</i>		
Total merchandise exports (fob)	536	2,899
Total merchandise imports (cif)	615	3,278
Net trade in goods and services	-158	-475
Current account balance	-69	-887
as a % of GDP	-6.0	-14.3
Workers' remittances and compensation of employees (receipts)	12	277
Reserves, including gold	191	2

Central Government Finance

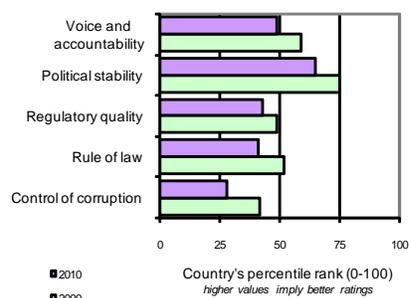
<i>(% of GDP)</i>		
Current revenue (including grants)	28.7	36.5
Tax revenue	21.3	31.8
Current expenditure	25.7	27.0
Overall surplus/deficit	-6.4	0.0
Highest marginal tax rate (%)		
Individual	..	..
Corporate	..	..

External Debt and Resource Flows

<i>(US\$ millions)</i>		
Total debt outstanding and disbursed	896	2,444
Total debt service	39	171
Debt relief (HIPC, MDRI)	-	-
Total debt (% of GDP)	78.9	39.4
Total debt service (% of exports)	6.2	4.8
Foreign direct investment (net inflows)	54	437
Portfolio equity (net inflows)	0	0

Composition of total external debt, 2009

Private Sector Development	2000	2010
Time required to start a business (days)	-	13
Cost to start a business (% of GNI per capita)	-	3.2
Time required to register property (days)	-	11
Ranked as a major constraint to business (% of managers surveyed who agreed)	2000	2010
Tax rates	..	64.9
Access to cost of financing	..	64.4
Stock market capitalization (% of GDP)	3.2	17.6
Bank capital to asset ratio (%)	..	..

Governance indicators, 2000 and 2010

Source: Kaufmann-Kraay-Mastruzzi, World Bank

Technology and Infrastructure	2000	2010
Paved roads (% of total)	3.5	..
Fixed line and mobile phone subscribers (per 100 people)	11	90
High technology exports (% of manufactured exports)	0.5	7.5

Environment

Agricultural land (% of land area)	84	75
Forest area (% of land area)	7.5	7.0
Terrestrial protected areas (% of land area)	13.4	13.4
Freshwater resources per capita (cu. meters)	14,153	13,260
Freshwater withdrawal (billion cubic meters)	0.5	..
CO2 emissions per capita (mt)	3.1	4.0
GDP per unit of energy use (2005 PPP \$ per kg of oil equivalent)	2.3	3.0
Energy use per capita (kg of oil equivalent)	980	1,182

World Bank Group portfolio

	2000	2010
<i>(US\$ millions)</i>		
IBRD		
Total debt outstanding and disbursed	0	0
Disbursements	0	0
Principal repayments	0	0
Interest payments	0	0
IDA		
Total debt outstanding and disbursed	137	403
Disbursements	14	22
Total debt service	1	7
IFC (fiscal year)		
Total disbursed and outstanding portfolio	1	50
of which IFC own account	1	50
Disbursements for IFC own account	0	3
Portfolio sales, prepayments and repayments for IFC own account	0	8
MIGA		
Gross exposure	-	0
New guarantees	0	0

Note: Figures in italics are for years other than those specified. 2010 data are preliminary.
 .. indicates data are not available. - indicates observation is not applicable.

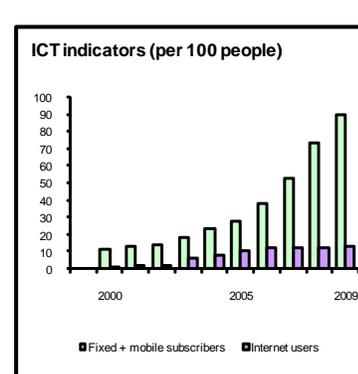
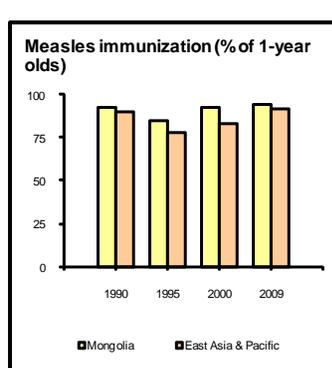
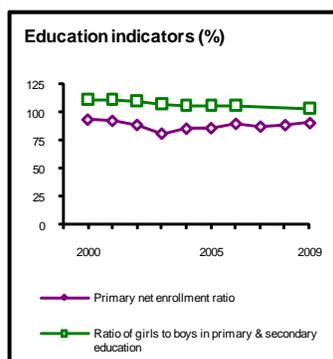
2/27/12

Millennium Development Goals

Mongolia

With selected targets to achieve between 1990 and 2015
(estimate closest to date shown, +/- 2 years)

	Mongolia			
	1990	1995	2000	2010
Goal 1: halve the rates for extreme poverty and malnutrition				
Poverty headcount ratio at \$1.25 a day (PPP, % of population)	..	18.8	15.5	22.4
Poverty headcount ratio at national poverty line (% of population)	..	36.3	61.1	35.2
Share of income or consumption to the poorest quintile (%)	..	7.4	7.5	7.2
Prevalence of malnutrition (% of children under 5)	10.8	..	11.6	5.3
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net, %)	..	81	94	90
Primary completion rate (% of relevant age group)	..	74	90	93
Secondary school enrollment (gross, %)	87	63	65	92
Youth literacy rate (% of people ages 15-24)	..	..	..	..
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	109	122	111	103
Women employed in the nonagricultural sector (% of nonagricultural employment)	..	46	49	51
Proportion of seats held by women in national parliament (%)	25	8	8	4
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1,000)	107	83	61	32
Infant mortality rate (per 1,000 live births)	76	61	47	26
Measles immunization (proportion of one-year olds immunized, %)	92	85	92	94
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	130	110	93	65
Births attended by skilled health staff (% of total)	..	..	97	99
Contraceptive prevalence (% of women ages 15-49)	..	57	67	55
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	0.1	0.1	0.1	0.1
Incidence of tuberculosis (per 100,000 people)	405	314	254	224
Tuberculosis case detection rate (% , all forms)	18	39	51	75
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	58	59	66	76
Access to improved sanitation facilities (% of population)	..	49	49	50
Forest area (% of land area)	8.1	..	7.5	7.0
Terrestrial protected areas (% of land area)	4.1	8.5	13.4	13.4
CO2 emissions (metric tons per capita)	4.6	3.4	3.1	4.0
GDP per unit of energy use (constant 2005 PPP \$ per kg of oil equivalent)	1.6	1.7	2.3	3.0
Goal 8: develop a global partnership for development				
Telephone mainlines (per 100 people)	3.0	3.4	4.9	7.0
Mobile phone subscribers (per 100 people)	0.0	0.0	6.4	82.9
Internet users (per 100 people)	0.0	0.0	1.2	12.9
Personal computers (per 100 people)	..	0.3	1.3	25.8



Note: Figures in italics are for years other than those specified. .. indicates data are not available.

2/27/12

Selected Indicators* of Bank Portfolio Performance and Management

As Of Date 2/27/2012

Indicator	2009	2010	2011	2012
Portfolio Assessment				
Number of Projects Under Implementation ^a	14	14	13	14
Average Implementation Period (years) ^b	3.3	4.3	4.8	5.6
Percent of Problem Projects by Number ^{a, c}	0.0	7.1	7.7	7.1
Percent of Problem Projects by Amount ^{a, c}	0.0	2.6	2.5	2.3
Percent of Projects at Risk by Number ^{a, d}	0.0	7.1	7.7	7.1
Percent of Projects at Risk by Amount ^{a, d}	0.0	2.6	2.5	2.3
Disbursement Ratio (%) ^e	20.1	31.4	29.6	23.6
Portfolio Management				
CPPR during the year (yes/no)	Yes	No	Yes	No
Supervision Resources (total US\$'000)	1101	1236	1425	1425 ^f
Average Supervision (US\$'000/project)	73	82	89	89 ^f
Memorandum Item				
	Since FY80	FY08-12		
Project Evaluated by IEG (Number)	17	5		
Project Evaluated by IEG (Amount, US\$ millions)	271.4	66.7		
% of IEG Projects Rated U or HU (Number)	5.9	0.0		
% of IEG Projects Rated U or HU (Amount)	3.6	0.0		
a. As shown in the Annual Report on Portfolio Performance (except for current FY).				
b. Average age of projects in the Bank's country portfolio.				
c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).				
d. As defined under the Portfolio Improvement Program.				
e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.				
f. Projected for 2012.				
* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.				

Mongolia CPS: Indicative IDA/IBRD Financing Program

Fiscal Year	Project	Pillar			US\$M	
		1	2	3	IDA	IBRD
FY12	Ulaanbaatar Clean Air Project			x	15	
FY13	E-Government Project	x			15	
FY13	Sustainable Livelihoods 3 Project	x	x	x	>30	
FY13	Third Ulaanbaatar Services Improvement Project	x		x	20	
FY14	SME Access to Finance Project		x		15	
FY14	E-Health Project			x	15	
FY15	AF - Mining Sector Institutional Strengthening Project	x			IDA	
FY15	AF - MONSTAT	x			IDA	
FY15	Transmission Line Project			x		50
FY15	District Heating Project			x		50
FY16	Social Protection Administration Project			x	IDA	
FY16	Index-Based Livestock 2 Project		x	x	IDA	
<i>Notes:</i>						
Pillar 1: Enhance Mongolia's Capacity to Manage the Mining Economy Sustainably and Transparently						
Pillar 2: Build a Sustained and Diversified Basis for Economic Growth and Employment in Urban and Rural Areas						
Pillar 3: Address Vulnerabilities through Improved Access to Services and Better Service Delivery, Safety Net Provision, and Improved Disaster Risk Management						
AF: Additional Financing						
The program for the later part of the CPS will be further defined during the mid-term review and presented in the CPS Progress Report						

Mongolia CPS: Key Ongoing and Indicative Nonlending Services

Activity	AAA Type	Fiscal Year	Pillar		
			1	2	3
Reserves Assets Management Program	TA	Continuous	x		
Financial Sector Assessment Program - Development Module	ESW	FY12		x	
Programmatic Social Protection (including pension reform)	ESW	FY12-13			x
Programmatic Agricultural Policy Review	ESW	FY12-13		x	
Programmatic Financial Sector Monitoring and Policy Dialogue	ESW	FY12-13		x	
Programmatic Mining Sector Technical Assistance	TA	FY12-13	x		
Programmatic Municipal Financing for Ulaanbaatar	ESW	FY12-13	x		
Programmatic Poverty Analysis	ESW	FY12-13			x
Debt Management Strategy	TA	FY12-13	x		
Programmatic Economic Policy (Quarterly Updates)	ESW	FY12-14	x		
Financial Literacy and Consumer Protection Assessment	TA	FY13		x	
Poverty and Inequality Study	ESW	FY13			x
Gender Action Plan	ESW	FY13			x
Programmatic Accountability and Service Delivery	ESW	FY13-14			x
[Administrative Courts and Executive Accountability]	ESW	FY14			x
Procurement Assessment	TA	FY14	x		
Disaster Preparedness (GFDRR)	TA	FY14			x
<i>Notes:</i>					
Pillar 1: Enhance Mongolia's Capacity to Manage the Mining Economy Sustainably and Transparently					
Pillar 2: Build a Sustained and Diversified Basis for Economic Growth and Employment in Urban and Rural Areas					
Pillar 3: Address Vulnerabilities through Improved Access to Services and Better Service Delivery					
Safety Net Provision, and Improved Disaster Risk Management					
AAA: Analytical and Advisory Activities					
ESW: Economic and Sector Work					
TA: Nonlending Technical Assistance					
The program for the later part of the CPS will be further defined during the mid-term review and presented in the CPS Progress Report					

Mongolia: Social Indicators

	Latest single year			Same region/income group	
	1980-85	1990-95	2004-10	East Asia & Pacific	Lower-middle-income
POPULATION					
Total population, mid-year (<i>millions</i>)	1.9	2.3	2.8	1,961.6	2,465.1
Growth rate (% annual average for period)	2.6	1.0	1.5	0.7	1.5
Urban population (% of population)	55.0	56.8	57.5	45.9	39.6
Total fertility rate (<i>births per woman</i>)	5.4	2.8	2.5	1.8	3.0
POVERTY					
<i>(% of population)</i>					
National headcount index	..	36.3	35.2	..	..
Urban headcount index	..	38.5	26.9	..	..
Rural headcount index	..	33.1	46.6	..	..
INCOME					
GNI per capita (<i>US\$</i>)	..	460	1,870	3,683	1,660
Consumer price index (<i>2005=100</i>)	..	46	231	131	140
INCOME/CONSUMPTION DISTRIBUTION					
Gini index	..	33.2	33.0	..	..
Lowest quintile (<i>% of income or consumption</i>)	..	7.4	7.2	..	..
Highest quintile (<i>% of income or consumption</i>)	..	40.8	40.5	..	..
SOCIAL INDICATORS					
Public expenditure					
Health (<i>% of GDP</i>)	..	3.7	4.0	2.2	1.7
Education (<i>% of GNI</i>)	..	..	..	3.3	3.8
Net primary school enrollment rate					
<i>(% of age group)</i>					
Total	98	81	90	93	85
Male	..	79	91	93	87
Female	..	82	90	94	83
Access to an improved water source					
<i>(% of population)</i>					
Total	..	59	76	88	84
Urban	..	82	97	96	92
Rural	..	28	49	81	79
Immunization rate					
<i>(% of children ages 12-23 months)</i>					
Measles	18	85	94	91	74
DPT	80	88	95	93	72
Child malnutrition (<i>% under 5 years</i>)	..	11	5	9	32
Life expectancy at birth					
<i>(years)</i>					
Total	59	61	68	72	65
Male	57	59	64	70	63
Female	61	64	72	74	67
Mortality					
Infant (<i>per 1,000 live births</i>)	86	61	26	20	50
Under 5 (<i>per 1,000</i>)	122	83	32	24	69
Adult (15-59)					
Male (<i>per 1,000 population</i>)	320	251	300	160	247
Female (<i>per 1,000 population</i>)	273	211	144	107	177
Maternal (<i>per 100,000 live births</i>)	..	110	65	89	300
Births attended by skilled health staff (%)	..	..	99	89	56

CAS Annex B5. This table was produced from the CMU LDB system.

02/27/12

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age or at any time before the survey.

Mongolia: Key Economic Indicators

Indicator	Actual			Estimate			Projected		
	2005	2006	2007	2008	2009	2010	2011	2012	2013
National accounts (as % of GDP)									
Gross domestic product ^a	100	100	100	100	100	100	100	100	100
Agriculture	22	20	20	21	20	16	..	..	..
Industry	36	43	42	34	33	38	..	..	..
Services	42	37	38	44	47	46	..	..	..
Total Consumption	67	58	60	70	73	67	..	..	..
Gross domestic fixed investment	28	33	35	36	29	33	..	..	..
Government investment	2	4	6	9	7	6	..	..	..
Private investment	26	29	30	27	22	26	..	..	..
Exports (GNFS) ^b	59	59	60	54	50	55	..	..	..
Imports (GNFS)	64	53	58	67	58	62	..	..	..
Gross domestic savings	33	42	40	30	27	33	..	..	..
Gross national savings ^c	40	47	43	31	27	27	..	..	..
<i>Memorandum items</i>									
Gross domestic product (US\$ million at current prices)	2523	3396	4235	5623	4584	6200	..	..	..
GNI per capita (US\$, Atlas method)	890	1110	1390	1770	1760	1880	..	..	..
Real annual growth rates (% , calculated from 05 prices)									
Gross domestic product at market prices	7.3	8.6	10.2	8.9	-1.3	6.4	..	..	..
Gross Domestic Income	..	21.6	15.3	1.9	-9.1	18.5	..	..	..
Real annual per capita growth rates (% , calculated from 05 prices)									
Gross domestic product at market prices	5.9	7.0	8.6	7.1	-2.9	4.7	..	..	..
Total consumption	..	3.9	21.1	16.8	-4.6	9.5	..	..	..
Private consumption	..	3.1	23.0	19.9	-4.1	9.1	..	..	..
Balance of Payments (US\$ millions)									
Exports (GNFS) ^b	1481	2030	2525	3029	2300	3395	0	0	0
Merchandise FOB	1066	1544	1951	2529	1885	2909	0	0	0
Imports (GNFS) ^b	1566	1826	2467	3767	2632	3869	0	0	0
Merchandise FOB	1166	1408	2003	3156	2074	3089	0	0	0
Resource balance	-86	203	57	-738	-332	-475	0	0	0
Net current transfers	225	211	212	221	186	187	0	0	0
Current account balance	88	372	172	-690	-342	-887	0	0	0
Net private foreign direct investment	185	191	360	838	570	1630	0	0	0
Long-term loans (net)	72	52	75	213	354	202	..	0	0
Official	75	52	59	38	157	32	133	81	31
Private	-3	0	16	176	197	171	..	-81	-31
Other capital (net, incl. errors & omissions)	-210	-226	-318	-594	-27	-72	..	0	0
Change in reserves ^d	-135	-389	-288	233	-556	-873	0	0	0
<i>Memorandum items</i>									
Resource balance (% of GDP)	-3.4	6.0	1.3	-13.1	-7.2	-7.7	..	..	..
Real annual growth rates (YR05 prices)									
Merchandise exports (FOB)	..	..	..	..	..	..	..	..	..
Primary	..	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..	..
Merchandise imports (CIF)	..	..	..	..	..	..	..	..	..

(Continued)

Mongolia: Key Economic Indicators, continued

Indicator	Actual			Estimate			Projected		
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Public finance (as % of GDP at market prices)^e									
Current revenues	27.5	33.7	37.9	33.1	30.2	36.5	..	..	..
Current expenditures	19.7	24.4	27.6	26.9	27.1	27.0	..	..	..
Current account surplus (+) or deficit (-)	7.8	9.3	10.3	6.2	3.1	9.5	..	..	..
Capital expenditure	5.4	6.3	7.7	10.8	8.3	9.6	..	..	..
Foreign financing	3.0	1.8	0.9	0.6	4.8	0.2	..	..	..
Monetary indicators									
M2/GDP	37.5	38.1	48.4	34.6	43.7	55.6	..	..	..
Growth of M2 (%)	34.6	34.8	56.3	-5.5	26.9	62.5	..	..	..
Private sector credit growth / total credit growth (%)	101.5	-720.2	86.8	55.2	-117.5	28.1	..	..	..
Price indices(YR05 =100)									
Merchandise export price index	..	..	..	..	..	..	..	..	..
Merchandise import price index	..	..	..	..	..	..	..	..	..
Merchandise terms of trade index	..	..	..	..	..	..	..	..	..
Real exchange rate (US\$/LCU) ^f	101.3	106.8	111.2	132.0	117.3	130.6	..	0.0	0.0
Real interest rates									
Consumer price index (% change)	12.7	5.1	9.0	25.1	6.3	10.2	..	..	..
GDP deflator (% change)	20.1	22.0	11.6	21.4	1.8	20.0	..	..	..
<p>a. GDP at factor cost</p> <p>b. "GNFS" denotes "goods and nonfactor services."</p> <p>c. Includes net unrequited transfers excluding official capital grants.</p> <p>d. Includes use of IMF resources.</p> <p>e. Consolidated central government.</p> <p>f. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.</p>									

Mongolia: Key Exposure Indicators

Indicator	Actual			Estimated			Projected		
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total debt outstanding and disbursed (TDO) (US\$m) ^a	1327	1440	1682	1833	2143	2444	2550	2556	2452
Net disbursements (US\$m) ^a	69	61	131	34	176	0	0	0	0
Total debt service (TDS) (US\$m) ^a	43	48	55	79	99	28	33	33	31
Debt and debt service indicators (%)									
TDO/XGS ^b	81.6	67.8	63.2	58.9	87.7	68.8	0.0	0.0	0.0
TDO/GDP	52.6	42.4	39.7	32.6	46.7	39.4	..	..	..
TDS/XGS	2.6	2.3	2.1	2.5	4.0	0.8	0.0	0.0	0.0
Concessional/TDO	94.5	93.6	88.4	85.7	81.1	73.2	75.3	78.3	82.9
IBRD exposure indicators (%)									
IBRD DS/public DS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Preferred creditor DS/public DS (%) ^c	50.5	46.6	48.3	43.1	34.4	24.2	48.8	61.8	74.5
IBRD DS/XGS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IBRD TDO (US\$m) ^d	0	0	0	0	0	0	0	0	0
Of which present value of guarantees (US\$m)									
Share of IBRD portfolio (%)	0	0	0	0	0	0	0	0	0
IDA TDO (US\$m) ^d	277	301	331	338	392	403	416	432	444
IFC (US\$m)									
Loans									
Equity and quasi-equity /c									
MIGA									
MIGA guarantees (US\$m)									
a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.									
b. "XGS" denotes exports of goods and services, including workers' remittances.									
c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.									
d. Includes present value of guarantees.									
e. Includes equity and quasi-equity types of both loan and equity instruments.									

Mongolia IFC Operations Portfolio

Mongolia											
Committed and Disbursed Outstanding Investment Portfolio											
As of 1/31/2012											
(In USD Millions)											
		Committed					Disbursed Outstanding				
FY Approval	Company	Loan	Equity	**Quasi Equity	*GT/RM	Partici pant	Loan	Equity	**Quasi Equity	*GT/RM	Partici pant
7/8/2004/08/09/11	Agbank	5.01	2.28	20	0	0	5.01	2.28	20	0	0
2008	Mcs group	11.25	0	0	0	0	11.25	0	0	0	0
2011	Mof i	0	6.25	0	0	0	0	0.22	0	0	0
0	Mongolian mining	0	14.44	0	0	0	0	14.44	0	0	0
2011	Newcom llc	20	0	20	0	0	0	0	0	0	0
8/8/2007/10/11/12	Sef xacbank	2	10.37	5	0	0	2	8.6	5	0	0
2011	Shangri-la ub	50	0	0	0	0	0	0	0	0	0
2011	Suu jsc	2	0	0	0	0	1	0	0	0	0
2009	Xacleasing	0.75	0	0	0	0	0.75	0	0	0	0
Total Portfolio:		91.01	33.34	45	0	0	20.01	25.54	25	0	0

* Denotes Guarantee and Risk Management Products.
** Quasi Equity includes both loan and equity types.

Mongolia CPS: Major Trust Funds

Project ID	TF No.	Effective Date	Closing Date		Pillar			Grant US\$M
					1	2	3	
Active Recipient Executed Trust Funds								
P096439	TF92715	12/10/2008	6/30/2012	EC TF: Sustainable Livelihoods II		x	x	14.00
P108776	TF58043	3/16/2007	12/31/2012	Education for All – Fast Track Initiative: Catalytic TF			x	29.40
P126994	TF99918	9/26/2011	10/22/2012	Extractive Industries Transparency Initiative Grant (outreach)	x			0.25
				GPE: Global Partnership for Education			x	10.00
P088816	TF94827	8/16/2010	3/31/2014	Korea TF: Index-Based Livestock Insurance		x	x	0.70
P113160	TF93575	9/18/2009	4/30/2012	Korea TF: MONSTAT Strengthening National Statistical System	x			0.40
P113160	TF94696	9/18/2009	12/31/2014	Korea TF: MONSTAT Strengthening National Statistical System	x			0.70
P122953	TF98487	4/11/2011	12/31/2014	Korea TF: MONSTAT Strengthening National Statistical System	x			0.65
P119825	TF99122	4/13/2011	5/31/2012	Korea TF: Multi-sector TA	x	x	x	0.50
P099321	TF90858	10/5/2007	6/30/2012	MN-FS Renewable Energy for Rural Access Project		x	x	6.00
P096439	TF90580	2/4/2008	6/30/2012	PHRD TF: Sustainable Livelihoods II	x	x	x	3.90
Indicative Recipient Executed Trust Funds								
				AusAid TF: Groundwater Management in Southern Gobi	x			6.00
				AusAid TF: Mining and the Environment	x			tdb
				FIRST Initiative: Improving Financial Sector Stability		x		0.20
				GAFSP: Livestock-Based Livelihoods Improvement		x		11.00
				GFAHI MDTF: Avian and Human Influenza 2		x		2.50
				JSDF: Primary Education Outcomes for the Most Vulnerable Children in Rural Mongolia			x	2.60
				SDC (Swiss Development Cooperation): Participatory Planning/Decentralization Support			x	0.60
<i>Notes:</i>								
Pillar 1: Enhance Mongolia's Capacity to Manage the Mining Economy Sustainably and Transparently								
Pillar 2: Build a Sustained and Diversified Basis for Economic Growth and Employment in Urban and Rural Areas								
Pillar 3: Address Vulnerabilities and Growing Inequality through Improved Access to Services and Better Service Delivery, Safety Net Provision, and Improved Disaster Risk Management								

