Report Number : ICRR0021216

1. Project Data

Project ID	Project Name
P119825	Mongolia Multi-Sector TA
Country	**Practice Area(Lead)**
Mongolia	Macroeconomics, Trade and Investment

L/C/TF Number(s)	Closing Date (Original)	Total Project Cost (USD)
IDA-47770,TF-99122	31-Dec-2014	12,000,000.00
Bank Approval Date	**Closing Date (Actual)**	
28-Jun-2010	30-Jun-2017	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	12,000,000.00	500,000.00
Revised Commitment	11,729,586.06	253,838.83
Actual	11,716,884.63	253,838.83

Prepared by	Reviewed by	ICR Review Coordinator	Group
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2. Project Objectives and Components

a. Objectives

The project development objective (PDO) as set out in the financing agreement (p. 5) and in the project appraisal document (p. 5) was to "support the Recipient's efforts to enhance its capacity for policy making, regulation and implementation of the fiscal, social and financial sectors."

b. Were the project objectives/key associated outcome targets revised during implementation?

No

c. Will a split evaluation be undertaken?

No

d. Components

The project had four components:

Component 1: Enhancing capacity for fiscal management (estimated cost at appraisal US$2.8. million; actual cost US$4.0 million). The component was to support the implementation of the country's Fiscal Stability Law (FSL) by strengthening fiscal policy, budget preparation and budget execution. The FSL included measures to dampen the effects of volatile mineral prices on the budget. The component had two sub-components:

- **Better implementation of a budget that is fiscally sustainable and linked to national, local and sector priorities by:**
- Strengthening strategic planning and policy analysis in the Ministry of Finance (MOF) and the National Development and Innovation Committee to ensure fiscal sustainability and compliance with the FSL; aligning the budget process to national, sector and local priorities, through increased decentralization, and better transparency and predictability in the allocation, transfer, and management of revenues and expenditures; and improving public investment planning and inter-sectoral coordination.

- **Improving Public Financial Management (PFM) and the transparency of budget execution by:**
- Strengthening the existing legal framework for accounting and auditing;
- Strengthening the MOF's and the Financial Regulatory Committee's institutional capacity to ensure compliance with International Financial Reporting Standards (IFRS) and International Standards on Auditing;
- Strengthening the MOF's internal controls by improving its internal auditing capacity;
- Improving accounting and auditing professional education and training.

Component 2: Supporting Government efforts to better protect the poor (estimated cost at appraisal US$3.5 million; actual cost US$3.1 million). The component was to build up capacity in the Ministry of Social Welfare and Labor to improve the efficacy of social expenditures reaching the poor and making the system fiscally sustainable. The project was to design and pilot a cash transfer system using proxy means-testing (PMT). Specific activities included: preparing and rolling out the PMT; training staff in implementing the reform; and strengthening the monitoring and evaluation and evaluation function in the pilot.

Component 3: Enhancing capacity for maintaining financial sector stability (estimated cost at appraisal US$5.1 million; actual cost US$3.3 million). The component was to ensure financial sector stability by facilitating restructuring and intensifying supervision of the banking system. Specific activities included: liquidation of assets of failed banks, and adopting and implementing a bank restructuring strategy; strengthening the legal and regulatory framework of the banking sector under an amended central bank law and a new banking law; transitioning from a blanket deposit guarantee to a limited deposit insurance regime; and building human capital and capacity of regulators.

Component 4: Project management (estimated cost at appraisal US$0.6 million; actual cost US$0.8 million). Specific activities under this component included supporting the management and monitoring and evaluation (M&E) of the implementation of activities carried out under the project.

Significant changes during implementation

The project experienced four Level 2 restructurings during implementation to better align it with changing priorities in public sector management. The project had been designed during the global financial crisis of 2009-2010 and was heavily weighted towards activities that were meant to address the immediate effects of the crisis on budget management. Once the crisis was over, focus shifted towards longer-term issues of sustainability and resilience in the three key subject areas – fiscal, social, and financial. At the same time, activities and indicators were adjusted to strengthen the results chain between activities, outputs, and outcomes, and improve measurability of indicators. The PDO remained the same throughout the restructurings. Figures 1 and 2, and Annexes 1 and 7 in the ICR provide details on the revisions in the results framework.

Because of the restructurings, **fiscal** sector outcomes came to focus on strengthening policy analysis, public investment planning and budgeting, and fiscal decentralization; as well as aligning financial reporting and oversight regimes with international good practice. The **social** sector saw the expansion of PMT from its initial focus on piloting targeted cash benefits to determining eligibility for all social programs. In the **financial** sector, a macro-prudential policy framework and deposit insurance were introduced. Two new components were added, one on strengthening capacity and improving transparency in the procurement process; and one on developing options for pension reform.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project cost. Total IDA costs at appraisal were US$12.00 million. Actual IDA costs were US$11.84 million. Because of the changes in project emphasis during implementation, funds were reallocated between components, notably from the financial and social protection components to the two new components (procurement and pensions) and to the new priorities in fiscal management.

Financing**.** The project was financed by a US$12.00 million IDA Credit.

Borrower. There was no Borrower contribution.

Dates. The project was approved on June 28, 2010, and became effective on March 17, 2011. Its original Closing Date, December 31, 2014, was extended twice, a first time during the 2014 restructuring, to June 30, 2016, and a second time at the March 2016 restructuring, to June 30, 2017, at which time it closed.

3. Relevance of Objectives

Rationale

The PDO was well-aligned with the country situation and government policy, and with the Bank's country partnership strategy (CPS).

Mongolia is evolving towards becoming a significant mineral-led economy (mining already accounts for a third of government revenues), and as it does so it will need to strengthen fiscal policies, protect the poor and vulnerable, and restore confidence in a financial sector that overheated badly during the boom years in raw materials prices prior to the global financial crisis. The country's national development strategy that stretches into 2021 sets out a broad policy framework for stabilizing fiscal financing, including insulating the budget from mineral price fluctuations, and strengthening systemic weaknesses in the financial sector, including through stronger oversight and enforcement. It also recognizes the need to better protect the poor and ensure the fiscal sustainability of the social welfare system. The Bank's latest CPS, covering the period FY2013-2017, explicitly supports developing more robust policies and systems for managing public financial flows; enhancing the investment climate and restoring financial intermediation, and helping design, adopt, and implement a comprehensive social protection system that supports the poor.

Rating

High

4. Achievement of Objectives (Efficacy)

Objective 1

Objective

To support the recipient's efforts to enhance its capacity for policy making, regulation and implementation of the fiscal sector

Rationale

The objective was to be achieved by enhancing fiscal sustainability and budget transparency by (a) reducing the structural budget deficit according to the deficit ceiling set forth in the FSL; and (b) passing the draft laws that would create the legal environment for ensuring that Mongolia's accounting and auditing are compliant with international standards. The former would be attained by *improving fiscal policy and budget preparation*; and the latter by *improving public financial management.*

Improving fiscal policy and budget preparation

Fiscal policy and budget preparation would be improved by facilitating the preparation and implementation of budgets that are fiscally sustainable and reduce volatility in a mineral-dependent economy (i.e. support implementation of the FSL), and are better linked to national, local and sector priorities.

Outputs

- A web-based budget preparation and information system was introduced to improve budget planning. At project closing, the system was operational only at the local level, while the target was to have it operational at both local and national levels.
- The fiscal transfer formula for local government financing was revised to increase predictability of resource transfers and reduce horizontal inequities between local governments.
- A new law on prudent national resource revenue management was passed, introducing a sovereign fund as a long-term resource revenue savings fund. A roadmap for setting up the sovereign natural resources fund has been developed, and the fund is expected to start accumulating mineral revenues in a few years.

Outcomes

- The measure of success under this sub-objective was determined by the ability to maintain the structural budget deficit within deficit ceilings set annually under the FSL. This was achieved in 2017, when the budget deficit was 6.3 percent of GDP, compared to a maximum deficit of 10.4 percent of GDP set for that year.

While the outputs provide instruments that will contribute to maintaining greater stability and countercyclical fiscal policies once they are in place and fully functioning, the link between outputs and the outcome indicator is not direct. The outputs do not immediately control either the revenue or expenditure flows that determine budget balance; instead, they support the budget planning process. Therefore, while the outcome target was met, it is more likely that general economic developments at project closing were the major driving force behind achieving the target. Still, once the output instruments are fully operational, they will be key instruments in enhancing the capacity to prepare sustainable budget proposals and appropriately allocate expenditures.

Improving public financial management

Improvements in public financial management would improve budget transparency by creating a legal environment that would ensure that the country’s accounting and auditing are compliant with international standards. During the mid-term review, strengthening of the public procurement process was introduced as an additional means of strengthening public financial management.

Outputs

- The law on accounting and auditing standards was amended to ensure compliance with international financial reporting standards (IFRS) and international standards of auditing;
- Templates used for financial reporting were adjusted to accord with IFRS, and a consolidated database

system was created for electronic filing of financial statements by firms; at project closing it included financial statement databases of over 100,000 entities;
- The capacity for applying and enforcing IFRS was enhanced with the training of regulators and accounting professionals, and by issuing supporting guidance notes;
- The MOF's internal audit capacity was strengthened with the issuance of an internal audit charter, and the creation of 46 public sector entities to assume the internal audit function of the government;
- Capacity was strengthened in the government procurement agency to apply a revised public procurement law, including developing an e-procurement capacity.

Outcomes

- The key outcome - a legal environment for ensuring that Mongolia's accounting and auditing standards comply with IFRS and international standards of auditing - has been achieved. All entities above a certain size operating in Mongolia now submit financial statements electronically, and government has the capacity to enforce the law on accounting and auditing standards.

Rating
Substantial

Objective 2
Objective
To enhance the capacity of the government for policy making, regulation, and implementation in the social sector

Rationale
The objective was to be achieved by better targeting of social assistance programs at poor households. This would be done by preparing a national data base of poor households using PMT, based on which welfare programs could select beneficiaries.

Outputs

- A household database was prepared based on a PMT survey, and became fully functional in 2015;
- An inter-sectoral database and web-based welfare administration and information system was developed to provide broader access of authorities responsible for different social programs to information in the poverty database;
- Capacity-building training on the inter-sectoral database and welfare administration and information system users as well as training for local staff of care services was conducted. 1,311 social welfare staff out of a total of 1,538 staff nationwide were trained;

- A strategy paper, policy options, and the main concepts of pension reform were prepared.

Outcomes
The government has a database on poor households selected using PMT. An information technology (IT) infrastructure has been created that allows designated users to draw on the database for targeting households for their programs. Already, eight social welfare programs have taken advantage of the database. A food stamp program that drew on the PMT, indicates good targeting, as all beneficiary households were among the poorest 2.7 percent of the population.

Rating
Substantial

Objective 3

Objective
To enhance the capacity of the government for policymaking, regulation, and implementation in the financial sector

Rationale
The objective was to be achieved by enhancing the capacity to maintain financial sector stability, including bank restructuring, enhancing the country’s risk-prudential regulatory framework, and introducing a limited deposit insurance scheme.

Outputs

- IFRS for banks was introduced and compliance to those standards was mandated starting in January 2016;
- A deposit insurance scheme - the Deposit Insurance Corporation of Mongolia - was established in 2013;
- A privatization plan of State Bank of Mongolia – a government agency established to absorb selected banks put under receivership – was approved with a detailed action plan to complete privatization by 2019;
- A macro-stress testing framework was developed.   It is being used in risk assessments, albeit several measures relating to macro-prudential supervision policy and standards remain to be defined.

Outcomes
IFRS are now being routinely applied and reflected in financial reports submitted by commercial banks. While deposit insurance has been established, and while it is fully operational, its current capital is only sufficient to insure deposits of small banks, which currently limits its effectiveness. In two priority reform areas – bank restructuring and the prudential regulation framework, targets have been partly achieved: while a macro-stress testing framework has been developed and is being used in risk assessments, regulations on enforcement and corrective measures, as well as risk-based supervision, have not yet been approved.

Rating
Modest

Rationale
Overall efficacy is rated substantial. While the results framework was revised to better reflect changing priorities, and indicators were made more specific and measurable, the theory of change was maintained throughout the project, as were project development objectives. The fiscal impact of the project is likely to generate significant savings due to a more efficient budgeting process and better public expenditure management, once the necessary instruments are fully operational. At project closing, the measures introduced for better budget preparation and for fiscal sector reform were still only partly operational.

Overall Efficacy Rating
Substantial

5. Efficiency

Neither the project appraisal document nor the ICR included an economic or financial analysis of the project. The ICR (24) points out that due to the nature of the project – capacity building for policy making – there is little scope for quantitative measurement of project benefits. Still, it includes extensive discussion of project efficiency (Annex 4). It notes the large number of regulations (162) obtained for a US$12 million investment, as well as the extensive use of relatively inexpensive local consultants. While it is difficult to determine the cost-effectiveness of this (no comparators are offered), the Bank team notes that hiring local consultants was more efficient and effective – it took less time and resources, and their performance was more satisfactory than that of international consultants. A final training test was given for staff trained in the welfare administration and information system and had to be successfully completed in order to receive a certificate, which is good practice. Some aspects of the project had a moderating impact on efficiency. The project went through four Level 2 restructurings, and its closing date was extended twice, with elections contributing to delays. Significant funds were spent on the introduction of IT systems – altogether 11 systems were introduced – and only about half of them currently are being used effectively, as government officials had difficulties in taking over operations from consultants.

Efficiency Rating
Modest

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 ☐Not Applicable
ICR Estimate		0	0 ☐Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

The relevance of the PDO was rated high, as it responded to the country situation, and was aligned with government policy and Bank strategy for Mongolia. Efficacy was rated substantial, as key outcomes were achieved - accounting and auditing practice that complies with international standards, significant improvement in poverty targeting, and a deposit insurance scheme established, albeit still of limited effectiveness. Efficiency was rated modest, reflecting delays in implementation and only partially operational IT systems despite significant technology spending under the project.

a. Outcome Rating

Moderately Satisfactory

7. Risk to Development Outcome

The project was introduced into an environment where the importance of the measures that were being introduced was recognized by the government and in support of two development policy credits. Still, political volatility and inter-institutional competition seem to have had a significant influence on project implementation. Several loose ends remain in fully implementing some policy measures, as noted in the efficacy section. The ICR correctly notes the uncertain global environment and its effects on export revenues and budget resources, as well as the potential for continued weaknesses in the banking system, as risks for further advancing in the three policy areas. On the other hand, the project will be followed up by a three-year programmatic development policy loan and a project for strengthening fiscal and financial stability.

8. Assessment of Bank Performance

a. Quality-at-Entry

The project was strategically relevant. It was designed to provide technical assistance and targeted capacity building in key sectors to mitigate the fiscal and financial risks that a mineral-dependent economy faces, and to raise efficiency in the welfare system. It was able to draw on lessons from prior Bank projects and findings of analytic and advisory work, and it was aligned with a companion development policy credit operation. While government capacity to pursue relevant policy actions was considered sufficient (ICR, 31), the Bank team appeared less sure about local implementation capacity. Drawing on lessons from earlier projects, it recognized the importance of correctly gauging the capacity of government and implementing agencies to realize proposed reforms. Consequently, international consultancies and capacity building were built into the project. Several project risks were identified and mitigating measures taken, but other risks such as political volatility and bureaucratic infighting, do not appear to have been anticipated. The original results framework would prove to be too general and was revised during the project's mid-term review making it more specific and operational. The sustainability of reforms carries some future risk (Section 7) both due to persistent political volatility and fluctuations in raw materials revenues.

Quality-at-Entry Rating

Moderately Satisfactory

b. Quality of supervision

A large supervision team (17 people) was mobilized for an intensive supervision effort, including ten missions over six years. The team covered all essential project areas and ensured that adequate expertise was available when needed. Its close engagement is reflected in a series of restructurings that drew on the ongoing implementation experience, identifying challenges and strengthening the project, improving its realism. Still, the results framework remained unclear in some instances. The institutional arrangements covering three levels of government could have been expected to be particularly challenging for project coordination, but appear to have been successfully overcome, in part due to the supervision team's efforts, as well as due to facilitation by a proactive project management unit.

Quality of Supervision Rating

Moderately Satisfactory

Overall Bank Performance Rating

Moderately Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

The original theory of change was largely clear and consistent, and it was reflected in the results framework (ICR, p. 8). The revisions to the theory of change and associated indicators and targets after mid-term review sharpened the focus of the project towards what could be realistically achieved. That said, both designs had weaknesses: the main project outcome in terms of fiscal reform – the structural budget deficit target – was designed to measure higher level outcomes that at least partly lay outside the control of the project. Project outcomes were mainly qualitative, more outputs than outcomes, begging the question of by how much conditions had changed or were changing because of project interventions.

b. M&E Implementation

Each ministry/implementing agency was to track in accordance with the results framework the desired outcomes, which then were collated by the project management unit (PMU) and reported to line managers and the project steering committee. A mid-term review was to provide an in-depth analysis of project progress.

c. M&E Utilization

The information drawn from the PMU compilations was used by the PMU, the Bank and decision makers to monitor progress and introduce changes as necessary. The mid-term review was used as an opportunity to review the results framework in depth and led to revisions in activities, making them more specific than initially had been the case.

M&E Quality Rating

Modest

10. Other Issues

a. Safeguards

The project was rated environmental category "C" with no environmental safeguards triggered. The Indigenous Peoples safeguard policy OP/BP 4.10 was triggered for the poverty component (Component B) and focused on ethnic minorities. An indigenous peoples planning framework (IPPF) was prepared, and a number of activities implemented for the benefit of the minorities, notably ones to enhance their self-esteem.

b. Fiduciary Compliance

Financial management. The ICR notes that the PMU had complied with fiduciary arrangements throughout the project period, including timely submission of documents to the Bank.

Procurement. Procurement was limited to goods and consultants, and was conducted in compliance with the Bank's procurement procedures and guidelines.

c. Unintended impacts (Positive or Negative)

None.

d. Other

None.

11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Satisfactory	Moderately Satisfactory	---
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	---
Quality of M&E	Modest	Modest	---
Quality of ICR		Substantial	---

12. Lessons

Lessons are drawn from the ICR:

There should be a balance between the demands of the reform and related capacity building. Designers, both in government and the Bank, should consider the environment, weighing the capacity building required with the challenges that the reform poses - are the two compatible over the time horizon of the project. In the case of Mongolia, the project closed with several reforms still underway, especially in the fiscal and financial sectors. Some of the reforms were quite complex, stretching the capacity of implementing agencies, and requiring more time for completion than had been anticipated.

The results framework should be as explicit at possible. There is a need to ensure that indicators are as specific as possible, and that organizational responsibilities are defined. Indicators should be within the control of the project, measurable, and quantitative where possible to allow determination of attribution of a particular project.

PMT should be considered in an environment of chronic poverty or where systemic shocks are prevalent. The choice of targeting mechanism is crucial in countries where the needs are great relative to funding, or where budget pressure can be significant. Mongolia experienced a significant improvement in social welfare targeting with the introduction of PMT, generating significant efficiency gains and safety net program savings. This underscores the experience in other countries that have adopted PMT, either on its own or with complementary targeting mechanisms.

Another lesson drawn by IEG:

Similar fiscal and/or financial reforms can be relevant whether in crisis or non-crisis situations. When external circumstances change, the borrower and the Bank should assess how much conditions have changed, and whether, or how much, key outputs and outcomes need to change. The fiscal and financial reforms introduced under the project had been designed during the global financial crisis of 2009-2010, and were heavily weighted towards activities that were meant to address the immediate effects of the crisis on budget management. However, once the crisis was over, focus shifted to longer term challenges of sustainability and resilience in the key subject areas - fiscal, social, and financial. Still, the results chain was largely maintained (short-term measures were likely also to strengthen the economy in the longer term), and strategies were adjusted only when necessary, including redefining some activities and indicators in a longer-term perspective.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR provides an adequate basis for assessing the program. It does a good job in building the logical chain, and the quality of analysis is sufficient to provide robust evidence supporting the findings in the ICR. It has sufficient results orientation, indicating how activities inform outcomes of project interventions. The document is internally consistent and aligns with the guidelines.

a. Quality of ICR Rating
Substantial